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INDUSTRIAL PROPERTY ASSOCIATION

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PRESENTATIONS

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1979 PIPA Philadelphia Congress

° PIPA Activity Report for 1978
--- A. Hirano ---------- 1

° Keynote Address
--- P. Newman ---------- 6

° Guest Speech

Message from Director-General of the Japan Patent Office
--- Y. Kawahara ---------- 17

Quantum Leaps and Cold Feet
--- H. Wendt ---------- 21

Address by Deputy Commissioner of U.S. Patents and Trademarks
--- L. F. Parker ---------- 34

° Closing Address
--- S. Toki ---------- 44

PIPA ACTIVITY REPORT for 1978

Akira Hirano, Ex-President of PIPA

Gentlemen:

Because of my tight schedule I could not attend this general meeting and was obliged to have Mr. Toki, president of Japanese group, read this report on my behalf.

1978 was an epoch-making year in which the Patent Cooperation Treaty (PCT) and the European Patent Convention (EPC) came in force. In Japan, 1978 is referred to as the year in which internationalization started. I am very pleased by the fact that a part of the efforts which the American and Japanese groups of PIPA made to establish an international patent system has materialized into these treaties.

One step behind the United States, the Japanese Diet enacted a law in the spring which gives provisions necessary to fulfill the Patent Cooperation Treaty, and PCT international applications began to be accepted on October 1, 1978.

In contrast to the brilliant achievement of the year, namely the enforcement of PCT and EPC, the revision of the Paris Convention which is one of the basic problems in the internationalization of the patent system, remained unsettled. As part of an effort to have our opinion

reflected in settling the problem of the revision to the Paris Convention, we presented to the Japanese and the U. S. Governments the resolution adopted at the 8th International Congress of PIPA held in Williamsburg in 1977. We also sent our representatives as observers to the 4th and 5th conferences of the Preparatory Intergovernmental Committee held in June and November, 1978. It is regretable, however, that despite these efforts, no progress was made on this problem due to differences in opinion between the developed and developing countries, between Eastern and Western countries and even among Group B (the developed countries themselves). The problem of revising the Paris Convention is scheduled to be discussed at the Diplomatic Conference to be held in February 1980.

Since the revision of Paris Convention will have grave influence on the basic cooperative relationship between corporations in the developed countries and those in the developing countries, PIPA must pay attention to developments in the future.

One of the greatest activities of PIPA in 1978 was the 9th International Congress held in Nagoya City for three consecutive days starting from October 4. The total number of participants in that successful meeting was 104, of which 22 came from 14 American companies, 74

from 45 Japanese companies, and 8 observers from 8 Japanese companies which are members of the Japan Patent Association.

The Nagoya Congress was the first occasion in which observers were allowed to participate in the general meeting. The observers were invited as part of an effort to publicize the activities of PIPA, as agreed upon at the Board of Governors Meeting when the Williamsburg International Congress was held in 1977.

Since the details of the Congress have already been reported, I would like to mention only some of them here.

The honorary chairman of the Nagoya Congress was Mr. Shoichi Saito, president of the Japan Patent Association and adviser to Toyota Motor Co., Ltd. who not only has worked as the honorary chairman but also made every effort in preparation and administration of the meeting to make it successful. I would like to take this opportunity to express my thanks to him.

Among the guests present at the Nagoya Congress were Mr. Zenji Kumagai, Director-General of the Japan Patent Office, Mr. Donald W. Banner, Commissioner of U. S. Patent and Trademark Office, and Dr. Susum Uzawa, Attorney at Law, each of whom addressed the Congress. This was the first time in the past five general meetings held in Japan that the Commissioner of Patents and Trademarks,

U. S. P.T.O attended the general meeting. I believe this made the Congress still more significant.

In his speech, Mr. Banner emphasized that the revision of the Paris Convention constitutes a grave problem that will have a great effect on industrialized nations and may undermine the foundation of the Paris Union, and that it is therefore necessary now more than ever to maintain a close and friendly relationship between Japan and the U. S. through cooperation of PIPA. He also expressed his wish that for the benefit of the next generation, PIPA positively and effectively take part in the discussions on this problem which will influence the international status of patents and trademarks.

Discussed at the Board of Governors Meeting after the Congress were the following outstanding problems: the invitation to membership from countries other than Japan and the U. S. ; and the qualifications of membership as defined in Article 3 of the current PIPA constitution. Investigation of these problems was entrusted with a special committee led by Mr. Adams. The special committee, made up of four ex-officio, Mr. Adams, Mr. Kalikow, Mr. Aoki and Mr. Suzuki, was asked to file an interim report six months later. As a result, amendments have been proposed to the constitution and by-laws of PIPA.

In addition to the revision of the Paris Convention,

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In addition to the revision of the Paris Convention,

there are many problems that PIPA should join and cooperate to solve not only from the viewpoint of U.S.-Japanese organization but also from the international viewpoint, such as Trademark Registration Treaty and model laws concerning patents, know-how and trademarks for developing countries.

In concluding this report, I would like to express my hope that this Philadelphia Congress will make significant progress toward settlement of these problems.

Thank you for your kind attention.

KEYNOTE ADDRESS

INDUSTRIAL PROPERTY IN THE DEVELOPING COUNTRIES: OUR RESPONSIBILITIES AND OUR ROLE

Pauline Newman

President, Pacific Industrial Property Association

Wednesday, October 24, 1979

To keynote the tenth anniversary of the Pacific Industrial Property Association, I should like to discuss some of our responsibilities as representatives of the most technologically advanced countries in the world. I'll discuss some of the initiatives being considered by the United States government, and some steps that we in industry might take, in the wake of the United Nations Conference on Science and Technology for Development held in Vienna this past August.

The focus of much activity in the industrial property area is the Third World, the developing countries. There has been proposed a new operation of the United States government whose activities have a direct relation to these interests: the Institute for Scientific & Technological Cooperation. This Institute was designed to help Third World countries develop their own technology base, by supporting research and development activities within the developing countries, with participation from United States and perhaps other providers of technology. This Institute

was formed in July of this year, just prior to the Vienna Conference. Now that the Conference is over, the Institute is in deep trouble, and its appropriation has been held up. Its future is uncertain. But it is a new approach to development, new to government - but one which the private sector has been following for years.

One of the roles foreseen for this Institute was the coordination of federal aid activities with private activities. Universities and scientific organizations were to be the primary focus, but the sponsors of the Institute expressed a strong interest in coordination with private sector industrial R & D. This concept has been around for a while; Senator Jack Schmitt addressed this topic two years ago. Senator Schmitt is an ex-astronaut, and one of the few scientists in the Congress. He suggested a "joint sovereignty" between government and industry, to participate in technological development of the emerging nations. This was also a recommendation of an industry group, advisory to the Vienna conference, to which some of the companies here represented provided participants. It is an important idea, that doesn't seem to have a home.

This year (1979) was intended, by the United States government and ostensibly by other governments, as a year of great

progress in closing the economic gaps between the rich nations and the poor nations; at least, progress in planning how to close these gaps. There were extensive efforts preparatory to the Vienna conference. There were three years of studies and thinking and reports and papers and books, by economists and technologists and politicians in the United States and in other countries, all deploring the growing technological and economic gaps and all suggesting remedies.

The Vienna Conference produced a heavy weight of disappointment. The technologically advanced nations felt that the Third World countries were unrealistic in their demands, and probably incapable of achieving the stated results even if the demands were met. The Third World countries experienced the general frustration of those whose problems don't seem to have solutions, and in general took extreme positions and presented extreme demands, and generated little good will.

All of this is reflected in many areas which are close to the concerns of PIPA members. The proposals for revision of the Paris Convention, that we will be discussing on Friday, are mostly due to agitation by the developing world - the "Group of 77" that is now over 120 countries - to seek economic results through patent systems and patent treaties,

in harmony with results being sought in the political arena.

We here represent multinational companies. The very word "multinational" has acquired negative connotations. It is the multinationals who create and develop and use most of today's technology. The multinationals tend to exchange technology with other industrialized countries, and are in a position to transfer technology to the Third World. Yet many concerned persons in the United States question whether it is in our national interest to transfer technology. There is a need for a better understanding of the political and economic, as well as the technological aspects, of technology transfer to the Third World.

I am convinced that the proposed changes in the Paris Convention, and the UNCTAD Codes of Conduct, won't help the Third World countries, but they will hurt those companies that are in the forefront of technology, and perhaps benefit those companies that haven't themselves made the research investments and commitments. I see no assurance of benefit to the Third World countries. I suggest that the private sector, while conforming with our nations' national and international policies, can in a spirit of enlightened self-interest seek effective methods of technology transfer and investment in developing countries.

We must recognize that a world without the present enormous differences between rich and poor nations is a more stable world, today and in the future. To achieve this greater industrial interdependence would require an acceptance by Third World countries of the need for a fair return to the investor and the need to safeguard and use industrial property rights as a tool for industrial development.

The first United Nations Conference on Science and Technology for Development was held in 1963. I was working for UNESCO at about that time, and was immersed in the planning for that Conference. I well recall the enthusiasm which preceded the Conference, and the disappointment which followed it. It was a pattern that I fear will be repeated. Since the 1963 Conference the gap between the technologically rich and poor nations has not diminished, but has generally increased.

It is too soon to judge the full possible impact of the 1979 Conference. But the technologically rich countries such as the United States and Japan have our own problems, and the demands of the Third World for capital, in the face of our own financial crises and balance of payments problems, did not fall on favorable ears.

In the long run, I think that if there is any real progress

it will come from the private sector. We are the holders of the technology to be transferred. We are the ones with the skills in management and in engineering and in marketing, which must go with any useful technology transfer. But none of our companies can be expected to part voluntarily with technology and skills in a manner that is contrary to our interests.

This conflict is mirrored in the microcosm of industrial property. We have all heard the rhetoric of the Group of 77 with respect to patent laws, working requirements, compulsory licensing, and unequal treatment. What are these countries really saying? Do we understand their purposes well enough to respond with a voice that will be heard? Or are we polarized in a way that our interests will never harmonize?

The developing world is causing us to rethink all this. They have raised thought-provoking ideas, as countries seek to accelerate their technology-based industrial growth. Is the patent incentive to invention and entrepreneurship effective in a planned economy? Can patent systems be used to force industrialization at an accelerated pace? Should an originator of technology be entitled to retain ownership of this property -- or is the right to use all technology a

human right that overrides private rights?

The concept of technology as a human right evolved coincident with the recognition by the developing world that they were not catching up. There evolved the theory of general entitlement to that which was needed to improve the condition of the country, and this was generally accepted to be technology for industrial development, whether or not it is patented or secret, as a matter of right: to redeem past colonial exploitation, and on the theory that its formation has already been paid for in the home country and it shouldn't earn additional return. These are political issues, but they are being debated in the context of compulsory licensing or forfeiture of patents and compulsory transfer of knowhow.

The developing countries know that they don't have time to develop their own knowhow, on any reasonable timetable for industrialization. Despite extensive international assistance and good will, despite aid in founding research centers and in training scientists, many countries in the technologically developing world can not, and do not expect to, achieve the independence of R&D effort needed to support the level of industry that they are planning for. This is as true in for example Spain, or Korea - both with a strong technical component - as in the less advanced countries. The industrial

laboratories of the United States, Japan, and Europe will continue to carry the burden of applied R&D. Yet we don't expect our governments to compel their industry to give away its property. The Third World countries are seeking a solution, in some form of compulsory technology transfer, which is providing further polarization.

A word about "appropriate technology": Much has been said about the need to be sure that the technology brought into a country is indeed the best choice in view of all of the local factors. The newest technology tends to be capital intensive, which may not be needed or desired in economies of high unemployment. But obsolete or less efficient technology may not be desired either, if a country is seeking to compete in the export market or to reduce consumer prices. Or the labor needed for more labor-intensive choices might require skills, or semi-skills, that aren't available.

Whatever mistakes may have been made in the past, it is my observation that these issues are now well understood by economic planners in the host countries - despite reports from the Vienna conference that developing countries are still seeking the glamorous large scale high-technology projects, and have rejected the concept of "appropriate

technology" as "hand-me-down knowledge." The developing countries assert that their economic goals won't be met if access is denied to advanced technology. I think all of us here are convinced that this access is facilitated by participation in world patent and related legal systems; and will be increasingly benefited by such systems as each country evolves in accordance with its own growth goals. This view doesn't seem to be shared by the developing world.

In general, the Third World countries prefer to rely on case-by-case expediency if protection is required to enable local industrial investment. Systems such as protective tariffs, government subsidies, preferential procurement, tax and depreciation formulas, prohibitions on competitive businesses, do give a certain protective support -- but experience shows that they don't foster healthy industrial growth in a competitive environment. Rather, they may foster inefficiency and the preservation of obsolete products and processes to the detriment of the developing country.

Also, these short-term remedies do not foster the growth of essential local technological infrastructures. Varying degrees of supporting internal R&D effort are appearing in those countries that seek to grow by industrialization.

With established universities, student and faculty exchanges, and flourishing industries in many developing countries, local invention and innovation are starting, albeit painfully slowly.

Estimates are that at present only three percent of the world's R&D is being done in the developing countries, which have 72% of the world's population. Six countries account for 85% of the world's R&D spending: the United States, Japan, France, Great Britain, West Germany, and Russia. If industrialization continues as a major - the major - goal, then this ratio must increase; to develop indigenous technology, and to adapt and improve on foreign technology.

A number of countries have adopted strict rules relating to foreign technology, intended to shift the bargain in favor of local industry. We have all watched the changing laws in Latin America. As another example, India has placed a 5-year limit on patent life in certain fields. This has discouraged foreign investment in these fields. Whether it will encourage local investment, or lower local prices, has not yet been observed. Private capital in India does not appear to favor high-technology products, despite the apparent supply of scientists and technicians. This must be perplexing to the Third World countries - and indeed,

economists and sociologists are starting to question openly (it used to be a whisper) whether technology and money - the demands of the Third World - are the answer.

Yet the Third World countries appear convinced that the solution to their economic problems can be found only through technology. The existence of scientific solutions to some economic problems has created the expectation that there are scientific solutions to all economic problems. This concept was much in evidence at the Vienna conference.

I think that we must be sympathetic to the aspirations of the Third World. I think the problem areas we are now seeing in the patent and trademark fields are just the beginning. We cannot assume that the Paris Convention is safe from amendment in a way we cannot accept. Some commentators believe that a Code of Conduct that is punitive to multi-nationals will be adopted by UNCTAD. The pressures will get stronger, and we, the holders of the technology, must seek ways to help solve these far-reaching economic problems, and not leave it entirely in the hands of governments.

Thank you.

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Message to the Tenth General Meeting of the Pacific Industrial Property Association

Yoshio Kawahara
Director-General of the
Japan Patent Office

It is indeed a privilege to extend my congratulations to the Tenth General Meeting of the Pacific Industrial Property Association. This meeting is a truly significant occasion, at which those concerned with industrial property rights in the United States and Japan, two countries closely linked politically, culturally, and industrially, have an opportunity to exchange their views freely and deepen friendship and understanding. In view of the progress made in the internationalization of industrial property rights in recent years, we can look forward with confidence to hearing positive and constructive proposals brought forward by the holders of industrial property rights at this meeting.

I would like to take advantage of this occasion to bring up a few of the problems that Japan's industrial property rights system is facing, for the information of those present here today.

First I would like to mention Japan's positive response to various international trends in industrial property rights. Industrial property rights are markedly international

by nature, but especially in recent years, with ever more frequent international exchange being facilitated by the coming into effect of various treaties and conventions and the holding of international conferences, remarkable advances have been made toward the internationalization of industrial property rights. The coming into effect last year of the PCT, in particular, means the entry into a new era of world industrial property rights. At the recent Geneva General Assembly of WIPO, at which I was present as the representative of the Japanese Government, I perceived at first hand the full dimensions of the movement for internationalization of industrial property rights, and I keenly felt the need for a still more active response, on the part of Japan as well, to international trends toward fruitful international cooperation.

This is the second year since Japan's signing of the PCT, and the work of the Receiving Office and the International Searching Authority is now under way as planned, but contrary to expectations, it does not seem that full use has been made of these yet. Adoption of the PCT has many advantages for patent applicants in their acquisition of international search reports, postponement of application and other procedures; and for the Patent Office as well, it is hoped that the burden of examination will be lightened by the use of international search reports when processing international applications. We hope that, in the future, this system will be put to more thorough use by all.

Aside from the above, other treaties, such as the Budapest Treaty and the TRT, have come forward since the PCT, and Japan is now making the necessary preparations for signing these treaties as well. The revision of the Paris Convention, now being advocated by WIPO and other organizations, is a major topic calling for the reshaping of the basic framework of the international industrial property rights system, and Japan is taking active steps in this direction too. Since unity is especially important among the countries of Group B, we are planning to hold a Group B meeting in November this year in Tokyo in preparation for the Diplomatic Conference in February of next year. The heads of the Patent Offices of the Group B countries will be asked to attend to this meeting. I hope to hear constructive opinions regarding this matter from the PIPA.

Japan is conscious of its responsibility, as a major economic power in the world, to actively cooperate with other nations in the field of industrial property rights. With this in mind, it is hosting trainees from China, Korea, the ASEAN and other countries, and is conducting joint examinations.

Looking now to the situation in our country, it must be pointed out that in Japan--which ranks among the nations with the largest numbers of applications--there is still a great number of pending cases, and the granting of industrial property rights is not being carried out with all due swiftness and accuracy. To solve this problem as quickly as possible,

the Japan Patent Office is striving to improve its examination and processing capacities by expanding its organization and staff and by promoting the automation of clerical procedures. Furthermore, since in the tremendous volume of applications, there is no small number of overly protective or insufficiently prepared applications, we are asking the cooperation of all applicants, in filing proper applications and search requests. Thanks to the various measures being taken, application processing procedures are improving every year, and as a result, there is a tendency for processing time to decrease gradually. In any case, it is our intention to push on with even greater vigor in our efforts to improve examination and processing procedures.

In closing, I would like to wish this meeting success and hope for the continuing future progress of your organization.

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QUANTUM LEAPS AND COLD FEET

Remarks by

Henry Wendt III, President and Chief
Operating Officer

SMITHKLINE CORPORATION
Before the Pacific Industrial Property Association
Philadelphia, Pennsylvania

October 24, 1979

Thank you, Polly, it really is nice to be here tonight to speak to all of you from the Pacific area -- my favorite part of the world.

I must tell you that preparing my remarks for tonight was especially difficult because my thoughts kept drifting back to the years I spent in Japan both as a tourist and in establishing our consumer products business. They were some of the happiest and most rewarding times of my life.

And I'm happy to say that because of our joint venture with Fujisawa, I still get the opportunity to visit my friends there at least once a year.

As many of you know, SmithKline Corporation is a high technology business with a high investment in research and development. Consequently, we have a great interest in, and respect for, the patent systems of the world, frustrating as they may sometimes be.

But my remarks tonight are not about patents. I'm not a patent lawyer and I won't pretend to tell this distinguished group of experts its business. I will, however, talk about a closely related subject, INNOVATION. Specifically, innovation in the United States.

I've called my remarks, QUANTUM LEAPS AND COLD FEET.

America is at odds with itself where innovation is concerned. On the one hand, there is a growing feeling that America is losing its edge in innovation. That other nations, especially West Germany and Japan, are making greater strides in technological innovation. That the spirit of adventure and invention is drying up in America.

On the other hand, there are those who maintain that American innovation is as creative and productive as ever. That any lag is only perceived, and not real. That we are still the world leader in technological innovation.

I'd like to share with you some thoughts on the subject and offer what I hope will be a new perspective.

Innovation, TECHNOLOGICAL innovation, is difficult to measure. In fact, I think it is impossible to measure.

Nevertheless, there are some very sure indications that many believe point to a decline in industrial innovation in the United States.

For example, compare the trends of total R&D expenditure levels in the U.S. with West Germany and Japan. From 1962 to

1972, U.S. expenditures increased at an average annual rate of 6%, while West Germany more than doubled that rate and Japan more than TRIPLED it over the same period.

Between 1972 and 1974, the U.S. and West Germany increased by 14 and 15% respectively, while Japan increased by a remarkable 50%.

Or, measure total R&D spend as a fraction of gross national product. While it fell by 20% in America in the ten years preceding 1978, it rose by 16% in West Germany, and by 20% in Japan. Even in the Soviet Union, certainly not a leader in innovation, R&D spend as a percent of GNP increased by 15%.

It is true, of course, that direct comparisons of total R&D spend levels among different economies are inaccurate at best because of fluctuating exchange rates. But the trend is certainly there.

Proponents of the lag theory point to the level of federal expenditures, which have dropped off by 5% since the late 1960's. This decline has a profound effect on the research efforts by America's universities. Nearly two-thirds of their budgets come from government funds.

Here is how it hurts. The newest accelerator used for work in pure and applied nuclear physics at CalTech was built in 1960. Students are being trained on obsolete equipment.

By contrast, one laboratory in Geneva has a larger budget for high-energy physics than all the labs in the United States put together.

You can see the problem. In fact, some educators are convinced that there will be a "brain drain", which will see

the best and brightest students AND faculty from U.S. schools move over to European universities.

Industry spending on R&D has kept ahead of inflation. But the proportion of funds devoted to basic research has dropped in recent years in favor of applied research. Industry is growing more cautious.

Applied research is, of course, necessary. It produces useful variations on existing technology.

But it is basic research that produces true innovation. The quantum leaps.

Patents also point to a decline in American innovation. The number of U.S. patents granted to American residents has declined every year since 1971. On the other hand, patents granted to foreign residents have increased every year since 1963. In the past five years, foreign citizens have won more than one-third of all patents issued by the U.S. Government. But the share of foreign patents held by Americans has declined.

To wrap up the proponent side of the argument, I'll look at the reasons for the apparent decline.

The most obvious culprit, and one that is blamed for just about everything these days -- with good reason -- is the run-away inflation of the 1970's. While it has boosted the costs of R&D, it has also eaten away at the returns. As a result, the small innovator -- and even a few large ones -- have been scared off.

Inflation has also reduced the level of venture capital available to the entrepreneur. Last year's reduction of the

maximum tax on capital gains from 49% to 28% has freed up some capital. Still, though, venture capitalists are much more conservative in taking risks than they were in the past.

But the biggest factor, the one that comes under the heaviest fire, is the Federal Government.

First, regulation.

Federal regulatory programs are often excessive, sometimes unnecessary and now and then contradictory.

Let me give you a good example. The construction industry was ordered by OSHA -- the agency that has written a booklet for farmers on how to avoid falling into cow manure -- to install beepers on all moving vehicles at building sites so that workers would hear the sound and avoid being run over.

So far, so good.

But then the Environmental Protection Agency stepped in and ordered the workers to wear earmuffs to protect them from the noise.

The only logic I can come up with is that if they DO get run over, they won't know what hit them.

Excessive government regulations -- and I emphasize excessive -- divert precious R&D resources to what is commonly called "defensive research". By that I mean research that copes with the guilty-until-proven-innocent studies of new products before they are cleared for introduction.

I can give you a good example of the efforts of defensive research from an area that is close to home. In fact, it IS home.

Between 1948 and 1962, 641 new drug products were introduced in the United States. Since then, only 247 new drugs have been introduced to the market.

It is not my point to say that government regulation is unnecessary. Not at all. Certainly the government has been successful in preventing a number of potentially harmful drugs and products from reaching the market. But excessive regulations, regulations that lack common sense, place an unnecessary and costly drain on innovative efforts. Creativity that produces innovation must have freedom to work.

Secondly, taxes. The tax system adopted by the United States in the last 20 years or so penalizes basic research and its adaptation to technology. Between corporate income tax and capital gains tax, investments in plant and equipment cannot be written off quickly enough. The system almost dictates that short-term, immediate gains be sought. In the end, long-term investments in an uncertain future are unattractive.

The constant pressure of the tax laws is aggravated by antitrust laws. While these laws were designed to ensure healthy competition among U.S. businesses, they work against U.S. industry in the world market. Domestic businesses we considered "big" 20 years ago are now only marginal in the world economy.

In spite of that, our antitrust laws discourage scaling-up of businesses by mergers that may increase our economic efficiency

and make us better able to compete internationally. The force of this antimerger effort has channeled acquisitions in the direction of the formation of conglomerates. And I think you'll agree that conglomerates lack a fundamental core of technology. They become focused on financial results, not technological advancement.

Also, antitrust enforcement authorities seem to make a career of using new or extended theories of antitrust law to attack our most successful technologically innovative companies. Look no farther than IBM, AT&T, Xerox and duPont. Surely breaking up our most innovative companies will hardly improve our ability to compete effectively in the international market.

The point is that those who regulate and govern us have kept their perspectives locked within the boundries of the United States. They continue to fail to realize that the arena in which we compete has broadened to include virtually the entire world.

Getting to the area you call home, the U.S. patent system is, to a degree, involved in the problem as well. I said at the beginning of my remarks that I wouldn't pretend to tell you your business. And I won't. I'll just identify the issues.

As I see them they are the efficiency -- and especially the financing -- of the Commerce Department's Patent and Trademark Office, the length of patent protection actually provided by a patent, and the widespread lack of uniformity in court interpretations of patent law.

Possible solutions to these problems, which I know are being widely discussed are: a recognition of the need for more funding for the Patent Office; an extension of patent term to cover regulatory delays; and the creation of a special court of appeals for patents and perhaps for other specialized types of cases. This special court would insure more uniformity and predictability in the law.

Another concern is the issue of ownership of rights to inventions developed with federal money. The federal government isn't staffed or equipped to develop, produce and market inventions. And without exclusive rights to those inventions, industry is understandably disinclined to do the job. The result is that thousands of patents are gathering dust on government shelves.

Before I leave the topic of patents, I'd like to move away from the United States for a moment to mention a problem of global significance.

I share your concern about the efforts of LDC's to weaken the international patent system. In addition to eliminating, shortening and diminishing the value of patents in many of their own countries, the Group of 77 is attempting to amend the Paris Convention in order to put an official blessing on their views.

The possibility of a country granting an exclusive compulsory license to an imitator is only the most serious of a number of changes they are seeking. On the whole, their proposed changes would severely weaken the patent system. They would discourage high technology industries from investing in their countries. They would create further disincentives to research and innovation.

I must point out, however, that China, the largest LDC of all, is moving swiftly to adopt a patent system that will be compatible with systems in the developed nations. One that will provide -- they say -- reasonable protection for industrial property and investment.

I know that your group is playing a critical role in trying to defeat the unwise moves of the Group of 77 and I fully support your efforts.

Finally, to finish up this side of the argument, and in the interest of objectivity, I want to point out that industry is not only a victim of the situation I described. It is also an accomplice.

More and more, industry is hedging its bet on the future by insisting on sure-fire, short-term payoffs in the interest of short-term survival.

The trend is to concentrate on applied research and development. In fact, in 1956, 38% of the nation's total basic research was performed by industry. Today that figure has dropped to about 16%.

But beyond that, there is a more subtle and insidious trend taking place. A trend that will have a long-range affect.

Many businesses today are being organized --.or should I say reorganized -- for steady and safe profitability at the expense of innovation. They have management incentive programs that emphasize short-term corporate performance. And many

established businesses no longer have a management team that has an entrepreneural interest in the company. All of these factors, I believe, discourage the bold and innovative research projects that we are looking for.

The other side of the coin is less complex. Opponents of the innovation lag theory say that research and development spend is not an accurate measure of innovation. That it accounts for only about 10% of true innovative expenditures. That the bulk -- the remaining 90% -- comes in developing and bringing to market the products of R&D.

They argue that the patent figures are misleading. That they don't show whether or not the inventions are even marketable. As for the number of patents granted to foreign residents, they maintain that the scientific enterprises of Western Europe and Japan are only coming into their own. Our scientific enterprise remains vigorous, healthy, and productive.

Most effectively, though, they point to the U.S. balance of trade. While it has remained positive for manufactured goods in part of the 70's, the overall trend was down.

The figures for R&D-intensive manufacturing industries, however, are another story. In chemicals, machinery, aircraft, and professional and scientific instruments, not only is there a surplus, but it climbed throughout the '60's and '70's.

The director of the National Science Foundation says that the data do not suggest that the United States R&D base for

innovation is eroding or that it is radically different from other developed nations.

So the question remains: Is there REALLY an innovation lag in the United States?

I, personally, come down on the optimistic side.

But, my point is this: The perception that there is an innovation lag is what is important. By that I mean if American business believes that there are insurmountable obstacles to innovation in the United States, it will surely be unlikely to invest in risky ventures. An when that happens, the United States will go from a nation of quantum leaps to one with cold feet.

I hope I haven't painted too bleak a picture for you. The situation is serious, but far from hopeless.

This fall the government will release recommendations to improve innovation based on the domestic policy review, in which some of you have participated. This study was initiated by President Carter more than 18 months ago, and involves 28 federal agencies.

It is thought likely that the recommendations will include the establishment of cooperative technology centers, tax relief for small innovative firms, patent changes, adoption of regulatory performance standards and ways to improve government-industry cooperation.

On that last point we don't have to go far to see a good example. In fact, we don't have to leave the room.

Japan exemplifies productive cooperation between government and industry like no other free nation. Some of their programs include cash grants for high-risk research and development projects that are repayable ONLY if the project succeeds; long-term, low-interest loans for high-risk R&D, and tax exclusion for portions of royalties received from exported technology.

I believe that there are three areas here in the U.S.A. in which we must work hard -and work together -- to improve:

First, we must develop an educational system that reinforces creativity and rewards innovative thinking.

Next, there must be strong financial incentives, longer periods of patent protection, tax credits for important research, and modified trade laws.

Finally, government must modify regulations, while keeping those that still assure socially acceptable corporate behavior.

In spite of the current state of affairs I'm very optimistic about the future of America's technological innovation. I believe the steps I have just outlined will be implemented. But I'm optimistic for more reasons than just that.

I'm optimistic because the American people are making their voices -- and their dissatisfaction -- heard loud and clear. This November, 12 states will have on their ballots propositions to either reduce taxes or otherwise control government spending.

I'm optimistic because the government and Congress are waking up to America's needs. The domestic policy review that I mentioned earlier is an example of a new awareness, and more important, new action.

I'm optimistic because the bold report of the Joint Economic Committee of Congress on August 13 calls for a rebuilding of our industrial base. I should point out that the report was important enough to warrant three supportive editorials in THE WALL STREET JOURNAL.

I'm also optimistic about the technological innovation of the rest of the world. I believe we are entering a period of healthy and vigorous competition. The kind of competition that brings forth the genius that has delivered us to where we are today.

Yankee ingenuity has a proud history.

It also has a bright future.

Pacific Industrial Property Association
Tenth International Congress
Philadelphia, Pennsylvania - October 26, 1979

LUTRELLE F. PARKER, DEPUTY
COMMISSIONER OF PATENTS & TRADEMARKS.

Honored Guests, Ladies and Gentlemen:

It is a distinct honor and a pleasure for me to be here this afternoon with some old friends and so many new ones to address this luncheon meeting of the 10th International Conference of the Pacific Industrial Property Association. It is a special pleasure to be introduced so warmly by your president, Dr. Pauline Newman.

Those of you who have been following the history of the Patent & Trademark Office know that it has been my great fortune to have the honor of serving as Acting Commissioner for the second time in the past two years. In fact, I've been Acting Commissioner for more than one of the past two years. On this point, I'm happy to report to you that the administration's search for successor to Donald Banner - whom we all knew - who resigned from the office at the end of June, has ended.

On October 15th of this year, President Carter announced his intention to nominate Mr. Sidney A. Diamond, of the State of New York and the State of Arizona, to be the next Commissioner of Patents and Trademarks. Mr. Diamond will be sworn in and will assume the duties of that office after his nomination has been confirmed by the United States Senate. This will probably be within the next several weeks. Mr. Diamond, as you know, has wide experience in the intellectual property law field and has held many offices in professional associations, including the chairmanship of the American Bar Association Section on Patents, Trademarks and Copyrights. I am sure that Mr. Sidney Diamond will make an outstanding Commissioner of Patents and Trademarks and I know that you will join me in wishing him every success.

I came to Philadelphia this afternoon to report to you in my position as Acting Commissioner of the Patent and Trademark Office that the patent system of the United States is sound, progressive and economically efficient - thanks in no small part to the efforts of the more than 2,700 employees who make up the staff of the United States Patent and Trademark Office - thanks to the work of you who are here today, you who are members of the Pacific Industrial Property Association and thanks to the work of the various bar associations and its membership throughout this great country of ours and throughout this world over the past years.

Like my colleagues before me here today, I also came to Philadelphia to talk about what I consider to be three of the major, and some of the minor problems, to be discussed at the upcoming Geneva Diplomatic Conference on the Revision of the Paris Convention.

As Mr. Adams pointed out this morning, in approximately three months, a delegation representing the United States of America, a delegation from Japan and representatives from PIPA, will leave for Geneva, Switzerland to begin negotiating with their colleagues, a change or revision in the almost one-hundred year old treaty known as the Paris Convention for the protection of industrial property, which we talked about so much here today. This revision, which has been undertaken primarily for the benefit of the developing countries, marks the first time that we've had substantial revision efforts of this important treaty where protection for industrial property as a whole is not, in our opinion, being clearly advanced. However, this is not to say that substantial benefits cannot be gained by the revision effort. On the contrary, all three groups of countries - Group B, the developed market economy countries, Group D, the socialist countries and a group of developing countries may all benefit from the revision effort.

While the initial effort to revise the Paris Convention was primarily a developing country initiative, the most contentious matters which will be discussed at the diplomatic conference, are not all matters which they originated. In reviewing the many substantive topics, or areas of concern raised by the group of developing countries, only a few remain and these few, are thought to be of lesser importance when compared with the other substantive proposals.

From what you've heard here this morning, you know that first among the three major concerns that I want to talk to you about today to be considered at the upcoming diplomatic conference is the proposal of the Group D, or socialist countries, to further accommodate the inventor certificate in the Paris Convention. In this point, you may recall that in the Stockholm revision of the Paris Convention, which took place in 1967, the inventor certificate camel, so to speak, got his proverbial nose into the Industrial Property Tent. At that time, a provision was introduced into the Convention under which inventor certificates could serve as a basis for a right of priority provided the applicant would have been able to apply for a patent at the time he or she applied for an inventor's certificate.

In the upcoming negotiations for revision, the Group D, or socialist countries, will be asking for further recognition of inventor certificates. They want them recognized not only for priority purposes, but for all purposes under the Paris Convention. Inventors certificates, as you know, appear to be of very little interest to anyone not living in a country having inventors certificates. In fact, the main beneficiaries of inventors certificates are the governments of the countries having them. Consequently, further recognition of inventors certificates is being extended only under conditions which assure the majority of countries that are members of the Paris Convention of some mutuality, if you please, of benefits.

The Group B, or the developed market economy countries, are willing to give some further recognition to inventors certificates, provided that for all areas for which an inventors certificate is available, the applicant could instead, if you please, obtain a patent. Certain other conditions are also being set forth by the Group B countries for inventors certificates to more nearly equate them to similar forms of protections for industrial property which the Paris Convention already covers. If the inventors certificate is to be equated to a patent, it is felt, as has been pointed out by my colleagues, by the Group B countries to be appropriate for countries having both forms of protection to provide some parallelism between inventors certificates and patents. All parties to the negotiations now agree that substantive grounds for grant, for opposition and for annulment, and the time limits for presenting an opposition or a request for annulment for both forms of protection, that is, inventors' certificates and patents, should be the same. The only other major point of contention is whether the terms of protection for both inventors certificates and patents shall be the same.

At present, both Group D and the group of developing countries are attempting to preserve certain freedom in regards to inventors certificates that they presently enjoy. In this regard, Group D, is not only attempting to retain the right to grant only inventors certificates in a number of areas (to the exclusion of patents) in which countries within the group presently award only inventors certificates, but to retain the freedom to grant inventors certificates only or establish specific conditions for protection by patents in certain other specified areas as well. These areas are: those involving public health. The manufacturing of foodstuffs, and those involving the protection of the environment, as well as any field of technology not formerly protected. The group of developing countries want to permit any country, which on the date

of entry into force of the revised act, has only inventors certificates for certain fields of invention, to be able to continue to grant only inventors certificates in those fields. The group of developing countries further want developing countries, which do not now have an inventors certificate system, to have the right at any time in the future, to grant inventors certificates only for any field for which any other country of the union offers only inventors certificates.

Even though to date significant agreement has been achieved in the drafts to be considered at the diplomatic conference, both as to providing for the grant of patents in all fields for which inventors certificates are available and to equating the conditions that apply to patents to inventors certificates in countries that grant both forms of protection, clearly, some major negotiating points remain. One of these points deals with the extent to which, if at all, any country granting inventors certificates only for some fields of inventions will be able to continue to do so after adhering to the new act. From a perusal of the agreements already reached, one could conclude that each of the groups has already achieved some benefits. Group D, for example, has tentatively achieved increased recognition of inventors certificates in the Paris Convention. Both Group B and the group of developing countries have achieved increased assurances of being able to obtain patents in countries having both forms of protection. Patents, as you know, are more meaningful than inventors certificates to nationals of non-socialist countries. Group B and the group of developing countries have also benefited from the establishing of certain restraints on inventors certificates and equating certain conditions for patents to those which were more lenient for inventors certificates.

Should any of these three groups refuse to agree to the proposed changes to further accommodate inventors certificates in the Paris Convention, it must be remembered that the Paris Convention will in the new, or Geneva Act, remain as it is in the Stockholm Act of 1967. Consequently, there should be some further movement in regard to the positions of one, if not several, of the groups during the upcoming diplomatic conference in Geneva.

The second of the three major issues to be discussed at the diplomatic conference will be the giving of enhanced protection to geographic indications of source. This matter was originally raised by the developing countries to preserve the use of their various geographic indications despite the fact that they might not yet be associated with products, or goods, from the locale of the geographic indication. The developing countries do not want to be faced with trademarks incorporating their geographic indications of sources at such time in the future as they would want to use their geographic indications for their own products or goods.

Arising out of this desire of the developing countries to preserve their geographic indications has been an attempt by the European Economic Community countries, who constitute, a part of Group B, to enhance the protection given in the Paris Convention to geographic indications, including appellations of origin. Appellations of origin are geographic indications which serve to designate a product from an indicated locale with the product drawing its characteristic quality from the environment of the locale. The designations used for French wines or cheeses, are probably the best examples of appellations of origin.

At present, the three groups, the Group B, the Group D and the developing countries group are fairly well agreed that some enhanced protection will be given to geographic indications of source. Acceptable to all three groups is language that will require each country to provide for the refusal or the invalidation of the registration of trademarks which contain geographic indications which mislead the public. Each country must also preclude the use of such indications.

The European Economic Community countries want all countries adhering to the Paris Convention to protect geographic indications, even if the public is not misled, but merely if the indication has acquired a reputation and the indication is known to trade circles.

If you've been following the subject of appellations of origins, and I'm sure you have, you will remember that a separate agreement under the Paris Convention - the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration - was formed and signed in 1958, because heightened protection for appellations of origin was not acceptable to the majority of Paris Convention members. Only some sixteen countries have adhered to the Lisbon Agreement and consequently these same sixteen countries, as well as several other countries not party to the Lisbon Agreement, would like to use the Paris Convention to increase the number of countries, giving more recognition to geographic indications.

The United States joined by a number of non-European Economic Community countries is opposing the proposal of the European Economic Community countries to give protection in the Paris Convention to geographic indications which do not mislead the public. This matter is at present one of the more significant problems which will be facing the conference, and it is particularly important in that Group B is split on the matter. Group D does not support this proposal, while the group of developing countries appear to support it.

Now the group of developing countries, in addition to supporting the European Economic Community countries' proposal to give protection to geographic indications which do not mislead have made a separate proposal. The proposal in concept is in the direction of the Lisbon Agreement, but without its safeguards. The separate proposal of the group of developing countries would permit each developing country to notify the WIPO International Bureau of up to two hundred of their geographical names and up to ten additional names every two years thereafter which it seeks to protect. All other countries adhering to the Geneva Act would be notified of these names, and neither could register the names as trademarks nor permit their use. Under the proposal, developing countries will be able to reserve the use of their geographical names for twenty years, even if not associated with goods, and for an

additional twenty years if associated with goods. Neither Group B nor Group D has definitely commented on this proposal which was only first presented in late June of this year, but Group B has raised a number of serious questions in connection therewith. As far as the United States is concerned, the proposal would require changes in the United States law to meet objectives which, for the most part, could not be met under our present law. For that reason, the proposal is unacceptable to the United States.

The third major problem which we foresee for the diplomatic conference arises from a proposal to amend Article 5A of the Paris Convention. Article 5A presently provides that countries may, under certain conditions, award non-exclusive, non-voluntary licenses to patents which are not worked within a given period of time or which may be used abusively by the patentee. In addition to attempting to reduce the length of time after which a license for non-working may be awarded, the developing countries also want to be able to grant an "exclusive", rather than a "non-exclusive" license, if necessary to insure local working. Of particular interest, is the fact that in addition to the developing countries, Canada, our neighbor to the north, also wishes to have the right to grant "exclusive" licenses for non-working. Canada has a provision in its national law providing for the awarding of exclusive licenses for non-working. As a consequence, it has not adhered to the last two revisions of the Paris Convention which permit only the grant of non-exclusive licenses for non-working.

An attempt will be made at the diplomatic conference to arrive at a less harsh, acceptable provision to replace the proposed "exclusive" provision. Here, as with inventors certificates, it is unlikely that the proposal for an "exclusive" non-voluntary license for non-working will be accepted, absent support, or at least tacit approval from the three groups of countries.

Now while these are three of the major problems to be discussed at the conference, a great many other problems will also be discussed. Among these are: I. An attempt by the developing countries to preclude South Africa from participating in the diplomatic conference; II. A proposal by the developing countries to require preferential treatment for nationals of the developing countries for fees and priority periods, i.e., to charge developing countries nationals lower fees and give them longer priority periods; III. A proposal by the developing countries to delete Article 5 Quater and thereby not provide that imported products made by a patented process will be given the same protection given products produced domestically by the process; IV. A proposal by the developing countries to mandate increased protection for official names of countries; V. A proposal offered first by Kenya and supported by many other countries, to offer protection to the Olympic symbol by way of a protocol attached to the Geneva Act; and VI. Various other proposals amending Articles 20 - 30 dealing with such things as signature, ratification, assession, entry into force, closing of the earlier Acts, extension of the Act to territories, denunciation, application of the Act, disputes and languages of original and official texts.

Finally, bearing on all of the substantive discussions and the changes to the present Act which will result, and of major importance to each country participating in the conference, is the question mentioned here today of whether the requirement for unanimity of voting for revising the Paris Convention will be maintained. Mr. Adams discussed this matter earlier here today. In all previous conferences to revise the Paris Convention, I remind you, that no amendment was permitted to the Convention if any one country was opposed to the amendment.

This was so because the rules of procedure for the past conferences contained the unanimity requirement for amendment. The Rules of Procedure proposed for this conference will be up for

consideration during the initial days of the conference. That's why it is so important that we have good representation there. At present, they do not contain a unanimity requirement. The determination of what majority will guide the approval of amendments will be made at the beginning of the conference.

The posture of Group B has been to maintain the unanimity requirement. Furthermore, Group B, is of the opinion that a change from unanimity to some other majority can be made only if no country objects to the change.

While the unanimity question is simply a procedural question, it will have profound impact on the nature of the amendments adopted and the acceptability of the Geneva Act for any given country.

Some of the problems to be considered by the diplomatic conference will undoubtedly be resolved. Other problems will not be resolved and, consequently, will not be reflected in the Geneva Act. However, it is quite probable that the Geneva Act will contain some further accommodations of inventors certificates, enhance protection for geographic indications of source, a number of changes of particular benefit to developing countries, and on balance, an overall mix of changes which, hopefully, will not be detrimental to the interests of the Group B countries and the United States.

Thank you so much for the privilege of being here with you today and thank you for receiving me so warmly. Thank you.

CLOSING ADDRESS

Shusaku TOKI
President of Japanese Group
October 26, 1979.

Dr. Newman, ladies and gentlemen, it is time now to close the 10th PIPA Philadelphia Congress.

I would like to express my thanks to all of you on behalf of the Japanese Group.

We offer sincere thanks to Dr. Newman, Overall President, and all the members of the American group for your efforts in the preparation and administration of this Congress and also for your hospitality, kindness and the consideration you offered us. We also express our thanks to Mr. Edward H. Valence who worked as Program chairman, and to Ms. Marcia Pintzuk, who assisted in the preparation of the Congress and made her own presentation to the Congress.

Other members of the staff who worked for this Congress are Ms. Frances Walsh, Ms. Marianne Frattari, Ms. Ruth McTague, and Ms. Betty Ashenfeloer. Mr. T. Nakamura and Ms. Fumiko Gregg, who are interpreters, assisted me to the last, as did, Mr. James Ash who is in charge of technical matters, and Ms. Miwa Nishimura, who also helped us as an interpreter. We would like to offer them applause with sincere thanks. Please give them a hand.

In this Congress, an excellent presentation and an active exchange of opinion were made on the various problems covering patents, trademarks, know-how and

conventions - especially the revisions to the Paris Convention which was the major theme of this Congress. I think the Congress was very successful. We express our sincere thanks to the Japanese and American chairmen and those members who gave their presentations.

To commemorate the 10th Anniversary of PIPA, Mr. John R. Shipman made an impressive speech and produced fine leaflets of the Ten Year History of PIPA. This is a very significant work. Thank you, Mr. Shipman.

We also wish to offer our sincere thanks to Honorary Chairman Mr. Henry Wendt; and to Mr. John Crook, Mr. Rene D. Tegtmeyer, Mr. Cyril G. Wickham and Mr. Lutrelle F. Parker who attended this Congress as guests. Thank you for your excellent speeches. Mr. Parker will give a speech after this.

We feel much obliged for the consideration on the part of the American group in selecting the locales for the Congresses in the United States. It was moved from Boston to Williamsburg and then here to Philadelphia. We were not so familiar with American history around the time that it won its independence, but through the past three Congress in the U. S. we have learned much about America, which I believe will further mutual understanding between the two countries.

It seems that the international problems relating to

the industrial property system will not be settled easily. Thus, it is necessary for the Japanese and American groups to cooperate in an effort to establish progress in this area.

As the Board of Governors Meeting before the Congress opened, we decided that the next International Congress would be held in Tokyo in October 22, 1980. Looking forward to seeing our friends again in Tokyo, I end my closing address. Sayonara.

Committee Presentations
(Committee #1)

° Recommendations of the Subcommittee on Patent and Information Policy of the Domestic Policy Review of Industrial Innovation
--- R. J. Anderson ---------- 47

° Japanese Situation on Trademark Registration Treaty
--- N. Sudoh ---------- 69

° Enforcement of a Popular Trademark
--- G. W. F. Simmons ---------- 85

° Contradiction between PCT and Japanese Patent Law: Especially in Regard to the Unity of Invention
--- Y. Yamada ---------- 89

° New York Patent Law Association Survey on Use of PCT and EPC
--- R. Spencer ---------- 100

° Effective Utilization of Outside Agents
--- K. Toyama ---------- 121

° The New Reissue Rules and Guidelines: An Overview and View from the Patent and Trademark Office
--- R. D. Tegtmeyer ---------- 165

° Reissue and Third Party Protest — A Corporate Point of View
--- S. Marcus ---------- 203

° Criteria for Judgment of Novelty of an Invention — Mainly in View of Recent Court Decisions
--- Y. Takahashi ---------- 223

° Selected Inventorship Designation and Correction Problems
--- K. F. Jorda ---------- 251

° Construction of Indirect Infringement in Japan — On Acts Deemed to be Infringement
--- H. Takahashi ---------- 262

(REFERENCE)

Final Report on Patent Policy

A Draft Report of the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation established as part of the Domestic Policy Review.

February 6, 1979

Notice: This report represents the views of the Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation, an advisory committee convened by and reporting to the Secretary of Commerce. The views of the Subcommittee do not necessarily represent those of the Department of Commerce or any other agency of the Federal Government.

FOREWORD

A domestic policy review of industrial innovation is being conducted as a result of President Carter's concern for the status of industrial innovation in the United States. This review is being directed by the Industrial Innovation Coordinating Committee, chaired by Secretary of Commerce Juanita M. Kreps.

An Advisory Committee on Industrial Innovation has been established that will bring to bear the views of business and industry, organized labor, the public interest and the academic community expert on the subject. The subcommittees created under this Advisory Committee are examining a wide array of federal programs and policies that impact upon industrial innovation.

This Draft Report on Patent Policy was prepared by the Advisory Subcommittee on Patent and Information Policy under co-Chairman-Information Policy Herbert R. Brinberg, President, Aspen Systems Corporation, and co-Chairman-Patent Policy Robert B. Benson, Director, Patent Law Department, Allis-Chalmers Corporation. The subcommittee, composed of representatives of the business and industrial community, has focused on economic and trade issues and their impact on industrial innovation.

The public portion of the domestic policy review will culminate in a series of seven public symposia to be held in January, 1979. This report, together with those of the other advisory subcommittees, will form the basis for presentations and discussions at the symposia. The moderator for these symposia will be Dr. Jordan J. Baruch, Assistant Secretary of Commerce for Science and Technology.

Following is the membership of the Subcommittee on Patent and Information Policy, as well as the symposia schedule.

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Report of the Subcommittee for Patent and Information Policy of the Government Domestic Review of Industrial Innovation

This Subcommittee was asked to examine the effect the U.S. patent system has on the innovation process, determine if some aspects of the patent system are inhibiting innovation and recommend changes in the system which could further stimulate innovation. For purpose of this report, the innovation process includes all the steps from conception of an idea through research, development, engineering, and marketing to the commercialization of a product or process incorporating the original idea.

SUMMARY

In general, the patent system has served the country well. Major overhaul of the patent system is not recommended. Nevertheless, some modification to the system could have a beneficial effect on innovation. The most serious problems with the patent system are the uncertainty about the reliability of patent and the long time and high costs associated with resolving such uncertainty through litigation. When proper consideration is given to these problems as they relate to those independent inventors and small businesses whose success—and indeed very existence—depends upon the innovation process, it becomes clear that some changes must occur. These problems deter investment of the money required to commercialize an invention (a necessary and expensive step in the innovative process). It is here that modifications to the patent system can have their most beneficial impact. Steps should be taken to increase the assurance that a patent is a valuable piece of property, something that offers protection to subsequent investment.

The committee has identified four major goals to which attention must be addressed to enhance the innovation process through improvement of the present patent system:

1. Enhancement of the reliability of the patent grant to the inventor and those investing in the commercialization of his invention;
2. Reduction in the cost—both in time and money—of judicial enforcement of the rights derived from the patent;
3. Extension of the availability of commercial exclusivity derived from patents to new technological advances and technological advances whose patentability is presently in question; and
4. Development of systems transferring the commercial rights to government-supported invention to those in the private sector capable of their innovation.

We have three major recommendations to improve the reliability of the patent grant.

1. Upgrade the Patent Office by:

   a. Providing an adequate examining staff to assure a rigorous high quality examination. This would increase confidence in the patents that are issued.

   b. Providing modern research tools that increase the probability of finding the relevant prior art. This would be a cost-effective investment by reducing research time per examiner, as well as reducing the frequency of subsequent proceedings to argue the prior art.

2. Provide a reexamination process—available to all interested parties—in order to ensure that the patentability of the invention described in the patent has been considered by the Patent Office in the light of all relevant prior printed publications.
3. Provide a central court to hear patent appeals. This would provide greater consistency in judicial decisions, thus reducing uncertainty.

To reduce the present cost of judicial enforcement of the patent grant, a request should be directed to the Supreme Court, and the Judicial Conference, to require each Federal court to exercise a high degree of control over the conduct of patent litigation, with particular concern for the time and expense of discovery.

To foster commercialization of inventions made in governmental laboratories, under government research contracts and in university laboratories supported with Federal funds, the subcommittee recommends that the commercial rights in such inventions be structured in a manner capable of being transferred to industry—small or large—to ensure capital investment in their development. Such transfers should be subject to a license right reserved to the Government to ensure no further payment for governmental use of the invention.

The subcommittee also recommends clarifying the statutory standard of patentability and permitting licensees to agree not to attack the validity of licensed patents.

An adequate extension of the patent term should be provided when commercialization of patented inventions is delayed due to Federal regulations.

The Subcommittee recommends establishment of foreign policy which encourages other countries to provide United States innovators the right to obtain enforceable patent rights, thus extending the incentive to commercialize United States innovations in international markets.

Further, the Subcommittee recommends clarification of the scope of patent rights to clearly include new technological advances, and particularly technological advances whose patentability is presently questioned or denied, e.g., new life forms for industrial applications, use-specific chemical formulations based upon unpatentable biologically active ingredients and computer software.

Generally, the proposals are set forth in the order of priority recommended by this Subcommittee.

TABLE OF CONTENTS

	Section	Page
Background	1	6
Proposals With Major Impact on Innovation	2	9
I Upgrade the Patent and Trademark Office		
II Provide for Reexamination of Patents		
III Provide a Specialized Appellate Court for Patent Cases		
IV Reduce Cost of Patent Litigation		
V Transfer Commercial Rights to Government-Supported Research to Private Sector		
Other Proposals Which Would Increase Innovation	3	14
VI Extend Patent Term to Compensate for Delays in Commercialization Caused by Government Regulations		
VII Encourage Other Countries to Provide U.S. Innovators the Right to Obtain Enforceable Patent Rights		
VIII Patent Rights to be Available for New Technological Advances		
IX Clarify the Statutory Definition of Patentable Invention: 35 U.S.C. §103		
X Permit Licensee to Agree Not to Challenge Licensed Patent		
Other Matters Considered	4	18
A. Compensation of Employed Inventors		
B. Financial Stimulus of Innovation		
C. Infringement of U.S. Patents by the U.S. Government		
D. Different Classes or Forms of Patents		
E. Other Proposals for Modification of the Patent Term		
F. Ideas for Reducing the Cost of Litigation		
G. Impact of Antitrust Laws on Innovation		
H. Miscellaneous		
Appendices	5	NOT INCLUDED
A. Statistical Information		
B. Net Return on Patented Inventions		
C. "Patents In Our Free Enterprise System," by Robert B. Benson		
D. Industrial Research Institute Position Statement on the U.S. Patent System		
E. "Special Problems in Patent Cases," by Howard T. Markey, Chief Judge, United States Court of Customs and Patent Appeals		
F. Background Information on the Connecticut Product Development Corporation		
G. Position Statements on Compensation of Employed Inventors		
H. Competitive Advantages of Post-Issuance Reexamination		

Section 1

BACKGROUND

The United States has been the leading innovative nation in modern times and has created many new industries. One need only look at the major new industries started within the last 50 years, such as those involving electronics, lasers, antibiotics, synthetic fibers, instant photography, and xerography. There is still room for further innovation and it will continue if provided with a proper environment. Such an environment existed for years and produced outstanding results. Our patent system contributed significantly to an environment which promotes innovation.[1] Unfortunately, there have been disturbing recent indications that there has been a decrease in the rate of innovation and in that portion of the R. & D. investment devoted to new product lines and basic research.

[1] Robert F. Dale and James K. Huntoon, "A Cost-Benefit Study of the Domestic and International Patent System," *Idea*, Volume 3, No. 3, fall 1967, page 351, used several different methods to approximate the benefits of the U.S. patent system, which resulted in benefit-cost ratios ranging from 5:1 to 50:1, with monetary benefits in the range of $2 to $15 billion annually (page 405).
See also Robert B. Benson, "Patents In Our Free Enterprise System," presented at the John Marshall Law School February 20, 1976, attached as appendix C.

Capital investment is growing more slowly in the United States than it is elsewhere: 14 percent in the United States, 30 percent in Japan, 20 percent in Germany, and the United States trading position, even in high technology products, has deteriorated.

An even more dramatic indicator of the innovation decline is evidenced by the recent decrease in investment capital obtained by business. This decline can be readily seen from the following table that shows the capital acquired by firms with less than $5 million in net worth from public offerings since 1969:

Year	Number of offerings	Total amount (millions)
1969	548	$1,457.7
1970	209	383.7
1971	224	551.5
1972	418	918.2
1973	69	137.5
1974	8	13.1
1975	4	16.2

The catastrophic decline in capital obtained by small businesses is apparent, and the trend extends to other sources of small business financing, including professionally managed venture capital sources and high-risk investments by individuals.

There has been a net decline in total United States expenditures for R. & D., as measured in constant dollars, since about 1970.[2, 3] That decline was the result of a significant cutback on R. & D. spending by the Federal Government in the last 10 years, particularly in aerospace research. Industrial R. & D. has shown an average real growth rate of about 2 to 3 percent annually. The data do not suggest a decrease in resources applied to R. & D. by the private sector. However, some analysts support the idea that there has been a shift in the emphasis of R. & D. from a search for new technology to upgrading existing technology and compliance with government regulations.

[2] *Science Indicators*, National Science Board, 1976, pages 108 through 115.
[3] Business Week, July 3, 1978, page 58.

The high technology industries have the largest concentration of R. & D. effort. The ratio of R. & D. expenditure as a percentage of sales has remained fairly constant, the ratio being higher for high technology corporations than low technology corporations.

Despite the fact that United States industrial R. & D. has not declined, in high technology areas there has been a substantial increase in the number of patents granted to foreign companies. Of the patents granted to U.S. residents in high technology areas, the large majority are owned by corporations and very few individuals. In certain high technology fields, such as drugs and chemicals, about 90 percent of the patents are assigned to corporations, rather than individuals.[4] Individuals tend to own relatively more patents in less technical areas. At least in part, this is explained by the high cost and complexities of doing research in high technology areas, again underlining the need for effective patent support in those innovative businesses.

[4] *Supra*, footnote (2), page 112, table 4-22.

The total number of patents issued annually has declined since 1971,[5] suggesting a decline in innovation; however, when considered on the basis of filing dates, the changes are small, with only a slight downward trend. There has been an increase in the number of patents granted annually to foreign residents and a decrease in the number of patents granted to U.S. residents. The share of U.S. patents issued to foreign applicants has doubled in the last 14 years. These data suggest that inventors in other countries are becoming more active, rather than a sharp decline in the rate of U.S. invention. Further, the data suggest that U.S. innovators are facing increased competition from innovators in other countries.

[5] *Supra*, footnote (2), pages 95 through 105.

Individuals and the full range of firm sizes, from small to large, are important to the innovation process. An adequate patent system is important to all, and is often critically important to individuals and small firms.

Some studies have shown that small firms produce major innovations at a higher rate than large firms,[6]

[6] *Science Indicators*, National Science Board, 1976, pages 35 through 41.

although it has been suggested that larger firms may have fewer major innovations per R. & D. dollar, because they produce more expensive innovations.[7]

[7] *Supra*, footnote (6), page 118.

Small firms tend to put to commercial use a higher percentage of their patented inventions than larger firms,[8] although both large and small firms report about

[8] B. S. Sanders, "Patterns of Commercial Exploitation of Patented Inventions by Large and Small Corporations," *PTC J. Res. & Ed.*, volume 8, No. 1, spring 1964, page 51, at page 53.

the same percentage of patented inventions as being useful when, in addition to commercial use, licensing and other purposes are considered.[9] Patented inven-

[9] *Ibid.*, page 74.

tions appear to have a greater effect on reducing costs of commercial production in large firms,[10] but a greater

[10] *Ibid.*, page 79.

effect on increasing sales in smaller firms.[11] Both large

[11] *Ibid.*, page 77.

and small firms report that the net return on patented inventions varies over an extremely wide range,[12] which

[12] *Ibid.*, page 89; see Appendix B.

is some evidence that the number of patents, as such, fails to meaningfully measure the worth of patented inventions.[13] Large and small firms which have a higher

[13] Richard L. Sandor, "The Commercial Value of Patented Inventions," *Idea*, 15:557, winter 1971–72, at page 562:

> ". . . it is not really the total number of patents which a firm has assigned to it which increases profit but only those which are used. The aggregrate number of patents may over- or underestimate the effect of inventive activity on profits."

utilization of patents tend to experience greater sales growth than firms with a lesser utilization of patents.[14]

[14] *Supra*, footnote (1), at page 352. There is a slight, but not statistically significant, tendency for small firms with a high propensity to patent to experience greater percentage sales growth than large firms with a high propensity to patent. See pages 366 and 367. Dale and Huntoon also observe that firms with high R. & D. tend to show more sales growth than firms with low R. & D.; and, firms with both high R. & D. and a high propensity to patent tend to experience greater sales growth than other firms.

Eighty-five percent of U.S. exports are made by only *1* percent of U.S. companies.[15] There is a strong

[15] Business Week, April 10, 1978, pages 60 through 66.

correlation between exporting and R. & D. in the United States. There is a positive trade balance in R. & D. intensive products and a negative trade balance in non-R. & D intensive products.[16] There is also a positive

[16] *Supra*, footnote (6), page 116.

trade balance in technology transfer.[17] A positive relationship appears between increased exports to foreign countries and patent filing in respective countries of export; i.e., the more patents, the more subsequent exports.[18] Improvements in our ability to innovate could

[17] *Ibid.*, page 31.

[18] *Supra*, footnote (1) at page 352.

have a significant impact on our balance of trade.

About 50 percent of all litigated patents are held invalid, which is virtually the same outcome as in many other fields of litigation, such as wills, land titles, and contracts;[19] however, a higher percentage (about 65

[19] Howard T. Markey, Chief Judge, U.S. Court of Customs and Patent Appeals, "The Status of the U.S. Patent System—Sans Myth, Sans Fiction," address before the European Study Conference, London, England, January 25, 1977, reprinted in *J. Patent Office Society*, Volume 59, No. 3, March, 1977, page 164 at page 169. Chief Judge Markey notes that many more holdings of invalidity are reported than holdings of validity; he also suggests that the number of appellate patent decisions does not represent a statistically valid sample of U.S. Patents:

> "The fundamental error which has caused so many from other nations to join those Americans looking askance at the U.S. patent system, is the employment of statistics to gage court attitudes. The number of appellate patent decisions is simply too small to justify the drawing of any conclusions, as some of the reporters of statistics have themselves cautioned in their reports. The number of patents adjudicated by the appellate courts between 1968 and 1972, for example was less than ½ of those adjudicated in the district courts, only 11 percent of those on which suit was filed, and less than 2/10 of 1 percent of those issued. Between 1953 and 1971 over 1 million patents were issued. Only 1,080 were litigated or 0.1 percent. The total number of patents subject to litigation, i.e., those issued up to 17 years prior to 1953, is even greater and further reduces the statistical sample to far less than 0.1 percent. Conclusions drawn from such a *de minimis* sample in any other field would be laughed off the stage by trained statisticians." (page 167)

to 70 percent) of appealed patent cases result in holdings of patent invalidity.[20, 21] Patent litigation is ex-

[20] *Ibid.*, page 171.

[21] In Germany, in 1975, 90 patents were challenged for invalidity. Twenty-two percent were found invalid, and another 19 percent were found partially invalid. See Bernard Nash, "Remarks Before the Industrial Research Institute," Philadelphia, October 18, 1976, reprinted in *J. Patent Office Society*, Volume 59, No. 3, page 143 at page 147.

tremely expensive; members of the committee who handle patent litigation report that they advise clients to be prepared to spend at least $250,000 for patent litigation.

STIMULATION OF INNOVATION BY THE PATENT SYSTEM

Our Subcommittee concludes that the patent system is an essential element in our free enterprise system in the United States, has performed exceptionally well, and has made a significant contribution to the economic development of our country.[22] This is so well accepted

[22] Memorandum for Jordan J. Baruch, Assistant Secretary for Science and Technology from Donald W. Banner, U.S. Department of Commerce, Patent and Trademark Office, dated October 13, 1978.

by the members of our Subcommittee, who have worked for many years directly with the patent system, that we tend to take it for granted. Studies have concluded that

the patent system has performed well its Constitutional mandate "to promote the progress of . . . useful arts." [23, 24, 25] These and other studies set out many well-known examples which illustrate how the patent system has stimulated the decision to commercialize inventions, resulting in large financial gains for individuals, firms, and the country (e.g., taxes and jobs). Many less well-known examples of important inventions commercialized at least in part as a result of the patent system, and which have resulted in more modest financial rewards, appear in reported tax cases.[26]

[23] "Industrial Research Institute Position Statement on the U.S. Patent System," 1978. See appendix D.
[24] "Study of the Subcommittee on Patents, Trademarks and Copyrights of the Committee on the Judiciary," U.S. Senate, Study No. 1, U.S. Government Printing Office, 1956. See, for example, page 12, footnote 26, and page 15.
[25] David Rines, "Do We Need a Patent System," *J. Patent Office Society*, Volume 51, No. 8, August, 1969.

[26] See D. C. Richards and G. E. Lester, "A Patent Harvest," *1975 Patent Law Annual*, pages 1 through 12, for several representative case histories.

Several qualitative studies [27, 28] including recent studies by the United States Patent and Trademark Office and the Industrial Research Institute [29, 30] have concluded that the patent system, while fundamentally sound, could be strengthened so that it does a better job in promoting decisions to commercialize inventions. While the subcommittee can cite no rigorous evidence which establishes that changes in the patent system could have a major impact on the rate of R. & D., there is a consensus among the members of the Subcommittee that the availability of reliable patents has an impact on the focus of R. & D. and on decisions to invest in the commercialization of patented products.

[27] "Report of the President's Commission on the Patent System," U.S. Government Printing Office, 1966.
[28] E. A. Gee and C. Tyler, *Managing Innovation*, pages 222 through 234.

[29] *Supra*, footnote ([22]).
[30] *Supra*, footnote ([23]).

Continuing efforts by governmental spokesmen within the Department of Justice and the Federal Trade Commission to limit the available methods of commercially using patent rights has had the effect of reducing the usefulness of patents in raising capital, especially for the purpose of completing the innovation process by commercializing the invention.

One of the ways to encourage investment to complete the innovation process by commercializing inventions is by reducing the risks involved in decisions to commercialize. The risk of commercializing invention can be reduced if the inventions are the subject of reliable patents [31] and if uncertainties relating to the utilization of patent rights can be resolved quickly and inexpensively. Also, the availability of reliable patents encourages decisions to disclose inventions through the patent system; and, disclosure of inventions in patents appears to exert a stimulative effect on competitive R. & D.[32]

[31] *Supra*, footnote ([24]).

[32] *Ibid.*

The Subcommittee has identified four major goals to which attention must be addressed to enhance the innovation process through improvement of the present patent system.

(1) Enhancement of the reliability of the patent grant to the inventor and those investing in the commercialization of his invention;

(2) Reduction in the cost—both in time and money—of judicial enforcement of the rights derived from the patent;

(3) Clarification of the availability of commercial exclusivity derived from patents for new technological advances; and

(4) Development of systems transferring the commercial rights to government-supported inventions to those in the private sector capable of their innovation.

Sections 2 and 3 of this report set out the Subcommittee's recommendations to enhance the innovation process by improving the patent system in the above-identified areas.

Section 2

PROPOSALS WITH MAJOR IMPACT ON INNOVATION

This section contains those proposals which the Subcommittee feels would have a major impact on stimulating innovation. All members of the Subcommittee urge prompt implementation of the substance of these proposals.

PROPOSAL I.—UPGRADE THE PATENT AND TRADEMARK OFFICE

The Subcommittee strongly recommends that the Patent and Trademark Office (PTO) be given sufficient funds and resources to thoroughly and carefully process patent applications so that the reliability of resulting patents is greatly improved and the enforceability of such patents is enhanced. This is imperative to the making of sound decisions on investment in innovation.

The basis of a good patent system is a good search and an examination which results in a clear definition of the invention. PTO patent examiners presently spend an average of 15 hours in examining each patent application, including reviewing and understanding the disclosure and the claims; conducting a search of the prior art, including United States and foreign patents and the literature; writing an action either allowing or rejecting some or all of the claims, and giving reasons why the claims are believed to be unpatentable; reviewing the response filed by the applicant or his attorney to such action; conducting a further search and either granting or refusing the patent. In the latter event, another action is prepared again setting forth the reasons for rejection so that the applicant can decide whether an appeal should be taken.

The most important part of the examination procedure is the search of the prior art by the examiner. This is done manually by him. Because of time pressures placed on the examiner and the inherent limitation of the examiner's search file, he cannot search all of the literature published throughout the world which may contain pertinent references. Applicant and his attorney are required to assist the examiner in this process by citing information of which they are aware which is material to the examination; however, applicant and his attorney are not always aware of the most relevant art.

Failure by the U.S. examiner to find and cite pertinent prior art results in the issuance of patents which contain claims that do not accurately define the scope of protection to which the invention is entitled, and thus are not given a high degree of acceptance in practice and are more vulnerable to attack in the courts. Infringers involved in patent litigation and who cite prior art not cited by the examiner (even art that is not more pertinent than the cited art) have greater success in convincing courts to invalidate the patents over such new prior art.

The PTO handles approximately 103,000 new patent applications per year with a staff of 3,000 people (approximately 1,000 examiners) and a budget of $93 million. By contrast, the European Patent Office (EPO) is projecting an annual load of 40,000 patent application filings with a staff of 3,000 people and a budget of $115 million. Such an EPO budget, if scaled up to handle the load handled by the PTO, would be two and a half times the current PTO budget. An explicit goal of the European Patent Office is to conduct high quality examinations for the purpose of reliability and predictability. The subcommittee feels that the United States should have the same goal.

In light of the foregoing, the subcommittee submits that the PTO should be given the funds [1] and resources to improve its examination procedure and thereby to enhance the validity and enforceability of U.S. patents. Such improvement should include expansion of the PTO examining corps to permit more thorough searching of the prior art without increased application pendency. Emphasis should be placed on the quality of the patent examination and not on quantity of applications examined. The PTO should expand its quality control program to review a greater sampling of allowed patent applications, thus ensuring more uniformity in the quality of the issued patents. Furthermore, the PTO should improve the integrity and completeness of the PTO's primary search tools, i.e., the patent search file and its scientific library.

The Subcommittee further recommends that, to the extent feasible, the PTO develop, have developed, or use an available computerized patent and prior art search system to better assure the findings and consideration of the closest prior art by the examiner.[2] By developing such a system, eventually containing all U.S. and foreign patents and publications and constantly updating it as new references are received, the PTO will reduce the time required to complete prior art searches by examiners. If such data base was made available to inventors and their patent attorneys, many patent applications would never be filed because of art located in such search. Those that were filed would more readily distinguish the invention over the closest prior art, leading to less protracted prosecution in the

[1] If the PTO is given increased funding, consideration should be given to raising at least a portion of such funding through higher fees. The Government Accounting Office has proposed that the PTO recover in fees 55 percent of its costs (it now recovers 32 percent of its costs; see *Chemical and Engineering News*, November 27, 1978). The Subcommittee feels, however, that excessively high fees could constitute a disincentive to innovate on the part of individual inventors and small firms. Any steps taken to raise additional income from PTO operations should, accordingly, give special consideration to providing relief for individuals and small firms.

