PACIFIC
INDUSTRIAL PROPERTY ASSOCIATION
太平洋工業所有権協会

PRESENTATIONS

The Seventeenth International Congress

KANAZAWA
November 5–7, 1986



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PROGRAM

WEDNESDAY, NOVEMBER 5, 1986

8:00 a.m. REGISTRATION — International Hotel Kanazawa, Flower Pavilion (The 2nd Floor)

9:00 a.m. OPENING CEREMONIES

Opening of the Congress — Shigeo Takeuchi

Report on 1985 Activities — William R. Norris

Installation of PIPA Officers for 1986

Keynote Address — Akira Mifune, President of PIPA

Guest Address:

Honorary Chairman, Isamu Yamashita, Chairman of Japan Patent Association

Honorable Donald J. Quigg, U.S. Commissioner of Patents & Trademarks

Honorable Akio Kuroda, Director General, Japanese Patent Office

10:40 a.m. COFFEE BREAK

11:00 a.m. Industry View - GATT and Intellectual Property
William S. Thompson

11:25 a.m. Guest Speech: Intellectual Property Legislation Being Considered
Donald W. Banner, Awardee in 1982

12:00 noon LUNCHEON — Southern Cross (Basement)

1:30 p.m. REPORTS OF COMMITTEE NO.1
William S. Thompson and Sigemitsu Nakajima, Chairmen

FRANKLIN PIERCE
LAW CENTER LIBRARY
CONCORD, N.H.

1:35 p.m. Proposal for Amending Multiple Claim System of Japanese Patent Law
Takashi Sawai

2:00 p.m. Unity of Invention Under the PCT
Josef W. Keen

NOV 2 2 2004

2:25 p.m. Accelerated Examination, Appeal Examination Newly Introduced and Preferential Examination
Michihiro Kameishi

2:50 p.m. Article 29bis and Priority Claim
Kenji Doi

3:15 p.m. COFFEE BREAK

3:40 p.m. Prima-Facie Obviousness —— Shifting the Burden of Proof
Lawrence T. Welch

4:05 p.m. Parallel Import of Genuine Goods —— In the Case of "LACOSTE" Trademark
Toshihiro Tanaka

6:00 p.m. GRAND RECEPTION — Pole Star (The 8th Floor)

Welcome Address — Koichi Ono, President of Japan Patent Association, Ex-Officio of PIPA

PIPA Award Acceptance — Akira Hirano

THURSDAY, NOVEMBER 6, 1986

8:30 a.m. REPORTS OF COMMITTEE NO. 3
Paul D. Carmichael and Mamoru Takada, Chairmen

8:35 a.m. Some Views on Harmonization of Patent Laws
Kazuo Kamisugi

9:00 a.m. WIPO Patent Harmonization Activities
Karl F. Jorda

9:25 a.m. Some Views on the European Patent System
Mitsuo Taniguchi

9:50 a.m. COFFEE BREAK

10:20 a.m. Review of Proposed International Trade Commission Legislation
Arnold H. Cole

10:45 a.m. Recent Developments in Intellectual Property Fields in Korea
Kazuhisa Imai

Paper Presentation — Recent Development in Taiwanese Intellectual Property

11:40 a.m. BUS TOUR to Kenrokuen and Eiheiji

6:30 p.m. DINNER at Century Plaza

FRIDAY, NOVEMBER 7, 1986

8:30 a.m. REPORTS OF COMMITTEE NO.2
Juro Ichimura, Chairman

8:35 a.m. Panel Discussion : The Possible Effects and Problems on License which may arise out of Transfer of Business or of Business Tie-Up
Panelists:

U.S.	Japan
Heinz Goretzky	Hideo Doi
William H. Hooper	Katsuhiko Shimizu

10:30 a.m. COFFEE BREAK

11:00 a.m. REPORTS OF COMMITTEE NO.4
J. Jeffrey Hawley and Shin Ando, Chairmen

11:05 a.m. Non-Exclusive License by Prior Use in Japan
Masahiko Oomori

11:30 a.m. On Prior Use Under Situations Equivalent to that of Japan
Karl F. Jorda

11:55 a.m. Licensee Estoppel in Japan
Tetsuya Kondo

12:20 p.m. Practical Aspects of Trade Secret Protection in the United States
Richard H. Childress

1:00 p.m. LUNCHEON AND CLOSING CEREMONIES — Pole Star (The 8th Floor)
Guest Address — Honorable Masaru Umeda, Engineer General, Japanese Patent Office
Closing Address — William R. Norris

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Opening of the Congress
By Shigeo Takeuchi
Secretary Treasurer, PIPA Japanese Group

Good morning, honorable guests, ladies and gentlemen, it is my great pleasure and honor to open the 17th International Congress of Pacific Industrial Property Association.

First of all, let me talk about city of Kanazawa where we are convened today. Just like city of Sendai where we met during the 15th PIPA Congress in 1984, this city Kanazawa was the castle town of the Maeda clan which was the most powerful families during the feudal days. Ishikawa prefecture whose capital is Kanazawa and also Hokuriku area whose center is Ishikawa prefecture are known to have kept high levels of culture assets and spiritual civilization in the Japanese history. Eiheiji Temple, you are going to visit tomorrow, is famous as headquarters of the Soto sect of Zen buddhism. Austerity practice in the temple is very famous. The region is known for Kaga-Hosho Noh Play, and for excellent traditional crafts such as rich color dyed Yuzen Kimono, Kutani Chinaware, Wajima and Yamanaka lacquerwares. A piece of Kutani chinaware is presented to each of you as souvenior, I hope it will ornament your room. As organizers we have deliberately chosen this area as the place of this congress, because, in view of current trade frictions, we have thought that it will be very helpful for us to meet in quiet and spiritually civilized environment.

Let me introduce honored guests. I would request those guests to rise at your place as I call your name. I would like to express our cordial welcome by giving our big hands to each of the honored guests. Mr. Isamu Yamashita, Chairman of Japan Patent Association. He is kind enough to assume Honorary Chairman of this congress. Mr. Yamashita is currently Adviser to Mitsui Shipbuilding & Engineering

Co., Ltd., in the past, he held important positions, president and chairmanship of the company and until very recently he was Vice-Chairman of Japan Federation of Economic Organization. Next, we have the pleasure of the presence of Mr. Donald J. Quigg, Commissioner of the U.S. Patents & Trademarks. We have Mr. Akio Kuroda, Director General of Japanese Patent Office. Those are honored guests. Then, we find our seniors in the seats, who received PIPA Award. Mr. Shozo Saotome, Mr. Donald W. Banner, Mr. Shoji Matsui, and Mr. Martin Kalikow.

The number of the participants to this Congress has totalled to be 132.

Thank you for your kind attention.

W. R. NORRIS

November 5, 1986

PIPA ACTIVITIES AND EVENTS

1985 - 6

17TH CONGRESS

KANAZAWA

Honorable guests, friends, and members of PIPA, it is with great pleasure and distinct honor that I exercise the privilege of reporting PIPA Activities and Events of significance.

On behalf of the American Group, I would like to thank the organizers of this meeting - the 17th Congress of PIPA - for bringing us to another beautiful and cultural part of Japan. Few of us would have ever known of the Japanese Alps but for the thoughtful hospitality of our hosts, thoughtfulness I would like to add, born of the bonds of deepening friendships rooted in common endeavors to promote the understanding and realization of intellectual property.

Last year was Japan's centennial celebration of the founding of its patent system. This year by coincidence is the sequiscentennial (150th) anniversary of the Untied States 1836 Patent Act. This legislation introduced to the world modern patent examination and institutionalized the U.S. patent system

by authorizing the construction of a new building to house the Patent Office. Thus came into being what today is one of the most beautiful buildings in Washington D.C. It housed the Patent Office until 1932. Subsequently, it became part of the Smithsonian Museum for modern art. While governments seldom build buildings like that any more, the foresight of the U.S. Congress and planners at that time to honor the process of inventing with such a beautiful building is inspirational. Inventing is but a form of creative expression and like all creative arts it is a delicate process requiring careful nurturing with great understanding and patience; two environmental qualities, I might add, that are difficult to achieve in a politically changed atmosphere. PIPA's role in cross cultural cultivation of this process through calm dialogue between main participants is propitious in these times of technology politics, whether one looks north or south or east or west existing systems are under stress and political challenge.

Looking at PIPA activities from organizational perspectives, memberships in both the American and Japanese groups have continued at high levels reflecting strong interest in the organization and its goals, the American group has about 65 members and the Japanese group has about 73 members. In the American group, you will see a new face over the Secretary/ Treasurer sign. The new person is Dr. Allan Spiegel of Pfizer. Ed Bell who faithfully occupied that office for 12 years has

retired from Singer and entered private practice in Washington D.C. As a stalwart supporter of PIPA, Ed's steadying influence and friendship will be missed by all of us. Ed and his secretary Pauline Mellaw were honored at a dinner in New York City in August. There are some other prospective changes in the American Group I feel I should mention. Bill Mclain is retiring soon from Amaco and thus in the near future the American Group will have a new Second Governor. Another name familiar to many of you by virtue of his appearances on PIPA program is Bill Hooper. He too will soon retire from Chevron Oil.

During the year PIPA was represented at WIPO meetings dealing with harmonization of Patent Laws and biological inventions. Karl Jorda of Ciba Geigy attended the former and Suguie-san of Toray attended the latter expert discussions. Harmonization discussions are viewed with great interest and will continue to receive PIPA's attention.

Bilateral dialogue under the doctrine of "transparency" continues. In August Mifune-san met with Commissioner Quigg and Assistant Commissioner Peterson in Washington to exchange information and views on proposals for new USPTO rules dealing with prior art citations. Immediately following this Congress, a delegation from the American Group will meet with the JPO to

continue dialogue on the Japanese patent system and to exchange ideas for improvements or views on differences in practice. (I understand for example the JPO wishes to question the American delegation on the U.S. first to invent philosophy.)

U.S. ratification of PCT Chapter II in the last Congress brings U.S. and Japanese laws into alignment. This may be an excellent route for foreign filing when there is uncertainty about the ultimate value of the patent. A final decision on spending for extensive filing can be deferred for 30 months. Questions as to how Japan's new "internal priority system" and the U.S. CIP practice will blend with strict PCT requirements may be fruitful areas for mutual exploration.

As PIPA raises its collective eyes to future developments, one topic that seems sure to pose problems, and as we are fond to say, problems are really opportunities, is the emergence of intellectual property issues in GATT negotiations. A few years ago, the international hot topic was how intellectual property should be distributed. North-South negotiations in UNCTAD, relating to restrictive business practices and technology transfer, in WIPO relating to revision of the Paris Union and model codes for licensing all sought rules or guidelines for the passing of intellectual property from country to country, entity to entity. Current focus of international attention is in the direction of harvesting and protecting intellectual property.

WIPO is looking at harmonization, GATT apparently seeks minimum standards. Such issues reflect on the supply of technology. Thus we see how north-south issues have given away to east-west issues. Why this 90° rotation of the issue axis has occurred is an interesting question. In broad terms, a possible answer might be that in economic terms, technology has gone from supply side economics to demand side economics.

It behooves all of us to face up to the challenge this presents. We are now and we will be in the future at important cross roads in intellectual property development. The challenge is there and through friendly, honest dialogue, PIPA will help to find the answers.

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KEYNOTE ADDRESS

Akira Mifune
President of PIPA

Distinguished guests, ladies and gentlemen, it is a great honor for me this morning to deliver the keynote address at the opening of the 17th International Congress of PIPA.

First of all, as the President of this Congress, please let me welcome all of you to Kanazawa, the center of culture and education of Japan Sea coast.

Seventeen years old is just the age of youth and full of energy and vitality. It means that PIPA is now approaching the right time to devote it to the new waves in development of international intellectual property systems.

Last few years, in parallel with the initiation of the sincere debate on the harmonization of said systems in WIPO, the trilateral cooperation on the same items between the U.S.A., Europe and Japan has become the hot issue. In addition, this September, the intellectual property matters are adopted as one of the priority items in GATT. Those facts indicate that the reinforcement of intellectual property protection should be the urgent problem to be solved for the world enterprises as PIPA members.

Although the gap between the North and the South has no indication to be faded away, the friendly dialogues have been continued with patience. On the other hand, NICS' remarkable development supported by their self-help effort has brought them fairly improved status in the international trade world. Nevertheless, their intellectual

property systems are still so premature that our efforts to promote technology transfer, trade and investment has been considerably disturbed or injured by the unsatisfactory protection of intellectual properties. In order to improve a part of this uncomfortable situation, the U.S.A. government has focused its effort in the bilateral negotiation with certain NICS countries. However, it naturally seems to encounter the inevitable limitation because of diplomatic barriers before long. This is the reason why the new tool or new media for the multilateral talking is strongly desired and GATT was selected as an appropriate media by the U.S. initiative under the concensus of its member countries. Although the road toward to achieve the target is long and not smooth, we are already stepping into the road and have to direct our considerable efforts to forge the way to solve the solution. In Japan, the reaction from both governmental and industrial sector to cope with it has not been so quick and definite. However, both sectors are now seriously considering to organize the counterpart cooperating with the U.S.A. and Europe. Just after this Congress, Keidanren will send two representatives including Mr. Ono, Ex-Officio of our Association, to the meeting held in Brussel scheduled on November 10, in order to exchange the views and to discuss the future collaboration. Our thoughts which will be derived from this Congress might reflect to the talking at the said meetings.

Among the well-developed countries, such as OECD members, the harmonization of legal system for the protection of intellectual properties became another important matter of concern. WIPO has already started to discuss the seven basic items at the expert committee, and various international organizations are invited to present their comment or opinion on the WIPO's preliminary ideas. In the light of past history of WIPO's behavior on

Paris' Convention, we are afraid that it takes so long and, even then, it will hardly obtain the preferable results for us. Consequently, the fruit of the trilateral cooperation on the harmonization should be influential and valuable.
Although the talking seems to be focused on the information system and the administrative procedures for the time being, the successive discussion on the substantial matters for protection will be highly anticipated. We think, the respective legal backgrounds affected by their history and culture are quite different and not easy to allow to unify those intellectual property systems. However, the business world is now standing on the turning point which the human being has never encountered and the efforts to find out the reasonable solution based upon the certain compromise will eagerly be desired. In reply to the request of American and European private sectors, the Japanese Patent Office is now drafting the revised patent law in reference to the recommendation of the academic-industrial advisory committee. As far as we are informed, this draft will be written also in consideration of the spirits of worldwide harmonization. Under such circumstances, this Congress should play a big role which initiates the remarkable advance on the matter.
Since PIPA was organized 16 years ago, it has long contributed to fill the perception gap which could be a big barrier for the smooth dealing of trade and diplomatic dialogues. In order to solve the recent problems relating to the trade conflicts, our existing friendly relationship must be enhanced and more closely tied up.
The latest report of the U.S. Department of Commerce informed us that the red figure in the U.S. trade balance against Japan has successively decreased for two months and amounted to 4.1 billion dollars, although the export from the States is still decreasing for past three months.
In addition, Japan's trade surplus between the U.S. and Japan has already been decreasing in Yen basis.

However, we are quite confident that all of our PIPA members wish to keep the sound free-trade instead of the trade under the mal-strained protectionism. We hope this Congress will give us an opportunity of frank exchange of ideas which stimulates the trade situation taking a favorable turn.

Before closing my keynote address, I would like to touch the brief introduction of the Congress Souvenir, Kutani Pottery. As some of you already know, the Kutani Pottery is one of the typical well-known traditional crafts in Japan which origin is still surrounded in mistery. It is said that their original kilns were established in the mid-17th century (so-called Ko-Kutani"). Although the original kilns had wholly been destroyed by unknown reason and the old crafts had once died out, development of modern Kutani, some of which appeal to western taste, started in Meiji era. The souvenir is specially prepared for this Congress under the instruction of Mr. Minoru Yoshida, the great crafts-master of Kinzan-kiln in Komatsu city, as written on the back of the plate. It will remind you this friendly and valuable Congress in Kanazawa anytime you see it at your home or office.

I hope that all of participants will enjoy the meeting and refresh the close communication each other at the Congress.

Thank you for your kind attention.

GREETINGS FROM HONORABLE CHAIRMAN OF PIPA 17TH INTERNATIONAL CONGRESS

by Honorable Isamu Yamashita, Chairman of Japan Patent Association

Good morning, ladies and gentlemen,

It is a great honor for me to have been appointed the honorable chairman of the 17th International Congress of the Pacific Industrial Property Association as I am the chairman of Japan Patent Association.

I believe it is indeed significant that the experts in the field of industrial property from leading corporations of both US and Japan should meet together once a year for exchange of frank opinions and views. This must be really useful for economic development of the two countries, through which further contributions to personal exchange and international goodwill are made. I highly appreciate the enthusiasm with which officers and members PIPA are engaged in various activities.

I work for Mitsui Engineering & Shipbuilding Co., Ltd. which is also a member of PIPA like the corporations you represent. Through my work, or through my duties as Chairman of the Japanese Committee for the Trilateral Commission as well as through Japan US Economic Council Meeting, I have many friends in America with whom I often discuss matters of mutual interests. I feel that the best solution to the difficult problems that exist between the two countries is to talk over the matter frankly. There are indeed many difficulties such as trade frictions between us, but I am confident that those will be resolved gradually by persistent and patient discussion at the governmental and private levels.

While there lies a vast ocean between us, I firmly believe that we are on the closest of terms in every aspect. Discrepancies which are believed to exist today

can certainly be overcome tomorrow by mutual understanding, and we may jointly contribute to the stability and development of the world economy.

The adoption at the recent GATT Uruguay Round of the matters concerning international protection of intellectual property rights proposed by US and seconded by Japan is most meaningful for sound development of world economy.

Another matter of an extreme importance is establishing the order for intellectual property rights on the international scale including assistance to developing countries. I expect that PIPA will play a key role in promoting and achieving this goal.

In closing, may I extend my sincere wish for the success of this Congress and your pleasant and meaningful stay in Kanazawa.

Thank you.

ADDRESS

by Honorable Donald J. Quigg

U.S. Commissioner of Patents and Trademarks

Mr. Chairman, Mr. Honorary Chairman, Mr. Director General, ladies and gentlemen, I am very pleased to join you for this 17th PIPA International Congress. For those of us in the business of intellectual property protection - especially in the international arena - this is a very exiting time, indeed.

International attention to intellectual property protection has reached its highest level in history. Only a few weeks ago, 73 nations approved an agenda for a new round of global negotiations under the GATT. Their agreement to include the subject of intellectual property protection sent a signal - a message - around the world. The message is clear. The message is that protection of the rights of innovators, inventors, and intellectual property owners has reached new height in the realm of world trade. As the world grows smaller and smaller, our need for international cooperation grows greater and greater. I am pleased with the cooperation the United States and Japan are experiencing. This is true particularly in the intellectual property area. In recent months, the U.S. Patent and Trademark Office has hosted a number of visits from corporate executives from Japanese industry in pursuit of increased "harmonization" of our intellectual property systems. Next Monday Japanese Patent Office will host U.S. group of this organization for discussions along the same line. Our trilateral agreement, designed to help the Japanese Patent Office, the European Patent Office, and the U.S. Patent and Trademark Office to coordinate our respective automation efforts, has focused largely upon system "harmonization", as well. The United States will host the next "trilateral" meeting in January. We look forward to continuing this close cooperative effort. In a more recent development, our discussions with Japan, Canada, and Australia, has brought about a new plan - a pilot program - to allow patent examiners from these countries

take a close look at harmonization possibilities we have agreed in principle to an examiner exchange, perhaps as early as next year. The purpose of the "pilot" would be to identify areas for harmonization among the various patent offices - with, perhaps, the long range possibility establishing a joint international search authority. In any event, it is my firm belief that our diligent efforts toward cooperation - toward harmonization - will bear fruit, in terms of well-deserved global protection and respect for the inventions and innovative works of our peoples.

Again. I am pleased to be here, and I look forward to a very productive meeting. Thank you very much.

ADDRESS
by Honorable Akio Kuroda
Director General
Japanese Patent Office

I am very pleased to say a few words at the opening of the PIPA 17th International Congress.

I would like to express my deepest gratitude to Mr. Quigg, Commissioner of the U.S. Patents and Trademarks for the attendance to this International Congress. Since I was appointed Director General of Japanese Patent Office in July this year, I have had the pleasure of meeting and talking with Mr. Quigg twice to now, and I do feel as if we were old friends for many years. I have been greatly impressed by Commissioner's willingness and determination to establish better international industrial property system in the world and so I am sure that attendance of Mr. Quigg has added great significance to this meeting.

As we all know so well that industrial property system plays very important roll as fundamental system to provide adequate protection to fruitful outcome of technological development. Today, international competion in technological development and advancement is getting tougher and tougher.

Along with expansion of technological exchanges and trade in the world, reorganization and improvement of the industrial property system have been called for in a gloval scale. As an international framework to this end is Paris Convention with membership of 100 countries. Through activities of WIPO also gloval harmonization of industrial property system has been strongly promoted. As the latest topic, issue of industrial property versus trade is drawing much attention. It has been decided at the GATT ministrial conference that trade aspect of industrial property has been taken up as a part of agenda for Uruguai round of negotiation.

Further, there is a sign that amendment of Paris Convention is becoming again an issue in the world. PIPA, as I understand, was organized in 1970 to serve the purpose of reflecting private industries' views on the issue of industrial property experienced by neighbouring countries of the Pacific basin in international conferences held by WIPO. It is high opportune that all members involved in industrial property practice with great influence over operation and future prosperity get together at one forum in exchange their views and opinions in the range of issues involving industrial property to facilitate their understanding.

The 21st century which is often referred to as Asia Pacific where economic vitality of Pacific neighboring countries is attracting the world's attention. I am sure with no doubt that PIPA's activities will become more significant and important in the years to come. Looking at the volume of

applications in patents and utility models in Japan, Japan accounts for 40% of the world total, taking leading position. As a key to vitalize the economy, if more expectation is placed on the advancement of the technological development, Japanese industrial property system from such international prospectives should be improved into a well established excellent institution. Japanese Patent Office responsible for administration will have to be equipped with high technology for quick and adequate patent granting. Japanese Patent Office has great responsibility to contribute to gloval scale industrial property system. Based on this philosophy, I am also reafirming my commitment to execution of most effective patent office administration. More specifically, with an objective of alleviating of increasing international friction on industrial property and to promote gloval harmonization of industrial property system, we are now preparing proposals of patent law amendment to be presented at the next Japanese parliamentary session.

We are also in progress of implementing paperless project through all over computerization with focus on quality in stead of volume. Our aim is to realize fast and adequate granting of patents. Through triliteral meeting by Japan, the U.S. and Europe, we are planning to exchange patent information data base, we collaborate for computerization and we work together toward harmonization of industrial property system. We are studying introduction of automatic translation system. At the same time, we make positive contribution to international organizations such as WIPO and strongly collaborate with developing countries through dispatch and receiving of instructors and trainees respectively. I hope PIPA will continue to make elaborated efforts to import proposals applicable to private industry in international forums and further contribute to development of the world industrial property system. I am also devoted to listening very carefully to your proposals and inputs so let me have your most candid and frank opinions and advice.

I wish you all a great success of the Congress and in the future activities of your Association.

Thank you very much.

Greetings for Kanazawa International Convention of PIPA (summary)

by Honorable Masaru Umeda
Engineer General, Japanese Patent Office

1. I am deeply honored to have an opportunity of giving you a closing address at the 17th International Congress of PIPA.

2. The patent system is required to ensure greater international harmonization than in the past as international transfer of technology and merchandise increases.

3. The patent offices in three principal regions, i.e., JPO, USPTO, EPO are jointly carrying out a series of projects to assure international harmonization in respect of the patent system and its operating procedures.
In this connection, we regard it meaningful to exchange views and ideas between Japan and the Untied States on the part of the private sector involving applicants, attorneys and various organizations concerned. I believe that PIPA is committed to a major role to paly in this field.

4. I understand that Japan and the U.S. groups mutually presented results of study with regard to an extensive range of themes on the industrial property and were dedicated to thorough discussions for three days in this congress, thereby promoting further understanding of the patent system of each party practice.

5. The necessity of harmonization of laws and practices has been urged since the inception of the Paris Convention in 19th century, but in fact, there are a number of deterrents against successful solution. The problem of international harmonization must be resolved in the long run.

I believe that any discussions for international harmonization should not be a negotiation intended to bring the system of a given country to those of others, but should be intended to devise ways to ensure smooth operation of the patent system in quick response to developments in the international transfer and innovation of technologies so that each country may acquire and utilize the knowledge and experience of other countries.

6. To achieve this end, it is essential to mutually understand each party's patent system and operating practice from the realistic point of view respecting the particular history, culture and economy of each country.

Once we start off with the spirit of such mutual understanding, we shall be able to deal with this issue with an objective and self-possessed stance and cope aptly with rapid changes in internal and external environment surrounding the patent system which involves the problems on legal protection of new fields' such as computer software and biotechnology, etc.

7. I understand that this Congress provided meetings on the "Accelerated Examiantion System" which JPO began to implement in this February. Upon introduction of this system, I also visited PIPA in last summer and exchanged views and ideas with its officers. In this regard, as you may have known I have the pleasure to inform you that our new procedure incorporates your suggestion that this system should be extended to the appeal examination, therefor we provided "Accelerated appeal examination" as well.

8. As you also know, this system provides a procedure which expedites the initiation of examination of pending applications for being granted patent in high priority and satisfy the requirements which we specify in the guideline. However, I would like to draw your attention, since this system is implemented within the constraint of limited manpower reallocation, its effectiveness may possibly diminish if the scope of such applications are overexpanded.

   Under the circumstances, you are kindly requested to carefully select only those with high priority from a realistic point of view upon filing your applications.

9. In all cases, we are planning to review the proper scope of eligible applications and requirements after seeing the development of the number of applications for a while and consulting with the various organizations including groups of U.S. applicants.

The JPO is very open minded and the door is always open to anyone and any organization who gives us constructive suggestions to improve our system and to attain the goal, harmonization of patent system, Next week, 10th of November, we will open the door to discuss with you. I am looking forward to seeing you at the Patent Office.

Thank you for your attention.

ction of Awardee, Mr. Hirano -
By Akira Mifune, PIPA President

It is my great pleasure to introduce Mr. Akira Hirano who receives PIPA Award on the occasion of this 17th International Congress. He is the 6th awardee. Needless to say, he has actively worked as representative of Fujitsu Limited for long time. Now he is counselor of Fujitsu Techno Research, Ltd. He acted as President of PIPA in 1977 and President of PIPA Japanese Group in 1977 and 1978 and served as Ex-officio of PIPA Japanese Group for 6 years from 1979. Apart from PIPA, he has devoted himself for the development of the industrial property system. In 1967 and 1971, he was president of Japan Patent Association and a member of Special Committee of International Patent Policy for years, and still now he is Honorary Counselor of Japan Patent Association. For his long dedication to the industrial property field, in 1976, he received Blue-Ribbon Medal, one of the distinguished governmental award to be given to a person who made contribution to science and technological field. In the light of his brilliant back ground and contribution to this area, I am sure all PIPA members delightfully agree to nominate him as 1986 PIPA Awardee. On behalf of all PIPA members I wish to express sincere congratulation on his receiving the Award.
Thank you.

- Award Acceptance Speech -
by Akira Hirano

Thank you very much. I am Hirano. It is indeed my greatest honor and pleasure to receive this most prestigious PIPA Award. Taking this opportunity, I would like to express deepest gratitude to all of you. I have

been only serving as a very modest member of the board of governors, probably for relatively long period of time, and I feel very humble to receive this honor.

This time, the 17th PIPA International Congress is being held in the city of Kanazawa, and I am afraid that American Group Delegation has rather directly felt gloomy in coming to Japan in the trend of today's stronger yen against dollars than that of the time of Sendai Congress two years ago. Also in Japan, except for a handful of industries, the advantage of stronger yen leading to lower import price has not been experienced, because it is only vanishing into complicated and rather strange distribution system we have in Japan, and only disadvantage of slow-down in export has been experienced. Recession due to strong yen is becoming common trend prevalent in industry across Japan. The stronger yen and weaker dollar is expected to make contribution to dissolution of economic conflict based on inbalanced trade between United States and Japan. However, contrary to such expectation in general, Japan still registers trade surplus. In spite of business pick-up in the United States, even a voice calling for a stronger yen rate of 120 yen to a dollar is heard from U.S. side.

In addition to such stubborn economic conflicts between United States and Japan, no sign is seemed yet that patent conflict between the two countries has subsided. Normally, in the United States, patents are granted one year after the application, whereas in Japan it takes as many as four years and there is less favorable factor in relation to publication that applied invention may be exposed to be counterfeited before patents are granted. This has been heard at the frustration by the Americans for years. Following Netherland and West Germany, in 1971, Japan implemented early laying-open system and examination request system. Examination period then 4 years has been shortened year by year. In 1980, it was reduced to half,

two years and one month. However, along with expanded volume of application filed in Japan, the time for required for examination had continued to be lengthened. In 1985, 514,000 applications have been filed in Japan, and today the time to require for examination is around 3 years. The backlog is only to increase, and today time for examination is increasing. It seems to be impossible to shorten the prosecution time. The longer examination time only weakens protection of rights. This time disadvantage is felt by all applicants irrespective of their nationalities. If they can be granted only weaker protection than what they are in their own countries, it is understandable that foreign applicants' frustration would get aggravated. By all means we have to address this question and find solution for it. Since 1976, Japanese Patent Office have tried to strengthen patent management on the part of private operations, shifting their focus from volume to quality. They have tried hard to promote efficient administration and also prompt examination so that they can optimize their operation and administration to prosecute their applications. Nevertheless, trend of increasing application volume still lingers in Japan. Competition in the area of development to survive corporate market competion and expanded technological scope through highly advanced technology are listed as primary reasons for increase of patent application volume. Considerably lower rate or percentage of publication and foreign applications versus domestic applications than those of other industrialized countries indicate to us that there is still long way for us to go to realize our philosophy of quality instead of volume. Japanese Patent Office emphasize amendment of patent law for next year to wash out all residues accumulated from the time of the peak of importing technology. I believe strongly that alleviation of foreign applicants' frustration is the most urgent task that we have to very seriously to address.

So much for the frustration on the part of the United States, in Japan, also the industry is becoming very nervous about the strengthening of Section 337 of the U.S. Tarrif Law. Meeting of the United States and Japan Trade Commission was held in Hawaii in August. As expressed by the Japanese government at that time, the Japanese industry is today getting concerned that the said amendment may be used to restrict import of Japanese made goods into the United States in conjunction with emerging protectionistic mood in general. Particularly, their concern is that the determination time taken by the U.S. Government on these cases may be too short to allow foreign corporation to well contest. I, therefore, strongly hope that free and open dialogue between PIPA members makes step by step contribution to solving various patent conflicts between our countries.

Thank you again for giving me an opportunity to express my sincere gratitude.

W. R. NORRIS

November 7, 1986

CLOSING REMARKS

The 17th Congress of PIPA is about to adjourn. For some, this may be their last congress as career paths lead them in other directions. Those that remain to carry PIPA's banner will miss those departing but they need not think they will be forgotten as PIPA members have long memories. For all of us the inspiration found here in Kanazawa will be a guiding force as we participate in national and international legal institutions addressing intellectual property issues of the day.

GATT appears on the verge of becoming a new force. How can PIPA help to keep this force within constructive bounds? The answer will not be easily found, but frank, honest and informed dialogue that addresses - better yet defines - the issue is a starting contribution. Balancing of trade-offs that will occur in the political process cannot be predicted but PIPA can help to assure an informed result. As I personally assess the benefits of GATT discussions of this topic - some of the indirect implications are more interesting than direct results. Discussion in GATT may stimulate WIPO initiatives to seek enforcement mechanisms and NICs and developing countries may learn about the value to local protection of an effective internationally recognized regime for the creation and administration of intellectual property rights.

As Karl Jorda pointed out in his paper, a commitment to harmonization is a commitment to change. Again just how the changes should be balanced requires patient deliberations. It behooves PIPA, I think, to closely follow the WIPO initiatives. If past experience is an example the WIPO secretariat, now that the harmonization tree has taken root, will want to plant an orchard. I think the Japanese Group has been wise to concentrate on just a few of the harmonization proposals - those which could have the most profound results or greatest likelihood of adoption. To irradiate all differences may sound good in principle but it is not practical to seek such a comprehensive result. Tension produced by differences can be healthy genesis of progress. Moreover, we must not lose sight - in the heat of debate - of how far we already have come along the path of "harmonization," "cooperation" and "transparency."

In concluding I want to thank all those persons who have participated in this Congress, both behind the scenes and at the podium. The papers have been excellent. It is clear that much thoughtful research and analysis went into their preparation.

The very special thanks are extended to our honored guests who have distinguished the Congress by their presence and contributions.

Thank you - I now turn the podium back to Mifune-san.

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CLOSING OF FAREWELL PARTY

by Akira Mifune, PIPA President

On behalf of PIPA Japanese group, I would like to express our sincere thanks for your cooperation to have smoothly and successfully been able to hold the 17th Annual Congress of PIPA.

We are sure that you could enjoy the short stay in this historical North Capital where is blessed a plenty of fresh delicious sea foods and a variety of traditional arts and crafts as well as beautiful natures and historial remains.

This is the 17th PIPA congress and my favorite short poem "Haiku" also consists of seventeen, the same number of the Congress, Japanese phonetic characters. In addition, this area "Kaga" in the old name, has yielded many "Haiku" poets. So I would like to close the farewell party with my original "Haiku", following the precedent of Mr. Norris.

秋 惜しむ 北の都に 友 集う

AKI OSHIMU KITA NO MIYAKO-NI TOMO TSUDOU

Regret Fall being over
Old friends are gathering to refresh close relations
In the historical North Capital

一盞の 酒 汲みかわし 加賀 紅葉

ISSAN-NO SAKE KUMI-KAWASHI KAGA MOMIJI

Drinking a cup of Japanese Sake
Makes the friends joyful, and
Leaves in Kaga change colors brightly

Look forward to seeing all of you again in Baltimore at the end of next September. Have a nice and safe trip.