[2] This is substantially identical to a primary recommendation being made by the Information Subcommittee.

PTO. The value of such a data base to inventors and industry should not be overlooked. By locating and obtaining copies of references in particular area, there would no longer be any occasion to reinvent the wheel and that time and energy could be spent in further innovations over those already known.

This Subcommittee also recommends legislation which would obligate the Treasury to earmark certain patent and trademark fees for use by the Patent and Trademark Office, such as H.R. 13628, introduced on July 27, 1978, by Representative Peter Rodino (D-N.J.). Under the proposed legislation, certain patent and trademark fees would be credited to the PTO appropriation and would be used to pay the costs of PTO products (e.g. copies) and services (e.g., examination and registration). In the past, the fee monies have not been earmarked for PTO use.

The bill would also give the Commissioner greater authority to set the fees for PTO products and services. Under current law, many fees must be set by Congress.

PROPOSAL II.—PROVIDE FOR REEXAMINATION OF PATENTS

One of the fundamental problems of the existing patent system is that pertinent prior art is very often found after patents have issued and become commercially important. Therefore, in addition to the highest priority proposal to upgrade the initial examination, there is a need for an opportunity for the PTO to consider such art.

Additional prior art, not considered by the PTO, creates uncertainty concerning the enforceability of patents. This uncertainty often deters patent owners or licensees from commercializing the invention; it can also deter commercialization by interested parties who cannot quickly and cheaply assess the value of the patent. Resolving this uncertainty as to the strength of patents through litigation is slow and very expensive. Such uncertainty, coupled with the time and expense of litigation, can be used by infringers to avoid respecting patents (especially patents owned by independent inventors and small businesses) which in turn reduces the value of the patents as an incentive to innovate. Therefore, a need exists for a fast, inexpensive method for increasing the certainty as to the enforceability and scope of patents over prior art not considered by the PTO.

Accordingly, the Subcommittee proposes that the PTO initiate a system for the reexamination of U.S. patents by *any* party requesting such reexamination during the life of the patent. The reexamination system should provide for submission of written arguments by the patentee and other interested persons concerning patentability over prior patents or printed publications. Such reexamination should be handled on an expedited basis by the PTO so that a prompt decision can be rendered. If the claims are held to be patentable over the cited art, the presumption of validity of the patent is enhanced and patentees and interested parties would have a clear idea about the strength of the patent, without resorting to litigation. In some instances, the reexamination procedure should help avoid litigation costs.

If the patent claims were held to be invalid over the cited art, the patentee would have the right to amend his claims and to define his invention more accurately or assert his position to the Board of Appeals and, on appeal, to the Court of Customs and Patent Appeals or the U.S. District Court for the District of Columbia.

This reexamination system would be available whether or not the patent to be reexamined was already involved in litigation. In such case, however, it would be solely within the court's discretion as to whether the litigation should be stayed pending the reexamination, so as to avoid undue delays in obtaining a final court adjudication.

The importance of having prior art relied upon to invalidate a patent reviewed in the first instance by the PTO, when obtainable without delay of infringement litigation, cannot be too highly emphasized. Indeed, reliable statistics suggest that a significantly higher percentage of litigated patents are held invalid where prior art relied on in court was not previously considered by the PTO than was the case where the prior art had been so considered.[3]

[3] See Koenig, "Patent Invalidity—A Statistical and Substantive Analysis" (Clark Boardman Company, Ltd., 1976).

The Subcommitte recommends enactment of suitable legislation [4] to fully implement the reexamination system; in the interim, the Subcommittee encourages the Commissioner to continue to use his rule-making authority in this regard.

[4] Such as H.R. 14632, 94th Congress, January 30, 1976, as modified by Resolutions Two and Three of the August 1977 annual meeting of the Patent, Trademark and Copyright Law Section of the American Bar Association, the effect of which is to (1) give the courts discretion to stay litigation for determination of the issue by the PTO, and (2) provide third parties who have initiated a reexamination proceeding to have an opportunity to submit a written response to the statements filed by the patentee.

The net effect of this Subcommittee's proposal for reexamination would be to provide a simple, inexpensive method of greatly improving the quality and reliability of those U.S. patents which have demonstrated commercial value and to avoid expensive and wasteful procedures with respect to noncommercial developments. It would also provide a system whereby competitors of the patentee can request a more accurate definition of the invention (claims) as guidance in their efforts to legitimately compete with the patentee.[5]

[5] See appendix H.

PROPOSAL III.—PROVIDE A SPECIALIZED APPELLATE COURT FOR PATENT CASES

This Subcommittee favors a centralized national court with exclusive appellate jurisdiction (subject to Supreme Court review) over patent-related cases as

a vehicle for insuring a more uniform interpretation of the patent laws and thus contributing meaningfully and positively to predicting the strength of patents.

The present judicial system for reviewing patent disputes has generated extensive differences in the various circuits' *application* of the patent law which has inordinately increased litigation expenses (by encouraging forum shopping) and made it extremely difficult for patent lawyers to advise their clients as to the likelihood of success in a given case.

It is the view of this subcommittee that the uniformity and reliability made possible by a centralized patent court would contribute meaningfully to decisions to file patent applications and to commercialize inventions, thereby improving industrial innovation in the United States. Consistent decisions in patent cases would greatly aid attorneys in advising their clients as to the strength of patents, thus reducing uncertainty in commercializing both patented inventions and noninfringing alternatives.

This Subcommittee favors the general concept of a special national court to hear patent appeals, such as the court proposed by the Department of Justice which would be formed by merging the Court of Customs and Patent Appeals with the Court of Claims, plus a few new judges. The new court would retain the present jurisdictions of these courts and acquire additional jurisdiction now exercised by Circuit Courts of Appeal over patent, civil tax, and other cases. In the view of the proponents of the DoJ plan, the new court would overcome many of the perceived deficiencies of a specialized patent court while, *inter alia,* providing advantages such as the following:

> "This proposal would also resolve the myriad evils caused by fragmented review in tax, patent, and environmental litigation. The rampant lack of uniformity between the Tax Court, the district courts, the Court of Claims, and the regional courts of appeals would be cured. The forum-shopping common to all three areas of litigation would be cured. Business planning would be made easier as more stable law is introduced in all three critical areas. Concentration of this litigation would help develop expertise in handling the cases. The background and training of most of the members of the CCPA, some of the members of the Court of Claims, some of the Trial Commissioners, and the CCPA's technical advisors would materially aid the resolution of patent and environmental cases, but the court having 15 members would not be dominated by specialized judges." [6]

[6] The DoJ has modified the proposal, so that the new court would *not* have jurisdiction over environmental litigation.

For the foregoing reasons, this Subcommittee supports the concept of a national court having exclusive patent jurisdiction.

PROPOSAL IV.—REDUCE COST OF PATENT LITIGATION

One of the major problems which, to some, makes the patent system not nearly as effective as it should be is the cost and time involved in resolving patent infringement and validity disputes through litigation. This is particularly serious for the individual inventor and small company because they can neither spend the time nor the substantial expense which frequently exceeds $250,000 per party in a patent infringement suit.

In order to encourage innovation through the patent system, ways must be found to reduce the cost of patent litigation, and a decision on patent disputes must be available within a reasonable time.

The Subcommittee recommends that the Supreme Court, through the Judicial Conference, require each Federal court to exercise a high degree of control over the conduct of patent litigation, with particular concern for the time and expense of discovery. The Subcommittee specifically recommends the approach to patent litigation proposed by Howard T. Markey, Chief Judge, U.S. Court of Customs and Patent Appeals. Those proposals are reproduced in appendix E.

In addition, it should be noted that each of our earlier proposals will tend to reduce litigation costs. Proposal I will reduce the number of patents litigated by reducing the number of invalid patents issued, and reduce costs in patent litigation by simplifying the issues to be considered by the court. Proposal II will do the same. Proposal III will reduce the number of patents litigated by enhanced predictability of the outcome of litigation, and reduce litigation costs by concentrating expertise in the new court.

PROPOSAL V.—TRANSFER COMMERCIAL RIGHTS TO GOVERNMENT-SUPPORTED RESEARCH TO PRIVATE SECTOR

The U.S. patent system is designed to stimulate the progress of the useful arts by encouraging the public disclosure of new technology and making available to the public new products and processes utilizing this technology. The patent grant has played an important part in commercializing inventions, making new products available to the public. The Federal Government does not normally participate in this function. It is not necessary for the Federal Government to go through the expensive, time-consuming procedure of obtaining a patent to fulfill the function of disclosing information to the public. This can be accomplished by a simple publication.

The theory of the patent grant is to give the inventor or his assignee the exclusive rights to his invention for a period of time so that he can invest the time and

money necessary, commercialize the invention and develop a market for the product, or process incorporating the invention. Since the Government is not in the business of developing inventions for commercial use, it has no need to own patents. On the other hand, the Government is a substantial user of products and services and in that context needs, or at least can benefit from, a license to use patents.

Experience has shown that the Government, as a purchaser or consumer of goods and services, is not in a position to take advantage of its ownership of patents to promote enterprise. Private companies, on the other hand, who are in a position to utilize the patent grant are ordinarily unwilling to take a nonexclusive license under a government-owned patent and commit the necessary funds to develop the invention, since it has no protection from competition. This is a major reason that over 90 percent of all government patents are not used. Another important reason is that the Government obtains patents on technology which, in the opinion of the private sector, does not provide an attractive business opportunity.

Several years ago, the Federal Council for Science and Technology supported the most thorough study ever conducted on the issue of government patents, commonly referred to as the Harbridge House Report. The following findings were included in the report:

> "Government ownership of patents with an offer of free public use does not alone result in commercialization of research results.
>
> "A low, overall commercial utilization rate of Government-generated inventions has been achieved; that rate doubled, however, when contractors with commercial background positions were allowed to keep exclusive commercial rights to the inventions.
>
> " 'Windfall profits' do not result from contractors retaining title to such inventions.
>
> "Little or no anticompetitive effect resulted from contractor ownership of inventions because contractors normally licensed such technology, and where they did not, alternative technologies were available."

The idea that what the Government pays for belongs to the people is not only appealing, it is true. The question is: What instrumentalities can be brought to bear to maximize the possibilities that the people will indeed have available the fruits of their government's expenditures? Nonexclusive licenses to *undeveloped* inventions, offered by the Government or anyone, have few takers, whereas patent ownership or exclusive licenses of sufficient duration are much more likely to attract the money and talent needed to make and market real products to meet consumer needs.

If the results of federally sponsored R. & D. do not reach the consumer in the form of tangible benefits, the Government has not completed its job and has not been a good steward of the taxpayers' money. The right to exclude others conferred by a patent, or an exclusive license under a patent, may be the only incentive great enough to induce the investment needed for development and marketing of products. Such commercial utilization of the results of government-sponsored research would insure that the public would receive its benefits in the way of products and services, more jobs, more income, etc. The cost of government funding will be recovered from the taxes paid by the workers and their companies.

Therefore, all the members of this Subcommittee recommend transferring the patent rights on the results of Government-sponsored research to the private sector for commercialization. In the case of university or private contractor work sponsored by the Government, the members of this Subcommittee recommend that title to the patents should go to the university or private contractor, but some members feel the Government should have "march-in-rights" (i.e., when the invention is not being used and it appears that there is a public need to transfer patent rights to those in the private sector willing to use the invention). With respect to inventions made by government employees at government expense, the Subcommittee members are divided about equally between those who feel that the government employee should have title to the invention, and those who feel that such inventions should be transferred to an independent, nongovernmental organization, perhaps modeled after the Connecticut Product Development Corporation,[7] or auctioned to the private sector or transferred to the private sector in some other manner. In all cases, the Government would retain a nonexclusive license to use and have made for its use inventions founded in whole or in part by governmental expense.

[7] 111 Lafayette Street, Hartford, Conn. 06106. See appendix F.

At the present time, the Government has a portfolio of 25,000 to 30,000 unexpired patents. These include patents arising as a result of research and development work in government laboratories by government employees, and also from work done by nongovernment employees wherein the Government retained title because it funded the work. In fiscal 1976, 2,646 patents were issued to the Government, of which 1,824 were for inventions by government employees.

Considerable sums of money are involved in Government patent ownership, the patent budgets of the various government agencies including funding for patent attorneys, supporting staff and equipment being in the millions of dollars.

Our information indicates that the U.S. Government has been filing in excess of 3,000 U.S. patent applications per year, which amounts to approximately 3 percent of the total workload in the U.S. Patent and Trademark Office. A decision not to file patent applications on behalf of the Government would result in the PTO having available a substantial portion of the 3 percent of its total capacity that could be directed to reducing the backlog in the PTO and handling special

problems that have been created by the new reissue program and the anticipated reexamination procedures. In addition, this decision would save the time of government patent attorneys who normally prepare and prosecute the patent applications and the cost of having patent applications prepared by attorneys in private practice. Time and money thus saved could be utilized to provide needed services in other areas of the Government.

According to this Subcommittee's proposal, the decision to file a patent application would be made by the university or contractor; in the case of inventions made by government employees at government expense, the decision to file would be made by the employee, if he were to retain title, or by the independent nongovernmental organization (suggested above), which would obtain title to the patent.

The Subcommittee recognizes the argument that the Government applies for patents to preserve its right to institute an interference with patent applications from the private sector. However, such interferences are a very rare occurrence under present practices. Furthermore, establishment of prior invention by the Government would generally constitute a defense in an infringement suit on the basis of prior invention. Prior invention may not be an adequate defense in instances where the Government has not reduced the invention to practice, or has, for good reasons, kept the invention secret; special legislation may be required to provide adequate protection to permit royalty-free government use in such instances.

Section 3

OTHER PROPOSALS WHICH WOULD INCREASE INNOVATION

In addition to the proposals noted above, this Subcommittee endorses the following proposals, which, in the opinion of at least a majority of the Subcommittee, would result in significant stimulation of innovation.

PROPOSAL VI.—EXTEND PATENT TERM TO COMPENSATE FOR DELAYS IN COMMERCIALIZATION CAUSED BY GOVERNMENTAL REGULATIONS

There are circumstances where extension of the term of the patent may be appropriate to insure that the rewards from the patent system enhance innovation. It is recognized that innovators of many different types of products may not lawfully vend such products within the United States without securing from various Federal agencies such as the EPA, FDA, etc., premarketing approval. Inevitably such approvals require considerable testing of the product over a long period of time to establish environmental acceptability, safety and, for some products, efficacy. Improved efficiency in the examination of patent applications by the Patent and Trademark Office results in the grant of patents to the innovator of such products long prior to Federal approval for marketing of the product, resulting in a shorter patent-assured exclusivity period than the 17 years contemplated by Congress. This inequity could be remedied by legislation which would permit extending the patent term to compensate for delays in commercialization caused by governmental regulations. Such legislation would be similar in principle to current legislation which provides for the delayed issuance of patents to inventors when, for security reasons, their patent applications are prevented from issuing in the normal course (35 U.S.C. § 181 and 183).

Some members of the Subcommittee feel that the proposed extension of patent term could cause difficulties in planning for competitive activities at normal patent expiration.

PROPOSAL VII.—ENCOURAGE OTHER COUNTRIES TO PROVIDE U.S. INNOVATORS THE RIGHT TO OBTAIN ENFORCEABLE PATENT RIGHTS

During the past 10 to 15 years, steady erosion of patent protection available for inventors of all countries, including the United States, has taken place in many foreign countries. This was due to agitation by certain economists and politicians in developing countries acting on the national scene, as well as through and with the help of intergovernmental organizations, particularly agencies of the United Nations. It is being incorrectly asserted by these circles that the patent systems in developing countries benefit only foreigners, and therefore maintenance of a strong, efficient patent system is not in the best interest of these countries. Mainly as a result of these activities, in large geographical areas of the world—notably, in Latin America, Asia, and Oceania (with the exception of Japan, Australia, and New Zealand) and in Africa (with the exception of South Africa)—no effective patent protection exists at present. This development, which is continuing and is gaining momentum, has an adverse effect on U.S. industry, particularly those segments which are most research-intensive.

The extent of the funds which U.S. industry can make available to finance R. & D. activities is directly dependent upon the amount of domestic and foreign sales and profits realized. The loss of sales and profits, through inability of U.S. enterprises to obtain effective patent protection in many countries for the results of their R. & D. activities, could have a direct negative effect on the amount of funds available to support future R. & D. The erosion of patent protection or the complete lack of it in certain fields of technology puts the innovative U.S. industry in an intolerable position by depriving it of the ability to defend itself against copiers of successful innovations who have not incurred heavy R. & D. expenses in creating and developing them. Turning large geographical areas and large current and potential markets into patent-free zones and subjecting U.S. enterprises to unfair competitive pressures by local enterprises and, increasingly, also by other multinational and state-owned enterprises, will inevitably result in serious erosion of U.S. technological leadership.

Foreign trade—in the form of direct exports, foreign investment in subsidiaries, and in manufacturing facilities—is an ever-increasing important part of the business of U.S. enterprises, particularly those which are highly research-intensive. In a number of industries, foreign business activities account for 50 percent or more of total corporate sales and profits.

In order to finance research and development, maintain U.S. technological leadership, and improve the balance of trade, it is imperative that the ability of U.S. enterprises to do business abroad shall not be impeded through the action of foreign governments or groups of governments denying patent protection.

The respect for patent rights, whether owned by the nationals of a country or by foreigners, formerly universally recognized as socially and economically desirable, would also in the long run directly benefit the developing countries in creating employment, attracting investment, and encouraging the transfer of technology.

A strong U.S. posture for seeking improved patent protection in Third-World countries, which would in all likelihood be supported by other Western nations, would therefore be not merely in the enlightened self-interest of the United States, but also in the long-term interest of the developing countries.

United States Government action, as outlined, to support the reestablishment and maintenance of a full and effective patent system in foreign countries would no doubt trigger resistance and protest from Third-World governments, various international organizations and Unied Nations agencies. The United States might be accused of serving its own narrow self-interest, and inflammatory slogans such as "economic imperialism" or "neo-colonialism" might also be uttered. The good faith of the United States in striving to assist developing countries in their rapid development and industrialization might also be questioned.

Nevertheless, it is submitted that there is no inconsistency. The primary and essential factor in the industrial development of Third-World countries through the transfer of technology is the voluntary, good-faith cooperation between the transferor and transferee. This is a two-way street where the security and protection of industrial property rights are an essential element. It is therefore also in the enlightened self-interest of the technology-recipient countries that inventions should enjoy meaningful patent protection.

PROPOSAL VIII.—PATENT RIGHTS TO BE AVAILABLE FOR NEW TECHNOLOGICAL ADVANCES

The constitutional purpose of the patent system is to promote the progress of the useful arts. The Subcommittee believes in the patent system, and supports the use of the patent grant as a method of encouraging invention and innovation as broadly as possible under the patent law. [8] The Subcommittee supports the following statement of Judge Markey:

[8] See *Patent Law Perspectives*, section A.2 at page 79.

> "As with Fulton's steamboat 'folly' and Bell's telephone 'toy,' new technologies have historically encountered resistance. But if our patent laws are to achieve their objective, extra-legal efforts to restrict wholly new technologies to the technological parameters of the past must be eschewed. Administrative difficulties, in finding and training Patent and Trademark Office examiners in new technologies, should not frustrate the constitutional and statutory intent of encouraging invention disclosures, whether those disclosures be in familiar arts or in areas on the forefront of science and technology." [9]

[9] In re Chakrabarty (CCPA, 1978) 197 USPQ 72 at page 76.

By way of example, the Subcommittee feels that patent protection should be accorded new life forms, use specific chemical formulations and computer programs.

A. New Life Forms

It is difficult to accurately forecast the extent of the benefits that can be provided to mankind by technologies which produce new, useful, and unobvious life forms. However, we have already seen a preview of these benefits in the reports of the production of insulin and somatostatin (*Chemical and Engineering News*, June 19, 1978, pp. 4, 5) and through the promise of quicker, more complete cleanup of oil spills (*National Geographic*, September 1976, pp. 374, 375) by certain genetically modified microorganisms.

At present, two patent appeals, *In re Bergy et al* (Patent Appeal No. 76-712) and *In re Chakrabarty* (Patent Appeal No. 77-535) are near resolution in the Court of Customs and Patent Appeals. Bergy relates to a life form which was found in nature but which was isolated and purified to produce a useful product. Chakrabarty relates to genetic manipulation to produce a useful life form previously unknown in nature.

If the position taken by the U.S. Patent and Trademark Office in both cases that a living thing is not patentable subject matter under section 101 of the Patent Act of July 19, 1952, is not overruled by the courts, it will be necessary to seek implementing legislation from Congress if nonplant life forms are to be patentable.

In the *Bergy* situation where life forms discovered in the natural state are isolated and propagated, the argument has been made that it is unlikely that such cultures are within the congressional intent as to patentable subject matter. Analogizing to the content of the Committee Reports (Senate Committee Report No. 315, 71st Congress, 2nd Session, and House Committee Report No. 1129, 71st Congress, 2nd Session) accompanying the bills (S. 4015 and H.R. 11372) resulting in the Plant Patent Act of 1930, it is pointed out that Congress refused to provide coverage for the mere discovery of wild varieties of plants. It is argued that however meritorious the discovery of a new and useful micro-organism in the wild state, like the wild variety of plant, such micro-organism even after culturing remains the same as its relatives in the wild state awaiting rediscovery by others.

Therefore, the culture should not be patentable. However, there is already some case law supporting the patentability of substances extracted and concentrated in purified form, and there are good reasons for this. The purified form of the micro-organism did not exist in nature, would never have been available but for the work of the researcher, and the benefits to the public would not have been available. Thus, there is logic for saying that the purified form is a manufacture, was certainly not obvious and patentability should attach. The availability of patents in this instance is certainly a stimulus to innovation, just as in the pharmaceutical fields, and seems justified for that reason.

In the case of the genetically modified bacteria as in *Chakrabarty*, there is a strong argument that a new "manufacture" clearly exists. As such, the argument of availability in nature does not attach, and the only contention against patentability is the proposition that Congress did not intend to afford the patent grant to living organisms. This contention is based at least in part on the fact that it took a special statute to make plants patentable and that the same is needed for other life forms. (This argument of course also applies in the case of the pure culture.) The counter to this is that Congress when it has passed patent statutes over the years could not possibly have foreseen what man would evolve in the way of manufacture. Space vehicles, jet engines, computers, etc., were certainly beyond the imagination of the national legislature when it provided for the first patent coverage, but yet there has never been any question as to these. If the progress of science is in the national interest, the term manufacture should be construed broadly, and patentability afforded to the useful bacteria resulting only from the efforts of man.

Another argument in favor of patenting certain new, useful and unobvious life forms is that it provides an alternative to the less desirable avenue of trade secrets. Practically speaking, an industrial user must fully contain the micro-organism within his facility lest the trade secret be lost. Such containment will increase the costs of the process or product, costs which inevitably are passed on to the consumer. Maintenance of trade secrets also tends to stifle the free exchange by technology and hinders the progress of science by postponing the benefits to mankind of these technologies. Unhindered by the threat of piracy, there will be stronger incentives to invest money in new and useful technology under the protection of the patent system. In the circumstance where the living invention is itself placed in the stream of commerce, it is impossible to maintain it as a trade secret. There the protection of the patent system is needed to stimulate investment because once the invention is used, it is disclosed to the world.

B. Use-Specific Chemical Formulations

United States industry has effectively competed in the development of agricultural and pharmaceutical products of benefit to mankind here and throughout the world—and have made a major contribution to the U.S. balance of trade in these fields. Major fields of research in this application of the life sciences relate to the development of chemical formulations (such as herbicidal emulsions, insecticidal solutions, and pharmaceutical tablets) which include as the essential ingredient in their composition a chemical which exhibits a newly discovered biological activity. These formulations, after appropriate testing for environmental and health safety and efficacy, become commercial entities and important to agricultural and health. Under the present interpretations of the patent laws, protection is often denied to such chemical compositions if the biologically active chemical is not itself patentable. Patent protection available under such circumstances has usually been limited to method of use patents to be asserted only against those actually using such chemicals in the agricultural or pharmaceutical application of such products, i.e., against one spraying crops, ingesting the pills, etc. In such instances, courts have concluded that the patent owner is extremely limited in the enforcement of his patent against those who similarly formulate the active ingredients that it may be used in accordance with the patentee's teachings. The Subcommittee believes that the limitation of useful patent protection for such use-specific formulations has had an adverse effect on investment in innovation in such fields. To encourage testing and innovation of old chemical compounds, unpatentable as such, for their potential use in agricultural and pharmaceutical applications, the Subcommittee recommends that patent protection be extended to such use-specific formulations of chemical ocmpositions, since the composition is rendered novel by the inclusion of the active ingredient for the new use. Without such a possibility for effective patent support, discoveries of new biological uses for known compounds will not enter the innovation sequence because of the recognized high cost of innovation in these fields.

C. Patentability of Computer Programs

This topic is developed more fully in the report of the Information section of the Subcommittee. However, the Patent section of the Subcommittee feels that patent protection should be accorded to computer programs and computer software, provided that the subject matter thereof meets the statutory definition of patentability.

PROPOSAL IX.—CLARIFY THE STATUTORY DEFINITION OF PATENTABLE INVENTION: 35 U.S.C. §103

In the course of the foregoing discussion of a national patent court (proposal III), it was noted that the Federal circuit courts of appeal have enunciated different and incompatible views of what constitutes, and the requirements for a finding of, patentable invention.

It is the view of this Subcommittee that the creation of a national patent court will do much to eliminate these disparate views on the critical issue of what constitutes patentable subject matter and, in the process, to make for a more reliable and predictable patent system. A majority of this Subcommittee also feels, however, that the patentability standard has been subjected over the years to such a wide variety of viewpoints, some of them antithetical to the constitutional purpose of promoting all the useful arts, as to militate strongly in favor of a congressional restatement and clarification of the metes and bounds of patentable subject matter. Good

legislative action would ensure not only more consistent and predictable future adjudication but that which best comports with and implements the constitutional goal of promoting the progress of the useful arts, which is the raison d'etre of the patent system. Any such clarification should not only eliminate departures from rigorous application of the statutory standard of nonobviousness, as set forth acceptably in *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966), but should ensure the taking into account of the so-called secondary considerations involved in determining the presence or absence of nonobviousness.

Some members of the Subcommittee feel that, as with almost any legislative changes, legislation further defining the standard of patentability might increase rather than reduce patent litigation, and could well result in more, rather than less uncertainty in predicting the strength of patents. These Subcommittee members believe that the standard of patentability is defined in the current statute as precisely as necessary; they contend that the problem is not the statutory definition, but rather the tendency the courts have to apply the statutory definition nonuniformly (and this problem would be minimized upon implementation of this Subcommittee's recommendation for a single court to hear patent appeals).

PROPOSAL X.—PERMIT LICENSEE TO AGREE NOT TO CHALLENGE LICENSED PATENT

Some members of this Subcommittee recommend legislation permitting a licensor and a licensee to expressly contract for a licensee estoppel (under which a licensee is prevented from contesting the validity of a licensed patent) to correct perceived abuses by patent licensees.

Under the Supreme Court decision in *Lear Inc.* v. *Adkins*, 395 U.S. 653 (1969), the patent owner, who is bound by a license contract, may offer a license to a potentially major infringer coincidental with the first sign of infringement, and may for a time "enjoy" the infringer's agreement to a license under which the infringer is to pay a royalty that may be substantial if the market develops as the patentee hopes. By the act of granting the license, however, the patent owner is as the virtual mercy of the licensee if the licensee later wishes to renege on the license agreement and to challenge the validity of the patent. Indeed, at least some licensees have signed agreements planning at that time to challenge the licensed patent at a later point in time.

By granting a license to a competitor, the patentee

(1) gives up his choice of time of litigation against the competitor;

(2) gives up his choice of forum for the litigation, which sometimes is dispositive in terms of results and very commonly has great effect on the settlement figure; and

(3) has compromised too low the amount of royalty that he might get or ought to get from a valid patent because he thinks he is saving litigation costs and risks.

The licensee, on the other hand, having taken the license, is enabled by *Lear* to pick his own time for litigation when he sees the market develop, and to pick up his own forum in which to file a declaratory judgment action.

If the licensee wins then he may not pay anything following his validity challenge, though he received a very valuable consideration. Even if the licensee "loses" he can, as a practical matter, depend on the court not to assess a royalty higher than the contract's compromise low royalty as the damages, in spite of the fact that his act was quite deliberate in nature. Thus, by taking a license he never intends to honor, the licensee extorts a low royalty.

The majority of this Subcommittee submits that the solution is to statutorily restore to the law the capacity of the licensor and licensee expressly to contract for a licensee estoppel, at least so long as the license continues in force. By restoring the licensor to a position of licensing parity with his licensee, the desirable social goals of protection of the inventor's property, fairness in the law and sponsorship of innovation by the inducements of Title 35, U.S. Code, are achieved.

Some members of the subcommittee can find no reason for not affording full freedom to contract for permanent licensee estoppel. They contend that this is the only mechanism whereby litigation may be *finally* settled and the reneging licensee is not permitted to profit by his perfidy.

Other members of the Subcommittee were of the view that this proposal, which is the only recommendation of the patent Subcommittee specifically directed to the legislative overruling of a judicial decision, will have no effect on innovation. For these members, this view is further supported by what they feel is the conservative way in which *Lear* v. *Adkins* has been applied by the lower courts, and the fact that the elimination of invalid patents may remove blocks to innovation on the part of the industry covered by the patents.

Section 4

OTHER MATTERS CONSIDERED

In addition to the proposal discussed above, the Subcommittee considered a number of other proposals and recommendations which are set out in this section of the report.

This Subcommittee makes no recommendations with respect to these matters, either because of lack of time to complete a thorough study or lack of consensus as to the wisdom of adopting these proposals (some of these proposals were rejected; others seemed to the Subcommittee to have a small impact on innovation).

A. COMPENSATION OF EMPLOYED INVENTORS

The Subcommittee as a whole agreed that corporations should be encouraged to continue to motivate their employees to participate in all phases of the innovative process. Awards, promotions scientific recognition, release of unused inventions to the inventors, and other systems are presently being used successfully throughout industry in the United States. The Subcommittee applauds the use of such systems and encourages their expansion to include such things as public recognition of innovators.

Some members of the subcommittee proposed that legislation requiring corporations to give employees a greater stake in their inventions would be a stimulus to innovation. The Subcommittee conceded that such legislation might increase the number of invention disclosures but not have a positive effect on the overall innovative process. In fact, the Subcommittee felt very strongly that an attempt to apply a uniform system on all corporations (such as is done in some European countries) would result in a significant decline in overall innovation and could have the additional negative impact of flooding the Patent Office with patent applications directed to inventions of little or no commercial value. The results in countries that have initiated such systems bear out these results. The attached paper submitted by Mr. Richard C. Witte (appendix G) entitled "Implication of a Federal Law Providing Employed Inventor Awards" sets forth in greater detail the implications of such proposed legislation.

Mr. Richard L. Garwin's paper presented to the Subcommittee on November 16, 1978, and Mr. Eric P. Schellin's paper submitted to the Subcommittee on December 8, 1978, set forth proposals for dealing with the inventions of employed inventors. Both papers are included in appendix G.

B. FINANCIAL STIMULUS OF INNOVATION

The Subcommittee did not have the time nor the availability of information as to what the Government has been doing or is authorized to do in providing either venture capital to individuals or small businesses or financial assistance to inventors. Certain areas in which the Government is already active have been identified as warranting special attention in the area of energy-related innovations and in the area of encouraging minority enterprises. Insofar as this activity may have been successful, other areas should be identified. As the concept of such assistance is believed to provide societal advantages, it is recommended that this type of assistance be provided in those additional identified areas.

C. INFRINGEMENT OF U.S. PATENTS BY THE U.S. GOVERNMENT

Unfortunately, many agencies of the U.S. Government appear to have a policy of doing as little as possible to resolve an administrative claim against them for patent infringement. A recommendation is that the Executive Branch of the U.S. Government issue orders to all Government agencies that any agency must render its final opinion on all claims for patent infringement no later than 6 months after the initial claim is filed. If such decision is not rendered at this time, it will be presumed that the patent is valid and infringed, and the agency cannot rebut this presumption.

D. DIFFERENT CLASSES OR FORMS OF PATENTS

Incontestable Patents

A trademark, after a certain period of use, can be regarded as incontestable, with certain exceptions, upon filing an appropriate affidavit.

One proposal considered by the Subcommittee was that, 5 years after a patent has issued, it would be incontestable with respect to section 103 (obviousness over the prior art) and, with respect to prior art, it could only be held invalid under section 102—in effect, if the invention was, for all practical purposes, identically shown in the prior art. This would have the result that a patent could not be held invalid for obviousness over the prior art after a period of 5 years had passed after it was issued by the U.S. Patent and Trademark Office.

As section 103 obviousness is probably the major ground for invalidity of patents, incontestable patents could significantly reduce the cost of litigation, although a patent could still be held invalid if it was clearly shown in the prior art as provided for by section 102 and for the other reasons provided in section 102 and other parts of the various patent statutes.

Another suggestion was that a patent could be held incontestable against all attacks, rather than only section 103 attacks.

It would also be possible to make the patent incontestable if it has been used commercially for a certain number of years, such as 5 years, rather than have the period run from the issue date.

Any of these incontestable patents could reduce the cost of litigation and increase certainty as to the enforceability of patents.

Guaranteed Patents

This new class of patents would be guaranteed by the U.S. Government to the owner as to its validity. If some party wanted to challenge validity, they would sue the U.S. Government, not the owner. If a court declared the patent invalid, the owner would be paid by the Government under the guarantee, up to some maximum established by law, and consistent with the value of the patent had its validity not been contested. Guaranteed patents would not obsolete the present patent form.

The PTO would make a more thorough examination, perhaps with two examiners, of any application for patent under the new form. Because of less-than-perfect human performance, and less than complete file information, some new-form patents could still issue which would later be declared invalid. But the owner would be protected against this type of error by the Government. Without this protection, innovation is reduced because of the great exposure of personal finances and time and effort which the small business and individual inventor need to devote to commercialize the invention. Government guarantee of validity would facilitate financing. Guaranteed patents could be made available only to small businesses and independent inventors.

Elite or Super Patents

These patents would require the payment of a significant additional fee, such as $500, and a statement by the applicant that a thorough prior art and validity search had been completed, within some specified period after the patent application was filed in the PTO. The results of this search, with comments, would be submitted to the PTO, and the PTO would then make a more comprehensive search and examination than usual. It is felt that the additional search and examination, with the special search made by the applicant, would give the patent a stronger presumption of validity.

Petty Patents

Petty patents would require novelty but not unobviousness; would be limited in scope to exact copies and close variations of the invention disclosed; and would run for less than 10 years, preferably 6 to 8 years. Petty patents could be examined on the same basis as regular applications, except that they would not be subject to rejection for lack of obviousness under 35 U.S.C. 103. The PTO would charge a lower fee for petty patents.

E. OTHER PROPOSALS FOR MODIFICATION OF THE PATENT TERM

Extend Patent Term in Certain Instances

It is well known that the present patent term (17 years from patent grant) often fails to coincide with commercialization. This fact suggested the following questions:

(1) Should some sort of a tribunal be empowered to hear the facts, and make binding decisions as to extensions of life beyond the 17 years?

(2) Because of the formidable problems individuals often face in commercializing their inventions, should unassigned inventions (independent inventors) automatically be granted patent life greater than 17 years after date of issue?

(3) Should the 17-year term start after some event other than the date of issue? For example, after the date of first significant sales, provided due diligence commensurate with capability has been used to bring it into production and marketing? Or after the date of first payments to the inventor for assignment or licensing of his invention?

Certain principles would seem fundamental in any system relating to the extension of patent term:

(1) No extension of term would be warranted if a patentee had not made diligent efforts to commercially develop the invention.

(2) Delay in commercial development should be measured from the time the inventor had adequate evidence of the commercial embodiment of his invention.

(3) The patentee should be compensated with patent term extension equivalent to the period of delay and the period of extension should not be dependent upon the extent to which the patentee had or had not profited from his invention during the patent term.

It is clear that the equities determining whether extension should be granted would require review by some tribunal. Such review could occur either:

(1) By the patentee filing, at any time during the life of the patent but no later than some fixed period prior to normal expiration, a petition with a competent tribunal for extension of the patent expiration date. This petition would cite facts satisfying the statutory criteria for extension. Publication of the petition would be made and opposition to the extension could be entertained by the tribunal; or

(2) The date of an objective act on the part of patentee (such as first commercial sale) would be the date from which the patent term of 17 years is measured. Notification of such act would be given by the patentee to a tribunal and this notification would be published. The extension of the patent could be opposed by the filing of a petition by a party in interest to foreclose the extension.

Patent Term to Run 20 Years From Earliest Effective U.S. Filing Date

The term of a U.S. patent now extends for a period of 17 years from the date of issuance. Measuring the term from this date sometimes results in patents which expire long after filing, for example, when the patent application is involved in an interference or lengthy appeal.[10] Setting the patent term to run 20 years from filing would prevent late issuing patents from disrupting industry, but could be inequitable to patentees whose patents had not issued promptly.

[10] See *Forbes*, September 15, 1977, page 204:

"Last month the U.S. Patent Office threw a stunner into the laser industry. After years of temporizing, it granted key patents potentially covering 90 percent of the lasers in this country to a physicist named R. Gordon Gould. Not that the industry had never heard of Gould. His claims had been around for years, and Refac Technology Development Corp. of New York, which finally pressed the claims, was not the first patent licenser Gould had approached to represent him.

"What exasperates the laser-makers, beyond a potential liability for Gould patent infringement, is the fact that they thought they were already paying royalties (2 percent) to the owner of the basic laser patents through Research Corp., another licensing firm."

F. IDEAS FOR REDUCING THE COST OF LITIGATION

I. Expert Panel to Decide Patent Litigation

(1) A complaint is filed in Federal District Court by a patent owner or by a possible infringer under the usual declaratory judgment procedure.

(2) Within 10 days of the time the complaint is responded to by the defendant, the plaintiff and defendant must each select a patent lawyer who has been registered to practice before the U.S. Patent and Trademark Office for a period of no less than 10 years and who must have never represented, or been an employee of, the party selecting him, nor can he have ever been associated in patent practice with counsel of the party selecting him.

(3) Within 10 days after both patent lawyers are selected, they in turn must select a third patent lawyer, making a panel of three.

(4) Patent lawyers, whether in private practice or employed by corporations, universities, government agencies, etc., should be willing, if they believe that the patent system is of value to the public, to give some reasonable amount of time, on a *pro bono* basis with their actual out-of-pocket expenses, being paid, to sit on such three-lawyer panels, once within each 3-year period.

(5) There will be no discovery by either side and the three-lawyer panel has the power of subpoena and discovery if necessary. However, the lawyers for each side would formally or informally suggest areas which should be looked into. The panel will, on its own initiative, look into any of these areas and any other areas they wish, and may obtain answers from individuals, corporations or from counsel on each side, subject of course to the usual attorney-client privileges, work product, etc. They may, in effect, ask questions similar to interrogatories, may receive testimony from individuals and should act on their own initiative to uncover whatever facts they feel are necessary to perform their function as set forth below.

(6) Within 4 months from the time the last lawyer is selected (1-month warning period and 3 months in which to perform their duties, although it is contemplated that only a certain number of days within this period would be necessary), the three-lawyer panel will render an opinion on the following items:

(a) Patentability under section 102 (invention was patented or described in a printed publication before the invention date, etc.).

(b) Section 103 (obvious over the prior art of section 102).

(c) Section 112 (adequate description and specific claims).

(d) Section 185 (patenting the invention overseas without the appropriate "export" license required in section 185).

(e) Fraud on the Patent Office in procuring the patent.

(f) Possibly other areas.

(7) When all information regarded as necessary by the panel is obtained, copies of it would be forwarded to the Board of Appeals of the U.S. Patent and Trademark Office.

(8) Both the Board of Appeals and the patent lawyer panel would prepare a written opinion with neither having the benefit of the other's opinion.

(9) If both opinions agreed in substance (the patent is valid and infringed, invalid, not infringed, etc.), that would be regarded as a final decision which could only be appealed to the special Appellate Court proposed herein (see proposal III, section 2).

(10) If the patent suit, as is often the case today, involved other issues such as antitrust, etc., the case could be forwarded to the U.S. District Court which would be bound by the two opinions if the two opinions agreed with each other. If they did not agree, the District Court could use them for what they were worth.

Advantages—Costs would be comparatively low because there would be no money paid to the lawyer panel nor to the Patent Office Board of Appeals, the only costs being providing secretarial and clerical services to the patent lawyer panel. It is felt that if the patent lawyer panel were actually on a *pro bono* basis, they

would be able to complete their investigation and reach their decisions very quickly and get back to their normal practice.

II. Amend sections 102a and b to provide that prior use mentioned in these two sections would have to be a substantial amount, such as selling price of the products involved being at least $10,000, or the products being sold in a quantity of at least 1,000 units. Public use by the inventor, on the other hand, would continue as present law provides.

Much patent litigation is involved with wide-ranging discovery in an attempt to find prior public use by others. In many lawsuits, days of depositions are taken in an attempt to find or prove an early public use by others which may have involved very small numbers of items or very small amounts of money and which was completely unnoticed by society until a defendant in a patent suit tried to discover it.

If the public use was smaller than the amount mentioned above, it did not contribute to society and was unnoticed. On the other hand, if the use had to be at least this amount to be an effective public use bar, it should be much easier and cheaper to discover and the time and cost of patent litigation would be reduced substantially.

III. Revise sections 102a and b so that any use not obvious to the public on inspection or analysis of the product sold or available to the public is not a bar to patentability.

It can be argued that the prior user who did not disclose the invention to the public, even though the end product of his invention was made available to the public, should not be entitled to prevent another who did disclose his invention to the public from obtaining a patent.

Such a change in the law could significantly reduce discovery in a lawsuit and thus reduce the cost. Possibly the prior practitioner of this public use should be permitted to be able to continue to use the invention.

IV. Certain Patent Infringement Cases Be Given Priority in the Courts.

In patent infringement cases where the patent owner is either an individual, a small business, a university, or a nonprofit organization, the infringement case would be given priority in the Federal courts immediately behind that of the criminal cases so that a decision could be reached as early as possible. While it would be preferred that all patent cases be decided promptly, it is thought that this is one situation where it can be reasonably argued that, in lieu of having all patent cases decided promptly by possibly adopting one of the other proposals, it would be preferable to the present system to have at least some patent cases decided promptly. It is felt that, on the basis of fairness, the ones in the above categories should be those selected. If the cases can be promptly decided, the time involved and probably the actual cost of litigation would be reduced and innovation would be encouraged.

V. All Patent Trials in Federal Courts Can Only Be Before a Judge Who Is a Patent Expert.

The cost of litigation might be reduced by the appointment of more judges with technical backgrounds and adoption of a procedure that allows for assignment of technically qualified judges for those patent cases where a judge with a technical background would materially assist in expeditiously and correctly disposing of complex litigation. See the October 1978 issue of *Judicature,* which includes an article by Mr. Shapiro, Chairman of duPont, urging assignment of judges with special qualifications to handle complex cases dealing with the subject matter in which the judge is especially qualified.

G. IMPACT OF ANTITRUST LAWS ON INNOVATION

Any narrowing of the rights granted by the patent has a detrimental effect on the innovation process, because it discourages investors. Such restrictions include limitations on transferring the rights in a patent by assignment or licensing, as well as enforcement of the patent.

Patents can and have been misused through licensing practices. However, the constant attacks on licensing practices by government agencies and the courts has the net effect of eroding the value of the patent grant and hence the willingness of investors to rely on patents to justify investments in the innovation process.

Such restrictions could be removed by adopting the following recommendation, made by the Report of the President's Commission on the Patent System, 1966, which reads as follows:

> The licensable nature of the rights granted by a patent should be clarified by specifically stating in the patent statute that: (1) applications for patents, patents, or any interests therein may be licensed in the whole, or in any specified part, of the field of use to which the subject matter of the claim of the patent are directly applicable, and (2) a patent owner shall not be deemed guilty of patent misuse merely because he agreed to a contractual provision or imposed a condition on a license, which has (a) a direct relation to the disclosure and claims of the patent, and (b) the performance of which is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant. This recommendation is intended to make clear that the "rule of reason" shall constitute the guideline for determining patent misuse.

Also, clarification of existing law pertaining to licenses and misuse of patents would limit the extent to which new principles of law can be established by merely giving speeches, as was done in the past by some Department of Justice lawyers.

Another means by which the Administration could keep the Department of Justice from inhibiting innovation would be to issue an Executive order requiring that the Department of Justice, Antitrust Division, conduct an "innovation impact study" *and* a "competitive impact study" *before* bringing any action against a patentee alleging antitrust violations. Such an Executive order could require that the Department of Justice find affirmatively that if it prevails in the case that competition would be increased *and* that innovation would either be increased or not deterred.

A thorough study, such as by a Presidential Commission, including not mere theorizing and suppositions, but also factual economic data and market analysis, would lead to an assessment of the extent of the decline of innovation due to the antitrust interference with the leveraging powers of the patentee. Such a study could well suggest appropriate remedies.

The Subcommittee heard several expressions of concern over Department of Justice attitudes toward joint ventures in R. & D. projects. Antitrust liability in such a case would be predicated on the theory that joint activity by two parties, who might possibly engage in the same activity individually excludes competition by having one party in the field instead of two. Alternative attacks might be directed against the pooling and cross-licensing of patents resulting from such joint ventures. Although the Department of Justice almost invariably approves plans for such joint ventures when presented to it in advance, the situation might be clarified by the addition of the following sentence to 35 U.S.C. § 262: "The legality of joint ownership of patents under the antitrust laws shall be determined by the rule of reason."

The proposed amendment would be intended as a codification of existing case law, and not a major change. However, it would provide a statutory basis for arguing the legality of any particular joint venture.

H. MISCELLANEOUS

(1) Negotiations conducted by the U.S. Government Relating to International Technology Transfer.

The U.S. Government should consider making it mandatory on all their international negotiating meetings at the United Nations and at other places to include people from the private sector who are expert in the matters being discussed. This should not be taken as a recommendation that a delegate should be appointed to make sure a large corporation's interests are taken care of. The value of an expert from the private sector is that such an expert can point out to the U.S. delegates and, sometimes more importantly to delegates from other countries, the practical results and impacts of a particular proposal which may have exactly the opposite end effect that it appears to have on its face.

(2) Unpatented technology is important to protect from misappropriation in order that those who invest in research and development may obtain a proper return on that investment. It follows from this that mechanisms should be developed by which such unpatented technology is not misappropriated from its proprietor through the activity of governmental regulation and other disclosures to the Government, coupled with requests by competitors for information under FOIA —a source of industrial espionage which is now commonly in use.

(3) Make it a crime for anyone to knowingly infringe a valid patent.

(4) Change to a first-to-file system, so that the first applicant to file on an invention would be entitled to the patent. Our current patent laws award the patent to the first-to-invent (provided certain conditions are met), rather than the first-to-file.

Japanese Group Committee
#1, Group No.5
Chairman: Shoichi Maeda
Speaker: Naoyuki Sudoh

Japanese Situation on Trademark Registration Treaty

[Summary]

In Japan, signing and ratification of the TRT has yet to come not only because there are big differences in contents between the TRT and the Japanese trademark system, but also because outstanding trademark applications awaiting examination are piling up tremendously. But, as Japan is agreeable to the basic idea of the TRT, the Trademark System Study Committee is set up by the Patent Office in December 1978 as a step toward entry into the TRT and is under study of the several matters which should be settled for it. Therefore, Japan's entry into the TRT will not be so far in the future.

Japanese Situation on Trademark Registration Treaty

I. Introduction

As international treaties on trademarks, there are not only the Paris Convention but also the Madrid Arrangement comprising 22 countries, the core members of which are European countries such as West Germany and France. Several years ago, a Trademark Registration Treaty (hereinafter referred to as TRT) was proposed as an international trademark system widely usable like the Patent Corporation Treaty (hereinafter referred to as PCT).

The TRT is aimed at protecting ever increasing commercial rights through simplified uniform procedures and is said to be brought about under the commercial consideration of the United States which has many multi-national world enterprises.

The TRT was first proposed at the General Congress of the World Intellectual Property Organization in

September, 1970 and after several deliberations, it came into existence at the Vienna Diplomatic Congress in June 1973 with the signing of 8 countries including the United States, West Germany and Italy. Since then the number of signatory countries has been increasing. The TRT was meanwhile ratified by Congo, Gabon, Togo and Upper Volta, and is to come into force subject to ratification of one more country.

In the United States which is one of the proposers of the TRT, the government announced publicly drafts for revision of related domestic regulations in August 1978 and is reportedly busy in making various necessary investigations and arrangements.

In Japan, signing and ratification of the TRT has yet to come not only because there are big differences in content between the TRT and the Japanese trademark system, but also because outstanding trademark applications awaiting examination are piling up tremendously, and priority is given to this problem. However, as a part of global

commercial activities, there is a trend for international cooperation on trademarks and Japan's entry into the TRT will not be so far in the future. At the moment, various opinions are voiced among the Patent Office, specialists and industrial groups in Japan concerning characteristics of the TRT and how to reconcile defferences between the TRT and domestic regulations. I would like to shed some light on Japan's movement toward the TRT in more detail.

II. The TRT and Japanese Trademark System

I wish to cite hereunder several characteristics of the TRT in order to consider how to cope with the internationalization of Japan and how to narrow the differences between the TRT and the Japanese trademark system.

1) Simplification of procedures

The international registration for a trademark will be effected by the International Bureau only

if a single international application designating a number of states where the trademark is desired to be protected is filed with the Bureau (Article 7). Once the International Bureau publishes and notifies an international registration of a trademark to the national offices of each designated States (Article 10), the registration will have the same effect in each designated State as if an application for the registration of the trademark in the national register of trademarks had been filed with the national office of that State. Furthermore, the said international registration will have the same effect in each designated State as if the trademark had been registered in the national register of marks of that State when no refusal or a notice of possible refusal has been notified by the national office of that State within 15 months from the date of the publication of the international registration.

Each applicant has hitherto been ogliged to file an application for a trademark to each State independently and the above simplification of procedures for international registration of the

trademark will highly benefit Japanese companies aiming at the expanding commercial rights around the world.

2) Uniformity of language and form

The international applications are to be made in the English or French language and in the prescribed form. The goods and/or services for which the international registration is applied must be expressed in precise terms and as far as possible in those terms appearing in the alphabetical list of the International Nice Classification (Article 5).

Unlike the PCT, the Japanese language cannot be used in the TRT and due to this language limitation there is a fear of some problesm occuring at the time of filing a protect of instituting other procedures.

Japan has been using the 34 Classification of goods which is the same in number with, but is different in content from the International Nice

Classification. Therefore, it will be difficult for Japan to adopt the latter classification in a single step though Japan will be obliged to revise in due course grouping of domestic goods or to adopt the International Nice Classification as a touchstone for internationalization.

3) Registration date and effective period

At the moment, the initial date when the trademark comes into effect and the effective period thereof differs among States, which complicates international management. In the TRT, the date when the national registration comes into effect is defined as the international registration date and the effective period of the registered trademark is 10 years (Article 11), which has the merit of simplicity for applicants. In Japan, however, the registration comes into effect on the actual registration date and adjustment for narrowing this gap is necessary.

4) Examination period for application

The international registration of a trademark will have the same effect in each designated state as if the trademark had been registered in the national register of marks of that State unless a refusal or a notice of possible refusal has been otified by the national Office of that State within 15 months from the date of the publication of the international registration. This is beneficial for applicants in that the registration of the trademark or the possibility of its being used is clarified after the lapse of a certain period. However, Japan has a huge number of outstanding trademark applications of more than 400 thousands and it will be practically impossible to complete the examination of international applications within 15 months from its publication without drastic changes of the examination system.

5) One application for many kinds of class

In Japan, one application must be filed for goods in one class, while in the TRT one application suffices for several classes. The United States, West Germany and so on adopt the latter system for

simplification of procedures, however this system may be applied in Japan only when thorough studies of examination procedures and products similar in efficacy and use are made. This will involve a revision of the relative regulations.

6) Service mark

Service marks have not been legislated in Japan as yet. Legislation thereof is not an indispensable condition for Japan's entry into the TRT, but Japan cannot go without it, judging from the purpose of the TRT. Sufficient investigation into registration of service marks is necessary by the united efforts of government and people.

III. Japanese movement toward the TRT

As stated earlier, the Japanese trademark system is so different from the TRT that sweeping changes of the system within a short time are impossible, but since Japan is agreeable to the basic idea of the TRT and the wishes of economically powerful states, Japan must exert all efforts to realize international cooperation on the trademark system. The following is the Japanese situation concerning this matter.

Of the various differences between the Japanese trademark system and the TRT, such matters as simplification of procedures, one application for many classes and language will probably be able to be solved at the time of introduction of the TRT into Japan. On the other hand, such matters as shortening the examination period and introducing the International Nice Classification will not be solved so easily, and will require much time and effort for preparation and arrangement step by step with the cooperation of the public. The number of trademark applications in Japan is far larger than that in other countries. The figures

for 1976 in the major countries are cited below.

Country	No. of trademark application
Japan	124,362
United States	37,808
West Germany	19,124
France	35,522
England	15,607

The following is the number of newly filed trademark applications, examined applications and outstanding applications in Japan for the 5 years from 1974 to 1978.

	1974	1975	1976	1977	1978
Newly filed applications	167,265	155,469	124,362	130,218	121,901
Examined applications	129,012	159,199	148,862	165,127	128,109
Outstanding applications	510,897	507,167	482,667	447,758	441,550

Although the examination of applications is proceeding at a relatively high speed, the outstanding applications amount to nearly 400 thousand because of the large number of new applications

every year, and it usually takes more than 2 years before an application is examined. From this situation, it will be difficult for Japan to notify the refusal or the notice of possible refusal within 15 months from the date of the publication of the international registration as provided in Article 12 of the TRT. In order not to be left behind internationally, Japan is required to shorten the examination period. Of course, a mere increase in number of examiners will not suffice, and in 1975 a part of the trademark law was revised to strengthen the obligation of use along with simplification of practice. In addition, the introduction of computers for mechanical reference has been under consideration at the Patent Office and the plan seems to be progressing.

As shown in the above figure, the number of outstanding applications is falling yearly thanks to improvement of examination procedures, and in December 1978 the Patent Office set up a Trademark System Study Committee as a step toward entry into the TRT. This Committee comprises 3 sub-committees of the TRT, International Classification and

Service Mark and has held several meetings.

In the TRT sub-committee, such matters as the examination period of 15 months, contents of right of registered trademark and one application for many kinds of goods in classes and/or service have been considered. As for the examination period of 15 months, no way for a solution will be opened without drastic changes of the examination system, analysis of the reasons for the large number of applications and wholehearted cooperation from the industry in all aspects.

In the International Classification Sub-Committee, discussions have been conducted on such matters as clarification of idea of goods translated into Japanese from the English list and the measures to be taken at the time of transit from Japanese classification to international classification. As for international classification, there is a Japanese version of AIPPI, but it is translated too literally and designations for some goods remain vague. For entry into the TRT, a more accurate Japanese version is necessary and the

concrete work for this purpose seems to be progressing. The goods according to the international classification number approximately 20,000, while the goods according to Japanese Classification are approximately 4,500. Among them, there will be some goods peculiar to Japan and it should be well examined to which international classification such goods should be grouped. Of course, some of them may fall within Categories unique to the Orient and need to be grouped in a new international classification subject to approval according to the Nice Classification. However, laborious and time-consuming the work may be, it is essential for Japan's entry into the TRT, and wholehearted cooperation from the industry is solicited.

In the Service Mark Sub-Committee, discussions seem to have been focussed on the definition of service marks, constituent elements, target industries, registration factors, adjustment between service marks and existing marks such as trademarks and the classification thereof. In view of the rapid Japanese economic development

over the recent years, the introduction of this system seems to be necessary, but Japan has no experience in this respect and detailed investigation into the situation in other advanced countries has to be made with cooperation from the industry.

The proceedings of meeting at the Trademark System Study Committee will be published in the near future. In the meanwhile, some private circles affiliated with the Japan Patent Association seem to be studying the above matters independently and thus positive cooperation with the Patent Office can be expected. At any rate, both government and public are concentrating their efforts on adjusting the Japanese trademark system to suit the TRT and the way for Japan's entry into the TRT may be opened during a few years at the earliest.

IV. Conclusion

A review of the above Japanese situation gives the impression that the road for Japan's entry into the TRT is not so smooth. However, in order to overcome various difficulties, the trademark law is being revised and computers are being introduced for mechanical reference. In addition, the artiles of the TRT are being studied at the Patent Office. These efforts may bear fruit in the not too distant future, harmonizing with the necessity of protecting domestic trademarks.

On the other hand, the industry is watching with much interest how ratifiers will increase in the future, and great attention is given to when the ratification by the United States, West Germany etc. is made. Especially the movement of the United States, West Germany etc., which will no doubt have a vital influence on the Japanese movement toward entry in to the TRT.

ENFORCEMENT OF A POPULAR TRADEMARK

1. TM denotes origin and, if product has quality, style and/or price distinctiveness in mind of consumer, can be valuable.

2. Market segments exist in which consumer views major competitors as of equal quality. Detergent/tetracycline. Advertising tries to saturate mind of consumer so that when need for product arises, first name to come to mind will be that of advertiser. In this case response desired is more Pavlovian & less conventional TM function.

3. In such market segments, TM's are perceived by some as barriers to new entrants requiring massive advertising expenditures to overcome.

4. Gov't. response to situation in other countries is to require development of local marks, refuse payment of fees in TM licensing, etc. In U.S. principal agency which perceives this situation as a problem is FTC. FTC has considered compulsory licensing (Realemon®) and is now pursuing use of Lanham Act to declare marks generic.

5. It is problem of potentially generic mark that I will discuss, but it should be borne in mind that above background is what gives this problem its present urgency.

6. It has long been principle of TM law that where mark becomes synonymous with goods rather than denoting their origin, i.e., becomes generic, that rights to the mark are lost. Examples abound: aspirin, linoleum, escalator, etc.

7. FTC has selected Formica® as the first target in its campaign. The FTC is known to have a "hit list" of some 200 marks. If it succeeds against Formica®, many others can expect to be in the same position now occupied by American Cyanamid. As is so often the case with government action, substantial rights may be sacrificed to a theory of competition which has yet to be tested.

8. It clearly behooves everyone owning a popular mark to examine current usage of such marks. If the mark is in danger of becoming generic, vigorous (in fact, heroic) action is called for.

9. One line of decisions holds that only complete success in eliminating generic usage will be effective in rehabilitating a mark. This view is clearly expressed in decisions by the Hands in two landmark cases:

(a) "...it makes no difference whatever what efforts the plaintiff has made to get them (the buyers) to understand more." - Learned Hand, Bayer Co. v. United Drug Co., 272 F. 505 (SDNY 1921).

(b) "It, therefore, makes no difference what efforts or money the DuPont Company expended in order to persuade the public that 'cellophane' means an article of DuPont manufacture. So far as it did not succeed in actually converting the world to its gospel it can have no relief." - Augustus Hand, DuPont Cellophane Co. v. Waxed Products Co., 85 F. 2d 75, 30 USPQ 332 (2 Cir. 1936).

10. Such a burden is almost, but not quite, impossible. At one time "Frigidaire" was widely used in a generic sense. Today, the term "frig" is so used, but Frigidaire® is clearly understood to be a trademark.

11. Another line of decisions holds out hope for a more reasoned approach. Such a case is Marks v. Polaroid Corp., 129 F. Supp. 243, 105 USPQ 10 (D. Mass. 1955). There the court, after finding "wide spread" generic use, held:

> "But I cannot find that the trade mark "Polaroid" has come to be so public and in such universal use that nobody can be deceived by the use of it. Where the possibility of some deception remains real and the need of competitors to satisfactorily describe their products is satisfied by the availability of several common nouns or adjectives suitable for that purpose, this Court will protect the interest of the owner in his trade mark."

12. To me the most interesting case in this area is the "Thermos" case. There the court held that "thermos" was generic and could be used by the defendant, but that "Thermos" was a valid trademark and would be enforced against infringers American Thermos Products Co. v. Aladdin Industries, Inc. 134 USPQ 98 (D. Conn. 1962). Intellectually, this decision is appealing. A language as rich in synonyms and homonyms as is English can easily encompass the ambiguities that ensue from this decision. No one representing a trademark owner can be pleased with this "cut-the-baby-in-half" type of decision. I know of no other case which has gone in this direction. However, if the FTC continues its crusade, courts may be tempted to go this route.

GWFS/ceb
1893D/4Z

Japanese Group
Committee No.1
Group No.2
Chairman: Masuo OIWA
Speaker: Yutaka YAMADA

CONTRADICTION BETWEEN PCT AND JAPANESE PATENT LAW: ESPECIALLY IN REGARD TO THE UNITY OF INVENTION

Summary

PCT clearly provides unity of invention as one of the requirements of the international application. The basic concept of unity differs between PCT and the Japanese Patent Law in that this concept in the Japanese Law is stricter and narrower in interpretation. This sometimes causes the rejection of an international application in which Japan is designated, because of the unity not being conformed on the national stage of Japan, even if the same case has been accepted on the international stage. This presentation describes and clarifies the treatment of such a case.

CONTRADICTION BETWEEN PCT AND JAPANESE PATENT LAW: ESPECIALLY IN REGARD TO THE UNITY OF INVENTION

1. Introduction

Thanks to PCT, the international patent application system is established to promote international patent cooperation and organize technical assistance. In order to carry out these purposes, PCT prescribes uniformity of application procedures and technical information service or other services for developing countries. However, the substantial requirements are not specified by PCT but left to requirements of member countries' patent laws. Therefore, it is not deniable that the contents of PCT regulations have become close to the common factor of member countries' patent laws. Since PCT is not in conformity with member countries' patent laws in detail, we are afraid that differences may occur concerning several provisions for application procedures carried out by member countries at each national stage, one of which being the difference of concept of unity of invention. Hence, I'd like to point out several aspects of the Japanese Patent Law with respect to unity of invention at this presentation. I am very happy if this

gives any information to those who want to file an application in Japan by way of PCT.

2. Unity of invention in PCT

PCT concretely describes unity of invention as one of the requirements of the international application, which provides "that the international application must comply with the prescribed requirements of unity of invention" (PCT Article 3(4)(iii). In Rule 13.1 of PCT an invention with unity is defined as one or a group of inventions so linked as to form a single general inventive concept. In Rule 13.2, either of the following two possibilities is construed as conforming with requirements of unity of invention and shall be included in the same international application.

(1) One independent claim for a given product

One independent claim for one process for the manufacture of the said product or:

plus

One independent claim for one use of the said product

(2) One independent claim for a given process

One independent claim for one apparatus or plus means specifically designed for carrying out the said process

Above requirements are applicable to invention claims of different categories. For invention claims of one and the same category, the following requirements are provided in Rule 13.3 which prescribes that subject to Rule 13.1, it shall be permitted to include in the same international application two or more independent claims of the same category which cannot readily be covered by a single generic claim. Briefly speaking, inventions with common inventive concepts are considered to have a unity and permitted to be included in the same application. This would be derived from the fact that the concept commonly fixed in USA, Great Britain, West Germany, etc. is adopted in PCT. The requirement of dependent claims is provided in Rule 13.4 which prescribes that subject to Rule 13.1, it shall be permitted to include in the same international application a reasonable number of dependent claims, even when the features of any dependent claim could be considered as constituting in themselves an invention.

3. Unity of invention in the Japanese Patent Law

In the Japanese Patent Law, the principle "One application for one invention" (Article 38, which is shown in page 10) is applied. Thus claims to be permitted in the same application are restricted to a single independent claim in principle. Therefore, inventions prescribed in the PCT Rules 13.2 and 13.3 do not conform with this principle of the Japanese Patent Law and such claims of those inventions cannot be included in a single application when applying for a Japanese patent. In this respect, approval concept of unity of invention is narrower with the Japanese Patent Law and stricter than that of PCT. However, as an exception of the "One application for one invention" principle, the Japanese Patent Law, hereinafter referred to as JPL, permits to include plural inventions specifically related to the subject invention in a single application for convenience of applicants (the provisos of Article 38 of JPL). According to this provision, PCT Rule 13.2(i) almost corresponds to JPL Article 38(2) and PCT 13.2(ii) to JPL Article 38(3). Thus, even though JPL denies the unity of invention, JPL can include plural inventions in a single application as independent claims,

enabling application procedures to be made in the similar manner as PCT and we can consider that there is no substantial difference between PCT and JPL in this respect. However, since such invention is treated as plural inventions, examination request fee and other expenditure must be paid corresponding to the number of inventions. In this case, dependent claims can naturally be included in each independent claim. However, in JPL, specific forms of the invention in dependent claims must be prescribed in the range of inventive concepts of the independent claim and in the manner technically further restricting inventive components described in the independent claim (JPL Enforcement Regulations Article 24 bis). Thus, when the feature of a dependent claim is approved to constitute an invention as provided in PCT Rule 13.4, it cannot be permitted to be included as a dependent claim, but must be described as the form of an independent claim and it needs one additional fee according to JPL.

4. Treatment of a group of inventions not in conformity with the provisos of JPL Article 38

Among inventions conforming with PCT rules 13.1

through 13.4, one which is conforming with the provisos of JPL Article 38 can be included in one application even though it has been admitted to be a plural invention and can be treated in a similar manner as PCT by paying additional fees. However, since the concept of unity of invention in PCT is very wide, it is easily understood that a group of inventions in conformity with PCT Rule 13.1 through 13.4 may sometimes not be in conformity with the provisos of JPL Article 38. Concerning this matter, I'd like to further mention the procedure of treatment of such an invention on the national stage of consideration in Japan. An invention not in conformity with the provisos of JPL Article 38 is a group of inventions which is common in inventive ideas but different in "technical subjects to be solved" and "industrial application fields". More concretely speaking, we can assume that it is a group of inventions including a noncombustible material X, a noncombustible agent Y mainly composed of the material X and a textile product Z treated by the agent Y. Even through this group of inventions may fall within the scope of unity of invention in PCT, JPL will treat them differently. That is, the group of these

inventions X, Y and Z may not conform even though X and Y alone could conform with the provisos of JPL Article 38. This is because X and Y inventions have the technical subjects to be solved and the industrial application fields in common, but when it comes to view X, Y and Z in parallel, they are not bound together by common factors. Thus, when these three inventions are included in one international application, the application is accepted on the international stage, but is rejected on Japanese national stage on reasons for being in contravention of the "One application for one invention" principle in JPL. To cope with this rejection and in order that the three inventions can all be accepted, at least the Z invention must be applied as a divisional application. X and Y inventions are considered to conform with the requirements of the provisos of JPL Article 38 and be able to pass through the international stage processings without need of a divisional application. As a result, a group of inventions which can be included in one application on international stage must take divisional procedure on the national stage of Japan. In this case, a complicated procedure, that is, division of the application in addition to

increased fees due to increased number of applications requires a great deal of labor. Unity of invention, provided in PCT Article 3 as a requirement for the international application, is considered to be included in "the form or contents" in PCT Article 27 paragraph (1). Therefore, the Japanese Patent Law can not, we consider, require compliance with requirements for unity of invention which are different from those provided for in PCT. How can we consider the conversion procedure of an application from a single application on an international stage to a plural application on the national stage of Japan? From the viewpoint of a measure against an examiner's action, the division of the application could be considered to be a concrete measure for substantial examinations and could be in this case in the "nonintervention range of PCT". The Japanese Patent office maintains an attitude of treating this problem within the scope of present Japanese Patent Law, and it can be supposed that the Patent Office is treating the problem in the procedures of the substantial examination.

5. Closing word

As a result, when an applicant designates Japan

in the international application by way of PCT, he must carefully investigate beforehand unity of invention and pay special attention to how to formulate claims as to prevent unnecessary difficulties on the national stage of Japan and save money and labor.

Article 38. An application for patent shall be made for each invention. Provided, however, that even with respect to two or more inventions, if such inventions have any of the following relationship to one of said inventions which is claimed (hereinafter referred to as "the specified invention"), an application for patent may be made with one and the same request as for the specified invention.

(1) inventions which have as the substantial part of the features indispensable for the constitution of the inventions the whole or the substantial part of the features indispensable for the constitution of the specified invention, and which achieve the same purpose as that of the specified invention;

(2) when the specified invention is an invention of a thing, inventions of processes for manufacturing the thing, or inventions of machines, instruments,

equipment and others for manufacturing the thing;

(3) when the specified invention is an invention of a process, inventions of machines, instruments, equipment and others used directly in the working of the invention of the process.

Reuben Spencer
Western Electric Co. Inc.
October 1979

NEW YORK PATENT LAW ASSOCIATION SURVEY ON USE OF PCT AND EPC

In the spring of 1979, the subcommittee on Foreign Patents of the New York Patent Law Association, Inc., mailed a questionnaire (a copy of which is attached) to its members. The purpose of this questionnaire was to ascertain the members' opinions and experiences relating to filing patent applications under the Patent Cooperation Treaty (PCT) and the European Patent Convention (EPC). In the preparation of this questionnaire I used the questionnaire prepared by Committee No. 34 of the Japanese Group and reported at Nagoga last year by Mr. K. Imai. However, I expanded it and included the private sector as well as the corporate sector. It is noted that the Japanese Committee indicated an interest in seeing the results of an American questionnaire.

The questionnaire can be broken down into four separate sections. The first section elicits the background of the respondent. This information is contained in questions one through three and the optional identification at the end of the survey. These questions seek to determine whether the respondent is in the corporate or private sector; his technical speciality; and his foreign filing activity.

Questions four through seven seek information pertaining to the respondent's opinions about the use of PCT as a

medium for the filing of foreign applications. Questions eight and nine relate to actual or planned filing via both PCT and EPC. Questions ten through eighteen deal with the respondent's opinions concerning EPC.

Of the 1200 questionnaires mailed out, 115 (9.6%) were returned. Although the statistical base is disappointing, the large diversity in backgrounds of the respondents makes this survey meaningful. It is noted that the Japanese survey had a better percentage response, namely, 55 responses to 61 questionnaires, or approximately a 90% response.

Of the 115 responses, 68 (59%) were from the private sector and 47 (41%) were from the corporate sector. The types of technologies represented are as follows:

	TOTAL	Corporate	Private
Electrical	45%	30%	56%
Chemical	40%	51%	32%
Mechanical	50%	38%	59%
Other	14%	23%	7%

The above totals amount to more than 100% because some respondents listed more than one technical speciality. It appears that all of the three major technical areas are well represented in this survey. It is interesting to note that although the chemical field had the greatest representation in the corporate area, in the private sector it ranks third with the mechanical technology having the largest representation.

Regarding filing patterns in general, the group filed 5,629 cases or inventions abroad. This resulted in 55,616 individual foreign applications for an average of

55,616 individual foreign applications for an average of 9.88 applications per case.