GUEST PRESENTATION

ADDRESS BY DONALD W. BANNER TO PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

"Intellectual Property Legislation Being Considered in the United States"

More intellectual property bills have been proposed in the 99th Congress during 1985 and 1986 than in any other Congress ever. By September 1986, 170 bills had been introduced involving patents, over 100 bills had been introduced involving trademarks, and about 85 bills had been introduced involving copyrights.

On the other hand, when these remarks were being prepared at the beginning of October, with Congress rushing toward adjournment, no significant bills had yet been enacted. Some bills could be enacted, however, by mid-October.

Intellectual property legislation has been an active topic in the U.S. Congress during the 1980s. A particularly large amount of intellectual property legislation was enacted two years ago. Congress passed the Semiconductor Chip Protection Act, the Trademark Counterfeiting Act, the Patent Law Amendments Act of 1984, the Drug Price Competition and Patent Term Restoration Act, and at least half a dozen other intellectual property-related items. Perhaps it was the success in 1984 which has spawned the even greater number of proposals in 1985 and 1986.

One of the items of greatest interest in the 99th Congress is the legislation to improve protection for process patents. Several bills were introduced during 1985 and 1986 which dealt with process patents. The leading bills at this writing are S. 1543 in the Senate and H.R. 4899 in the House. (A one-page table at the end of these remarks summarizes the main features of the two bills.)

Both of these bills would make it constitute infringement of a process patent to import into the U.S. or to use or sell in the U.S. a product made by the patented process. Proposals on this topic have a long history in the United States. Process patent legislation was recommended by the 1966 President's Commission on the Patent System and even earlier.

Several U.S. companies have testified that process patent legislation is urgently needed to help stop offshore competitors from taking a free ride on their R&D expenditures. Proponents have pointed out that the major trading partners of the United States, including Japan, West

Germany, France, and the United Kingdom, have provisions in their laws similar to the process patent legislation being proposed.

The principal opponents of the process patent bills have been the generic drug companies. In the summer of 1986 some of the industry supporters of the legislation became convinced that the only way to obtain enactment of a bill this year was to negotiate a compromise with the generic companies. The version of S. 1543 considered during September was a compromise bill.

Another bill that has attracted great interest this year is the legislation to amend section 337 of the Tariff Act of 1930. Section 337 is the provision which authorizes the U.S. International Trade Commission to issue exclusion orders against imports when unfair trade practices are involved. Most of the cases arising under section 337 are cases which involve allegations of patent infringement.

The section 337 amendments in the 99th Congress were first proposed by Senator Lautenberg of New Jersey. His bill is S. 1869. Similar provisions are in the omnibus trade bill, H.R. 4800, passed by the House of Representatives this year, and in a separate bill devoted to section 337 amendments only, H.R. 4747. The most important feature of the section 337 amendments is that intellectual property infringement, without more, would be treated as "injury" for purposes of section 337. The supporters of the legislation believe that by eliminating the requirement to show other injury besides infringement, the legislation

would reduce the burden and expense of obtaining relief under section 337.

H.R. 2434,a bill which has been under consideration in the Senate and House for nearly two years, would authorize the funding levels for the Patent and Trademark Office for fiscal years 1987 and 1988. This legislation is important to those interested in effective administration of the Patent and Trademark Office and the levels of fees charged by the Office. The bill limits the Office's authority to charge fees for use of the public search rooms and limits use of fee income to support the massive search file automation project. The bill also would renew and make permanent the Office's authority to reduce by 50 percent the levels of patent fees charged to small businesses, independent inventors, and nonprofit organizations.

S. 1230 is a bill to implement chapter II of the Patent Cooperation Treaty in the United States. Similar provisions also are a part of H.R. 4899. This legislation is noncontroversial within the patent bar and is supported by the Reagan Administration. Its purpose, of course, is to authorize the United States to become involved in international preliminary examining under PTC. At this writing uncertainty exists over whether the bill will pass, because of political issues unrelated to the merits of the bill.

Several bills are being actively considered to authorize extensions of the 17 year terms of patents covering agricultural chemicals and animal drugs. These bills would compensate patent owners for delays

encountered in obtaining approval from the Government to market their inventions. The bills are patterned after the Drug Price Competition and Patent Term Restoration Act of 1984, which gave authority to extend patents for up to five years for human drug inventions in order to compensate for delays by the Food and Drug Administration in approving drugs for marketing.

H.R. 4316 is a bill which clarifies the applicability of U.S. patent law to activities in outer space. The bill amends the patent code to state that any invention made, used or sold in outer space on a space vehicle under the control of the United States is to be treated the same as an invention made, used or sold within the United States, for purposes of the patent law. The bill makes an exception for international agreements which provide otherwise.

Both the Senate and the House have passed versions of H.R. 3773, a bill called the "Technology Transfer Act of 1986." This legislation is designed to promote transfer of technology from federally owned and operated laboratories to the private sector. A provision of interest to the patent community would guarantee salaried employee-inventors in the federal government a property right in inventions made on government time and at government expense. A compromise version of the bill would guarantee the inventors a percentage of royalty income, up to $100,000 per year, in addition to their salaries, when their inventions are licensed to the private sector.

U.S. industry opposes this inflexible, mandatory type of compensation for salaried inventors. Industry believes it is important for management to have freedom to compensate inventors and all other employees in the traditional manner, taking into account all facets of all employees' activities.

A highly controversial bill proposed by Senator Chafee, S. 2614, deals with parallel, or "gray-market", imports. This bill is unlikely to be enacted this year, but probably will be considered again next year. S. 2614 would amend the Lanham Act and section 526 of the Tariff Act of 1930 to permit parallel imports irrespective of requirements in those two acts which otherwise would apply.

The gray-market issue is being considered not only in the Congress but also in the courts and in the executive branch of the government. Court interpretations of the law affecting parallel imports are split. The Custom Service currently is soliciting public comment on two options concerning parallel imports -- labeling requirements and "demarking" requirements. The deadline for comment to Customs is October 17, 1986.

The Reagan Administration this summer proposed legislation affecting technology licensing under the antitrust laws and the patent misuse doctrine. These provisions are part of an administration bill on intellectual property numbered S. 2525 in the Senate and H.R. 4808 in the House of Representatives. The provisions received no consideration this year, but perhaps will be reintroduced next year. One section amends the Clayton antitrust law to state that technology licensing

practices shall not be deemed per se illegal in actions under the antitrust laws. Another section changes the patent misuse doctrine by restricting the authority of courts to hold patent licensing limitations unenforceable for allegedly suppressing competition unless the limitations violate the antitrust laws.

The Administration bill also contains a provision not considered in Congress this year which deals with licensee challenges to patent validity. The provision authorizes license agreements which allow either party to terminate the agreement when the licensee challenges the validity of the licensed patent. The bill also states that it is permissible for such agreements to provide for the licensee's obligations to continue during the lawsuit if the license is not terminated.

Congress will be leaving Washington by mid-October at the latest so that members can campaign for the election to be held on November 4. Unless Congress decides to return to Washington for a "lame duck" session after the election, we will know by November which of the bills will be enacted into law this year. An up-to-date report will be given at the PIPA meeting.

September 24, 1986

FEATURES OF PROCESS PATENT BILLS

All of the bills make it constitute patent infringement to perform the acts of importing into the U.S. or using or selling in the U.S. a product produced by a patented process. Features of the two current bills are shown below.

	Feature	S.1543 as approved by the Senate Judiciary Committee Sept. 19	H.R.4899 as passed by House Sept. 16
1.	Limitation on relief for products ordered before notice of infringement.	No injunction and no damages greater then a reasonable royalty for products sold within 6 to 18 months after notice of infringement that were ordered before notice.	No damages greater than a reasonable royalty for products received within 6 months after notice that were contracted for before notice.
2.	Patent listing procedure	Limitation on relief (above) applies for only 6 months if patent owner upon request lists process patents owned for making particular product.	No corresponding provision.
3.	Exemption for retailers.	No remedy against certain retail sales for 18 months after notice of infringement.	No specific exemption; retailers covered by the 6 month reasonable royalty limitation.
4.	Notice of infringement.	Notice adequate to start running of damages must establish "substantial likelihood" of infringement.	Same as Senate bill.
5.	Shifting of burden of proof.	Provision shifting burden is in text of bill.	Not in bill, but committee report states committee intends for courts to shift burden.
6.	Effective date.	Grandfather clause allows continued importation if products used or sold in U.S. on July 1, 1986.	Effective against all products made or imported after date of enactment.
7.	Coverage of products that are changed further after the patented process is used.	Bill covers products that are not "materially changed" by subsequent processes; bill does not cover minor or nonessential components of another product.	Bill covers products that are not "materially changed" by subsequent processes.

SPECIAL PRESENTATION

Industry View

GATT and Intellectual Property

by William S. Thompson, CATERPILLAR, INC

The eighth major round of the General Agreement on Tariffs and Trade (GATT) will officially begin in early 1987. The agenda adopted at the September 1986 GATT Ministerial Meeting in Punta del Este, Uruguay, recognizes the need to strengthen GATT. Ministers also agreed to draft trading rules to broaden GATT to intellectual property rights, investments, services, and agriculture. A moratorium on further protectionist measures was announced.

GATT negotiations offer major challenges and opportunities for large companies to which import competition and exports are important.

The current talks, being called the "Uruguay Round," could be vital to the future effectiveness of GATT. High unemployment in Europe; debt problems in the third world; declining revenues in OPEC; a rapidly appreciating currency in Japan; and a U.S. merchandise trade deficit approaching $170 billion in 1986 reflect the pressures on the international trading system and the importance of the Uruguay Round.

The GATT agenda agreed to in Uruguay is consistent with U.S. negotiating priorities. The United States Trade Representative (USTR) has specifically identified the "fundamental trade issues ... as agriculture, intellectual property rights, trade in services, foreign investment, and strengthening GATT's dispute settlement process."

If these talks fail, protectionist pressures in the U.S. and abroad will grow. Trade disputes and reliance on bilateral agreements would increase. For multinational companies world

trade would become more complicated, costly, and less conducive to growth.

GATT negotiations will affect key corporate strategies: global shopping, facility modernization, and marketing. This analysis explains the basics of GATT and sets initial priorities and strategy for influencing the negotiations. Further analyses will be done as talks proceed over the next four to six years.

I. GATT Background and Mechanics

The General Agreement on Tariffs and Trade took effect in 1948. It remains the principal international mechanism through which trade barriers are reduced and other trade frictions addressed. The GATT provides a code of rules, a forum for countries to discuss and negotiate trade problems, and nonbinding "dispute settlement" procedures. GATT's power derives from a commitment by major trading countries to take responsibility for maintaining the trading system and refrain from unilateral actions that undercut the system.

Currently 92 countries are members. These include most of the "free world" and a few nonmarket economies such as Poland, Hungary, and Yugoslavia. (A Soviet application for membership has been rejected; China's might be accepted because of that country's reforms toward a market economy.)

The GATT treaty rests on five fundamental principles:

1. Nondiscrimination. GATT members must grant each other equal treatment. This obligation is embodied in the "most-favored nation" clause.

2. Transparency. Protection given to domestic industries may be only through visible customs tariffs. Quantitative

restrictions (quotas, licenses, etc.) are allowed only to ease balance-of-payment difficulties.

3. Stability and predictability. Members are to follow agreed-upon tariff schedules. Tariff increases for one product must be offset by decreases in tariffs on another product.

4. Consultation. The first step in resolving trade disputes must be consultation between affected nations. If that fails, the organization's "dispute settlement procedure" must be followed.

5. Exceptions. Member nations realize that compelling economic problems may warrant exceptions to standard GATT practices. GATT's "escape clause" sets the parameters for such relief.

Since the original GATT treaty was approved, a series of international negotiations has put GATT principles into practice. The first six GATT rounds focused on reducing tariffs. Average worldwide tariffs went from 40 percent to less than 5 percent.

The most recent GATT talks, the "Tokyo Round" (1974 to 1979), also addressed nontariff barriers. A "code of conduct" approach was used. Six codes on nontariff issues were adopted: subsidies/countervailing duties, government procurement, anti-dumping, customs valuation, and standards and licensing.

Codes are individually ratified and subject to their own enforcement mechanisms. The nontariff codes have been approved by the major trading countries; however, they have not been approved by most other GATT members. (Not all GATT members must approve a code. If one is adopted by, for example, 20 countries, that code is applied to trade among those 20 nations, but not the remaining GATT members.)

The Uruguay Round will follow a code of conduct approach. By year-end 1986, separate negotiating groups will be established to deal with individual issues including intellectual property. An oversight committee will finalize preparations for the new trade round which is to officially begin in Geneva in early 1987.

Ongoing negotiations, organized around individual issues, will proceed for four to six years. The USTR is the "lead" U.S. agency for these talks. USTR will coordinate negotiations from Washington rather than Geneva, to allow closer contact with the U.S. business community and Congress. The Industry Sector Advisory Committees (ISAC) will play a prominent role, advising USTR of industry concerns.

Upon conclusion of the negotiations, completed codes will be submitted to member nations for ratification.

Member nation ratification is virtually automatic in some countries. In the U.S., Congress must provide the president negotiating authority and approve the final agreement. To strengthen the U.S. negotiating position, Congress has traditionally provided "fast-track negotiating authority," which means Congress will vote on the treaty without amendment. Congress then must pass legislation changing U.S. trade laws to comply with the agreement. (The Trade Agreements Act of 1979 made U.S. law consistent with the Tokyo Round treaty.)

Of course, this four-to-six year GATT process won't take place in a vacuum. The business of "managing the world economy" will con continue. Bilateral talks; regularly scheduled international economic meetings; yearly summits of heads of state; and numerous legislative initiatives will affect the GATT proceedings. As these events influence the international trading climate, positions will need to be updated to ensure they are relevant to the negotiations and a company's business strategies.

Intellectual Property Rights

GATT does not have a code specifically protecting intellectual property rights -- patents, trademarks, copyrights, industrial designs and trade secrets. GATT indirectly addresses intellectual property rights in five clauses which recognize the principle of intellectual property rights, but do not offer comprehensive protection. A code drafted late in the Tokyo Round but not adopted would have deterred importation of counterfeit trademark merchandise.

The U.S., E.E.C., Japan and Canada accepted the draft trademarks code. But the NICs would not. Because many counterfeiting problems originate in the NICs, their failure to accept the code made its "value" questionable, so it was not adopted.

Section 337 of the Tariff Act of 1930 is a primary statute protecting intellectual property rights in the United States as they might be affected by imports. The pre-GATT law empowers the International Trade Commission to bar imports which have benefited from unfair trade practices, including infringement of intellectual property rights.

Non-U.S. intellectual property rights protection varies greatly. In many Asian countries (e.g. Pakistan, Malaysia, Singapore, Taiwan), there is a "predisposition to copy."

Mexico, a new GATT member, is being pressured by a coalition of U.S. businesses, to address deficiencies in its intellectual property laws. To date, Mexico has agreed to increase patent protection from 10 to 14 years. (American firms want 17 to 20 years.) In addition, Mexico no longer requires U.S. trademarks to be replaced by Mexican trademarks; such "trademark linking" is now voluntary.

Besides eroding marketing advantages provided by company research and development, insufficient intellectual property rights protection hurts company modernization efforts in plants abroad. Many U.S. software companies, for example, refuse to allow their software to be usd in Brasil which has poor intellectual property protection. This restricts foreign subsidiary companies from doing business abroad following the same methods as in home countries. Similar problems can be expected in other LDC countries

An emerging industry position is that GATT should:

1. Ratify the anti-counterfeiting trademarks code drafted during the Tokyo Round.

2. Go beyond trademarks protection and develop standards for protection of patents, copyrights, trade secrets and industrial designs.

3. Provide for a meaningful enforcement mechanism.

While GATT ponders action on intellectual property protection, industry will continue to urge changes in U.S. law that would: make intellectual property protection absolute and not contingent on the injured firm proving injury and efficiency (thereby reducing the cost and time required to obtain relief); bar U.S. imports produced by a process patented in the U.S.; and empower the ITC to seize such articles already imported.

COMMITTEE NO.1

* Proposal for Amending Multiple Claim System of Japanese Patent Law.