When these same statistics were analyzed with respect to the corporate and private sectors, the results are as follows:

All Technologies	Total	Corporate	Private
Average Number of Cases Filed in 1978, per Respondent	49	88.5	21.5
Average Number of Applications Filed per Case	9.88	10.2	9.1

The above data shows that the corporate sector tends to file significantly more cases in more countries than does the private sector.

Looking at how the various technologies compare the results were as follows:

	Electrical	Chemical	Mechanical	Other
Average Number of Cases filed in One Year per Respondent	35.3	70.2	29.1	150
Average Number of Applications filed per Case	5.2	10.1	11.0	10.22

This shows that while the chemical industry has the largest

average number of cases filed in a year, the mechanical industry tends to file in more countries per invention. It is interesting to note that the combination of the chemical industry's high average number cases filed and predominance in the corporate technology sector, probably accounts for the high average number of cases filed by respondents in the corporate environment.

PCT

Question four queries the respondents attitudes about PCT by asking "Do you plan to use PCT for your foreign patent applications?"

Approximately 80% of the respondents answered this question in a negative manner. 63% said that they generally would not use PCT except for special cases while 17% stated that they would not use PCT in any instance. Of the remaining 20%, 14% said they would use PCT in most instances. No one said they would use PCT for all cases. The remaining 6% responded with various comments such as "Really too soon to know this.", etc.

With respect to reasons for the use or non-use of PCT (questions six and seven), the most frequently given answers relate to costs. 21.5% of those who chose PCT, feel that "applications can be filed in a group of countries with simple procedures and comparatively lower costs." The next most quoted answer (19%) is that "the English Language can be used during the initial 20 month period". 21% of those who did not choose PCT, also feel cost is the main reason. 18% have taken a "wait and see" attitude. Since cost was the reason most given both for and against filing via PCT, the results were tracked

considering technology and relationship to private and corporate sector. According to our survey results, the corporate sector in the electrical and mechanical technologies finds PCT most advantageous because of cost, while there is no significant difference among the various groups for not filing PCT for cost reasons.

Since there is no apparent tie-in between the groups favoring or not favoring PCT for cost reasons, there appears to be confusion or disagreement within the profession as to the cost advantage of PCT. Since many who responded negatively to PCT did so because they wanted to "wait and see" the outcome of this dichotomy should have a profound effect upon PCT filings.

The other reasons for using PCT in the order of importance are:

16.4%	Translations can be delayed for additional eight months
16.4%	Applications can be effectively filed in a group of foreign countries in a short "time frame"
15.2%	Use of a standardized and simplified application
8.9%	Applications can be withdrawn upon receiving the international search report
2.5%	Other

The other reasons for not using PCT in order of response are:

12.4%	Not enough countries of interest available
12.0%	Satisfying PCT formal requirements not under applicant's control and increases risk of loss of rights.

10.8%	PCT procedures too complicated
8.0%	EPC applications under PCT may require an additional search.
8.0%	Unsure what to do.
5.6%	Only a few cases will be withdrawn after receiving the international search report.
2.8%	USA retains various reservations under PCT so applicants may not obtain maximum benefits under PCT.
0.8%	Other.

Question five asked those who stated that they would use PCT what number of PCT cases they expected to file in 1979 and what would be the minimum number of countries designated. Of those who responded, the average number of cases filed would be 5.1 in 1979 and the minimum number of countries would be 4.9.

Expected or Actual PCT and EPC Filing Strategy

Questions eight and nine refer to actual or planned PCT and EPC filing.

19.6% of those who responded said they had filed an application through PCT while 5.4% said they were now preparing PCT applications. Of the 75% who had no PCT experience, 22.9% said they plan to file a PCT application within one year while 62.4% said they have no plans to file any applications through PCT. When analyzed by technology the results were as follows:

Have you filed via PCT?

	Electrical	Chemical	Mechanical
Yes	26.5%	22.5%	18%

Now Preparing	2.9%	12.5%	4%
No	70.6%	65.0%	78%

It appears that at the present time the Electrical Industry is the most active in filing via PCT while a significant number of chemical companies are ready to try PCT. There is no significant difference between the corporate and private sectors.

Those who hadn't used PCT, indicated their intended use, by technology as follows:

	Electrical	Chemical	Mechanical
Yes	20.8%	33.3%	21%
No	58.4%	58.4%	60.5%
Other	20.8%	8.3%	18.5%

This willingness to try PCT by those in the Chemical Industry is reinforced by the answers to question nine.

With regard to EPC, 33.9% responded that they have tried EPC, 9.6% were now preparing EPC applications, 56.5% have not used EPC. Of the group who have not used EPC, one third stated that they planned to use EPC within a year, one half said they have no plans to use EPC and 16.7% responded with other comments.

When analyzing the results as to corporate versus private sector some significant differences arise.

8b - Have you used EPC?

	TOTAL	Corporate	Private
Yes	33.9%	45.8%	25.4%
No	56.5%	37.5%	70.1%

9b - Do you plan to use EPC?

	TOTAL	Corporate	Private
Yes	33.3%	50.0%	23.3%
No	50.0%	41.7%	55.0%

It appears that the corporate sector plans to use EPC more than the private sector. There was no significant differences among the different types of industry relating to EPC filings.

EPC

Of those who responded that they would file EPC, when asked in which technology, the results were as follows:

	TOTAL	Corporate	Private
C-Mechanical	33%	22.4%	43.1%
B-Chemical	31%	40.8%	21.6%
A-Electrical	21%	14.3%	27.5%
E-All	8%	12.3%	3.9%
D-Other	7%	10.2%	3.9%

Although the mechanical industry was the most often selected technology to file in EPC, the individual totals show a different picture. While it appears that those in the private sector plan to use EPC mostly in the mechanical field, the corporate sector plans to use EPC mostly to file chemical cases. Also, the fact that 12.3% of the corporate sector and 3.9% of the private sector plan to use EPC to file all technologies shows a corporate commitment to use EPC while the private sector

plans to be more selective with its EPC filings.

Question eleven asks "What is your filing plan with respect to EPC?" The answers were as follows:

28.3%	Will use on a trial basis for the time being
21.6%	Will use as a normal filing route
19.4%	Will decide after considering use by others
19.4%	Will not use for the time being
6.7%	Other
4.5%	Do not intend to use in the future

When analyzed as to corporate vs. private the results are as follows:

	TOTAL	Corporate	Private
b - use on trial basis	28.3%	44.9%	18.8%
a - use as normal filing route	21.6%	28.5%	17.6%
c - wait and see	19.4%	10.2%	24.7%
d - will not use EPC now	19.4%	12.2%	23.5%
f - other	6.7%	4.1%	8.2%
e - will not use in future	4.5%	0.0%	7.1%

It appears from this data that the corporate sector plans to use EPC at least on a trial basis while the private sector is basically taking a wait and see attitude.

When results were compared on an industry basis there were no significant differences among the patterns of answers.

With respect to reasons for use or non-use of EPC (questions twelve and thirteen), the most frequently given answers related to costs. 21.5% of those who responded feel that "to save filing expenses" was the main reason to file an EPC application. The next most quoted reason (19%) is "to simplify filing procedures" which is also cost related.

When asked why one would not file EPC, 19.9% responded that an EPC application "may result in higher costs when a small number of countries are designated". The next most frequent answer given was "wait and see" (12.9%).

After comparing questions twelve and thirteen and six and seven, it is apparent that the main reason for filing any combination of PCT and EPC over the national filing path is for economic rather than legal reasons.

The other reasons for using EPC in the order of their importance are:

17.7%	The use of English as an official language
13.9%	To obviate the need for translating the specification in certain countries, e.g. Germany
13.6%	To delay the filing of translations
5.6%	To make use of high quality search reports
3.5%	Easier to obtain patents in certain countries, e.g. the Netherlands, which have high examination standards

3.5%	Rights in registration countries may be determined and strengthened
2.2%	To anticipate future transfer to CPC (Community Patent Convention)

The other reasons for not using EPC in order of importance are:

11.5%	More oppositions may be lodged then for current national applications
11.1%	It may result in either no patents or patents in all designated countries
10.1%	Criteria of examination are not completely clear
8.4%	Possible problems in national courts
7.3%	It may involve complicated procedures
5.2%	Becomes difficult to obtain patents in registration countries
4.2%	Unsure of what to do
3.5%	Examiners are inexperienced in handling EPC applications
2.4%	Not enough flexibility
1.7%	Other
1.4%	It is required to submit translations of the priority documents

Now that we have established the reasons for or against an EPC filing, question fourteen deals with situations which would dictate filing of a national patent application or a European patent application. The answers in order of importance are:

32.5%	EPC application in a case when there are many designated countries

27.6%	National application in a case where the invention is commercially important
14.3%	EPC application in a case when patentability of the invention is high
10.8%	EPC application in a case where the invention is commercially important
6.4%	National application in a case where patentability of the invention is high
5.9%	Both EPC and national applications in a case where the invention is important

It is interesting to note that the answers to this question reinforce the economic theme which runs throughout this survey. In this case, as in past questions, the first two answers relate to economics. By filing an EPC application where many countries are designated, filing cost will be minimized. By filing national applications for commercially important cases one would increase the odds of at least obtaining some protection in Europe. Answers relating to the legal or patentability aspects only rated third and fifth in importance.

There was no significant difference between the corporate and private sectors in answering this question.

Question fifteen asks which language the respondent will use for filing PCT and/or EPC applications. The overwhelming response was English. 97.1% of those responding said they will use English for PCT applications while 96.1% said they would use English for EPC applications. Those who said they would use either French or German were the large multi-national corporations with R&D staffs outside the United States.

Question sixteen asks what is the nationality of the respondent's European patent attorney. The answers in order of importance are:

48.7%	United Kingdom
33.6%	Germany
11.8%	Other Countries
5.9%	France

When combining the responses to this question with those of question fifteen, it appears that although almost 100 percent of U. S. originated cases will be filed in English, there is going to be an approximately 2 to 1 sharing of the workload between the British and German agents. This fact will probably put a great deal of strain on the German Patent Agents to become truly bilingual for prosecuting U. S. originated cases in English.

Question seventeen deals with the minimum number of countries the respondents would designate for an EPC filing. Of the people who responded, 78.5% said that 4.8 would be the minimum number of countries to designate. The remaining 21.5% said they had not set a definite number yet.

Question eighteen is a two part question which asks what are your actual plans for European filings and why. The results in order of importance are:

44.7% chose National Applications. The reasons given were:

19%	Simple procedure
18%	Cost
14.5%	Skilled in the procedure
14%	Stability of granted rights
11%	Language advantageous
7.5%	Large number of designated countries
5.5%	Advantageous for an urgent application
3%	Enough time allowance for request of examination
3%	Enough time allowance for submitting translations
3%	Feasibility of early grant of patent
1.5%	Availability of search reports

30.2% chose European Applications. The reasons given were:

21.3%	Cost
20.7%	Language advantageous
16.1%	Simple procedure
13.2%	Large number of designated countries
6.9%	Stability of granted rights
5.7%	Skilled in the procedure
5.2%	Advantageous for an urgent application
4.0%	Enough time allowance for submitting translations
2.9%	Availability of search reports
2.3%	Enough time allowance for request for examination
1.7%	Availability of early grant of patent

8.8% chose National Application under PCT. The reasons given were:

17.7%	Cost
17.7%	Language advantageous
15.5%	Simple procedures

13.3%	Large number of designated countries
13.3%	Advantageous for an urgent application
8.8%	Stability of granted rights
4.4%	Skilled in the procedures
4.4%	Enough time allowance for request for examination
2.2%	Feasibility of early grant of patent
2.2%	Availability of search report
0%	Enough time allowance for submitting translations

8.8% chose an EPC application under PCT.
The reasons given were:

18.6%	Cost
16.9%	Language advantageous
15.3%	Simple procedures
11.9%	Large number of designated countries
11.9%	Advantageous for an urgent application
6.8%	Availability of search report
6.8%	Enough time allowance for request for examination
5.1%	Enough time allowance for submitting translations
5.1%	Stability of granted rights
1.7%	Feasibility of early grant of patent
0%	Skill in the procedure

When comparing the various responses to the reason for choosing a specific filing pattern, it is apparent in each case that cost is the primary reason.

There was significant variation in answers among the various technologies and between corporate and the private sectors.

Summary

In reviewing the results in totality, there appears to be a reluctance to use PCT as a normal filing route. It appears that there is confusion or disagreement in the profession as to cost advantages in using PCT. No one sector of industry or type of practicioner sees a distinct advantage or disadvantage in using PCT. Although many respondents had not filed a PCT case, there appears to be some indication that more plan to try PCT in the future.

When asked the reasons for choosing a specific filing route, in all cases economic reasons were given as opposed to legal reasons. This tends to make one conclude that those filing paths that provide the greatest cost advantage will have the greatest usage in the future.

THE NEW YORK PATENT LAW ASSOCIATION, INC.

Questionnaire Concerning Patent Application Filings Under the Patent Cooperation Treaty And the European Patent Convention.

1. If you are in private practice, please state your technical specialty:

   a. [ ] Electrical
   b. [ ] Chemical
   c. [ ] Mechanical
   d. [ ] Other(s) _____

2. If you are in corporate practice, please state the type of industry in which your corporation is engaged:

   a. [ ] Electrical
   b. [ ] Chemical
   c. [ ] Mechanical
   d. [ ] Other(s) _____

3. Your filing pattern:

   a. Approximate number of United States cases which you filed abroad last year _____.

   b. Average number of foreign countries per above case _____.

4. Do you plan to use PCT for your foreign patent applications?

   a. [ ] Yes - in every instance.
   b. [ ] Generally yes - in most instances.
   c. [ ] Generally no, except for special cases.
   d. [ ] In no instance.
   e. [ ] Others: _____

5. a. If you checked 4a, 4b, or 4c, please indicate the number of PCT cases you expect to file in 1979: _____.

   b. What would be the minimum number of countries which you would designate in your PCT applications? _____.

6. If you checked 4a. or 4b., please check the reasons for your answer from the following list:

   a. [ ] use of a standardized and simplified application
   b. [ ] English language can be used during the initial 20 month period
   c. [ ] translations can be delayed for additional eight months
   d. [ ] applications can be filed in a group of countries with simple procedures and comparatively lower costs
   e. [ ] applications can be withdrawn upon receiving the international search report
   f. [ ] applications can effectively be filed in a group of foreign countries in a short "time frame"
   g. [ ] others (_____)

7. If you checked 4c or 4d., please check the reasons for your answer from the following list:

   a. [ ] cost
   b. [ ] only a few cases will be withdrawn after receiving the international search report
   c. [ ] EPC application under PCT may require an additional search
   d. [ ] USA retains various reservations under PCT so applicants may not obtain maximum benefits under PCT
   e. [ ] wait and see
   f. [ ] unsure what to do
   g. [ ] not enough countries of interest available
   h. [ ] PCT procedures too complicated
   i. [ ] satisfying PCT formal requirements not under applicant's control, and increases risk of loss of rights
   j. [ ] others (_____)

8. PCT and EPC applications became effective on June 1, 1978. Have you filed PCT and/or EPC applications (or are you preparing to file PCT and/or EPC applications)?

a. PCT		b. EPC	
i.	[ ] yes	i.	[ ] yes
ii.	[ ] now preparing	ii.	[ ] now preparing
iii.	[ ] no	iii.	[ ] no

9. If you checked 8a.iii. or 8b.iii., are you planning to file PCT or EPC applications within a year?

a. PCT		b. EPC	
i.	[ ] yes	i.	[ ] yes
ii.	[ ] no	ii.	[ ] no
iii.	[ ] other _____	iii.	[ ] other _____

10. If you checked 8a.i or ii., 8b.i. or ii., 9a.i., or 9b.i., for which technology? (Assume that all fields of technology are being examined at the EPO.)

a. [ ] Electrical
b. [ ] Chemical
c. [ ] Mechanical
d. [ ] Others (_____)
e. [ ] All technologies

11. What is your plan with respect to the EPC? (Assume that all fields of technology are being examined at the EPO.)

a. [ ] will use as a normal filing route
b. [ ] will use on trial basis for the time being
c. [ ] will decide after considering use by others
d. [ ] will not use for the time being
e. [ ] do not intend to use in the future
f. [ ] others (_____)

12. What is your reason(s) for filing EPC applications?

a. [ ] to save filing expenses
b. [ ] to simplify filing procedures
c. [ ] to delay the filing of translations
d. [ ] to obviate the need for translating the specification in certain countries, e.g., Germany
e. [ ] the use of English as the official language
f. [ ] easier to obtain patents in certain countries, e.g., the Netherlands, which have high examination standards
g. [ ] rights in registration countries may be determined and strengthened
h. [ ] to anticipate future transfer to CPC (Community Patent Convention)
i. [ ] to make use of high-quality search reports
j. [ ] others (_____)

13. What is your reason(s) for not filing EPC applications?

a. [ ] it may result in either no patents or patents in all the designated countries
b. [ ] it may involve complicated procedures
c. [ ] it may result in higher costs when a small number of countries is designated
d. [ ] more oppositions may be lodged than for current national applications
e. [ ] examiners are inexperienced in handling EPC applications
f. [ ] criteria of examination are not completely clear

g. [ ] becomes difficult to obtain patents in registration countries
h. [ ] it is required to submit translations of the priority documents
i. [ ] possible problems in national courts
j. [ ] wait and see
k. [ ] unsure of what to do
l. [ ] not enough flexibility
m. [ ] others (_____)

14. Which would you choose, EPC application or national application? And what is the basis for your choice?

a. [ ] EPC application in a case where there are many designated countries
b. [ ] EPC application in a case where the invention is important commercially
c. [ ] national application in a case where the invention is important commercially
d. [ ] both EPC and national applications in a case where the invention is important
e. [ ] EPC application in a case where patentability of the invention is high
f. [ ] national application in a case where patentability of the invention is high
g. [ ] others (_____)

15. Which language would you use for filing PCT and/or EPC applications?

a. PCT		b. EPC	
i.	[ ] English	i.	[ ] English
ii.	[ ] German	ii.	[ ] German
iii.	[ ] French	iii.	[ ] French
iv.	[ ] Other _____	iv.	[ ] Other _____

16. Would your European patent attorney be a national of

a. [ ] Germany
b. [ ] United Kingdom
c. [ ] France
d. [ ] Others (_____)

17. How many designated countries will be the minimum number for your EPC application?

a. [ ] approximately _____ countries
b. [ ] not definite
c. [ ] others (_____)

18. a. To obtain patents in Europe, which filing route(s) will you employ? [In answering, assume that your United States application is the first-filed application.]

1. [ ] National application.
2. [ ] National application under PCT.
3. [ ] EPC application.
4. [ ] EPC application under PCT.
5. [ ] Other _____

b. Please check your reason(s) for your choice(s):

1. [ ] Simple procedure.
2. [ ] Skilled in the procedure.
3. [ ] Cost.
4. [ ] Language advantageous.
5. [ ] Large number of designated countries.
6. [ ] Advantageous for an urgent application.
7. [ ] Availability of search reports.
8. [ ] Enough time allowance for request for examination (possible to delay your final decision).
9. [ ] Enough time allowance for submitting translations.
10. [ ] Feasibility of early grant of patent.
11. [ ] Stability of granted rights.

OPTIONAL

NAME (please print) _____

ADDRESS _____

NAME OF FIRM
OR CORPORATION _____

MAIL TO:

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PIPA Japanese Group
Committee No.1
Group No.1
Chairman: H. Hasegawa
Speaker: K. Toyama

EFFECTIVE UTILIZATION OF OUTSIDE AGENTS

-- On Results of Survey by Questionnaire --

PIPA TENTH INTERNATIONAL CONGRESS
October 24 - 26, 1979
Philadelphia, U.S.A.

EFFECTIVE UTILIZATION OF OUTSIDE AGENTS

S U M M A R Y

Based on the results of the survey by the questionnaire, which is related to the actual conditions and problems for effective utilization of outside agents in a corporate patent department in Japan, the standard pattern of utilization of outside agents was found out, and also the study of the way how to utilize the outside agent effectively was made by Group No.1 of Committee No.1.

As a result of study, several important questions and opinion were raised. Namely, does the corporate patent department make best effort to improve the relationship between the corporate patent department and the outside agent? Or does the corporate patent department have no problem about the present way to entrust the works to the outside agent? Also, the improvement of relationship between them should be done with the same standpoint as the improvement of relationship between seller and buyer in general commercial transactions.

Therefore, this paper is closed with the following conclusion: In point of effective utilization of outside agents viewed from the company side, it is recommended to compare the standard pattern of utilization of outside agents with the actual conditions of each company. And when recognizing the difference from the standard pattern, the way to effective utilization of outside agents will be opened for the corporate patent department.

CONTENTS

1. Introduction
2. Necessity of an Agent in view of the Japanese Patent Law
3. Current Situations on Patent Attorneys and their Firms in Japan
   (a) Scope of Work of Patent Attorney
   (b) License of Patent Attorney
   (c) Patent Attorney and Patent Firm
4. Actual Function of the Corporate Patent Department in Japan
5. Actual Conditions of Utilization of Outside Agents in Japan
   (a) Ratio of Placing an Outside Order
   (b) Purpose of Utilization of Outside Agents
   (c) How to Entrust Works to Outside Agents
   (d) Problems in Utilization
6. Way to Effective Utilization

Annex 1
Questionnaire concerning the Actual Conditions of Outside Agent Utilization

Annex 2
Results of the Questionnaire

EFFECTIVE UTILIZATION OF OUTSIDE AGENTS

- On Results of Survey by Questionnaire -

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1. Introduction

When one considers of efficiency of patent management work, effective utilization of outside agents is one of the important subjects that a corporate patent department can not afford to overlook. It is said that the qualification and expected roles of patent attorneys and further the relationship between patent departments and outside agents are greatly different between the U.S. and Japan.
Taking up the subject matter, we, Group No.1 of Committee No.1, PIPA Japanese Group, have made survey on actual conditions of utilization of outside agents, namely patent (attorney's) firms, in connection with patent applications and litigations, and associated problems. We also investigated measures for creating more effective cooperation system between patent departments and outside agents. To collect data in this connection, we sent a questionnaire to the members of PIPA Japanese Group in July of this year, the contents and the results of which are attached as Annex 1 and 2. The response of the questionnaire exceeded 90 % and this high response rate indicates that the companies are

much interested in this subject.

On behalf of Group No.1, I would like to report here an outline of the results of investigation on this subject in accordance with the responses to the questionnaire. This subject is one of the serious problems to the members of PIPA Japanese Group, but at the same time I hope that our report on this subject will prove helpful to the members of PIPA U.S. Group for effective acquisition of rights to obtain patent rights in Japan.

2. Necessity of an Agent in view of the Japanese Patent Law

The Japanese Patent Law, in principle, permit a patent application to be made by the applicant himself; that is, an applicant for patent can take application procedures for himself, but it is also allowed for him to entrust another person with such procedures. As exceptions, however, there are following three cases in which an applicant for patent is not allowed to take application procedures and the procedures must be taken through an agent.

The first case is that the Director-General of the Patent Office or the trial examiner-in-chief considers that the person who takes procedure is inadequate to take such procedure. Article 13 of the Japanese Patent Law stipulates that the Director-General of the Patent Office or the trial examiner-in-chief can force the applicant for patent to have the procedure taken by an agent, or force him to appoint a patent attorney as the agent if necessary.

The second case is that an applicant for patent is a minor or an incompetent person. Article 7 of the Japanese Patent Law stipulates that, except a special case, a minor or an incompetent person should take procedure through

a legal representative.

The third case is that an applicant for patent, no matter whether he is a Japanese or a foreigner, has neither a domicile nor a residence in Japan. Article 8 of the Japanese Patent Law stipulates that such applicant should take procedure through an agent having a domicile or a residence in Japan, namely a patent administrator. However, in Article 1 of the Patent Law Enforcement Ordinance and in Article 22 of the Patent Registration Ordinance, it is stipulated that in case a resident abroad who already has a patent administrator, is staying in Japan, or in case a resident abroad who has already obtained patent right in Japan, intends to register a patent administrator, such non resident is permitted to take the necessary procedures by himself.

From the foregoing it is understood that any applicant for patent having a domicile or a residence in Japan is not legally forced to take application procedures through an agent except special cases. Actually, however, fairly large number of companies appoint agents for making patent applications, and a recent survey conducted by the Japan Patent Association shows that about 54 % of annual patent applications filed by companies are through outside agents.

Now, I would like to report on the current status of how outside agents in Japan are utilized.

3. Current Situations on Patent Attorneys and their Firms in Japan

(a) Scope of Work of Patent Attorney

The scope of work of a patent attorney as an outside agents is stipulated in Article 1 of the Patent Attorney Law. That is, a patent attorney can represent another person on the matters to be filed with the Patent Office with respect to

patent, utility model, design and trademark and on the matters to be filed with the Ministry of International Trade and Industry with respect to opposition or adjudication. He can also give expert opinions or other services in connection with these matters. Moreover, as an exception in accordance with Article 9-2 of the Patent Attorney Law, a patent attorney can act as a lawsuit representative in connection with a decision on trial, etc. of patent, utility model, design and trademark; in addition, a patent attorney can perticipate, as an assistant of a lawyer, in other lawsuits, e.g. a patent infringement suit.

(b) License of Patent Attorney

License of a patent attorney as an outside agent is given to a person who has passed the patent attorney test according to Article 2 of the Patent Attorney Law. It is also given to a person who has a license of lawyer or has been engaged in the actual work of trial or examination as Trial Examiner or Examiner for over seven years in the Patent Office. In the patent attorney test, not only the knowledge of industrial property right but also professional knowledgs on the technical or law field in which the applicant specializes are examined. Therefore, patent attorneys having the same license are different in their specializing fields.

(c) Patent Attorney and Patent Firm

Any person having the license of a patent attorney can set up a patent firm as an outside agent. According to the Directory of Patent Attorney published in 1978, about 2,800 are registered as patent attorneys as of July, 1978, of which about 84 % or about 2,300 attorneys, have their own patent

firms as outside agents or belong to such patent firms. We, Group No.1, have made a research about the scale of such patent firms, the results of which show that 86 % of such patent firms are run by only one patent attorney and patent firms which have five or more attorneys take only 1.4 %. Also included in such patent firms are the patent and law firms in which patent attorney and lawyer into partnership with each other so as to be capable of handling lawsuits and related matters, the percentage of such patent and law firms being 2.7 %.

Furthermore, if the regional distribution of patent firms is viewed in terms of regional distribution of patent attorneys, about 68 % are concentrated in Tokyo, while in Osaka, which ranks in the second, only 13 %.

Thus, the majority of patent attorneys and their firms as outside agents in Japan are concentrated in Tokyo, and as to the scale of such firms most of them are actually composed of one to three patent attorneys.

4. Actual Function of the Corporate Patent Department in Japan

In analyzing the results of the questionnaire, it is very important to grasp the actual situations on how corporate patent departments are utilizing the foregoing outside agents. Therefore, we asked questions on this point on top of the main questions in the questionnaire.

As a result, through details are shown in the Annex 2, it has become clear that average number of employees in patent department is about 42, the number of staff members in charge of specification preparation is about 19, the number of in-house patent attorneys is about 3, and the years of experience of specification preparing staff members is 8 years.

When viewed by the type of industry, the electric industry has the largest total personnel and specification preparing staff members, which are about 69 and 36 persons, respectively. The total personnel and the number of specification preparing staff members are the least in the chemical industry, which are about 24 and 9 persons, respectively. In any industry, however, about 40 to 50 % of the total personnel are engaged in the preparation of specification and they have long experience in this type of work, the year of which is about 8 years. But the number of in-house patent attorneys is only about 3. From this, you may consider that the corporate patent department in Japan is not a group of patent attorneys, but a group including many specification preparing staff members having long experience.

We have also asked questions as to what jobs are given to such small proportion of people having patent attorney's license and how they are treated in the patent department. As a result, we learned that the proportion of the companies in which patent attorneys are given jobs different from those of other staff members is about 15 % and that of the companies in which patent attorneys are treated favorably is about 22 %, and both percentages are low. Thus, Japanese companies show the tendency that in-house patent attorneys are not treated in a special manner.

5. Actual Conditions of Utilization of Outside Agents in Japan

The actual conditions of outside agents and that of the corporate patent department which utilize outside agents, have been reported above based on the results of survey conducted by our Group No.1. Now, under such actual conditions, how does the patent department utilize outside agents?; or

why is it compelled to utilize outside agents? On this, a study is made below with respect to the results of the questionnaire.

(a) Ratio of Placing an Outside Order

First, let's look at the actual conditions on the patent departments entrust the works to outside agents, in accordance with responses to the questions 2.1 to 2.5 and 3 of the questionnaire. About 98 % of the companies which answered the questionnaire utilize outside agents; that is, only one out of the total companies that responded to the questionnaire, does not utilize an outside agent in connection with domestic patent-related matters. But even this company answered that in connection with foreign patent-related matters, it utilizes an outside agent. In contrast, two companies answered that in connection with foreign patent-related matters, they do not utilize an outside agent. But these two companies, of course, utilize outside agents in connection with domestic patent-related matters. Consequently, you may consider that all the companies utilize outside agents in one way or another.

Next, as to what type of works patent departments entrust to outside agent, we asked separate questions with respect to the patent firms where patent attorneys mainly work and the law firms where lawyers mainly work. The results show that in the case of entrusting works to patent firms, the largest number of the companies, as much as 91 %, request the works to be done from the preparation of specification to the acquisition of rights, and the request which ranks in the second is an expert opinion, 67 %. On the other hand, as to the contents of request for law firms, infringement court trial and other lawsuit-related matters ranks in the first,

85 %, and the next is an expert opinion, 44 %. From these results it is concluded to be a general pattern that the contents of request for patent firms are the works to be done from application procedures to the acquisition of rights, while lawsuits are entrusted to law firms, and as to expert opinions, both firms are used case by case. Results of the questionnaire unexpectedly show that there are works which are not entrusted to outside agents. Namely, with respect to patent licensing and patent search works, the rate of utilization of outside agents is very low; in the mechanical industry, none of the companies utilize outside agents for patent searches. Also from this result, it is presumed that each company has some principles as to the contents of work to be entrusted to outside agents, namely a standard as to what type of works will bring about merits when entrusted outside.

On the other hand, the average number of outside agents which one company utilizes is 7.8 patent firms and 1.7 law firms. Looking at the scale of outside agents used, small-scale patent firms where there is only one patent attorney is the largest in number, while as to law firms where lawyers mainly work, 33 out of 44 companies which answered "YES" to the actual utilization of law firms utilize those where two to four lawyers are present, and some companies utilize both law firms where there is only one lawyer and where five or more lawyers are present. If this result is correlated with the previous result of questionnaire concerning the contents of request, it is considered to be a standard pattern of each company that the company utilizes patent firms where there is one patent attorney for works from application procedures to the acquisition of rights, and for lawsuit it utilizes law firms where there are two to four lawyers.

By the way, to what extent does the corporate patent department utilize outside agents? In this regard, if this question is considered in terms of the ratio of outside orders with respect to the work of patent application procedures, very large difference can be seen according to the type of industry. In the electric industry, the percentage of companies which rely on outside agents for more than half the number of cases is as much as 63.2 % and in the mechanical industry, 62.5 % companies show a ratio of outside orders of 3/4 or more. On the other hand, in the chemical industry, 67.7 % companies show a ratio of outside orders as small as 1/4 or less. Surprisingly, moreover, of such 67.7 % companies in the chemical industry, as many as 77.8 % show a ratio of outside orders of below 10 %. Thus, in the chemical industry, the ratio of outside orders is very low, while in electric and mechanical industries such ratio becomes higher. However, note that even in the chemical industry showing such a low ratio, the ratio of outside orders concerning machine-related applications is high, and all the companies show higher ratios of outside orders with respect to machine and electric-related applications. This indicates that machine and electric-related applications allow easier utilization of outside agents.

(b) Purpose of Utilization of Outside Agents

As it is apparent from the results of the questionnaire so far reported, all the companies which responded to the questionnaire utilize outside agents in one way or another.

Then, why and for what purpose do these companies utilize outside agents? To this question in the questionnaire, about 67 % stated the following two reasons. Firstly, " company

has a principle to entrust outside agents with whatever works they can handle". Secondly, " to deal with works overflowing the capacity of the company". That the patent department utilizes outside agents for the above reasons, aside from whether it is the primary object or not, seems to indicate its policy that at least in the existing circumstances, consideration should be given as to which works may be entrusted to outside agents in dealing with overflowing works.
Now let's make another analysis; most of the members of the PIPA Japanese Group have a patent department, though the scale is different, and have the ability of dealing with patent management works within the company. Nevertheless the results of the questionnaire show that all the companies utilize outside agents though the degree of utilization is different. Judging from this situation, it is understood that the patent department intends to offset, with the aid of outside agents, the reduction of handling capacity in the area of patent application caused by the diversification of patent management work within the company.

The third reason for utilizing outside agents was as follows: " to utilize highly professional techniques and knowledges in lawsuits, expert opinion, etc. of outside agents". 46 % of all the companies utilize outside agent for this purpose. Especially the company in the chemical industry attaches a higher importance to this purpose than the foregoing reason, " to deal with the works overflowing the capacity". Furthermore, the fourth reason throughout the companies in all industries was as follows: "since the technical level of outside agents is high, specifications of a high quality are prepared with only a brief explanation". In the chemical industry, however, this reason ranks in the third, following the previous reason of " highly professional techniques". This can be attributed the peculiarity

of this industry. On the other hand, the answer, " entrusting outside agents with a joint application with other company", which ranks in the fifth, also ahows another aspect of utilization of outside agents. In the case of joint application, outside agents are often utilized for taking partial charge of application expenses or for taking partial charge of responsibility for the acquisition of rights. In terms of percentage, this tendency is about 40 %. But in the electric industry, only 22 % strongly feel its importance.

From the foregoing, the primary object of utilizing outside agents can be assumed as follows. First, the principle of the patent department is considered, and then the works overflowing the capacity are entrusted to outside agents, and at the same time professional techniques of outside agents are utilized effectively.

With respect to the reason of " dealing with the works overflowing the capacity", the cause of overflow was questioned. As a result, many companies referred to " the diversification of patent management functions" as a first cause, and " it is impossible for patent department to handle all the application procedures within the fixed time-limit" as a second cause. Particularly with respect to the diversification of patent management functions, about 57 % companies pointed it out as one of the causes.

Thus, it is presumed that in each company the diversification of patent management functions causes a sharp increase in the volume of work in the patent department, resulting in the overflowing work.

The result of the questionnaire also show that, for foreign applications, almost all of the PIPA Japanese Group Members utilize outside agents. Also from this, we can see the companies'

attitude that they try to rely on outside agents for professional knowledges necessary for foreign applications.

(c) How to Entrust Works to Outside Agents

To investigate in what manner the companies utilize outside agents, we asked questions focusing on application procedures. As a result, 25.9 % answered that they would entrust outside agents with less important applications, and 40.7 % answered that they would entrust outside agents with applications belonging to technical fields in which they have less skills. And of the latter companies, 86 % are the chemical industry. This indicates that the chemical industry is technically less skilled in machine-related matters. This has a close relation to the results of questionnaire in connection with the ratio of outside orders. Namely, in spite of the lowest quantity of outside orders, the chemical industry showed a high ratio of utilization of outside agents in connection with machine-related applications. There is such peculiarity of each field, but as a whole it is general tendency that the patent department tries to entrust outside agents with less important applications.

As to the manner in which outside agents are selected, question was also made focusing on the application procedures. According to the results of the questionnaire, most companies select patent firms depending on their specializing field of a patent attorney. And more than three-quarters of the companies replied that, when entrusting a work to an outside agent, they specifically appoint the patent attorney who should take charge of the work, or the patent attorney is always fixed.

A further survey was made as to the communication between the patent departments and outside agents. The results show that in the electric and chemical industries, when entrusting

outside agents with application procedures, the largest proportion of companies give a draft specification prepared by the inventor(s) to the outside agents, but in the mechanical industry, many companies prepare only minimum required documents such as drawings, data and research reports. Then, how does the patent department deliver such draft specifications or documents to an outside agent when entrusting application procedures? In more than 75 % companies a person in a patent department interviews the outside agent directly and tells the agent what is entrusted. About 20 % companies utilize indirect means including mail. This tendency is common to all the industries. With respect to actual method of such a direct interview with an outside agent, in most cases in the chemical industry a person in a patent department goes to the office of the agent, while in contrast, many companies in the electric industry call an outside agent to their offices. This tendency is related to the number of cases entrusted to an outside agent; that is, in the case of the electric industry having a relatively high ratio of outside orders, it is possible to call an outside agent to their offices. However, in the case of the chemical industry having only a low ratio of outside orders, a person in a patent department is compelled to go to the outside agent. This seems to reflect the balance of power between companies and outside agents.

When entrusting outside agents with application procedures, how does the patent department give instruction in connection with the claim(s) which directly affects the acquisition of rights?; and how about the designation of time-limit? These are interesting matter, but according to the questionnaire of this time, most companies prepare a draft or final claims for

themselves, and the percentage of companies which entrust such work to outside agents is only below 13 %. This seems to indicate the intention of the companies that they wish to reflect their will in the claims.

As to the time-limit of delivery, the companies are relatively tolerant, and about half of the companies replied that they designate the time-limit according to the degree of urgency, but there are no definite principles. They state that designated time-limit are fairly well observed; and most of them state that even when such time-limits are not exactly observed, they only urge outside agents to execute the entrusted works as soon as possible.

When the answers to the questionnaire are summarized as to the method of outside orders, one standard pattern comes into vision though there exists some difference according to the type of industry. That is, generally less important applications and, in the chemical industry, applications of technically weak areas, are entrusted to outside agents and in this case, a person in a patent department directly interviews the outside agent, taking with him minimum required documents or draft specifications and claim(s). And even if the time-limit is not exactly observed, he only urges the outside agent and makes no further complaints. This is considered to be a standard pattern of how to entrust works from the patent department to outside agents.

(d) Problems in Utilization

In the above paragraphs, to take an objective view of the actual conditions of utilization of outside agents, reference has been made to the ratio of outside orders, the purpose of utilization and the method of outside orders in accordance with

the results of the questionnaire. But, are the companies satisfied with such present situation?; or are they resigned to the present situation because its improvement is impossible no matter how much they make efforts? To investigate this point, we asked another question to know how they think about it.

First we asked what items should be subject to evaluation for the administration of outside orders, to which responses were as follows: Firstly, the quality of the specification prepared by an outside agents; secondly, the professional ability of an outside agent; and thirdly, the time required. The chemical industry attaches about the same importance to both the quality of specification and the professional ability. Since application procedures in Japan are made primarily on a prior application basis, time required was expected to have the highest priority, but it ranks in the third. This may be because of comparatively few troubles between companies and outside agents, or may be because the entrusted works are not so important. But we are not sure whether this is the true reason or not.

Electric and mechanical industries feel the necessity of technical educations for the improvement of professional ability, especially technical ability, of outside agents. And as to the actual method for education of outside agents, their proposal was " observation-study in factory", " invitation to exhibitions" and " distribution of company's printings". On the other hand, the chemical industry does not feel the necessity of such educations. This may be because of the low ratio of outside orders.

Next question was made on the relationship between companies and outside agents. Investigating this point will lead to an effective utilization of outside agents. According to the results

of the questionnaire, there are many companies in the mechanical industry which complain that their requirements are not accepted by outside agents on the grounds that, for example, the outside agents have their hands full or are not technically confident. This seems to support the tendency that in the mechanical industry which has a relatively high dependency upon outside orders, balance of power between outside agents and companies is biased toward the former. On the other hand, not a few companies have received requests from outside agents to the effect that the outside agents want to get more works. This will be indicative of the presence of difference in quality among outside agents. That is, companies try to entrust works to superior outside agents, who sometimes reject the request, while works are not entrusted to incompetent outside agents. This is considered inevitable.

Thus, the majority of companies, though there are some problems, are fairly well satisfied with outside agents, there being only two companies which answered in the negative.

Now let's look at the said " some problems". Such problems, namely, factors which impede an effective utilization of outside agents, lie in both companies and outside agents.

The following are the factors present on the side of companies as clients:

(i) Lack of positive attitude toward effective utilization of outside agents.

(ii) Absence of selection of outside agents from the standpoint of their effective utilization.

(iii) Inseparably bound with particular outside agents by a sense of duty, and the connections cannot be terminated.

(iv) They do not request outside agents to make improvement.

On the other hand, the following are the factors present

on the side of outside agents pointed out from the company side:

(i) Lack of technical understanding.

(ii) Lack of advice and comment as an expert.

(iii) Too much expenses required.

(iv) Outside agents do not give serious considerations to the preparation of claims, etc.

(v) With only minimum required documents, outside agents do not accept entrusting requests of the company.

(vi) Good specifications cannot be prepared.

(vii) Too much time consumed.

When viewed by industry, the electric industry points out " outside agents do not give serious considerations to the preparation of claims, etc.", the chemical industry points out " lack of technical understanding" and the mechanical industry " too much expenses required".

On the other hand, companies which do not want to utilize outside agents state the following reasons:

(i) Insufficient communication.

(ii) Higher potential power within company.

(iii) Sufficient staff within company.

Actually, however, all the companies utilize outside agents, and in this area we feel difference between the ideal and the actual.

Then, what status does the effective utilization of outside agents indicate? As on way of thinking to answer this question, an image of an outside agent expected by companies can be pictured.

Firstly, companies expect outside agents to have an ability equal to or even higher than that of their own patent department. Therefore, the outside agent is required to have professional technical ability with respect to the technical field within

the scope of business of the company concerned, or with respect to its related field. Furthermore, it goes without saying that outside agents are required to be specialists having long experience in the interpretation of law and expert opinions and having a procedure handling ability.

Secondly, companies expect that outside agents will execute their abilities fully. The request that a good specification is prepared in a shorter time with minimized data, does not seem unreasonable, though it should be considered in relation to cost.

Thirdly, companies expect that outside agents will cooperate with the patent department in a more positive manner. That is, not only preparing documents, but also giving advices and comments as experts, listening to the demands of companies and preparing claims jointly, in other words, client-oriented efforts, are requested by companies.

On the other hand, the relation between companies and outside agents in Japan is not always such that both parties are completely satisfied with each other. But it is not that both are much dissatisfied with each other, though there may be some problems. Japan is the world's top patent application nation. Nevertheless, the results of the questionnaire that both parties are in such a good relation, is rather surprising. It may be partly because companies entrust outside agents with less important inventions, and problems do not develop into a serious stage. Also in the selection of outside agents, companies in many cases do not set strict condition. It should be noted that in the Japanesque mental environments both parties tend to tolerate each other with respect to trivials.

6. Way to Effective Utilization

So far as the results of the questionnaire are concerned, the members of the PIPA Japanese Group consider the utilization of outside agents as an auxiliary utilization for the respective patent departments without wholly relying on them for the business of the patent departments, though they feel that there are problems to be solved in connection with outside agents.

Therefore, even if the companies have complaints or dissatisfactions against outside agents, it is unlikely that such complaint or dissatisfactions will directly affect the work of their patent departments. This seems to be the reason why the companies are fairly well satisfied with the present conditions with respect to the utilization of outside agents.

However, it is apparent from the results of the questionnaire that even in the existing circumstances the cooperation system between the patent departments and outside agents can never be completely satisfactory. When we consider the present business handling abilities of the patent department along with the actual scale, ability and regional distribution of outside agents, we suspect, though there may be a limit, that the company side lacks an attitude strict enough to make the utmost efforts for the improvement of cooperation system.

In this age of technological renovations, the search of patent information and the patent licensing work for technological exchange will be sure to develope into more and more important works for the corporate patent department. In such circumstances, every one concerned should reconsider the works which the patent department should execute? For example, we cannot help having doubts about the present situation in which only less important applications and applications belonging to technically weak field are entrusted to outside agents. Also with respect to

search and licensing businesses, it seems necessary to further improve the cooperation with outside agents.

As to methods of entrusting works to outside agents, the companies have their respective characteristics. The balance of power between companies and the outside agents which largely depends on the volume of outside orders and cost, is the greatest factor for the best method. So it is impossible to conclude here which method is the best. But in regard to the effective utilization of outside agents, the relation between companies and outside agents is just the same as general commercial transactions, namely seller and buyer. Therefore, it is a matter of course that works are concentrated on those outside agents who undertake high quality, less expensive works. On the other hand, even if an entrusting request is rejected, it is because the company concerned does not offer a higher charge, and this is considered to be a lack of effort on the company side for the utilization of outside agents. When viewed from the side of outside agents, if an outside agent cannot receive sufficient volume of orders, he should suspect that his work may be defective in some point, and should make efforts to remedy such defects.

In regard to the effective utilization of outside agents viewed from the company side, it is recommended to study the contents so far reported and to compare the standard pattern of utilization of outside agents with the actual conditions of your company. This is not to suggest that each company should conform to the standard pattern, but we suggest that each company should first recognize the difference from the standard pattern. Of course, doubts and solutions, which follow, ought to be peculiar to each company. We hope that through the results of the questionnaire conducted this time,

you will become aware of the actual conditions of outside agent utilization by other companies in the same industry and also the actual conditions of outside agent utilization in other industries, and that the way to effective utilization of outside agents will be opened for the member companies. Also for the members of the PIPA U.S. Group, we expect that some knowledge on the current situations on patent firms in Japan will be helpful for the selection of agents in filing Japanese patent applications in the future.

At the end of this report, we would like to express our thanks to the members of the PIPA Japanese Group for their answers, exceeding 90 %, to the questionnaire in such a short period.

We thank you for your kind attention.

ANNEX 1

P I P A

Questionnaire concerning the Actual Conditions of Outside Agent Utilization

Please enclose applicable symbol with a circle or enter necessary matters in applicable place. Regarding question with the proviso "plural answers allowed", please enclose applicable items with a circle.

July, 1979

Japanese Group
of
Pacific Industrial Property Association

I. On General Matters

1-1 To which industry does your company mainly belong?

a Electricity

b Chemistry

c Machine

1-2 How much is the total patent and utility model application number of your company? Answer left column if your company relates to electricity or machine, and answer right column if related to chemistry.

(Elec. & Mach.)	(Chemistry)
a 1001 cases or more	a 301 cases or more
b 401 - 1000 cases	b 151 - 300 cases
c 101 - 400 cases	c 51 - 150 cases
d 100 cases or less	d 50 cases or less

1-3 how many staff does your patent department have?

a Staff of patent dept. ( ) person(s)

b Staff in charge of spec. preparation. ( ) person(s)

c Number of Patent Attorney. ( ) person(s)

1-4 What is the average year(s) of experience of spec. preparation staff?

( ) year(s)

1-5 If a staff obtains patent attorney's license, is he treated more favorably in position, pay, etc.?

a YES

b NO

1-6 Are patent attorneys engaged in different work from other staffs?

a YES

b NO

2. On Utilization of Domestic Patent Firms

2-1 Does your company utilize a domestic patent firm?

Domestic patent-related matters a YES b NO

Foreign patent-related matters a YES b NO

2-2 What does your company entrust to outside agent?

Enclose applicable place with a circle for patent and law firms separately.

	patent firm	law firm
1. Only spec. preparation		
2. From spec. preparation to acquisition of rights		
3. Maintenance and administration of rights		
4. Licensing		
5. Search		
6. Expert opinion		
7. Lawsuit		

2-3 How many outside patent firm(s) does your company utilize constantly? Answer for applicable number of patent attorney(s).

Number of patent attorney	1	2 - 4	5 - 9	10 -
Number of utilizing firm				

2-4 How many law firm(s) does your company utilize constantly for patent suit and related matters? Answer for applicable number of lawyer(s).

Number of lawyer	1	2 - 4	5 -
Number of utilizing firm			

2-5 In what case does your company utilize law firm?

a Appeal trial

b Application-related court trial

c Infringement-related court trial

d Expert opinion

e Others ( )

2-6 If YES in the above 2-1, why? Choose five items at most, enclose them with a circle and enter numerals 1 to 5 in brackets in order of importance.

a Entrust the works overflowing the capacity of the company ( )

b Good quality spec. can be obtained for inexpensive fee. ( )

c Technical level is high enough to prepare high quality spec. with minimized explanation. ( )

d Spec. is easy to understand, having a good reputation in the Patent Office. ( )

e Highly professional technique (lawsuit, expert opinion, etc.) ( )

f From connections to prevent patent attorney from working in favor of rival. ( )

g Because of connection through the top management of company ( )

h Influential in the Patent Office ( )

i Ensure personal relationship with business world, the Patent Office, court, etc. ( )

j Young, has vitality and is promising. ( )

k The patent firm relies entirely on our company, so if relation is discontinued, the firm will have no work. ( )

l For joint application with other company ( )

m Entrust consecutively from domestic application because the possibility of foreign application is large. ( )

n To check ability of outside patent attorney ( )

o Think much of the principle of the company and entrust works capable of being handled by patent firm. ( )

p Others ( ) ( )

2-7 In case "a" was enclosed with a circle in the above 2-6, what is the cause of overflow? Choose three items of higher importance, enclose them with a circle and enter numerals 1 to 3 in brackets in order of importance.

a Reduced number of patent staff ( )

b Diversification of patent administration functions( )

c Expansion of technical scope and quality improvement along with new product development ( )

d Planned increase in invention and device applications (Increase in application volume is more than increase of personnel.) ( )

e Increase in working volume due to simple application ( )

f Use as accumulator because increase of personnel can not be expected. ( )

g With company's staff alone, it is impossible to cover all applications in point of term. ( )

h Others ( ) ( )

2-8 If NO in the above 2-1, or if patent firm is scarcely utilized, choose five reasons from items shown below, enclose them with a circle and enter numerals 1 to 5 in brackets in order of importance.

a Technically, internal potential is higher. ( )

b Keeping secrets strictly is needed. ( )

c Have sufficient staff, without need to place order outside. ( )

d Inventions are selected carefully, so applications are less in number, without need to place order outside. ( )

e Outside order is difficult to take communication. ( )

f Outside order takes too much time. ( )

g Outside order costs higher. ( )

h Internal works can avoid expenditure to outside. ( )

i Outside order lacks versatility. ( )

j Once an order is placed outside, it becomes difficult cut connections. ( )

k Do not know a good patent firm. ( )

2-9 Do you entrust work to domestic patent firm for foreign patent application?

a YES (including the case where entrusted cases are not all cases of foreign applications)

b NO(1) (directly to overseas agent)

c NO(2) (no foreign application)

2-10 If YES in the above 2-9, do you designate foreign patent firm?

a YES

b NO

c Case by case

2-11 If YES in the above 2-9, why?

a With respect to foreign applications, the entrusted domestic agent has a great store of knowledge and gives us various advices.

b Japanese-English and English-Japanese translations are troublesome, but the entrusted domestic agent kindly accepts the work.

c If agent is domestic, oral explanations are sufficient, so communication is easy to take.

d Because domestic applications have also been entrusted to the same agent.

e Have no experience of direct foreign application.

f Others ( )

2-12 In case your company directly utilizes overseas agent, what is the main reason?

a If domestic agent is omitted, so much saving in cost can be obtained.

b Do not feel Japanese-English and English-Japanese translations troublesome.

c Direct contact with overseas agent allows close and speedy communications.

d Have confidence in direct contact with overseas agent.

e Others ( )

3. Distribution between Internal and Outside Handlings

3-1 For the total number of patent and utility model applications filed for the past one year, enter the ratio of outside order in the brackets shown below by technical field and using the following symbols:

A	91 - 100 %
B	76 - 90 %
C	51 - 75 %
D	26 - 50 %
E	11 - 25 %
F	0 - 10 %

Ratio of outside order to total applications: ( )

of which: Electric ( )

Chemical ( )

Mechanical ( )

3-2 Mainly on what basis do you select which one should be entrusted to outside agent among domestic patent and utility model applications?

a Important invention

b Less important

c Weak technical field internally

d Inventor's manuscript is perfect.

e Inventor's manuscript is imperfect.

f Completely supplied with required data for application

g Not completely supplied with required data for application

h Others ( )

4. Deciding Patent Firm to be Entrusted

4-1 In case domestic patent and utility model applications are to be entrusted to outside agents, mainly on what basis do you decide agent?

a According to the specialty of patent attorney

b Choose a patent attorney who has no work on hand.

c Decide beforehand according to that date of entrust (by rotation).

d Others ( )

4-2 When entrusting a work to outside agent, do you designate even patent attorney or person in charge?

a YES

b NO

c NO, but already fixed.

5. How to Convey Contents of Invention to Patent Attorney's Firm

5-1 To explain the contents of invention when entrusting the invention to patent firm, mainly what type of documents do you prepare?

a Minimum required documents (drawings, data, research report)

b Excerpts of the invention prepared by the inventor

c Draft spec. prepared by the inventor

d Draft spec. retouched by patent staff

e Use the above _____ and _____ properly

f Others ( )

5-2 Mainly in what manner do you entrust works to patent firm? And in your answer, also enter the form of documents which you prepare in the bracket using the symbols shown in the above 5-1.

a Mail documents describing requests and necessary data. Do not give supplementary oral explanations.

b Mail necessary documents in advance and
(a) Inventor
(b) Person in charge of patent
(c) Both person in charge of patent and inventor gives explanations. ( )

c Call patent attorney or person in charge to your company and
(a) Inventor
(b) Person in charge of patent
(c) Both person in charge of patent and inventor gives explanations. ( )

d (a) Inventor
(b) Person in charge of patent
(c) Both person in charge of patent and inventor go to patent firm and give oral explanations. ( )

e Others ( ) ( )

6. Instructions to Patent Firm

6-1 Do you present a draft claim, or decide claim in your company and instruct?

a Leave to the patent attorney's discretion without special instruction.

b Present a draft claim, but leave the final claim to the patent attorney's discretion.

c Decide only claim internally and instruct.

d Others ( )

6-2 Do you designate filing date or the term for completing invention manuscript?

(Excluding those with time limit such as that for announcement in a learned society)

a In principle, _____ days from the day of entrust

b Designate according to the degree of urgency, there being no definite rule.

c Merely instruct "as soon as possible"

d Others ( )

6-3 Is the designated filing date observed?

a Observed

b Nearly observed

c Often unobserved

d Scarcely observed

6-4 In the event of delay, what measure do you take against patent firm?

a Urge, but make no complaint.

b Clearly complain in each delay

c Decrease subsequent order volume
(a) without stating reason
(b) clearly stating reason

d Impose a penalty

e Others ( )

7. Management of Outside Order

7-1 To what items of evaluation do you attach importance for the management of outside order? Rank the items shown below in brackets in order of importance.

a Quality of manuscript prepared by patent attorney ( )

b Days required ( )

c Cost ( )

d Professional ability (technique, law) ( )

e Business management ability in patent firm ( )

f Others ( ) ( )

8. Technical Education of Patent Firm (excl. OJT)

8-1 Do you feel the need of general technical education for patent firm?

a YES

b NO

8-2 Do you execute education actually?

a YES

b NO

8-3 Of what contents is the education? (Plural answers allowed)

a Invitation to internal, technical institute class

b Invitation to commodity exhibition

c Observation-study in factory

d Distribution of internal, technical journal

e Distribution of internal report

f Lending of new product

g Others ( )

9. Relation with Patent Firm

9-1 Do you experience rejection of your request?

a Frequently

b Occasionally

c Never

9-2 What is the main reason for rejection?

a The firm's hands are full and can not afford to accept request.

b Technically difficult and lack assurance

c The entrusted work requires much labor, but does not pay.

d Others ( )

9-3 Have you ever been asked for work by patent firm?

a YES

b NO

10. Effective Utilization of Outside Agents

10-1 Does your company think that the present utilization of outside agent is made in effective manner?

a Fully utilized, and satisfied with it.

b Almost satisfied, but some problems remain to be solved for satisfactory utilization.

c Not utilized effectively.
The present state leaves much to be desired.

10-2 If your answer is "b" or "c" in the above 10-1, on which side is there what should be improved, client side or agent side?

a Client side

b Agent side

c Both client and agent sides

10-3 What problems are there on the client side as factors impeding effective utilization of agent? (in case your answer is "a" or "c" in the above 10-2)

a On the client side there is no positive attitude of improving the actual condition to attain effective utilization of agent.
Because, (a) Resigned to actual state
(b) Absence of urgent need

b Have no definite consciousness of purpose as to placing order outside.

c The selection of agent is not made from the standpoint of effective utilization.

d Does not clearly request a remedy for agent side problems. (Keep too much distance toward patent attorney)

e Lying under an obligation to an agent doubtful for effective utilization, it is impossible to cut connections.

f Small number of cases entrusted to outside agents.

g Others ( )

10-4 What problems are there on the agent side as factors impeding effective utilization of agents?
(in case your answer is "b" or "c" in the above 10-2)
(Plural answers allowed)

a With only minimum required documents such as data, drawings and research report, does not accept entrusting request
(a) Requests perfect invention documents.
(b) Requests at least draft spec. prepared by the inventor.
(c) Requests draft spec. retouched by a person in charg of patent.
(d) Others

b Does not come to the client company.

c Dislikes contacting directly with the inventor. Always requests intermediation of patent staff.

d Particular about the contents of work, and dislikes application on difficult technical filed or of less patentable invention.

e Too much time required before application.

f Does not keep designated date.

g Does not make professional advice or comment.

h Does not give earnest consideration in favor of client (e.g. the scope of claim).

i Lack of technical understanding requires much time for explanation.

j Can not prepare a good spec., so it is impossible to entrust work with a sense of security.

k Makes business mistakes frequently, so feel uneasy.

l Too expensive as compared with internal handling.

m Excess work can not be made even when urgent application is desired.

n Others ( )

--- Thank you very much for your cooperation. ---

ANNEX 2

Results of the Questionnaire

Number of answerers	Item	Total / Average	Type of Industry		
			Electric	Mechanical	Chemical
54	1-1	54	19	8	27
54	1-2 a	27	11	4	12
	b	17	6	2	9
	c	8	2	1	5
	d	2	0	1	1
54	1-3 a	42.0	68.6	39.3	24.0
51	b	19.0	35.9	14.9	9.2
52	c	2.5	3.2	2.0	2.1
51	1-4	8.0	8.0	6.7	8.4
49	1-5 a	12	4	2	6
	b	37	13	4	20
45	1-6 a	8	4	0	4
	b	37	12	6	19
52	2-1 domestic				
	a	51	18	8	25
	b	1	0	0	1
	overseas				
	a	50	17	8	25
	b	2	1	0	1
54	2-2 patent firm				
	1	7	5	0	2
	2	49	16	8	25
	3	14	3	2	9
	4	1	1	0	0
	5	11	5	0	6
	6	36	15	5	16
	7	14	4	2	8

Number of answerers	Item	Total / Average	Type of Industry		
			Electric	Mechanical	Chemical
	2-2 cont'd law firm				
	1	0	0	0	0
	2	0	0	0	0
	3	0	0	0	0
	4	7	2	2	3
	5	2	1	0	1
	6	24	8	4	12
	7	42	14	6	22
	2-3 patent firm				
	1	3.5	5.3	3.5	2.6
54	2 - 4	2.3	2.7	2.3	2.0
	5 - 9	0.8	0.6	2.9	0.3
	10 -	1.2	1.6	1.0	1.0
	2-4 law firm				
	1	0.6	0.8	0.4	0.5
54	2 - 4	0.8	0.5	0.8	1.1
	5 -	0.3	0.1	0.6	0.3
	2-5 a	4	1	0	3
	b	13	6	0	7
48	c	46	14	6	26
	d	23	9	3	11
	e	8	2	1	5
	2-6 a	37	15	5	17
	b	6	3	1	2
	c	21	6	2	13
	d	2	1	0	1
	e	25	8	3	14
	f	0	0	0	0
	g	4	0	1	3
53	h	8	1	1	6
	i	6	2	1	3
	j	3	1	0	2
	k	11	6	1	4
	l	22	5	3	14
	m	11	4	2	5

Number of answerers	Item	Total / Average	Type of Industry		
			Electric	Mechanical	Chemical
	2-6 cont'd				
	n	0	0	0	0
	o	36	17	6	13
	p	11	2	1	8
37	2-7 a	11	3	2	6
	b	31	14	5	12
	c	13	5	2	6
	d	13	8	2	3
	e	0	0	0	0
	f	17	5	1	11
	g	21	9	2	10
	h	1	0	0	1
4	2-8 a	2	1	0	1
	b	1	1	0	0
	c	2	0	0	2
	d	1	1	0	0
	e	3	1	0	2
	f	1	0	0	1
	g	1	0	0	1
	h	1	0	0	1
	i	1	0	0	1
	j	0	0	0	0
	k	0	0	0	0
	l	2	1	0	1
53	2-9 a	50	18	8	24
	b	3	0	0	3
	c	0	0	0	0
51	2-10 a	6	2	1	3
	b	25	11	3	11
	c	20	5	4	11
46	2-11 a	20	7	2	11
	b	20	5	3	12
	c	16	8	2	6
	d	2	1	1	0
	e	1	0	0	1
	f	5	2	0	3

Number of answerers	Item	Total / Average	Type of Industry		
			Electric	Mechanical	Chemical
30	2-12 a	20	7	1	12
	b	0	0	0	0
	c	20	9	0	11
	d	13	6	1	6
	e	2	1	0	1
54	3-1 A	12	5	4	3
	B	3	2	1	0
	C	12	5	2	5
	D	4	2	1	1
	E	7	3	0	4
	F	16	2	0	14
48	3-2 a	3	0	0	3
	b	14	6	1	7
	c	22	2	1	19
	d	5	5	0	0
	e	3	1	1	1
	f	8	4	1	3
	g	0	0	0	0
	h	12	6	3	3
52	4-1 a	44	16	7	21
	b	3	2	1	0
	c	2	1	1	0
	d	7	1	0	6
52	4-2 a	11	4	3	4
	b	16	7	1	8
	c	27	8	4	15
52	5-1 a	11	3	4	4
	b	3	2	0	1
	c	18	10	1	7
	d	7	2	3	2
	e	19	2	3	14
	f	3	0	1	2
	5-2 a	11	5	1	5
	b-1	3	2	0	1
	-2	4	0	1	3
	-3	6	2	1	3

Number of answerers	Item	Total / Average	Type of Industry		
			Electric	Mechanical	Chemical
52	5-2 cont'd				
	c-1	2	2	0	0
	-2	10	3	3	4
	-3	10	4	2	4
	d-1	1	0	1	0
	-2	17	2	3	12
	-3	3	0	1	2
	e	2	2	0	0
52	6-1 a	7	4	1	2
	b	26	10	5	11
	c	13	3	0	10
	d	8	1	2	5
51	6-2 a	15	12	3	0
	b	25	5	3	17
	c	9	0	0	9
	d	2	0	2	0
52	6-3 a	16	6	0	10
	b	35	11	8	16
	c	1	1	0	0
	d	0	0	0	0
47	6-4 a	37	13	6	18
	b	7	4	1	2
	c-1	1	0	0	1
	-2	1	1	0	0
	d	0	0	0	0
	e	2	0	1	1
52	7-1 a	1.5	1.1	1.0	1.8
	b	3.1	2.6	3.0	3.5
	c	3.7	4.2	3.8	3.3
	d	2.1	2.6	2.0	1.8
	e	3.7	3.9	4.3	3.5
	f	-	-	-	-
50	8-1 a	34	14	7	13
	b	16	4	1	11

Number of answerers	Item	Total / Average	Type of Industry		
			Electric	Mechanical	Chemical
51	8-2 a	16	9	4	3
	b	35	8	4	23
21	8-3 a	2	2	0	0
	b	7	5	1	1
	c	16	7	5	4
	d	7	5	2	0
	e	2	2	0	0
	f	2	1	1	0
	g	5	3	1	1
53	9-1 a	0	0	0	0
	b	19	6	6	7
	c	34	13	2	19
19	9-2 a	13	4	4	5
	b	6	3	2	1
	c	0	0	0	0
	d	1	0	0	1
51	9-3 a	40	14	7	19
	b	11	3	1	7
52	10-1 a	12	6	0	6
	b	38	13	8	17
	c	2	0	0	2
40	10-2 a	2	0	0	2
	b	8	4	0	4
	c	30	8	8	14
32	10-3 a-1	4	2	0	2
	-2	5	1	1	3
	b	2	2	0	0
	c	7	2	1	4
	d	8	1	3	4
	e	7	1	2	4
	f	6	1	0	5
	g	6	2	2	2

Number of answerers	Item	Total / Average	Type of Industry		
			Electric	Mechanical	Chemical
35	10-4 a-1	1	1	0	0
	-2	4	2	0	2
	-3	3	1	0	2
	-4	2	0	0	2
	b	2	0	0	2
	c	0	0	0	0
	d	1	1	0	0
	e	8	4	1	3
	f	0	0	0	0
	g	14	6	2	6
	h	13	5	2	6
	i	15	4	3	8
	j	9	3	1	5
	k	3	2	0	1
	l	13	3	4	6
	m	2	0	1	1
	n	3	2	0	1

Pacific Industrial Property Association
10th International Congress
Wednesday, October 24, 1979

Rene D. Tegtmeyer
Assistant Commissioner for Patents
United States Patent and Trademark Office

"The New Reissue Rules and Guidelines:
Overview and a View from the Patent & Trademark Office"

Very significant changes in United States patent practice occurred in 1977. These changes are quite important to both domestic and foreign parties filing patent applications or enforceing, or attacking, patents in the United States.

The changes flow from new rules and practice adopted by the Patent and Trademark Office in 1977/[1]. Let's take a look at the new rules, how they have been implemented, how the courts have been reacting to them and review some of the precautions that might be taken to minimize or avoid duty of disclosure or "fraud" problems.

I. The 1977 Rules Changes

The purpose of the new rules in 1977 was set forth in the Federal Register Notice/[2] promulgating the rules:

> "to improve the quality and reliability of issued patents."

Among the principal objectives of the new rules set forth in the notice were:

(1) Reissue

> "afford(ing) patent owners an opportunity, through the filing of a reissue application, to obtain a ruling from an examiner on the pertinence of additional prior art after a patent has been issued."

1/ 42 Fed. Reg. 5588 (Jan. 28, 1977)
2/ Id. at 5588

(2) Protest

"broaden(ing) the public's opportunity for participation in the patent examining process" and

(3) Duty of Disclosure

"set(ting) forth the duty of candor and good faith which applicants have to the Patent and Trademark Office."

The main features of the new rules which are intended to accomplish the purpose and objectives just set forth are:

Reissue

- providing for public access to reissue application files as of the date of filing (Section 1.11(b)/[3],
- providing for the publication of general information about reissue applications in the Official Gazette of the United States Patent and Trademark Office shortly after filing (Section 1.11b)), and
- filing of reissues without having to allege defects or make any amendments in the specification or claims for an initial consideration by the Patent and Trademark Office (Section 175(a)(4)-(6)),

Protest

- delaying examination of reissue applications to at least 2 months after the notice publication in the Official Gazette to permit the timely filing of protests before first action (Section 1.176),

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3/ All "Section" references refer to sections of Title 37, Code of Federal Regulations

- assurance of consideration of timely filed protests by third parties (Section 1.291(a)), and
- the possibility of further participation by protestors in processing before the Office (Section 1.291 and the introduction to the promulgation of rules/4).

Duty of Disclosure

- definition of the duty of disclosure.

Improvements in the Quality of Examination and File Record

- provision for statements by the examiner of the reasons for allowing claims (Section 1.109),
- provision for remand of appealed applications to the examiner for further consideration of allowed claims (Section 1.196),
- provision for the filing of "Prior Art Statements" within 3 months of filing, with a listing of prior art, a concise explanation of the relevance of each prior art reference and a copy of the references (Section 1.97-1.99),
- requirement that the oath or declaration be in a language understood by the inventor (Section 1.65),
- provision for examiner appearance at oral hearings before the Board of Appeals on request of the Board or the examiner (Section 1.194), and

4/ See note 1 and also see International Paper Company v. Fiberboard Corp., 181 USPQ 740 (D.Del. 1974)

- related changes strengthening the requirements for the examiner and the applicant to record the substance of interviews and for the examiner to record the areas searched during examination.

II. Implementation of the 1977 Rules Changes

In addition to the Rules changes, the Patent and Trademark Office has published guidelines on the implementation of the Rules for applicants and examiners. The first guidelines/5 were published April 12, 1977 just after most of the new rules took effect. These guidelines explained more of the details concerning how to obtain access to reissue files, the filing of Prior Art Statements, the preparation of examiner statements of reasons for allowance, the details of the procedure for oral hearings before the Board of Appeals and details concerning the filing of protests and public use petitions.

Further, guidelines/6 concerning implementation of the Rules were published December 12, 1978. These guidelines clarified the requirements of 37 CFR Section 175(a) (4)-(6) relating to the reissue oath and declaration requirements when no actual error or defect is alleged in the original patent, spelled out what is expected to be called to the attention of the PTO in regard to related litigation under 37 CFR 1.56, indicated the policy regarding protestor participation in proceedings before the Office, discussed the time for filing protests, explained how reissue applications are handled and provided for extra time for the examiner for handling complex reissue applications.

5/ 957 O.G. 11
6/ 977 O.G. 11

On June 26, 1979, a further notice/7 was published for speeding the processing of reissue applications and "duty of disclosure" questions. This notice will be discussed in more detail later.

Under the above guidelines the Patent and Trademark Office is allowing varying degrees of participation in proceedings by protestors. It has allowed much more participation by protestors than the introductory explanation to the new rules contemplated. On the other hand, protestor participation has been approached cautiously because of the delay and harrassment dangers and resultant expenses to the applicant. As a result, added participation by protestors has generally been limited to situations where such participation is necessary or will be helpful to the examiner. The following degree of participation has been permitted:

(a) The Office is receptive to and has granted requests to delay examination beyond the two months from announcement in the Official Gazette provided to permit the filing of a protest.

(b) In a number of cases, the Office has asked the applicant as well as the protestor to serve copies of papers filed in the Office on each other.

7/ 983 O.G. 24

(c) The Office is sending copies of Office actions to protestors in a number of cases. Generally, protestors need only request such copies now and indicate their intent to comment on Office actions in order to receive them.

(d) The Office has set time periods in some cases to allow the protestor to comment on responses applicant submits to the Office. Because this procedure can delay examination of the reissue application, such time periods are usually not provided unless the reissue applicant concurs or unless it is felt that the protestor's comments would contribute significantly to the examination.

(e) The Office has permitted protestor participation in any interview with the examiner in a number of cases. Where the applicant requests or concurs in such participation by the protestor in a reissue application or where a court requests or desires it, the Office is inclined to allow such participation by a protestor.

(f) The Office has received several requests from a protestor that the proceedings in connection with a reissue application be considered a contested case and bring sections 23 and 24 of title 35 into play. To date none have involved compelling circumstances and none of the requests have been granted. Limited experience to date indicates that declaring a reissue application proceeding a contested case may be desirable in certain circumstances, although it might cause substantial delays and might subject the applicant to harassment. In any event, well defined criteria for the conduct of such contested proceedings should probably be developed before any such proceedings are put into effect.

Protests to reissue applications should preferably be received within 2 months of publication of the O.G. notice announcing filing so that they are available to the examiner before examination begins. In any event, protests must be received before final rejection or allowance to be assured consideration. Even then, if the protestor delays the filing of a protest without good reason the Office may consider the protest not timely filed and refuse to consider it.

Reissue applications under the 1977 rules changes are still normally assigned to and are examined by the same examiner who issued the original patent if the examiner is still available. Usually, this examiner is most expert in the subject matter and can usually do the best examination, although some benefits might accrue from modifying our present procedures by having a different examiner or a special Examining Group handle reissues.

Great emphasis is placed on doing a good quality examination in reissues. Instead of the usual 4% sampling in the PTO's Quality Review Program, a 25% sample of reissue applications being allowed is taken for detailed review of the quality of examination. Applications containing invalid claims are sent back for further examination.

Since the new rules came into effect the duty of disclosure area has been quite active. About 15 duty of disclosure questions arise each month. Questions of "fraud" or duty of disclosure are handled in the Office of the Assistant Commissioner for Patents, only after examination for other matters has been completed. "Fraud" or duty of disclosure questions are first

investigated so that the PTO has as much of the facts of record as possible to decide the issue. The investigation is usually in the form of a written set of questions in the nature of written interrogatories sent to the applicant or others which require or request information relevant to the "fraud" or duty of disclosure issue. When warranted by the existence of a prima facie case of "fraud" or failure to comply with the duty of disclosure, an order to the applicant to show cause why the application should not be stricken is issued. If the prima facie case is not overcome, the application is then stricken. If it is concluded that the application should not be stricken, a decision to this effect with the reasons is made of record. Some additional details of Office practice are discussed in In re Schlegel/[8].

Many are asking how strict a duty of disclosure standard is the Office applying? This is a difficult question to answer and is best covered by reviewing the relevant facts. First, 37 CFR Section 1.56 itself defines the duty of disclosure as the requirement for calling to the Office's attention information which is material to examination of the application. Materiality is defined in the rule as existing where there is substantial likelihood that a reasonable examiner would consider the information important in determining patentability.

The section further provides that striking is mandatory if there is "fraud" or a failure to comply with the duty of disclosure through bad faith or gross negligence. The section

8/ 200 USPQ 797 (Comr. Pats. 1977)

specifies that the duty of disclosure applies to every individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor. The section provides that striking of the application is discretionary if there is no "fraud" but the oath or declaration is:

- signed or sworn to in blank, or
- altered after execution.

The introduction or preamble to the promulgation of the 1977 rules further interprets the meaning of the duty of disclosure spelled out in Section 1.56. It indicates that:

- Section 1.56 codifies the pre-existing Office policy on fraud and inequitable conduct which is believed consistent with the then prevailing case law in the federal courts. (The court in True Temper Corp. v. CF&I Steel Corp., 202 USPQ 412 10th Cir. 1979, considered the new PTO rule to constitute a codification of case law).
- The word "substantially" was added to the rule as promulgated to indicate that the duty does not apply to typists, clerks, etc.
- The word "with" was added to the first sentence to make clearer that the duty applies only to individuals not organizations.
- The term "material" was used in the rule rather than "relevant" to cannote that more than a trivial relationship between the information and the subject of the application is required.
- The Supreme Court standard of materiality in TSC Industries v. Northway/[9] was adopted in

9/ 426 U.S. 438 (1976)

the rule and the preamble noted that the court stated in the case that the standard of materiality should not be so low, that persons would be "subject to liability for insignificant omissions or misstatements", or so low that fear of liability would cause management "simply to bury the shareholder in an avalanche of trivial information - a result that is hardly conducive to informed decision making".

- The term "information" in the rule is explained as meaning all kinds of information (1) including in addition to prior art patents and publications, information on prior public uses, sales, and the like and (2) excluding information favorable to patentability such as commercial success or information concerning the level of skill in the art.
- The term "inequitable conduct" was not used because it has too broad a meaning.
- The term "bad faith" was used instead of "deliberate" to better describe the level of duty.
- The rule is not inconsistent with the attorney's advocancy role for the client.

A second though poor indication of the Office's application of Section 1.56 lies in the statistics on striking applications. For the period January 1975 through September 1979

11 applications with a duty of disclosure question were stricken,
51 were abandoned before any determination was made, and
51 were decided not to be stricken for a total of 88 cases disposed of.

Also, indicative of PTO application of Section 1.56 are certain published decisions on the duty of disclosure.

In both In re Altenpohl/[10] and In re Stockebrand,/[11] the PTO found a failure to comply with the duty of disclosure by withholding certain prior art information and the reissue applications involved were stricken. In both of these cases, civil actions were filed in the courts challenging the PTO decision.

In each of the cases, In re Gabriel,/[12] In re Kubicek et al/[13] and In re Cebalo et al/[14] (Note also: Carter v. Blackburn et al/[15]), the PTO found no failure to comply with the duty of disclosure and the applications were not stricken.

In In re Gabriel, it was concluded that a material reference was known to at least one of several inventors and was disclosed to the attorney. It was not disclosed to the PTO. It was also found that the reference withheld would not have rendered claims unpatentable and that neither the inventors and attorneys nor the examiner felt that the reference withheld was the closest prior art. The application was not stricken. In In re Kubicek et al, again a material reference was not disclosed to the PTO. It was known to the inventor but not the attorney. The reference not disclosed was considered by the examiner to be the closest prior art but still did not render any of the claims unpatentable. It was also found that the inventor had no knowledge of patents or patent procedure except through counsel. The application was not stricken.

10/ 198 USPQ 289 (Comr. Pats. 1976)
11/ 197 USPQ 857 (Comr. Pats 1978)
12/ BNA/PTCJ 406: A-11
13/ 200 USPQ 545 (Comr. Pats. 1978)
14/ 201 USPQ 395 (Comr. Pats. 1977)
15/ 201 USPQ 544 (Bd. Pat. Intf. 1976)

In In re Cebalo et al, the Office reviewed a protestor allegation that the applicant made inconsistent representations to the PTO as to the patentable distinctness of the invention defined by the count on a first interference and the count of a second interference involving the same parties. The protestor was party to the two interferences. The PTO found no failure to comply with the duty of disclosure stating that the fact that two types of compounds are grouped together in a single patent does not establish that the compounds defined by the interference counts are directed to a single invention.

Questions frequently arise whether it is necessary to file prior art statements under Sections 1.97-1.99 to comply with the duty of disclosure in 37 CFR Section 1.56. The answer is "No"./[16]. However, beware where prior art being called to the Office's attention is a foreign patent or publication, the relevance of the prior art is not obvious or the prior art reference is not readily available. In these cases, it may be highly desirable if not necessary to provide any translation available or explain the relevance of the art or provide a copy of the reference. Certainly, the filing of Prior Art Statements under Sections 1.97-1.99 is the safest way to comply with the duty of disclosure.

16/ 391 BNA/PTCJ A-11 (1978)

III. Experiences Under the 1977 Rules

Are people using the new rules? Yes, very definitely. The number of reissue applications has risen from a monthly average of 34 to about 60 where it now appears to be stabilizing. The no defects facility is used in roughly a quarter of all the reissues. Some 10% of the reissues are involved in related litigation. Protests are being filed in reissue applications and are being avidly pursued in most cases. In a little over 2 years under the new rules, over 200 protests have been filed, two-thirds in reissue applications, and over 1000 requests for access to reissue applications have been received.

In regard to new sections 1.97-1.99 relating to prior art statements, the Office conducted a survey of 724 applications filed after July 1, 1977 which were allowed and going to issue through the Quality Review Office between June 4 and June 17, 1978. A total of 64% of the applications reviewed contained prior art citations embodied in the specification or in a separate paper submitted with or during prosecution of the application, or both. This is higher than the comparable 54% rate of filing of citations identified in an earlier survey in 1976/[17]. Only 30% of the prior art statements submitted were in conformance with 37 CFR 1.98.

17/ See 952 O.G. 1356, Nov. 23, 1976

Most citations were timely submitted. Most (86%) of the citations in the specification were not accompanied by copies of the references cited. Most (80%) of the citations in separate papers were accompanied by copies. Most foreign citations included neither translations nor statements that such translations were not available. In many cases, Examiners did not properly list prior art for publication in the patent or otherwise indicate the art was considered even though it was filed in conformance with Section 1.98 and presumably considered. Most citations of prior art not submitted in conformance with Section 1.98 were not checked as having been considered by the Examiner. About 10% of prior art citations included more than ten prior art references. Most cited 5 or less.

Another survey was run in 1979. All the data is not yet tallied but the results appear to be very similar to those in the 1978 survey with some improvement in applicants providing copies of references with citations of prior art and some improvement in Examiner listing and consideration of prior art submitted in prior art statements.

How are the courts reacting to the new rules? The reactions are mostly positive, but there are some concerns such as the timeliness of PTO handling of reissues and the tools available to resolve certain fact issues.

Many stays or dismissals are being granted by the courts for first consideration of issues by the Patent and Trademark Office. A number of judges have indicated a propensity to stay or dismiss for this purpose. The stays and dismissals are deferring a variety of issues to the Office for first consideration and in some cases apparently for final determination.

Some other interesting aspects of some court attitudes on the new rules include: (1) a desire where stays are granted for the defendant to participate as a protestor (2) some possible prejudice for not protesting (3) a possibly stronger or higher standard for the duty of disclosure and (4) some propensity to give stronger weight to Patent and Trademark Office decisions. Let's look at some of the cases.

In Alpine Engineering Products Inc. v. Automated Building Components, Inc./[18], the court dismissed a declaratory judgment action and ordered the patentee to file a reissue. The case involved both patentability and "fraud" or duty of disclosure issues.

In Sauder Industries Inc. v. Carborundum Co./[19], the court not only ordered the patentee to seek reissue but also ordered the defendant to participate in proceedings before the Patent and Trademark Office. In addition, the court provided for the preservation of certain testimony and evidence during the stay.

In Pioneer Parachute Co., Inc. v. Para-Flite, Inc./[20], the court imposed some rather stringent requirements on the patentee in a stay order. The court required the patentee to waive damages for the period of the stay and to agree to abide by the findings of the primary examiner. It ordered the defendant to participate in the PTO proceedings, including interviews, as much as the PTO would allow.

18/ BNA/PTCJ 367: A-12 (S.D. Fla 1978)
19/ 201 USPQ 240 (D.C. N.D. Ohio 1978)
20/ C.A. No. 76-0932 (D. N.J. 1978)

In Reynolds Metal Co. v. Aluminum Co. of America/[21], the court severed and stayed only the portion of the action dealing with patentability.

In Uniform Product Code Council v. Walter Kaslow/[22], Judge Conner stayed litigation for PTO consideration of a public use question.

In Rohm and Haas Co. v. Mobil Oil Corp./[23], Judge Latchum stayed for PTO consideration of a "fraud" issue and also permitted discovery for the benefit of the examiner. Discovery during a stay was also provided for in Broomall Industries, Inc., v. Nicolet Instrument Corp.,/[23a]. Although in Fisher Controls Co. v. Control Components, Inc./[24], the court refused to allow discovery relative to issues before the PTO. Judge Lacey (D.N.J.) has, on the other hand, spoken on occasions for discovery during stays where appropriate./[25]

The court in the Broomall case, supra, also set guidelines regarding the service of papers, response times, attendance at interviews, etc. in the reissue proceedings in the PTO. The PTO is cooperating with the court's desires in this case.

Other courts have denied stays such as in Perkin-Elmer v. Westinghouse Electric Corp./[26] and in General Tire and Rubber Co. v. Watson-Bowman Associates, Inc./[27], where the

21/ BNA/PTCJ 375: A-5 (N.D. Ind. 1978)
22/ Civil Action No. 75 CIV. 2373 (S.D. N.Y. 1978)
23/ 201 USPQ 80 (D.Del. 1978)
23a/ Civil Action No. C 77-2473 SW (N.D. Calif. 1979)
24/ Civil Action No. 74-11-1, BNA/PTCJ 388: A-12 (S.D. Iowa 1978)
25/ Judge Frederick B. Lacey, "A Federal District Judge's Views on Patent Reissue, Protest and Duty of Disclosure", 60 JPOS 529 (Sept. 1978)
26/ BNA/PTCJ 376: A-11 (E.D. N.Y. 1978)
27/ 193 USPQ 479 (D.Del. 1977)

stay was denied because the case was ready to go to trial. So far there is still limited evidence of the weight given by the courts to PTO consideration in reissues.

In a few cases as in Pioneer Parachute, supra, the courts are requiring the parties to be bound by the PTO determinations.

In a few cases the courts seem to have given considerable weight to PTO consideration although it is essentially the usual presumption of validity where the examiner had seen the references relied upon by the defendant in court.

In Corometrics Medical Systems, Inc. v. Berkley Bio-Engineering, Inc./[28] the court, although it made its own evaluation of patentability, indicated that:

> "The presumption of patent validity is here further strengthened in view of the extra-ordinary Inter Partes protest proceedings in Hon et al reissue patent application Serial No. 547,716 wherein all of the contentions now raised by defendant were rejected by the Patent and Trademark Office."

In the reissue case, Berkely and Hewlett-Packard filed protests and action on the reissue had been suspended by the PTO to give the protestors the opportunity to present their arguments as to why the application should not be allowed.

28/ 193 USPQ 467 (N.D. Calif. 1977)

The District Court in St. Regis Paper Co. v. Bemis Co. Inc./[29] also seemed to give considerable weight to a PTO determination stating:

> "The examiner has ruled upon the applications, including the question of the sufficiency of supporting information. Though it is true, as defendant suggests, that the Patent Office action is subject to review, it is also true that that action is clothed with the same presumption of regularity as is any of its other actions. Something more than the belated protestations of counsel is necessary if the Examiner's decision is to be now undone."

In this case, in respect to the question of the desirability of a party participating before the PTO as a protestor, the court also noted:

29/ 188 USPQ 107 (S.D. Ill., 1975) reversed by Judge Swygert at 193 USPQ 8 (7th Cir. 1977) on the basis of lack of synergism. Note, however, that Judge Swygert, in Republic Industries, Inc. v. Schlage Lock Co./[30] stated that "Neither Sakraida or Black Rock --- hold that synergism supersedes a finding of unobviousness under the Graham analysis," and held synergism was not a requirement for patentability of a combination invention.

30/ 200 USPQ 769 (CA 7 1979)

"Moreover, defendant had notice on August 16, 1974 that the reissue applications had been filed. The applications were not formally allowed until October 30, 1974, and November 13, 1974, respectively, and the patents did not issue until January 28, 1975. It had adequate opportunity to contest the accuracy or sufficiency of affidavits or other representations contained in the file. By its own admission, it did nothing."

Also indicative of the perils of non-participation in PTO proceedings as a protestor is Kelley Mfg. Co. V. Lilliston Corp./31.

In a third case, National Rolled Thread Die V. Ferry Screw Products/32 the court gave special recognition to findings by the PTO stating:

"Notwithstanding, the Patent Office prosecution in the instant case indicates that a strong presumption of validity over the unpatented dies is warranted. Although we might agree that the Patent Office lacks the procedural tools to determine effectively the prior art status of an unpatented device in an exparte prosecution, the Office does, however, have the expertise to determine effectively if claims distinguish over certain art."

31/ 200 USPQ 670, 692 (E.D. N.C. 1978)
32/ 192 USPQ 358, 362 (6th Cir. 1976)

The court went on to note the nature of PTO examination and review, including the inspection of samples of the dies involved.

Judge Stapleton, who had indicated at the 1978 CCPA Judicial Conference an inclination to stay litigation and rely upon the PTO for initial determination on a reissue application, recently indicated one limitation on his inclination by refusing to stay proceedings and refusing to apply the doctrine of primary jurisdiction in RCA Corp. v. Applied Digital Data Systems, Inc./[33] where the patentee, RCA, did not file a reissue application. The court stated:

> "Under the standards set forth in the cases discussed, I conclude that this is not the type of case where the specialized expertise of the agency involved, the PTO, mandates an initial determination by that agency. The only factual issue in this case with which the PTO might deal is whether or not the plaintiff's patent is valid over the prior art. That issue is one which this court is competent to decide based upon the information made available, to it by the parties, and particularly by their expert witnesses.

33/ 201 USPQ 451 (D.Del. 1979) See also the more recent decision in Bielomatik Leuze & Co. v. Southwest Tablet Mfg. Co., ____ USPQ ____ (N.D. Tex. 1979) reported in BNA PTCJ 448; A-7, October 4, 1979.

--- While the expertise of the PTO might well be of assistance to this court in resolving that issue, the PTO is not 'uniquely qualified' to pass on the validity of the patent. The plaintiff has chosen to by-pass the PTO's expertise --- plaintiff will not be compelled to take advantage of the PTO reissue application procedure."

At the most recent CCPA Judicial Conference on May 9, 1979, U.S. District Court Judges Renfrew (N.D. Calif.), Tauro (Mass.) and Weinfeld (S.D. N.Y.) expressed concern at the timeliness of PTO considerations and discussed the value of PTO prior consideration and seemingly indicated that it would be entitled to no special weight other than the usual presumption of validity. At the May 18, 1978, CCPA Judicial Conference, Judge Oren Lewis, Sr., District Judge, E. Virginia indicated that "the odds are 99.99 to 100% that you won't get that kind of stay from me."

Courts other than the 6th Circuit in the National Thread Die case, supra, have criticized the ex parte nature of the reissue proceedings in the Patent and Trademark Office, such as in John Thomas Batts, Inc. v. Mr. Hanger, Inc./[34] and in Ken Wire Products v. C.B.S./[35].

34/ 176 USPQ 388, 400 (E.D. N.Y. 1972)
35/ 338 F.Supp, 624, 629; 172 USPQ 632, 636 (S.D. N.Y.1971)

In respect to the PTO promulgation of Rule 56, Judge Lacey of New Jersey has indicated that the definition of the duty of disclosure in explicit terms in 37 CFR Section 1.56, in his opinion, would lead many judges to expect more compliance from attorneys and to tend not to be so lenient./[36]

One of the questions raised by both Judges and the parties to litigation is how long will PTO proceedings require. The Courts are concerned lest long pending patent litigation only be further extended by a stay.

In an attempt to make the reissue practice more effective and timely, the PTO has taken a number of steps to speed reissue processing. As indicated earlier, a notice outlining these steps was published in the Official Gazette in June of 1979. The steps taken include the following:

(1) In all cases, the fraud or duty of disclosure issue will be deferred until after the normal examination for patentability other than "fraud" has been completed. "Fraud" cases forwarded to the Office of the Assistant Commissioner will be promptly returned to the examiner for normal examination with any necessary instructions on the handling of issues in the case and a notation on the file that the "fraud" issue has been deferred. After the completion of examination on all issues except "fraud", the case is returned to the Assistant Commissioner for Patents for resolution of the "fraud" issue. All procedural matters will be decided by the Group Director in the meantime.

36/ Lacey, Supra, Note 25 at 535

(2) Action on applications in which there is an indication of concurrent related litigation was automatically suspended unless and until it is evident to the examiner that there

(a) is a stay of the litigation in effect,

(b) is a termination of the litigation,

(c) are no significant overlapping issues, or

(d) it is applicant's desire that the application should be examined without delay.

(3) Reissue applications related to "stayed litigation" are taken up for action in advance of other reissue applications and will be examined promptly.

(4) Time monitoring systems have been put into effect which closely monitor the time used by applicants, examiners and protestors in applications with concurrent related litigation.

(5) Applicants in reissue applications involved in litigation which have been stayed, dismissed, etc. for consideration by the PTO, are normally given one month to respond to Office actions in those applications where the Office determines that the reissue applicant can readily prepare a response in such time. This one month can be extended upon a showing of clear justification and the Examiner may set up to three months for response if the examiner feels that such a response period is obviously justified.

(6) Applicants are requested to mark communications, and envelopes that contain them, in reissues involved in related litigation, with the identification "REISSUE LITIGATION" along with an identification where the application is located in the PTO, if known. The Office similarily marks the reissue application files when it is involved in litigation.

(7) Finally, the Office notice indicated that the PTO is considering a proposal to change the rules to eliminate the 2 month waiting period for examination of reissues and a proposal to require the prompt disclosure of the existence of related litigation.

The above changes do not limit the possibilities for protestor participation when and to the degree justified. However, the changes do indicate a no nonsense approach to the prompt examination of reissue applications including those with "fraud" or duty of disclosure issues. Protestors wishing to be heard should come in as early as possible with all their points and arguments.

In addition to these new procedures for speeding the handling of reissues, we are also increasing the staff responsible for handling duty of disclosure questions so that it will total 8 by the end of the summer. We now have 5 already on board to handle the almost 300 such questions now pending in the Groups or in The Assistant Commissioner's Office. We will soon have 8 professionals handling questions of duty of disclosure.

Some Suggestions for Compliance With The Duty of Disclosure

The primary focus of many of the provisions of the new rules is to put prior art before the Patent and Trademark Office for evaluation. This is the principal focus of the reissue and protest provisions, the duty of disclosure in Section 1.56, the prior art statement provisions and others. Most patents that are invalidated by the courts are invalidated on the basis of prior art that was not before the Patent and Trademark Office during examination./[37] Patents are rendered unenforceable for failure to submit prior art to the Patent and Trademark Office, even prior art which ultimately may not be applied to render claims unpatentable or invalid./[38]

A patent may be rendered unenforceable or an application stricken for less than intentional fraud, for gross negligence./[39] "Fraud" allegations are embarrassing and costly. The presumption of validity is generally strong when prior art was before the Office and weak when it was not./[40]

37/ See Koenig, "Patent Invalidity - A Statistical and Substantive Analysis, "Clark Boardman Co., Ltd. (1976), Section 5.05(4).

38/ e.g., Corning Glass Works v. Anchor Hocking Glass Corp., 253 F. Supp 461, 149 USPQ 99 (D. Del. 1966)

39/ See Norton V. Curtiss, 433 F.2d 779, 167 USPQ 532 (CCPA 1970) and 37 CFR 1.56 as revised.

40/ e.g., Bolkcom v. Carborundum Co., 523 F.2d 492, 498, 187 USPQ 466, 471-472 (6th Cir. 1975)

Alterations in applications after execution and execution of the oath and declaration without any review of the application come up all too often. These seem to be particularly prevelant in foreign origin applications. There is no reason for alterations after execution that don't add new matter. The facility of a preliminary amendment may be used for the same purpose and it avoids any question what was properly in the application at the time of filing. In most cases, alterations after execution are minor and don't involve a material change and the Office has been somewhat liberal in handling these types of situations. However, as mentioned earlier applications have been stricken for alteration after execution. Repeated minor infractions are not so liberally treated.

The following suggestions are offered to help insure compliance with the duty of disclosure:

(1) Many attorneys, both corporate and private, are using letters and questionnaires for applicants and others involved with the filing and prosecution of the application and checklists for themselves and applicants to ensure compliance with the duty of disclosure. The letter generally explains the duty of disclosure and what it means to the inventor and assignee. The questionnaire asks the inventor and assignee questions about

- the origin of the invention and its point of departure from what was previously known and in the prior art,
- Possible public uses and sales,
- prior publication, knowledge, patents, foreign patents, etc.

The checklist is used by the attorney to ensure that he has informed the applicant of the duty of disclosure and inquired of and cited material prior art.

The use of these types of aids would appear to be most helpful in identifying prior art and may well help the attorney and the client avoid or more easily explain a potentially embarrassing and harmful "fraud" allegation.

(2) Ask questions about inventorship. Who is the proper inventor? Are there disputes or possible disputes about inventorship If there are questions, call them to the attention of the Patent and Trademark Office.

(3) Ask questions of the inventor about the disclosure of the best mode. Make sure that the best mode is described. This may not involve a fraud question, but it is certainly becoming more and more important in litigation./40(a) Also, the Office is considering requiring an acknowledgment in the oath or declaration of the requirement for best mode in 35 U.S.C. 112.

(4) Make sure that the inventor, especially a foreign inventor, recognizes his or her responsibilities in signing the oath or declaration.

40(a)/ See for example, Carlson "The Best Mode Disclosure Requirement in Patent Practice", 60 JPOS 171 (1978)

(5) Carefully evaluate for yourself and explain to the applicant and others involved the scope of the claims, particularly the braodest claims. Ask specific questions about possible prior art in reference to the broadest claim or claims. Some mistakenly evaluate prior art in the light of the gist of what they regard as the invention or narrower interpretations of the claims, rather than measuring the art against the broadest claim with all of its reasonable interpretations. This seems to be a rather common area where a number of attorneys as well as applicants are mistakenly evaluating the materiality of prior art and one to watch out for. Pick out the broadest claim or claims and measure the materiality of prior art against a reasonably broad interpretation of these claims and you may find out that you really were out to conquer the world with a better mousetrap.

(6) Also, evaluate the materiality of prior art from the viewpoint whether it is the closest prior art. This will tend to put the prior art in better perspective. However, don't stop here as Section 1.56 may still require the submission of prior art which is not as close as that of the record.

(7) When in doubt, submit prior art information. Even if you don't consider it material, someone else may see it differently and embarrassing questions can be avoided.

(8) Particularly submit information about prior uses and sales even if it appears that it may be experimental, not involve the specifically claimed invention, or not encompass a completed invention.

(9) Submit prior art promptly. This will take off any taint of intent to withhold. Nothing looks worse than an applicant or attoenry who is aware of prior art and its significance early in prosecution and doesn's submit it until after allowance and does so with a minimum of ruffles and flourishes.

(10) Don't submit long lists of prior art if it can be avoided. Eliminate clearly irrelevant and cumulative prior art. If a long list is submitted, highlight those references which may be of most significance. The decisions of the courts make obvious the necessity for doing this./41

(11) Watch out for some of the dangerous or questionable situations where it may be easy to overlook known prior art as being material. Specifically watch out for the following:

(a) Watch out for continuation-in-part applications where intervening prior art may exist - particularly watch out for foreign patents and publications related to the parent application and dated more than one year before the filing date of the CIP. These and other intervening references may be material prior art under Chromalloy, Langenhoven and other cases./42

41/ Pen yan Boats, Inc. v. Sea Lark Boats, Inc. 359 F. Supp. 948, 175 USPQ 260 (S.D. Fla. 1972) aff'd, 479 F.2d 1338, 178 USPQ 577 (5th Cir. 1973), Cert. Denied, 414 U.S. 874 1974)

42/ In re von Lagenhoven, 458 F.2d 132, 173 USPQ 426 (CCPA 1972); Chromalloy American Corp. v. Alloy Surfaces Co. Inc. et al, 339 F. Supp 859, 173 USPQ 295 (D.Del. (1972)

(b) Watch out for intervening prior art in late claiming situations under the Muncie gear doctrine./[43]

(c) Watch out for information that might be deemed to be prior art under Section 102(f)/[44] or a question of proper inventorship and under 102(g) such as in the Bass case./[45] Information about section 102(a) publically known prior art should also be carefully considered for materiality.

(d) Watch out for information picked up by the inventors and others at conventions, plant visits, in-house reviews, etc.

(12) Make sure that all of the individuals who are subject to the duty of disclosure, such as spelled out in section 1.56 of the revised rules, are informed of and fulfill their duty.

(13) Finally, if you specifically consider prior art and discard it as not material, record this fact in your own file, including your reason for discarding it. If your judgment was

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43/ Muncie Gear Works, Inc. et al v. Outboard Marine & Mfg. Co., 315 U.S. 759, 53 USPQ 1 (1942)

44/ Section 102(f) of Title 35 United States Code may be combined with Section 103. See Corning Glass Works v. Schuyler 169 USPQ 193 (D.C. Dist Col. 19), aff'd in Corning Glass Works v. Brenner 175 USPQ 516, (CA D.C. 1975) where the District Court adopted defendant's post trial memorandum on 102(f) and 103. Halliburton v. Dow Chemical 182 USPQ 180 (N.D. Okla. 19); Dale Electronics v. R.C.L. Electronics, 180 USPQ 225 (CA 1 1973).

45/ In re Bass et al, 474 F.2d 1276, 177 USPQ 178 (CCPA 1973)

bad or you overlooked something inadvertently, a note made at the time of evaluation might be an invaluable aid in explaining that your mistake was honest and excusable. It could help you recall and explain your way out of a tight "fraud" question later.

It is probably still premature to draw final conclusions concerning the overall success of the new rules. The principal test for their success lies in the reactions of the courts. Most of the signs so far point to the successes of the rules. However, the 1977 Rules have generated various views on how and the extent to which the new rules should apply. Some of the questions and problems raised about the new rules include:

(1) Should the Patent and Trademark Office continue to evaluate or examine questions of prior public use and sale, inventorship and duty of disclosure? If so, what kind of proceedings should be utilized? Should they be more inter partes in nature? The Office has long considered all these issues. However, the frequency with which these questions are arising has increased rapidly since the 1977 Rules Changes came into effect.

(2) What can be done to speed up proceedings in the Patent and Trademark Office and avoid expenses and harrassment of the applicant when protests are filed? This is an area widely commented upon by judges, applicants and attorneys. The Office has already taken steps to speed up processing as mentioned, but more may be required.

(3) What can be done to preserve in confidence, confidential information sumbitted or required to be submitted under the duty of disclosure? Present Office policy is to expunge such information from the file upon petition if the examiner considers that it is in fact not material to examination.

These and other questions will likely be debated in length in coming months and years.

The 1977 Rules were intended to strengthen the validity of patents. If applicants and patentees, attorneys and agents and the Patent and Trademark Office all work to this end, the chances that the rules will result in a helpful "revolution" in patent practice will be greatly increased.

Court Orders and Denials of "Stays"* of Litigation Pending Patent and Trademark Office Consideration (1976-date, collected by the USPTO

I. "Stays" Ordered

Published:

PIC Inc. v. Prescon Corp., 195 USPQ 525 (D.Del. 1977)

Fisher Controls Co., Inc. v. Control Components, Inc., 196 USPQ 817 (S.D. Iowa 1977)

Alpine Engineering, Inc., v. Automated Building Components Inc. BNA/PTCJ 367: A-12 (S.D. Fla. 1978) (Dismissed a D.J. suit with order for patentee to seek reissue in the PTO)

AMI Industries, Inc. v. E.A. Industries, Inc., Civil Action No. A-C-77-87, BNA/PTCJ 369: A-10 (W.D. N.C. 1978) (With dicta that if suit had not been dismissed proceedings would have been stayed for PTO consideration)

Reynolds Metal Co. v. Aluminum Co. of America, BNA/PTCJ 375: (A-5) (N.D. Ind. 1978)

Sauder Industries, Inc. v. Carborundum Co., 201 USPQ 240 (N.D. Ohio, 1978)

Rohm and Haas Co. v. Mobil Oil Corp. BNA/PTCJ 414: A-10 (D.Del. 1978) (With provision for limited discovery on allegations of fraud for PTO benefit)

Lee-Boy Manufacturing Co., Inc. v. Puckett, BNA/PTCJ 436: A-16 (D. Ga. 1978) (Reissue ordered after discovery and during wait for trial)

* Includes dismissals without prejucice

I. "Stays" Ordered

Unpublished:

Flanders Filters, Inc. v. Westinghouse Electric Corp. et al, Civil Action No. 75-1390 (D.S.C. 1976)

Organon Teknika B.V. v. Hoffrel Instruments, Inc. et al, Civil Action No. B-75-213 (D. Conn. 1976)

Sundstrand Corp. v. De Lalio et al, Civil Action No. 75-C 832 (E.D. N.Y. 1976) (Dismissed suit because issues were before PTO in reissue application)

Komline-Sanderson Engineering Corp. v. Ingersoll-Rand Co., Civil Action No. 74-264 (D. Del. 1977)

Amerock Corp. v. Unican Security Systems Corp., Civil Action No. 76-002-CIV-8 (E.D. N.C. 1977)

The Continental Group, Inc. v. Reynolds Metal Co., Civil Action No. 77-C-2125 (N.D. Ill. 1978)

Pioneer Parachute Co., Inc. v. Para-Flite, Inc., Civil Action No. 76-0932 (D. N.J. 1978)

The Dow Chemical Co., v. Cosden Oil & Chemical Co., Civil Action No. 1-75-4 (N.D. Tex. 1978)

Dynatron/Bondo Corporation v. Fibre Glass-Evercoat Co., Civil Action No. C-1-77-42 (D.C. S.D., Ohio, 1978)

Uniform Product Code Council, Inc. v. Walter Kaslow, Civil Action No. 78 Civ. 2373 (S.D. N.Y. 1978)

Beach Mfg. Co. v. Rockwell International Corp. CA No. 78-2121 (C.D., Calif. 1979)

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Xerox Corp. v. SCM Corp. v. Van Dyke Research Corp. et al, CA 76-1880 (D.N.J. 1979) Judge Stern ordered stay and patentee to seek reissue of 9 patents.

"Stays" Ordered - Unpublished (Cont'd)

Dynatron/Bondo Corporation v. Oatey Co., CA No. C 76-1158 (N.D. Ohio 1978)

Broomall Industries, Inc. v. Nicolet Instrument Corp., C.A. No. C 77-2473 S.W. (N.D. Calif. 1979)

Maschinenfabrik Sach GMBH, Mesta Machine Co. v. BWG Bergwerk-Und Walzwerk-Machinenbau GMBH, CA No. 77 CIV 5103 (S.D. N.Y. 1979)

K-Jack Engineering Co. et al v. Pete's Newsrack, Inc., CA No. 77-3184-HP (C.D. Calif. 1978)

Desmarais & Frere, Ltd. and Ryoji Shibata v. J. & M. Enterprises (U.S.A.), Inc. et al, CA No. 77-2342 CIV-WMH (S.D. Fla. 1979)

Hanna Enterprises, Inc. v. George A. Milne CA No. 75-0232 (D.C. Hawaii 1977)

Fas-Line Sales & Rentals, Inc. v. E-Z Lay Pipe Corp. et al, CA No. CIV 77-1097-D (W.D. Okla. 19)

Fas-Line Sales & Rentals, Inc. v. Streamline, et al, CA No. MO-77-CA-51 (W.D. Texas 19)

AMH Corporation v. Sears Roebuck & Co, CA No. 76-0318 (D.R.I. 1978)

Foxboro Co. v. Eastech, Inc. et al, CA No. 77-0589 (D.N.J.1978)

Bally Manufacturing Corp. vs. Game Plan, Inc. and Astro Game, Inc. CA No. 79C 713 (N.D. Ill. 1979)

II. "Stays" Denied

Published:

General Tire and Rubber Co. v. Watson-Bowman Associates, Inc., 193 USPQ 479 (D. Del. 1977)

Perkin-Elmer Corp. v. Westinghouse Electric Corp., BNA/PTCJ 376: A-11 (E.D. N.Y. 1978)

In re Certain Ceramic Tile Setters, No. 337-TA-41, BNA/PTCJ 385: A-21 (Int'l Trade Comm. 1978)

E.C.H. Will v. Freundlich-Gomez Machinery Corp., BNA/PTCJ 404: A-18 (S.D. N.Y. 1978)

RCA Corp. v. Applied Digital Data Systems, Inc., 201 USPQ 451 (D.Del. 1979) denied stay where a patentee had not filed a reissue.

Bielomatik Leuze & Co. v. Southwest Tablet Mfg. Co., BNA/PTCJ 448:A-7 (N.D. Texas 1979) refused to order reissue.

II. "Stays" Denied

Unpublished

The Vadic Corp. v. Universal Data Systems, Civil Action No. 76-L-0884-S (N.D. Ala. 1977)

Control Components v. Valtech, Civil Action No. 77-H-819 (S.D. Tex. 1978)

REISSUE AND THIRD PARTY PROTEST -- A CORPORATE POINT OF VIEW

OUTLINE

1. General Summary of Rules

2. Reissue

   A. Patentee in better position as reissue petitioner in PTO than in Courts.

      (1) Absent litigation, controls when reissue filed.

      (2) Initiates interviews, appeals.

      (3) Able to amend claims to avoid prior art, cover commercial embodiments, avoid prior use and sale problems.

      (4) Reissue a cheaper and faster way of resolving disputes than litigation respecting infringement and validity.

      (5) PTO better equipped and more willing to consider close technical questions than Courts.

      (6) Appeal can be had to the CCPA, which is also more willing to consider close questions.

   B. When to Reissue

      (1) Prior to litigation or licensing -- have maximum flexibility.

      (2) After filing suit for infringement.

(3) After Declaratory Judgment action filed.

(4) After Licensee repudiates license.

Note: In 2, 3 or 4, patentee may have no choice.

C. How to Reissue

(1) Invite all interested parties.

(2) Take full advantage of the ability to amend.

(a) Identify commercial embodiments.

(b) Review invention history to identify prior use or sale, inventorship problems.

3. Protest

A. Whether or not to Participate

(1) Participate where:

(a) Reissue is incident to trial.

(b) You have repudiated a license.

(c) You have a substantial interest in the outcome -- whether or not invited in.

(2) Don't participate where there is no interest in the subject matter.

B. Consequences

(1) Participation limited.

(2) If protest unsuccessful and patent is reissued, arguments based on prior art are foreclosed.

(3) Non-participation increases likelihood of patentee's success.

(4) What if a party with an interest in the outcome of a reissue proceeding has relevant prior art, but does not participate, preferring to wait for trial to cut off patentee's ability to amend?

C. General Considerations

(1) Protests must be timely submitted.

(2) Copies of all documents must be served on the applicant; if service is not possible, duplicates must be filed in PTO so it can attempt service.

(3) Copies of all references must be filed.

(4) Protest not limited to prior art -- can attack on basis of § 112 etc.

(5) If possible, limit the issues to prior art, saving fraud and other non-prior art issues for Courts.

(i) PTO not really comfortable with fraud issues -- Why give the applicant an opportunity to correct in the PTO a defect fatal in the Courts.

(6) Request maximum participation.

(i) Copies of all papers

(ii) Attendance at interviews

(iii) Right to file briefs and orally argue at appeals.

(7) Where the reissue petitioner is also the plaintiff in a lawsuit, it might be possible to cut off his ability to amend.

(8) Where the reissue petitioner files under 37 CFR § 1.175(a)(4) and amends his claims, it might be possible to challenge the oath and force the applicant to proceed under § 1.175(a)(1), thus conceding the invalidity or inoperativeness of the original patent.

REISSUE AND THIRD PARTY PROTEST -- A CORPORATE POINT OF VIEW

1. INTRODUCTION

On March 1, 1977, certain rule changes relating to reissue and protest became effective. These rule changes, although relatively straightforward in concept, have added some new strategies to our patent practice. This paper will attempt to explore some of those strategies.

First, some background. The Courts have been increasingly critical of the quality of patents issuing from the Patent Office. Frequently, the Office was not considering the closest art during the original prosecution of applications before it and there was no effective mechanism for conducting a reexamination of patents once they had been issued. The problem was not limited to failure of the examiner to find the closest U.S. patents, but included failure to find relevant foreign patents. It frequently happened that the examination of corresponding foreign patent applications would uncover references more relevant than any that were cited by the U. S. Patent Office. If those references were uncovered after the U.S. patent had issued, the patent owner was faced with the problem of curing this defect. Some practitioners took to using the reissue statute. 35 USC § 251, Reissue of Defective Patents, states:

> "Whenever any patent is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid, by reason of a defective specification or drawing, or reason of the patentee claiming more or less than he had a right to claim in the patent, the Commissioner shall..."

There were some successes, prior to March 1977, in reissuing patents and citing new art that was not of record in the original prosecution. It was alleged in the Reissue Oath that, by virtue of the failure of the Patent Office to consider the indicated prior art reference, the patentee had, or may have, claimed more than he had a right to claim in the patent.

Use of such an artifice was tenuous at best and many practitioners maintained that in the absence of specific authority, the reissue statute could not be used in this matter. The choice was between trying to use reissue to cure a defect and doing nothing. The attempt to use the reissue statute was better than doing nothing at all.

Under the old rules, an applicant for reissue was required to make a statement under oath or declaration:

(a) that he believed the original patent to be wholly or partly inoperative or invalid,

(b) setting forth reasons for this belief,

(c) specifying the errors relied on and how they arose or occurred, and

(d) stating that those errors arose without any deceptive intention.

While these may still form the basis for a reissue application, they are no longer required. The new rules add an additional basis:

> "When the applicant is aware of prior art or other information relevant to patentability, not previously considered by the Office, which might cause the examiner to deem the original patent wholly or partly inoperative or invalid, particularly specifying such prior art or other information and requesting that if the examiner so deems, the applicant be permitted to amend the patent and be granted a reissue patent." 37 CFR § 1.175(a)(4)

In addition to changing the basis for filing a reissue application, the rules as now amended, provide that all reissue applications are open to public inspection and copying, 37 CFR § 1.11(b), and the filing of reissue applications is now announced in the Official Gazette, 37 CFR § 1.11(b). The previous rules relating to reissue require that the reissue applications be handled in advance of other applications. The new rules specify that examination cannot occur sooner than two months after the announcement of filing in the Official Gazette, 37 CFR § 1.176. The two month delay provides for the filing of protests by interested members of the public. The new rule recognizes the value of written protests in avoiding the issuance of invalid patents. 37 CFR § 1.291(a) provides:

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

Thus, not only will the Patent Office consider prior art pertaining to patentability developed by the examiner or presented

by the applicant, it will also in appropriate circumstances consider other information relevant to patentability brought to the attention of the Patent Office by anyone desiring to protest a reissue.

While the rules, as amended, do not define what is meant by a "protest", it is clear that a full scale opposition proceeding is not contemplated. It is, however, the desire of the Office to liberalize the role played by a protester and it is possible for the protester to file papers rebutting statements made by the applicant; the examiner, in his discretion, may request the protester to submit additional written information or may provide extra time for comments by a protester to be filed.

The procedure employed by the Patent Office in handling a reissue application is fairly simple. If a reissue application is filed as a result of new prior art with no changes in the claims or specification and the examiner finds the claims patentable over the new art, the application will be rejected as lacking statutory basis for reissue on the basis that the statute, 35 USC § 251 does not authorize reissue of a patent unless it is deemed wholly or partly inoperative or invalid. If, on the other hand, the claims were held not to be patentable, the applicant has the right to submit an amendment overcoming the rejection. A successful amendment would result in the issuance of the reissue application as a patent on payment of the necessary fees and surrender of the original patent.

2. REISSUE

The ability to reissue a patent in proceedings in the Patent and Trademark Office places the patentee in a far better position than he would be in the Courts.

Far and away, the most significant advantage that the patentee enjoys is the ability to amend the claims. It is important to keep in mind that in the Courts the patentee is in an all-or-nothing posture. If he is successful and his patent is found valid, he wins. If his patent is found invalid, he loses. He does not have the opportunity to amend the claims so as to avoid a defect or to avoid problems with newly discovered prior art. In the PTO, however, the patentee is able to amend his claims to:

(a) avoid prior art,

(b) avoid prior use and sale problems,

(c) cover the commercial embodiments.

This ability to cure defects while at the same time being able to cover the commercial embodiments places the reissue petitioner in a far more advantageous position than he would be if he were in the Courts. Consider an example. Let us assume that a patent has issued with two claims, a composition and a method for using the composition; also assume that the composition claim defines the composition in moderately broad terms so that the composition claim is a rather limited generic claim. Let us

assume further that a defect exists with respect to a species, species A, and that the commercially significant embodiment is species C. The defect can involve prior art that discloses the use of species A together with a method for making it, or the defect can involve the fact that species A and its use are tainted by having been "on sale" in the sense of 35 USC § 102.

It is apparent that in the circumstance described above, a Court would invalidate the patent because there would be no way of saving the two generic claims. In the Patent Office, however, the reissue patentee stands on a somewhat different ground. He can amend and, assuming that he has support in the specification, can present a narrower generic composition claim and, importantly, can draft a claim solely to species C, the commercially significant embodiment.

As stated above, this ability to amend claims is of inestimable value to the patentee, especially where the commercial embodiments are known.

Other advantages that accrue to a reissue petitioner in the Patent and Trademark Office include the ability, absent litigation, to control when the reissue is filed, and to control many of the proceedings in the Patent Office. For example, it is the reissue applicant who initiates interviews and who initiates appeals and the reissue petitioner is in a position to invite in all interested parties so as to maximize the effectiveness of the reissue proceedings.

Another advantage relates to the proposition that reissue is a cheaper and faster way of resolving disputes than litigation respecting infringement and validity.

The Patent and Trademark Office represents a far friendlier forum for considering close technical questions than the Courts. Note that the Patent and Trademark Office will consider such secondary considerations as long felt need, commercial success, etc. and also note that the Patent and Trademark Office never required synergism for patentability. Similarly, appeal can be had to the Court of Customs and Patent Appeals, which is also more willing and better able to consider close questions than the Courts.

In order to control the proceedings and to have maximum flexibility, it is desirable to reissue prior to litigation or licensing. Flexibility is maximized and, if there are no infringers, the likelihood of participation by a protestor is reduced. Having all possible protestors invited to participate and having all their comments considered while all possible prior art is presented and having the PTO allow all claims in the reissue application to sail through the Patent Office untouched is the ideal situation. In reality, however, a reissue petitioner is better off having all possible prior art presented to the Patent Office without a protest. It must be kept in mind that the goal is getting the Patent Office to consider and make of record all relevant prior art, notably prior art that was not considered during prosecution.

It is not necessary that all possible protesters voice their opinion. If all the prior art is of record in the reissue application, and some third party desirous of challenging the validity of the patent does not have any art that was not considered, the presumption of validity remains undisturbed --- irrespective of whether or not a protest has been filed. Thus, the key element is having a good, thorough search made prior to licensing a patent and certainly prior to litigating a patent. More will be said below about reissue in connection with litigation.

Continuing on a theme of when to reissue, reissue can be had in connection with a lawsuit. Interestingly, there is a case where the plaintiff, after filing suit for infringement, filed a reissue application and successfully requested that the proceedings be suspended pending the reissue, Fas-Line Sales & Rental, Inc. v. E-Z Lay Pipe Corp _____USPQ____(DC W.Okla., 1979) 445 BNA PTCJ A6 (9-13-79); there are cases where the defendant in an infringement suit has successfully moved to compel reissue, Choat v. Rone Industries ___USPQ____(DC N.Ga., 1979) 447 BNA PTCJ A2 (9-27-79); and cases where a party has filed a Declaratory Judgment Action demanding that the defendant's patent be reissued, Alpine Engineering, Inc. v. Automated Building Components, Inc.____USPQ____ (S.D. Fla., 1978) 367 BNA PTCJ A-12 (2-23-78).

What emerges from the cases, is that the Courts are more than happy to send patents back to the PTO where the Patent Office

expertise can be put to work while the burden on the Courts is reduced. The advantages enumerated in Fas-Line are:

(a) All prior art in the case will have first been considered by the PTO, with its particular expertise.

(b) Many discovery problems relating to prior art can be alleviated by the PTO examination.

(c) In the event the patent is invalidated, the lawsuit will likely be dismissed.

(d) The outcome of the reexamination may encourage a settlement without the further use of the Court.

(e) The record of the reexamination would likely be entered at trial thereby reducing the complexity and length of the litigation.

(f) Issues, defenses and evidence will be more easily limited in pre-trial conferences after a reexamination.

(g) The cost will likely be reduced for both the parties and the Court.

Clearly, a Judge faced with the possibility of disposing of a case simply by staying proceedings in the Court and shipping the case back to the Patent Office will take advantage of that possibility.

Another time for reissue is after a licensee repudiates his license because the underlying patent is invalid. In this

circumstance, the patentee has two choices. First, he can evaluate the prior art uncovered by the licensee and, if not previously considered by the Patent Office, he can reissue the patent, inviting the licensee to participate however he wishes. This has the advantage of being faster and less expensive than litigating the patent. Alternatively, however, the patentee can file suit for infringement and:

(a) move to stay the proceedings and reissue the patent,

(b) hope that the defendant moves to compel reissue, or

(c) resist reissue and attempt to proceed in the Court.

This latter tactic will probably be successful only if the prior art uncovered by the licensee was either previously considered by the Patent Office or is very obviously no better than what the Patent Office previously considered.

The key to reissue, it must not be forgotten, is to get all of the relevant art before the Patent Office. Thus, it is imperative that a thorough search be done to be certain that all of the prior art bearing on the patent claims is presented.

Where there are identified interested parties, for example a licensee who has repudiated his license, or a known infringer, they should be invited to participate. Participation by interested parties is of less importance than being certain that all of the relevant art is presented to the Patent Office.

Finally, take full advantage of the opportunity to amend which is of tremendous value to the patentee. In this connection:

(a) identify the commercial embodiments and be certain that there are present narrow claims that cover the commercial embodiments, and

(b) review thoroughly the invention history to identify prior use or sale problems or inventorship problems, which can all be corrected during the reissue proceedings. This aspect is especially important where there is current litigation or a high likelihood of litigation, as where a licensee has repudiated the patent.

3. PROTEST

Whether or not to participate is, of course, the initial question confronting a prospective protester. As a practical manner, the choice will be to not participate where there is no interest in the subject matter and to participate where there is a substantial interest in the outcome, whether or not invited in. Where reissue is incident to trial, there will automatically be a protest. Where reissue is a consequence of having repudiated a license, the licensee again will have no choice but to participate. Finally, as indicated above, where there is a substantial interest in the outcome, protest is almost automatic because of the consequences of not participating.

It must be remembered that protest is not an inter partes proceeding; rather, the Patent Office has repeatedly emphasized that protest is an addendum to what remains an ex parte proceeding.

If the protest is unsuccessful and the patent is reissued, subsequent arguments based on the prior art considered by the examiner are foreclosed. In this connection, it should be noted that the likelihood of succeeding with an argument based on prior art that has been considered by the reissue examiner is about nil, irrespective of whether or not there has been participation in the Patent Office proceedings. Non participation, however, increases the likelihood of the patentee's success since there is no one to rebut or challenge the patentee's position.

What if a party with an interest in the outcome of a reissue proceeding has relevant prior art but does not participate, preferring to wait for trial so as to cut off the patentee's ability to amend? On the one hand, there is something distasteful about a party not acting when there is a duty to act; it could be argued that such party should be estopped from urging invalidity on the basis of such prior art. On the other hand, there is the strong public policy in considering all relevant art to improve the quality and reliability of patents. It is likely that a Court will not refuse to consider any art. The equitable thing is to suspend trial and order a second reissue.

A similar consideration would probably apply if the party did not, during the reissue proceedings, have an interest in the outcome and, at a later time, attempted to introduce relevant prior art never previously considered.

A. GENERAL CONSIDERATIONS

1. A protest must be timely submitted; this has been held to mean before final rejection or allowance by the examiner. The protest must be filed early in order to insure consideration; the Patent Office has indicated that consideration after final rejection or allowance will depend on the relevance of the art and the point in time of its submission. Where a reissue application has been filed, it will not be acted upon sooner than two months after it has been announced in the Official Gazette so that a

protester has two months after announcement in the Official Gazette to file the protest. This period can be extended.

2. Copies of all documents must be served on the applicant, the patentee, the attorney or agent where possible; if service is not possible, documents must be submitted in duplicate so the PTO can attempt service.

3. Copies of all references relied upon must be included with the protest.

4. Protest is not limited to prior art. It should be remembered that it is possible to attack the claims on the basis of 35 USC § 101 and 35 USC § 112.

5. If possible, limit the issues to prior art, saving fraud and other non-prior art issues for the Courts. The PTO is not really comfortable with fraud issues and there is no reason to give the applicant an opportunity to correct in the PTO a defect that might prove fatal in the Courts. If there is no evidence of fraud, don't allege it. If discovery has been suspended pending the reissue proceedings, so be it. If there are issues of fraud that emerge at a later date, if there are issues of prior use or sale that emerge after reissue during discovery, the patentee will not be able to amend his claims to delete the tainted portion while attempting to cover the commercial embodiments.

6. Request maximum participation. This includes requesting copies of all papers, requesting the right to attend all interviews and requesting the right to file briefs and orally argue at appeals. This also includes filing rebuttal documents in response to all of the applicant's papers.

7. Where the reissue petitioner is also the plaintiff in a lawsuit, it might be possible to cut off his ability to amend his claims. Consider Fas-Line, where the patentee had filed a complaint alleging infringement and, after the defendant answered alleging non-infringement, patent invalidity and patent unenforceability because of misuse, the patentee filed for reissue and moved to stay the proceedings in Court. Here, the plaintiff has gained an important advantage --- the ability to redraft and amend his claims with knowledge of what coverage he needs in order to win. The protester might be successful in arguing that the patentee be held to an all-or-nothing standard in the reissue proceedings. It might be possible to convince a Court that a reissue petitioner, who is also a plaintiff in a lawsuit, is under an affirmative duty to conduct a search for patents bearing on the validity of the patent in suit and that reissue should have been had before suit was begun; once suit has commenced, the patentee should not be placed in a better position in the Patent Office that he would be in the Court. The same argument might be made where evidence of fraud or prior use and sale is uncovered during discovery and

the patentee at that point attempts to reissue his patent to cure the defect. It seems appropriate for the defendant to argue that the patentee ought not to have the ability to amend his claims and that a reissue petitioner who is also the plaintiff in an infringement suit is under an affirmative duty to locate and present evidence of fraud, prior use and sale, etc.

8. Where the reissue petitioner files under 35 USC § 1.175(a)(4) and amends his claims, it might be possible to challenge the oath and force the applicant to proceed under § 1.175(a)(1), where he must concede the invalidity or inoperativeness of the original patent. Note that § 1.175(a)(4) is new and states:

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

If the reissue applicant files under this part but amends the claims, the amendment to the claims is a recognition that the art does in fact invalidate the claims and it might be of some value, particularly in litigation or where a licensee has repudiated his license on the basis of prior art, to force the reissue petitioner to concede that the claims in his patent where wholly or partly invalid.

Japanese Group
Committee #1
Group 3
Chairman: Yoshiyasu Takahashi
Speaker : Yoshiyasu Takahashi

Criteria for Judgment of "Novelty of an Invention"

-Mainly in view of recent court decisions-

PIPA 10th International Congress
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U.S.A.

Criteria for Judgment of "Novelty of an Invention"
-Mainly in view of recent court decisions-

Summary

The Japanese Patent Law provides the criteria for judgment of novelty in Article 29, paragraph 1, items 1 to 3. This report introduces the past academic doctrines and court decisions relating to problems involved in such criteria and considers recent significant court decisions. The basic concepts in past academic doctrines and court decisions still live in recent court decisions.

This report includes the following significant court decisions.

"Grinder" case appearing in paragraph III-1-(2)-(D): The Japanese Patent Office has revised its examination standard based on this court decision.

Cases of "West German Specification" and "Belgian Specification" appearing in paragraphs III-3-(2-1) and III-3-(2-2), respectively: These court decisions show the situations under which a patent specification laid open for public inspection in a foreign country is treated as "a publication distributed."

Criteria for Judgment of "Novelty of an Invention"
-Mainly in view of recent court decisions-

Committee #1 (Japanese Group)
Group 3
Chairman: Yoshiyasu Takahashi
Speaker : Yoshiyasu Takahashi

I. Introduction

It is my great pleasure to speak to you as a representative of our seven-member study group.

Novelty is the most important requirement for the grant of a patent on an invention. There have been a lot of arguments about the novelty of an invention for a long time, and the criteria for its judgment and the interpretation and implementation of these criteria change with time in accordance with the development of technology and the progress of communication media.

Under these circumstances, our study group has made a study of the criteria for judgment of the novelty of an invention in Japan mainly with respect to recent relevant court decisions.

In this report, we are going to explain the criteria for judgment of novelty as stipulated in the items of

Article 29, paragraph 1 of the Japanese Patent Law, and the problems involved therein. We will then introduce the past academic doctrines and court decisions relating to those problems, and take up recent court decisions for consideration.

Although this report chiefly discusses the "novelty of an invention" under the Patent Law, the discussion is also applicable to the "novelty of a device" under the Utility Model Law.

II. Criteria for Judgment of Novelty of an Invention

1. The criteria for novelty judgment are defined in Article 29, paragraph 1, items 1 to 3 of the Patent Law. Namely, inventions except the following are deemed novel.

(1) Item 1: An invention publicly known in Japan prior to a patent application;

(2) Item 2: An invention publicly worked in Japan prior to a patent application; and

(3) Item 3: An invention described in a publication distributed in Japan or a foreign country prior to a patent application.

However, these criteria for judgment involve a number of problems in their interpretation and implementation.

2. The main problems involved in the criteria for judgment are as follows:

(1) The term "publicly known" in item 1;

(2) The term "publicly worked" in item 2; and

(3) The term "a publication distributed" in item 3.

We will now introduce the past academic doctrines and court decisions together with recent court decisions in connection with each of these problems.

III. Past Academic Doctrines and Court Decisions and Recent Court Decisions Relating to the Aforementioned Problems

1. What does the term "publicly known" mean?

(1) Past Doctrines and Court Decisions

An invention is considered to be "publicly known" if it is accessible by persons who do not have any obligation to keep the invention secret (hereinafter called "nonobligatory persons"). Namely, the term "publicly known" implies "accessibility by nonobligatory

persons." In other words, a particular invention is considered to be publicly known if it is not kept in confidence, but of the public nature.

The Japanese Patent Office also adopts this principle.

For example, inventions embodied or described in machines, drawings, reports, specifications or the like located in a place to which nonobligatory persons have free access, are considered to be publicly known.

> In the case of "Ultraviolet sterilizers," the court held that "since the remarks filed in the Patent Office during the prosecution of another patent application was accessible by a third party after the publication of that application, the content of the remarks is considered to have become publicly known upon such publication of the application." *1)

As opposed to the foregoing opinion of the majority, a minority opinion argues that there must be "actual public knowledge" rather than mere accessibility by the public.

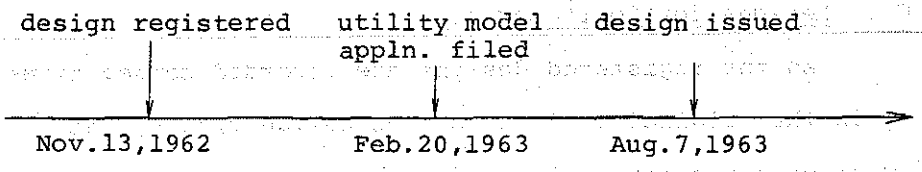
(2) Recent Court Decision

> Case of "Machine for Counting the Number of Balls in a Pachinko Game"

Tokyo High Court Showa 47 (gyo-ke) No.124,
Case of Cancellation of Invalidation Decision in
Trial for Invalidating Utility Model Right,
Decision dated January 20, 1976

A. Outline of the Case

A design having the same subject as that of a utility model right had been registed in the Japanese Patent Office on November 13, 1962 before the utility model registration application was filed on February 20, 1963. However, the official design gazette containing this registered design was issued only on August 7, 1963, that is, after the date of the utility model registration application.



The court held that "in accordance with Article 63 of the Design Law, anybody was free to inspect the registered design after the date of its registration; it was therefore at the time of registration that the registered design became publicly known; and the subject of the utility model right had been publicly known

before the date of the utility model registration application."

This case was not appealed to the Supreme Court.

B. Plaintiff's Assertion

No third person can know the presence of the registered design and its registration number until after the official design gazette is published. Namely, no third person is free to inspect the registered design at the time of registration because he does not know the registration number. Therefore, the registered design does not make the subject of the utility model right publicly known.

C. Reasons for Court Decision

As the registered designs are recorded consecutively in the original register of the design rights, the owner of any other registered design or any person interested in the present registered design is in a position to know the presence of the present registered design when he inspects the original register. Further, as the officials of the Patent Office are not obligated to keep any registered design confidential, anybody can find out the number of any registered design from a

Patent Office official.

This decision supported the trial decision of the Patent Office.

D. Recent Court Decision Contrary to the Foregoing Decision

The foregoing case was concerned with the field of the Utility Model Law. However, there was a contrary court decision in the field of the Design Law recently, in April, 1979, holding that "it was not at the time of registration, but at the time of official gazette publication that a registered design became publicly known" (the "Grinder" case[*2)]).

The Patent Office accepted this decision and did not appeal to the Supreme Court.

The grounds for this court decision were as follows: The Patent Office does not provide any means for informing any third party of the details of a design right, such as design registration number and design drawings, prior to the publication of the official gazette. Accordingly, there is in fact scarcely any means for inspecting the original design register prior to the official gazette publication.

Thus, even if a third party can, by accident or by resorting to a special expedient, find out the registration number of an unpublished registered design, such an accidental or exceptional situation cannot be taken into account to conclude that "a registered design becomes publicly known with its registration even before the publication of the official gazette."

E. Discussion

(a) The former of the foregoing two cases is concerned with the Utility Model Law, while the latter relates to the Design Law. However, the two cases are entirely the same, inasmuch as they both argue about the time "when a registered design becomes publicly known."

Following the decision in the "Grinder" case, the Patent Office revised its examination standard in July 1979 to the effect that "a registered design is not considered publicly known until its official gazette is published." We must keep this change in mind in our practice.

(b) An invention which is accessible only by persons having special relations to that invention, or only under accidental circumstances, cannot be considered to be "publicly known." Such an invention becomes

"publicly known" only when it becomes " actually accessible" by nonobligatory persons. The invention must, of course, be interpreted to have become "publicly known" if a third party has actually known it even by accident.

The judgment of the court in the "Grinder" case is considered to be proper.

2. What does the term "publicly worked" mean?

(1) Past Doctrines and Court Decisions

The term "publicly worked" refers to an invention made, used, sold, or otherwise worked under the situation in which a third person or persons having no obligation to keep it in confidence can know the invention. It does not matter whether the invention has actually become known, or not. It does not matter, either, how many persons have known it, or how often it has been practiced.

For example, if a product embodying an invention has been "sold," the invention is interpreted to have been publicly worked unless there are special circumstances, since a third person or persons are in a position to know it.

In the case of "Farming plows," the court held that "the invention had been publicly worked, because the farming plow in question had been used in the presence of many general visitors during a course of study on dry field farming in an agricultural experiment station." *3)

(2) Recent Court Decisions

(2-1) Case of "Construction apparatus"
Supreme Court Showa 49 (gyo-tsu) No.84,
Decision dated June 12, 1975

This is a case in which the Supreme Court approved the dicision of the Tokyo High Court and dismissed the appeal of the plaintiff (applicant). The following explanation is concerned with the Tokyo High Court's judgment of the invention in question as "publicly worked."

Tokyo High Court Showa 43 (gyo-ke) No.67,
Case of Cancellation of Rejection Decision in Trial against Determination of Rejection,
Decision dated June 18, 1974

A. Outline of the Case

The plaintiff built a house "comprising specially structured panels made of reinforced concrete and secured together by bolts" on a trial basis in

accordance with its trial construction and reseach contract with the Japan Housing Corporation. After completion of the research and test, it assigned the house to the Corporation for use as a residence for officials of the Corporation. The house was then actually in use as a residence by a Corporation official.

About five months after the assignment, the plaintiff filed a patent application for an invention concerning this house under the title of "Construction apparatus for a wall-type building structure."

The court held that the use of the house constituted the "public working" of the invention.

B. Plaintiff's Assertion

Even if the trial house had passed the tests in respect of construction, durability, vibration resistance or the like, it was still necessary to examine its suitability as a dwelling house for human beings. Accordingly, the Housing Corporation which was a party to the contract had one of its officials live in that house in order to examine its suitability as a residence. Thus, the Corporation's obligation to maintain

secrecy remained in force even after the expiration of the research contract. Further, the essential part of the present invention was covered by the thick concrete wall during the construction of the house, so that the invention could not have been recognized unless the house had been destroyed. And in fact, the building was not destroyed. Therefore, the use of the house did not constitute the public working of the invention.

C. Reasons for Court Decision

After the expiration of the trial construction and research contract, the paintiff furnished the Corporation with the data acquired from the tests and the like, and transferred the ownership of the house in question to the Corporation. The house was actually used. In view of these facts, it is considered that the cooperative relationship between the two parties and the Corporation's obligation to maintain secrecy had already been terminated. After the house was assigned to the Corporation, the Corporation was free to explain the structure of the house and the method of constructing it in response to an inquiry from any third party. The plaintiff had no reason any longer for raising an objection to such a disclosure by the Corporation. A third person who wants

to know details of the invention has only to ask the Corporation for an explanation, and does not need to destroy the house and examine its construction. Therefore, the present invention is considered to have been "publicly worked" when the house was assigned and put to use.

D. Discussion

(a) In the present case, the essential part of the invention had been covered by the concrete wall, and could not be recognized unless the wall was destroyed. And in fact, the wall was not destroyed.

If these were all the facts to be considered in the present case, the court may not have concluded that the invention was publicly worked. But as mentioned before, the court took the whole environment of the present case into consideration, and concluded that "the Corporation could have explained the method of construction in response to an inquiry from a third party without destroying the house.

This judgment of the court is considered to be proper.

(b) The plaintiff would have been able to obtain a patent if it had requested the benefit of "exception to loss of novelty" as provided in Article 30[*5)] of the Patent Law when it filed the patent application. The plaintiff should have made such request, but the request was never filed apparently because the plaintiff did not consider that the invention had been "publicly worked."

(2-2) "Buckle" Case

Tokyo High Court Showa 50 (gyo-ke) No.59, Case of Cancellation of Invalidation Decision in Trial for Invalidating Utility Model Right, Decision dated February 22, 1979

A. Outline of the Case

A "buckle for a safety belt for a worker on a pole" having the same construction as the device forming the subject matter of a utility model right had been described in the specifications and standard manuals furnished to the users of the buckle such as electric power companies prior to the application for a utility model registration.

The court held that the evidences such as specifications and standard manuals contained the relevant technical matters which had already been publicly

worked at the time of preparation of such papers.

The case has been appealed to and in litigation before the Supreme Court.

B. Assertion of Defendant (Owner of the Utility Model Right)

The specifications, standard manuals, etc. are papers to be agreed upon between the defendant and the users of the products, and the preparation of such papers does not necessarily mean the manufacture and delivery of the products. Further, these papers contain only outline drawings of the buckle, and do not contain any description of the detailed construction and relevant advantages of the device. Accordingly, the invention cannot be said to have been "publicly worked."

C. Reasons for Court Decision

Generally, when a user issues large orders for a particular product repeatedly or successively, he chooses what he considers best among the similar products already in public manufacture, sale or use. The specifications, etc. are usually prepared based on such a choice of the user, and therefore contain technical matters already publicly worked. A review of the other evidences

of record in the present litigation indicates that such business practice also prevails in almost all of the cases in the buckle industry.

D. Discussion

(a) The specifications and standard manuals are papers prepared by manufacturers to duly inform their customers, such as electric power companies, of the material, construction and other technical particulars of the product. Accordingly, the mere preparation of these papers cannot be interpreted to constitute the "public working" of any invention involved.

But at least in the industry of the "buckles" with which this case is concerned, the preparation of the specifications and standard manuals appeared to be usually based on the excellent product selected from among what had actually been used.

Under these circumstances, the judgment of the court appears to be proper.

(b) In order to assert the "public working" of an invention, it is necessary to provide a showing of "when, where and how such working was made." In the Buckle

case, the court reached its conclusion after taking into account the contents of the specifications, etc. and the circumstances which had prevailed in the buckle industry when the standard manual in question was formulated.

3. What does the term "publication distributed" mean?

(1) Past Doctrines and Court Decisions

(a) Meaning of the "Publication"

The "publication" means a reproduction of a document, drawing, photograph or the like which is intended for public inspection. Accordingly, a document, etc. distributed for inspection among only a specific range of people, or people having an obligation to maintain the secrecy of such a document, is not a "publication."

(b) Meaning of the "Distribution"

The "distribution" of a publication means making it ready for inspection by nonobligatory persons. A publication displayed in a book store, or made ready for inspection in a library admitting the general public, is considered to have been "distributed."

In the "Stuck sheet" case, the court concluded that "a distributed publication was a publication of which the content was available to the general public" and that "the content of the literature in question could, therefore, be properly considered to have become available to the general public on the same day when it had been received by the National Diet Library." *4)

(2) Recent Court Decisions

(2-1) "West German Specification" Case
Tokyo High Court Shows 50 (gyo-ke) No.78,
Case of Cancellation of Rejection Decision in Trial against Determination of Rejection,
Decision dated March 9, 1978

A. Outline of the Case

The German specification of a registered utility model had been laid open to public inspection at the German Patent Office before the date on which the present patent application was filed in Japan. The German specification described a technical subject matter which was similar to the invention of the present patent application. Moreover, copies of the German specification had been made several times at the German Patent Office for a famous German information company before the date of the present Japanese patent application.

The court held that the copies of the specification obtained by the German information company were "publications."

The plaintiff accepted this court decision and did not file an appeal to the Supreme Court.

B. Plaintiff's Assertion

In order for a piece of literature to be called a "publication," it is necessary that the date of its publication and its publishers be clearly identifiable, and that a plurality of copies of the text be printed or reproduced, and published, and positively distributed by the publishers. Therefore, the aforementioned copies of the specification are not "publications."

C. Reasons for Court Decision

The communication of information to the public may either be effected by printing a plurality of copies of documents, etc. and distributing them positively, or may also be carried out by making and delivering a required number of reproductions by a camera or a copying machine in accordance with each specific order only when requested.

In the present case, copies of the specification in question had actually been delivered to the German

information company several times prior to the date of the present patent application.

Accordingly, the copies obtained by the German information company are considered "publications."

(2-2) "Belgian Specification" Case
Tokyo High Court Showa 50 (gyo-ke) No.97,
Case of Cancellation of Rejection Decision in Trial against Determination of Rejection,
Decision dated October 30, 1978

A. Outline of the Case

A laid-open Belgian patent specification had already been open to public inspection at the Belgian Patent Office before the date of priority claimed in the present Japanese patent application. The Belgian specification disclosed the same invention as that of the present patent application. There was, however, no evidence showing that a copy of the laid-open Belgian patent specification had been distributed to a third person prior to the aforementioned priority date.

The court held that "the laid-open Belgian patent specification was not considered a publication."

The Patent Office accepted this court decision and did not file an appeal to the Supreme Court.

B. Assertion of Defendant (Director-General of the Patent Office)

Belgian laid-open patent specifications are a source of technical information which is laid open earliest in the world, and of which copies are easily available. The dates when they were laid open can clearly be identified. Accordingly, these specifications are "publications."

The "distribution" of a publication should be interpreted to refer to the presence of an established system in which copies of the publication can be made and distributed immediately upon request. Accordingly, the specification in question should be considered to have been "distributed" when it was laid open.

C. Reasons for Court Decision

In order to be called a "publication," a particular piece of literature must have both the "public nature" and "distributability." The original itself of a Belgian laid-open specification is kept solely in the Belgian Patent Office, and is not distributed to any other place, though anybody can obtain copies thereof after it has been laid open.

Thus, it has the "public nature," but not "distri-

butability." Therefore, it is not a "publication."