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* Unity of Invention Under the PCT

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* Article 29 bis and Priority Claim

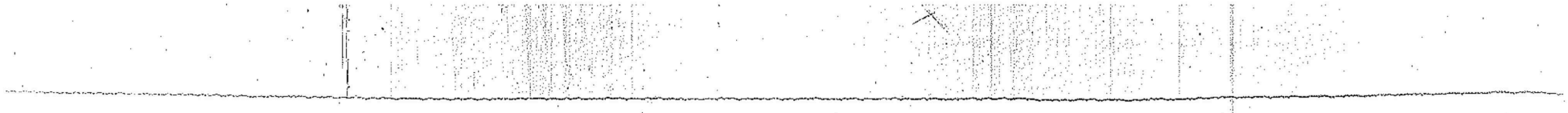
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PROPOSAL FOR AMENDING MULTIPLE CLAIM SYSTEM OF JAPANESE PATENT LAW

Japanese Group, Committe No. 1

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TOSHIHIKO AKIYAMA, Mitsubishi Electric Corporation
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SUSUMU TSUGARU, Toshiba Corporation
KOZO HIRASE, Tokyo Electric Co., Ltd.
SHIGEYASU HORIGOME, Iwatsu Electric Co., Ltd.
YOSHINAGA MATSUSHIMA, Hitachi, Ltd.
YUTAKA YAGUCHI, Toshiba Corporation
Speaker: TAKASHI SAWAI, Nippon Telegraph & Telephone Corporation

ABSTRACT

The revision of the Japanese Patent Law is being studied now and will be in enforce in the near furture. One of the revisions is the amendment of the multiple claim system and the other is the alteration of the terms for procedures, etc. These revisions aim at the proper protection of patent rights and the international harmonization of the patent application systems. We now report mainly about "the amendment of the multiple claim system" in these patent law revisions and also the influences of the new multiple claim system on practical business when the new system is employed.

I. Preface

Techniques recently developed have become higher and become more and more complicated as well as the development of leading techniques and wide international technical interchanges have become more and more active. In the field of the Industrial Property Laws which play important roles as the bases of the progress of industry, the promotion of technical interchanges, etc., with these circumstances as the background, various demands have been made for the international harmonization of the system by domestic and foreign applicant.

In Japan, the following partial revisions on the Japanese Patent Law after, is being studied in response to these demands.

1. Amendment of Multiple Claim System

It is being studied that the Japanese Patent Law will be revised to introduce a new multiple claim system of enlarging

the range of the unity of application and admitting the description of plural claims in versatile expressions as the multiple claim systems in the European and U.S. Patent Laws.

If the new multiple claim system is employed, the results of a technical development can be filed en bloc as a patent application in a versatile and fully claimed form and also the international harmonization of the patent application system can be realized.

2. Alterations of Various Period, etc.

(1) Extension of the Presentation Period of Priority Certification

In the existing Japanese Patent Law, the above-described period is "within 3 months from the date of application". It is being studied to change the period longer.

(2) Extension of Opposition Period

In the existing Japanese Patent Law, the above-described period is "within 2 months from the date of public notice of application". It is being studied to change the period longer.

(3) Abolishment of the Limited Effective Period for Publications in Foreign Countries in Invalidation Trial

In the existing Japanese Patent Law, there is a restriction that an invalidation trial against a patent by using publication(s) published in a foreign country only cannot be demanded after five years from the registration of the establishment of the patent right. It is being studied to abolish this restriction.

(4) Revocation of the Reservation Based on The Patent Coorporation Treaty, Article 64(2)(a)

The period of submitting a translation for an international application in the case of demanding the International Preliminary Examination on the application is "within one year and 8 months from the priority date". It is being studied to change the period longer.

If the revisions (1) to (4) described above are employed, each procedure will become easily for foreigners as

compared to the existing procedure in the Patent Law.

As stated above, the study of revising the Japanese Patent Law includes various points but in our report, we report "our proposal for amending the multiple claim system" which is anticipated to give the largest influence on the practical business for applications.

The Patent Office is now proceeding investigations with laying the bill before the Diet and enforcing the new systems in the near future.

In addition, the existing multiple claim system in the Japanese Patent Law was once reported in the Fifteenth International Congress held in 1984 at Sendai, Japan.

II. Background for the Amendment of Multiple Claim System

1. Necessity for the Amendment of Multiple Claim System

Since in the existing multiple claim system in the Japanese Patent Law, the claim must be, in principle, expressed by one indispensable term, there is a restriction on the description of an invention which is a result of a technical development by versatile plural claims in conformity with the content of the highly developed and complicated technique.

Furthermore, in the existing so-called united application system (plural inventions in one application) in the Patent Law, the unitable factor (i.e., the factor that plural inventions can be described in one application) is on only different invention(s) which have a relation with one subject inention and is restrictively enumerated in the text of the Patent Law. Therefore, there are cases that plural inventions the mutual technical relationship of which is increased with the progress of the recent technical development cannot be described in one application and hence it has keenly been demanded to expand the allowable range of the unity of application.

2. Claims in the Japanese Patent Law

In the Japanese Patent Law, it is required to "describe

only the matters indispensable to the construction of an invention as an independent claim" (the Patent Law, Article 36, Paragraph 4) in the claim and hence it is not admitted to describe plural claims about substantially same inventions.

Furthermore, the Japanese Patent Law prescribes a principle of the application for one invention by specifying "a patent application shall be made for each invention" (the Patent Law, Article 38) and as exception, it is admitted to describe two or more "inventions" in one application only when these "inventions" have a relation with each other and are included in a single technical idea. Even in this case, however, the uniting of plural inventions is admitted in only the following restrictively enumerated range:

(One application for one invention)

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, is 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 process for manufacturing the thing, inventions of processes for using the thing, inventions of machines, instruments, equipments and others for manufacturing the thing, or inventions of things solely utilizing the property of the thing;

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

process.

3. Claim Systems in Foreign Countries

In the International Patent Application system, the European Patent Application system, the U.S. Patent Application system, etc., the claim system employed is, plainly speaking, a system of "describing matters to be protected" and there is no problem about the patentability of claims in one application to each other.

Also, the range of inventions which can be described in one application, that is, the unity of application is relatively broad in these claim systems.

For example, Article 82 of the European Patent Convention (EPC) states that "a group of inventions which relate to each other to form one invention or a single inventive concept" can be included in one application and this way of thinking is same as that in the Patent Cooperation Treaty (PCT). That is, Europe and the United States have introduced almost the same way of thinking in regard to the provisions of patent laws and rules.

It can be said that in this point, these claim systems largely differ from the claim system of the Japanese Patent Law, in which the cases capable of including plural inventions in one application are restrictively numerated in the patent law.

At any rate, in the European and U.S. patent laws, only the case which is considered to be clearly lacking in unity at a glance is indicated and other substantial judgement than the indicated matters is left to an examiner's discretion.

4. Problems on the Claim System in Japanese Patent Law

On the Japanese patent lay system having the claim system different from the foreign claim systems as described above, the following problems are indicated.

(1) Unity of Application

The restriction about the width of inventions which can be included in one application is lacking in flexibility as compared to the claim systems in the foreign patent laws.

For example, the following cases are regarded to be

lacking in unity of application:

1. A thing and a process for manufacturing an improved material of the thing.

2. A communication system composed of a transmitter and a receiver, the transmitter, and the receiver.

(2) Plural Independent Claims

It is not admitted to described plural independent claims about substantially same inventions in one application and even if these inventions are separately field as patent applications, only one of them is patented.

Claim 1

A composition for improving light-resistance of polyethylene, comprising compound A and compound B in the specified ratio.

Claim 2

A method for improving light-resistance of polyethylene, which comprises incorporating compound A and compound B in the specified ratio into polyethylene.

Claim 3

A polyethylene composition showing improved light-resistance, comprising polyethylene incorporated with compound A and compound B in the specified ratio.

Under the existing claim system of the Japanese Patent Law, only one of the above three claims is admitted.

5. Utilization Modes of Multiple Claim Systems

The 15 cases shown in Table 1 are the cases where the inventions were not allowed to be claimed in one application in the existing Japanese patent law system.

However, many cases in the 15 cases are allowed to be field in one patent application as inventions having unity of application in the U.S. patent applications and European patent applications.

It is considered that according to the new multiple claim system in our proposed revisions of the Japanese Patent Law, some of these cases will be allowed to be filed together in one application as the U.S. patent applications and European patent applications.

Table 1

o: Applicable in one application as it is or if the form is changed.
Δ: Applicable if fundamentally changed.
●: Unapplicable in one application.

No.	Outline of Case	Comments From Related Persons		
		U.S.A	EPO	West Germany
1	Biotechnology	o However, if the final product is novel, said product is unapplicable.	o	o Applicable if the theme is novel but the final product in unapplicable since it is known.
2	Intermediate and final product	● Since the intermediate is considered to have other use.	o	● Unity is not admitted on the case due to great difference between both materials.
3	Process and each step (methacrylonitrile)	● Since each step has each use.	o	o
4	Compositions each having same effects and different components	o	o Common components form SGIC	o If the effects are novel
5	Catalyst, carrier, and process of producing the carrier	● Since the carrier can be produced by other process than the claim	o Carrier is common and forms SGIC	● Production process of carrier is unapplicable
6	Plural uses of material	Δ Plural uses are applicable but claim 2 has problem	o Component is common and forms SGIC	● Plural uses are unapplicable
7	Surface treatment method, treating agent, and method of producing the agent	o	o Treating agent is common and forms SGIC	o However, interchange claim 1 with claim 3

Table 1 - 1

Table 1-cont.

8	Thing and same thing from other view point	o	o	Δ Make generic claim
9	Communication system, transmitter, and receiver (combination, sub-combination)	o	o However, the sub-combination is required to have inventive progress	o
10	Circuit and semi-conductor structure	o However, the description of claims is insufficient	o do	o
11	Bar-code reading method, apparatus, and card	• Since a card can be also transported and read by other methods	o However, the specificity must be clearly described	• Card alone is lacking in unity
12	Mechanical pencil (combination of constitutional elements= invention)	o	Δ If limited to specific one for mechanical pencil	Δ do
13	Mechanical pencil (combination of constitutional elements ≠ invention)	• No genus claim or no combination claim	• No inventive link with each other	• The theme is complicated
14	Thing, improved thing, method of producing improved thing (titanium-made spectacle frames)	• The things can be made by other method	o Titanium is common and forms SGIC	o do
15	Deterioration prevented polyethylene	o	o	o

SGIC: Single General Inventive Concept

Japan Patent Association
[Patent Claim System Investigation Group Report]
page 75 (1986, May)

Table 1 - 2

III. Our Proposal for Amending Multiple Claim System

1. Fundamental Proposal for Revisions

(1) Amendment of the Description of Claims (Revision of the patent Law, Article 36)

It is desirable that the revised Article 36 admits to claim all the inventions in one application, as long as "the inventions to be protected" are supported by the whole descriptions of the specification. If the above revision is employed, it is considered that claims in a Japanese application will be able to be described as those in the cases of U.S. and European patent applications and dependent claims will be examined as the independent claims.

Practically, plural independent claims about substantially same inventions to be protected will be admitted.

(2) Expansion of the Range of Unity of Application (Revision of the Patent Law, Article 38)

It is desirable that the revised Article 38 admits to file one patent application on inventions having an intimate relation with each other (e.g., inventions having a high technical relationship with each other in view of the objects, constitution, effects, etc., of the inventions). If the above revision is employed, it is considered that the range of the unity of application becomes fundamentally same as that of EPC.

Practically, it will become possible to file each of the cases 4, 7, 8, 9, 10, and 15 shown in Table 1 as one patent application in addition to those on which the unity of application is admitted by the existing multiple claim system.

2. Additional Proposal for Revision

(1) Introduction of the System of Partial Abandonment of Patent Right (Revision of the Patent Law, Article 185 or new establishment)

It is desirable that the revised Article 185 or new Article admit to abandon a patent right having plural claims

on each claim and the abandonment will become effective after the registration thereof.

(2) Clarification of the Subject for Demanding Invalidation Trial (Revision of the Patent Law, Article 123)

It is desirable that the revised Article 123 demands an invalidation trial to a patent having plural claims on each claim.

IV. Influence of the Revision of the Multiple Claim System

If the Japanese Patent Law is revised as we propose above, new multiple claim system and the range for the unity of application will become similar to those of EPC.

As the result, the international harmonization will be realized about the protection of invention, the application procedure, etc., and our proposed revisions of the Japanese Patent Law will have a large significance for not only Japanese but also foreigners. It is considered that the amendment of the multiple claim system, which we propose,will cause the following influences.

1. Sufficient Protection of Invention

Since one invention can be protected by plural claims in a versatile expression and also plural inventions having an intimate relation with each other can be filed together in one application, an invention or inventions will be integrally and inclusively protected.

Also, since all claims of an application are examined, the scope of the invention(s) having patentability will become clear and the invention(s) will be protected by more proper scope.

2. Reduction of the Number of Applications, Curtailment of Expenditure

It has been considered that the narrow range of the unity of application in the existing Japanese Patent Law is one of the factors of increasing the number of applicatioins in Japan as compared to those in foreign countrics. Accordingly, it is expected that the number of applications

is considerably reduced by our proposed revisions of the Japanese Patent Law.

This will cause a curtailment of expenditure on applications for applicants (enterprises). But in order to effectively reduce the number of applications, it will be necessary to precisely grasp plural related inventions being created in an enterprise. This will become one of the themes which must be solved hereafter by Japanese enterprises.

It is difficult to estimate the number of applications which will be reduced. According to the result of the questionnair (enquete) made by Japan Patent Association to Japanese enterprises, 9.1% of the total application number is estimated to be reduced.

Also, in Japan, the Internal Priority System has been introduced from November 1, 1985 and if the system is effectively utilized, there is a possibility of further reducing the number of applications.

3. Reduction of Effort for Making Application Documents

If the Japanese Patent Law is revised as we propose above, the difference in the description of claims between the specification of a Japanese application and the specification of the same application for foreign countries will become less, whereby the effort for making application documents in the case of making an application from Japan to foreign countries or from a foreign country to Japan will be reduced.

4. Influence on Intermediate Procedure

Caused by the increase of applications each including plural inventions, the increase of official actions by the reason of lacking in the unity of application or the increase of official actions each to only a part of plural inventions included in one application are expected.

Also, with the increases of the official actions described above, it is considered that the number of divisional applications will be increased.

Furthermore, with the expansion of the range of patent search as described below, the increase of effort and

expenses in the case of lodging opposition is also considered.

5. Influence on Patent Search

Since one invention is versatilely expressed in one application and also plural inventions are unified together in one application, it is considered that the number of International Patent Classification (IPC) given to an applicatioin will be increased. Accordingly, in the case of performing the patent search, there will be possibilities that the search range is enlarged as compared to conventional case and also the effort and that expenses for the patent search are increased.

On the other hand, however, since one application includes plural related inventions, the value of the application as a technical information will be increased.

6. Res judicata

If the Japanese Patent Law for amending the multiple claim system is revised as we propose above, it will be admitted to describe plural claims in one application and hence there will be a problem whether or not res judicata, i.e., the power of the judical decision already confirmed in a patent suit wherein a plaintiff insisted on only a part of plural claims included in a patent right is also effective for other claim(s).

It is considered that in the United States, res judicata is not effective for the whole patent right including plural claims but for only each claim and also res judicata is substantially effective for claim(s) substantially same as the claim(s) to which the judical decision was made by the legal theory of estoppel, and in West Germany, res judicata is effective for the whole patent right.

In Japan, this problem shall be finally judged by court but from the view points that the right to be exercised is the whole patent right from the actual situation of patent infringement and a dispute is solved by one suit, the possibility of interpreting that res judicata is effective for the whole patent right may be high.

Accordingly, it is considered to be necessary to insist on all the insistable claims in a patent right infringement suit.

V. Conclusion

The revisions of the Japanese Patent Law mainly aiming at the amendment of the multiple claim system is being studied in the great stream of the international harmonization of industrial property systems.

It is anticipated that the final text is decided in the near future and the new systems have great influences on the practical business. Under circumstances, it is considered to be very significant that we report the direction of the changing state of the Japanese Patent System including our proposal.

We shall be happy if our report is any help to you.

Appendix 1

It is expected that case Nos. 4, 7, 8, 9, 10, and 15 in the cases shown in Table 1 described above, of which the unity of application was admitted in U.S.A., EPO and West Germany, are admitted to have the unity of application in Japan, the claims of these cases are shown below.

No. 4. Compositions each composed of different components and having same effects

Examples shown below relate to 11 patent applications filed by a same applicant at a same day. The compositions of these patent applications each differ in components. However, some components are common and the compositions each has same effects and same objects.

Under the existing Patent Law, it is not allowed to claim these compositions in one application and hence it can be said that separate applications at a same day are the best policy.

"Oil-containing synthetic resin composition"

Ingredients:

1. Synthetic resin
2. Lubricating agent
3. Higher fatty acid, its salt or its alkyl ester
4. Nonionic surface active agent
5. Polynorbornene elastomer
6. Mica
7. Fibrous filler
8. Metal powder
9. Solid lubricating agent

JapanAppln.No.ing.	1	2	3	4	5	6	7	8	9
179653/84	X	X	X	X			X		
654	X	X	X	X				X	
655	X	X	X	X					X
656	X	X	X	X			X		X
657	X	X	X	X			X	X	
658	X	X	X	X				X	X
659	X	X	X	X			X	X	X
660	X	X			X	X	X		
661	X	X			X	X		X	
662	X	X			X	X			X
663	X	X			X	X		X	X

No. 7. Method for forming a carbide layer on a ferrous alloy surface, treating composition and method of preparing the composition

Claims 1 and 2 are allowed, but Claims 1, 2 and 3, and Claims 1 and 3 are not allowed in one application in Japan. However, Claims 1, 2 and 3 were allowed in one application in U.S. Patent No. 4,230,751.

Claim 1.

A method for forming a mixed carbide layer of one or more Va-group elements and Cr on a ferrous alloy which comprises: step I and step II.