D. Discussion of the Foregoing Two Cases

(a) In the case of the "Belgian Specification," if a third person had obtained a copy of the laid-open specification prior to the priority date, the copy would have been treated as a "publication," as in the case of the "West German Specification."

(b) The "date of distribution of a publication" was not clarified even in the case of the "West German Specification." The laid-open date on which it has become possible for a third person to look at the specification may be considered as the "date of its distribution." However, this will be contrary to the foregoing two court decisions.

In view of the concepts contained in the foregoing court decisions, it would be proper to consider that the "date of distribution" is the "earliest date" on which the first copy of the publication was distributed. This concept is reflected in the current examination guidelines of the Japanese Patent Office.

(c) The German Patent Office has been treating the

original of a Belgian laid-open patent specification as a "distributed publication" since August 7, 1953. This treatment has been supported by the German Supreme Court.

It would be necessary for us Japanese to consider the introduction of this policy of the German Patent Office.

IV. Conclusions

1. In order for a particular invention to be considered as "publicly known," it is not sufficient for the invention "to be accessible only by a specific person or persons, or to have become accessible under accidental circumstances," but it is necessary that the invention is "actually accessible by nonobligatory persons."

For reference, in the United States, in order to assert a particular invention is "publicly known," it is necessary to prove the fact that two or more persons having no obligation to keep it in confidence knew the invention.

2. A registered design becomes publicly known on the day when the official gazette carrying it is published.

3. Even if an article embodying a particular invention is used in such a manner that the essential part of the construction of the invention is concealed, the invention is treated as "publicly worked," if the details of the invention are open to public knowledge through a written descriptive material or otherwise.

4. In order to be called a "distributed publication," a particular piece of literature must have "distributability" as well as "public nature."

5. In discussing the loss of novelty of a particular invention which has taken place in a foreign country, it is necessary to study the case carefully to determine whether the loss of novelty is due to the presence of "a publication distributed," or due to the state of being "publicly known or worked." Because, the former reason for the loss of novelty applies to an occurrence in Japan or in a foreign country, while the latter applies only to a case in Japan.

In the case of the "Belgian Patent Specification," the invention disclosed therein was "publicly known," but as it did not occur in Japan, the invention claimed in the Japanese application did not lose its novelty.

6. Both the EPC and the German Patent Law provide that an invention lacking novelty is not entitled to a patent, whether the loss of novelty has occurred within a member country of the Convention or West Germany, or in any other foreign country. In other words, they adopt the principle of "absolute novelty."

In view of the progress of communication media and the reasons for requiring novelty of an invention in obtaining a patent, it appears to be desirable to revise the Japanese Patent Law to introduce the principle of "absolute novelty" as one of the requirements for patentability.

We are very happy if this report is of interest to you. Thank you for your kind attention.

References:

*1) Tokyo High Court Showa 36 (gyo-na) No.16, Decision dated Feb. 28, 1963, Case of "Ultraviolet Sterilizer."

*2) Tokyo High Court Showa 52 (gyo-ke) No. 71, Decision dated April 23, 1979, Case of "Grinder."

*3) Tokyo High Court Showa 38 (gyo-na) No.31, Decision dated Oct. 28, 1971, Case of "Farming Plow."

*4) Tokyo High Court Showa 38 (gyo-na) No. 35, Decision dated April 27, 1973, Case of "Stuck Sheet."

*5) Essence of Article 30 of the Japanese Patent Law:

"In the event that the novelty of an invention has been lost as a result of, for example, a test conducted by, or a disclosure made in a publication by a person who has the right to obtain a patent for that invention, the invention is deemed not to have lost its novelty only with respect to his own patent application, if he files the patent application within six months from the date of such test or disclosure with specific reference thereto."

SELECTED INVENTORSHIP DESIGNATION AND CORRECTION PROBLEMS

PIPA TENTH INTERNATIONAL CONGRESS

OCTOBER 24-26, 1979

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SELECTED INVENTORSHIP DESIGNATION AND CORRECTION PROBLEMS

I. INTRODUCTION

Three years ago at the 7th PIPA Congress in Hakone, I gave a talk on the subject of inventorship discrepancies in which I pointed out that there should be no real objection or obstacle to a practice of discrepant inventorship designation between foreign priority and U.S. counterpart applications.

In articles which will shortly appear in an APLA Journal, Bruce Collins of New York also concludes that the requirement of MPEP 201.15 (that the inventive entity in a U.S. application must coincide with those individuals designated in the priority document) is "without legal or logical basis" and Don Daus of Arlington, Va. speaks of a reluctance on the part of the PTO examiners to accord the benefit of convention priority in cases of discrepancy but adds that "this reluctance is normally overcome by appropiate explanation."

Don Daus also admits that "criteria for actual inventorships may vary from nation to nation." In fact, the Patent Cooperation Treaty recognizes this because its Rule 4.6 provides:

(c) The request may, for different designated States, indicate different persons as inventors where, in this respect, the requirements of the national laws of the designated States are not the same. In such case, the request shall contain a separate statement for each designated State or group of States in which a particular person, or the same person, is to be considered the inventor, or in which particular persons or the same persons, are to be considered the inventors.

With this brief amplification of the inventorship discrepancy topic, let's focus on other difficult inventorship designation and correction problems - and developments with respect thereto - where resolutions, or at least better understanding, are in sight or at hand. Three complex issues merit attention:

1) Whether all designated joint inventors must be coinventors of all claims;
2) Whether the respective contribution of each coinventor must amount to inventive contribution; and
3) When conversion from sole inventorship to a different sole inventorship can be effected.

II. MUST ALL DESIGNATED JOINT INVENTORS BE COINVENTORS OF ALL CLAIMS

When the question arises as to whether all claims in a patent must have the same inventive entity, that is, whether joint inventors must have contributed to each of the claims in the patent, the affirmative is almost taken for granted. It certainly is the conventional view but

causes many problems in patent practice. In re Sarett (140 USPQ 474, CCPA 1964) is cited generally for this proposition and there is dicta in In re Sarett to the effect that a patent to joint inventors could not legally contain a claim to a sole invention of one inventor because it would not be the invention of the joint patentees.

In the forthcoming APLA Journal issue on inventorship Fred Sherling of the PTO Solicitor's Office also makes the categorial statement that "Claims in the same application or patent of different inventive entities are unpatentable under 35 U.S.C. 102(f)."

Patent Law Revision bills have addressed this issue specifically. Following a recommendation by the Presidential Commission, S.1321 (Hart, 93rd Congress, 1st Session) and S.214 (Fong, 94th Congress, 1st Session) provided in Section 116(b) as follows:

> In an application for patent naming two or more inventors, it shall not be necessary for each person named as an inventor to be joint inventor of the subject matter asserted in any claim.

Section 116(a) of S. 2255 (McClellan, 94th Congress, 1st Session, 1976) contained a provision which would have required joint inventors to make inventive contributions to each claim of a patent. This provision was criticized by the late John Clark in a submission to Congress as well as by John Pearne whose analysis was then published in 58 JPOS 205, 1976. After an exhaustive review of decisions on this question, going back as far as Worden v. Fisher, 11 Fed. 505 (E.D. Mich., 1882),

Pearne's conclusion was that

> "joint applicants for a patent need not have made an inventive contribution to each claim of their application or patent, except that 'independent and distinct' inventions must have the same inventorship in order to be validly granted in the same patent (where the Patent Office could have, but failed, to require division, regardless of inventorship.)"

The argument that there must be contributions to each claim was recently urged in SAB Industri AB v. Bendix Corp., 199 USPQ 95 (E.D. Va. Alex. 1978), where the District Court dismissed it as lacking support in any statue or rule and as being "too technical and immaterial" to warrant invalidating a patent. The Court's acceptance of the plaintiff's use of a joint application expressly in order to avoid double patenting provides a sound logic for laying the defense to rest permanently. Thus, if the embodiments of two claims are not patentably distinct (utilizing the criterion of 35 USC Section 103), there is only one inventive concept.

Inventorship should be determined on the basis of contributions to that single concept, not on the basis of contributions to different embodiments thereof set forth in separate claims. On the other hand, an assertion by a defendant that two embodiments are the result of different inventive entities is in fact an assertion that the embodiments are patentably distinct. This is little more than a backdoor effort to avoid the last sentence of 35 USC Section 121 by questioning the patent's validity because restriction was not required in the application.

III. MUST THE RESPECTIVE CONTRIBUTIONS OF EACH COINVENTOR AMOUNT TO INVENTIVE CONTRIBUTIONS

In this connection there is another important but difficult question: whether a contributor's conceptual contribution to an invention must itself constitute the exercise of inventive skill for the contributor to be a joint inventor or whether the exercise of ordinary skill is adequate if the contribution is essential to the completion of the overall concept. There is a great deal of confusion or unclarity on this issue. It has apparently not been treated in the legal literature nor has it been an issue squarely before the court in court decisions. If anything, it is taken for granted that the contributions must be inventive ones.

However, on the one hand, even rudimentary deductive analysis leads clearly and logically to the contrary conclusion, that is, that the contributions of each individual coinventor need not rise to the level of inventive contributions. Only the joint invention as a whole has to satisfy the requirement of unobviousness. If the contribution of each individual coinventor itself has to constitute an inventive or unobvious contribution, the level or requirement of unobviousness would be much higher for a joint invention than for a sole invention. However, there is nothing whatsoever in the Patent Law from which such a discrepancy or such a dichotomy could be derived. Seeger and Wegner argued likewise

in an article entitled "Open Questions of Coinventorship" and published in 'Mitteilungen Der Deutschen Patentanwälte' (Communications of the German Patent Lawyers), 66, 1975, p. 108 but also pointed out that it is the very essense of a coinvention that it cannot be dissected into specific contributions.

But, on the other hand, court decisions can be resorted to to shed some light on this issue. John Tresansky of Kensington, Md., has done some legal research on this topic for the forthcoming APLA Journal issue following up on his 1974 JPOS article entitled "Inventorship Designation" (56 JPOS 551). He refers to two cases, namely, Consolidated Bunging Co. v. Woerle, 29 F. 449 (ND. Ill. 1887) and Delaski & Thropp v. Thropp & Sons, 218 F. 458 (D.N.J. 1914), aff'd 226 F. 941 (3rd cir 1915), as having given this issue more than perfunctory consideration and concludes from these cases that what counts is the essentiality of each of the contributor's contribution to the completion of the conception without concern for the level of skill represented by each of the contributors.

However, it is perhaps not quite as easy to settle this issue. In a talk at the October 1979 APLA Meeting in Washington, Maurice Klitzman drew these distinctions and conclusions:

> "Because of the reluctance to invalidate patents for improper inventorship two standards for determining joint inventorship have resulted.

Where validity of a patent is attacked because of misjoinder, the DeLaski (supra,) Consolidated Bunging (supra) and Vrooman (Vrooman & Penhollow, 179 Fed. 296 6th Cir 1910) reflect a tendency to apply a lower standard for inventorship by finding that if two persons collaborate and a suggestion of practical value in working out the idea is made in making the invention operative, or putting it into practical form, the invention will be considered joint even though the contribution be of only minor importance. . . . . On the other hand, in the Pointer (Pointer v. Six Wheel Corporation, 177 F. 2d 153, 9th Cir. 1949), McKinnon (McKinnon Chain Company v. American Chain, 268 F. 353, 3rd Cir. 1920) and Farber (S.W. Farber, Inc. v. Texas Instruments, 211 F.S. 686, D Del. 1962) cases, where validity was attacked for nonjoinder, these cases reflected a tendency toward a higher standard to become a joint inventor by requiring the contribution to inventive skill.
. . . . . .

Although an easy way out may be to make all contributors joint, bear in mind it may also make it easier for someone to establish a 102(g) defense. Therefore, I offer for your consideration, that until the law becomes more crystalized for 102(g) purposes, the "inventive skill" test be applied for determining joint inventorship."

IV. CONVERSION FROM SOLE INVENTORSHIP TO A DIFFERENT SOLE INVENTORSHIP

Another rule that was clearly well-settled and taken for granted was that conversion from one sole to another sole inventorship was impossible, at least until 1977 when Stoddard v. Dann, 195 USPQ 97, was handed down by the D.C. Court of Appeals. This revolutionary landmark decision has already spawned a great deal of comment, both favorable and unfavorable. P.T. Meikeljohn in an article entitled "Misjoinder, Nonjoinder and Whatever - Stoddard v. Dann" (60 JPOS 487, 1978) and M.H. Sears in an article entitled "The Corporate Patent - Reform or Retrogression" (61 JPOS 380, 1979) criticize Judge Markey's rationale. Conversely, J.L. Welch wrote an article entitled "Stoddard v. Dann - Fundamental Principles from A to C" (61 JPOS 185, 1979) in its defense. Don Daus also takes the defensive in the forthcoming APLA Journal issue with an article entitled "Stoddard v. Dann: A Doctrine of Innocence." Obviously quite a controversial decision! It remains to be seen what kind of a precedent this decision will be.

It was my view that Stoddard v. Dann might be of limited value. I felt that as a practical matter it would probably redound more to the benefit of foreign inventors than U.S. inventors because it was difficult for me to see how U.S. inventors and patent practitioners could rely on ignorance of

the language and the law and get away with it as ingenuously as the foreign party was able to do in the Stoddard case.

In this respect, you may have noticed from a very recent BNA-PTCJ issue (No. 447, A-1, 9-27-79) that the Assistant Commissioner has followed Stoddard v. Dann and ruled that the PTO had authority under certain conditions to permit reissue of a patent to correct an innocent error, i.e., sole-sole conversion. The case is In re Shibata and the party involved is manifestly foreign and in fact relying on ignorance of law and language. How a U.S. party will fare in an attempt at sole-to-sole conversion still remains to be seen, even though the PTO, according to former Commissioner Banner, is working out guidelines or a general announcement permitting sole-to-sole conversion.

Reminiscent of In re Hession, 132 USPQ 40 (CCPA 1961) but strangely without mention whatsoever of Stoddard v. Dann, is the recent decision of the Ninth Circuit, Bemis v. Chevron Research Co., 203 USPQ 123 (1979). In that case Bemis filed suit alleging that the defendants filed an application falsely identifying the inventors, which then matured into a patent. Plaintiff alleged he was the true inventor, and sought a corrected patent to be issued to him under Section 256. The district court dismissed the suit for failure to state a cause of action and the Ninth Circuit affirmed, having considered the Section's legislative history. The court held Section 256, while remedial, cannot be the vehicle for

substituting inventors in a patent in a claim sounding in conspiracy and fraud. Bemis had failed to allege joint inventorship or innocence.

Karl F. Jorda

October 1979

Construction of Indirect Infringement in Japan

- on acts deemed to be infringement -

October 24, 1979
Japanese Group, Committee No. 1
Subcommittee No. 4
Hajime Takahashi
(Toshiba Corporation)

Summary

With respect to indirect infringement, court decisions are not many in Japan. It can be said that Japan has not yet established the juridical and accademical doctorine in this respect. As a result of our review, majority decisions so far were negative to indirect infringement. However, recent decisions, represented by the "Temporary Fixing Nail" case decided in February 1979 as a landmarking case, appear to admit indirect infringement on the basis of a liberal interpretation of provision of the Patent Law.

In this article, focusing on the decision in the above case, the author highlights transitions of construction on indirect infringement in Japan from time to time comparing with a U.S. situation.

1. Introduction

There are only a few countries which provide indirect infringement by law. They are Japan, U.S.A., France, Switzerland, Iraq and so on. Those countries like W.Germany, Holland, Italy, Sweden etc. do not have lawful provisions but they admit indirect infringement under case laws. Generally speaking, however, a large number of countries have no special measures by law concerning indirect infringement.

In the United States, arguments on contributory infringement sometimes referred as indirect infringement started in around 1870's and in 1871 the "Wallace v. Holms" case was rendered. Since then, a number of decisions were held by courts in every level of superiority. While some alterations were made in courts' decisions, it is said that doctorine of contributory infringement has been established. A recent decision on the case of "Sing v. Culture Products, Inc." (DC EMO 5/7/79) appears interesting, though it was a decision by Federal District Court. In this case, the Court admitted indirect infringement in accordance with the established doctorine and ordered the defendant to pay for treble damages.

On the other hand, in Japan, a provision on indirect infringement was introduced in the Patent Law in 1959. In spite of the lawful provision, however, the number of decisions which were rendered with respect to indirect infringement is very small and counted only ten or so. Accordingly, establishment of a doctorine regarding indirect infringement will be greatly depended upon the future development of accademic theories and court decisions.

As stated above, the number of decisions dealing indirect infringement is small. Nevertheless, study and analysis on them show inclination of courts - courts tended to construe the provision of the Article 101 of the Patent Law (Art. 28 of the Utility Model Law) narrowly and did not admit the existence of indirect infringement consequently.

However, on February 16, 1979, Osaka District Court held a remarkably interesting decision concerning indirect infringement in a case for temporary fixing nail (Showa-52 (WA) No. 3654) which has been sensationally treated by the members of committee. Unlike the narrow construction held by courts so far, this decision liberally construes the wording "the articles to be used exclusively for the working the invention" - one of the

constituents of indirect infringement under the law - and admits the existence of indirect infringement. This case is now under appeal and no decision has yet been issued by an appealed court. However, it is likely that the decision of Osaka District Court will largely affects decisions to be held in the future. This case is fully worth studying.

From this standpoint, this article roughly covers lawful, theoretical treatment of indirect infringement in Japan and further the treatment in court decisions, and tries to foresee, through recent decisions, future tendency of the construction concerning indirect infringement.

2. Lawful Provision

2.1 Background

Patentees are granted a right to exclusively work their inventions as a trade (Art. 68, Patent Law). Infringement is generated when other parties work such inventions as a trade without such a right or a license from the patentees.

Under the Patent Law of 1911, no infringement was created by sale of units even in the case that a product comprising such units was infringing a patent right.

Accordingly, patentees had no power or right to claim for discontinuance of sale of such units. This was applicable to sale of materials, machinery, apparatus for the working of a patented process.

Under that situation, patent rights were in fact threatened though no infringement was declared. This inevitably necessitated a lawful provision to protect the patent right from such threats and the Patent Law provides a so-called "indirect infringement" in Article 101 to cope with the situation.

2.2 Provision in Patent Law

Article 101 (Acts deemed to be infringement)

> The following acts shall be deemed to be an infringement of a patent right or exclusive license:
>
> (i) in the case of a patent for an invention of a product, acts of manufacturing, assigning, leasing, displaying for the purpose of assignment or lease, or importing, in the course of trade, the articles to be used exclusively for the manufacture of the product;
>
> (ii) in the case of a patent for an invention of a process, acts of manufacturing, assigning, leasing, displaying for the purpose of assignment or lease, or importing, in the course of trade, the articles to be used exclusively for the working of such invention.

Under the Law, such acts are called "Acts deemed to be infringement" but we usually call them "indirect infringement". Indirect infringement is construed as an

infringement so that a patentee may claim for injunction of the infringing acts and claim for damages (Art. 100 and Art. 102 of Patent Law respectively).

3. Construction of Provision

3.1 In the case of Product Patent

In the case of a patent for a product, articles "used exclusively for the manufacture of the product" shall be fallen under indirect infringement. For example, when an invention of an engine is granted a patent, acts of manufacturing and selling pistons, as a trade, which are exclusively used for the engine as its part shall be considered to be infringement. To the contrary, when the piston is available for use for other engines, then it is no longer "used exclusively for the manufacture" of the engine. In this case, no infringement is recognized.

3.2 In the case of Process Patent

In the case of a patent for an invention of a process, articles "used exclusively for the working of such invention" shall be fallen under indirect infringement. Let us consider a case where a patent is granted on a process to use DDT as an insecticide. Acts of manufacturing and selling DDT as a trade shall be subject to the Law. A purchaser of DDT who uses it as an insecticide

infringes the patent (direct infringement). However, if DDT is available for use in other fields than the insecticide, then sale of DDT raises no infringement question.

3.3 On "Exclusively"

As stated above, the Law provides that the articles shall be used "exclusively" for the manufacture of a patented product or shall be used "exclusively" for the working of a patented process. The term "exclusively" is provided to restrict the application of indirect infringement because it was assumed that patentees would unreasonably misuse their patent right.

Actually however, while it restricts the application of indirect infringement the term also raises a somewhat ambiguity. Therefore, interpretation of this term has been highlighted in past accademic theories and court decisions.

In a case where a third party intentionally manufactures and sells the article to be used for the manufacture of a patented product or the article to be used for the working of a patented process and the article is available for other use than for the infringing patent, knowing a patent infringement, the article shall not be interpreted to be "exclusively" used. Such manufacture and sale shall not infringe the patent.

Then, what does the above "other use than for the infringing patent" mean? Is it a practical use? If it has a possibility of other use, to what extent the possibility should be? To these questions, three stages are conceivable.

① it is satisfactory if it has a mere possibility of other use;

② it is required to have a possibility of economical, commercial or practical use;

③ it is required to have a fact of economical, commercial or practical use.

With respect to a tendency of interpretation of the term "exclusively" in court decisions, we will discuss in the later chapter.

3.4 Other Problems

3.4.1 Relation with Claim

Japanese Patent Law does not necessarily require that "the article used exclusively for ..." shall be material part of the patent claim. When we see U.S. Patent Law requiring that the article sold by an infringer shall be "constituting a material part of the invention" so as to invoke a contributory infringement, there appears a big difference between the Laws in two countries.

3.4.2 Necessity of Direct Infringement

The Patent Law does not provide whether or not acts for instituting direct infringement is necessary as a required condition of indirect infringement. In this respect, accademic theories are divided.

One of the theories is a so-called "independent theory". This theory proclaims that there is no need to care about the existence of direct infringement for institution of indirect infringement. It reasons that a patent protection will be weakened and the Article 101 of the Patent Law will be adversely read if direct infringement is required for the institution of indirect infringement, taking an example where someone sells parts for composition of a patent product and final composition is personally made at home - no infringement exists in this case.

Another theory is a so-called "dependent theory", which says no indirect infringement where no direct infringement. According to this theory, future probability of infringement shall be required when and if direct infringement is not happening at present.

In Japan, there is no decision judging whether direct infringement is a required condition for insti-

tution of indirect infringement. To the contrary, in the United States, existence of direct infringement is a significant factor for institution of contributory infringement as can be seen in the case "Laitram Corp. v. Deepsouth Packing Co., Inc." (406 US 354).

Let us take sale of kits and knockdown for instance. No court decision has been yet made specifically to these cases but some understands as follows:

> "In accordance with the independent theory, manufacturers and sellers of parts are considered to be infringers. Even standing on the dependent theory, it is questionable whether they are free from infringement. Because in either case each part is manufactured so as to meet a certain apparatus (patented product) and is hardly used for other apparatus. Accordingly, manufacture of each part can be totally acknowledged to be equivalent to the manufacture of a certain apparatus which substantially finished."

3.4.3 Necessity of Knowledge on Direct Infringement

The knowing requirement as stated in U.S.A. for contributory infringement is not provided in Japanese Patent Law. Accordingly, anyone supplying infringing articles in a good faith without knowing a patent right

shall be responsible for indirect infringement.

4. Tendency of Court Decisions

4.1 Court Decisions

As stated earlier, the most arguable point regarding the determination of indirect infringement in Japan is the interpretation of the terms "articles to be used exclusively for ..." of Article 101 of the Patent Law, in other words, it is the determination of "other uses" which would be an excluding factor under the Law.

In the following, discussions are given to several important cases in which decisions were made on interpretation of the term "exclusively".

(a) Formed Styrol Case (Osaka District Court Showa 35 (YO) 493 - Decided 1961)

In this case, Court upheld that the "articles to be used exclusively for the working of such invention" are those like machinery, apparatus, equipment, materials etc. which are necessary for the working of a process invention. Court says if the process invention comprises sevel manufacturing steps, any intermediate matter obtained during any of the intermediate steps shall be included in such articles. However, if the manufacturing process of the intermediate matter differes from that of

the patented invention and belongs to other processes, the products shall not be fallen under the Law, even though the products are identical to those under the patented invention. Court further says that in case where the treating process of the Deffendant's intermediate matter is equivalent to the working of the patented invention, where there are many processes involved until the product is finished finally, and where the intermediate matter is actually used in other fields, then the process shall not be subject to the Law.

Namely, Court acknowledged facts that the intermediate matter was obtained through different manufacturing processes, there exists a number of processes for treating the intermediate matter and that the intermediate matter was actually supplied to other uses, and held that the intermediate matter shall not subject to the term "exclusively" in this instant case.

(b) Tube Mat Case (Osaka D.C. Showa 45 (WA) 1047 - Decided 1972)

This case was argued 10 years later from the foregoing Formed Styrol Case. In this case, Court showed its stricter interpretation of the meaning of the "articles to be used exclusively for the manufacturing ..." and its stricter view on the articles which shall

be objectively known as not being supplied for other uses. Court acknowledged the fact that the articles manufactured and sold by Deffendant had been supplied for other several uses and did not admit indirect infringement.

(c) Fastener Case (Osaka D.C. Showa 45 (WA) 298 - Decided 1974)

This case was argued 2 years later from the Tube Mat Case.

Taking the patented invention as a pioneer invention into consideration, Court showed its broader interpretation of the provision and stated:

> "Uses of the product sold by Deffendant are not clear in other fields than the fastener. The product fully works its aimed function when it is used for a fastener. Howerver, its availability in other uses is not clear and further the product is not publicly purchasable for uses in the other fields."

Court acknowledged that the product sold by Deffendant is fallen under the "articles to be used exclusively for the manufacture of ..." and admitted indirect infringement.

In this case, Court showed its decision that sale of the parts - their availability for use in other

fields is not clear - shall be considered to be fallen under the articles provided in the Law when such parts show the best function in the patented product comprising such parts.

(d) Olefin Polymer Catalyst Case (Tokyo D.C. Showa 47 (WA) 3375 - Decided 1975)

In this case, arguments were made on whether "other uses" existed in fact. Court stated:

> "When the article has a possibility to be used for other applications than for the working of the instant invention, any party who claims for the application of Article 101, subparagraph 2 of the Patent Law is required to prove that such possibility is not economical, commercial nor practical."

In other words, Court supported a possibility and practicability through the evidence submitted by Deffendant and actual uses in other fields. In answering to Plaintiff's rebuttal stating that Deffendant's use in other fields is not economical, commercial or practical, Court upheld that a liability to prove such negative fact resides in the side of Plaintiff.

Since this decision imposes a liability to prove on Plaintiff, it is very interesting.

(e) Temporary Fixing Nail Case (Osaka D.C. Showa 52

(WA) 3654 - Decided 1979)

This case was recently decided. Court stated:

"In order to affirm the existence of "other uses" which is taken into consideration to make a decision on whether "exclusively" is applied or not, a mere experimental or temporary possibility of use at a primitive level like "possibly used" or "could be used" is not satisfactory. Use in other fields must be accepted and approved in general concept as an economical, commercial and practical use and further such use, in principle, must be practically realized as an accepted and approved use."

Court did not support Deffendant's plea stating the existence of other uses and Court decided that indirect infringement was taken place.

It can be understood, therefore, that Court in this case made it clear that a mere possibility of use as stated in 3.3 ① above and a possibility of economical, commercial or practical use as stated in 3.3 ② above is not satisfactory to acknowledge the existence of other uses. Court requires facts on practical uses as stated in 3.3 ③ above. With respect to interpretation of the term "exclusively", this case indicates clear decision

and develops a general discussion which would be applicable to future cases. This case was appealed and sent to Osaka High Court for further deliberation. It is necessary to trace the proceedings there.

4.2 Transition of Decisions

As stated earlier, the number of court decisions on indirect infringement is so small that it is very difficult to read a certain tendency of courts in their construction and interpretation. However, through the foregoing five cases, the following aspects can be assumed.

First, in the decision to the Formed Styrol Case, Court admitted a possibility of use in other fields (as stated in 3.3 ①), and further an actual use in the economical, commercial fields (as stated in 3.3 ②). But Court did not indicate expressly whether the requirement in the stage as stated in 3.3 ③ above is necessary or not to admit "use in other fields".

In the Tube mat Case, as well as in the Formed Styrol Case, it was not made clear whether the actual use in other fields (as stated in 3.3 ③) is lawfully required or whether an objective possibility is satisfactory.

In the Fastener Case, the availability for use in

"other fields" was uncertain and court judged based on whether or not the aimed function worked. This indicates that, if the original use is judged to be infringing use, it may be construed to be "used exclusively" irrespective of an actual use in the economical field. Court stands on a position to take slightly strict interpretation of "other uses".

In the Olefin Case, arguments were made on whether or not there was a possibility of an economical, commercial and practical use, with respect to "use in other fields". If there is a possibility of use in other fields, court indicated, Plaintiff shall be required to prove that the possibility is not economical, commercial nor practical.

In the Temporary Fixing Nail Case, Court indicated that "use in other fields" shall be accepted in general concept to be "economically, commercially practical use and shall be required to be actually realized (as stated in 3.3 ③). This requires a stricter condition to "other uses".

Assumingly our chronological review of the rare court decisions shows that interpretation of the "article to be used exclusively for ..." has been liberally taken by courts and that decisions have tended to admit in-

direct infringement.

5. Conclusion

As discussed above, cases are small in number and a doctorin on indirect infringement has not yet been established - this is a present situation in Japan. As a result of our review of decisions on the term "exclusively", courts seem to tend to interpret the term liberally and to admit indirect infringement as seen in the Temporary Fixing Nail Case. However, that case is now under appeal and decision of High Court is hard to predict. It is assumed that arguments on indirect infringement in Japan will be actively developed taking this opportunity.

Finally, it is probable for a patentee to sue for a protection under Article 719 (joint illegal acts; suggestion or support of illegal acts) of the Civil Law when someone is jointly infringing his patent right but no indirect infringement is instituted thereby. For patentees, this kind of countermeasure might be taken into consideration.

REFERENCE

The Osaka District Court Dicision Showa 35 (YO) 493

Decided on May 4, 1961

1. Title: The Case of Foamed Styrol

2. Summary of invention

A method for manufacturing shaped foam articles in which granules of polystyrol, styrol copolymers, or polymethacrylic acid methylester as material are made to adsorb a volatile organic compound as a foaming agent which has a boiling point not higher than the softening point of the material, placed in a mold which can enclose the material, but not hermetically, and expanded into a shaped article at a temperature above the boiling point of the foaming agent at which the material softens.

3. Plaintiff's argument

(1) The plaintiff introduced the foamable polystyrol granules in Japan and the styrol fabricators all purchase such granules made and sold by the plaintiff to manufacture shaped foam articles.

(2) The defedant's product is for making shaped articles by this patented method and is regarded

as an infringement under Article 101, (2), of the Patent Law, irrespective of the nature of the foaming agent used.

4. Defendant's argument

If a product is to be regarded as one "used exclusively for the working of such invention" as referred to in Article 101, (2), it must be only evident actually and objectively that the product is "used exclusively for the working of such invention" but it must be possible to say that the product is usable for no other purposes. The defendant's product can be used for other applications.

5. The Court's decision

The "articles to be used exclusively for the working of such invention" cover the machinery, apparatus, equipment, materials, etc. necessary for the working of a process invention. In the case of an invention like the one in dispute, which involves a process comprising a series of manufacturing steps, an intermediate matter obtained from an intermediate step should be regarded as being included in such "articles." However, if an intermediate matter is made by some other process than the patented invention, it does not come under the

"articles to be used exclusively for the working of such invention" even when it is identical to the one made in an intermediate step of the patented process.

Therefore the defendant's polystyrol granules (trade name: Styrobeads) cannot be regarded as an intermediate matter to which the provision of this article applies because they are made by a process different from the patented process.

Even if we put aside the above judgement and assume that Styrobeads is identified with the intermediate matter in the patented process and that fabrication of Styrobeads into a shaped article is regarded as working of the patented invention, the fact remains that there are some other methods for manufacturing foams using Styrobeads (British patent, Japanese patent, etc.) and that Styrobeads granules in a partially foamed state are used as a heat insulating material.

In view of the above, Styrobeads cannot be termed an article "to be used exclusively for the working of such invention."

The Osaka District Court Dicision Showa 45 (WA) 1047

Decided on January 31, 1970

1. Title: Tube Mat Case

2. Summary of invention

The utility model in question relates to a tube mat consisting of an element A wherein the core is a cotton rod which is constituted by winding a small thread around the slightly compressed cotton in a round rod shape and an element B wherein said core is covered with a thread twined in cross and is further sewed together in a whirlpool.

3. Plaintiff's claim

The defendant was selling a core material having the element A but not having the element B. The plaintiff filed a suit against the defendant, claiming that the core material sold by the defendant had no usage other than for the manufacture of the product (tube mat) covered by the utility model in question and that it infringed said utility model right. (There was also a testimony by a witness supporting the claim)

4. Defendant's counter-claim

According to a testimony by a witness and a statement by the defendant, while the core material sold by

the defendant was usable not only for the wirlpool tube mat covered by the plaintiff's utility model but also for the tube mat in general, it could be also used in other technical fields, -- the handle for a hand-bag, the hanger for a mosquito net, and the core material of a marine cable.

5. The Court's decision

Although the plaintiff claims that the core material sold by the defendant is usable exclusively for the manufacture of the product covered by his utility model and the witness supports the claim in his testimony, this court cannot accept it over the evidences submitted by the defendant.

The novelty of the invention covered by the plaintiff's utility model is adjudged to reside in the application of the cotton rod for the core material for a tube mat and the core material currently manufactured by the defendant is not deemed to be so special as to have no usage other than for a tube mat, as it is apparent from the witness's testimony and the plaintiff's statement.

Consequently, inasmuch as the defendant's core material is not deemed to be used exclusively for the manufacture of the product covered by the plaintiff's

utility model, it is not adjudged to infringe the utility model right.

The Osaka District Court Decision Showa 45 (WA) 298

Decided on January 31, 1974

1. Title: The case of a Hook-and-Loop Plain Fastener

2. The summary of the invention

This invention relates to a hook-and-loop plain fastener as shown in Fig. 1 wherein (i) one of the plain, which made of fabric, has a number of interlockable hook members (1), (ii) the other plain has a pair of loop shanks (2) and (iii) both plains are interlocked with each other by catching the hooks on the loops.

3. Plaintiff's argument

The defendant bought fabrics from another person on which thick monofilaments were flocked, treated the tips of the monofilaments to mushroom-shaped head to make the plain (A) of a defendant's product shown in Fig. 2, napped the surface of a tricot purshased from a sub-contractor to make a plain (B) of the defendant's product. A company T purchased the plain (A) and (B) from the defendant and sold the plain (A) and (B) to outsiders to make the patented hook-and-loop plain

fastener. The company T is a joint defendant. The plaintiff emphasizes that the defendant's act to produce the plain (A) and (B) is an indirect infringement, and the company T's act to sell the plain (A) and (B) to outsiders is an infringement of the plaintiff's patent therefore these acts must be prohibited.

4. Defendant's argument

The manufacture of a fabric with flocked thick monofilaments and a tricot are carried out by third parties respectively. The fabric can be used for another use besides plain fasteners, the tricot is easily available in the market. Therefore the fabric and tricot don't fall under "the articles to be used exclusively for the manufacture of the products" in Paragraph 1 of the Article 101 of the Patent Law. The manufacture and sale of them don't infringe the plaintiff's patent.

5. The court decision

The hook members of the patented plain fastener were well known to use as an element of a plain fastener before filing the plaintiff's patent application, but it was known nothing at all to use the loop members as an element of a plain fastener. The loop

members of the plaintiff's patented plain fastener are used as hook catching members. The subject matter of the present invention lies in this point. The defendant argues that the loops on a plain B are different from the shape illustrated in the plaintiff's patent specification, the catching principle of said loop members is a snap-hook principle, it is different from plaintiff's hook-and-loop plain fastener in view of a catching principle, the shape of loop and an effect. However, there is no reason to interpretate the word "loop" so narrow. It must be widely interpreted the word "loop" to be curved at the tips of a monofilament and it should not be limited to the loops shape illustrated in plaintiff's patent specification. Also the word "loop" must be interpreted widely. The locus made by one rotation of the vertical axis of the fish-hook shaped hook's shank is just a hook with mushroom-shaped head and falls under the present patent right. It is obvious that the plain (A) can be used in another feature besides the plain fastener. The inherent faculty of plain (A) will be demonstrated using plain (B) at hook-and-loop plain fastener's use. The plain (B) is not generally marketed. Therefore, it is proper to judge that the plain (A) and (B) are used

only to produce a hook-and-loop plain fastener combining them. The District Court decided to be granted the injunction of the manufacture and sale.

Fig 1

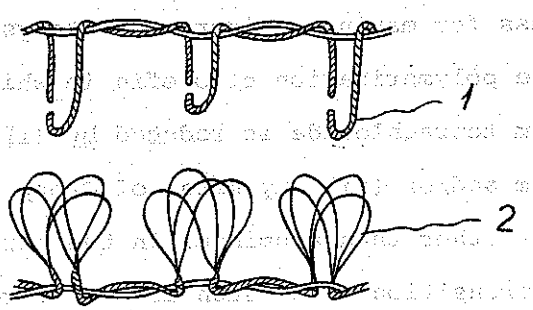
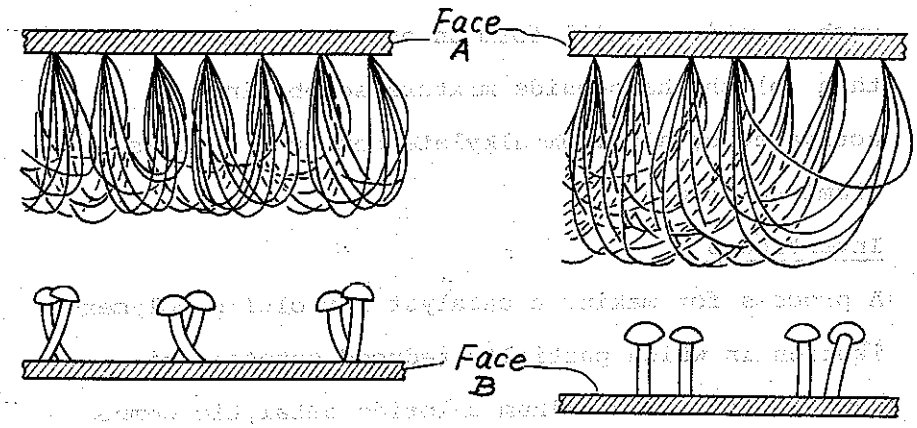


Fig 2



The Tokyo District Court Decision Showa 47 (WA) 3375

Decided on November 10, 1975

1. Title: The Olefin Case

2. Summary of Inventions

Invention A

A process for making an improved catalyst for low-pressure polymerization of olefin in which (a) titanium tetrachloride is reduced by (i) metallic aluminum and/or (ii) any metal of Group II or Group III (but other than aluminum) in the periodic table or any transition metal such as a mixture of titanium and aluminum chloride at a temperature of about 150° - 600°C, using a reaction agent of titanium trichloride and aluminum chloride mixed in such a ratio as will form an eutectic mixture and then (b) the halogenide mixture so obtained is activated by aluminum alkylate compound such as aluminum triethyl.

Invention B

A process for making a catalyst for olefin polymerization in which partially reduced eutectic titanium chloride/aluminum chloride catalytic component is ground by a dry mill and then activated by

aluminum alkylate component. The intensity of the dry mill grinding is equal to that of at least one-day ball mill grinding using steel balls.

3. Plaintiff's argument

TAC ($TiCl_3$ and $AlCl_3$ ground by dry mill) is identical to the claimed catalysts and is used for no other purposes than catalyst for olefin polymerization.

The defendant is engaged in the business of manufacturing and selling TAC as a catalyst for olefin polymerization, which means that they manufacture and sell a product used exclusively for the working of the patented Inventions A and B. Therefore the defendant is infringing the patent rights of Inventions A and B. In accordance with Article 101, (2), and Article 100 of the Patent Law, the plaintiff demands that the defendant discontinue the manufacture and sale of TAC and destroy the product made.

4. Defendant's argument

TAC does not come under "the articles to be used exclusively for the working of such invention" referred to in Article 101, (2), of the Patent Law. This has been testified by a British patent, a Japanese patent, a Japanese patent application laid open for public

inspection.

5. Plaintiff's refutation over Defendant's argument

Any other uses that can preclude the application of the provision, "the articles to be used exclusively for the working of such invention," referred to in Article 101, (2), of the Patent Law must be on an economic, commercial, or practical basis. The inventions cited by the defendant are not being worked in practice and therefore have no practical significance from the economic viewpoint.

6. The Court's decision

The plaintiff insists that TAC, the defendant's product, is not in practical use for any other purposes that the application of Inventions A and B and, though not impossible of use for other applications, has no possibility of being used on an economic, commercial, or practical basis. It should be understood, however, that the responsibility of verifying an article to be one "used exclusively for the working of such invention" rests with the party demanding application of the provision of Article 101, (2), of the Patent Law. Therefore, in case there is produced a counter-evidence pointing to an objective possibility of the article

being used for other purposes, the party alleging that it is "used exclusively for the working of such invention" must verify that there is no possiblity of the article being used economically, commercially, or practically for other applications.

Since the plaintiff has not made such verification, its insistence is groundless without requiring any judgement as to whether TAC is regarded as the "eutectic mixture" of titanium chloride and aluminum chloride under Invention A or "partially reduced eutectic titanium chloride/aluminum chloride catalytic component" under Invention B.

The Osaka District Court Decision Showa 52 (WA) 3654

Decided on February 16, 1979

1. Title: The Case of Temporary Fixing Nail

2. Summary of invention

This invention relates to a method for securely fixing an ornamental board to a wall, which consists in sticking the plate on the wall with a binding agent or adhesives, and knocking in nails thereinto each of which is provided at the intermediate thereof with a pressure applying member of cylindrical shape, made of elastic material such as rubber or synthetic resin.

3. Plaintiff's argument

The article (nail provided at the intermediate with a cylindrical member of elastic material such as synthetic resin) manufactured and sold by the defendant infringes the present patent right because the article is to be used only for working the invention of present patent.

4. Defendant's argument

The defendant's article (nail provided at the intermediate with a cylindrical member of elastic material such as synthetic resin) is not only available

for working the present patent but is universally applied for multifarious uses. The article is used for following purposes practically and economically.

As press nails for accessories, etc.

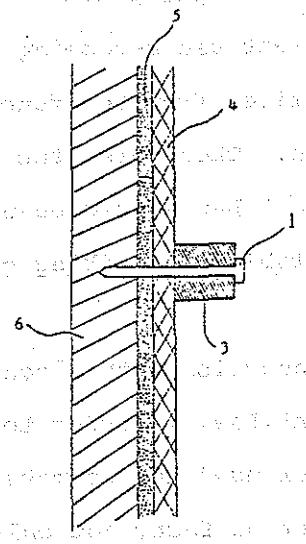
5. The Court's decision

Concerning the appliance of Article 101 (ii) of the Patent Law for indirect infringement, in order to make a decision whether the article used in working the present method patent has "another use", following respects should be considered.

Articles generally seem to have particular manufacturing purposes and inherent use becomming in their characters or features derived from the function and/or faculties of the articles. Therefore, the term "use" in the Article of the Patent Law should be understood as a primary use most suitable for working of the invention.

From the standpoint, in connection with a construction of the Article of the Patent Law, in order to examine the existence of "another use" and to make the same positive, it is, as a matter of fact, not only necessary to point out that the article has a temporal usability such that the article could be served for

"another use" if desired, but it is necessary to demonstrate that the practicality of "another use" of the article may be socially regarded as a practicable use from the commercial and economical view, and further that in principle the use is practically realized at present. The defendant's insistence on the another use is, however, not applicable to the above-defined "use". Therefore, it should be considered that the article of the defendant is only available for working the present patent of the Plaintiff.



1.... Nail
3.... Cylindrical Member
4.... Ornamental Board
5.... Adhesives
6.... Wall

Committee Presentations
(Committee #2)

° Implied Warranties Attaching to Intellectual Property Licensing
--- E. H. Valance ---------- 297

° "Premerger Notification" as Applied to Industrial Property
--- W. R. Norris ---------- 324

° Unfair Trade Practices: Section 301 of the Trade Act of 1974
--- M. D. Pintzuk ---------- 340

° Joint Research and Problems on Working of the Results
--- J. Ichimura ---------- 352

° Technology Transfer from Small Organizations to Large Organizations an Example
--- H. O. Blair ---------- 391

° Technology Transfer to the People's Republic of China
--- S. Suzuki and K. Fukuda ---- 405

An American Experience
--- W. H. Hooper ---------- 430

PIPA COMMITTEE NO. 2

PHILADELPHIA CONGRESS - OCTOBER 24 - 26, 1979

E. H. Valance

IMPLIED WARRANTIES ATTACHED TO INTELLECTUAL PROPERTY LICENSING: LIABILITY OF FRANCHISORS AND TRADEMARK LICENSORS

Last year at the PIPA Congress in Nagoya, we heard a very interesting paper by Mr. Kou Kunieda on The Problem of Products Liability in Japan. We also heard some timely comments from Bill Norris who has now asked me to give a brief up-to-date on some recent developments in the U.S. case law on implied warranties in licensing of intellectual property. Today I will give special attention to some recent cases involving implied warranties by licensors of trademarks.

The recent case of Connelly v. Uniroyal, Inc., decided earlier this year, 389 N.E. 2d 155. (Ill. 1979) held Uniroyal strictly liable on an independent basis when a defective tire bore its name. This result was reached and the licensor held liable on the theory that Uniroyal, the licensor had participated in some manner in the chain of distribution of the defective tire. However, the Illinois Supreme Court held that such participation of the licensor is not an essential element in the product liability claim. The Court went on to hold specifically as follows:

"A licensor is an integral part of the marketing enterprise, and its participation in the profits reaped by placing a defective product in the stream of commerce presents the same public policy reasons for the applicability of strict liability which support the imposition of such liability on wholesalers, retailers and lessors."

Another recent case, Koster v. Seven-Up Co. 595 F 2d 347 (CA 6,1979) held that the plaintiff could recover from a franchisor for breach of implied warranty of fitness in a product sold by a franchisee. In this case a soft drink carton was defective and the Sixth Circuit ordered a new trial because, although some of the Court's instructions were correct, some were not, and there was no way of knowing which instructions were followed by the jury in awarding plaintiff $150,000 damages.

The Appeals Court held that the trial Court had properly submitted the case to the jury to assess liability for breach of implied warranty under the "Seven-up" trademark.

One of the important factors considered by the Appeals Court was the fact that "the consumer's reliance on the trade name which gives the intended impression that the franchisor is responsible for and stands behind the product. Liability is based on the franchisor's control and the public's assumption, induced by the franchisor's conduct, that it does in fact control and vouch for the product."

The opinion of the Appeals Court in Kosters v. Seven-Up Co., cited an earlier case: City of Hartford v. Constr. Co., 34 Conn. Sup. 204, 384 A. 2d 390 (1978), where a trademark licensor was held liable for property damage caused by a roofing material mixed, sold and applied in a defective manner by a trademark licensee.

These "implied warranty" under trademark cases are receiving wide publicity amongst the Product Liability Trial Bar. Accordingly, the warranty theory of trademarks can be expected to be raised more often in the future.

Any review of recent case law in implied warranties would be lacking without a brief historical summary of earlier decisions. For such a summary, I recommend that those interested might wish to read a law note from the North Carolina Law Review (Volume 50, 1972) pages 647 - 654 entitled "Agency -- Apparent Authority and Agency by Estoppel: Emerging Theories of Oil Company Liability for Torts of Service Station Operators." This article discusses the cases prior to the Gizzi v. Texaco case, involving asserted liability of an oil company's products. The gist of the old rule before Gizzi v. Texaco was that the trademark signs at such service stations were an indication of the source

of the products sold, but that there was no warranty which extended beyond that representation. However, in a 1971 decision the Third Circuit Court of Appeals held in Gizzi v. Texaco, 437 F.2d 308 (3rd Cir. 1971) that whether Texaco gave the dealer Gizzi apparent authority to repair brakes was a fact issue for the jury to decide. The Court held that Texaco could be liable even though no actual agency existed between Texaco and the operator and Texaco received no part of the sale price. The service station operator was considered to be a kind of "licensee" since the Texaco logo and advertising slogans were prominently displayed: "You can trust your car to the man who wears the star".

In a case ten years earlier, Sherman v. Texas Company, 165 NE 2d 916 (Sup. Ct. Mass. 1960) the typical "old rule" is illustrated wherein the trial court excluded a motorist's testimony that he assumed from the appearance of a service station's signs that it was operated by the Texas Company whom he had alleged was responsible for his injuries sustained during the operation of a hydraulic lift by the station attendant. We have come a long way in twenty years! This "old rule" is being ignored by some decisions. For example, in Johnston v. American Oil Company, 215 NW 2d 719 (Ct. App. Mich., 1974) a death action was brought against an oil company wherein the plaintiff decedant was shot by a service station proprietor. The court found that there was sufficient evidence to raise an issue of fact as to whether the service station proprietor was an agent of the oil

company. Finally, in another 1974 case, Clark v. Texaco, 22 NW 2d 52 (Mich. App., 1974), the court found that it was a fact issue as to whether Texaco was liable where a customer was bitten by a Texaco dealer's dog on the service station premises.

These recent cases follow the general trend in product liability law where the courts allow the plaintiff to look far enough to find a "deep pocket"; they are not isolated examples of an unintended extension of the trademark warranty. The right of a trademark owner to control the nature and quality of the goods and services sold by licensees can be a fact to be considered by a jury to determine if a dealer had "apparent authority". However, this control right exists as a matter of law, and the fact that it may not be fully exercised will not prevent a jury from considering the fact issue as to whether a dealer is a trademark licensee and whether the oil company is a trademark licensor with the inherent right to control the nature and quality of the products and services furnished by the service station dealer to the public under the oil company logo and taking advantage of the oil company mark and name with its national advertising.

The extent to which Courts may impute liability on a theory of implied warranty against an oil company whose service station dealer is sued for some injury or wrong suffered by a customer will, of course, depend on the specific facts of each case. However, the present trend seems to be moving toward imposing greater liability on the oil company. There are more

cases to be expected in this area and it will be interesting to see just how far the Courts will go in finding oil companies strictly liable when sued by service station customers.

INDEX OF CASES CITED IN E.H. VALANCE'S PAPER:
IMPLIED WARRANTIES ATTACHED TO INTELLECTUAL PROPERTY LICENSING

Cases and Citation	Cross Reference to Jurisearch Digest Case No.	Page No.
Apple v. Standard Oil 307 F. Supp. 107 (N.D. Cal. 1969)	13	15
B.P. Oil Corp. v. Mabe 370 A. 2d 554 (Md. 1977)	5	5
Carter v. Joseph Bancroft & Sons Co. 360 F. Supp. 1103 (E.D. Pa. 1973)	10	11
City of Hartford v. Association Construction Co. 34 Conn. Sup. 204, 384 A. 2d 390 (1978)	3	4
Clark v. Texaco, Inc. 55 Mich. App. 100, 22 N.W. 2d 52 (1974)	8	8
Connelly v. Uniroyal, Inc. 389 N.E. 2d 155 (Ill. 1979)	1	1
Corollo v. S.S. Kresge Company 456 F. 2d 306 (4th Circ. 1972)	14	15
Coty v. U.S. Slicing Machine Co. 15 Ill. Dec. 687, 373 N.E. 2d 1371 (1978)	16	17
Drexel v. Union Prescription Centers, Inc. 582 F. 2d 781 (3rd Circ. 1978)	4	5
Gizzi v. Texaco, Inc. 437 F. 2d 308 (3d Cir. 1971)	12	14
Johnston v. American Oil Company 51 Mich. App. 646, 215 N.W. 2d 719 (1974)	7	7
Kasel v. Remington Arms Company 24 Cal. App. 3d 711, 101 Cal. Rptr.314 (1972)	11	12
Kosters v. Seven-up Company 595 F. 2d 347 (6th Cir. 1979)	15	16

Cases and Citation	Cross Reference to Jurisearch Digest	
	Case No.	Page No.
Sanders v. Clark Oil Refining Corp 57 Mich. App. 687, 226 N.W. 2d 695 (1975)	6	6
Sipari v. Villa Oliva Country Club 63 Ill. App. 3d 985, 380 N.E. 2d 819 (1978)	2	3
Sutton v. Chevron Oil Company 85 N.M. 604, 514 P. 2d 1301 (1973)	9	9

MEMORANDUM OF LAW

TO: E.H. Valance

FROM: JURISEARCH, Inc.

RE: Liability of Trademark Licensor for Torts of Licensee

DATE: September 17, 1979

DIGEST OF CASES

I. Connelly v. Uniroyal, Inc., 389 N.E. 2d 155. (Ill. 1979)

Plaintiff purchased automobile from Buick dealer in Illinois. At time of purchase, tires on automobile bore name "Uniroyal" and legend "made in Belgium." The tires had been manufactured by Uniroyal Englebert Belgique, S.A., sold in Belgium to General Motors and installed on the automobile which had been assembled

in a General Motors plant in Belgium, shipped to the U.S. and sold to plaintiff in Illinois. After he purchased the car, plaintiff was injured when one of the tires blew out. Plaintiff sued both Uniroyal Englebert Belgique, S.A. (Englebert), and Uniroyal, Inc.

At the time the tire was manufactured, 95% of the Englebert stock was owned by a wholly-owned subsidiary of Uniroyal. Uniroyal had granted a non-exclusive license to Englebert to use Uniroyal's registered trade name, and had made available detailed information as to methods, processes and formulas used in the manufacture of tires and tubes. Englebert was required to permit Uniroyal representatives to have knowledge at all times of the manufacturing operations and goods identified with the trade name and logo of Uniroyal. Otherwise the entities were entirely separate. Uniroyal had not at any time been in possession of the tire in question.

In holding for plaintiff, the court said that the fact that Uniroyal had not been involved in the actual distribution of the tire would not preclude the application of the doctrine of strict liability as to Uniroyal. The court reasoned that a licensor of a trademark is an integral part of the marketing enterprise,

that the licensing agreement had placed the defective product in the stream of commerce and that Uniroyal had profited thereby. Public policy considerations mandate that one who authorizes the use of his trademark bears the burden of liability for defective products marketed under that trademark, particularly where the product bears no indication that it was manufactured by any other entity.

2. Sipari v. Villa Oliva Country Club, 63 Ill. App. 3d 985, 380 N.E. 2d 819 (1978).

Plaintiff was injured when a golf cart he was driving overturned. The cart was owned by defendant Villa Oliva and had been purchased through an automobile dealership. The cart carried an insignia identifying it as "Club Car." The evidence showed that the cart had been manufactured by defendant Stevens Appliance Truck Co. for defendant Club Car, Inc., which was a separate entity with overlapping officers and directors. Club Car, Inc. contended that it could not be held liable because plaintiff had failed to show that Club Car was the manufacturer. In rejecting this contention, the court held that Club Car, Inc. could be held liable if it were found that it had sufficiently held itself out as the manufacturer. The inquiry is a factual one to be determined

by the trier of facts.

3. City of Hartford v. Associated Construction Company, 34 Conn. Sup. 204, 384 A. 2d 390 (1978).

Plaintiff city sought to recover for property damage resulting from a leaking school roof. Defendant Silbrico Corp. owned a registered trademark for roofing material, and had licensed the use of the trademark to defendant builder. Plaintiff alleged that the builder had applied the roofing material to the school building in a defective and unsafe manner, resulting in damages to plaintiff. In holding that plaintiff could recover from the trademark licensor, the court noted that a trademark instills in the consumer a confidence that he will get the item he asks for and wants to get, and that a trademark brands the goods as genuine, indicates the origin of the goods and guarantees the quality of the goods. In addition, under the Lanham Trade-Mark Act, a licensor of a trademark must exercise supervision and control over his licensees in order not to be held to have abandoned his trademark. Finally, the court quoted Restatement (second) of Torts § 400 to the effect that one who puts out as his own product a chattel manufactured by another is subject to the same liability as though he were its manufacturer.

4. Drexel v. Union Prescription Centers, Inc., 582 F. 2d 781 (3d Cir. 1978).

Plaintiff's decedent had died as a result of a prescription negligently filled by defendant's franchisee. The court found that the agreement between the defendant franchisor and the franchisee required the franchisee to use the franchisor's name and logo; that the franchisor had the right to approve the location of the franchisee's store and to respect the premises during normal business hours; that the franchisee was required to maintain the store in a clean condition and attractive appearance; and that the store was required to be operated "as part of a national organization securing its strength through adherence to UPC's uniformly high standards of service, appearance, quality of equipment and proven methods of operation." It was held that the franchisor could be liable for the franchisee's negligence on an agency theory; and the question of agency is one of fact and turns on the degree of control.

5. B.P. Oil Corp. v. Mabe, 370 A. 2d 554 (Md. 1977).

Plaintiff sued for personal injuries sustained when a service station attendant attempted to put gasoline instead of water into plaintiff's radiator. The court

held that as to the oil company's liability, the evidence was insufficient to show actual agency or agency by estoppel, and cited the following cases where courts failed to find a station operator to be the apparent agent of an oil company:

Miller v. Sinclair Refining Co.,
268 F. 2d 114 (5th Cir. 1959).

Union Oil Co. of Calif v. Crane,
258 So. 2d 882 (Ala. 1972).

Drum v. Pure Oil Co.,
184 So. 2d 196 (Fla. App. 1966).

Cawthon v. Phillips Petroleum Co.,
124 So. 2d 517 (Fla. App. 1960).

Manis v. Gulf Oil Corp.,
185 S.E. 2d 589 (Ga. App. 1971).

Crittendon v. State Oil Co.,
222 N.E. 2d 561 (Ill. App. 1966).

Reynolds v. Skelly Oil Co.,
287 N.W. 2d 823 (Iowa 1939).

Sherman v. Texas Co.,
165 N.E. 2d 916 (Mass. 1960).

Levine v. Standard Oil Co.,
163 So. 2d 750 (Miss. 19__).

Elkins v. Husky Oil,
455 P. 2d 329 (Mont. 1969).

Westre v. De Buhr & Sinclair Ref. Co.,
144 N.W. 2d 734 (S.D. 1966).

6. Sanders v. Clark Oil Refining Corp., 57 Mich. App. 687, 226 N.W. 2d 695 (1975).

Plaintiff, having been shot by a service station

operator, alleged, inter alia, that defendant oil company, by use of various representations and advertisements, had induced plaintiff to visit the station, that defendant exercised control over the management of the station, and that defendant was therefore liable for plaintiff's damages. In discussing the issue of agency by estoppel the court stated:

> Our examination of plaintiff's complaint leads us to conclude that plaintiff properly stated a claim in each allegation pleaded...Count two, paragraph two, stated that defendant used the name "Clark Super 100 Service Station," and represented by its name and advertising that the station was under defendant's control and that this was intended to induce the public and in fact did induce plaintiff to deal with defendant. The facts so pleaded comport with the established elements of agency by estoppel, namely; that the principal, by its acts and conduct, held the alleged agent out as being authorized; and that a third person, such as plaintiff, relied in good faith upon such representation.
>
> 226 N.W. 2d at 697.

Nevertheless, the court held for defendant because plaintiff had failed to show that he had relied on defendant's representations.

7. Johnston v. American Oil Company, 51 Mich. App. 646, 215 N.W. 2d 719 (1974).

Plaintiff's decedent was killed by a gun fired by

a service station operator. In reversing the trial court's granting of defendant oil company's motion for summary judgment, the court held that the existence of an apparent agency or agency by estoppel was a factual question, and could be shown by the use of defendant's logo and trademark, national advertising campaign and slogans. As such summary judgment in defendant's favor was inappropriate.

8. Clark v. Texaco, Inc., 55 Mich. App. 100, 22 N.W. 2d 52 (1974).

Plaintiff was injured when she was bitten by a guard dog owned by the service station operator. Plaintiff alleged that the operator was the agent of Texaco, that both Texaco and the operator knew or should have known of the dog's dangerous disposition and that they failed to lessen the danger. In reversing a grant of summary judgment in favor of defendant Texaco, the court said:

> We think plaintiff has stated a cognizable claim. Plaintiff may be able to prove, as she has contended both in her complaint and at the hearing in opposition to Texaco's motion, that Texaco was more than merely passively involved with its dealer's business. Once at trial, plaintiff might be able to prove that the involvement "of the man who wears the star" is so substantial as to justify

the application of the agency by estoppel doctrine.

222 N.W. 2d at 53.

9. Sutton v. Chevron Oil Company, 85 N.M. 604, 514 P. 2d 1301 (1973).

Plaintiff, whose wife had been killed in an automobile accident which occurred when plaintiff's brakes failed, sued the oil company, the service station operator and an employee. The station had been leased to the operator by Chevron, and the operator had agreed to purchase Chevron products. The arrangement provided that Chevron would exercise no control over the station's operation.

In reversing summary judgment in favor of Chevron, the court said that there was a genuine issue of fact as to whether Chevron exercised or had the right to exercise control over the station, and that control is not the exclusive method for determining liability of Chevron for the negligence of the operator. The court held that an innocent member of the public is not bound by a private agreement between an oil company and a service station operator, and that in this case plaintiff could have believed that the operator was the agent of Chevron. It is a matter of common knowledge that

Chevron owns and operates stations throughout the U.S. engages in substantial advertising, issues credit cards sells Chevron products and uses Chevron uniforms and logos. Chevron's purpose in owning and operating stations is:

> to encourage the patronage of the motoring public for the benefit of other stations supplied by Chevron. It invites the motoring public to use the facilities of its service stations and it knows the public will make use of its premises, and seek the services of its operators as well as make purchases of its products, without the knowledge of the legal relationship between the parties...The motoring public relies upon the integrity, the reliability, and the economic and financial status of Chevron. The legal relationship is usually discovered after injury has occured or litigation has begun.
>
> 514 P. 2d at 1305.

Possession of a service station by an operator is prima facie evidence that the operator is the agent of the oil company and not an independent contractor. The question is one of fact.

Finally, the court said that oil companies should be held strictly liable for the negligence of their lessees:

> For the protection of the motoring public, [the oil companies] have a duty to supervise station operators, exercise care in

> the selection of lessees, insure greater safety and promote accident prevention. Liability risk must be shifted from lessee to the oil company because it is more able than the lessee to bear the costs of accidents or distribute the cost of liability insurance and protect the public from judgment-proof lessees. The distribution of oil products is a part of the business of oil companies, and the costs should be borne by them.
>
> 514 P. 2d at 1309.

10. Carter v. Joseph Bancroft & Sons Co., 360 F. Supp. 1103 (E.D. Pa. 1973).

Plaintiff had been injured when her dress caught fire at a dinner party. The dress was made out of Ban-Lon fabric, a registered trademark of defendant. The tag inside the dress identified the fabric as Ban-Lon, and stated that the fabric had been "made according to specification and quality standards prescribed and controlled by Joseph Bancroft & Sons, a division of Indian Head, Inc."

In holding for plaintiff, the court first noted that Pennsylvania has adopted Restatement (2d) of Torts § 402 A (1965) in regard to products liability. The court then rebutted defendant's argument that it was not a manufacturer or seller of the dress within the terms of § 402 A, but rather was merely a licensor, and

therefore could not be held strictly liable:

> ...it is clear that defendants were sufficiently involved in the manufacturing process to be a "seller" under the law of Pennsylvania. Under Pennsylvania law, one who puts out as his own product a chattel manufactured by another is subject to the same liability as though he were its manufacturer...Thus, by its authorized label, defendants have stated that "Ban-Lon" is a trademark identifying garments, fabrics and articles made according to specifications and quality standards prescribed and controlled [by defendants].
>
> 360 F. Supp. at 1106.

The court held that even if the manufacturer of the dress had been the dress designer and not the defendant, defendant would still be strictly liable under Pennsylvania law.

11. Kasel v. Remington Arms Company, 24 Cal. App. 3d 711, 101 Cal. Rptr. 314 (1972).

Plaintiff, while on a hunting trip in Mexico, was injured when his gun exploded. Evidence showed that the explosion had been caused by a defective shotgun shell. The shell in question had been manufactured in Mexico by Cartuchos Deportivos De Mexico, S.A. (CDM). Defendant Remington, a Delaware corporation, had caused CDM to be created; it owned 40% of CDM's outstanding stock. Directors of Remington sat on the board of

CDM, and Remington characterized CDM as an affiliate. Remington had licensing agreements with CDM whereby Remington granted CDM a non-exclusive license to use Remington's trademarks, and CDM granted Remington the right to approve the use of its trademarks on ammunition, packaging and advertising, as well as the right to inspect and control the quality of all products on which the trademark was used. The arrangement further provided that Remington would sell to CDM its scientific processes relating to the manufacture of ammunition, and Remington obligated itself to provide personnel to CDM and to provide assistance and consultation on production techniques. The shells purchased by plaintiff were imprinted with Remington's trademark.

On deciding that Remington was strictly liable for the defective shell, the court said that the fact that CDM was found not to be the agent of Remington was irrelevant as long as Remington was part of the overall producing and marketing enterprise, responsible for placing the article in the stream of commerce:

> Under the stream-of-commerce approach to strict liability no precise legal relationship to the member of the enterprise causing the defect to be manufactured on to the member most closely connected with the customer is required before the courts will impose strict liability. It is the defendant's

> participatory connection, for his personal profit or other benefit, with the injury-producing product and with the enterprise that created consumer demand for and reliance upon the product (and not the defendant's legal relationships (such as agency) with the manufacturer or other entities involved in the manufacturing-marketing system) which calls for imposition of strict liability.
>
> 101 Cal. Rptr. at 323.

12. Gizzi v. Texaco, Inc., 437 F. 2d 308 (3d Cir. 1971).

Plaintiff purchased a car from a service station. Thereafter the brakes failed, causing injury to plaintiff. Plaintiff contended that Texaco had clothed the operator with apparent authority to make necessary repairs and to sell the car on its behalf, and that plaintiff reasonably assumed that Texaco would be responsible for any defects in the car. Plaintiff further contended that he had entered into the transaction relying on this apparent authority.

The court held that Texaco could be held liable even though no actual agency existed between Texaco and the operator, and Texaco received no part of the sale price. The evidence showed that Texaco exercised control over the activities of the service station. The Texaco logo and advertising slogans were prominently displayed, and Texaco engaged in substantial national advertising,

"the purpose of which was to convey the impression that Texaco dealers are skilled in automotive servicing, as well as to promote Texaco products..." 437 F. 2d at 310. Texaco knew that its dealers engaged in the sale of used cars, and it acquiesced in this activity. Plaintiff testified that the advertising by Texaco instilled in him a certain sense of confidence in the corporation and its products. Finally, the question of apparent authority is one of fact to be determiend by the jury.

13. Apple v. Standard Oil, 307 F. Supp. 107 (N.D. Cal. 1969).

Plaintiff was bitten by a dog owned by service station operator. The court held that the mere fact that the filling station sold defendant's gasoline and displayed defendant's signs did not constitute a holding out that the operator of the station was defendant's agent or that plaintiff reasonably relied on any representations of defendant.

14. Corollo v. S.S. Kresge Company, 456 F. 2d 306 (4th Cir. 1972).

The defendant owned and operated a chain of discount department stores using the trade name "K-Mart." Among the various departments in the store, some were

licensed by defendant to various specialty merchandisers. The plaintiff, an employee of a millinery company which was a licensee of defendant, slipped and fell in the hallway of the store. Plaintiff obtained a jury verdict for the personal injuries sustained in the accident and the defendant appealed, urging that there was insufficient evidence of negligence to be submitted to the jury. The Court of Appeals found such question to be properly left for the jury, but found merit in the defendant's defense that at the time of the accident the plaintiff was a statutory employee of defendant and as such limited to the rights and remedies accorded covered employees under the workmen's compensation laws. The Court found that the licensee's business was a part of the business of K-Mart which was that of operating a department store and as such was part of the trade, business or occupation of the store owner. Thus the plaintiff was limited to a workmen's compensation award against the store owner and had no tort action.

15. Kosters v. Seven-up Company, 595 F. 2d 347 (6th Cir. 1979).

Plaintiff removed a cardboard carton containing six bottles of 7-up from a grocery shelf, put it under her arm and walked to the check out counter of the store.

A bottle slipped out of the carton, fell to the floor and exploded, causing a piece of glass to strike her in the eye as she looked down. The carton was a so-called "over the crown" or "neck thru" design and made without a strip on the sides which would prevent a bottle from slipping out if held underneath. The company that designed and manufactured the carton sold it to the bottling company which was a franchisee of defendant. The defendant held the right to approve the design of the articles used by the franchisee. Seven-up defended on the grounds that its right to approval of the cartons was limited to "graphics" and the right to demand that its trademark was properly displayed.

The court found reversible error had occurred in (inter alia) instructing the jury that it could hold the defendant franchisor liable on the theory of absolute liability for engaging in the "inherently dangerous activity" of distributing bottles containing carbonated beverages. The case was reversed and remanded for a new trial.

16. Coty v. U.S. Slicing Machine Co., 15 Ill. Dec. 687, 373 N.E. 2d 1371 (1978).

The plaintiff, aged fifteen, was injured while operating a meat slicing machine on the premises of

her employer, a fast food franchisee. The franchisor was sued on the theory of negligence and willful and wanton misconduct and the manufacturer was sued on the theory of strict liability in tort. The court affirmed the lower court's directed verdict for the franchisor. The franchisor, under the franchise agreement retained the right to terminate the agreement upon a breach of any of the covenants contained therein, one of which was to comply with any laws regarding the operation of restaurants. Allowing minors to operate meat slicing machines was in violation of federal law. The general right to rescind a contract, the court held, was not sufficient to subject the defendant to liability under the theories of agency or employer-independent contractor, as asserted by plaintiff.

The law review articles which dealt with the issue of strict liability for trademark licensor are the following:

Note, "Tort Liability of Trademark Licensors," 55 Iowa L. Rev. 693 (1970).

The author argues for such liability, while conceding that courts had not yet imposed it. "Under the existing law the mark owner is not held responsible for the injuries [caused by defective products]." Id. at 698.

Note, "Agency - Apparent Authority and Agency by Estoppel: Emerging Theories of Oil Company Liability for Torts of Service Station Operators," 50 North Carolina L. Rev. 647 (1972).

Summarizes cases leading up to Gizzi and explains the rationale of the Gizzi holding.

Goldstein, Products Liability and the Trademark Owner: "When a Trademark is a Warranty," 67 Trademark Reporter 587 (1977).

Summarizes liability of trademark licensors for torts of licensees.

Also see,

Business Lawyer, vol. 32 p. 957 Ap. 19, 1977. (same author).

Committee #2 American Group

Chairman: William R. Norris

"PREMERGER NOTIFICATION" AS APPLIED TO INDUSTRIAL PROPERTY

by

WILLIAM R. NORRIS

THE DOW CHEMICAL COMPANY

Presented at the Pacific Industrial Property Association

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"Premerger Notification" as Applied to Industrial Property

In 1976, Congress enacted the Hart-Scott-Rodino Antitrust Improvements Act to give the Fair Trade Commission and the Department of Justice procedural aids in the enforcement of the Antitrust Laws. Title 1 of this Act gave these agencies authority to direct civil investigative demands to individuals, as well as companies, and to require written or oral information in addition to documents. Title 2 of the Act is commonly referred to as "Premerger Notification". It is, in fact, an amendment of Section 7 of the Clayton Act.

You will recall this Section provides essentially that an acquisition by one corporation engaged in interstate commerce of all or any part of the stock, or assets of another corporation, also engaged in such commerce, is illegal wherein in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or tend to create a monopoly. 15 USC §18.

The recent amendment imposes notification and waiting period requirements on large corporations contemplating such mergers or acquisitions. 15 USC §18A. These requirements arose from Congressional concerns about extensive

merger and acquisition activities occurring within the United States. Once a merger was completed, the enforcement agencies faced an uphill fight in seeking dissolution or modification under Section 7. The agencies also faced difficulty in obtaining sufficient information on these transactions to enable an evaluation of their legality.

In this context, it is somewhat surprising that a patent, trademark or know-how license may be subject to "premerger notification". Personally, I doubt whether anyone involved with this legislation and the subsequent rule making by the Fair Trade Commission squarely faced the questions this law generates for the field of industrial property. Fortunately, Congress was after big fish and most of the agreements encountered in the field of industrial property law are small enough fish to swim through the meshes of the law's net.

In the following remarks, I will briefly review the main features of this new legislation and attempt to point out the scope of its application to industrial property transactions. I will conclude with some of the problems and questions this new law presents. Unfortunately, there will be more questions than answers since the enforcement

agencies have given little or no attention to the application of this act to industrial property licensing. The rules are silent on a number of key points and thus the full meaning of the law will only come to be known as precedent is developed.

Summary of the Law

In general, Section 7A as implemented by the Fair Trade Commission's "Premerger Notification" rules (Federal Register, Vol. 43, 147 pp. 3450-33535) is very comprehensive. The Act states "Except as exempted pursuant to subsection (c), no person shall acquire, directly or indirectly, any voting securities or assets of any other person, unless both persons..... file notification pursuant to rules under subsection (d)(1) and the waiting period described in subsection (b)(1) has expired", Sec. 7A(a).

Note that the Act applies to both "acquiring persons" (licensed) and "acquired persons" (licensee). "Person" in this context includes the entity directly involved in the transaction and the entire corporate structure of which that entity is a member. The corporate structure includes all controlled subsidiaries, which are defined to include fifty (50%) percent stock ownership or greater and those instances where the power to appoint a majority of the directors is provided by contract.

Although neither the statute nor the rules defines "acquisition", it is clear from context that the term includes mergers, consolidations and transfers of corporate assets. There is considerable case law construing the meaning of "assets" as found in Section 7 of the Clayton Act. For our purposes, "asset" has been broadly read by the courts to mean property or property rights, real or personal, tangible or intangible which is subject to transfer and which has been used by the seller and could be used by the buyer competitively 53 FDC 52 (1956). Specifically, acquisitions or transfers of trademarks, trade names, copyrights, US v. Columbia Pictures Corp. 189 F Supp. 153 (D.NY 1960); patent applications, Automated Bldg. Components Inc. v. Trueline Truss Co. 318 F Supp. 1252 (D.Ore. 1970); and exclusive licenses, Western Geophysical Co. of Am. Inc. v. Bolt Assoc. Inc. 305 F Supp. 1248 (D. Conn. 1969) have all been held to be assets for the purposes of Section 7 and thus by judicial precedent are the types of property rights subject to the "premerger notification" requirements of Section 7A.

There are size limits, both as to the parties involved in the transaction and the value of the transaction itself, which reduce considerably the number of agreements affected.

There is, in fact, a rule making proposal currently being discussed to increase some of these size limits, thereby further reducing the number of notifications. Nevertheless, it is conceivable that some industrial property acquisitions, either alone or in combination with other forms of assets, will be subject to the requirements of this law.

The Act applies when the acquiring person and the acquired person have assets or annual sales of ten million and when the aggregate value of the transferred assets is fifteen million dollars or more. It also applies where the acquiring person will obtain as a result of the acquisition 15% or more of the total assets or voting securities of the acquired person. Asset value is taken as the acquisition price or the "fair market value" of the assets, whichever is greater. Note that the term "person" is defined to consolidate assets of controlled subsidiaries.

The notification itself consists of considerable organization and economic data on both the acquiring and acquired parties. During the required 30 day waiting period, before consummation of the agreement, either the Fair Trade Commission or Justice Department may require the

submission of additional information or documentary material and may extend the waiting period for another 20 days. Further extensions are possible, but then only on court order. Ultimately, the enforcement agency may decide to challenge the acquisition under the Antitrust Laws and may seek a court ordered injunction to prevent consumation of the transaction.

Any person or any officer, director or partner who fails to comply with the provisions of the law will be liable to the United States for a civil penalty of not more than $10,000 for each day during which such person is in violation of the section.

Problems in Applying the Law to Industrial Property Transactions

One of the most difficult aspects in applying this new law to industrial property transactions is in placing a value on the asset transferred. Often, an assignment or exclusive license of a trademark, patent and/or know-how will be for a running royalty over a term of years. Determination of the need to notify depends upon making a good faith estimate of the "fair market" value of the assets within 60 days of filing notice.

If one could forecast the amount of this royalty, it would be a simple matter to discount the projected payments to a present value which would allow determination of the need to notify. We all know, however, that royalties can vary considerably over the life of the license as the result of greater or lesser capacity utilization, or inflation in the case of a participating percentage royalty. While the problem has been recognized, the enforcement agencies have not offered any guidance on how this estimate is to be made. Presumably, "a good faith determination" would be accepted but still the parties have the burden of proving good faith.

Up to this point, I've talked about asset transfers without regard to the location of the assets. This fact is significant since the law applies somewhat differently to assets located outside the United States. For example, if a foreign person is the acquiring person, all acquisitions of assets located outside the United States are exempt. FTC Rule 802.51(a). When a foreign person is acquiring U.S. based assets, the transaction is exempt if the assets are valued at 10 million dollars or less. For asset acquisitions made by a United States person from a foreign person, the

transaction is exempt from the premerger notification requirements if the amount of sales into the United States attributable to the acquired assets is less than 10 million dollars during the foreign owners most recent fiscal year.

An interesting question stems from how the "location" of trademark, copyright and patent is determined? The question is even more interesting with respect to know-how. Suppose two American companies enter into an agreement for one to assign to the other its Japanese patent. Is the Japanese patent a U.S. asset or a foreign asset of these two U.S. companies? I think the Fair Trade Commission would go along with the argument that the intangible rights created by the Japanese patent are a foreign asset, even though the patent certificate and an enforceable contract with respect thereto exist within the United States. My guess is that a similar conclusion applies to the other statutory forms of industrial properties such as tradmarks and copyrights.

Know-how presents a closer question. It has the attributes of a world-wide property right founded in contract. A trade secret practiced in Japan has, at the

same time, property value in the United States. Practically, however, the trade secret exists only in Japan until it is transferred to another country. Again, it would seem an argument can be made that the trade secret, so long as it remains in Japan, is a foreign asset to an acquiring U.S. licensee.

Since it provides a common vehicle for joint development and utilization of industrial property rights, I would like to draw your attention to the fact that the forming of joint ventures is considered to be a form of acquisition covered by the Act. Conveniently only corporate joint ventures are affected. (It should be remembered that exemption from notification does not mean exemption from the remainder of the Antitrust Laws which continue to apply.) Thus it is possible, through a variety of arrangements ranging from full partnerships to ad hoc arrangements, to jointly participate in the development and exploitation of technology without notifying the agreement.

If a corporate joint venture is to be formed, there is the problem earlier mentioned of placing a "fair market

value" on trademarks, copyrights, patents, patent applications and/or know-how, that may be either transferred or licensed exclusively to the joint venture. The rules provide that persons contributing to the formation of the joint venture are "acquiring persons and the joint venture itself is the acquired person". Often there will be other forms of capital contributions, such as cash and credit guarantees, to be totaled with the industrial property assets in determining whether transaction size limits are exceeded.

Defeasability Considerations

I would like next to consider some of the potential consequences of this new legislation for parties to technology transfer arrangements.

Providing the transaction meets the threshold limits for party size and value of assets transferred, failure to have notified renders the officers and board of directors of the noncomplying person liable to civil penalties up to $10,000 per day. This is undoubtedly reason enough to pay close attention to the requirements of the law. I believe, however, there may even be a more compelling reason stemming from the possibility that a

contract which violates premerger notification rules, could be found to be illegal and therefore unenforceable in U.S. Courts.

In any exchange of industrial property for deferred compensation, say royalties, the licensor obviously has a long-term interest in being able to enforce the contract. Similarly, an exclusive licensee who has dutifully paid his royalties may want his licensor to enforce the patent against infringers. In either event, the parties have a long term interest in the performance of the other party's obligations. This is quite different from most of the transactions comtemplated by the premerger notification rules which are usually fully consummated within a short time of their execution.

The full extent of this risk is beyond the scope of these remarks but there is precedent that holds contracts violating the Antitrust Laws may also be illegal and unenforceable. This follows from the considerations of strong public policy which underlie these laws.

A further defeasibility consideration concerns, option agreements. Since the notification rules provide

for valuation of the asset at the time of consummation of the agreement, an option arrangement to acquire a trademark, copyright, patent or know-how license at a future point in time faces the possibility that the value of the rights will appreciate; particularly, if developmental work is done during the option term. Thus, the acquiring party, i.e. the licensee, who chooses to exercise the option, may be faced with the "fair market value" of the acquired rights exceeding notification limits upon exercise of the option. Such a notification might be avoided by entering into an immediate assignment or exclusive license and defining the licensor's reversionary intersts.

Obviously, transactions which require notification under the act present a new issue for negotiation between parties to industrial property arrangements. The seller or licensor of the right will be interested in concluding the transaction as soon as possible. The licensee or acquirer of this right, on the other hand, will want as much time as he may need to (1) satisfy FTC information requirements - note that the 30 day waiting period does not start running until the notification is complete - and (2) respond to potential FTC legal action to block the acquisition under

the Antitrust Laws. Most likely, the applicable law would be Section 7 of the Clayton Act, but any of the Antitrust Laws may be invoked. While Section 7A(f) provides for expedited treatment by a U.S. District Court in which an agency files for an injunction to prevent consummation of the transaction, it would be wise to address such a contingency with mutually agreed contractual language. Otherwise, the licensor might find exploitation of his industrial property rights held in abeyance for the time interval required for determination of the acquisition's legality. Licensees, on the other hand, will bargain for sufficient time to defend their actions before the enforcement tribunals. Failure to address this issue could leave the parties in a quandry as to whether a contract exists and when it might be appropriately considered terminated.

The parties will also want to consider the possibility that the acquisition may be approved only in part or with some modification of terms. The situation would be somewhat akin to technology licenses in Japan which historically have been subject to revision or modification of terms upon review by MITI and its associated agencies.

Conclusion

"Premerger notification" does not sound like a topic having much application to the field of industrial property. However, as one examines the full reach of Section 7 acquisitions, especially judicial precedent construing the meaning of "assets", it is plain that the Act does apply to assignments of, and exclusive licenses under, all forms of industrial property such as trademarks, copyrights, patents and know-how. The major qualifications that exclude its application to most of our contracts are the size limits applicable to parties and threshold fair market value of the transferred rights. Notwithstanding the fact that no guidelines or rules are offered for making the latter determination, the parties are well advised to make a good faith effort. To be safe, an advisory opinion might be sought from the Fair Trade Commission as to the adequacy of this determination. If it is anticipated that notification may be necessary, the parties should also contemplate in their contractual arrangement the contingency of Fair Trade Commission or Justice Department action to block the acquisition.

The consequences of failure to notify contracts subject to the law may be only partially spelled out

in the law itself. The first of these is the potential liability of officers and members of the Board of Directors of the licensor and licensee for civil penalties of up to $10,000 per day. Another possibility is that the transfer arrangement itself will be found to be illegal. The frustration of licensor and/or licensee expectations could be a severe penalty in itself.

Unfortunately, this analysis of the Premerger Notification Act provides more questions than answers. Hopefully the value of these remarks will be found in the increased awareness of the Act and its potential application to industrial property transfers. This is the starting point for analysis and the development of understanding.

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October, 1979

Unfair Trade Practices: Section 301 of the Trade Act of 1974

The general purpose of Title III of the Trade Act of 1974 is to improve procedures for responding to unfair trade practices which adversely affect U.S. commerce. 1974 U.S. Code Cong. and Adm. News, p. 7186 at p. 7301. Section 301 empowers the President of the U.S. to take positive action to obtain the elimination of unreasonable foreign practices which burden, restrict or discriminate against U.S. trade. Previously, power of this kind was given to the President by §252 of the Trade Expansion Act of 1962. Section 252 also dealt with measures that could be taken by the President in response to the actions of another country which had a burdensome effect on U.S. commerce. Section 301 of the Trade Act, however is a substantial broadening of the power originally granted by the Trade Expansion Act. The TEA, which expired in 1967 limited the President's retaliatory authority, for the most part, to suspending concessions, or not entering into trade agreements; far from the strong action that §301 prescribes in certain circumstances. 33 Wash. & Lee L. Rev. 639 (1976). This expansion of power was not accidental but a result of Congress' intention that these new "powers be exercised vigorously to insure fair and

equitable conditions for U.S. commerce." 1974 U.S. Code Cong. and Adm. News, p. 7186 at p. 7302. Section 301, as well as other portions of the Trade Act of 1974, was recently amended by the Trade Agreements Act of 1979 (P.L. 96-39, 93 Stat. 144, enacted July 26, 1979, Section 901) to allow the enforcement of U.S. rights under the agreements formulated during the Multilateral Trade Negotiations.[1] 1979 U.S. Code Cong. and Adm. News, 6A, p. 35.

Section 301(a) authorizes the President to act upon his determination that an unfair trade practice is being perpetrated on U.S. commerce by a foreign country or instrumentality. Specifically, the President is empowered to enforce U.S. rights under any trade agreement; and respond to any foreign act, policy, or practice which denies the U.S. the benefits of, or is otherwise inconsistent with, any trade agreement to which the U.S. is a signatory. 1979 U.S. Code Cong. and Adm. News, 6A, p. 240.

[1] The MTN refer to the Tokyo Round of trade negotiations which began in 1973, the 7th round held under the auspices of the General Agreement on Tariffs and Trade. 1979 U.S. Code Cong. and Adm. News, 6A, p. 9-10. The Senate Report No. 96-249, a part of the legislative history of P.L. 96-39, expresses the belief that the MTN agreements will offer the U.S. more discipline over nontariff restraints practiced by foreign instrumentalities which have in the past acted as an obstacle to U.S. trading interests. 1979 U.S. Code Cong. and Adm. News, 6A, p. 16.

Section 301(a) also addresses itself to problems not arising out of trade agreements. Thus, the President may exercise his powers in response to any foreign instrumentality's action, policy, or practice that is "unjustifiable, unreasonable or discriminatory and burdens or restricts U.S. commerce." 19 U.S.C. §2411(a)(2)(B), P.L. 96-39 §901, July 26, 1979, 93 Stat. 296.

The Legislative History of the Trade Act of 1974 (P.L. 93-618) describes as "unjustifiable" those practices which are illegal under international law or inconsistent with international obligations. 1974 U.S. Code Cong. and Adm. News, p. 7186. The international obligation mentioned most often in petitions brought under §301 is the General Agreement on Tariffs and Trade.[2] In Certain U.S. Television Licensees (Docket 301-15), 43 Fed. Reg. 39617 (1978), petitioners specifically refer to the fact that the actions of the Canadian government are arguably unjustifiable because they were arguably a violation of the GATT. Other petitions which cite violations of the GATT to show that the foreign

[2] The GATT is a multilateral trade agreement which was entered into force in 1948. Its signatories include almost all countries of the western world and some Eastern European nations (the foreign trade of which countries represents 80% of the total volume of world trade). CCH Common Market Reports ¶101 (1977). The agreement includes rules governing the conduct of international trade, procedures to settle trade disputes and a framework for negotiations to reduce obstacles to international trade. 1979 U.S. Code Cong. and Adm. News, 6A, p.10.

instrumentality's actions are unjustifiable include National Canners Association (Docket 301-4), 40 Fed. Reg. 44635 (1975); National Soybean Association (Docket 301-8), 41 Fed. Reg. 15384 (1976); George F. Fisher Co. (Docket 301-12), 42 Fed. Reg. 11935 (1977); Tanners Council of America (Docket 301-13), 42 Fed. Reg. 42413 (1977); Great Plains Wheat Inc. (Docket 301-16), 43 Fed. Reg. 59935 (1978); American Institute of Marine Underwriters (Docket 301-18), 44 Fed. Reg. 32057 (1979).

However, the clear intent of Congress is that "unjustifiable" refer to restrictions which are inconsistent with any international trade agreement. 1979 U.S. Code Cong. and Adm. News, 6A, p. 242. It can be anticipated that many future petitions will be based on those agreements consummated during the Multilateral Trade Negotiations. See 26 U.S.T. 2083 (1979).

"Unreasonable", as mentioned in §301(a)(2)(B) refers to practices, not necessarily illegal, which impair benefits accruing to the U.S. under trade agreements, or which otherwise discriminate against or burden U.S. commerce. 1974 U.S. Code Cong. and Adm. News, p. 7186. In Certain U.S. Television Licensees, supra, a petition was filed by a group of American television stations under §301(a). The

focus of their complaint is a Canadian law which denies an income tax deduction, for Canadian income tax purposes, to any entity advertising on a U.S. broadcasting station. Petitioners contend that the situation thus created is unreasonable, as Canada is obtaining the benefit of U.S. services while impairing the opportunities of U.S. stations to earn fair compensation in the open, competitive marketplace. The law accomplishes this by blocking access of U.S. stations to Canadian advertising revenues while retaining for Canada the benefit of the programming provided by those stations.

It is recognized that other foreign practices not covered by international agreements may impose an unfair burden on commerce. Section 301 thus provides the means for responding to unresolved disputes under trade agreements, as well as to unjustifiable, unreasonable or discriminatory activities not covered thereby, but which, in fact, burden or restrict U.S. commerce. 1979 U.S. Code Cong. and Adm. News, 6A, p. 240.

The President makes a determination that a foreign country's action comes within §301 upon his own initiative or based on facts presented to him in petitions filed by interested parties. Thus, those outside of the government are given the opportunity to seek recourse against specific

foreign actions adversely affecting their interests. "Interested party" is defined in the Procedures for Complaints Received Pursuant to §301 of the Trade Act of 1974, as Amended, 15 C.F.R. §2006.0(a)(1979) as "a party who has a significant interest," i.e.,

> "a producer of a like or directly competitive product or a commercial importer or exporter of a product which is affected either by the failure to grant rights to the U.S. under a trade agreement or by the act, policy, or practice complained of, or any person representing a significant economic interest affected...."

"Interested parties" have taken many forms, ranging from an established organization to a group of individual businesses joined together for the sole purpose of submitting a complaint under §301. The American Institute of Marine Underwriters, the petitioner in both Dockets 301-14 and 301-18, supra, is a non-profit trade association of 125 insurance companies engaged in the business of marine insurance, while Certain U.S. Television Licensees, supra was filed by 15 individual television stations, each individually injured by a Canadian law.

The Office of the Special Representative for Trade Negotiations implements the Trade Act of 1974. Potential petitioners have the right to access to information from the Office to help them determine if they have a legitimate complaint under §301. Section 305 requires the Special Trade Representative to make available to any person, non-confidential information regarding the trade policies or practices of a foreign government. Facts with respect to particular merchandise, U.S. rights under any trade agreements or U.S. laws, the remedies which the agreement or law may provide, and any actions, past and present, domestic and international which may have been taken pursuant to the policy or practice must be supplied. The STR should request information from other federal agencies, and where appropriate, from foreign countries to provide adequate information in response to a request. As a consequence of this assistance, it is expected that petitions ultimately filed by the private sector will be complete and well-formulated. 1979 U.S. Code Cong. and Adm. News, 6A, p. 250.

Upon receipt of a petition the Special Trade Representative is required by §302 to conduct a review of all allegations, and determine within 45 days whether the complaint warrants an investigation. If the STR decides to initiate an investigation, an opportunity is provided for presentation

of views on the issues raised by the petition, including a public hearing if the petitioner so requests. Congress, however, did not intend that the STR passively await the provision of information to it. The STR is expected to actively seek information on the matter from all possible sources, including other government agencies. The scope of the investigation is to encompass all issues fairly raised by the allegations in the petitions and not be narrowly focused only on the accuracy of the allegations. 1979 U.S. Code Cong. and Adm. News, 6A, pp. 245-246.

Section 303 of the Trade Act of 1974 requires that the STR, on the day of its determination to initiate an investigation, request, on behalf of the U.S., formal consultations with the foreign country concerned regarding the issues raised in the petition. Prior to the amending of the Trade Act of 1974 informal discussions were held with the relevant countries and when applicable the dispute settlement procedures of the GATT and other multilateral agreements were invoked. 1979 U.S. Code Cong. and Adm. News, 6A, p. 246. See, National Canners Association (Docket 301-4), supra; Millers National Federation, (Docket 301-6), 40 Fed. Reg. 57249 (1975); National Soybean Association, supra; George F. Fisher Co., supra; Tanners Council of America, supra. The subject matter of the

petitions in Seymour Foods Inc., (Docket 301-3), 40 Fed. Reg. 34649 (1975); Great Western Malting Co., (Docket 301-5), 40 Fed. Reg. 54311 (1975); Millers National Federation, supra; National Canners Association (Docket 301-7), 41 Fed. Reg. 15385 (1976), and Florida Citrus Commission, et al. (Docket 301-11), 41 Fed. Reg. 52567 (1976), were considered in discussions during the Multilateral Trade Negotiations. Section 303 has formalized this international consultation process.

Section 304(a) provides specific time limits within which the STR must make recommendations to the President based on its completed investigation. The time limits vary depending on the nature of the complaints stated in the petition, with the outside time limit being 12 months. 1979 U.S. Code Cong. and Adm. News, 6A, pp. 247-8.

The President is required under Section 304(a) to decide on appropriate action within 21 days of receipt of the STR's recommendation. Once it is determined that the actions of a foreign instrumentality have burdened U.S. commerce to the extent described in §301(a), the President may retaliate by taking "all appropriate and feasible action within his power" to enforce the rights of the U.S. or obtain the elimination of the offending act, policy or practice. 19 U.S.C. 241(a) (1979). Section 301 empowers the President to prevent the application of trade agreement concessions and/or refrain from carrying out a trade agreement altogether, and to impose import sanctions on products or services of the foreign country in question.

A primary intention of Congress in enacting §301 was to put foreign trading partners on notice that the U.S. is "willing to do business with them on a fair basis but that if they insist on maintaining unfair advantages, swift and certain retaliation against their commerce will occur." 1974 U.S. Code Cong. and Adm. News, p. 7186 at 7302. The effect of this is to give Americans, involved in trade with foreign instrumentalities, negotiating leverage. Due partly to the fact that the Trade Act of 1974 has been in operation for a relatively short period of time, and partly because the resolution of international problems is a lengthy process, there is not a wealth of precedent to draw on to evaluate the success of §301 in providing the relief intended. The report transmitted by the Special Representative for Trade Negotiations to the Speaker of the U.S. House of Representatives covering the six months ending June 30, 1979 on reviews and hearings arising from complaints of unfair trade practices by foreign governments, states that 18 petitions have been filed under §301(a).[3] Of these, 5 petitions have been dismissed after either a private settlement between the parties was

[3] It should be noted that all 18 petitions filed to this date under §301 of the Trade Act were prepared and submitted before the enactment of the Trade Agreements Act of 1979. Those presently pending (Docket Nos. 301-3, 5, 6, 7, 11, 13, 15, 16, 17, 18) will be treated as if filed under the Trade Act of 1974 as amended by the Trade Agreements Act. 44 Fed. Reg. 46969 (1979)

reached, or the offending policy or practice was terminated. See Delta Steamship Lines, Inc. (Docket 75-3), 40 Fed. Reg. 29134 (1975); National Canners Association (Docket 301-4), supra; National Soybean Association, supra; George F. Fisher Co., supra; Charles C. Rehfeldt (Docket 301-9), 41 Fed. Reg. 15452 (1976). One petition has been dismissed on its merits. See, American Iron and Steel Institute (Docket 301-10), 41 Fed. Reg. 45628 (1976). Two petitions have been determined by the President to warrant retaliatory action, although the means and extent of this action have not yet been decided upon. See, Tanners Council of America, supra; American Institute of Marine Underwriters (Docket 301-14), supra. Not one petition has yet proceeded to the point where retaliatory measures have actually been taken by the President.

American Iron and Steel Institute, supra is the only case to date in which review of the complaint was discontinued on its merits. The STR determined that there was insufficient evidence to substantiate the allegation that significant unfair practices were being perpetrated on U.S. commerce. Petitioners had complained that Japanese steel was being diverted from the Common Market to the U.S. The decision to terminate the review was primarily based on the fact that while there might have been an unfair effect on

U.S. commerce, it could be blamed on the idiosyncracies of supply and demand, rather than the deliberate discriminatory export practices that the petition had charged. 11:1 L. and Policy in Int'l. Bus. 75 (1979).

One of the cases where the President has determined that retaliatory action is appropriate is American Institute of Marine Underwriters (Docket 301-14), supra. Petitioners complained that the USSR requires virtually all insurance on US-USSR bilateral trade to be placed with the Soviet state insurance monopoly, thus excluding American marine cargo underwriters from participation in that commercial activity. The President determined that these practices of the USSR are such as to warrant the establishment of an interagency committee to make recommendations on possible retaliatory action by the United States. 11:1 L. and Policy in Int'l. Bus. 75 (1979).

We will have to wait to see if the goal of the American government in enacting Section 301 - to insure fair and equitable conditions for U.S. commerce - will be attained.

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Committee #2 Japanese Group
Chairman: KOU KUNIEDA

JOINT RESEARCH AND PROBLEMS ON WORKING OF THE RESULTS

by

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Presented at the Pacific Industrial Property Association

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C O N T E N T S

1. Introduction

2. Factors to Success or Failure of Joint Research Program

2-1. Ownership of Results of Joint Research

2-2. Working of Results of Joint Research

2-3. Working of Results of Joint Research in Relation to Anti-Monopoly Law

3. Conclusion of Joint Research Contract

3-1. Points We Must Watch in a Contract

3-2. Negotiating a Contract

3-2-1. Prior Conditions of Negotiations

4. Characteristics of Vertical Joint Research by Type

5. Conclusion

An Outline

This report is intended to examine from a practical point of view a joint research program which two or more entrepreneurs launched in close collaboration with one another. It explains, in particular, how the entrepreneurs should enjoy the results of the research and put them to work to achieve commercial merits. It goes on to discuss the significant points in concluding an impartial joint research agreement between the parties concerned.

The joint research may be broken down into two types, one being the so-called level-stream type under which manufacturers of the same categories come and the other the so-called upper-stream type into which manufacturers of different categories fall.

For the purpose of this report, the latter type has been selected for discussion.

A maker of raw materials described, in this particular case, as the upper stream and a user of those materials as the down stream have conducted the upper-and-down-stream type of joint research.

It is always the case that the user has the upper hand over the maker in the buyer's option because the former is in a stronger position than the latter in this type of research. Such relations of the weak and the strong are often brought to the fore of the upper-and-down-stream type joint research. As a result, they tend to affect the proposed joint research agreement in favor of the user.

Against this background, problems likely to arise from such a situation and means to solve them through a just and impartial joint research agreement are presented in this report.

The contents of the presentation are:

1. Introduction
2. Factors to Success or Failure of Joint Research Program
   - 2-1. Ownership of Results of Joint Research
   - 2-2. Working of Results of Joint Research
   - 2-3. Working of Results of Joint Research in Relation to Anti-Monopoly Law
3. Conclusion of Joint Research Contract
   - 3-1. Points We Must Watch in a Contract
   - 3-2. Negotiating a Contract
     - 3-2-1. Prior Conditions of Negotiations
4. Characteristics of Vertical Joint Research by Type
5. Conclusion

Item 2 above which reads "Factors to Success or Failure of a Joint Research Program" is the most critical part in this report.

Admitting the difficulties involved in coordinating the differences of interests of the respective parties in the joint research program, the reporter points out the problems centering around the ownership of and the working of the results or inventions resuting from the research, suggesting how they could best be solved.

In item 3 which reads "Conclusion of Joint Research Contract", he has discussed the significant points in connection with ownership and working of the results. The reporter has suggested how a weaker party should negotiate wi h his counterpart, the stronger party, to draw up a satisfactory agreement.

And in item 4 which reads "Characteristics of Vertical Joint Research by Type", he describes them by giving 4 categories:

They are : a) maker and user of machinery and equipment; b) maker and user of raw and processed materials; c) automobile and automobile parts makers, electric appliance and parts makers and d) manufacturer and user of finished products.

Mr. Chairman, distinguished guests, members of the Committee and ladies and gentlemen, I am Juro Ichimura, who has just had the honor of being introduced by the chairman.

I am more than pleased to be given this opportunity to deliver a report on the results of our study at this Tenth International Congress which my American friends have magnificently prepared in this beautiful, historical city of Philadelphia, the birthplace of the United States of America.

Simultaneously, I wish to share this pleasant moment with my fellow members of the Joint Research Group.

Well, I am going to make a report on the subject "Joint Research and Problems on Working of the Results".

Before I go into detail, I must remind you that I am presenting my subject today more from a practical stadpoint and with stress laid, particularly, on the protection of the rights of one of the two parties of the Joint Research Group, the party inherently weak on the negotiating table.

1. Introduction

In recent years in Japan, a joint research has been going on vigoroussly in an effort to develop new techniques and products among the entrepreneurs in close collaboration with one another.

However, I do not believe that the research is being carried out smoothly in every respect. And both parties engaged in it are not equally enjoying the fruits of their joint research.

This, I believe, is the actual state of affairs.

In my presentation today, I would like to introduce the results of our study, that is, what is at issue in the joint research? And how it should or can be solved?

In a highly developed society or community of today, the view of value of the masses, or how they look at things, has varied with the time, presenting various conditions, never imagined before, to the social needs of the present age. New techniques and new products are in growing demand without boring the appetite of the masses. Besides, strong measures are being called for, to check or control pollution of the environment and to conserve resources.

To meet the requirements of such a complex and sophisticated society and to offer techniques and products that match its needs, while overcoming keen competition in the development of techniques, an entrepreneur must secure a large number of men of various professions. The entrepreneur must then assort their expertise so that it will function effectively. It must consolidate the setup to promote research development efficiently.

Yes, admittedly, it is almost impossible for the majority of big businesses to recruit such men and consolidate such a setup single-handed, that is, by their own efforts.

This is why a joint research-- a mutually complementary research development system, whereby an entrepreneur which lacks the expertise is made up for by another with a wealth of know-how-- is being actively carried out.

There are different types of joint research.

For instance, besides the joint research program within the entrepreneurs which is the subject of our study, there are a joint research group composed of private business organisations and government-supported or public research bodies and another comprising business corporations and university research bodies.

It is not possible for me to elaborate on the subject because of restriction of time. I have, therefore, attached to the last page of this report reference materials on joint research groups composed of private business and government-supported or public research organisations.

Well, now, there are 2 types of joint research programs within the business organisations. They are the so-called "on-the-level" type and the "vertical" type joint research.

The former, sometime known as the "level-stream" type, is being conducted in many instances within the same categories of industry like electric makers, all joining hands in developing VTR. The field of specialty is common; the mutually complementary rela-

tionship is thin and the marketability of finished goods is the same in this sort of joint research program. Other than these factors, there are really no problems involved in such a type of research.

Now, in contrast to the former, the latter type, or what we call the "upper-down-stream" type, is a joint research program participated in by different categories of entrepreneurs, for instance, by a manufacturer of raw and processed materials, on the one hand, and by a manufacturer of finished products, on the other, the latter being considered simultaneously a user because they use the materials to make their products.

The joint research of the vertical type is mutually complementary which seeks from the other the potentiality it originally does not have. While one can get some results, if everything goes well, it has complicated problems-- problems where interests of the 2 parties are liable to clash from differences over the rights to the results of the research and over the way of working them out.

From the foregoing, then, one can put it this way:

The relationship of both parties in this type of research is of a seller-buyer's market because the former is a maker and the latter a user. It is usually the buyer who is in a stronger position, then in an ordinary business deal or transaction.

Consequently, such issue as relations of strength between 2 parties is brought to the fore of the joint research; and the maker, which, in this case, is the weaker party on the negotiating table, is liable to accept an unfavourable contract.

We, as a group, have, therefore, taken up this vertical type joint research mainly from the standpoint of relations of strength between the two parties, discussing the controversial points in the contract in respect to ownership of the results of the joint research and to the aspects of putting them to work.

To have both parties carry out joint research substantially on equal footing, we studied what we should do with respect to the contract.

At any rate, I must admit that we were not able to come to a satisfactory conclusion on a solution to the issue.

And so, it should be a blessing if you only assume this presentation as shedding some light on the real issue.

2. Factors to Success or Failure of Joint Research Program

The object of the entrepreneur, on the last analysis, is to put to work the fruits of the joint research through which it can make financial profits.

It is important how conditions are determined when putting the invention or developed products to work beforehand in a joint research contract.

I believe that success or failure of this joint research will depend to a great extent on these factors.

In a vertical type joint research, there exist unique relations between a maker that produces certain materials and a user that uses those materials or makes finished products with these materials.

The interests of both the maker and the user do not always agree in their pursuit of profits because of their differences over the way they put the fruits of their efforts to work.

Suppose, for example, the maker was a producer of chemical materials and the user manufacturer of wristwatches, and suppose they have learned to produce a special kind of plastic materials, light in comparison with metal and as hard as or, in fact, harder than metal with luster and having the property to resist wearing when used in making the outer frame of wrist watches.

The user will try to monopolise the use of the materials for watch making and for other purposes. They will try to reap big profits by having a 3rd party manufacture identical materials in hopes of controlling purchase prices and securing stable supply of the materials.

On the other hand, knowing that they could not recover their investment made in manufacturing facilities as long as they keep selling those materials only to their business partner; the maker will, of course, sell those materials to the user's competitors, namely, the watch makers, as well as to other business concerns. The maker will naturally try to monopolise the production of these materials and obtain as much merits as they can out of mass production and mass sales.

In this way, as you can see, the interests of both sides will certainly clash. It is common, then, to see discordance of interests although there may be varying degrees of differences in almost every vertical type joint research. Insofar as they will carry on joint research, it is indispensable that both sides understand each other's position well and find a common ground of interests by compromising because both sides expect the other to contribute and vice versa in the efficient promotion of research and working of the results.

2-1. Ownership of Results of Joint Research

The question of who has the patent rights to an invention as a result of the joint research will have a significant bearing upon the working of the results.

As a method to determine ownership of the results of the joint research, the following formulas appear to be feasible:

(a) That the ownership be determined on the basis of the extent to which the participants contribute to the research.

(b) That it be determined on the basis of assignment of the participants to the research.

(c) That each be a joint owner of the results.

(d) For reasons of his own. (In case where one side wishes to keep secret the fact that he took part in the joint research because of existing relationship with a 3rd party.)

Let his business partner have the sole rights to the fruits of the research.

Which of the foregoing formulas one should adopt ought to be determined on the basis of contracts, upon considering the object and scope of the joint research and the extent of contribution to the research. The degree of importance of patent rights one holds in connection with the share of research and factors with respect to patent and business relations one has with a 3rd party should also be taken into account. Consequently, one simply cannot say this is the best formula.

If formula (a) is closely examined, it is extremely difficult to determine objectively the extent of contribution, if there were any, at a point when the invention originated. This is because there is no way of assessing it quantitatively.

Now, if an invention was brought about by one of the two sides, credit, of course, must also go to the other side for his contribution of expertise and information in one form or the other. It is unreasonable, then, to give only one side the rights to the invention because it is unthinkable that the accomplishment would have taken place without such contribution.

Formula (c), as explained earlier, seems impartial in form but there are fears that one of them may be at a disadvantage, depending on how procedure of the research scope is promoted. In case, for instance, the theme of the research was determined in such a manner as to allow broad interpretation, it would then leave one thinking as if the self-contradictory results were of the joint research when they really are not.

Formula (d) is seldom adopted. The formula was determined strictly by form. It is, therefore, necessary to find a practical way of solving the rights to the working of the results.

Formula (b) seems relatively fair and reasonable. This formula gives the maker the rights to the materials and parts to make the final products. It entitles the user to the results of the finished products, which are the object of the joint research.

The maker is to the user what a seller is to the buyer, the former being in a weaker position.

Since the seller is in a disadvantageous position, it stands to reason that the rights of the maker to use the products should be acknowledged, thus allowing both sides to share equal rights to the products. It also seems reasonable to recognize the buyer's sole rights to apply the end products.

2-2. Working of Results of Joint Research

Not until it put to work the results of a joint research and gained economic merits can we say that an entrepreneur has achieved its object. It is extremely difficult for both sides to come to a satisfactory agreement on ways to put the results of their joint efforts to work.

There may well be various ways to put the fruits of the research to work, some of which are:

(a) When the user calls on the maker to limit sales of raw materials and parts as fruits of their research to a 3rd party.

(b) When the maker calls on the user to restrict purchases of raw materials and parts from a 3rd party.

(c) A combination of (a) and (b) without a 3rd party intervening. Purchase and sales relations existing only between the maker and the user.

(d) When the maker sells raw materials and parts to a 3rd party other than the user.

(e) When the user purchases raw materials and parts from a 3rd party other than the maker.

(f) A combination of (d) and (e).

(g) When either the maker or the user makes a subcontract 3rd party to produce raw and processed materials, parts or end products as fruits of their research.

Of these, where a 3rd party intervenes in one form or the other may create some problems.

Regarding case (c), in which the maker and user both play a leading role in their respective circles, there would be no real problems at all, particularly, if they share a big market for the kind of goods under which the raw and processed materials, parts or final products come because they could enjoy exclusive merits.

Formula (f) is a case in which neither the maker nor the user will restrain each other from granting the results of the research to a 3rd party.

Of course, there exist the rights to apply for a patent. And since the maker and the user will take advantage of their mutually disclosed knowledge, information and know-how, it will become absolutely necessary to deter them from giving out or disclosing such knowledge and information to a 3rd party through obligation or responsibility for maintaining secrecy.

With respect to case (g), Mr. H. Koide made a detailed report at the Kyoto Congress.

Work by a partner's subcontractor will be regarded as a work by the partner himself. This means that no 3rd party is to intervene.

Methods that may become an issue are (a), (b), (d) and (e). They will come into question when one of the parties concerned makes a 3rd party adopt any of the methods or when one of them places a restraint on the other to allow a 3rd party to operate.

The interests of both the maker and the user are bound to clash in this case. The combination of methods (a) and (c) will be advantageous to the user, and I don't think the maker will agree to it. Concerning methods (b) and (d), this time, the maker will be in a better position. And, of course, the user will oppose this proposal.

To adjust these differences, their profits must be balanced according to the extent of contribution and results they put to work.

With respect to choice of methods, it is a problem that we should discuss with concrete examples. I must admit that in our group discussions, we were not able to arrive at a clear-cut conclusion in principle.

Now, from the standpoint of a maker of chemical materials where I belong, I would like to introduce a proposal which might help solve the problem. To cite some examples, let us assume that a maker as a maker of raw and processed materials; and a user,

using the materials, as a maker of final products. And let's assume further that the object of a joint research is to develop the optimum raw materials for use in making finished goods.

Now, in connection with the results of the joint research, if we chose formula (b), a relatively practical way will open.

1. Now, taking up the matter of selling raw and processed materials to a 3rd party, the maker is permitted to sell them. If products sold to a 3rd party present sharp competition to the user on the retailed market, the maker can either raise the prices of the goods higher than those of the user or let a 3rd party defer his sales by a period of, say, within 2 years after the user starts selling the products on market. Or, for that matter, what the maker can do is to compensate the user by paying him a marginal per cent of the products he sells to a 3rd party.

It is necessary, therefore, to grant the user a preferential treatment. And, at the same time, it is desirable that the products be sold freely on the market if use of the raw and processed materials by a 3rd party and likewise by the user does not run against rach other.

2. The user, as a rule, is prohibited to make purchase. However, I believe he should be allowed to purchase materials from a 3rd party if the maker cannot meet his need, that is, if he cannot supply

the materials in as much quantity as and at prices the user wants.

There may be a division of opinion on this conclusion because of differences of stand between the two sides, the maker and the user.

I came to that conclusion on the following grounds.

First, because there is an overwhelming number of user making financial gains. And extra value of his products is rated very high.

Second, if the results of the joint research concern new application or uses of the existing materials, the maker will be placed under a restraint to sell the materials for ordinary use by the user.

Third, it is absurd that the user should disclose the chemical composition of the raw and processed materials to the competitor of the maker. Even in these circumstances, the user can, nevertheless, commercialise the products at a maximum of 2 years quicker than its rivalry and, thus, dominate the market. And he can enjoy the balanced merits when he gets compensation from the maker.

2-3. Working of Results of Joint Research in Relation to Anti-Monopoly Law

Will there be any problem in case results of the joint research I have been speaking about are worked out in relation to the Anti-Monopoly Law?

Earlier in my report, if you remember, I spoke in the affirmative about the following restrictions one should impose to adjust the interests of the two parties.

(a) To restrict the maker to sell raw and processed materials to a 3rd party by the user, and

(b) As a rule, to prohibit the user to buy raw and processed materials from a 3rd party.

Well, whether such act concerning the so-called unfair business practices is applicable to my proposed restrictions is questionable.

In connection with this issue, the generally designated Unfair Business Practices based on the Anti-Monopoly Law
(hereinafter referred to as "General Designation") and Guidelines for International Technical Licensing Agreements (hereinafter referred to as "Guidelines") are all attached to these papers for your reference.

According to article 23 of the Anti-Monopoly Law, this law is not applicable to acts regarded as exercise of patent rights.

To regard which acts constitute exercise of patent rights depends on the Guidelines.

Relevant to item (1), article 1 of the Guidelines, which reads, and I quote: "To make it obligatory for the licensee to purchase raw materials, parts and so forth from the licensor or a person designated by the licensor is liable to come under un-

fair business practices"; such restrictions as cited earlier in examples (a) and (b) are, therefore, prohibited on grounds of unfair business practices.

However, the act of example (b) is a restriction of identical products made of raw materials, compositions and structure that developed from a joint research. And if it is not a restriction of similarly-made products, then, I don't think there exists any illegality.

If the patent rights to these raw and processed materials belong to the maker, it is obviously a case in which exercise of rights is recognized in accordance with the Patent Act.

Next, in the light of the General Designation, example (a) ordinarily comes under items 8 and 10 while example (b) falls under items 7 and 10. Both are regarded as examples of illegal acts.

In respect to items 7 and 8 of article 52 in the Reference Materials of the Japan Patent Association, conditions are attached that there be no appropriate grounds. And as I have already explained, the exercise of patent rights is applicable on appropriate grounds.

Item 10 under General Designation bans the act of utilising one's predominant position in trading.

As I have elaborated, as long as the joint research is carried out on the basis of a fair contract, there need be no fear of the acts coming under the influence of the phrase "utilisation of one's predominant position".

The strong party should be careful, particularly, of acts which may give the impression that he is taking advantage of his predominant position.

As I will explain, it will become obligatory for both parties to maintain secrecy in a joint research program. To indemnify oneself from loss through breach of obligation concerning secrecy, it seems to me that the restrictions as referred to earlier should be justified and recognized as such.

On the working of the results, it is unthinkable that to effect such restrictions as provided for in (a) and (b) is illegal.

There are rules on patent rights under article 73 of the Patent Law dealing with joint ownership. And item 3 of article 73 reads: and I quote, "that a joint owner may grant neither an exclusive license nor a non-exclusive license without the consent of all the other joint owners".

According to my interpretation of the rules, restraints may be imposed on any of the joint owners by the other. And what is more, ordinary business and license transactions are, in general, governed by the rules based on the Anti-Monopoly Law.

3. Conclusion of Joint Research Contract

I have been discussing the question of ownership and working of the results of the joint research. Now, in connection with this matter, let me direct your attention to some of the points in the contract and negotiations.

3-1. Points We Must Watch in a Contract

There are a number of points in a joint research contract, some of which are extremely important, particularly those relating to ownership and working of the results of the joint research.

(a) Limiting the subject of the joint research- the Scope of the joint research.

It is necessary that the theme on the research be substantially limited as much as possible.

There have always been fears that the results of one's own study and, what is more, his own activities, which are irrelevant to the rights to the working of the results of the joint research, might be placed under a restraint by his opposite partner if the way the theme was selected was vague and indecisive, thus allowing broad interpretation.

It may, therefore, be necessary to leave some room open so that they can discuss and decide on a new theme when its scope broadened in the course of their research.

(b) Mutual Disclosure of Own Art.

To conduct a research smoothly, each side must offer and disclose to the other the know-how of his art, information and research data and acknowledge their use only for the purpose of carrying out joint research. Diversion to other uses, of course, must not be allowed. But it may be permitted if advance consent is given first.

If, unfortunately, the joint research ended unsuccessfully, there would be the question "what to do with the know-how and all the related information". To answer this question, I would suggest that this be collectively placed under a Know-How Licensing System.

(c) Allocation of Costs on Research--Sharing of Costs.

To pursue research without a hitch, each side must share the costs of the work he is to undertake. On sharing of costs, those concerned, as a rule, must share the costs incurred in that area of the research for which they are responsible. However, one of the parties may have to pay part of the costs if share of the other party is high.

(d) Term of Contract.

Fix the term of the contract somewhat shorter than the anticipated research period.

By doing so, the attitude of both sides towards research will grow aggressive, enabling them to reach their goal faster. When renewing their contract,

they should discuss the matter among themselves and decide. If the contract is left to take its own course, that is, left to renew itself automatically, it will just drag on without any substance, giving rise, ultimately, to fear of unexpected trouble to research activities.

3-2. Negotiating a Contract

Several rounds of discussions may have to be held before a formal research contract can be concluded. When considering that tact in negotiations affects the substance of a contract, negotiations will then have a significant meaning.

3-2-1. Prior Conditions of Negotiations

When proposing a joint research or accepting a proposal, it is advisable to make in-dept investigation into the other party before entering into negotiations. This is because the party having a wealth of authentic information in connection with the talks has the advantage over the other in the negotiations.

Following are some of the essential factors subject to prior investigations:

(a) To assess accurately whether the other party is capable of developing techniques.

(b) To correctly grasp the administrative ability of the other party.

(c) To grasp the records of the other party in a joint research work. In such case, its reputation in the business circles will have an important bearing.

(d) To conduct patent examination of the other party's techniques and competitive products.

(e) To carry out market research of products of joint research and of competitive goods and study the market share enjoyed by the other party.

Having confirmed the competency of the other party as his partner in a joint research, he is now ready to enter into negotiations on a contract.

There may be several conditions which I consider necessary to carry on smooth negotiations and in one's favour. Among these are 3 which I regard as important.

The first is to insist upon the conditions that you demand from the other and those you can concede to him and those you cannot.

The second is to lay bare the discordance of interests of both parties as soon as possible and discuss the matter thoroughly; and to present one's contract draft before the other party. By doing so, he can seize the initiative in the negotiations.

And the third, the most important of all, is to make continued efforts to win the confidence of the other and thus to establish a mutually reliable relations with him.

The relations of strength such as, for example, the difference in industrial scale between the two parties concerned or the superiority by nature, according to the position of the seller and the buyer, which are, of course, irrelevant to the joint research would influence the negotiations and, as a result, sometimes compel the weaker side to accept an unfavourable contract.

The entry of such factors into the scene of the joint research will injure not only the weaker party but ultimately the strong party because the side that is more or less forced to agree to the contract will hesitate to furnish the knowledge and information to the joint research. And the researchers' determination to pursue study will weaken leading eventually to a possible collapse of the joint research itself, contrary to the expectation of the parties concerned.

4. Characteristics of the Vertical Joint Research by Type

In the vertical type research, there are various forms, depending on the way the different entrepreneurs are grouped, each having its own problems.

Here, let me classify these into 4 types and point out the features of each type.

(a) Maker and User of Machinery and Equipment.

A group of makers of chemical equipment and chemical products and another of textile machinery and textiles are included in this type.

The trouble with this type, however, is that when the machinery and equipment, the object of this joint research, come off the assembly lines, only the user has the authority to decide whether to commercialise these products.

(b) Maker and User of Raw and Processed Materials.

A group of makers of plastics and processed goods and another of chemical materials and products belong to this type.

Industrial secret passes into the hands of the other party when the maker discloses to him the chemical compositions together with samples of the processed materials. There, then, the trouble begins.

Consequently, it is necessary to reserve the rights of the maker to the results and to the working of those results of the joint research because of easy access to his industrial secrets.

In the case of a producer of chemical and processed materials and a pharmaceutical entrepreneur, it is the latter industry that is increasingly consigning its research to the maker of chemical materials, instead of relying on joint research just as the other industries do. This is because the pharmaceutical industry rich in experiences has to bear greater share of the costs incurred in toxicity testing and in filing drug applications with the government offices concerned.

(c) Automobile and Parts Makers, Electric Appliance and Parts Makers.

In this type of industries, the user in most cases is a huge outfit. Because of mass production and sales of products, the purchase of parts to make these goods apparently increases. In consequence, the parts maker becomes satisfied with supplying his goods to the user. The user, on the other hand, wants to buy them also from other sources as well including a 3rd party to secure a stable supply and to control prices of those parts.

(d) Manufacturer and User of Final Products.

Manufacturer of railway coaches and railway company, manufacturer of communications equipment and telephone company are classified in this type of group.

The user of this type of industry is generally a monopolistic corporation in a community and is a large outfit. Consequently, since there is no competitor in the same market, the user shows extreme leniency towards the maker in selling products to a 3rd party. It is characteristic of this type of industry to conduct a multiple joint research among several entrepreneurs if the products are big and sophisticated.

5. Conclusion

I have discussed both how a joint research should be carried out and how an impartial contract, involving the rights to and working of the results of the joint research should be concluded while focusing attention to the conflicting interests of the parties concerned, one of the most difficult problems in the vertical type joint research program.

In my discussion, it was very simple to single out the points at issue, but difficult to find a universal formula to those problems.

Now, before closing my report, I would like to add that it is my strong desire that both parties display fine partnership, mutually respect each other's stand and make great contributions to the community at large. And it is my hope that they will mutually compromise, enjoying equal benefits. Thank you for listening to my report.

Appendix: Examples of joint research contract between private and national or public research organisations

I

X in sentences indicates national or public research bodies, and

Y indicates private organisations.

Item \ X	Industrial & Technical Institute
Industrial Ownership I	o As a rule, X has the rights. o Y owns the rights if Y is the sole inventor. o X and Y are joint owner if it is a joint invention.
Work by Y II	o When Y puts jointly-owned patent to work, Y must pay fees to X.
Work by 3rd Party III	o Even if the sole patent belongs to Y, X can have a 3rd party do the work if it is for the benefit to the public. o X can grant license to 3rd party if Y does not have good grounds to put it to work even after a lapse of 2 years following the end of a joint research or if it is the need of the public. o License fees for jointly-owned patent will be divided according to one's share.
Costs IV	o In applying for patent, Y must bear all costs incurred.
V	

In the Case of Public Body A

I	o A joint application must be filed for joint invention. (Y will perform formalities) o For a single invention, a single application will be filed. (with prior agreement)
II	o When Y sells products, Y must pay fees to X in commensurate with its interests in the research. o Details on handling of work of the results will be laid down in separate contract.
III	o Consent usually given to 3rd party on the rights to the working of the results upon consultations between X and Y. o X and Y will receive fees in communsurate with their share.
IV	o Share in expenses to be determined upon consultations whenever necessity of costs arises.
V	

In the Case of Public Body B

I	o Joint ownership depending on existing situation
II	
III	o X and Y to give consent jointly. o It is unnecessary to get okay from the other when letting a 3rd party work to supply products for use, or for sales or for construction under order by either side. (No fees are collectable.)
IV	o Y is to bear all costs incurred in obtaining and maintaining patents.
V	o There are increasing cases where inventions occur with the placing of work orders. In such cases, both sides are to consult with each other to determine the rights to the patent.

In the Case of Public Body C

I	o As a rule, X and Y have the industrial ownership. Sometimes, it may be X or Y alone that is entitled to the rights, depending on the extent of its contribution.
II	o In case of a joint invention when Y, and not X, puts the invention to work, Y is to pay X compensation fees which are determined by consultations between the 2 parties. o A sole patent holder will automatically allow the other to put the results to work.
III	o Even if it was a matter of a sole patent holder, the transfer of rights or giving consent to a 3rd party to perform the work must be reported to the other in advance. o In case of joint holder of a patent, X can give consent to a 3rd party if Y still does not put the patent to work even after a lapse of 3 years following application of patent.
IV	o Each side must bear the costs for that portion of the research he is in charge of.
V	o In case of cancellation of contract due to natural disaster or circumstances beyond one's control, X and Y must discuss and decide on the treatment of the results of the joint research and patent rights, if any.

In the Case of Public Body D

I	o X and Y are jointly entitled to the rights
II	o Y is to pay X the working fees decided upon through discussions between the 2 parties.
III	o X and Y will discuss and determine the working fees to be paid by a 3rd party. o And they will share the fees equally between themselves.
IV	o Y is to bear all costs incurred in the filing of the application and maintenance of the patent.
V	o On drawing up a contract, Y is to pay a lump sum to X. o And on the establishment of a patent, Y is also to pay a lump sum to X.

Appendix II

UNFAIR BUSINESS PRACTICES

(Fair Trade Commission Notification No. 11 of 1953)

In accordance with the provisions of Section 2 (7) of the Act concerning Prohibition of Private Monopoly and Maintenance of Fair Trade (Act No. 54 of 1947), unfair business practices, other than specific business practices in a particular field of trade to be designated in accordance with the procedure as provided for in Section 71 of the said Act, shall be designated as follows:

Unfair Business Practices

(1) Unduly refusing or limiting deliveries from certain entrepreneurs or to supply to certain other entrepreneurs, commodities, funds, or other kinds of economic benefit.

(2) Affording without good reason, substantially favorable or unfavorable treatment to certain entrepreneurs in regard to the terms or execution of transactions.

(3) Excluding specific entrepreneurs from concerted activities or from a trade association, or unduly discriminating against specific entrepreneurs in the concerted activities or the trade association, thereby causing to such entrepreneurs undue disadvantage with respect to their business activities.

(4) Supplying or receiving, without good reason, commodities, funds, or other kinds of economic benefit at prices which discriminate between customers in different places or between customers.

(5) Supplying commodities, funds, or other kinds of economic benefit at unreasonably low prices or receiving them at unreasonably high prices.

(6) Inducing or coercing, directly or indirectly, customers of a competitor to deal with oneself by offering undue advantages or threatening undue disadvantages in the light of normal business practices.

(7) Dealing with customers on condition that they shall, without good reason, not supply commodities, funds, or other kinds of economic benefit to, or not receive commodities, funds, or other kinds of economic benefit from a competitor of oneself.

(8) Dealing with customers on conditions, which, without good reason, restrict any transaction between the said customers and the supplier of commodities,

funds, or other kinds of economic benefit to them or between the said customers and any person receiving those from them, or any relationship between the said customers and their competitors.

(9) Dealing with a company on condition, without good reason, that the appointment of officers of that company (meaning those as defined by subsection (3) of Section 2 of the Act concerning Prohibition of Private Monopoly and Maintenance of Fair Trade) shall be subject to prior direction or approval by oneself.

(10) Trading with customers on conditions which are unduly unfavourable in the light of normal business practices by making use of one's predominant position over the said customers.

(11) Unjustly interfering with a transaction betweeen other entrepreneurs who compete in Japan with oneself or with the company of which oneself is a stockholder or an officer and their party to such transaction by preventing the execution of a contract, or by inducing breach of contract, or by any other means whatsoever.

(12) Unjustly inducing, abetting, or coercing a stockholder or an officer of a company which competes in Japan with oneself or a company of which oneself is a stockholder or an officer, to act against the interest of such company by the exercise of voting rights, transfer of stock, divulgence of secrets, or any other means whatsoever.

Appendix III

ANTIMONOPOLY ACT GUIDELINES FOR INTERNATIONAL LICENSING AGREEMENTS

May 24, 1968
Fair Trade Commission

1. Among the restrictions which are liable to come under unfair business practices in international licensing agreements on patent rights or utility model rights (hereinafter referred to as "patent rights") the following are the outstanding:

(1) To restrict the area to which the licensee may export the goods covered by patent rights (hereinafter referred to as "patented goods").

However, cases coming under (a), (b) or (c) listed below are excluded:

(a) In case the licensor has patent rights which have been registered in the area to which the licensee's export is restricted (hereinafter referred to as "restricted area");
(b) In case the licensor is selling patented goods in the restricted area in his continuous business;
(c) In case the licensor has granted to a third party an exclusive license to sell in the restricted area.

(2) To restrict the licensee's export prices or quantities of patented goods, or to make it obligatory for the licensee to export patented goods through the licensor or a person designated by the licensor.

However, such cases are excluded where the licensor grants license to export to the area coming under either of the preceding (a), (b) or (c) and the said restrictions or obligations imposed are of reasonable scope.

(3) To restrict the licensee from manufacturing, using or selling goods, or employing technology which are in competition with the licensed subject.

However, such cases are excluded where the licensor grants an exclusive license and imposes no restriction on goods already being manufactured, used or sold, or technology already being utilized by the licensee.

(4) To make it obligatory for the licensee to purchase raw materials, parts, etc. from the licensor or a person designated by the licensor.

(5) To make it obligatory for the licensee to sell patented goods through the licensor or a person designated by the licensor.

(6) To restrict the resale prices of patented goods in Japan.

(7) To make it obligatory for the licensee to inform the licensor of knowledge

or experience newly obtained regarding the licensed technology, or to assign the right with respect to an improved or applied invention by the licensee to the licensor or to grant the licensor a license thereon.

However, such cases are excluded where the licensor bears similar obligations and the obligations of both parties are equally balanced in substance.

(8) To charge royalties on goods which do not utilize licensed technology.

(9) To restrict the quality of raw materials, parts, etc. or of patented goods.

However, such cases are excluded where such restrictions are necessary to maintain the creditability of the registered trademark or to insure the effectiveness of the licensed technology.

2. The aforementioned guidelines shall apply to international know-how licensing agreements.

3. In international licensing agreements on patent rights, etc., the following acts shall be regarded as the exercise of rights under the Patent Act or the Utility Model Act:

(1) To grant license to manufacture, use, sell, etc. separately;

(2) To grant license for a limited period within the life of patent rights or for a limited area within the whole area covered by patent rights, etc.;

(3) To restrict the manufacture of patented goods to a limited field of technology or to restrict the sale thereof to a limited field of sales;

(4) To restrict the use of patented processes to a limited field of technology;

(5) To restrict the amount of output or the amount of sales of patented goods or to restrict the frequency of the use of patented processes.

TECHNOLOGY TRANSFER FROM SMALL ORGANIZATIONS TO LARGE ORGANIZATIONS AN EXAMPLE

HOMER O. BLAIR
VICE PRESIDENT,
PATENTS AND LICENSING
ITEK CORPORATION

Introduction

As you all know, it is sometimes quite difficult to transfer technology from a small organization to a large organization, often because of the different concepts and methods of operation each of the parties habitually uses and because of the differences in financial strength and marketing ability. Usually, if the new product idea has been conceptualized at the small organization, it does not have the assets or abilities to completely develop the product for manufacturing. Thus, it may very well seek some arrangement with a larger organization which has the necessary financial muscle to make some arrangement so that both parties can benefit from the new product.

I will give an example based on an actual situation to show that, by being creative and flexible, large corporations may very well be able to utilize some of the innovative concepts developed by individuals or very small companies in such a way that the

product is developed in a reasonable time and both parties receive substantial benefits.

Itek Corporation

In order to set the stage, I will briefly describe the business of Itek, as it is pertinent to the example which I am about to discuss.

Itek is a medium-sized, quite diversified corporation having about $300 million in annual sales. About 75% of these sales are in various commercial fields and about 25% are in high technology Government businesses where the U.S. and other Governments, including Japan, are our customers.

Eyeglass Business

A major sector of our commercial business is what may be called the eyeglass business. Itek is third in the United States in this business following American Optical and Bausch & Lomb. Those of you who are patent lawyers may remember the old Univis antitrust case. We're Univis. Of course, we weren't Univis at that time. They did those bad things that were covered in the antitrust case before we acquired them.

In part of this operation, we buy glass blanks from someone such as Corning Glass and manufacture partially finished eyeglass lenses (finished on one side). In the United States, the lens manufacturer sells the partially finished glass lens to what is known as a wholesale laboratory which, in turn, will sell the completely finished lens to an optician, an optometrist or an ophthalmologist. We also have a number of wholesale laboratories.

Thus, we are selling both to ourselves and to completely unrelated laboratories.

We also buy the ingredients to make plastic lenses from PPG Industries, and we make partially finished plastic lenses which are also sold to wholesale laboratories. Of course, as part of our eyeglass manufacturing business, we make bifocals, trifocals and the progressively variable multi-focal lenses, without lines between the two or more different sections.

Itek also makes a wide variety of eyeglass frames, both in plastic and metal, as well as eyeglass cases. Also, we are probably the largest factor in what is known as the reading glass or magnifier market. These glasses can be bought in stores like Woolco, in all states except New York and Massachusetts. They are necessary when you reach a certain age and you find you are having trouble reading the fine print.

Business or Graphic Products

The other part of our commercial business is an outgrowth of what originally was the Photostat Corporation, which we acquired a number of years ago. Among other things, we make equipment known as offset platemakers. This equipment, which is really a big camera, takes a photograph of a document, an advertisement, or whatever you wish to copy, and makes a paper printing plate. This plate is used as a master on a printing press to make up to 10,000 copies. We also sell small printing presses to print copies from these paper printing plates.

Many of you have printing and publication operations in your companies. If you want a lot of copies made of something, your company will often use equipment made by Itek to do this. As a matter of fact, all newly issued U.S. patents are printed on Itek equipment.

Also, we make equipment known as camera-processors which are used in advertising and other publishing operations. In addition we make microfilm reader-printers primarily for the engineering drawing business. A fairly new part of our business is the phototypesetting business which will be the subject of my example.

Government Business

I will briefly mention our Government business which is composed of two parts. The first is very sophisticated optics and electro-optics. We make lenses and mirrors up to 100 inches in diameter which are used for aerial and space photography. For example, the pictures you saw sent back from the surface of Mars showing the rocks, both in black and white and color, were taken and transmitted on Itek electro-optical equipment. Also, the aerial photographs of the moon which were taken by the Apollo astronauts were taken on Itek optical equipment. You recall when the astronaut went outside of his capsule to recover this film.

The other part of our Government business is what is known as radar homing and warning. You place a small black box on a fighter airplane, fill it full of electronics, and it can tell the pilot whether someone has shot a missile at him or if someone is looking at him on radar and tell him what to do to get out of the way.

Phototypesetting

A few years ago the people in charge of our Graphics business, when working on their strategic plans, realized that most of their products were sold to two classes of customers. The first was the so-called inplant publishing which is done inhouse by corporations and the Government.

The other type of customer was the small printer that you see in all U.S. cities who can make photocopies of varying degrees of quality, and can print up brochures, catalogues, small publications, etc. for outside customers.

Our Graphics people were looking for new businesses and decided that there could be a useful market for Itek in certain aspects of the phototypesetting business. In phototypesetting you take the raw input material, which may be typewritten or handwritten or a mixture, and have someone typeset it by typing on a keyboard, something like a regular typewriter keyboard. Then, by some technique, obtain either a film or some other form, from which you can make a printing plate and from which you can have the final product printed.

Our people felt that there was an opportunity in both inplant publishing and small print shops for phototypesetters which might be less expensive and less complex than the large ones used in the newspaper or magazine fields, but would be more sophisticated than some of the small phototypesetters which were really quite rudimentary. Such a product, they felt, could be sold to the same customers that we already served and could be marketed and serviced through the same general organization.

How to Get Into the Phototypesetting Business

There was always the possibility of acquiring a company which had a phototypesetting line, but, upon investigation, this did not seem to be particularly attractive. Another possibility would be for Itek to distribute to our customers phototypesetters made by others. However, this did not work out.

In some of their discussions with others, our people heard of two engineers who might be interested in developing a phototypesetter for Itek. They contacted these engineers with the result that the engineers did set up a small company, which I will refer to as "D" Company.

As the engineers were previously employed, they obtained a suitable release from their former employer so there would be no problems about any inventions or products which they would develop for Itek.

Reasons for the Structure of the Arrangement

In initial discussions with the engineers the possibility of Itek hiring the engineers and setting up a research lab to develop the product was considered. However, the engineers wanted to be independent and did not want to be employed in any organization, if at all possible. They were prepared to work very hard and to take a significant risk if there was a potential payoff later rather than work under a regular R&D type contract where they would make their money only from profit on the contract.

At this time in Itek's history, Itek had just decided to discontinue its corporate research and have the various divisions do any necessary R&D. Also, Itek's earnings picture was such that a new President had just come to Itek. For these and other reasons, division management felt that they could not get permission to set up a new internal R&D group to develop a new product which might pay off at some indefinite time in the future, particularly inasmuch as Itek had no particular skills in the phototypesetting area and would have to hire a number of people from outside in order to staff such an R&D group.

On balance, the arrangement which I will discuss, and which was adopted, appeared to be able to provide a real product, faster and cheaper than if Itek did it itself.

The Agreement

After a considerable amount of discussion, negotiation, etc. the following business arrangement was developed. A development program was established which was to take place in four phases. The items specified in the agreement were the length of the phases in months as well as the general goals of the phases. However, the specific goals of each phase would be negotiated at the start of that phase. The total money to be spent in each phase was specified and the final specification of the product to be developed were set forth in as much detail as was available at that time.

The money was to be paid monthly against invoice-specified expenses plus certain percentages for overhead and a very small

profit. In each phase money overruns or underruns could be charged against or credited toward other phases.

The ultimate goal was the construction and design of two prototype phototypesetters together with drawings suitable to be used as manufacturing drawings. The prototypes were to be tested so that manufacturing could then take place.

It was specified in the agreement that all work under this agreement was to be under full-time direction of one of the engineers who would act as a general manager of the project. D Company was also required to hire a part-time administrator, who was acceptable to Itek, to maintain books and records and do other administrative jobs.

Termination Provisions

One of the major pointswhich made this agreement attractive to Itek's Board of Directors at that time was that the agreement could be terminated by Itek on 45 days notice. Thus, if the project didn't work out, there were no obligations other than the 45-day notice and whatever close-down work needed to be done during that period of time. There were no facilities to shut down, no equipment to sell, no employees to lay off or transfer and none of the usual problems you have in turning off one of your own operations, if it was not successful.

Of course, as is usually the case in documents negotiated by lawyers, particularly U.S. lawyers, there was a substantial amount of space taken up specifying the rights of various parties if the agreement was terminated before completion of the project.

Fortunately, the project was not terminated and it was completed successfully.

One item that should be noted in this regard is that if Itek decided not to proceed with the complete development of the system, Itek would be reimbursed by D Company in an amount equal to 200% of all payments made by Itek to D Company. This money would be obtained from a royalty rate of 1% of net sales made by D Company and/or at a rate of 25% of whatever D Company received from others if D Company decided to license or sell its rights in the system. Of course, if D Company did nothing, Itek would not receive any money back.

Inventions and Proprietary Data

The agreement also included clauses relating to inventions and data. Itek would own all the data, drawings, etc. and inventions, whether patentable or not, which were either owned by D Company at the time of the agreement or which were conceived or reduced to practice during the period of the agreement and which related to the subject matter of the agreement.

Itek would make all decisions with respect to filing patent applications and prosecuting the patent applications as well as maintaining them in non-U.S. (and Canada) countries. This would be done at Itek's expense. If Itek decided not to file a U.S. or foreign patent application on any particular invention, D Company could do so at their expense, with Itek receiving a non-exclusive, royalty-free license.

As a matter of interest, Itek presently has ten issued U.S. patents, which grew out of this project, and one U.S. patent application, which has been allowed.

Benefits to D Company

Now, what would D Company and the two engineers get out of all of this? First, D Company would get royalties on sales of the first 10,000 phototypesetting systems sold by Itek which grew out of this development, whether or not any patents ever issued on any parts of the system. These systems sell for between $10,000 and $15,000, so you can see we are talking about a product having between $100 and $150 million of sales for the first 10,000 systems.

The royalties paid were a percentage of net sales, starting at a very low royalty and rising as more systems were sold. Royalties increased with sales because Itek would be able to make more profit on the products as Itek got more experienced at manufacturing and marketing them. Thus, Itek would be in a better position to pay higher royalties as time went on.

These royalties were calculated so that when Itek had sold the first 10,000 systems each of the two engineers would have received about $1 million in royalties. This has not yet occurred, but it will happen in the not too distant future.

If other products, which were not included in the definition of the system, were sold by Itek or, if systems were sold by Itek after the first 10,000 systems, and if either of these categories of products were covered by the claims of an issued, and not invalidated, U.S. patent obtained by Itek under this agreement, Itek

agreed to pay a royalty at a reasonable rate depending on the coverage of the claims involved and their importance to the product being sold at that time.

This royalty would be between 1% of the effective net selling price of the portion of the system covered by the claim and 5% of the net selling price of the entire system.

If Itek and D Company cannot agree on the royalty at that time, there is set forth what is hopefully a simple mechanism for deciding the royalty rate. Itek and D Company would each select one member of the Licensing Executives Society (LES) and those two members would then in turn select a third LES member. The three LES members would decide the royalty within the above limits, based on all the facts, with Itek and D Company sharing the cost of the panel. Inasmuch as the only item to be decided is the royalty rate, this seemed to be a comparatively simple arrangement with which both parties could live.

The royalty periods involved in these royalties were specified in the agreement as starting upon the later of the issue date of the U.S. patent involved or the date of the first commercial sale of the equipment involved. The royalty period would end on the earlier of ten years from the start of the royalty period or fifteen years from the date of the agreement.

It should be noted that the royalties are to be calculated, and the various dates involved are based, on U.S. patents, even though the product itself might be made anywhere in the world and

might, or might not, be covered by non-U.S. patents. Thus, technically, the product might not be infringing the claims of any patents where it was made, used or sold. Keep in mind, however, that the original concept was that the inventors would receive royalties on the first 10,000 systems whether or not any patents ever issued.

Both parties felt that Itek would have no conflict in deciding where it should get patents and which U.S. or non-U.S. patents it should obtain and maintain under such an arrangement. It would be of more benefit to Itek to have the best patent position possible to fight off competitors than to deliberately not issue certain patents merely in order to avoid payment of reasonable royalties to the engineers involved. So far this has proved to be true. The engineers and Itek agree it has worked well from that aspect.