Claim 2.

A treating material having as sole initial essential constituent ingredients: X and Y.

Claim 3.

A method of preparing a treating material according to Claim 2 which comprises: step III and step IV.

No. 8. Apparatus and same on the different aspect

In the following example, an element of an apparatus has some specific inventive characteristics on the different technical aspect.

The following claims are not allowed to be set forth not only in one application but also in separated three applications in Japan, because those claims are lack of unity or those applications include the same embodiment of invention.

Claim 1.

An apparatus comprising;
a first means X, a second means Y, and a third means Z for making the electrical connection of X and Y.

Claim 2.

An apparatus comprising;
a first means X, a second means Y, and a third means Z for making the mechanical connection of X and Y.

Claim 3.

An apparatus comprising;
a first means X, a second means Y, and a third means Z for making the thermal connection of X and Y.
(The third means is a same thing in each embodiment on each claimed invention and has good electrical conductivity, high mechanical stiffness and good thermal conductivity.)

No. 9. Communication System and components thereof

The following is well known as an example of "combination and subcombination".

It is not allowed to set forth any of two or three of the following claims in one application in Japan.

Claim 1.

A communication system comprising a specific transmitter X and a specific receiver Y.

Claim 2.

A specific transmitter X

Claim 3.

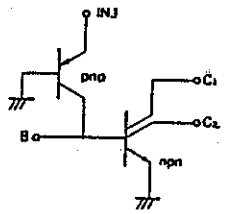
A specific receiver Y

No. 10. Semiconductor circuit, definite structure of semiconductor and the application circuit thereof.

As shown in the following example, in Japan, Claim 1 and Claim 3 are sometimes allowed to be set forth in one application. But either set of Claims 1 and 2, Claims 2 and 3 or Claims 1, 2 and 3 is not allowed in one application.

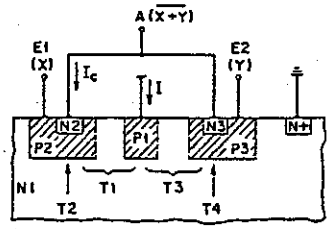
Claim 1.

A monolithic semiconductor circuit comprising a transistor PNP, a transistor NPN, current supply means INJ, input terminal B and output terminal C1 and/or C2.



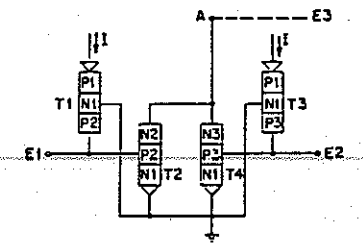
Claim 2.

A monolithic semiconductor device comprising a region to form a lateral PNP transistor T1 and a region to form a vertical transistor T2.



Claim 3.

A monolithic semiconductor circuit comprising PNP transistors T1 and T3, NPN transistors T2 and T4, current supply means I, input terminals E1 and E2 and output terminal A.



No. 15. Deterioration prevented polyethylene

Claim 1.

A composition for improving light-resistance of polyethylene, comprising compound A and compound B in the specified ratio.

Claim 2.

A method for improving light-resistance of polyethylene, which comprises incorporating compound A and compound B in the specified ratio into polyethylene.

Claim 3.

A polyethylene composition showing improved light-resistance, comprising polyethylene incorporated with compound A and compound B in the specified ratio.

Appendix 2

	Japan	U.S.A.	P C T	E P O	U.K.	West Germany
Unity of application	No clear provisions but article 38	No clear provisions but Articles 101, 121 (2 or more independent and distinct plural inventions are lacking in unity)	Rule 13.1	Article 82*	Article 14 5·d Examination manual 4.74 [Plural claims relating to matters having weak mutual relation are lacking in unity]	No clear provisions but article 26
Uniting	Proviso to Article 38 Enforcement Rule Article 24-2	Rule 14 a " b " c	Rule 13.2 " 13.3	Rule 29.2 " 30	Rule 22	Application Regulation Article 3 a5 Article 3 a4 Guide line II - 4a

* The European patent application shall relate to one invention only or to a group of inventions so linked as to form a single general inventive concept.

PATENT Vol.39,No.5,31 ∿ (1986) Sato
Vol.39,No.6,33 ∿ (") "
Vol.39,No.7,4 ∿ (") "

UNITY OF INVENTION UNDER THE PCT

(CONDENSED TEXT)

J. W. Keen
W. S. Thompson CATERPILLAR INC.

PCT HISTORY

THE PATENT COOPERATION TREATY (PCT) COMPRISED OF 69 ARTICLES AND 96 RULES, SUBJECT TO CERTAIN RESERVATIONS, ENTERED INTO FORCE ON JANUARY 24, 1978 FOR THE ORIGINAL SUBSCRIBING COUNTRIES INCLUDING THE UNITED STATES. AS RECITED IN ITS PREAMBLE, A PRINCIPAL AIM OF PCT IS:

> DESIRING TO SIMPLIFY AND RENDER MORE ECONOMICAL THE OBTAINING OF PROTECTION FOR INVENTIONS WHERE PROTECTION IS SOUGHT IN SEVERAL COUNTRIES.

ARTICLE 3 EMPHASIZES FOUR PRINCIPAL REQUIREMENTS OF THE INTERNATIONAL APPLICATION WHICH SHALL:

(i) BE IN A PRESCRIBED LANGUAGE;

(ii) COMPLY WITH THE PRESCRIBED PHYSICAL REQUIREMENTS;

(iii) COMPLY WITH THE PRESCRIBED REQUIREMENT OF UNITY OF INVENTION;

(iv) BE SUBJECT TO THE PAYMENT OF THE PRESCRIBED FEES.

EACH OF THESE BASIC REQUIREMENTS ARE FURTHER SET OUT OR DEFINED IN THE RULES WITH THE SPECIFIC RULE APPLICABLE TO UNITY OF INVENTION BEING RULE 13.

TO PRESERVE THE ADVANTAGES OF PCT, ARTICLE 27 PROVIDES:

> NO NATIONAL LAW SHALL REQUIRE COMPLIANCE WITH REQUIREMENTS RELATING TO THE FORM OR CONTENTS OF THE INTERNATIONAL APPLICATION DIFFERENT FROM OR ADDITIONAL TO THOSE WHICH ARE PROVIDED FOR IN THIS TREATY AND THE REGULATIONS.
>
> WHERE THE NATIONAL LAW PROVIDES, MORE FAVORABLE REQUIREMENTS THAN THOSE PROVIDED BY THE TREATY MAY BE APPLIED BY A NATIONAL OFFICE.

IN ESSENCE, THE TREATY IS PREDOMINATE OVER NATIONAL LAW WITH RESPECT TO MATTERS OF FORM OR CONTENT AND IN PARTICULAR THE QUESTION OF UNITY OF INVENTION WHICH IS MENTIONED AS ONE OF FOUR BASIC REQUIREMENTS. ONE EXCEPTION IS THAT THE CONTRACTING STATES MAY EXTEND MORE FAVORABLE

PROVISIONS WHEN THEY ARE IN FACT VIEWED AS MORE FAVORABLE BY THE APPLICANT.

UNITY OF INVENTION REQUIREMENT

THE "UNITY OF INVENTION" REQUIREMENT HAS GENERATED CONTROVERSY IN PRACTICE BEFORE THE U.S. INTERNATIONAL SEARCHING AUTHORITY (ISA). UNITY OF INVENTION UNDER PCT IS GENERALLY DESCRIBED IN RULE 13 AS FOLLOWS:

> THE INTERNATIONAL APPLICATION SHALL RELATE TO ONE INVENTION ONLY OR TO A GROUP OF INVENTIONS SO LINKED AS TO FORM A SINGLE INVENTIVE CONCEPT ("REQUIREMENT OF UNITY OF INVENTION").

RULE 13.2 GOES BEYOND THE GENERAL DEFINITION TO EXPRESSLY PERMIT GROUPING, IN CERTAIN COMBINATIONS, DISTINCT CATEGORIES OF INVENTION EITHER SPECIALLY ADAPTED OR SPECIFICALLY DESIGNED IN RESPECT TO ONE ANOTHER. SUCH CATEGORIES ARE AS FOLLOWS:

A PRODUCT

A PROCESS FOR MANUFACTURING A PRODUCT

A USE OF A PRODUCT

APPARATUS FOR CARRYING OUT A PROCESS.

HISTORY OF UNITY IN THE UNITED STATES

AT THE TIME PCT CAME INTO EFFECT, THE CONCEPT OR MEANING OF "UNITY OF INVENTION" WAS NOT WELL DEVELOPED IN U.S. LAW OR PRACTICE. HOWEVER, THE SAME OBJECTIVE OF PERMISSIBLY GROUPING INVENTIONS IN A GIVEN CASE WAS HANDLED THROUGH OUR RESTRICTION PRACTICE. THE FIRST INSTINCT OF THE USPTO WAS TO BROADLY ADOPT THE PCT UNITY STANDARD ACROSS THE BOARD APPLICABLE TO BOTH PCT AND NON-PCT FILINGS. A PROPOSED AMENDED RULE 141 ENTITLED "DIFFERENT INVENTIONS IN ONE APPLICATION" WAS PUBLISHED ON FEBRUARY 8, 1977 FOR PUBLIC COMMENT. IT WAS VERY CLOSE TO THE PCT RULE IN THAT IT PERMITTED GROUPING OF INVENTIONS LINKED TO FORM "A SINGLE GENERAL INVENTIVE CONCEPT". FURTHER, IT SPECIFICALLY PERMITTED GROUPING OF DIFFERENT CATEGORIES OF INVENTIONS EITHER SPECIALLY ADAPTED OR SPECIFICALLY DESIGNED WITH RESPECT TO EACH OTHER SUCH AS:

(i) PRODUCT AND PROCESS FOR THE MANUFACTURE OF THE PRODUCT.

(ii) PROCESS AND APPARATUS FOR CARRYING OUT THE PROCESS.

OTHER TYPICALLY U.S. CONCEPTS SUCH AS MULTIPLE INDEPENDENT CLAIMS AND SPECIES/GENUS WERE INCLUDED BUT BASICALLY THE PROPOSED RULE CARRIED

FORWARD THE SPIRIT OF PCT UNITY OF INVENTION AND WOULD HAVE HARMONIZED OUR NATIONAL LAW WITH THAT OF PCT.

THE USPTO COMMENTS ACCOMPANYING PROPOSED RULE 141 WERE AS FOLLOWS:

> SECTION 1.141 HAS BEEN AMENDED TO PROVIDE FOR INCLUDING IN A SINGLE APPLICATION, INVENTIONS SO LINKED AS TO FORM A SINGLE GENERAL INVENTIVE CONCEPT AS IN PCT RULE 13.1-13.3.
>
> THE RULES FOR DETERMINING WHICH INVENTIONS CAN BE GROUPED TOGETHER IN A SINGLE APPLICATION ARE MORE LIBERAL IN CERTAIN RESPECTS UNDER THE PATENT COOPERATION TREATY THAN THEY ARE CURRENTLY IN 37 CFR 1.141-1.146. THE PROPOSED AMENDMENT TO SECTION 1.141 EXTENDS THE MORE LIBERAL PRACTICE, WHICH A DESIGNATED OFFICE IS REQUIRED TO APPLY TO NATIONAL APPLICATIONS THAT HAVE BEEN INITIALLY FILED AS INTERNATIONAL APPLICATIONS, TO ALL NATIONAL APPLICATIONS. PARAGRAPHS 1.141(c)(ii) AND (d) TAKEN TOGETHER STATE THAT AN APPLICATION MAY INCLUDE, IN ADDITION TO AN ALLOWABLE INDEPENDENT CLAIM FOR A GIVEN PROCESS, ONE INDEPENDENT CLAIM FOR THE APPARATUS OR MEANS FOR CARRYING OUT THE PROCESS."

IT IS THE PRACTICE IN OUR COUNTRY THAT WHEN A NEW RULE IS PROPOSED, A PERIOD OF TIME IS ALLOWED FOR PUBLIC COMMENT. THESE COMMENTS ARE THEN CONSIDERED, APPROPRIATE CHANGES MADE AND THEN THE FINAL RULES ARE PUBLISHED TO TAKE EFFECT SHORTLY THEREAFTER. NOT MUCH PUBLIC COMMENT WAS RECEIVED. ONLY SEVEN INDIVIDUALS, FIVE OF WHOM FAVORED GOING EVEN FURTHER IN THE DIRECTION OF HARMONIZING WITH PCT AND TWO WHO FELT WE SHOULD APPLY DIFFERENT STANDARDS TO PCT AND NON-PCT CASES. NO ONE WHO COMMENTED ON THE RECORD FELT WE SHOULD ADD RESTRICTIONS TO THE LITERAL WORDING OF THE PCT RULES APPLICABLE TO INTERNATIONAL FILING, OR REMAKE THE PCT RULES OVER TO CONFORM TO OUR OWN NARROWER PRACTICE WHICH PRECEDED PCT.

ON PUBLICATION OF THE FINAL RULES, HOWEVER, THAT'S EXACTLY WHAT HAPPENED. PCT UNITY WAS CONSTRUED AS HAVING ALL THE LIMITATIONS OF OUR PRIOR RESTRICTION PRACTICE JUST AS IF THERE HAD BEEN NO INTERVENING TREATY. TAKING THE CASE WHERE THE PCT EXPRESSLY PERMITTED GROUPING THE CATEGORIES OF A PROCESS AND AN APPARATUS SPECIFICALLY DESIGNED FOR CARRYING OUT THE PROCESS AS AN EXAMPLE, THE FINAL RULES ADDED THE

ADDITIONAL QUALIFICATION THAT THE APPARATUS COULD ONLY BE INCLUDED IF IT COULD NOT BE USED TO PRACTICE ANOTHER MATERIALLY DIFFERENT PROCESS. THERE SEEMS LITTLE DOUBT THE U.S. SHIFTED FROM CONFORMING ITS LAW TO PCT TO PERPETRATING EXISTING PRACTICE BY INTERPRETING PCT THE SAME AS PREEXISTING NATIONAL PRACTICE. THE USPTO'S COMMENTS RELATIVE TO THESE CHANGES ARE AS FOLLOWS:

> "... SECTIONS 1.141 ... HAVE BEEN SUBSTANTIALLY REWRITTEN, AMPLIFIED, AND REORGANIZED TO CLARIFY THE MEANING OF CERTAIN TERMS; NAMELY, "SPECIALLY ADAPTED" AND "SPECIALLY DESIGNED" TO CONFORM MORE CLOSELY TO CURRENT OFFICE PRACTICES AS SET FORTH IN MPEP SECTIONS 806.05(e)-(g). BOTH PROPOSED RULES 1.141 AND 1.146 HAVE BEEN MODIFIED TO CLARIFY THAT THE RULES MAKE LITTLE CHANGE IN CURRENT RESTRICTION PRACTICE."

INCIDENTALLY, THE REFERENCED SECTION TO THE MPEP IS EVEN FURTHER RESTRICTIVE IN THAT IT INTRODUCES A DOUBLE EXCLUSION AND A THEORETICAL EXCLUSION CONCEPT. UNDER THIS RULE OF OFFICE PRACTICE, NOT ONLY WOULD A PROCESS AND APPARATUS BE SEPARATED IF THE APPARATUS COULD BE THEORIZED TO

BE CAPABLE OF PERFORMING ANOTHER PROCESS BUT ALSO IF THE PROCESS COULD BE PRACTICED BY ANOTHER MATERIALLY DIFFERENT APPARATUS OR BY HAND. GIVEN ENOUGH TIME AND LABOR, MAN HAS BEEN CAPABLE OF BUILDING THE EGYPTIAN PYRAMIDS AND THE GREAT WALL OF CHINA AND WHEN SO VIEWED, THERE IS LITTLE THAT CAN BE THEORIZED HE CANNOT DO BY HAND. THESE RULES AND GUIDELINES LEAVE VERY LITTLE COMBINABLE UNDER UNITY.

ISSUE DETERMINATION

THE RESTRICTIVE U.S. RULES, OF COURSE, RAISED THE ISSUE OF WHETHER THE TREATY WAS BEING GIVEN EFFECT, WHICH IS A SERIOUS ISSUE IN OUR COUNTRY AS INTERNATIONAL TREATIES ARE SUPERIOR TO NATIONAL LAWS, REGULATIONS AND, OF COURSE, STATEMENTS REGARDING OFFICE PRACTICE. THIS ISSUE WAS PUT TO THE TEST IN CATERPILLAR TRACTOR CO. V. COMMISSIONER OF PATENTS AND TRADEMARKS. IN THAT CASE, THE INVENTION RELATED TO A NEW PROCESS FOR FABRICATING TRACTOR SPROCKET SEGMENTS IN SUCH A WAY AS TO ELIMINATE THE NEED FOR A FINAL EXPENSIVE MACHINING STEP TO FORM A VERY PRECISE TOOTH ROOT CONTOUR. THE PROCESS REQUIRED THE INNOVATION OF A NEW DIE CONSTRUCTION OR APPARATUS TO PERFORM THE PROCESS. BOTH THE PROCESS AND

APPARATUS FOR PERFORMING THE PROCESS WERE THE PRODUCTS OF A SINGLE INTERRELATED THOUGHT PROCESS. THAT THOUGHT PROCESS HAD THE FOCUS OF PRODUCING A PRECISION FORMED SPROCKET SEGMENT WHICH ELIMINATED FINAL MACHINING OR GRINDING STEPS AND THEREFORE WAS MORE COST EFFECTIVE THAN PRIOR PROCESSES. THE PROCESS AND APPARATUS WERE SIMULTANEOUSLY CREATED AND IN THE LITERAL SENSE THE APPARATUS WAS "SPECIALLY DESIGNED" TO PERFORM THE PROCESS AND WAS INTERLINKED BY A GENERAL INVENTIVE CONCEPT AS SET FORHT BY PCT RULE 13. THE CASE WAS FILED AS AN INTERNATIONAL PCT CASE. THE USPTO, OPERATING IN ITS CAPACITY AS AN INTERNATIONAL SEARCH AUTHORITY, REQUESTED A SUPPLEMENTARY FEE ON THE GROUNDS THE PROCESS AND APPARATUS WERE DISTINCT INVENTIONS. THE FEE WAS PAID UNDER PROTEST AND PETITION FILED FOR REFUND ON THE GROUNDS THAT BOTH CATEGORIES WERE INCLUDABLE AS A SINGLE INVENTION UNDER THE PCT UNITY REQUIREMENT. THE PETITION WAS DENIED AND A SUIT FILED AGAINST THE COMMISSIONER FOR THE PURPOSE OF DETERMINING THE PREEMINENCE OF THE TREATY OR THE CORRECTNESS OF THE PTO'S INTERPRETATION THEREOF. IN A DECISION DATED MAY 28, 1986, THE DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA HELD THE PTO'S RESTRICTIVE INTERPRETATION CONTRARY TO LAW OR IN ESSENCE UPHOLDING THE

VIEW THAT THE APPARATUS AND PROCESS WERE PROPERLY INCLUDABLE IN A GIVEN CASE AND WERE TO BE CONSIDERED A SINGLE INVENTION INSOFAR AS THE SUPPLEMENTARY FEE STRUCTURE WAS CONCERNED. THIS DECISION WAS NOT APPEALED AND HAS BECOME FINAL. THE COMMISSIONER RECENTLY PUBLISHED NOTICE IN THE OFFICIAL GAZETTE, THE EFFECT OF WHICH WAS TO SAY THAT THE HOLDING OF THE CATERPILLAR CASE WOULD BE FOLLOWED FOR PCT CASES BUT THE MORE RESTRICTIVE NATIONAL RULES WOULD STILL BE APPLIED TO OTHER CASES. THE NET RESULT IS THAT IF A JAPANESE APPLICANT WERE TO USE THE PCT ROUTE AND FILE A DESIGNATED CASE IN THE U.S., THE BROAD PCT UNITY STANDARD WILL BE APPLIED. HOWEVER, IF YOU WERE TO FILE A NON-PCT CASE AS, FOR EXAMPLE, A 12-MONTH FILING UNDER THE PARIS CONVENTION, THE NARROW NATIONAL RESTRICTION RULES AND PRACTICE WILL BE APPLIED TO YOUR CASE.

WHILE IT IS UNFORTUNATE THAT WE WILL HAVE TWO DISTINCTLY DIFFERENT STANDARDS OF UNITY IN OUR COUNTRY, IT SHOULD BE UNDERSTOOD THAT THERE ARE VERY PRACTICAL REASONS RELATING TO FEE STRUCTURE WHY THE USPTO FELT IT SHOULD GIVE ONLY MINIMAL COMPLIANCE AT THIS TIME. THE UNITY ISSUE IS ALSO PART OF THE PROPOSED HARMONIZATION TREATY UNDER CONSIDERATION BY

WIPO. THE CONCEPT THERE IS SIMILAR IF NOT SOMEWHAT BROADER THAN THAT OF PCT, BUT MORE IMPORTANT WOULD APPLY A UNIFORM STANDARD FOR ALL CASES IN AN ADHERING COUNTRY. BUT AS WE CAN SEE, SOMETIMES A TREATY IS NOT ENOUGH SINCE THERE IS A TENDENCY TO INTERPRET THEM IN A MANNER TO PERPETRATE LOCAL PRACTICES. WE MUST DO MORE IN BOTH OUR COUNTRIES TO ACHIEVE HARMONIZATION THAN ENACT TREATIES. WE MUST GENERATE A SPIRIT OF HARMONIZATION. LET THAT SPIRIT BEGIN HERE AS THE "SPIRIT OF KANAZAWA".

WSThompson
November 1986

ACCELERATED EXAMINATION/APPEAL EXAMINATION NEWLY INTRODUCED AND PREFERENTIAL EXAMINATION

Presented at PIPA 17th Congress
Japanese Group, Committee No. 1
Subcommittee No. 2

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MASAHIRO NIOMURA	RICOH COMPANY LTD.
YORIKO AKANE	ASAHI CHEMICAL INDUSTRY CO., LTD.
HIROSHI KATAOKA	NIPPON SHINYAKU CO., LTD.
Speaker: MICHIHIRO KAMEISHI	KANEGAFUCHI CHEMICAL INDUSTRY CO., LTD.

Abstract

By introducing the accelerated examination and accelerated appeal examination system which came into force on February 1, 1986 in comparison with the conventional preferential examination system, the important points regarding the eligible applications, requesting procedures, handling of documents to be submitted, etc. involved in these three systems are summarized herein for better understanding.

Furthermore, the present situation of utilization of these systems was investigated and merits and demerits of the respective systems were studied. There is a great difference between the accelerated examination/appeal examination and the preferential examination in that while the former aims to conduct accelerated procedures on working-related applications having particular necessity for the accelerated procedures as a part of the procedure time-cutting scheme in the Patent Office, the latter does not have such an accelerated procedure purpose but is a system in which examination is conducted in preference to ordinary examination in order to solve problems between the concerned parties in an infringement case.

1. Purport of the Respective Systems

1-1) Accelerated Examination/Appeal Examination

The Patent Office, in order to shorten the period of examination and appeal examination procedures of a great number of pending applications, is intensively working on the

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promotion of comprehensive measures from a long-term perspective which is based on four big items:

(1) construction of a so-called "paperless system",
(2) policy to optimize applications and requests for examination,
(3) reformation of the system, and
(4) improvement in examination and appeal processing capacity.

The accelerated examination and accelerated appeal examination aim to answer to the need by applicants as temporary measures against the expected delay in examination and appeal procedures during that time and carry out accelerated procedures on working-related applications, thereby minimizing the harmful influences accompanying the delay in examination and appeal procedures.

However, on the introduction of the accelerated examination and accelerated appeal examination, influences on ordinary applications are taken into consideration, and only the predetermined part of the capacity to process examination and appeal examination is appropriated to the accelerated examination and accelerated appeal examination. Therefore, for the time being, the eligible applications are tentatively limited to working-related ones and it is also planned to operate this under certain conditions. Further, the eligible applications for the accelerated appeal examination are also tentatively limited to those requiring particular urgency among working-related applications, taking into consideration the importance of the appeal case.

From such points of view, in order to attain the purpose of the above-described accelerated procedures, the Patent Office requires the concerned applicants or patent agents to submit information (e.g. prior art search report etc.) necessary to justify accelerated examination and accelerated appeal examination. Also at the same time, in order that the prupose of accelerated examination and accelerated appeal examination will be fully realized, the Patent Office requires that the case to be requested be strictly selected.

1-2) Preferential Examination

It is stipulated that examination is carried out in order as request for examination is received. However, where an application is laid-open to public and a third party is working the invention as a profession, if this principle is too strictly promoted, there is a possibility of adverse influences. Therefore, in such a case, Director-General of the Patent Office can let the examiner examine the concerned application first regardless of the order of examination of the other applications.

After the laying-open of an application, if a third party still continues to work the invention on which an application for a patent has been filed even though the patent applicant has already sent a warning, then he is entitled to demand, after publication of the application, compensation for its working. However, if the period from the laying-open of the application to the examination is long, it can sometimes happen that the applicant undergoes unexpected adverse influences due to the working by the third party and the compensation is not enough to cover the damage. On the other hand, there is such case that a third party working an invention receives a warning from an applicant but said invention is of no novelty from the beginning and it is apparent that a patent shall not be granted. In such a case if warnings are sent to retailers and other clients, the business actually falls into disorder and gets troubled.

Concerning such an application, when the situation is clarified, this is preferentially examined and given results promptly, thereby the disorder may be prevented.

2. Comparison of the Respective Systems

These three systems are compared regarding the following points: (1) whether the legal regulation is present or not, (2) eligible application, (3) difference in procedures, (4) handling of documents to be submitted, (5) whether laid-open or not, etc. in the following comparison table of the accelerated examination and accelerated appeal examination and preferential examination systems.

A foreign applicant is not eligible to directly proceed before the Patent Office. He is inevitably required to proceed before the Patent Office through his patent administrator as prescribed by the Patent Law, Article 8.

Any system is to conduct examination or appeal examination of the concerned application in an early stage, and severe conditions are imposed on the application to be subjected thereto. However, there are differences between these, i.e., while the accelerated examination and accelerated appeal examination are directed to applications which are worked by the applicants or licensees, the preferential examination is directed to applications which are worked by a third party without consent by the applicants; and while the accelerated examination and accelerated appeal examination intend to shorten the period necessary to proceed the examination and appeal procedures, the preferential examination has no such time-shortening intention but merely answers to the requirement by the applicant or a third party.

COMPARISON TABLE OF THE ACCELERATED EXAMINATION, ACCELERATED APPEAL EXAMINATION AND PREFERENTIAL EXAMINATION SYSTEMS

	ACCELERATED EXAMINATION	ACCELERATED APPEAL EXAMINATION	PREFERENTIAL EXAMINATION
Prescription in the Patent Law	Absent	Absent	Patent Law, Art. 48-6 Enforcement Regulation of the Patent Law, 31-3 (Formula 17-4)
Eligible Application	That applicant or licensee is working	That applicant or licensee is working, and (1) a third party is working without permission, or (2) opposition was filed during examination	That a third party other than applicant is working
	That not put into examination yet	That not put into appeal examination by a judge group yet	That not put into examination yet
	That already requested for examination	That already requested for trial against decision of rejection	That already requested for examination
Procedures	Submitting of Explanation of Circumstances	Submitting of Explanation of Circumstances	Submitting of Explanation of Circumstance
	Selected by Chief Examiner etc. Not informed in a written form (inquiry permitted)	Selected by Director and Chief Trial Examiner Not informed in a written form (inquiry permitted)	Selecting meeting (Director-General of the P.O.) Not informed in a written form (inquiry permitted)

	Selected one is promptly examined (after laying-open)	Selected one is promptly appeal examined by a group in charge	Examined in preference to other applications
	If necessary for explaining working situation, hearing or confirmation by field survey may be conducted	If necessary for explaining working situation, hearing or instruction to submit information may be conducted	No supplement, e.g. hearing, confirmation by field survey etc.
Access to Submitted Documents	Possible (put into file wrapper)	Possible (put into file wrapper)	Possible (put into file wrapper)
Indication in the Official Gazette of Publication (Kokoku-Koho)	Indicated as "Application through Accelerated Examination"	Indicated (in a similar manner to the accelerated examination)	Not indicated
Indication in the Contents of the Official Gazette of Publication	Indicated as (早)	Indicated (in a similar manner to the accelerated examination)	Not indicated
Preparation of Explanation of Circumstances			
Column of Laid-open Classification of Invention	All the part of invention information of IPC	All the part of invention information of IPC	Not necessary
Range of Prior Art Investigation	(1) At least Japanese Official Gazette of Laying-open (Kokai-Koho) (including Kohyo Koho)		

Classification Range:
At least the part of invention information of IPC described in Kokai-Koho
(However, foreign applicants need not investigate publications in Japanese)

(2) Investigation results of certain publications

Instead of prior art investigation by applicant per se, references cited by Patent Offices in examining countries as investigation results may be described
(can be replaced by international search report or EPO search report)

Where no related literature is present, literature showing the general technical level reflecting the technical background of the concerned application may be described

	Explanation of working situation (1) Specification of working-related acts (2) Time of working of the invention or utility model (3) Relationship with working acts	Explanation of working situation (1) Specification of working-related acts (2) Time of working of the invention or utility model (3) Relationship with working-related acts	(1) Specification of the person who works (2) Relationship with the applicant (3) Contents of working acts
	Prior art investigation & comparison explanation (1) Official Gazette of Laying-open (Kokai-Koho) (2) Certain publications (3) Comparison explanation (4) Others (In the case of a medium or small enterprise or individual applicant, indication to this effect)	Explanation of situation requiring urgency (1) Worked by a third party without permission (2) Details of opposition in examination (3) If there is some hindrance, "Prepared to explain at hearing" shall be described	Influences due to working etc. (1) In the case of the applicant, influences by working by a third party (2) In the case of a third party, influences by warning etc.
Explanation	*Comparison explanation shall be written in a similar manner to argument *If there is amendment, comparison explanation shall be given by also presenting the amendment	*Claim concerning completeness of description of the specification *Claim that the construction described in the Scope of Claim is described appropriately *Claim that reasons for rejection do not apply	Details and results of negotiation between the applicant and the person who works

Attached Items	(1) Prior art literature [Japanese, English, French & German; foreign languages other than English shall be translated into Japanese] (2) Amendment draft (3) Others [International search report, EPO search report]		(1) Official Gazette of laying-open (Kokai-Koho) or its copy (2) Copy of a letter of warning (3) Contents of working by those other than the applicant and reasons why it falls into working of the invention of the concerned application (4) Documents or items evidencing the description of "Working Situation" (5) If the submitter is other than the applicant, reasons why said application lacks patentable requirements, and evidences therefor
Explanation of Circumstances			
Submitter	Applicant	That who requested a trial (Applicant)	Applicant or a third party (Who is working)
	Where the applicant is a foreigner, then patent administrator (=patent agent in Japan)		
Submitted to	Director-General of the Patent Office	Director-General of the Patent Office	Director-General of the Patent Office
Indication on the Envelope	Necessary to indicate "Enclosing Explanation of Circumstances concerning Accelerated Examination"	Necessary to indicate "Enclosing Explanation of Circumstances concerning Accelerated Appeal Examination"	

Time to Submit	Any time on or after the day of request for examination	Any time on or after the day of request for trial	Any time on or after the day of request for examinaton and the day of laying-open
Fee	None	None	None
Documents to be Submitted	One per application	One per trial case	One per application
Supplement to the Submitted Documents	In the case of that submitted before laying-open, supplement may be submitted after laying-open. *In view of the Patent Law, Art. 29-2 or the Utility Model Law, Art. 3-2, prior art investigation and comparison explanation. *Where the prior art investigation range does not cover all the part of the invention information of IPC of the Official Gazette of laying-open	Supplement may be submitted by instruction	No chance
Merits	Disadvantages imposed on the applicant due to delay in examination may be overcome. There are more cases than in preferential examination, and also situation explanation is easier to write.	Disadvantages imposed on the applicant due to delay in appeal examination may be overcome. Accelerated solution of an infringement case. The company secret part in situation explanation requiring urgency shall not be open to public but only be dealt at hearing.	Accelerated solution of an infringement case, especially effective in an industry where the life cycle is short. Disadvantages imposed on the applicant due to delay in examination may be overcome.

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Demerits	Since it is indicated in the Official Gazette of Publication, working situation of the company shall be known to a third party. If one infringes a prior patent, one is obliged to admit it. There are items difficult to write, e.g. company secret etc. Burden on prior art investigation is great.	Since it is indicated in the Official Gazette of Publication, working situation of the company shall be known to a third party. If one infringes a prior patent, one is obliged to admit it.	Burden on preparation of explanation of circumstances is great. Since an infringement case is rare, the degree of utilization is low. The related documents are put into the file wrapper, and are open to public.

3. Investigation on Utilization Situation

3-1) Results

Questionnairing was conducted on the member companies of PIPA Japan Branch for utilization situation of these three systems, and the following results were obtained.

(1) Percentage of replies to the questionnaire: 84.7% 61 among 72 companies replied to the questionnaire.

(2) Utilization situation of the accelerated examination and accelerated appeal examination was: -- 9.8% (6/61 companies) have utilized, of which 5 for the accelerated examination and one for the accelerated appeal examination.

The number of requested cases was 12 for the accelerated examination (of which 6 cases were accepted, 4 are pending and 2 were rejected), and one for the accelerated appeal examination (accepted), and thus 13 cases in total.

Rate of the accepted cases to the requested cases: 78% [7 cases/(total 13 - 4 pending) cases]

The number of requested cases per company is 0.21 (total 13 cases/61 companies), and thus it can be calculated by simply averaging from 5 months starting Feb. 1, 1986, the start of this system, up to June 30 that on average, every 5 company filed one request for the accelerated examination, but of these six companies which have requested, one company requested 7 cases, one for 2 cases, and 4 for one case, and thus it is the present situation that companies which are actively utilizing this system are merely 1 - 2.