Inasmuch as one or both of the engineers are inventors of all the patents involved, it is very easy to keep them aware of what is going on in the patent situation, both in the U.S. and foreign countries.

Payments to Others for Patent Infringement

The agreement also provides that if Itek should be required to make any royalty payments to others, because of infringement of patents of others by the system, Itek may deduct 50% of the payments to others and 50% of Itek's out-of-pocket costs relating to any negotiations, etc. Keep in mind this does not include Itek's internal costs. It is specified in the agreement that D Company has the right to participate in any negotiations or litigation at their expense, but Itek has the right to make the final decision.

How Did the Arrangement Work

Thus, the arrangement I have described is a mechanism for a company like Itek to obtain the development of a new product at a comparatively low initial cost and in a comparatively short time. As a matter of fact, both these engineers worked 7 days a week, more than 12 hours a day many times, sometimes sleeping near their desks at night in order to spend as much time on the project as possible. They had a strong incentive to complete the work as soon as possible and do as good a job as possible because, although their costs were being paid for, they were not really making any significant profit.

As might be expected during the development, there were some cost overruns, which were approved by Itek at the time they were undertaken. These cost overruns are handled as follows. After 5,000 systems have been sold, the royalty rate goes from one rate to a higher rate. Itek will withhold the difference between the lower rate and the higher rate until such time as they have recovered the money from the cost overrun. The royalties after that time will be paid at the higher rate.

This product was developed very close to the time specified and, even with the cost overruns, a small amount of money was spent compared to what it would have cost Itek to develop it itself, if it had had the ability to do so. The product is being sold in the U.S. and a number of countries in the world and is quite successful.

My Department, called the Patents and Licensing Department, is somewhat unusual among Corporate Departments in that we obtain the pertinent sales data on which we pay royalties from the divisions involved. We then pay the royalties through our Department and receive royalties from others through our Department. These royalties are charged or credited to the various divisions involved. This permits me to make sure that the proper amounts of royalties are being paid and, in this particular case, the two engineers are very happy with the royalties received from Itek on this development.

Committee #2 Japanese Group
Chairman: Kou Kunieda

Technology Transfer to China

by

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1. Introduction

Japan's technical export, particularly plant export, to China has been showing a sharp increase recently. But as there had not been a great deal of plant export from Japan to China until two or three years ago, we, patent and licensing personnel of companies, have had very little experience in the plant export to China. We have taken up this problem during the meetings of the Second Committee, and will hereunder report the results of our discussions.

We regret that there have been a number of factors which prevent this report from being complete in every respect. Those factors include the relatively few instances of plant export to China achieved by the companies to which the members of our committee belong; the shortage of relevant information and data; and the difficulty involved in the recognition of the Chinese policies, and fluid aspect of the situation.

Before proceeding to the main subject, we wish to look back upon the history of China's technical import, which may be roughly divided into the following periods:

First Period (1951 - 1960)

China imported technology exclusively from the Soviet Union under the treaty concerning economical and technological assistance between the two countries.

Second Period (1963 - 1966)

China imported plants mainly from West European countries.

Third Period (1966 - 1970)

China saw the Great Proletarian Cultural Revolution, and adopted the policies of technological independence.

Fourth Period (1971 - 1975)

China increased its technological import from the West. U.S. President Nixon visited China during this period.

Fifth Period (1975 -)

China tried to introduce the four modernization policies, and the so-called Group of Four Gangsters attempted to hinder it. The Four Gangsters, however, fell from power, and China has stepped up its technical import.

2. Problems of Licenses in Plant Export Contracts, etc.

(1) Readiness of China to receive Technical Assistance

The Chinese authority engaged in the negotiations and contracts concerning technological import is China National Technical Import Corporation, which is an extra-departmental organization of the Foreign Trade Department

of Ministry of National Affairs.

The Corporation has been streamlined since 1977, and now consists of the following departments:

General Dept.

First Business Dept. - Petroleum refining, fertilizers, etc.

Second Business Dept. - Metallurgy, coal, etc.

Third Business Dept. - Electricals, electronics, etc.

Fourth Business Dept. - Fibers, light industries, etc.

Fifth Business Dept. - Personnel

Sixth Business Dept. - Parts

(2) Characteristics of Technical Export to China

One of the most important factors to be kept in mind in considering any technical export to China is the manner in which China proceeds with technical import.

China chooses to import a particular kind of technology through a review of various kinds of literature and a study by a research organization. The criteria for such selection at this stage appear to include examination to see (1) if a particular kind of technology is a sophisticated technology which is highly evaluated on a worldwide basis, (2) if it is a highly reliable level of technology proven by the results of technical export

and actual production accumulated in the past, and (3) if it is a unique sort of technology.

In accordance with the results of the foregoing preliminary search, China dispatches a group of surveyors or inspectors to various companies and plants for carrying out a fact-finding survey of both technical and economical aspects of a particular program.

An inquiry from China in respect of technical import is made in the form of an offer for technical exchange. In response to this inquiry, an enterprise which intends to export its technology furnishes technical data and holds a meeting for one-sided technical explanation under the name of technical exchange. In this connection, it is said that China hardly accepts an obligation to maintain secrecy. While the length of the period required for such technical exchange depends on the technical subject involved, the past experience of the foreign enterprise in technical export to China, it is generally considered to take from two to four weeks. The technical exchange is usually followed by a formal inquiry, and commercial negotiations. Such technical exchange and negotiations are sometimes carried out on condition that a formal inquiry should follow, and in such a case, the technical exchange and commercial negotiations continues for several months.

A second characteristic of China's technical import is a package deal of licenses on patents and know-how accompanied by designs, machinery, equipment, materials, etc. At present, China hardly buys patents or know-how alone, but in most cases imports plants or manufacturing equipment in which patents or know-how is specifically embodied. Consequently, it is difficult to draw a clear line between responsibility of the licensor and the plant supplier. The patents and know-how license fees are listed separately from the plant equipment, the engineering and technical assistance fees, etc. The great concern to China is the total amount which breakdown is considered by China as a matter of concern to the vendors. A typical example lists about 5% of the total contract price as the patent and know-how fee. However there is an example in which patent and know-how fee was successfully agreed at 25% of the total price. Further there is even an example that know-how fee exceeds equipment fee for improvement of the existing plants. The payment of the fee is made on a paid-up basis. In Japan there has not been a contract providing for the payment of a running royalty to the best of our knowledge.

(3) Principal Problems of Licensing Terms and Conditions

We will take up only the main points of the licensing

terms and conditions of the contract.

The types of the licenses to be granted are either a license with the right to freely expand plants, or a unit license with certain restrictions to such expansion. It appears that China has come to accept a unit license, because the license fee is relatively low, and the right of plant expansion in future does not guarantee any substantial benefit in the field where technology makes rapid progress. In the case of Unit License China is to advise beforehand licensor its intention to expand and to consult the terms and conditions. This is noteworthy as China recognizes the system of patent and know-how of the West.

The territory for the sale of the licensed products is generally not specified in the contract. It is possible in some case to restrict export to the country of licensor. While China introduces foreign technology, in principle, only to meet local demands, they may have to export products to get foreign currency even if local demands are not sufficiently met.

The contract often provides that the licensor shall assume the full responsibility for settling any patent or know-how infringement involving a third party. This point is, however, out of the question for the time being,

because at present, China has no patent system, and hence, there is no possibility that any infringement of a patent may occur in China.

The licensor is often required to agree to furnish any technical improvement and grant a license thereunder, free of charge for a period of several years after the contract has come into force provided that major improvement can be deleted. It is said that China may sometimes accept a proposal for grant-back of technical improvement, but China is not likely to provide useful technical improvement.

China has agreed to incorporate a confidential clause against a third country. There are reportedly some cases in which China has agreed to the introduction of clauses prohibiting the disclosure of technology in a domestic publication, or otherwise to anyone except concerned party. However the definition of concerned party is not clear. Besides it is questionable if the same technology is really protected against third party, for example if it is not applied for other purposes.

3. Patent Situation in China

Mr. Komoto, former International Trade and Industry Minister, expressed an official view during his visit to China in September 1978 to the effect that "it should

be desirable to establish a system for protecting patents, etc. in China in order to promote the technical exchange between China and Japan, and that Japan would be pleased to extend cooperation if China was prepared to conduct a study in that connection." Under these circumstances, a group of people headed by Mr. Bu Ko, Assistant Chief of the State Scientific and Technological Commission came to Japan in December 1978, and visited the Patent Office, private enterprises, etc. to make an all-out survey of the industrial property system in Japan. On that occasion, the Head of the Commission requested that Japan dispatch a study team representing both the governmental authorities and the private enterprises to China.

Upon request of China, a study team headed by the Director-General of the Patent Office visited China in April 1979 to grasp the actual situation in China and discuss the possibility of future cooperation.

The following summarizes the Chinese plans and positions toward a patent system, etc. on the basis of such information as the answers to the questionnaire prepared by the Japanese Commission:

(1) Creation of a Patent System in China

A series of surveys and researches has confirmed the necessity of a patent system. This conclusion has

been reached for the reason that failure to settle amicably any problem arising in connection with patent protection is likely to have an adverse effect on the economical, scientific and technical exchange between China and a foreign country in the future, and that it is also necessary to provide protection for any invention which may be achieved by Chinese people during the realization of the four modernization programs.

The Product Department of the State Scientific and Technological Commission is at present in charge of the business concerning the establishment of a patent system. This work is being done along the following guidelines:

(a) The rich experience of foreign countries in connection with patent protection is studied for the establishment of a patent system in China. As the first step, a group of surveyors was sent to Japan last year, and plans are under way to dispatch people to France, West Germany, Yugoslavia and WIPO.

(b) A small group of legal specialists has been organized to work out a draft of the Chinese Patent Law, which is expected to be completed during the latter part of 1979.

(c) A group of selected people is dispatched to foreign countries for bringing up patent specialists. For this purpose, it has been agreed to send five persons

to Japan. It is desirable, if possible, to dispatch personnel to another country or countries, too, for a study of the patent system there and the practice connected therewith.

(d) It is desirable to open a course of study on patents at an appropriate university and hold an institute in order to bring up patent specialists.

(e) It is well recognized that the complete provision of patent documents and the establishment of an organization for collecting information will be important for the purpose of examination of patent applications.

(f) The patent system will be established through the gradual solution of the foregoing problems. When the conditions are fully satisfied, China is expected to join the Paris Convention and other international unions relating to industrial property.

Moreover, China has expressed its intention to draft a Patent Law taking the situation of Taiwan into account, as it has to consider its relation with Taiwan when implementing the law. While the situation is fluid and therefore it may be difficult to say definitely now it is assumed that they will draft the system close to the equivalent of the Free World which can be acceptable internationally. The question remains, however if the Patent Law could effectively function as there are many

uncertainties in a legal system for ensuring a fair solution to any dispute arising between the parties. They are reportedly studying to complete such legal system.

(2) Ordinance for the Encouragement of Inventions

China officially announced the revised Ordinance for the Encouragement of Inventions in December 1978. The position of China in respect of this ordinance can be summed up at random as follows.

(a) Relationship between the above Ordinance and Patent Law is practically similar to that of encouragement of invention and Patent Law practiced in Japan. The current Ordinance specifies a mere rewarding system and does not provide any legal protection for an invention.

(b) No penalty is specified to a third party practising an invention rewarded pursuant to the Ordinance. The Government is obligated to keep any such invention free for use by any third party.

(c) To keep know-how secret, which is self-evident in the West, may bring about critisism in China.

(d) No details of an invention rewarded to the Ordinance is made public. It will be necessary to make

any such invention public and provide protection therefor in future.

From the above, the Ordinance can be considered to contain the same philosophy with Japanese "Invention in Service" at government office and private enterprise.

However we would like to pay attention to how they are specified in drafting Patent Law.

4. Conclusion

During the Fourth People's Representative Convention in January 1975, China decided, as a policy of the first priority, to "establish independent, relatively orderly industrial and national economical systems before 1980 and realize full modernization in the four fields of agriculture, industry, national defense, and science and technology to raise its national economy to the most advanced level in the world." After that, though there was a delay due to the political pressure exerted by the Group of Four Gangsters, or the like, the foregoing four modernization plans were reconfirmed. Accordingly, it is the current fundamental principle of China to promote actively any such technological import from foreign countries as will help carry out the four modernization plans.

Under the above principle they are studying such system as can be accepted by the West. They formulated

"China-Foreign Joint Venture Law" this July and also approved a capital investment of foreign enterprise and the remittance of the profit to the foreign country. They declared to draft Patent Law sometime later this year. These measures are no more than one step forward and interpretation and actual implementation of the above Joint Venture Law is not clear. In addition even when Patent Law is formulated other legal system is not complete such as court procedure to support it. In other words "it has the form but not the spirit."

We would like to anticipate further efforts of China and extend our full assistance so that technical transfer can be made as smoothly as possible even when it takes long time.

Reference

1. Nihon Brain K.K.: "Manual of Technical & Patent Licensing for China."
2. Nihon Tokkyo Kyokai: "Problems of Plant Export & Licensing for China" (Data No. 60)
3. Report of the Patent Office Commission to China
4. "Business International," July 20, 1979

Ordinance for Encouragement of Inventions of the People's Republic of China

Revised and promulgated in 1978

Article 1.

This Ordinance is established to give rewards to inventions and modernize science and technology, thereby accelerating the construction of socialism.

Article 2.

An "invention" as used in this Ordinance shall be a new important achievement in science or technology and simultaneously satisfy the following three conditions:

(1) To have been non-present before

(2) To be innovative

(3) To have been proved to be practically applicable

Article 3.

The National Science and Technology Committee of the People's Republic of China (hereinafter called the "National Science and Technology Committee") shall

exercise united guidance on the encouragement of inventions throughout the country. Each department of the National Government and the science and technology committee of each province, city and autonomy (hereinafter called the "Province, City or Autonomy Science and Technology Committee") administer and guide the application and examination of inventions in their respective areas.

Article 4.

An application for invention by an inventor (a group or an individual) shall contain the following items:

(1) Name of the invention (2) Detailed description of the invention (3) Inventor (4) Reasons for claiming to be an invention (5) Time of completion of the invention (6) Date of application (7) Addressee of the application and references for examination

Article 5.

The procedure for application and approval of an invention shall be as follows:

(1) The inventor shall submit an application for invention, and the application is passed from

lower to higher classes in accordance with the relation of subordination. Simultaneously, copies of the invention shall be submitted to the Province, City or Autonomy Science and Technology Committee and the competent department of the National Government.

(2) Upon receipt of the application, the competent agency or bureau of each province, city or autonomy shall promptly examine the invention, and if it satisfies the conditions mentioned in Article 2 of this Ordinance, shall report it to the local Province, City or Autonomy Science and Technology Committee and the competent department of the National Government.

(3) Various science and technology associations below the level of province, city and automony and various academic societies may equally recommend invitation items to the agencies and bureaus concerned of the local provinces, cities and autonomies. The National Science and Technology Association and various academic societies may recommend invention items to the competent departments of the National Government.

(4) Upon receipt of the application, the Science and Technology Committee of each province, city or autonomy and each competent department of the National Government shall promptly examine the invention and, evaluating the reward rating of the invention if it satisfies the conditions mentioned in Article 2 of this Ordinance, report the reward rating to the National Science and Technology Committee.

(5) The National Science and Technology Committee shall organize an Invention Examination and Recommendation Committee to entrust to it the examination and recommendation of invention items and the evaluation of reward ratings. On the basis of the reporting of the Invention Examination and Recommendation Committee, the National Science and Technology Committee shall approve the granting of rewards.

(6) The procedure for application and approval of inventions concerned exclusively with national defense shall be established separately by the National Defense Science and Technology Committee and the National Defense Industry Office. Each invention concerned exclusively with national

defense shall be handled first by the National Defense Science and Technology Committee and the National Defense Industry Office for examination, reward rating evaluation and approval and be reported to the National Science and Technology Committee for approval of the granting of reward.

Article 6.

The giving of reward for invitations shall be done on the principle of giving priority to the politics of proletariate, combining spiritual encouragement and material encouragement and placing emphasis on spiritual encouragement.

Depending on the magnitude of their roles and significance, invitations shall be classified into the following four classes:

Reward rating	Honor	Prize
1	Invention certificate and badge	10,000 Yuan
2	"	5,000 Yuan
3	"	2,000 Yuan
4	"	1,000 Yuan

Article 7.

An especially important invention worth special honor shall be reported by the National Science and Technology

Committee to the National Government and be given separate reward upon approval.

Article 8.

In the case of an invention by a group (including a cooperative shop), the prize shall be distributed rationally depending on the degree of contribution of each member of the group. In the case of an invention by an individual, the prize shall be given to the individual.

Article 9.

Each invention shall become the property of the State, and each shop (including group-owned shops) may utilize any necessary invention.

Article 10.

With respect to the announcement of the contents of an invention and the classification of the invention for secrecy purposes, the competent department of the National Government shall make a proposal and report it to the National Science and Technology Committee for approval. The announcement of the contents of an invention concerned exclusively with national defense and the classification of it for secrecy purposes

shall be made subject to approval of the National Defense Science and Technology Committee and the National Defense Industry Office.

Article 11.

When the contents of an invention which is in the secrecy scope for foreign trade or other reasons are provided abroad, the approval of the National Science and Technology Committee shall be obtained beforehand.

Article 12.

Chinese people living abroad and foreigners may file invention applications with the National Science and Technology Committee and, through examination and approval, receive reward in accordance with the provisions of this Ordinance.

Article 13.

If an applicant has objection with respect to an invention item, the applicant may submit an opinion to an upper organ and the upper organ shall make serious investigation and examination.

Article 14.

Each department and each shop shall encourage people's inventions by taking a solemn, serious and truth-searching scientific attitude. If this reward system is to be implemented thoroughly, ideological and political maneuvering shall be intensified, the spirit of great socialistic cooperation shall be enhanced and objection shall be made to such evil trends as self-ishness, egotism and non-cooperation. Attacking and oppression of inventions, cheating in inventions and the act of stealing the results of other persons' efforts shall be criticized for correction and, if necessary, legal punishment shall be made.

Article 15.

This Ordinance shall take effect on the day of prom-ulgation by the National Government.

Chinese-Style Joint Ventures

China's law on joint ventures,* effective July 8, sets the following framework of foreign investment:

° Foreign equity.

A minimum of 25%, but no maximum, has been set. Foreign equity may take the form of cash, capital goods, industrial property rights, etc. Profits, risks and losses of joint ventures will be shared in proportion to investment.

° Tax holidays.

Two to three years of tax exemption or reduction are provided when advanced technology is involved. Reinvested profits may qualify for partial tax restitution.

° Income tax.

The joint venture will be subject to income tax after reduction of reserve funds, employee bonus and welfare funds, and expansion funds.

° Financing.

Funds may be raised directly from foreign banks.

° Remittances.

Personal earnings after tax, distributed profits, capital resulting from termination of a venture and certain other funds may be sent abroad through the Bank of China.

° Management control.

The law provides that board of directors will be formed, with the chairman appointed by the Chinese partner. One or two vice-chairman are to be chosen by the foreign partner. The board will decide on operational policies, including such

items as expansion, production targets, budget, distribution of profits, manpower policies and pay scales and the hiring/firing of the president and all high-level officers.

° Contract period.

Each venture will set a contract term, which may be extended subject to government approval.

° Arbitration.

Disputes may be settled through conciliation or arbitration by an arbitral body in China or by some other one agreed upon by the parties.

° Guarantees against nationalization or expropriation.

The resources invested by a foreign participant in a joint venture as well as profits due and other lawful rights and interests are to be protected under Chinese law.

Among the key points that remain to be clarified are: income tax rates that will apply to joint ventures and foreign personnel working in China; definition of losses and profits; and method of assessing land, which will be contributed by the Chinese.

Some unusual features

China has departed from the general pattern of joint-venture laws used by many countries in the following respects.

° It has made the joint venture a temporary entity.

While not specifying a maximum term (as Indonesia does), the law requires each contract to fix an initial contract period. Extension at the end of the term is a possibility.

° It requires penalties for losses due to outmoded technology.

This novel provision reflects China's paranoia over the possibility of being a "dumping ground" for obsolete technology. (How the level of technology will be judged and by whom are other key issues that await eleboration.)

° Surprisingly, it has not put a ceiling on the foreign-equity share that will be acceptable.

While 100% foreign ownership appears impossible (since that would not be a joint venture), various levels of foreign equity may be allowed on a case-by-case basis. Most foreign investments are likely to be less than 49%.

* The full text of the law has been published by Business China, a sister publication of BI. To obtain a copy, write to Mildred Zacharkow, Editorial Secretary, Business International, One Dag Hammarskjold Plaza, New York, N.Y. 10017. No charge.

Technology Transfer to the Peoples Republic of China
An American Experience

By:

William H. Hooper
Chevron Research Company

Presented at the

Pacific Industrial Property Association
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October 25, 1979

My remarks today shall reflect upon my and my Chevron Research associates experiences in dealing with technology transfer to the People's Republic of China. These remarks are intended to supplement, and perhaps add a different perspective, to the excellent paper on the subject by Messrs. Susuki and Fukuda, and presented so well by Fukuda-san.

As in the case of Japan, the United States is also very interested in the real/potential China market. We are no different in this respect than most of the countries of the world. The forecasted financial aspects of this China market are alluring. The "Four Modernizations" program of 1975 (i.e., agriculture, industry, national defense, and services/technology) is projected, now that the Gang of Four is out (and apparently to be brought to trial), to be completed by the Year 2000. To accomplish this, the National Council for the United States-China Trade estimates China will spend the equivalent of six hundred billion U.S. dollars between 1978 and 1985, of which 40-43 billion U.S. dollars would be available for the purchase of foreign technology.

In 1978 China jumped into its modernization program with both feet on a heretofore unimagined scale and turned to Japan and the West for new technology. Chinese Government pressure to rapidly acquire this technology led to tremendous, if

often chaotic, expenditures of time, effort and money on the part of everybody concerned. Although some Japanese, European and a few American companies (including several corporate members of PIPA) had previous experience in dealing and contracting with the PRC, a large number of those companies who ended up formally invited by China to negotiate had not. To compound the problem, very few of the Chinese negotiators pressed into this technological and contractual Maelstrom had experience dealing with Japanese companies, let alone those from Europe or the United States. The result was frequently prolonged discussions with everyone's inexperience apparent, often displayed by a rigidity in negotiation and a fear of reasonable compromise.

Let me be more specific and discuss a typical project that is familiar to me. You must understand that during the year 1978, a great number of such projects were being negotiated. The particular projects in which I was involved followed a format quite closely to this one typified. Also, I believe Chevron's experience was not unusual, and that the Chinese approach (the party line) was pretty consistently followed. My counterparts in other U.S. organizations have confirmed that they proceeded in much the same fashion.

Chevron Research had over the years developed a number of petroleum refining processes, including catalytic reforming, hydrocracking, and hydrotreating that we had licensed extensively and successfully throughout the world. In 1977, Chevron Research

representatives had visited the PRC and had described our technology and history to a number of PRC representatives, particularly those from CNTIC and the Chinese Petroleum Corporation (the PRC national oil company). These technology discussions with the PRC in China also had made us aware that the Chinese were quite familiar with our competitors' processes, confirming the observation that the Chinese do their homework.

Early in 1978, a noted and very capable Japanese contractor got in touch with Chevron Research and reported that they had been invited to bid on the complete plant supply (CPS) of a designated portion of a petroleum refining complex located somewhere in the PRC, and that CNTIC in their invitation had specified that a particular refining unit in the contract bid package was to be based upon Chevron Research design.

The Chinese had required, typically, that the complete plant supply contract bidder was to submit a lump sum bid for the project which must include the supply of all technology, primary equipment supply, training both in and outside of China, mechanical and process guarantees, in fact, about everything concerned with the plants except for some local equipment supply, and that the equipment and manpower for plant erection would be furnished by CNTIC. The contractor, in conjunction with Chevron, responded to the CNTIC request by furnishing them a non-confidential preliminary package containing the technical details of our

proposal. During the period of preparing this response, we also became aware that other contractors, Japanese, European and American, received bid invitations for the same project, with some containing a specification requiring that the particular refining unit within the package that in our bid was to be of Chevron design, was to be a unit designed by named process licensors which had competing technology.

To be brief, after a certain amount of discussion and contractual arrangements between ourselves and the CPS contractor, and based upon our preliminary proposal to CNTIC, invitations and visas were obtained and a technology meeting was begun in China. Generally, and in this case as well, the meeting was held in a city relatively close to where the project was to be installed. At this meeting, that portion of the proposed basic contract that pertained to technical matters was exhaustively and minutely negotiated - included were scope of supply, delivery and delivery times, packaging and labeling, standards and inspections, design and liaison, installation, mechanical testing, test runs, acceptance and process and mechanical guarantees. These provisions, along with even more detailed contract attachments would run into several hundred English pages and could take days and weeks to negotiate. Further, design changes in the project, due largely to Chinese inexperience, led to additional delays and huge frustrations.

The technical meeting did not go into any commercial or legal aspects; even if guarantees were worked out, penalties were not established. These matters were covered in a separate commercial meeting held in Peking (which is normal) with perhaps one or two Chinese representatives from the technical meeting, but the majority being a new set of Chinese negotiators supposedly familiar with the commercial and legal matters.

May I digress at this point. Before Chevron became involved in its China adventures, it was our understanding that for licensing in China, the Chinese wished to look to only one major contractor and, therefore, required that all licenses related to know-how and patents would have to flow from the actual process licensor through the CPS contractor to CNTIC. As a matter of principal, Chevron did not wish to depart from its policy of direct licensing to the user and in all discussions emphasized that our position would be that the technology know-how and patents would flow directly from Chevron Research to CNTIC.

We were successful in accomplishing this, though all royalty payments would not be made in accordance with the direct License Agreement but would be part and parcel of the complete plant contract with its lump sum payment and payment schedule. This made sense to all.

With respect to the License Agreement that we entered into directly with CNTIC, I think it may be interesting to point out some of its features.

Chevrons Process definitions and definitions of Technical Information and Patent Rights were accepted by the Chinese with only minor changes. The Technical Information and Patent Rights definitions included a fairly short time period for future developments.

Chevron's grant was under its Technical Information and Patent Rights to use the process only in a defined Licensed Unit, with the right to sell products produced in Licensed Unit anywhere in the world. CNTIC granted to Chevron licenses under its Technical Information and Patent Rights for use throughout the world, with the cutoff dates for Technical Information and Patents Rights being the same as those of Chevron.

Both parties agreed to use their best efforts to prevent disclosure of the other parties Technical Information which had been designated confidential, except for the usual exceptions, i.e., information developed by and already in the recipient's possession, or information generally known on a non-confidential basis in the petroelum refining industry, or information later furnished to the recipient by another as a matter of right without restriction on disclosure. Further, and importantly, it is specifically provided that the technology

furnished under the agreement shall remain the property of the furnishing party.

I might offer some additional random comments, observations and conclusions as a result of our Chinese connection.

(1) The concept of personal property rights was little understood in China; things belong to the State. An even more difficult concept to convey was the idea that there could be property rights in intellectual matters such as technological know-how. My experience after endless explanations, showed an increasing awareness by the Chinese of the importance of confidentiality. Our success in this area can be measured by the previously discussed confidential commitments that we arrived at in our direct patent and know-how license agreement. At the very beginning, the most sophisticated Chinese negotiator that I met considered the copyright as the answer to our insistence upon confidentiality.

(2) The Chinese have accepted Swedish arbitration of disputes and would probably accept others but, in my experience, have adamantly refused to accept Swedish arbitration coupled with the use of Swedish law. They desired that Chinese law, whatever that might be, be applied. A possible compromise was discussed

wherein the law applied during the arbitration proceeding would be the national law of the party alleged by the other party to be in default.

(3) The Chinese concept, at least as it was expressed to me, on Force Majeure is different than ours. The Chinese consider that only natural calamities such as earthquakes, winds, etc., and war are Force Majeure items. Their position seemed to be that, except for war, any factor in which people are in control, such as governmental action and strikes, are not Force Majeure items. I personally believe this view is purely political in origin.

(4) Language is decidedly a problem, both in oral discussions and particularly in translations from English to Chinese. The Chinese appeared almost fanatical on simplification, but perhaps have a very good reason. Any English agreements must be translated into Chinese in order to receive the necessary reviews and approvals within their own organization. This translation is not easy. Frequently, there is no Chinese character to distinguish the nuances that occur in the English language, i.e., "rights" vs. "title". To a Westerner, the distinction can be important, but the explanation can be most difficult.

Lastly, an ideological problem. With every negotiator I faced, I had to go through the explanation that as a Western

lawyer, my job was to write and negotiate agreements that attempted to cover every eventuality, both bad and good. I had to emphasize that as a result, our agreements appeared as if we didn't trust a soul in the world. And they often do. The Chinese, on the other hand, using the term "friendly negotiations" constantly, felt that the normal course of an agreement should simply be set out and that problems should be settled, as they arise, by friendly negotiations. For example, the Chinese believed that terminating an agreement should only be contemplated after such friendly negotiations have failed. All contracting parties are going to have to adapt to this differences in philosophy and habit, and I was encouraged by the strides in this direction that I saw. I believe that we should make every effort to simplify and meet the Chinese problems in our arrangements (a number of our Japanese associates will no doubt applaud this position) and I am convinced that the Chinese, as they too gain in experience, will move toward negotiating agreements recognizing our concerns.

Committee Presentations
(Committee #3)

° Proposed Revisions to the Paris Convention
Major Issues:

Exclusive Non-Voluntary Licenses(Article 5A)
--- M. Nishi and F. X. Murphy ---- 441

Full Assimilation of Inventors' Certificates
(Article 1)
--- H. Ono, T. Okabe and
W. T. McClain ---------- 446

Process Patents(Article 5 quater)
-- W. T. McClain and T. Takagaki-- 447

Appellations of Origin(Article 10 bis)
--- L. M. Gibson and K. Ono ------ 452

National Treatment/Non-discriminatory Treatment
(Article 2)
--- T. Aoki and A. J. Miller ----- 460

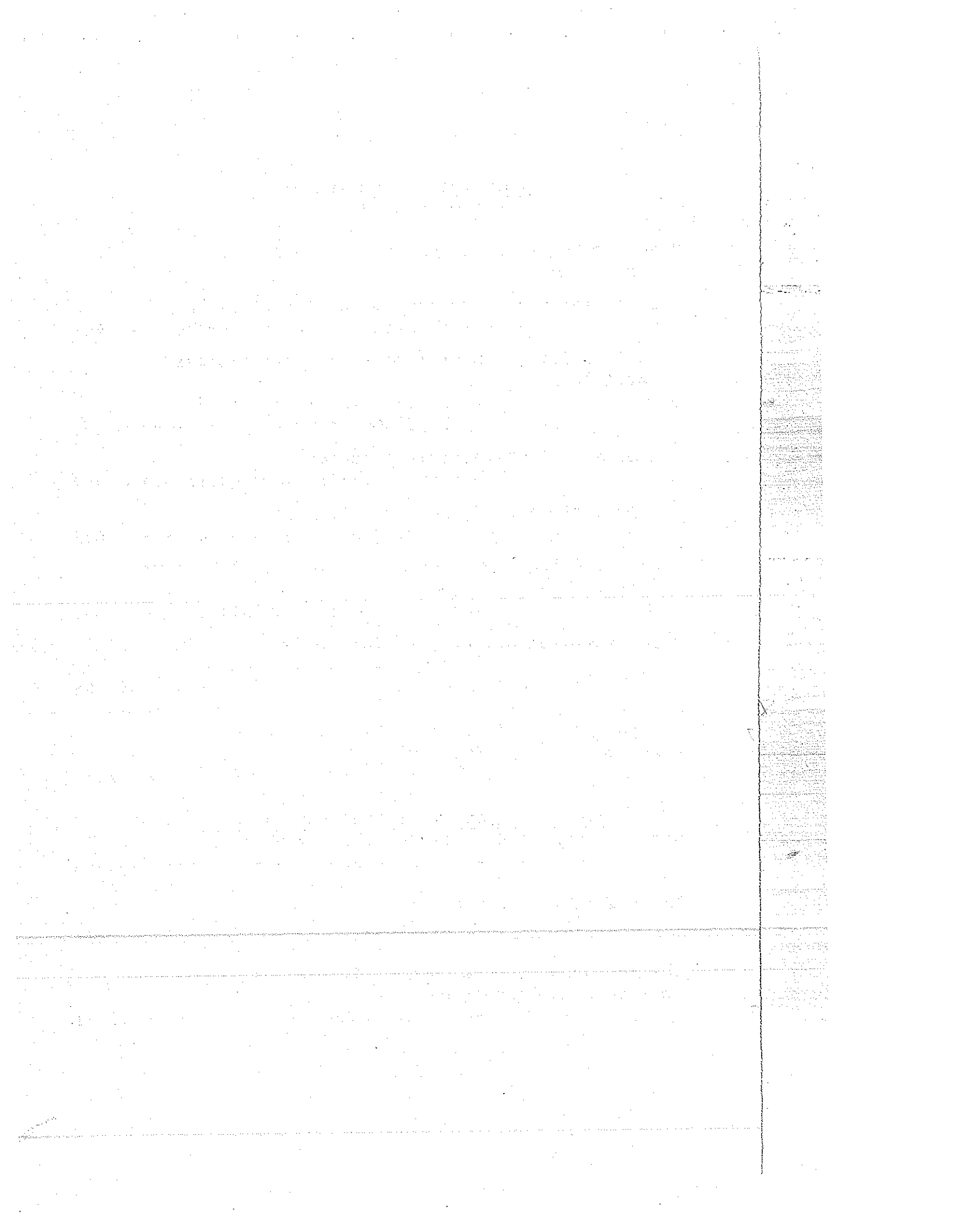
Unanimity or Majority Voting
--- E. W. Adams, Jr. and
H. Ono ---------- 464

° Technology Transfer, Franchise and Trademark
Agreements in the Philippines
--- T. Kawaguchi ---------- 468

° Developments in Industrial Property Laws:
Korea, People's Republic of China and Taiwan
--- Z. Nakamura ---------- 481

° The New Thai Patent Law
--- H. Kondo ---------- 499

° The European Outlook on the Proposed Revisions
to the Paris Convention
--- C. G. Wickham ---------- 512-i



PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Meeting - October 24-26, 1979

Committee No. 3

Issue No. 1 - Exclusive and

Non-Voluntary Licenses - Article 5A

Presented herewith is the position relating to Issue No. 1, namely the grant of exclusive and non voluntary licenses, which has beenproposed by American and Japanese members of Committee No. 3.

Proposed Position - We oppose to any amendment of the Paris Convention which would permit a member country of the Paris Union to provide in its national law for the establishment of patent licenses that are exclusive and non-voluntary.

Comment - The present text (Stockholm version) of the Paris Convention, Article 5A provides that: (1) importation by the patentee shall not entail forfeiture of the patent; (2) compulsory licenses may be issued to prevent abuses, for example, failure to work; (3) forfeiture of patent only possible where grant of compulsory license fails to prevent abuses and not before expiration or two years from grant of the first compulsory license; (4) compulsory licenses only available four years from filing date or three years from grant, whichever last, licenses non-exclusive, non-transferable except with sale of business; (5) provisions apply to utility models.

Proposed Changes - A substantial number of changes in this text are proposed. The most serious of the proposed changes is incorporated in proposed new sub-section (6). This provides that, where required to assure local working, a non-voluntary exclusive license may be issued. It further provides that a patent may not be revoked for insufficient working for an additional number of years after the expiration of the exclusive license. Proposed new sub-section (7) provides that the granting of such licenses and the royalty provisions thereon are subject to review at a "higher level". Proposed new sub-section (8) makes special provisions for developing countries, particularly with respect to the periods of non-working or insufficient working, after which non-voluntary licenses may be granted, or after which the patent may be forfeited or revoked when a non-voluntary license has been granted.

Reasons for Opposition - The proposed revisions of Article 5A are of such serious nature as to permit Paris Union countries to make patent rights virtually valueless. Enforcement of patent rights in many countries already presents very serious difficulties. Further weakening of those rights could be disastrous for those who make substantial investments in research. Generally speaking there will be less incentive for technology transfer to countries where the protection of inventions is insufficient. It is reasonable to expect that the chance of technology transfer occuring will consequently be reduced.

The most critical of the proposed changes in new sub-paragraph (6) permitting the grant of exclusive, non-voluntary licenses would, in effect, amount to at least a temporary confiscation of practically all rights under the patent for some indeterminate amount of royalty. It would even permit the licensee to exclude the patentee himself from that market! In the past, non-voluntary licenses have been looked on as a means to assure local working, if the patentee is unwilling or unable to do so, and no voluntary license can be arranged. It is unthinkable that such a measure should now be so modified as to permit exclusion from the market of the very party which, in the first place, created the technology.

It is almost certain that if these provisions are incorporated in the Convention, no applications for such exclusive licenses will occur until the patentee has fully developed the new product or process, and has placed it in commercial use. At that point, the licensee for some limited royalty, would have the free run of the market. It is at least doubtful that the patentee would recover the market after the period of exclusivity. This provision would mean that the patentee would be worse off than if he had never filed his patent application. The long range effect could be disastrous for privately financed research, the rewards for which seem to be steadily diminishing.

The proposed new text presents a variety of unanswered, serious questions. For instance, it is not clear whether the exclusive right terminates after a period of years, or becomes non-exclusive. Reference is made to non-forfeiture of the patent for insufficient working or non-working for one or two years after expiration of the exclusive license. Would the patent be forfeited after this brief period if the patentee is not permitted to supply the market, once an exclusive license is issued, and the licensee takes a year or two to gear up to produce and sell. How is the market supplied in the interim if the exclusive licensee is permitted to import? This would completely frustrate the purported purpose of the provision and do further injustice to the patentee.

Such an exclusive licensee might well become a source of the product for those countries where no patent rights exist, or enforcement of patents is virtually impossible. This provision can only serve to hasten the end of a sound, international patent system based on mutual respect for the hard-won rights generated from sound research programs, which have in the past so greatly benefited many countries. At that point, there would seem to be no further value in the Paris Convention.

The proposed new sub-section (7) providing for review at a "higher level" is obviously too indefinite. The special provisions for developing countries in proposed sub-section (8) do not appear warranted.

For the above reasons, it is respectfully submitted that the proposed position opposing such modification of the Paris Convention be supported by this organization.

Michio Nishi

Francis X. Murphy

PIPA COMMITTEE NO. 3

ISSUE NO. 2

REVISION OF PARIS CONVENTION
FOR FULL ASSIMILATION OF INVENTORS' CERTIFICATES

In principle, there should be, for nationals of all member countries, a free choice between patents and inventors' certificates in all technical fields. We oppose any amendment of the Paris Convention which would eliminate the requirement that applications for inventors' certificates should give rise to a right of priority only if they are filed in a country in which an applicant also has the right to apply on the same invention at his option for either a patent or for an inventors' certificate.

We favor: (A) With regard to inventors' certificates, including in the Convention the concepts of (1) limiting the duration of any exclusive right connected therewith to the same term provided for patents, and (2) permitting inventors' certificates to be challenged on the same grounds and for the same period as patents; and (B) revision of the Convention to qualify inventors' certificates with regard to the right of priority under the same conditions and with the same effect as applications for patents.

Regarding a possible compromise, if inventors' certificates were to be included in Article I together with the foregoing, the PIPA position with respect to limiting the technical areas without free choice is that such areas should be eliminated, or if necessary, severely limited to very specific areas affecting public welfare.

PIPA COMMITTEE NO. 3

ISSUE NO. 3

REVISION OF THE PARIS CONVENTION - ARTICLE 5 QUATER

We oppose any amendment to the Paris Convention which would delete Article 5 quater or any modification of Article 5 quater (~~which would involve violation of the principle of national treatment.~~) *

* destroy uniform affection of this clause to all of the member countries.

COMMENTS RE ARTICLE 5 QUATER AND
THE PROPOSED REVISION OF THE PARIS CONVENTION
FOR THE PROTECTION OF INDUSTRIAL PROPERTY

For approximately four years now there has been underway an effort to effect a seventh revision of the Paris Convention for the Protection of Industrial Property. After much discussion by representatives of Group of 77 (developing countries), Group B (developed countries) and Group D (socialist countries), there are a number of unresolved substantive issues which are to be taken up at the Diplomatic Conference scheduled to begin February 4, 1980 in Geneva. Many of the proposed revisions to the Stockholm text of the Convention, if effected, would weaken the protection presently accorded to industrial property rights.

Early during the study by the Ad Hoc Group of Governmental Experts on the Revision of the Paris Convention, representatives of the Group of 77 proposed to revise Article 5 quater to reduce the rights of a patentee of an imported product made abroad by a patented process. Attempts to work out a mutually satisfactory revision failed. The Group of 77 then proposed to delete the Article, or if it is maintained, provide an exemption for the developing countries. Representatives of Group B have taken the position that this Article should be retained in the Convention without modification. Article 5 quater reads as follows:

> "When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights with regard to the imported product

that are accorded to him by the legislation of the country of importation on the basis of the process patent with respect to products manufactured in that country".

This issue was not resolved at the December 1978 meeting of the Preparatory Intergovernmental Committee on the Revision of the Paris Convention and will be considered at the forthcoming Diplomatic Convention.

Article 5 quater, in effect, provides that each member country has the option to extend the coverage of a process patent to a product produced by the patented process, but if the country extends the patent coverage to the product of such process, the claims of the process patent shall apply to all such products, whether manufactured locally or in another country.

The developing countries have argued that Article 5 quater favor creation of import monopolies, while the developed countries have pointed out that the article does not require any country to adopt national laws which extend the coverage of a process patent to the product of the patented process. The developing countries, in essence, argue that the present Article 5 quater impliedly favors protection of imports and prohibits them from adopting a national law which would grant patent protection for the product of a patented process to their nationals in preference to imported competing products. With the proposed deletion of the article, nationals of other countries could be denied the same scope of protection

as that accorded to the nationals of the developing countries. In such case of preferential treatment of nationals, there would be a violation of the Convention requirement that nationals of another country must be given the same treatment with respect to the protection of industrial property as that given by a country to its own nationals. This points up the apparent goal of the Group of 77 to obtain preferential treatment for their own nationals relative to nationals of the other countries.

Others have previously pointed out that the retention of this article, without exemption for any country from being bound by it, is of particular importance for the chemical, pharmaceutical and agricultural chemical industries. The national laws of a number of countries still do not permit per se patent protection for chemical or pharmaceutical products, but only provide for process protection. In process patent infringement cases obtaining the needed proofs can constitute a real problem, and even greater difficulties are foreseen in enforcing process patents if Article 5 quater is deleted. The retention of the article is believed to be of great importance to industries such as the above.

The law of the United States of America does not presently extend patent protection to the product of a patented process carried out in a foreign country. However, there is considerable support for legislation in this country which would make the importation into the United States of a product made abroad by a process patented an act of infringement. While the Tariff Act (19 USC 1337) affords some remedy in such situations, it is largely ineffective for most instances and is not widely used.

Article 104 of the Japanese patent law provides a presumption with respect to the infringement of a process patent by a new product which is the same as that produced by the patented process. Regarding products previously known in Japan, it is my understanding that it is necessary to provide proof that the patented process was used in manufacturing the product. Nevertheless, it appears that present Japanese law provides patent protection for the product of a patented process, regardless of whether such product is manufactured domestically or abroad.

The patent laws of a number of the developed countries provide similar protection and do not place the importer at a disadvantage relative to a domestic producer. See, for example, Article 64(2) of the European Patent Convention which provides that if the subject matter of the European patent is a process, the protection conferred by the patent shall extend to the products obtained by such process.

In closing, it is proposed that PIPA should oppose any amendment or modification of Article 5 quater of the Paris Convention for the Protection of Industrial Property which would involve violation of the principle of national treatment.

THE PARIS CONVENTION
AND APPELLATIONS OF ORIGIN

Our question is whether the Paris Convention should be revised to require stronger protection for appellations of origin. An appellation of origin is something more than a mere geographical term. It is a term that has taken on a special significance designating a product originating in a particular place whose quantity and characteristics are due to the geographical area from which it comes. Some of the better known examples of appellations of origin are the various wines and cheeses that are identified by the names of the localities in which they originate.

Why are the developing countries concerned with this problem? Publicly they express the fear that before their own local appellations of origin have a chance to evolve and become known on the world market, identical terms may be adopted as trademarks by producers in the developed countries. They feel that the protection afforded by the Paris Convention is inadequate for countries with agricultural economies. In other words, they wish to obtain protection before the fact. At the same time, several European countries, including the E.E.C. have also expressed a strong interest in

protecting geographical indications. They are well aware of how the U.S. uses terms such as champagne and burgundy in their generic sense. Now, they regret their inactivity and are extremely interested in recapturing their geographic indications.

The desire on the part of these countries to strengthen the protection of these appellations of origin has split the unity of the Group B countries. As a result, there are now four groups of countries rather than the usual three debating this topic - the developing countries; the member countries of the E.E.C., plus Spain, Portugal, Greece and Austria; the remainder of Group B which includes the U.S., Japan, Canada and Australia; and the Group D countries.

The U.S. has insisted that account must be taken of the fact that many existing marks consist of words which, although they might constitute appellations of origin from one point of view, were not necessarily understood as such by the public in the locality involved. Thus, there should be safeguards, especially to protect terms used for a long period of time which have become generic or which have acquired secondary meanings as trademarks.

The developing countries' proposal for Article 10 is based upon the Lisbon Agreement without the safeguards contained in that Agreement. Under their proposal, any developing country may submit a total of not more than 200 geographical names denominating that country or region or locality in that country. Following international publication and notification of those names by WIPO to other member countries, these members would be compelled to refuse the registration of any mark containing any of the notified names, cancel a registration of such a mark, give no effect to any registration in a regional or international register, and prohibit the use of the name as a mark unless the use started before international publication of the notified name. These obligations would be absolute for 20 years with provision for extending the period for an additional 20 years. After a total of 40 years, it is presumed that conventional rules would apply.

A new version of Article 10 was produced by Group B for the meeting held in Geneva in June of this year. Paragraph 1 deals both with the refusal or invalidation of the registration of a mark and with the prohibition of the use of a mark.

The major area of disagreement between the U.S. and most of Group B under paragraph 1 involves the type of indication which would be prohibited. The E.E.C. members of Group B argued that their proposal was required to prevent situations such as the following:

(1) The use of the verbal equivalent of national land marks, for example, the words "Eiffel Tower" for goods not coming from France;

(2) a whiskey label containing a picture of a Scottish tartan when the whiskey did not come from Scotland;

(3) an indication such as "McGraw's Whiskey" on a whiskey which did not come from Scotland; and

(4) a label on wine in the French language when the wide did not come from France.

The U.S. pointed out that any effort to prevent the use of ethnic names on labels for products which did not come from the country suggested by the ethnic name would be impossible in the U.S. with its derivative society having elements of practically every nationality on earth. In the U.S., for example, the use of "McGraw's Whiskey" would not be misleading or prohibited.

Paragraph 2 of the Group B proposal is intended to prevent certain flagrant situations. The example most frequently referred to in the U.S. would be an individual in Paris, Kentucky selling perfume labeled "Paris perfume". This would not be prevented by paragraph 1 since the label would in fact

indicate the true origin of the goods. Thus, paragraph 2 was included to reach the situation where, although the indication of origin is literally true, it falsely represents to the public that the goods originated in another country.

Paragraph 3 of the Group B proposal is an area of fundamental disagreement between the U.S., Japan, Canada, and Australia on the one hand and the E.E.C. and certain other Group B countries on the other. Paragraph 3 is intended to protect geographic indications which are at a very early stage of their reknown. It is for this reason that the U.S. maintains that paragraph 3 involves no aspect of misleading the public. Paragraph 3 would require the refusal of registration or the prohibition of use when the geographic term has acquired a reputation in the denominating country if that reputation is generally known in that country by persons engaged in the production or manufacture of goods of the same kind. In other words, the denomination need be known only within the trade circles of the dehominating country. There was no requirement that the term be known to the general public in the country where the question arises.

Without paragraph 3, the Group B version of the Article essentially would have been acceptable to the U.S. However, the E.E.C., backed by most of the rest of Group B, refused to change paragraph 3.

There was likewise an area of disagreement on paragraph 4 concerning rights in existence at the time the new text goes into force. The disagreement involves a question of when the use could have been prohibited. Group B argues that the critical time should be the date on which the use began, while the U.S. maintained that the effective date of the new text should be controlling. To do otherwise could subject thousands of trademark owners to litigation by scrutinizing the legal and factual situation at the time those owners began using their trademarks, possibly 50 or 75 years ago.

Paragraph 4 further provides that a request to cancel a registration or prohibit the use of a mark must be presented within a reasonable period after the use in question has become generally known in that country, provided that such use was not begun in bad faith. The U.S. has suggested deletion of the requirement that the use not be begun in bad faith. U.S. law provides for the cancellation of a trademark registration obtained fraudulently, but does not equate bad faith with fraud. Secondly, the U.S. would add the date of the registration as a second date from which the reasonable period might run. There are situations where a mark has been registered for five years and is not generally known to the public. Thus, the U.S. considers this alternative starting period as necessary, and Japan supports that position.

Paragraph 5 of the Group B proposal states that all factual circumstances should be considered in applying paragraphs (1) and (2). There would seem to be no cause to quarrel with this concept except that some of the enumerated factors that are to be taken into account are immaterial.

Paragraph 6 was included at the urging of France, and provides that a member country does not waive its rights to engage in discussions aimed at resolving disputes concerning the registration or use of trademarks containing geographical indications. In other words, France does not wish to prejudice itself in any way in its continuing effort to recapture, for instance, the term champagne. There appears to be no necessity for this paragraph.

The proposal submitted by Group D is the same as Group B with respect to paragraphs (1) and (2). Like the U.S., Group D would delete paragraph 3 of the Group B proposal on the basis that it does not conform with the legislation of Group D countries. Group D would also modify paragraph 4 to a greater extent than would the U.S., and proposed to modify paragraph 5 along the lines suggested by the U.S. They also agree with the U.S. that paragraph 6 should be deleted. Thus, Group D and the U.S. are not all that far apart.

In closing, it is proposed that PIPA oppose any revision of the Paris Convention which would require member countries to prohibit the use of a geographical indication or refuse or invalidate its registration as a trademark except where (1) the use of the geographical indication misleads the public as to the true country of origin, or (2) the indication is the subject of a trademark registration or application, and its use is of a nature as to mislead the public as to the true country of origin.

NATIONAL TREATMENT/NON-DISCRIMINATORY TREATMENT
ARTICLES A AND B
REVISION OF THE PARIS CONVENTION

Committee No. 3
Takashi Aoki

There are two proposals on the matter of preferential treatment without reciprocity, both made by the Group of Developing Countries: one is for a new Article A and the other for a new Article B.

ARTICLE A Preferential Treatment for Nationals of Developing Countries in Respect of Fees

The draft proposal provides that nationals of any developing country member of the Paris Union would have to pay only half of the normal national fees in the other countries of the Union, either in developed countries or developing countries. In this respect, the fees shall mean any of filing fee, search fee, examination fee, publication fee, grant fee, registration fee and maintenance or renewal fee for any kind of industrial property rights.

The beneficiary of the grant or registration of such industrial property rights or the applicant therefor shall be bona fide and the following are applied for determination of "national":

(i) if he is a natural person, a person who has the nationality of that country and of no other country;

(ii) if he is a legal entity, a legal entity in which no natural person or legal entity of another country has any direct or indirect proprietary interest.

The question as to whether a particular country of the Paris Union is a developing country of not, will be decided by the established practice of the General Assembly of the United Nations at the point of time when payment of the fee is made.

Comments And Proposed Position - Granting preferential treatment to the nationals of developing countries is objectionable in principle since this is a deviation from the principle of "national treatment". There are poor inventors in all countries including well developed countries and the Convention may provide as an alternative that any of the member countries shall grant assistance to such poor applicants irrespective of their nationality by 50% reduction of the national fees. This alternative could eliminate the danger of newly making an exception to the national treatment principle and could yet accomplish the purpose of developing countries.

ARTICLE B Preferential Treatment for Nationals of Developing Countries in Respect of the Term of Priority

The essence of this draft Article is that nationals of any developing country member of the Paris Union would enjoy in the other countries of the Union a priority period which is longer by one-half than the normal priority period (for patents (inventors' certificates) and utility models, 18 months instead of 12 months and for trademarks and industrial designs, 9 months instead of 6 months).

In order to enjoy the above preferential treatment, the applicant filing the later application and claiming the priority of the first application must be a national of a developing country and the later application must have been filed either by the first applicant or by his successor in title, who should in any case be bona fide. The applicant can be the natural person or legal entity and the same is applied for determination of "national" in this Article B as described in Article A previously.

Comments And Proposed Position - Granting preferential treatment to the nationals of developing countries with respect to the term of priority should be strongly opposed. The extension of priority term is not merely a deviation

from the principle of "national treatment" but apparently creates big critical problems in the operation of the national patent systems of many Union countries as well as in the administration of regional and international patent treaties including PCT and EPC. The basic rule of early publication adopted in many of the major countries where all patent applications are now made public after 18 months from the priority date, cannot be maintained once this exception is enforced. The granting procedures must be slowed down and confused because of rather small numbers of applications from developing countries being exceptionally filed with the extended priority period.

Developing countries should join PCT which already provides the advantages of some type of substantial prolongation of the priority period in favor of the applicants.

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UNANIMITY OR MAJORITY VOTING FOR REVISION OF THE PARIS UNION CONVENTION

The question of what voting rule is appropriate for revision of the Paris Convention was one of the original fourteen questions raised by the developing nations at the beginning of the preparatory meetings for the Diplomatic Conference to be held in Geneva, Switzerland, next February.

This is obviously a procedural, rather than a substantive, question. However, it is of supreme importance in view of the fact that the substantive issues to be resolved concern differences of opinion amongst three groups of nations. Of the 84 member countries of the Paris Union, at least 50 consider themselves developing countries and constitute a major part of the so-called group of 77. Twenty-eight are viewed as developed or market economy countries and are identified as Group B. Six are the socialist countries of Eastern Europe and are identified as Group D. It is obvious that in any controversy concerning substantive issues at the Diplomatic Conference, the Group B countries, which include the United States and Japan, can, even if they vote unanimously, control no more than 33% of the votes. Even if joined by Group D, Group B can, at best, muster 40% of the votes.

A voting rule for revision of the Convention involving either a simple majority or the usual voting rule urged by the United Nations and followed in the General Assembly, which involves a two-thirds majority, would result in total domination of the Diplomatic Conference by the developing countries.

Accordingly, in preparatory meetings the Group B countries have urged that the voting rule for revision of the Paris Convention should be that followed in every previous revision of the Paris Convention and, indeed, in the original enactment of that Convention, namely, that the unanimous vote of those present and voting should be required for revision of any provision of the Convention. Such a requirement does not appear in any of the texts of the Convention and has been followed by custom rather than by written rule.

This custom has been based, it is urged, on the sound view that the Paris Convention is an international Treaty amongst sovereign nations which can be bound only by their individual consent and, further, that any revision of the Convention will require at least the signature and, in many cases, subsequent ratification by member nations before they become bound by it. Thus, if a workable new text is to be achieved, controversy should be resolved at the Diplomatic Conference prior to voting rather than trusting to individual sovereign nations to depart from their positions taken at that Conference in recommending subsequent ratification of the resultant text. Recall, further, that the revision of the Convention as proposed is to be considered as a whole. No nation in either signing the revised text or in ratifying that text may adopt for approval only those sections which may be satisfactory to it, while rejecting the remaining sections of the text.

Although my discussion thus far has been directed to the voting rule for revision of the Convention itself, an equally important issue is presented by the preliminary agenda for the Diplomatic Conference which, as its first order of business following the election of officers, includes the adoption of the rules of procedure, one of which is the voting rule discussed previously. It therefore becomes important, and indeed critical, that the adoption of the rules of procedure at least to the extent that they involve the voting rule for revision (whatever that rule may ultimately be) shall be by the unanimous vote of those nations present and voting. It is obvious that the underlying issue as to the voting rule for the revision of the Paris Convention text will become moot if the decision on the adoption of the voting rule is by less than unanimous vote.

There have been proposals to adopt a voting rule for revision which would require consent by "a highly qualified majority" which has been taken to mean a majority of the order of nine-tenths. Such a voting rule, if adopted, would constitute an admission that unanimity is unnecessary and that some form of majority rule is acceptable. In the future, this concession having been made, the issue as to what majority rule would be appropriate at any particular time becomes a matter of political maneuvering.

PIPA, in view of the above considerations, should adopt a position that requires that no revision of the Paris Convention for the protection of industrial property shall be by less than the unanimous vote of member countries of the Union present and voting and, further, that the adoption by the revision Conference of the Paris Convention of any voting rule for revision shall not be by other than the unanimous vote of the member countries of the Union present and voting.

EWAJr

October 17, 1979

AGREEMENTS FOR TRANSFER OF TECHNOLOGY AND USE OF TRADEMARKS AND FRANCHISES IN THE PHILIPPINES

Committee No. 1. Japanese Group

Tei Kawaguchi

Kanebo, Ltd.

[ABSTRACT]

The technology transfer board (TTB) of the Philippines has proposed policy guidelines on franchise and trademark agreements and renewals of technology agreements. The proposed rules are aimed at cutting the costs of using foreign trademarks and also intended promote Filippino brands.

American, European and Japanese chambers of commerce of the Philippines strongly opposed the proposed policy, pointing out that the guidelines will greatly discourage foreign investments and hamper the inflow of new technology into the country.

We should also try to prevent the enforcement or legislation of the guidelines in order to promote Philippine industries as well as to protect licensors' interests.

I. Introduction

At the last Nagoya Congress, a member of Committee No. 3 of the Japanese Group reported, in his presentation on developments in industrial property laws of South East Asian countries, a noteworthy fact that the Philippine Government was planning to implement a bill to impose a heavy surtax, in addition to the present sales tax due (7%), on locally manufactured products bearing a foreign trademark. The Philippine Government observed that the proposed decree was aimed at encouraging the use of local trademarks or tradenames on all locally manufactured products, and that this legislation was needed to protect local industries from competition by well-known foreign companies.

Such an intention of the Philippine Government is being materialized in a different form by the Technology Transfer Board (TTB), an agency under the Ministry of Industry, which conducted a public hearing on February 27, 1979 and proposed policy guidelines on franchise and trademark agreements and renewals of technology agreements.

II. Summary of Proposed Policy Guidelines

1. Proposed Guidelines for the Evaluation of Franchise and Trademark Agreements

It has been noted that a number of foreign brands dominate the market to such an extent that the locally branded products find it difficult to compete. There is also an increasing number of foreign franchise-to-market consumer items and services. Payment for the use of such franchise agreements and foreign brands may mean unnecessary outflow of foreign exchange on a continuing basis because particular trademark and service marks once fixed in the customer's mind may be difficult to dispel. Suggestions have been made that the TTB adopts policy guidelines on foreign trademarks and franchising agreements.

2. Policy Guidelines

2.1. On Purely Trademark Agreements

The general aim of the policy guidelines on trademark agreements is to reduce the costs associated with the use of foreign-owned trademarks, through licensing agreements with domestic enterprises, which may be Filipino owned or foreign subsidiaries of transnational

corporations, and to promote locally-owned trademarks for both the internal and international markets. In this regard, the following guidelines should be taken into consideration:

1) New agreements involving the use of foreign trademarks which are intended solely for the domestic market shall not be allowed.

2) Renewals of existing trademark agreements between two unrelated companies may be allowed on a case-to-case basis at a minimal fee. This is in recognition of the expenditures already incurred by the local company in promoting the trademark in the domestic market.

3) Renewals of existing trademark agreements between subsidiaries and parent companies shall not be allowed.

4) The above rules notwithstanding, in cases of export products and services where the trademark is important for export market penetration, the agreement may be allowed provided that the contracting parties will undertake to generate foreign exchange earnings sufficient to cover

royalty remittances, fees, importations and other foreign exchange which may be required in the Agreement.

2.2. On Franchise Agreements

Generally, such agreements involve minimal technology and if such is the case, the above rules on "purely trademark agreements" will apply.

3. Royalty Rates

For franchise and trademark agreements, the royalty rate shall be 1% of net sales, as a general rule, without prejudice to a higher rate for export-oriented ventures and highly meritorious cases as determined by the TTB.

4. Proposed Policy Guidelines on Renewals of Agreements

Renewals of agreements are normally justified on any of the following grounds:

1) In case of fast moving technologies, the local technology recipient needs to be constantly kept abreast with technological advances in industrial property or technology being used by it;

2) In the case of industrial property licenses, to afford continued use and exploitation of such

industrial property rights to the extent that they are covered by legal protection under the patent or trademark law; and

3) In cases where complicated technologies are involved, technological absorption would necessitate a longer period than the normal five (5) years.

Determination of what constitutes a technological advance becomes of paramount importance in the evaluation of such renewals. The WIPO has provided a clear definition of technological advance as "a step in the evolution of the technology beyond that state of technology identified and described as existing at a certain point in time or made or acquired during a specified period." The concept of technological advance is therefore a function not only of time but also of its effectiveness or economic efficiency in relation to a specified product or process. Technological advance may thus come in the form of an improvement in an invention or industrial design that is the subject of a patent or of a development concerning a given product or process.

Aside from determining what constitutes a technological advance, the following factors, among others, should be

taken into account in the evaluation of renewals:

a) The research capacities of the respective parties, more particularly the technology recipient.

b) The willingness of the technology supplier to supply information on technological advances under certain terms and conditions.

c) The capacity of the technology recipient to exploit the basic technology and the technological advance.

d) The need by the technology recipient to have continued access to technological advances considering the activity it is engaged in and the nature of the industry concerned.

Similarly an in-depth assessment of the intricacies and complexities of the technology that would warrant a renewal should be undertaken.

To achieve a balancing of objectives, i.e., acquiring technology to fuel the country's industrialization program and at the same time developing and strengthening local

technological capabilities, possible directions in the treatment of renewals of contracts would be:

1) Allowing renewals only up to a certain maximum period.

2) Imposing on local technology recipients the establishment of R & D facilities to ensure adequate adaptation of technology.

The first alternative would seem to present some rigidity of rules since the pace of technological advance varies from industry to industry. This might be considered also in the case of a parent-subsidiary arrangement where the parent company's R & D facilities or department normally serve the needs of its subsidiaries. For this purpose, any renewal acted upon should provide for a program of phasing out of royalty fees unless there is a Philippine patented technology in the name of the parent company or there is a bona fide management contract with the parent company. Where independent parties are involved, renewals should be subjected to decreasing royalty rates and submission of plans for undertaking research.

The alternative of imposing the establishment of local R & D infrastructure should, on the other hand, take into

consideration several factors such as the feasibility of setting up the R & D facility in the light of the capacity of the local company and the costs involved; the essentiality element in the light of the needs of the industry and the economy. In the case of a local subsidiary, the cost element might be disproportionate to the need factor considering that it could at any time have access to the R & D results of the parent company. In any case, the cost element should be weighed in relation to the essentiality or priority of the industry involved vis-a-vis national development objectives and goals.

III. Conclusion

The three foreign chambers of commerce of the Philippines--American, European and Japanese--strongly opposed the aforementioned proposed policy of the TTB, pointing out that the guidelines on franchise and trademark agreements as well as the reduction in the present royalty rate will "greatly discourage foreign investments and hamper the inflow of new technology into the country." Consequently, the TTB declared that it may allow the renewal of existing trademark agreements, but on a case-to-case basis and only when firms involved can show proof that new technology will be introduced

with the renewal of such agreement. According to the TTB, the proposed guidelines on trademark agreements are aimed at cutting the cost of using foreign trademarks, as well as encouraging the use of local brands for both the local and foreign markets.

At the time of the preparation of this report--August 3, 1979--, the proposed policy was under discussion and no conclusion had yet been made.

We should try to concentrate our efforts on preventing the enforcement or legislation of the proposed guidelines, in order to promote Philippine industries as well as to protect our own interests from a licensor's standpoint, we believe.

Our views on the proposed policy are pertinently set forth in the letter dated April 28, 1979 addressed to the TTB from the President of the Japanese Chamber of Commerce & Industry of the Philippines, Inc., the gist of which is introduced below:

1) A trademark is not merely a device but a symbol of guarantee of the quality and the commitment by the manufacturer of after-care of a commodity. The trademark, the commodity and the technology

therein involved are one composite body. Should it be made difficult to enter into a new agreement or renew an existing agreement, inflow of new technology would be hampered, and foreign investment would be greatly discouraged.

2) The success of business to be conducted locally with the intention of using a foreign trademark depends largely on the trademark which is already established internationally with good consumer acceptance and reputation. Further, in attempting to export Philippine products, such products without well-known trademarks thereon may not be readily accepted in the international market.

3) It is only fair for the owner of a trademark to try to recover through commensurable royalty collections the expenditures he has so far incurred to promote and diffuse the trademark.

Should the royalty rate be limited to 1% of net sales, which in most cases would be too low to effect the aforesaid recovery of expenditures, the licensor of the trademark dissatisfied with the limitation may terminate the trademark

license, thus inevitably causing difficulties and damage to the local licensee whose business has been dependent on the use of the trademark.

4) Limiting renewals of agreements for technology transfer to "only a certain maximum period" and requiring a program of phasing out royalty payments and the establishment of local research and development facilities would result in a situation where, contrary to the intention of the proposed policies to facilitate technology transfer, the foreign technology transferors become reluctant to effect the transfer.

Time required for technology to be effectively transferred may vary according to the nature and type of technology involved and the ability of the transferee to absorb technology. Technology may in the process of application give rise to improvements and advances, and the policy towards fixing the period needed for technology transfer should be realistically flexible.

It is not practical to obligate the transferee of technology to possess an R & D function of

his own which would require considerable funds and personnel. Establishment of the transferee's R & D facilities would likely be a waste inasmuch as it would duplicate the investment the technology transferor has already made for the same objective.

5) The value of a trademark or technology can be best appreciated by and between the licensor who has developed it and the licensee who wants to use it.

Terms and conditions of an agreement including the royalty rate should be left more leniently to the discretion of the parties to the agreement.

T. Kawaguchi
September, 1979

Developments in Industrial Property Laws of Asian Countries

Committee # 3
K. Imai
T. Tamaru
N. Okabayashi
Z. Nakamura

At the last Nagoya Congress, we made a presentation on the changes in the industrial property system of the South East Asian Countries. Since then, there have been further developments in the field of industrial property protection in some Asian Countries.

Among those developments, there are the enactment of new patent law in Thailand, the revision of patent and trademark laws in Korea, and the enactment of the revised patent law in Taiwan. Furthermore, of special note, in the People's Republic of China, consideration and debate are now under way for establishment of patent system.

Concerning the new patent law in Thailand, Mr. Kondo will make a detailed presentation today, and in my report, I would like to brief you on the developments

of industrial property system in Korea, Taiwan and the People's Republic of China.

I. Korea

As you are aware, Korea became a member of WIPO in March 1978 and plans to accede to the Paris Convention in 1980.

Drafts of Amendments to Korean Patent Law, Trademark Law, Utility Model Law & Design Law have been finalized by the Patent Office and they were passed by Cabinet Meeting as of August 21st, 1979. The passage of Amendments by the National Assembly is simply a matter of course of procedure.

The Effective Date will be announced by the Decree. However, it is apparent that such effective date will come after the Korean government's joining the Paris Convention in the beginning of 1980.

Major points of revision of the Patent Law are seemingly as follows:

1. Adoption of "open to public inspection" system

This system is only applicable to the patent

and not to the utility model. Under this system, publication is made 18 months after the date of priority in case priority is claimed and 18 months after the date of filing in case priority is not claimed. Some provisional protection, such as a right to claim for damages in Japanese Patent Law, is given to the invention which was laid open to public inspection. Any third party can submit the information to the Patent Office concerning the subject matter which was laid open.

2. Adoption of "request for examination" system

This system is adopted according to the adoption of "open to public inspection" system. The time limit for the request for examination has not yet been cleared.

3. Adoption of "multiple claim" system

The same provisions as those of the subparagraphs of Article 38 of the Japanese Patent Law will be stipulated. Namely, the following inventions can be filed inclusively in one and the same application:

(1) inventions which have, as a substantial part of their indispensable constituent features,

the whole or a substantial part of the indispensable constituent features of the specified invention and which have the same purpose as the specified invention;

(2) where the specified invention relates to a product, inventions of processes of manufacturing the product, inventions of processes of using the product, inventions of machines, instruments, equipment or other devices for manufacturing the product, or inventions of products solely utilizing the specific properties of the product.

(3) where the specified invention relates to a process, inventions of machines, instruments, equipment or other devices used directly in the working of the specified invention.

4. Requirement of "description of abstract"

Description of such abstruct of the invention as in the U. S. patent specification will be newly required. It is assumed that this is introduced to comply with the Patent Cooperation Treaty.

5. Limitation of "term for amendment"

In accordance with the adoption of "open to

public inspection" system, the term in which specifications may be amended will be limited within 15 months from the date of priority when priority is claimed or from the date of filing when priority is not claimed.

6. Adoption of "publication fee"

According to the adoption of publication fee, applicants are only required to pay the filing fee at the time of filing. An additional fee will be paid at the time of publication in proportion to the number of pages of the specification. At present, applicants are requested to pay the additional fee together with the filing fee at the time of filing, and the additional fee is not refundable even if the application is abandoned in the course of prosecution.

7. Duty to select patent controller

At present, the duty to select patent controller is optional and not obligatory. However, under the revised law, the duty will be imposed on foreign applicants.

These are the expected major points of revision. There is no extension of the term of the patent, although it is expected in the future. It is said that the revised

law opens the door for the convention application. However, Japan will not admit the convention applications bilaterally unless Korea accedes to the Paris Convention.

In the meantime, the Korean Patent Office is now examining foreign patent applications filed during 1974. It is expected to start the examination of applications filed in 1975 during the course of this year. It is interesting to watch how the adoption of "open to public inspection" system will influence the acceleration of the examination.

With respect to the Trademark Law, the work of revision seems to be coming to the final stage. It is planned that the revised Law will come into force from January 1980 together with the Patent Law. The scope of revision of the Trademark Law will be a partial one. On July 17, the Special Committee for International Problems of the Japan Patent Association sent an attached letter of request proposing some change of the present Trademark Law to the Korean Patent Attorney Association.

It seems that evidence for actual use of a trademark will be requested at the time of renewal of registration under the revised Trademark Law.

II. Establishment of Patent System in the People's Republic of China

The People's Republic of China has a policy of exchanging technologies actively with foreign countries in order to proceed with their so-called four modernizations, and in order to attain the modernizations smoothly, the Chinese Government recognizes the necessity of the establishment of a patent system. At present, they are apparently making the necessary studies energetically for establishment of their patent system.

In April, 1979, a Japanese Patent Office delegation consisting of 15 representatives from the Japanese Patent Office and five other organizations including the Japan Patent Association visited China for fact-finding of their future patent system or law.