*Regarding a question "Will you utilize the accelerated examination/appeal examination for the future?":

The answers were overwhelmingly

"Will positively utilize" 1.6% (1 company)

"Will utilize when especially necessary" 95.1% (58 companies)

and

"Have no intention to utilize" 3.3% (2 companies)

and thus the degree of interest of this system is higher than the preferential examination described hereinbelow.

(3) The preferential examination was put into force on January 1, 1971 and since then 15 years have run, but the companies which have hitherto utilized this system are 8.2% (5/61 companies). The total requested cases are 12, of which 6 cases from one company, 3 cases from one and one from each of 3 companies, and the simple average per company is 0.2 case. This, the companies actually actively utilizing the system are merely 1 - 2.

Of these 12 cases, 11 were accepted and thus the rate of acceptance for the preferential examination is as high as 92%. On the other hand, when accepted, the time required from the request to the start of examination is within 4 months.

*Regarding a question "Will you utilize the preferential examination for the future?":

The answers were overwhelmingly

"Will utilize when especially necessary"
87% (53 companies)

and

"Have no intention to utilize" 13% (8 companies)

These results indicate that although the case "when especially necessary" is limited to such rare case as infringement case, they are prepared to utilize in such a case.

3-2) Information Obtained from the Patent Office

(1) Although the statistics on the preferential examination have not yet been summarized and thus it is not clear, the number of cases requested for the accelerated examination and appeal examination is higher than for the preferential examination, and as of the end of July, 1986, the number of requests for the accelerated examination amounted to 118 cases (of which requests by foreigners are 2 cases). The ratio of the patents to the utility models was 75 patents to 23 utility models at the time when the number of the cases reached 98.

43 cases out of 118 cases have just been received, 6 cases were rejected (because of inadequate formalities), and 69 cases have been forwarded to examination. Out of 69 cases, 57 cases

have been regarded eligible to the accelerated examination, but 12 cases have not been regarded eligible because of inadequate prior art investigation or unclear evidence of working. But these numerical values are not believed to directly reflect the rate of acceptance (because there are chances for hearing, confirmation by field survey, amendment, supplement etc.). For the accelerated appeal examination, there have been 9 requests as of the end of June, 1986, 6 cases of which have been decided eligible for the accelerated appeal examination.

(2) Supposing that there are 10,000 cases for the accelerated examination per year, ordinary examination is expected to be delayed by about one month, but it is believed that a delay in the ordinary examination is negligible at the moment.

(3) Since clerical work takes about one month from the request for accelerated examination, where once accepted, the period which elapses by the first action is about 3 months supposing that prior art investigation by the applicant has been satisfactorily conducted. The period from launching to publication is about one year with the proviso that notice of rejection was sent only once. In the case of a foreign applicant, since the time set for response to notice of rejection is long, it is presumed that it takes one year or longer until publication.

The most rapid case without notice of rejection took about 5 months. An application ("pneumatic radial tires having reduced roll resistance" by Bridgestone Tire Co., Ltd.) which was the first published case of those subjected to accelerated examination is the shortest case, and it was requested on February 1, 1986 and published on July 1.

(4) On enforcing the accelerated examination/appeal examination, prior consultation was conducted with domestic and foreign related organizations and their consent was obtained before its enforcement (e.g. JPA, AIPLA, PIPA, USPTO, EPO etc.).

MITI did not participate in the stage of preparing the present regulation, but after decision in the Patent Office, this was explained before MITI. MITI in turn took a part to

explain its purport as appropriate at international meetings relating to foreign trade.

(5) For the time being, it is planned to comprehensively review this system by carefully watching the situation of request for the accelerated examination/appeal examination and also listening to opinions by those concerned including foreign organizations.

4. Summary of Discussion and Results

4-1)

Although it is not long since the accelerated examination/appeal examination systems wereput in force, more frequent utilization than the preferential examination is expected from view of considering the questionnairing results. The main reasons are:--

*This is a significant system under the present situation that the examination and appeal examination tend to be delayed. Although there is a drawback that explanation of circumstances is a little complicated, it is still easier to describe than explanation of circumstances required in the preferential examination.

*Since this is for working-related applications, the number of eligible cases is greater than the case of the preferential examination which limits the cases to infringement cases, and thus the degree of necessity is higher.

However, on the other hand, there are many restricting conditions which inhibit active utilization, for example,

*Since the accelerated examination/appeal examination are indicated in the Official Gazette of publication, the working situation of one's company is known to a third party, and the potential for opposition is increased.

*Or, if the applicant infringes a prior patent, he is obliged to admit it.

*Description even covering the company secret etc. is required.

*The procedures are complicated.

And top on that, the applicant is required to conduct prior art investigation and comparison explanation. Thus, it is presumed that only where these restricting conditions are overcome, this system is utilized.

Therefore, it is believed that the usefulness is high where the application relates to a shape, construction etc., and the working contents of which are easily understood by a third party and also prior art investigation can be adequately conducted.

Also in the questionnairing, in order to promote the utilization of the accelerated examination/appeal examination, there are many opinions hoping that the limitation to working-related applications by applicants shall be widened to also cover applications by third parties and applications not related to working,

On the other hand, for foreign applicants, although there is such restricting condition as working-related in Japan, means for easier utilization of this system is taken with many advantages, for example, that the objectives of the prior art investigation may be replaced by patent literature written in English, French or German, that as regards the "certain publications", Japanese publications need not be counted in as the literature to be investigated, that instead of the prior art investigation by the applicant per se, references cited by the Patent Offices in examining countries as investigation results may be described, and so forth.

4-2)

The preferential examination is a useful system for promptly solving an infringement case by a third party, and also in the questionnairing, many companies are of an opinion that they intend to utilize it when necessary. However, since the case where the system is actually utilized is very rare, it is presumed that the case where a third party is working the invention without permission by the applicant is very rare, or even if an infringement case is brought about, it is often solved by mutual discussion between the concerned parties, and there is no need for taking the trouble to request the

preferential examination.

There are such opinons that the explanation of circumstances and procedures for the preferential examination are complicated and that the circumstances and facts between the concerned parties are known to third parties are main reasons for inhibiting the utilization, but fundamentally, the strictness of the restricting conditions which limit the objectives to infringement cases hinders the utilization of this system.

Further, since the accelerated examination/appeal examination system have been put in effect, and out of the objectives for the preferential examinations, applications which have been worked by the applicants are transferred to the accelerated examination/appeal examination, and thus it is presumed that the degree of utilization of the preferential examination is even further decreased.

This system, differing from the accelerated examination/appeal examination, does not aim to shorten the processing period in the Patent Office, but considers the convenience to the applicants and those who work, thus its purpose is completely different. Therefore, it should not be thought that there is deficiency in this system because the degree of utilization is low, but this system is to be regarded as a supplementary means for rescuing the applicants or those who work only when necessary.

Article 29bis and Priority Claim

Presented at PIPA 17th Congress
Japanese Group, Committee No. 1
Subcommittee No. 3

YOSHIHARU SAKAGUCHI	EBARA CORPORATION
KENICHI OSONOE	Oki Electric Industry Co., Ltd.
YOSHIYUKI TANAKA	TEIJIN LIMITED
ITIRAU TSURUMAKI	TOYO SODA MANUFACTURING CO., LTD.
SHUICHI FUKUDA	NEC Corporation
SHIGERU HIHARA	Mazda Motor Corporation
HIDEAKI NAGAYOSHI	Fujikura Ltd.
Speaker: KENJI DOI	FUJITSU LIMITED

Abstract

On December 19, 1985, the Tokyo High Court made a decision as to the effective date of "an another application filed earlier" as provided for Article 29bis of the Japanese Patent Law, in the case of appeal from the decision by the Board of Appeals. This report provides the full details of this case. The High Court affirmed the Patent Office's position that the effective date counts as the date of a prior foreign application in view of Article 4 of the Paris Convention for the Protection of Industrial Property. Although this is not the case directly contending whether the effective date is the date of the prior foreign application, from this decision, it appears that in Japan, the effective date will count as the date of the prior foreign application.

I. INTRODUCTION

The Japanese Patent Law (JPL) provices under Article 29bis that where an invention claimed in a patent application is identical with an invention disclosed in the specification or drawings originally attached to the request of another application filed earlier, a patent shall not be granted. Where a patent application claiming the priority under Paris Convention is "an another application filed earlier" as provided for Article 29bis of the JPL, it is controversial as to whether its effective date count as the priority date (the date of the prior foreign application) or the actual filing date (the date of the Japanese patent application).

The Japanese Patent Office has considered the date of the prior foreign application as the effective date since Article 29bis went into effect in 1960. See the Manual of Patent Examining Procedure (43. 07A).

In a recent case, the Tokyo High Court affirmed this Patent Office's position.

This report introduces such case in greater detail appeal from the decision by the Board of Appeals (Shows 57 gyo-ke No. 124, Decided on December 19, 1985).

II. INTENT OF ARTICLE 29bis OF THE JPL

A. General provisions of Article 29bis of the JPL

Article 29bis of the JPL provides that a rejection is made, if the invention is identical to an invention described in the specification or drawings as originally attached to an application filed prior to the date of filing and published or laid open to the public on or after that date.

The legislative intent of this provision is as follows: First, since the invention as described in the specification or drawings of the earlier application, even if not claimed, is open to the public, the later application does not newly disclose a technology if such invention is identical to an invention described in the earlier application. Therefore, such later application should not be granted for a patent. This is due to the patent system, in which Applicant is entitled to patent protection in exchange for disclosure of a new and useful invention. Secondly, since applications are examined in order of request for examination, the whole contents of the earlier application should be given a priority position as to novelty so as to enable an examination of the later application before the claim coverage of the earlier application, which is subject to change upon amendment, in determined. Thirdly, it is to restrain Applicant from filing another application for defensive purposes in relation to the claimed invention.

B. Effective date of a patent application filed under the convention priority, being considered as an "another application for patent filed earlier" as provided for Article 29bis of the JPL

There have been proposed a variety of theories as to whether the effective date of a patent application claiming the right to priority is its foreign filing date or actual filing date. In this respect, it is first necessary to consider the following effects as to the effect of claiming the priority right: one referred to as "Patent-Protecting Effects" which is the effect of protecting applicant's own application and the other referred to as "Patent-Defeating-Effects" which is the effect of defeating an application by another. Aside from the priority, concerning the Patent-Defeating-Effects, there are two different approaches, "whole contents approach" and "prior claim approach". In "prior claim approach", only the claims is prejudicial to novelty, as provided for Article 39 of the JPL. In "whole contents approach", the whole contents of the specification and drawings are prejudicial to novelty, as provided for Article 29bis of the JPL. Regarding "prior claim approach", it is clear that where priority is validly claimed, the effective date of the earlier application counts as the date of a previously filed foreign application, as provided for Article 4B of the Paris Convention for the Protection of Industrial Property. As for "whole contents approach", however, the effective date is controversial whether it counts as the date of a previously filed foreign application, or the date of a subsequently filed Japanese application.

The Japanese Patent Office has interpretated the date of a foreign application as the effective date since Article 29bis based upon the whole contents approach was adopted. According to "Article-by-Article Interpretation of the Industrial Property Law (Kogyoshoyuken Chikujo Kaisetsu)" edited by the Japanese Patent Office, this is due to the effect of claiming the priority right in which any subsequent filing before the expiration of the priority right periods shall not be invalidated by reason of any acts accomplished in the interval and such acts cannot

give rise to any third-party right, as provided for Article 4B of the Paris Convention for the Protection of the Industrial Property. And it says that this point is the same as Article 39 of the JPL providing the Prior claim approach. According to the MPEP (43. 07A), it is due to the legislative intent of Article 29bis of the JPL as stated earlier.

As opposed to the Patent Office's position, some argue that the effective date should count as the actual date of a subsequently filed application. According to their arguments, the effects of a right of priority as provided for Article 4B of the Paris Convention extends only to the claimed subject matter and therefore, the Patent Office unduly extends the effects of the right of priority.

As explained above, the affective date is controversial as to whether it be the date of a foreign application or the actual date of a subsequently filed application. On December 19, 1985, the Tokyo High Court made a decision based on the position that the effective date counts as the date of a foreign application in the following case.

III. APPEAL FROM THE DECISION OF THE BOARD OF APPEALS (Showa-57 kyo-ke No. 124. Decided on December 19, 1985) In the case of liquid crystal display apparatus

A. BACKGROUND OF THE CASE AT ISSUE

1. Appellant's application and the invention thereof

The appelant filed a patent application in Japan on March 8, 1972, claiming the Convention priority from the United States patent application filed April 21, 1971. The claimed invention is directed to "a liquid crystal display apparatus wherein a layer of nematic liquid crystal is inserted between transparent parallel plates and a transparent electrode is formed at a selected portion of the transparent parallel plates". The critical features of the invention are: (1) the electrode is formed only at a selected portion of the parallel plates; and (2) such electrode is transparent.

2. Prior art reference

Application used as a prior art was filed in the Japanese Patent Office on December 3, 1971 claiming the priority from the Swiss patent application filed December 4, 1970, which was before the priority date of the appellant's application, and was laid open to the public after the appelant's application was actually filed in Japan. Therefore, this prior art reference corresponds as "an another application filed earlier" under Article 29bis.

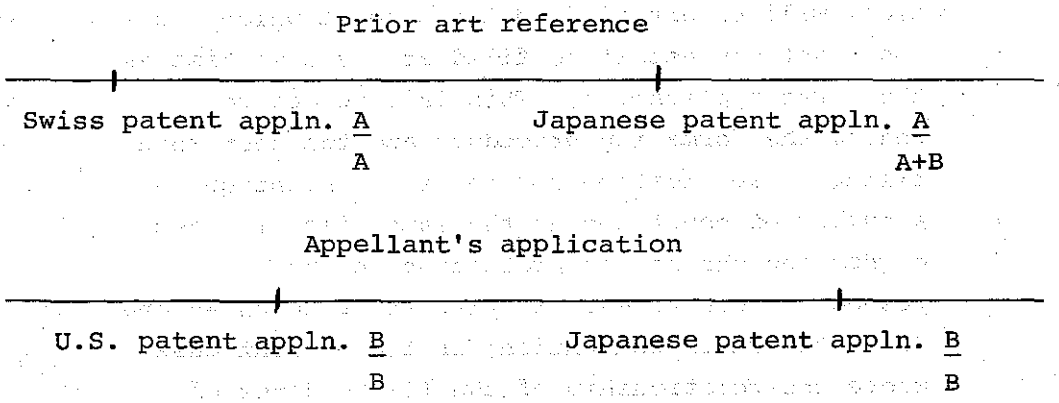
3. Decision by the Board of Appeals

The Board of Appeals affirmed the decision of the primary examiner rejecting the appelant's application under the provision of Article 29bis of the Japanese Patent Law. In its decision, the Board stated that the invention of the later application was substantially disclosed in the earlier application. More particularly, the first critical feature of the later application, "formation of a conducting layer in a selected portion of parallel plates between which a nematic liquid crystal is sandwitched" was disclosed in one embodiment of the earlier application. Therefore, the only difference is the second critical feature of the later application, "a transparent electrode". However, since it was well known to use such a transparent electrode in the liquid crystal display, the Board concluded the invention of the later application was substantially same as the earlier one.

4. Decision by the Tokyo High Court

The appelant then appealed the case to the Tokyo High Court. For the first time in this case, it was found that the first feature of the later application was not described in the specification of the Swiss application, and was actually added in the corresponding Japanese application at the time of filing. As a result, the Court reversed the decision by the Board of Appeals for the reason that there was an erroneous finding of fact in the Board decision which was based on the first critical feature being disclosed in the Swiss application of the reference.

The background of the case will briefly be illustrated as follows:



Note: Numerator indicates claim and denominator indicates the whole contents of the specification.

B. CONFIRMATION OF THE EFFECTIVE DATE COUNTING AS THE DATE OF A FOREIGN APPLICATION

While admitting that the effective date as a prior art will count as the date of a foreign application rather than an actual Japan filing date, the appellant asserted that for this particular case, the aforesaid embodiment disclosed in the earlier application is added at the time of filing in Japan and is therefore not entitled to the priority. Since the appellee, the Japanese Patent Office, is of the same opinion, there seems to have been no dispute as to whether the priority date or the actual filing date will count as the effective date of the Japanese patent application for the purpose of the prior art.

In the meantime, the Court went on to explain as follows:

"Where an earlier application is "an another application filed earlier" as provided for Article 29bis of the JPL, the requirements for a right of priority claimed in such application must be fully met. Article 26 of the JPL as well as Article 4 of the Paris Convention provides that if an application is filed in any one of the Contracting countries, an application for the same invention thereafter

filed in a second country, within the prescribed period of time from the date of the first application, will be entitled to the benefit which the applicant can get if he filed at the same time as the first application. This is intended to reduce the formality procedure and the cost when filing an application for the same invention in a number of countries at the same time, in case of seeking the patent protection in the respective countries. In view of Articles 4B and 4H of the Paris Convention, in the present case where the relationship of the filing dates of "the application" and "an application by another filed in Japan" as provided for Article 29bis of the JPL and the claiming the right of priority are described above, when "an another application filed earlier" can be entitled to the priority, the invention described in the specification or drawings as originally attached to such application must be described in the first or prior foreign application".