This report briefs the present situation of the Chinese patent system or law under consideration, based on the report of the investigation of the Japanese Patent Office delegation.

The Chinese Government dispatched fact-finding delega-

tions to Japan, European countries including West Germany, France and Czechoslovakia, and WIPO during last year and this year to investigate the patent system of each country. It is their intention to establish a patent system which will be most effective for exchanging technologies with other countries and which will meet with the present circumstances and requirements in China.

Reportedly, the first version of the Chinese patent law is scheduled to be drafted in the latter half of 1979. It seems that they will not choose the so-called "inventor's certificate" which is currently adopted in the U.S.S.R. and Eastern bloc countries as a part of their intended patent system.
Therefore, patent can be issued to any person in China, but its patent right is owned by the organization to which the person belongs and it is expected that the right of enforcing the patent will belong to the People's Republic of China.

The Chinese Government issued invention encouragement rules in December, 1978. This system is to honor a person who made an excellent invention, but it does not contain any purpose for protecting inventions.
Accordingly it has an entirely different nature from

their intended patent system.

Referring to the invention encouragement rules, some standards for judging patentability are adopted, so that it is a system for selecting excellent inventions. Therefore, it may be legally correlated somehow with their new patent system.

As mentioned previously, the first version of the Chinese patent law is scheduled to be drafted in the latter half of this year. However, neither organization for proceeding with the work nor a system for putting patent information or materials in order so as to be ready for use has been established yet. Taking into consideration the necessity of making such organization and system, the patent law enforcement will be years ahead.

According to the information of I.C.C., they will join the Paris Convention during 1980.

With respect to an organization in China for enforcement of the patent law, which may be similar to the Japanese Patent Office, at present, encouragement of inventions and trademark matters are handled by

different organizations in China. Therefore, it may be a problem to the Chinese Government whether or not such different organizations should be unified.

As to the setting of patent information or materials the Chinese Government reportedly owns approximately 9,000,000 cases of patent specifications from various countries, but their filing has not yet been made for quick reference. Also the patent specifications are placed separately in Shanghai and Chungking.

Furthermore, it is an urgent necessity to train officials for enforcing the patent system or law, such as examiners, as soon as possible. They sent five trainees to the Japanese Patent Office in August, 1979 and they are scheduled for training in the Japanese Patent Office for half a year. Furthermore, they are planning to invite experts in legal matters and patent office works from Japan and also to establish a curriculum of patent law in some universities in China.

III. Taiwan

At the last Nagoya Congress, our Japanese group report the draft of a revised patent law which had been

under consideration in the Legislature. The revised patent law was promulgated on April 16, 1979 and came into force on April 18.

By the revision at this time, among all 133 articles of the patent law, 42 articles were amended and 3 articles deleted. Highlights of such revision are as follows;

1) From steps of examination is omitted the final examination which was positioned between the re-examination and the appeal.

As a result, the new steps of examination are as follows;

1. Examination

   (Ministry of Economic Affairs, National Bureau of Standards)

2. Re-examination

   (Ministry of Economic Affairs, National Bureau of Standards)

3. Appeal

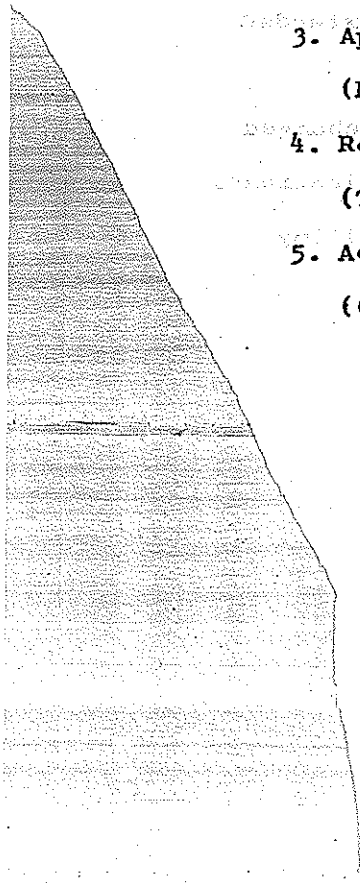
   (Ministry of Economic Affairs)

4. Re-appeal

   (The Administration)

5. Administrative Suit

   (Court of Administrative Litigation)



2) The essential requirement for a patentable invention is changed from "An invention having industrial value" to "A new invention having utilization value in production". Therefore, new species of plants shall be granted patents, except for those of food products.

3) The old Articles 2(3) and 96(3) by which any invention (any model) filed with a foreign government for over one year loses its novelty are deleted.

4) As Articles 2(5) and 96(5), clear statements about inventive step of invention and utility model are inserted. That is, an invention or a model "which utilizes conventional know-how and technical knowledge known prior to applying for patent, and is obvious and makes no improvement in effectiveness" is not a patentable invention or model.

5) Public use as a reason of loss of novelty had been limitted to that in Taiwan, but it is now extended to that in any foreign country.

6) The commencement date of a patent right is changed from "its filing date" to "the date of publication". The limit of a patent right term from its filing date is also defined.

a --- invention

15 years from the date of publication, but not exceeding 18 years from the filing date

b --- utility model

10 years from the date of publication but not exceeding 12 years from the filing date

7) The period for instituting an opposition at the Patent Office is shortened from "6 months" to "3 months" from the date of publication.

8) The former provision stipulating that the patent may be revoked if the patented invention has not been put into practice for 3 years from the grant of the patent is deleted. With this deletion there remains only the provision of a compulsory license as a sanction for non-working.

9) The commencement date of the term for annuities is defined as the date of publication.

10) Among the penalties for infringements on granted patent etc., amounts of fines are raised.

11) A new provision is added that patent rights are not effective against the products manufactured by a licensee or assignee of the original inventor and imported from a foreign country.

July 17, 1979

Kim Eul Chang, Esq.
President
The Korean Patent Attorney Association

Dear Sir,

When we visited your country, we were informed that you are contemplating revisions of the Patent and Trademark Laws. After we returned, we reported to our industrial manufacturers and the JAPAN Patent Association here, and had discussions thereon.

We are not aware of the details of the revisions now under consideration. However, your current "Trademark Law" and "the Guidelines for Granting Authorizations of Use of Foreign Nationals' Trademarks" include, in our understanding, provisions which are rather unusual and not seen in major parts of the world. We are afraid that further maintenance of such provisions will lower the incentive for investments from foreign countries to your country, and that they will not be useful for your national interests in the long run. We have some fear that such provisions might be a hindrance for Japan, as a neighbouring country, to effectively cooperate with you in the industrial development thr

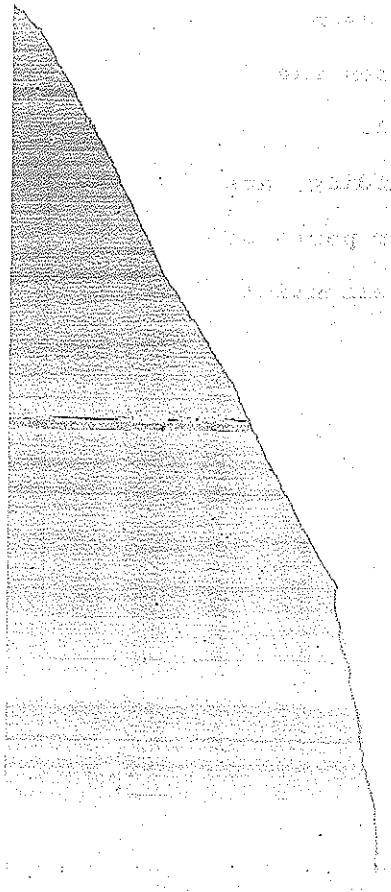
the channel of the industrial property rights.

We raised the following points. We shall be happy if your association suggest to authorities taking the opportunity of contemplating revisions now under preparation.

We sincerely ask for your cooperation.

Very truly yours,

Shoji Matsui
Chairman
Special Committee for
International Problems



1. The current Trademark Law provides in Article 29 that in case where a trademark right owner intends to grant others a non-exclusive license with respect to the trademark concerned, he shall register the establishment of the non-exclusive license in the Trademark Register. And the registration for the establishment of the non-exclusive license cannot be approved by the authority, unless the license falls under any one of the followings:

(1) Between the companies in case where as to the goods and business there exists relationship of control which will be determined by a Presidential Decree; and

(2) In case where an approval has been obtained from the Minister of Economic Planning Board with regard to the investment or technological inducement by a foreigner including use of trademark in accordance with the Foreign Capital Inducement Law, between the investing company and the campany which has been established through such investment or between the parties of technological inducement contract.

These conditions, in our understanding, are very peculiar and they are not seen in major parts of the world. They do not appear to have any essential relationship with a grant of trademark use.

Accordingly, it is advisable that these conditions shall be abolished and that a grant of trademark use shall be left open to the will of the parties - an owner of a trademark and a company wishing to use it.

2. In Article 65 of the current Trademark Law, penalties are provided against an owner of a trademark and a user of his trademark in the case where the owner tacitly admits use of his trademark or makes someone use it. This is also unusual in major parts of the world and very peculiar. Even when a penalty is imposed on an owner of the trademark, the revocation of the trademark under Article 45 appears to be enough as such penalty.

3. In Article 4 of the Guidelines for Granting Authorizations of Use of Foreign Nationals' Trademarks (the Advisory Ordinance No. 94 of Economic Planning Board), provisions are made concerning trademarks owned by foreigners. It provides that use of such trademarks involved in a technology license agreement shall be allowed only during the effective period of such license agreement. In other words, after the expiration of a license agreement, the trademarks shall not be renewable and no use shall be allowed under the Law.

Essentially, goods have a nature to be supplied even after the expiration of any agreement, so far as demands to the goods exist among general consumers. In order for consumers to get the goods, which they are accustomed to use, without confusing with other goods, the original trademark to the goods should not be changed. Rather, in our understanding, a continuous use of the trademark shall be allowed without any change.

NEW THAI PATENT LAW

Committee 3
By: Hideo Kondo
Fuji Photo Film
Co., Ltd.

I. Introduction

Thailand enacted patent legislation* which enters into force on September 13, 1979.

The patent law contains many provisions similar to the draft MODEL LAW FOR DEVELOPING COUNTRIES ON INVENTION AND KNOW-HOW (hereinafter referred to as "the Model Law") proposed by WIPO and also it is in line with the trends in recent revisions of the patent laws in developing countries. The establishment of the patent law in Thailand which had enacted only a trademark law is a great advance and is expected to be an incentive and to facilitate the transfer of technology from developed countries, although the text seems to have some insufficiencies on the protection for the rights of patent holders.

Hereinafter, characteristic points of the new Thai patent law are outlined, some of which are compared with the Model Law, and the significance of

* THE PATENT ACT, B.E. 2522 (A.D. 1979)

the patent law to foreign business concerns is also briefly considered.

II. Features of Thai Patent Law

(1) Publication of Application before Examination & Filing of Oppositions

Any application which satisfies the formal requirements and which does not fall within the following bases for unpatentability is laid open for public inspection (Article 28). However, the law does not stipulate the time of laying-open the application.

Any application falling within the following groups will be rejected as unpatentable:

(1) Foods, drinks, medicine, or medical ingredients.

(2) Machineries used directly for agriculture.

(3) Animals, plants, or biological processes in the production of animals or plants.

(4) Rules and theories in science and mathematics.

(5) Data systems for the operation of computers.

(6) Inventions detrimental to public peace, morals, health or welfare.

(7) Inventions as stipulated by Royal Decree (Article 9).

Of specific interest among these is that agricultural machines and equipment are unpatentable. The concerned industries should study this point further.

Anyone can file an opposition to any application, which has been laid-open, within 180 days from the laid-open date (Article 31). On the other hand, the term for filing a request for examination is five years from the laid-open date (Article 29). Hence, there is a possibility that an opposition will be filed against an application for which no request for examination has been filed. In such a case, as well as in the case of examination, the applicant must file a rebuttal of the opposition. If a rebuttal to the opposition is not filed, the application itself is deemed abandoned (Article 31).

No rights are provided to the applicant as of the date his application is laid-open. In this respect, the protection of the applicant's rights does not seem sufficient.

(2) Examination: Duty to Report Examination and Status of Foreign Applications

As the patent law employs an examination system, an application is examined only after filing of the

request for examination (Articles 24 - 34). Unless a request for examination is filed within five years from the laid-open date of the application, the application is deemed abandoned. Though the examination is in principle made by the competent officers, if necessary examination may be delegated to a domestic or foreign institution (Article 25). In such a case, the expenses involved in the examination are to be borne by the applicant (Article 29).

If an application or applications corresponding to the Thai application are filed in foreign country(ies), the applicant must report the results of examination of such foreign application(s). Unless the report is filed within the stipulated term (90 days from the day the report is ordered), the application is deemed abandoned. If the applicant submits foreign language documents, the Thai translation must be attached thereto (Article 27).

(3) Patentability Requirements, Especially Novelty

Patentability requirements are novelty, inventiveness and industrial applicability (Article 5). The following invention are regarded as lacking novelty:

(i) inventions publicly known and publicly used in Thailand prior to the date of application

(ii) inventions published and disclosed in domestic or foreign documents or printed matter prior to the date of application

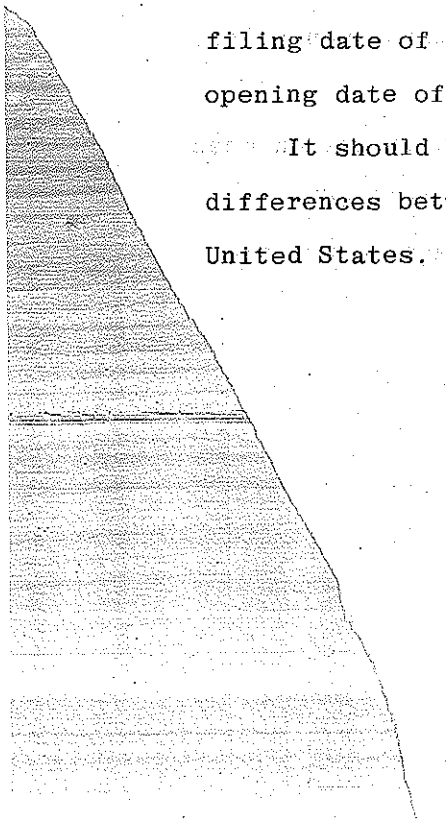
(iii) inventions patented in Thailand or in foreign countries prior to the date of application

(iv) inventions filed in a foreign country more than 12 months prior to the date of application in Thailand

(v) inventions to which a prior application has been filed in Thailand.

An invention, which loses its novelty due to its disclosure in an exhibition, will be revived if the application is filed within 180 days from the date of the opening of the exhibition. In such a case, the filing date of the application dates back to the opening date of the exhibition (Articles 6 and 19).

It should be noted that there are two important differences between the Thai law and that of the United States. First, the Thai law does not provide



the applicant with a one year grace period between the time he publishes his invention and the time he files his application. Second, in the case of copending applications claiming identical subject matter, factors such as reduction to practice, conception, diligence are not considered. The Thai filing date controls priority as between the applications except where reciprocity is granted the Thai applications in a foreign country, an application first filed in such a foreign country will be granted the benefit of the foreign application date.

(4) Patent Right

The term of a Thai patent is 15 years from the date of application, but the right of the patent holder starts from the date of patent registration (Article 35). However, the patent is not effective against the following acts:

(i) practicing the invention for the purposes of education, research, experimentation, testing or analysis,

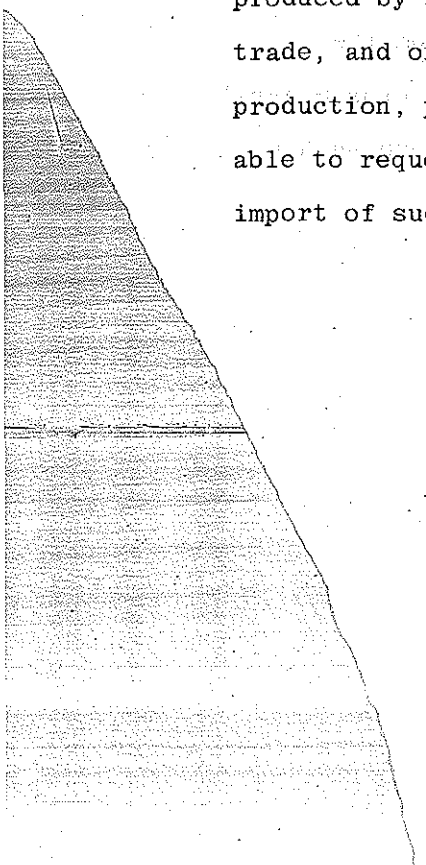
(ii) continued practice of the invention when the invention has been practiced or preparations have been made to practice

the invention in good faith before the laid-open date of the patent application,

(iii) selling a product obtained in good faith (Article 36).

Thus, the Thai law provides certain intervening rights based on prior practice or preparation to practice the invention. It should be noted, however, that Article 36 also seems to provide that any time a product is obtained in good faith it may be possessed or sold without the danger of infringement.

In this connection, specific attention should be paid to the provision of Article 77 which restricts the effect of the patent right. This provision in effect provides that until a patented invention is actually used and/or produced or preparations to use and/or produce the invention are made in Thailand, any party may import a patented product or a product produced by a patented process for the purpose of trade, and only when the patent holder actually begins production, practice or preparation in Thailand, is he able to request the Director General to prohibit the import of such products.



In other words, unless the patent holder engages in domestic production activity with respect to the patented invention, any third party is authorized to import, sell and use the invention and the patent holder is not able to stop such activity.

(5) Sanction against Non-Working of Patent

Any party may file a request for the right to practice a patented invention in cases where, after the passage of three years from the registration date of a patent, (i) domestic production of a patented product is not practiced or a patented method is not used in the absence of an appropriate excuse, (ii) the patented product or of a product produced in accordance with the patented method is not on sale, (iii) if a sale is made, if the price of the product is unreasonably high, or (iv) the product is not adequately supplied to satisfy the public demand (Article 46).

If a given patent is still in one of the above categories after passage of six years from the registration date of the patent, the Director General can demand that the Patent Committee revoke such a patent (Article 55).

(6) Licensing Agreement

Any licensing agreement must be registered (Article 41) and is prohibited to include such conditions, restrictions on rights or compensation as might jeopardize the development of the domestic industry, manufacture, agriculture, or commerce in Thailand (Article 39). Unless such conditions are deleted, the licensing agreement will not be registered.

(7) Patent Committee

The patent committee consists of up to 12 members having specific qualifications and appointed by the cabinet with the Undersecretary of the Ministry of Commerce, as the chairman, and the term for each member is 2 years. Besides the task of deciding appeals against orders and decisions made by the Director General on patent applications and licensing agreements, the committee also functions as an advisory body to the minister.

(8) Fees

Expenses for various procedures are as follows.

Application fee: 1,000 baht (1 baht=$0.05)

Laid-Open fee and fee for Request for Examination: 500 baht, each

Registration fee: 1,000 baht

After registration, annuity must be paid using the application date as the initial date and is 2,000 baht at the fifth year (necessary from the fifth year). Thereafter annuity increases at a rate of 2,000 baht/year up to the 14th year and is 3,000 baht at the 15th year (sum of annuity = 140,000 baht).

III. Comparison with the Model Law

(1) Duty to Report Status of Foreign Applications

This aspect of the Thai law is in line with §128 of the Model Law. In the Thai Patent Law, however, the stipulation "at the request of the Patent Office" is deleted; hence, this provision seems to apply to all patent applications. In addition, the Thai translation must be attached to documents submitted to the Patent Office. In these points, the Thai Patent Law is more severe for applicants than is the Model Law.

(2) Importation

According to §135 of the Model Law, no one is allowed to import a patented product without approval of a patentee. On the other hand, the Thai Patent Law stipulates that anybody can import the patented product before the production activity of such a

product actually starts in Thailand. Though this provision tends to encourage domestic production activity, it is obvious that the protection of a patentee is drastically reduced.

(3) Sanction against Non-Working

The provision of compulsory license for non-working of a patent is substantially in line with the gist of the Model Law. However, the provision for revocation of a patent right due to its non-working is extremely severe and cannot be found in the Model Law. This revocation clause naturally infringes upon Article 5-A of the Paris Convention.

(4) Licensing Agreement

The Model Law stipulates in §301 - 309 in detail the examination and registration of an agreement, and the Thai Patent Law seems to incorporate this idea. Specific attention should be paid to the contents of the Ministerial Regulations which is soon to be enacted.

IV. Significance of Thai Patent Law to Foreign Business Concerns

Though Thailand is not a member of the Paris Convention, a business concern of a country which

extends reciprocity to Thailand can file a patent application in Thailand. The significance to a foreign company of obtaining patent rights in Thailand varies in great measure depending on whether or not the company itself or its licensee actually produces and sells the patented product in Thailand.

In other words, so long as the foreign company itself or its licensee actually produces and sells the patented product, the company can enjoy the patent right in substantially the same way as in developed countries in general. However, if the foreign company intends only to import and sell the patented product, the effect of the patent right is rather limited and its merit is extremely small.

Depending on the production activity and the patent activity of domestic companies in Thailand, it will be necessary for a foreign company, especially for a foreign company which carries on only the importation and sale of the patented product in Thailand, to pay attention to possible infringement of patents held by domestic companies, because the patent rights of a foreign company, which does not intend to carry out production activity in Thailand, does not

appear a powerful means in negotiating the licensing agreement.

Though the Thai Patent Law stipulates that an inventor or inventors have the right to acquire a patent right, it adopts such a system that an invention made by an employee or employees of a company is taken over rather easily by the company and the reward for the employee(s) is greatly considered. It will therefore be necessary for foreign companies which intend to carry out production in Thailand to investigate in further detail the rules of Ministerial Regulations.

V. Summary

As outlined above, the Thai Patent Law places specific emphasis on the practice of the patent right, especially on the development of the domestic production activity, though the Patent Law itself is set up within the framework of the Model Law. Accordingly, the actual merit of obtaining the Thai Patent does not always seem significant to those foreign business concerns which do not intend to produce and sell the patented product but exclusively import and sell such product.

As a final note, the Patent Legislation also includes the system of a product-design patent (term = 7 years from the application date).

The European Outlook on the Proposed Revisions to the Paris Convention

Cyril G. Wickham

Chairman, Industrial Property Panel,
Confederation of British Industry

PIPA, Philadelphia, 1979

Madame President, Mr. President, Ladies and Gentlemen,

It is a great priviledge to be invited to address this gathering, and I should like to spend a moment explaining how it came about.

You will know that there have been preliminary meetings of WIPO, the World Intellectual Property Organisation, for three, four years or more to prepare for the Diplomatic Conference to revise the International Convention which is to begin on 4th February. These preliminary meetings have been held in Geneva and Lausanne in Switzerland, and I have been present at virtually all of them. It has been an illuminating experience, sometimes a tiresome one, but the reward for this suffering is that I have at least seen the development of the situation on the spot. So it pleases me to be able to present a kind of European view to practitioners in the United States and our friends from what in Europe we call the Far East, though I suppose here it must be the Far West. Furthermore over those years I have sometimes talked to your own representatives from PIPA whom I have enjoyed meeting in Switzerland.

I should like to say a few words about the International Convention as an institution. This is a treaty first signed as long ago as 1883, and though since then it has been revised six times the treaty still applies and is still the fundamental basis of international patenting. The essential and most important provision of the Convention is the Convention priority of a year for patents, and this is still the basis of our operations. It would be appalling to try to run international patenting without it, and chastening to think how much would be changed if we suddenly found we had no international priority any more. So no industrialised country dare withdraw from the Convention whatever happens, and this is a vital factor when tempers run a bit high. Nobody can ~~afford~~ afford to walk out.

I should also like to add a note of explanation and no doubt of apology. When I was asked to talk to you I had no idea of your programme here, and indeed I only received it twenty minutes before leaving my home in England the day before yesterday. I first read it over the Atlantic and found that my main points were in fact being dealt with this morning before I spoke. It is a disconcerting discovery for any speaker, but it is not surprising I suppose, because these are the main points in all the countries of the world. So you will forgive me if in keeping to my text I therefore repeat some of what has already been said. Yet even then it might be a good fault, for everything I say must have a European flavour and I am sure a British flavour. There is a point here too, for it has often enough been said that the British and Americans are peoples divided only by a common language.

Since 1883 there have been these six revisions of the Convention, first in Brussels in 1900, and since then in Washington, the Hague, London, Lisbon and finally in Stockholm, all but one you will see in Europe. The seventh in Geneva will be in Europe again, and will give rise to the latest Geneva text. This preoccupation with Europe is rather unbalanced you may think,

for only a small proportion of the members of the Convention are in Europe, and my bet is that the eighth revision whenever it occurs will be in Tokio.

This seventh Revision Conference as you know is different from the others, for all the earlier six were to improve the Convention in a technical sense, and it became a typical instance of the law of diminishing returns. At the last Conference in Stockholm in 1967 hardly any changes of significance were made. On this pattern another Conference now would be irrelevant, but since 1967 the whole of the international climate has changed. The developing countries, the Group of 77 as they are called, though there are over a hundred of them, have taken over the stage. Some have oil, and have taken over the stage in more ways than one. The developing countries as a group have a strong case, and many of them badly need help from the world. But be this as it may the developing countries asked for another revision of the Convention to give special assistance to themselves, and this is the only reason for the Diplomatic Conference in February.

This, though, is not my mandate today, except that the point is very well recognised in Europe. The attitude of the European countries to the Third World has differed from time to time. Not differed perhaps, but the different countries have sometimes been at different stages along the road. The Scandinavian countries for instance adopted from the first a very moral and commendable lead in their call for assistance to those countries less fortunate than themselves. My own country was in a special position because of the British Commonwealth. But all the countries of Western Europe have long since caught up with each other, while at the same time I think I have recently seen certain reservations in those same Scandinavian countries, which have sometimes seemed a little disillusioned and have not always liked some of the militancy which has been generated. Anyway, all the developed countries have firmly accepted the need to give assistance, and certainly this country of the United States. I was once in a meeting of UNCTAD, the UNO organisation, when the United States was attacked for its lack of assistance to the poorer countries. The delegate from the United States was mightily annoyed, and in cold courtesy read out a list of the precise assistance being given, which ~~incidentally~~ included incidentally 25% of the cost of UNCTAD itself. It took a long time, and we did not hear any further criticism that day at any rate. This at all events is the genesis of the forthcoming Diplomatic Conference.

So I will return to my thesis, the European attitude to the proposed modifications to the International Convention.

The first thing I have to say is the evident one that in principle the European - Western European - attitude is the same as the U.S. and Japanese attitudes. All belong to the Group B countries, the group of developed countries, and indeed Japan has frequently over recent years been the spokesman of Group B and therefore of the European countries too. There are no great differences of opinion between the countries of Group B. Nevertheless, these countries are very independent and do not hesitate to express views of their own, which makes Group B much less of a block than are the Group of 77 and the

Group D communist countries, where everybody stays strictly in line. This has sometimes weakened Group B a bit, one of the well known problems of democracy, and looking back over the years it is a fact that Group B only took to having prior meetings to establish a common view long after the other two groups had established this as a matter of course. There are accordingly a few subtle distinctions between the attitudes of the various developed countries, and sometimes a difference of emphasis between Europe and some of the others. This is most noticeable at the moment on the trade mark front.

In a brief address to you, you will not expect me to go through all the technicalities of the forthcoming Diplomatic Conference, and I am sure you would be alarmed if I did so. I shall therefore restrict my comments to just four key issues relevant to my brief, about which you have already heard and for which I have already apologised. These are:-

1. First, the vexed question of majority voting,

2. Inventors' Certificates,

3. The sanctions on non-working,

4. The use of geographical names as trade marks.

First of all, this acid question of majority voting. It would need the pen of a Mark Twain if it were not so distressing, though for that matter Mark Twain's pen has a steely glint. Up to the present, in all the earlier Revision Conferences, no changes of substance could be made except by unanimous agreement. Surprisingly there is nothing about this in the Convention itself, and the developing countries - and also the communist countries of Group D - know that the principle gives a power of veto to Group B. Hence the demand for majority voting, and it is a difficult issue, for in UNO there is majority voting everywhere except in the Security Council, which does not concern itself with patents and trade marks. The generation of this controversy has been a source of distress indeed. The Group B countries are in a small minority, the Group of 77 is in a large majority, and the communist Group D, though smaller in numbers than Group B, occupies a kind of intermediate position and can certainly be relied upon to vote unanimously. Basically the Group of 77 would like a majority of 60% or so which would enable them to carry anything against anybody. Group D would I think like a somewhat higher figure so that they could force anything the Group of 77 wanted if they agreed, but stop it by acting in conjunction with Group B if they did not - and it must be remembered that Groups B and D are not always in disagreement at all, for Russia is far from being undeveloped. I do not know what will happen, or how the problem will be resolved, for nobody knows what majority is required to decide what majority will prevail. You will not be surprised to hear that I am rather sure Group B considers it must be by unanimous agreement.

Nevertheless, if the result is that changes are introduced

into the Convention which our own group of developed countries do not accept all that will happen is that we shall not ratify the new text and the Paris Union will be completely split. There is no time today to explore the consequences of this, but I cannot see what benefit the Group of 77 would gain by writing a text the developed world will not accept. There can be no compulsion on anyone to accept the coming Geneva text.

Amid this obscurity there seems to have been a general view in Group B that some kind of accommodation needs to be made in respect of majority voting if only to prevent the use of the veto by isolated countries against the otherwise accepted opinion. I remember at an early stage the United States saying that even then a 90% majority was too low. At one time I believe most of the European countries might have accepted a lower figure, though the attitude is now getting harder. I suspect that many would at the moment consider 90%. On the other hand, and I express a view with apologies here, for I cannot know, my strong impression is that the United States is now tending to return to the principle of unanimity. And I can say that European industry is very much of this opinion too, though regrettably I cannot see the principle being retained. The whole question is more complex than appears at first sight and cannot be dealt with now, but I hope that Group B will stand for a high percentage.

The next is Inventors' Certificates, and you know the issues. The Russians want Inventors' Certicates to be regarded as equivalent to patents, and this is a battle largely between Russia and the United States because the European countries and the United States seem up to the present to have adopted different practices, though as ~~none of~~ the countries have published no precise statement of what they are doing it is all unclear. The ~~U.S. as I understand it say that they~~ United States as I understand it say that they are only prepared to recognise Inventors' certificates as a priority if the applicant could have obtained a patent if he wanted one, and my understanding - I stand to be corrected, but this is the general belief in Europe - is that the U.S. accordingly refuses to grant Convention priority on Inventors' Certificates in Russia for pharmaceuticals, where of course patents cannot be obtained. My present belief in the absence of any statements of policy is that the European countries do in fact grant Convention priority, though there cannot be many Russian patents on pharmaceuticals. In the course of this debate I have heard the U.S. put forward the argument that membership of the Convention requires in good faith a recognition that patents should be granted for inventions as a principle, and that a refusal to grant other than Inventors' Certificates is a ~~denial~~ denial of the philosophy behind the Convention. This is an argument that appeals to me.

The debate does not derive directly from the developing countries, but it affects them greatly, for I am sure some of them are attracted to the idea of Inventors' Certificates which avoid the grant of patent monopolies. I believe Russia would in fact be prepared to come to a compromise, but few of the developing countries seem willing to accept a restriction of their present right to refuse to grant patents in ~~any area of technology~~ whatever area of technology they wish. At the moment this subject is at a complete impasse, and WIPO did not even attempt to call together any meeting at all on it this year.

This matter I might add provides an illuminating instance of the way treaties are drafted. The present text of the Convention says in Article 4I that priority can be obtained on an Inventors' Certificate if a patent could have been obtained had the applicant so elected, and this one might think lays down the exact principle on which the U.S. relies. But no, the Article does not actually say that if the reverse applies the priority cannot be obtained, and so although no intelligent person could think it means anything else, the Article has no essential effect whatsoever.

Let me now pass to the modifications wanted by the developing countries and which were as I say the original reason for the Diplomatic Conference. Of these the most important are the two I have mentioned - the situation on non-working and the trade mark question. There are in fact a number of other modifications they want, though I cannot myself get worked up about them. My personal belief, though I am sure the Group of 77 would say they did not agree, is that they have by now realised there is nothing much they can really gain by changing the Convention at all. I think they have largely transferred their sights to such targets as the Code of Conduct of UNCTAD and the attacks on the multi-nationals. Among the demands for modifying the Convention are for instance one to the effect that inventors from the developing countries should pay lower fees for patents than others, but there is little in this because there are so few of them. Also they want an eighteen months Convention period for patents instead of the present twelve months, but what is there in this? Anyway they could in effect get twenty months by joining the Patent Cooperation Treaty.

The two special issues I have mentioned are, however, of importance in themselves. The first is the question of what rights a country has if a patent granted in it is not worked. Of course Article 5A already provides for compulsory licences in such an event, but this Article does not begin to satisfy the Group of 77. They say that patentees from the developed world do not take out patents in the developing countries in order to work them and encourage industry, but to protect their exports. And as always pharmaceuticals are constantly quoted as an instance. There is of course some truth in this, but what is wanted is a Rule of Reason, for sometimes in listening to the developing countries one would think they wanted evry single pharmaceutical to be made in every single country. These problems are well understood, and they are not restricted to the developing countries, but pharmaceutical development rests on the patent system, and the world is not improved when it is discouraged. However, in the course of the debates in Geneva a new form of Article 5A was agreed about two years ago by all the Governments in what I can only describe as a moment of desperation. This you certainly know about, and it created a furore. It will be one of the main issues of the Conference Diplomatic Conference.

This new form of Article 5A was agreed by the Governments and then presented to the subsequent plenary session with little warning. It included as you know the provision that if a patent

is not worked then not only could a compulsory licence be granted, which is I think now generally recognised as an acceptable formula, but that this could be exclusive and so exclude the patentee himself simply because he had been so unwise as to take out a patent.

I remember the story all too well. When news of this agreement reached the countries of Western Europe their industries rose in protest. I prefer to remain silent on what I have heard of the reaction in this country.

I will not dwell on this further, but it is the third matter I mentioned. If there is no working of a patent, what exactly can be done and when? It is to be noted that in the current text of the Convention it is expressly stated that a compulsory licence cannot be exclusive. Unless this is retained the deletion of the reference to an exclusive licence in the proposed new text will simply leave it open to any country to adopt the provision, for it is well established that any country can do anything not prevented by the Convention. On my judgment I suspect that some of the European Governments may feel that in spite of the opposition from their industries they will be obliged to go some way towards meeting the objectives of the Group of 77. At any rate, I cannot see the U.S. supporting the new text as at present proposed, though you are the judges of that and not me.

By far the most interesting issue before us in a technical sense, however, is in my opinion this trade mark question of whether a geographical name should be permitted as a trade mark. Here I have a good deal of sympathy for the developing countries, though I cannot support their solution and doubt if there is really any solution at all. For a long time in Geneva I did not understand the problem, so wrapped up it was in heavy fog, but one day the ~~speaker~~ spokesman for the African countries put it succinctly and effectively. He said that the developing countries were trying to become developed, and every now and then they developed some product which found a demand in the world, and they then wanted to export it and describe it under the name of the place where it was made, whereupon they found that the name had been protected as a trade mark in the developed world by somebody else. Hence he wanted an absolute prohibition of the registration of geographical names and a prohibition of their use.

You will see that this is a rational argument, though there proved to be certain flaws in it. The first was that nobody could produce any actual instances in which the developing countries had suffered in this way. Furthermore there are many millions of geographical names in the world, and new ones are invented every day. To exclude the registration and use of all these, and prohibit their use under penal law, when nobody might have heard of them, was quite impracticable. Some of the proposals for that matter would have made it illegal to sell ice cream under the name North Pole.

This is a matter of the greatest difficulty, both logically and legally. The developing countries feel strongly about it, and I think that something or other will need to be agreed. What it is difficult to say. Moreover this is an issue on which the Group B countries are not entirely united, and there may be some difference of view between Europe and the

United States, in particular because of such notions in Europe as appellation controllée for wines. Burgundy is a well known geographical name in France, and the French would very much like to see it illegal to sell Californian or Australian burgundy, or at least to stop any further extension of this nomenclature. For my part I am an admirer of Californian wines, and I think it a pity when I see them labelled with French names as though they were a mere copy - I am pleased to see this practice dying - but it is deeper than that. Owing to the accidents of history there are many place names in the U.S. which derive from other countries, and these are now American names too.

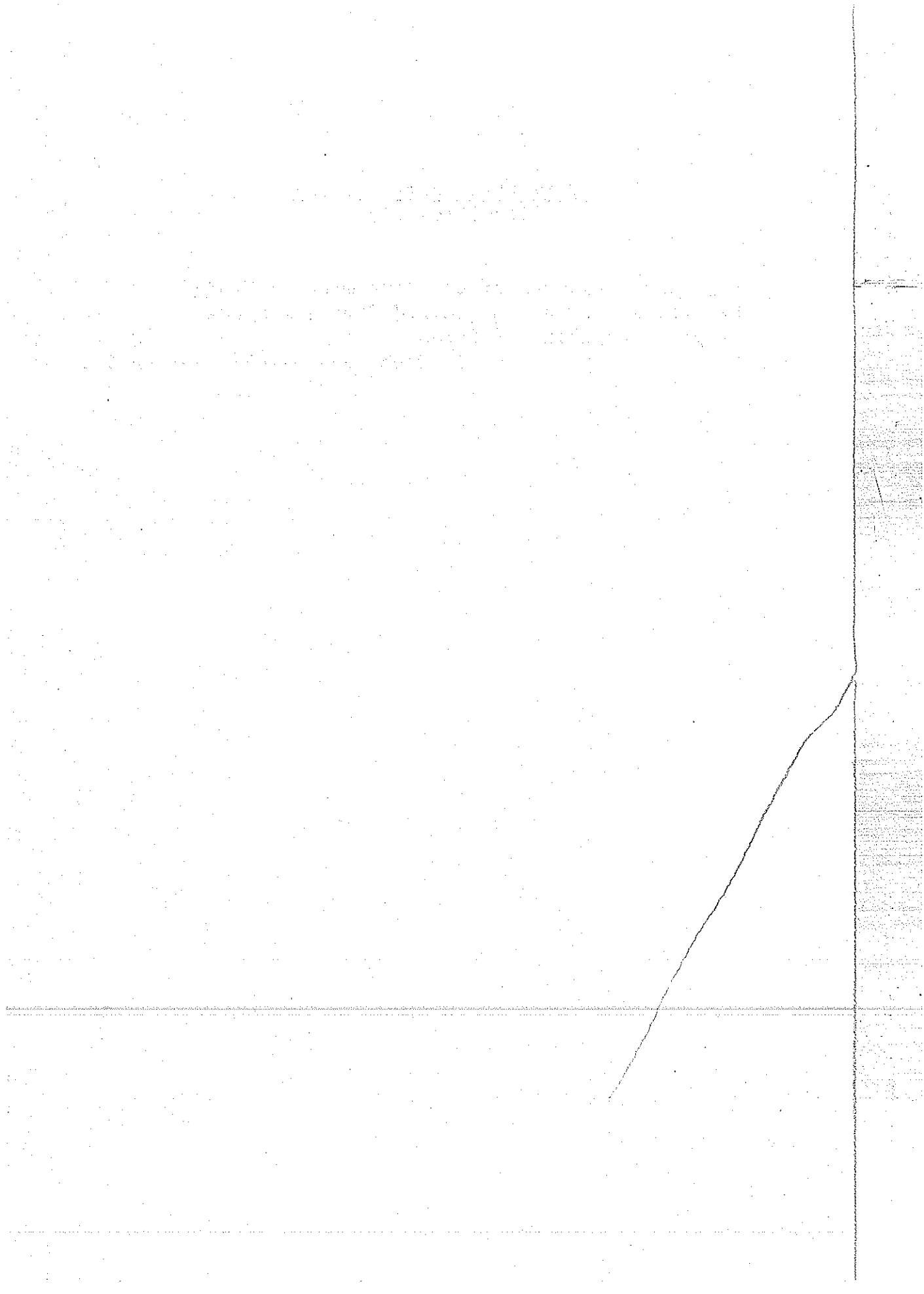
This as you will see has the makings of a great problem, and already there are different texts for a proposed Article put forward by Europe and this country. But this variation of opinion is quite minor when compared with the gap between both and the Group of 77, and I cannot see any clear solution at all, though at least it is a matter which could be debated at the Diplomatic Conference with intelligence and, I hope, good will. The latest solution of the Group of 77 is that each developing country should submit a long list of its place names which it would be illegal to register as trade marks or even use, but with so many countries this would create chaos. Moreover it raises some acute legal difficulties. In most countries it is an offence to mislead the public when selling goods to them by indicating a false origin, but the developing countries want the prohibition of names which have no trading implications and where the public would not be misled at all. It is the very reverse of the U.S. principle of use before registration, and it would introduce new principles of law in my country too. I cannot see a solution at the moment, and we must await the Diplomatic Conference.

Throughout all these dissentions, the same point constantly arises - should the alleviations be restricted to the developing countries, or should they apply to all countries. The case for placing the developing countries in a special category is that the developed countries do not want to weaken the Convention as between themselves, and the case for universal application is that it maintains the principle of uniform treatment. I myself think that the introduction of certain special provisions for the developing countries may be the only way of proceeding, though everyone is not of this view and anyway I do not know how they are to be defined. Still, some definition could no doubt be devised. It is well said that it is difficult to define an elephant, but everybody recognises one when he sees it.

So there, ladies and gentlemen, are some of my reflections. If they are obscure to you it may partly be because I have heard so many words in Geneva that I have become befuddled myself. But perhaps here and there you may have appreciated my views on some of the difficulties which are not too widely ventilated in public, and I am grateful to you for listening to me today.

Committee Presentations
(Committee #4)

° Principal Features of the Agreement on Trade Relations between the United States and the People's Republic of China
--- J. Crook ---------- 513



U.S.-Chinese Agreement on Trade Relations of 1979

I. Introduction

-- Two days ago, Tuesday, October 23, President Carter waived Jackson-Vanik Amendment limitations on People's Republic of China, and transmitted the U.S.-Chinese Agreement on Trade Relations to Congress for its approval.

-- If approved by Congress, the Agreement on Trade Relations will mark a major milestone in the development of U.S.-Chinese trade and economic relations.

-- I served as Legal Adviser for U.S. delegation, May 1979. My remarks here today will explain some of the background of the Agreement; summarize its most important features; and speculate on the Agreement's implications for future U.S.-Chinese trade and economic relations.

II. Recent Developments in U.S.-Chinese Trade Relations

-- On December 15, 1978 President Carter announced normalization as of January 1. Normalization occurred at a time of dramatic transformation of the Chinese political and economic system; dramatic turn towards the West for technology and development.

--Normalization and internal changes in China accompanied by major development of U.S.-Chinese ~~letters~~ trade. Since July '78, there have been about $3.5 B in U.S.-Chinese letters of intent for capital equipment and industrial facilities (realistically, not all will materialize). Total U.S. exports in '78 of $818 million; may rise to $1.2 billion in '79 ('78 prices).

-- Since normalization, U.S. and Chinese Governments have made major steps towards placing their trade and economic relations on a more normal basis.

-- In March, former Secretary Blumenthal negotiated a claims settlement agreement, signed by Secretary Kreps in May.

~~-- Aviation and maritime negotiations have begun.~~

-- Agreements on commercial exhibits concluded by Kreps, May 1979. First U.S. exhibit will be in Beijing, November 1980.

-- In August, V. P. Mondale announced that Exim prepared to commit $2 billion in coming years.

-- Most important -- the Trade Agreement, negotiated and initialled during Kreps visit in May; signed in July. Will provide for MFN non-discriminatory treatment and a long term framework for trade, business and commercial relations.

III. Statutory Background

-- U.S. trade with China, as with other non-market economy countries, must be carried on on the basis of Title IV of the Trade Act of 1974. Title IV set down as a general principle that the U.S. would continue to apply discriminatory (Smoot-Hawley) tariffs to Communist countries, unless the President determines that such countries did not restrict emigration. Section 402 also prohibits Exim financing, CCC financing and OPIC programs. President has never made such a determination.

402(c)

--Section ~~402~~ of the Act -- the Jackson-Vanik Amendment -- permits President to waive these prohibitions if doing so would contribute to the objectives of freedom of emigration, and if he reports to Congress that he has received assurances that this would be the case.

--Two such waivers previously: Romania (1975) and Hungary (1978). On Tuesday, President Carter determined that these requirements had been satisfied as well in the case of China.

--In addition to §402 waiver requirements, §405 of the Trade Act prescribes detailed requirements for a bilateral trade agreement. These requirements are intended to ensure that U.S. firms will be able to compete effectively in non-market economy countries and to ensure that there is a satisfactory balance of reciprocal advantage.

IV. Details of the Trade Agreement

--The Trade Agreement negotiation negotiation were a challenge for both U.S. and Chinese negotiators. Both sides had other bilatex trade agreements with other countries but this negotiation required each side to move substantially away from its prior models.

For the Chinese, it was necessary to accept inclusion of numerous provisions regarding rights to be extended to U.S. businessmen, matters which the Chinese felt were better left to private contractual arrangements. For the U.S., necessary to devise a form of agreement much less detailed than Hungarian and Romanian precedents, recognizing the CHinese unfamiliarity with many practices and principles well established in trade between Western countries and Eastern Europe.

--Trade Agreement has two broad classes of provisions -- general principles of economic relations between the two countries, and more specific provisions regarding conduct of business.

--Legally, most significant is Article II, which obligates reciprocal non-discriminatory treatment. The Chinese have a tariff, but it is not a major ~~dominant~~ determinant in Chinese importing decisions. Moreover, in both countries, great potential for numerous non-tariff-barriers

--Accordingly, our ~~one~~ objective was to formulate an article which would define non-discriminatory treatment covering matters beyond such tariffs. At

the same time, we wished to make clear to the Chinese that we could extend MFN on terms no more favorable than given our GATT partners. Accordingly, formulated a detailed article defining scope of MFN on basis of GATT principles, (including taxes, internal restrictions, etc.) subject only to the exceptions (customs union, border trade, etc.) available under GATT.

--Chinese also agreed to what we believe to be important commitment to make import decisions on the basis of price, delivery, quality and other economic criteria.

--Safeguards

--The Agreement necessarily included a provision confirming the right of the U.S. to take safeguards measures in the event imports of Chinese goods caused or threatened market disruption. With other U.S. trading partners familiar with GATT practice (Romania, Hungary), we had developed elaborate market disruptions provisions, spelling out detailed procedures for consultation, the standards for finding market disruptions, etc. Surprisingly, Chinese did not wish such provisions (which would tend to operate in their benefit). Instead sought highly general market disruption article. Article establishes general standard of prior consultations in the event of market disruption, but recognizes our right to take unilateral emergency action prior to consultation, and to act unilaterally in event consultations fail to produce a timely result.

-- Other provisions involving governmental obligations: national security exception, termination clause. We sought and obtained agreement to suspend MFN obligation in the event domestic legal authority lost; this is necessary because of potential termination of Jackson-Vanik waiver authority during annual review each summer.

--Agreement also includes a set of articles more directly relevant to doing business in China. An underlying objective of Trade Act and all prior trade agreements has been to ensure that U.S. businessmen trying to do business in unfamiliar and difficult environment receive facilities required for successful and economic conduct of business.

-- Provisions we obtained were less detailed than in prior agreements, and reflected limited physical facilities available in China -- limited office and residential space, poor communications, etc. Nevertheless, Chinese promises us treatment no less favorable than given to other foreign businessmen. Agreed to permit local representations to the extent space available. Agreed to improve all facilities.

--Thus, U.S. firms -- and Embassy Beijing -- will have much better basis to seek enhanced facilities from beleagured Chinese officials.

-- Also got important guarantees in financial and banking area. Chinese agreed to permit free remission of hard currency and to provide necessary banking and financial facilities, including all authorizations for international fund transfers and uniform application of rates of exchange. Chinese also agreed to support participation by U.S. banks in U.S.-Chinese trade and financial relations and to give MFN treatment to U.S. banks established in PRC.

--Copyrights and Patents. One of the most difficult issues was satisfaction of Trade Act's requirements regarding patents and copyrights. The Act requires that Agreement ensure patent and copyright protection equivalent to that extended under Paris Convention and UCC. China has not adhered to either ; has no domestic patent or copyright legislation yet. China gave us assurances that they would honor licensing requirements imposed by contract, and our experience bears this out. Still, legal requirement for patent and copyright protection.

--We handled this by extracting a commitment from the Chinese to provide patent and copyright protection to U.S. nationals equivalent to that available to Chinese. The Agreement left the mechanism for extending such protection wholly to Chinese, and they have sought discussions with U.S. patent and copyright experts to aid them in formulating new domestic legislation. Although work remains to be done on both sides to ensure that objective of protection equivalent to international standards is met, we regard this as major break through.

-- Dispute Settlement. Finally, Trade Agreement includes provisions on settlement of trade and commercial disputes which we believe may substantially assist U.S. businessmen. Our contacts with industry made clear that commercial disputes (which inevitably arise, although Chinese are meticulous in meeting their obligations) could be slow and expensive. Chinese preference for "friendly consultations" over third party settlement.

--Accordingly, we obtained commitment from the Chinese to encourage prompt dispute settlement; to permit and encourage resort to arbitration where other measures failed; permitting arbitration in third countries under international (UNCITRAL) rules; and providing for enforcement of judgments.

--This feature well received by arbitration practitioners.

V. Conclusions

--Trade Agreement now before Congress; obviously, eventual effect depends upon Congressional approval and continuation of agreement in force.

-- Impact hard to assess. There will not be an immediate bonanza, but DOC estimates total exports under TA at $1.6B in 1980, $3.5-4 Billion in 1985 (14% of total Chinese imports).

-- Growth will depend on financing, essentially upon Chinese ability to increase exports and to attract investment.

-- In my judgment, the most important feature of the Agreement may be essentially subjective. It became clear through our negotiations that the Chinese attach great importance to stable long-term mutually beneficial relations with their "foreign friends". The Agreement on Trade Relations should make us a "foreign friend", and open the door for new U.S. firms to establish long-term relations with Chinese importers and exporters. Successful entry into the Chinese market will rarely be easy. Time and effort must be given to establish a reputation for reliability and quality; the only way to do substantial business with the Chinese.

-- Close with personal observations: Negotiation with Chinese an unusual experience. Chinese do not negotiate in a straightforward start-at-beginning-and-work-to-the-end style. Much time on generalities and principles; sizing up the authority, ability and determination of the other side. Chinese negotiators tested your patience, and played their hand down to the wire to see if they had indeed pressed us to our bottom line. Held on major issues until latest possible hour. A negotiating atmosphere where patience, firmness, courtesy and respect required. [redacted],

Nevertheless, with patience, understand and pragmatism, possible to strike a balanced and mutually beneficial deal.

-- Closing, thanks, etc., etc.

JCrook
10/23/79

FOREIGN AFFAIRS MEMORANDUM

From: J. Brian Atwood, Assistant Secretary of State

This is one of a series of papers on current foreign affairs issues, prepared for Members of Congress and their staffs.

October 1979

Agreement on Trade Relations Between The United States of America and The People's Republic of China

The new US trade agreement with the People's Republic of China is an important step toward the further improvement of economic and political relations. The agreement will provide a basis for substantially increased trade between our two countries and put US firms in a better position to compete with firms from other countries. No longer will China be able to divert trade from the United States on grounds that normal diplomatic and economic relations between our two countries do not exist. In fact, the agreement contains an important commitment by China to base its purchasing decisions on customary international trade practices and on commercial considerations such as price, quality, delivery and terms of payment.

US-China trade is expanding steadily, with China becoming an increasingly important market for US exports. China's economic modernization plans call for continuing, high levels of purchases abroad, and China's leaders have indicated they expect that substantial orders will be placed with US firms.

The agreement will be effective for three years. It may be extended for successive periods of three years,

but can be suspended if either party loses its domestic authority to carry out its obligations.

The new US-China trade agreement contains provisions to:

-- Promote Trade: The agreement commits each party to promote trade and provides that such trade shall be on the basis of commercial contracts and considerations.

-- Ensure Non-discriminatory Treatment: The agreement provides for reciprocal non-discriminatory treatment of imports and exports. This is commonly referred to as most-favored-nation (MFN) treatment. This means that the products of both countries will be subject to generally lower MFN rates of duties in their respective tariff schedules. The agreement takes note of China's situation as a developing country, provides for equitable treatment in the event that quantitative restrictions are imposed, and commits each party to reciprocate satisfactorily concessions made by the other in the area of trade and services.

-- Facilitate Business: The agreement addresses issues such as the establishment of business offices, the stationing of business representatives and improvement in the conditions under which these offices operate. There are also provisions regarding visits by economic, trade and industrial groups, and undertakings to facilitate the operation of government trade offices.

-- Promote Financial Transactions: The agreement contains provisions regarding international payments and facilities for international financial, currency, and banking transactions. It looks toward the participation of financial institutions of each country in appropriate banking services related to international trade and finance in the other country. In addition, the two parties agree to facilitate the availability of official export credits in accordance with applicable laws and procedures.

-- Protect Patents, Trademarks and Copyrights: The agreement provides for reciprocal and equivalent protection of patents, trademarks, and copyrights. It also includes provisions for the protection of other industrial rights and processes.

-- Resolve Bilateral Trade Problems: Bilateral trade problems, including market disruption due to rapidly rising imports, will be the subject of prompt consultations. Should such consultations not result in a satisfactory resolution within a reasonable period of time, either party may take whatever action it believes appropriate. In an emergency, action may be taken before consultations are held.

Procedures for Implementing the Agreement

The agreement, which requires Congressional approval, was sent to the Congress on October 23. Section 151 of the Trade Act provides for expedited consideration by:

-- automatic referral to the Senate Committee on Finance and the House Committee on Ways and Means;

-- not permitting amendments;

-- requiring committee action within forty-five legislative days;

-- requiring final House and Senate action within fifteen legislative days of receipt from Committee.

In computing the number of days in either House, any day on which that House is not in session is not counted.

Trade Agreements with Non-Market-Economy Countries

Title IV of the Trade Act of 1974 provides the legal basis for trade and economic relations between the United States and non-market-economy countries. It requires the negotiations of a commercial agreement as a vehicle for the extension of most-favored-nation treatment and lists the requirements for such an agreement. The US-China trade agreement satisfies those requirements.

Section 402 (the "Jackson-Vanik Amendment") prohibits the extension of most-favored-nation treatment and official credits, credit guarantees, or investment guarantees, to any non-market-economy country which restricts the right of its citizens to emigrate freely. The President, however, may waive these prohibitions if he determines that a waiver will substantially promote the objective of free emigration

and if he has received assurances that the emigration practices of the country will lead substantially to the achievement of the objective of free emigration. With respect to the People's Republic of China, the President has determined that these requirements have been met and has therefore issued an Executive Order waiving the application of Section 402(a) and (b).

Section 402(d) (5) of the Trade Act permits the President to extend his waiver annually if he determines that its continuation will substantially promote the objective of free emigration. The waiver renewal must be submitted to Congress by June 3 each year for review. It would continue in effect unless a majority of either House votes within sixty days to terminate it.

The United States has signed and Congress has approved trade agreements with Romania (1975) and Hungary (1978) in accordance with the requirements of Title IV of the Trade Act. A trade agreement with the USSR was signed in 1972, but it has not yet been put into effect. The Administration will continue to consult with the Congress on the question of submission of the USSR Agreement, and hopes that circumstances will soon permit favorable action.

JC Master

THE WHITE HOUSE

WASHINGTON

Presidential Determination
No. _____

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Determination under Section 402(c)(2)(A) of the Trade Act of 1974 -- People's Republic of China

Pursuant to section 402(c)(2)(A) of the Trade Act of 1974 (Public Law 93-618, January 3, 1975; 88 Stat. 1978) ("the Act"), I determine that a waiver by Executive order of the application of subsections (a) and (b) of section 402 of the Act with respect to the People's Republic of China will substantially promote the objectives of section 402.

On my behalf, please transmit this determination to the Speaker of the House of Representatives and the President of the Senate.

This determination shall be published in the Federal Register.

Jimmy Carter

TO THE CONGRESS OF THE UNITED STATES:

Pursuant to section 402(c)(2) of the Trade Act of 1974, (hereinafter, "the Act") I shall issue today an Executive Order waiving the application of subsections (a) and (b) of section 402 of the Act with respect to the People's Republic of China.

I wish to report to the Congress that I have determined that the requirements of section 402(c)(2)(A) and (B) of the Act have been satisfied.

Jimmy Carter

THE WHITE HOUSE,

EXECUTIVE ORDER

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WAIVER UNDER THE TRADE ACT OF 1974
WITH RESPECT TO THE PEOPLE'S REPUBLIC OF CHINA

By virtue of the authority vested in me as President of the United States of America by section 402(c)(2) of the Trade Act of 1974 (Public Law 93-618, January 3, 1975; 88 Stat. 1978), which continues to apply to the People's Republic of China pursuant to section 402(d), and having made the report to the Congress required by section 402(c)(2), I waive the application of subsections (a) and (b) of section 402 of said Act with respect to the People's Republic of China.

Jimmy Carter

THE WHITE HOUSE,

AGREEMENT ON TRADE RELATIONS BETWEEN THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

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BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

As President of the United States of America, acting through my representatives, I entered into the negotiation of an agreement on trade relations between the United States of America and the People's Republic of China with representatives of the People's Republic of China;

The negotiations were conducted in accordance with the requirements of the Trade Act of 1974 (P.L. 93-618, January 3, 1975; 88 Stat. 1978) ("the Act");

An "Agreement on Trade Relations between the United States of America and the People's Republic of China", in English and Chinese, was signed on July 7, 1979, by representatives of the two Governments, and is annexed to this Proclamation;

The Agreement conforms to the requirements relating to bilateral commercial agreements specified in section 405(b) of the Act;

Article X of the Agreement provides that it shall come into force on the date on which the Contracting Parties have exchanged notifications that each has completed the legal procedures necessary for this purpose; and

Section 405(c) of the Act provides that a bilateral commercial agreement and a proclamation implementing such agreement shall take effect only if approved by the Congress;

NOW, THEREFORE, I, JIMMY CARTER, President of the United States of America, proclaim as follows:

(1) This Proclamation shall become effective, said Agreement shall enter into force according to its terms, and nondiscriminatory treatment shall be extended to the products of the People's Republic of China in accordance with the terms of the said Agreement, on the date on which the Contracting Parties have exchanged notifications that each has completed the legal procedures necessary for this purpose in accordance with Article X of the said Agreement.

(2) General Headnote 3(e) of the Tariff Schedules of the United States is amended by deleting therefrom "China (any part of which may be under Communist domination or control)" and "Tibet" as of the effective date of this proclamation and a notice thereof shall be published in the Federal Register promptly thereafter.

IN WITNESS WHEREOF, I have hereunto set my hand this day of , in the year of our Lord nineteen hundred and seventy-nine, and of the Independence of the United States of America the two hundred and fourth.

Jimmy Carter

THE WHITE HOUSE

WASHINGTON

Dear Mr. President:

In accordance with section 407 of the Trade Act of 1974, I am transmitting a copy of a proclamation extending nondiscriminatory treatment to the products of the People's Republic of China. I also enclose the text of the Agreement on Trade Relations between the United States of America and the People's Republic of China, which was signed on July 7, 1979, and which is included as an annex to the proclamation.

The Agreement on Trade Relations will provide a nondiscriminatory framework for our bilateral trade relations, and thus strengthen both economic and political relations between the United States and the People's Republic of China. Conclusion of this agreement is the most important step we can take to provide greater economic benefits to both countries from this relationship. It will also give further impetus to the progress we have made in our overall relationship since normalization of our diplomatic relations earlier this year.

I believe that the Agreement on Trade Relations is consistent with both the letter and the spirit of the Trade Act of 1974. It provides for mutual extension of most-favored-nation tariff treatment, while seeking to ensure overall reciprocity of economic benefits. It includes safeguard arrangements to ensure that our trade with the People's Republic of China will grow without injury to domestic firms or loss of jobs for American workers.

The Agreement also confirms for American businessmen certain basic rights and facilities in establishing operations and conducting business in the P.R.C. Other provisions include those dealing with settlement of commercial disputes; financial transactions; government commercial offices; and protection for industrial property rights, industrial processes, and copyrights.

I am also enclosing a copy of my report to the Congress pursuant to section 402(c)(2) of the Trade Act of 1974. I shall issue today an Executive order waiving the application of subsections (a) and (b) of section 402.

In the past year and a half, Chinese leaders on several occasions have called for facilitating family reunification and for simplifying the procedure for getting permission to enter or leave China. During this period we have noted a marked relaxation of Chinese emigration procedures. Processing time has been reduced for most cases and numbers of emigrants have jumped dramatically. We have recently had discussions with senior Chinese officials and firmly believe that Chinese statements and the marked increase in emigration reflect a policy of the Government of China favoring freer emigration.

I have reviewed the circumstances of emigration from the People's Republic of China in light of all these factors, and have determined that a waiver of the application of subsections (a) and (b) of section 402 of the Trade Act of 1974 will substantially promote the objectives of that section.

I urge that Congress act as soon as possible to approve the Agreement on Trade Relations.

Sincerely,

Jimmy Carter

The Honorable Walter F. Mondale
President of the Senate
Washington, D.C. 20510

AGREEMENT ON TRADE RELATIONS

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE PEOPLE'S REPUBLIC OF CHINA

The Government of the United States of America and the Government of the People's Republic of China;

Acting in the spirit of the Joint Communique on the Establishment of Diplomatic Relations between the United States of America and the People's Republic of China;

Desiring to enhance friendship between both peoples;

Wishing to develop further economic and trade relations between both countries on the basis of the principles of equality and mutual benefit as well as nondiscriminatory treatment;

Have agreed as follows:

ARTICLE I

1. The Contracting Parties undertake to adopt all appropriate measures to create the most favorable conditions for strengthening, in all aspects, economic and trade relations between the two countries so as to promote the continuous, long-term development of trade between the two countries.

2. In order to strive for a balance in their economic interests, the Contracting Parties shall make every effort to foster the mutual expansion of their reciprocal trade and to contribute, each by its own means, to attaining the harmonious development of such trade.

3. Commercial transactions will be effected on the basis of contracts between firms, companies and corporations, and trading organizations of the two countries. They will be concluded on the basis of customary international trade practice and commercial considerations such as price, quality, delivery and terms of payment.

ARTICLE II

1. With a view to establishing their trade relations on a nondiscriminatory basis, the Contracting Parties shall accord each other most-favored-nation treatment with respect to products originating in or destined for the other Contracting Party, i.e., any advantage, favor, privilege, or immunity they grant to like products originating in or destined for any other country or region, in all matters regarding:

(A) Customs duties and charges of all kinds applied to the import, export, re-export or transit of products, including the rules, formalities and procedures for collection of such duties and charges;

(B) Rules, formalities and procedures concerning customs clearance, transit, warehousing and transshipment of imported and exported products;

(C) Taxes and other internal charges levied directly or indirectly on imported or exported products or services;

(D) All laws, regulations and requirements affecting all aspects of internal sale, purchase, transportation, distribution or use of imported products; and

(E) Administrative formalities for the issuance of import and export licenses.

2. In the event either Contracting Party applies quantitative restrictions to certain products originating in or exported to any third country or region, it shall afford to all like products originating in or exported to the other country treatment which is equitable to that afforded to such third country or region.

3. The Contracting Parties note, and shall take into consideration in the handling of their bilateral trade relations, that, at its current state of economic development, China is a developing country.

4. The principles of Paragraph 1 of this Article will be applied by the Contracting Parties in the same way as they are applied under similar circumstances under any multilateral trade agreement to which either Contracting Party is a party on the date of entry into force of this Agreement.

5. The Contracting Parties agree to reciprocate satisfactorily concessions with regard to trade and services, particularly tariff and non-tariff barriers to trade, during the term of this Agreement.

ARTICLE III

For the purpose of promoting economic and trade relations between their two countries, the Contracting Parties agree to:

A. Accord firms, companies and corporations, and trading organizations of the other Party treatment no less favorable than is afforded to any third country or region;

B. Promote visits by personnel, groups and delegations from economic, trade and industrial circles; encourage commercial exchanges and contacts; and support the holding of fairs, exhibitions and technical seminars in each other's country;

C. Permit and facilitate, subject to their respective laws and regulations and in accordance with physical possibilities, the stationing of representatives, or the establishment of business offices, by firms, companies and corporations, and trading organizations of the other Party in its own territory; and

D. Subject to their respective laws and regulations and physical possibilities, further support trade promotions and improve all conveniences, facilities and related services for the favorable conduct of business activities by firms, companies and corporations, and trading organizations of the two countries, including various facilities in respect of office space and residential housing, telecommunications, visa issuance, internal business travel, customs formalities for entry and re-export of personal effects, office articles and commercial samples, and observance of contracts.

ARTICLE IV

The Contracting Parties affirm that government trade offices contribute importantly to the development of their trade and economic relations. They agree to encourage and support the trade promotion activities of these offices. Each Party undertakes to provide facilities as favorable as possible for the operation of these offices in accordance with their respective physical possibilities.

ARTICLE V

1. Payments for transactions between the United States of America and the People's Republic of China shall either be effected in freely convertible currencies mutually accepted by firms, companies and corporations, and trading organizations of the two countries, or made otherwise in accordance with agreements signed by and between the two parties to the transaction. Neither Contracting Party may impose restrictions on such payments except in time of declared national emergency.

2. The Contracting Parties agree, in accordance with their respective laws, regulations and procedures, to facilitate the availability of official export credits on the most favorable terms appropriate under the circumstances for transactions in support of economic and technological projects and products between firms, companies and corporations, and trading organizations of the two countries. Such credits will be the subject of separate arrangements by the concerned authorities of the two Contracting Parties.

3. Each Contracting Party shall provide, on the basis of most-favored-nation treatment, and subject to its respective laws and regulations, all necessary facilities for financial, currency and banking transactions by nationals, firms, companies and corporations, and trading organizations of the other Contracting

Party on terms as favorable as possible. Such facilities shall include all required authorizations for international payments, remittances and transfers, and uniform application of rates of exchange.

4. Each Contracting Party will look with favor towards participation by financial institutions of the other country in appropriate aspects of banking services related to international trade and financial relations. Each Contracting Party will permit those financial institutions of the other country established in its territory to provide such services on a basis no less favorable than that accorded to financial institutions of other countries.

ARTICLE VI

1. Both Contracting Parties in their trade relations recognize the importance of effective protection of patents, trademarks and copyrights.

2. Both Contracting Parties agree that on the basis of reciprocity legal or natural persons of either Party may apply for registration of trademarks and acquire exclusive rights thereto in the territory of the other Party in accordance with its laws and regulations.

3. Both Contracting Parties agree that each Party shall seek, under its laws and with due regard to international practice, to ensure to legal or natural persons of the other Party protection of patents and trademarks equivalent to the patent and trademark protection correspondingly accorded by the other Party.

4. Both Contracting Parties shall permit and facilitate enforcement of provisions concerning protection of industrial property in contracts between firms, companies and corporations, and trading organizations of their respective countries, and shall provide means, in accordance with their respective laws, to restrict unfair competition involving unauthorized use of such rights.

5. Both Contracting Parties agree that each Party shall take appropriate measures, under its laws and regulations and with due regard to international practice, to ensure to legal or natural persons of the other Party protection of copyrights equivalent to the copyright protection correspondingly accorded by the other Party.

ARTICLE VII

1. The Contracting Parties shall exchange information on any problems that may arise from their bilateral trade, and shall promptly hold friendly consultations to seek mutually satisfactory solutions to such problems. No action shall be taken by either Contracting Party before such consultations are held.

2. However, if consultations do not result in a mutually satisfactory solution within a reasonable period of time, either Contracting Party may take such measures as it deems appropriate. In an exceptional case where a situation does not admit any delay, either Contracting Party may take preventive or remedial action provisionally, on the condition that consultation shall be effected immediately after taking such action.

3. When either Contracting Party takes measures under this Article, it shall ensure that the general objectives of this Agreement are not prejudiced.

ARTICLE VIII

1. The Contracting Parties encourage the prompt and equitable settlement of any disputes arising from or in relation to contracts between their respective firms, companies and corporations, and trading organizations, through friendly consultations, conciliation or other mutually acceptable means.

2. If such disputes cannot be settled promptly by any one of the above-mentioned means, the parties to the dispute may have recourse to arbitration for settlement in accordance with provisions specified in their contracts or other agreements to submit to arbitration. Such arbitration may be conducted by an arbitration institution in the People's Republic of China, the United States of America, or a third country. The arbitration rules of procedure of the relevant arbitration institution are applicable, and the arbitration rules of the United Nations Commission on International Trade Law recommended by the United Nations, or other international arbitration rules, may also be used where acceptable to the parties to the dispute and to the arbitration institution.

3. Each Contracting Party shall seek to ensure that arbitration awards are recognized and enforced by their competent authorities where enforcement is sought, in accordance with applicable laws and regulations.

ARTICLE IX

The provisions of this Agreement shall not limit the right of either Contracting Party to take any action for the protection of its security interests.

ARTICLE X

1. This Agreement shall come into force on the date on which the Contracting Parties have exchanged notifications that each has completed the legal procedures necessary for this purpose, and shall remain in force for three years.

2. This Agreement shall be extended for successive terms of three years if neither Contracting Party notifies the other of its intent to terminate this Agreement at least 30 days before the end of a term.

3. If either Contracting Party does not have domestic legal authority to carry out its obligations under this Agreement, either Contracting Party may suspend application of this Agreement, or, with the agreement of the other Contracting Party, any part of this Agreement. In that event, the Parties will seek, to the fullest extent practicable in accordance with domestic law, to minimize unfavorable effects on existing trade relations between the two countries.

4. The Contracting Parties agree to consult at the request of either Contracting Party to review the operation of this Agreement and other relevant aspects of the relations between the two Parties.

IN WITNESS WHEREOF, the authorized representatives of the Contracting Parties have signed this Agreement.

Done at Beijing in two original copies this seventh day of July, 1979, in English and Chinese, both texts being equally authentic.

Leonard Woodcock	Li Xiang
FOR THE UNITED STATES OF AMERICA	FOR THE PEOPLE'S REPUBLIC OF CHINA

THE WHITE HOUSE

WASHINGTON

Presidential Determination
No. _____

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Determination under Section 405(a) of the Trade Act of 1974 -- People's Republic of China

Pursuant to the authority vested in me under the Trade Act of 1974 (Public Law 93-618, January 3, 1975; 88 Stat. 1978) ("the Act"), I determine, pursuant to section 405(a) of the Act, that the Agreement on Trade Relations between the United States of America and the People's Republic of China will promote the purposes of the Act and is in the national interest.

On my behalf, please transmit this determination to the Speaker of the House of Representatives and to the President of the Senate.

This determination shall be published in the Federal Register.

Jimmy Carter