As is clear for the foregoing, the Court considered that the effective date counts as the date of the prior foreign application for use as a prior art, on account of the effects of a right of priority, and that because of the effects of the right of priority, the invention entitled to such effects must be limited to the whole contents presented in the specification of its foreign application.

This decision is noticeable in that the Court views the effective date in the whole contents approach in connection with Patent-Defeating Effects in the same manner as the Patent Office.

In the actual examining procedure, the Patent Office also considers the date of a previously filed foreign application as the effective date as a prior art.

C. THE EXTENT OF DISCLOSURE WHEN THE EFFECTIVE DATE COUNTS AS THE DATE OF THE FIRST APPLICATION AND THAT OF THE SECOND APPLICATION

A new matter, which is not contained in the specification of a previously filed foreign application, is often added in a subsequently filed application. The prior application as a reference in the present case was in the same situation.

In the decision, it is clearly stated that the scope admitted the date of the prior foreign application as the prior art effective date is only the scope which is described both the prior foreign application and the subsequent Japanese application. This is quite understandable in terms of the effects of the right to priority.

Concerning the new matter added at the subsequent application the Court stated as follows:

> "There has been no dispute between the parties that the subject matter concerned is not described in the Swiss patent application of the prior application. Such subject matter can not therefore be entitled to the priority. It is for this reason that the effective date of the subject matter, as the description of "another application filed earlier" as provided for Article 29bis of the JPL, will count as the date of the Japanese patent application."

It is clear that the Court considered that the effective date of an additional new matter will count as the date of a subsequent application.

As previously stated, the effective date counts as the date of a previously filed foreign application for use as a prior art, only to the overlaped scope of the prior foreign application and the subsequently filed application. Accordingly, the Examiner is required to review the specification of the previously filed foreign application for use as a prior art as provided for Article 29bis of the JPL in order to reject the application concerned. See the Manual of Patent Examining Procedure (43, 07A).

It seems, however, that the specification of the previously filed foreign application, that is Swiss patent application was not reviewed in the Examining Division and in the Board of Appeals' and, it was reviewed by the applicant for the first time in procedure of the Tokyo High Court. When involved in a similar case, it is necessary to study the specification of a previously filed foreign application for the purpose of the prior art.

D. BASIS OF "SUBSTANTIALLY IDENTICAL"

The provision of Article 29bis is applicable only to the case in which the invention of a later application is identical to an invention described in an earlier application. It should be mentioned that if the specification of the earlier application contains insufficient description, a supplemental proof may be considered, as reported in the general meeting of PIPA held in Chicago, U.S.A. last year.

In the case concerned, the Board of Appeals decided that the inventions of both applications are substantially identical to each other.

According to the decision, it is considered that although the use of the transparent electrode is not described in the specification of the earlier application, it is well known to use the transparent electrode in the liquid crystal display apparatus. While considering the additional evidence, the Board concluded that the invention concerned is substantially disclosed in the earlier application used as a prior art reference.

The number of decisions made in respect of Article 29bis has increased to nineteen in the recent one year. For eight cases, additional proofs are used in deciding whether or not the inventions are substantially identical to each other. It appears, however, that these cases do not provide a clear basis of whether inventions are substantially identical to each other.

IV. OBSERVATIONS

A. CONSIDERATION OF THE EFFECTIVE DATE COUNTING AS THE DATE OF PRIOR FOREIGN APPLICATION IN JAPAN

It is not argued in the present case that whether the effective date should count as the date of a previously filed foreign application or the date of a subsequently filed application for the purpose of the prior art. In the decision, however, the date of the previously filed foreign application is considered as the effective date on the ground of the effects of a right of priority under the Paris Convention for the Protection of the Industrial Property.

The Japanese Patent Office has considered that the effective date will count as the date of a previously filed foreign application since Article 29bis was adopted. It is important to note that in this case, the court also considers that the effective date will count as the date of the prior foreign application whatever the reason may be. Therefore, it can be said that in Japan, the effective date now counts as the date of a previously filed foreign application, although some people may still argue.

B. LEGISLATION OF OTHER COUNTRIES IN THE RELATED MATTER

First, European Patent Office has adopted the whole contents approach on the Patent-Defeating-Effects, as provided for Article 54(3). Article 82 provides that where priority is validly claimed, the priority date will count as the date of the European patent application for the purpose of the prior art.

United States Patent and Trademark Office has also adopted the whole contents approach (35 U.S.C. 102(e)). It will be noted however that the effective date of a United States Patent for use as a prior art reference is not affected by the foreign filing date to which the applicant may be entitled. (In re Hilmer). That is, the reference patent is effective as of the date the application for it was filed in the United States.

It may be desirable that the effective date of the prior art will be considered in the same manner through all countries, according to the standpoint of their harmonization.

PRIMA FACIE OBVIOUSNESS--*SHIFTING THE BURDEN OF PROOF*

Lawrence T. Welch[1]

Introduction

Much has been written on the concept of *prima facie* obviousness in the United States Patent and Trademark Office, particularly as it relates to chemical compounds. The present paper is not meant to be a comprehensive treatment of this important topic, but rather it is intended as a general overview of the concept, presenting a discussion of some of the major decisions.[2] A large body of case law exists, which is too extensive to allow for an exhaustive treatment here.[3] In addition, the Court of Appeals for the Federal Circuit has issued, and continues to issue, opinions on a regular basis which refine the concept and apply it to new factual situations. The present paper is thus intended to present basic principles relating to *prima facie* obviousness. The application of these principles to specific factual situations keeps many patent attorneys employed.

HISTORICAL ORIGIN

While some would trace the roots of obviousness or "inventive step" to the 15th century,[4] most would agree that the concept

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1. Attorney, Patent Law Department, The Upjohn Company, Kalamazoo, Michigan. This paper was prepared for presentation at the Pacific Industrial Property Association (PIPA) Congress in Kanazawa, Japan on 5 November 1986. The assistance of Upjohn attorneys Robert A. Armitage, Martha A. Cox, Paul J. Koivuniemi and Kenneth A. Weber in preparing this paper is gratefully acknowledged.

2. Interested readers are directed to, e.g., Chisum, *Patents*, Section 5.06[1] (1986); and Wegner, "Prima Facie Obviousness of Chemical Compounds," 6 *APLA Quart. J.* 271 (1978). A thorough analysis of *prima facie* obviousness appears in the papers by Armitage and Wegner in connection with the American Intellectual Property Law Association Program, *Basic Chemical Practice Seminar*, last presented on 8 October 1986, at the Crystal Gateway Marriott in Arlington, Virginia.

3. At the time of this writing, over 180 opinions had been written from just the Court of Customs and Patent Appeals and the Court of Appeals for the Federal Circuit which discuss *prima facie* obviousness.

4. See, e.g., Beier, *The Inventive Step in Its Historical Development*, 17 IIC 301-323(1986).

originated in the United States in 1850 with *Hotchkiss v. Greenwood*,[5] wherein the Supreme Court noted:

> ...unless more ingenuity and skill ...were required .. than were possessed by an ordinary mechanic acquainted with the business, there was an absence of that degree of skill and ingenuity which constitute the essential elements of every invention. In other words, the improvement is the work of the skilled mechanic, not that of the inventor.

The Supreme Court, through a succession of cases, gave differing interpretations to this standard of patentability.[6] The current standard of non-obviousness was codified in the 1952 Patent Act as 35 USC 103[7]. This standard requires that the "subject matter

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5. 11 Howard 248 (1850). For a further discussion of this case, see Beier, *supra*.

6. The *Hotchkiss* standard was recognized as a patentability requirement in *Reckendorf v. Faber*, 107 U.S. 192 (1883). This requirement was referred to as the "flash of genius test" in *Cuno Engineering v. Automatic Devices*, 314 U.S. 84 (1941). Perhaps the "low point" in patent law was the Supreme Court case of *The Great Atlantic and Pacific Tea Company v. Supermarket Equipment Corporation*, 340 U.S. 147 (1950), where, in a concurring opinion, Justices Douglas and Black required a patentee to "push back the frontiers of " science.

7. 35 USC 103 (1984) reads as follows:

> **§103. Conditions for patentability; non-obvious subject matter**
>
> A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.
>
> Subject matter developed by another person, which qualifies as prior art only under subsection (f) or (g) of section 102 of this title, shall not preclude patentability under

as a whole" must not have been "obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains."[8]

The interpretation of the patentability standard under 35 USC 103 is set forth in three Supreme Court decisions sometimes referred to as the *Graham* Trilogy[9], wherein non-obviousness determinations follow factual inquiries into (1) the scope and content of the prior art, (2) the differences between the claimed invention and the prior art, and (3) the level of ordinary skill in the art.[10] Neither the statute nor the *Graham* case explicitly allocate the burden for establishing non-obviousness.[11] However, a succession of cases in both the Court of Customs and Patent Appeals (CCPA) and the Court of Appeals for the Federal Circuit have held that the burden rests with the U.S. Patent and Trademark Office (PTO) to produce factual evidence which makes an initial suggestion of "obviousness," after which the burden shifts to the applicant to come forward with sufficient information to overcome the PTO's initial showing.[12] Hence the concept of *prima facie obviousness* was developed.

This procedural device is most often used for chemical inventions, but it has been applied in other arts as well.[13] The present paper explores the concept mainly in connection with chemical cases, since it is here that the law is perhaps best developed.

> this section where the subject matter and the claimed invention were, at the time the invention was made, owned by the same person or subject to an obligation of assignment to the same person.

8. *Id.*

9. See, *Graham v. John Deere,*383 U.S. 1,148 USPQ 459 (1966), *Calmar v. Cook Chem. Co.,*383 U.S.1, 148 USPQ 479 (1966), and *United States v. Adams,*383 U.S. 39, 148 USPQ 479 (1966), discussed in Chisum, *supra*, §5.02[5][a].

10. See, *Graham v. John Deere Co., supra.*

11. See Chisum, *Patents* §5.06[1](1986)

12. The history of *prima facie* obviousness in the CCPA and the Federal Circuit is reviewed in *In re Piasecki,* 223 USPQ 788 (Fed. Cir 1984).

13. See, e.g., *In re De Blauwe,* 736 F.2d 699, 222 USPQ 191 (Fed. Cir. 1984) and *In re Sernaker,* 702 F.2d 989, 217 USPQ 1 (Fed. Cir. 1983).

DEFINITION

The Court of Appeals for the Federal Circuit defines *prima facie* obviousness as "a procedural mechanism to allocate in an orderly way the burdens of going forward and of persuasion as between the examiner and the applicant."[14] The PTO is thus required to produce the factual basis for its rejection of a patent claim under 35 USC 103. After this showing by the PTO, the burden of going forward shifts to the applicant.[15]

Rebuttal by the applicant involves a sufficient showing of facts supporting the opposite conclusion.[16] This factual evidence can relate to any of the factors set forth in *Graham v. John Deere*.[17] These factors include the so-called "secondary considerations" of non-obviousness such as commercial success, long felt but unsolved need, failure of others, and the like[18], which factors were recently given new acceptance by the Federal Circuit.[19]

CHEMICAL COMPOUNDS--A SPECIAL CASE

The chemical cases on prima facie obviousness fall generally into two categories. The first category are those cases wherein the modification of the prior art compound to obtain the claimed compound is said to be "suggested" in the prior art or that the prior art provides the proper "motivation" to make the claimed invention. The second category includes those cases wherein the claimed compound is alleged to be obvious in view of one or more prior art compounds which are structurally quite similar to the claimed compound. This structural similarity in the second case must be such that the claimed compound would be presumed to have

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14. *In re Piasecki*, 745 F.2d 1468, 223 USPQ 785, 788 (Fed. Cir. 1984).

15. *Id.*

16. *In re Heldt*, 433 F.2d 808, 811, 167 USPQ 676, 678 (CCPA 1970).

17. *Piasecki, supra*. See, also, *Perkin Elmer v. Computervision Corp.*, 732 F.2d 888, 895-6, 221 USPQ 667, 675 (Fed. Cir. 1984) and *In re Sernaker, supra*, 702 F.2d at 996-7, 217 USPQ at 7-8.

18. See, *Graham, supra*, 383 U.S. at 17, 148 USPQ at 467.

19. See, *Sernaker, supra*.

similar properties, without any further teaching in the prior art.[20]

REJECTIONS BASED ON A SUGGESTION IN THE PRIOR ART

The majority of decided cases on *prima facie* obviousness fall into the first category, i.e., obviousness based on a suggestion in a proper combination of prior art references.[21] To establish a *prima facie* case of obviousness based on a suggestion in the prior art, it is necessary to ascertain whether the prior art teachings would appear to be sufficient to one of ordinary skill in the art to motivate or suggest the making of the claimed substitution or other modification of the closest prior art compound.[22] The prior art further must provide to one of ordinary skill in the art motivation to make the proposed molecular modifications needed to arrive at the claimed compound.[23]

The fact that the prior art may suggest the particular modification of the prior art compound for a *different* purpose than that disclosed for the claimed compound is irrelevant to the issue of whether *prima facie* obviousness exists.[24] However, the fact that the prior art compounds are useful for a different purpose may provide the applicant with a basis for rebutting the *prima facie* case of obviousness.[25] For example, the CCPA has held that while

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20. These two kinds of obviousness rejections have been referred to as "referential obviousness" and "structural obviousness" respectively, in Armitage, *supra*, at A-62.

21. Arguably, "structural obviousness" is merely a subclass of obviousness based on a suggestion in the prior art. Note that the Court of Appeals for the Federal Circuit has stated that obviousness rejections based on close similarity in chemical structure arise "from the expectation that compounds similar in structure will have similar properties." See, *In re Lalu, supra*, 223 USPQ at 1259, citing *In re Gyurik*, 596 F.2d 1012, 201 USPQ 552 (CCPA 1979). Thus, "motivation" arises from this expectation.

22. *In re Lalu*, 223 USPQ 1257, 1258 (CCPA 1984); *In re Taborsky*, 502 F.2d 775, 780, 183 USPQ 50, 55 (CCPA 1974).

23. *Lalu, supra*; *In re Steminski*, 444 F.2d 581, 586, 170 USPQ 343, 347 (CCPA 1971).

24. See *Chisum, supra*, §5.04[6]

25. If the prior art compound was useful only for a purpose other than that of the claimed compound, this would be evidence of non-obviousness. See In re Papesch, 315 F.2d 381, 137 USPQ 43 (CCPA 1963).

it is true that the fact that the applicant made the claimed modification for a different purpose than the purpose suggested by the prior art does not change the conclusion of *prima facie* obviousness, the differences between a patent applicant's and the prior art's motivation for adding an element to a composition may be reflected in the composition ultimately produced. Thus, the claimed composition may possess unexpectedly superior properties or advantages as compared to prior art compositions and, therefore, the conclusion of prima facie obviousness may be successfully rebutted.[26]

From the foregoing, it logically follows that if the prior art discloses no utility for the compound, or no specific or significant use for the compound, no case of prima facie obviousness can exist. As the CCPA has stated:

> How can there be obviousness of structure, or particularly of the subject matter as a whole, when no apparent purpose or result is to be achieved, no reason or motivation to be satisfied, upon modifying the referenced compound's structure. Where the prior art reference neither discloses or suggests the utility for certain described compounds, why should it be said that a reference makes obvious to one of ordinary skill in the art an isomer, homolog or analog of related structure, when that mythical, but intensely practical, person knows of no 'practical' reason to make the referenced compounds, much less any structurally related compound.[27]

The Federal Circuit has adopted this principle in a case where the claimed compounds were disclosed for certain utilities, and a closely related compound was disclosed in a prior art reference as useful as an intermediate to prepare final products having utilities different from the claimed compounds. The Court of Appeals for the Federal Circuit held that there can be no presumption that the intermediate's utility would be the same as the claimed final product. That is, there was no motivation provided for one of ordinary skill in the art to modify the prior art intermediates.[28]

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26. *In re Lintner,* 458 F.2d 1013, 1016, 173 USPQ 560 (CCPA 1972).

27. *In re Steminski*, 444 F.2d 581, 586, 170 USPQ 343 (CCPA 1971).

28. *In re Lalu, supra.*

However, where the alleged *prima facie* obvious intermediate leads to compounds having surprising and unexpected utility, this property of the end product can be used to rebut the rejection of claims to the intermediate.[29]

Obviously, motivation requires a showing of both the *desirability* and the *means* to make the claimed modification. Thus, where the prior art provided no means for preparing the claimed compound, *prima facie* obviousness was not established even though the desirability of making the compound was suggested in the prior art.[30]

The courts have also recognized something which might be considered "reverse motivation." Thus, where a significant teaching in the prior art tends to lead those of ordinary skill away from what is claimed, non-obviousness is established, even though other parts of a reference might suggest the claimed invention.[31] The entire disclosure of the prior art must be considered, not just selected portions.[32]

REJECTIONS BASED ON STRUCTURAL OBVIOUSNESS

The second category of *prima facie* obviousness rejections has a long judicial history. The question of how close compounds must be structurally to the prior art compounds for there to be an inference of obviousness (even in the absence of some suggestion or motivation in the prior art to make the molecular modification) has been variously addressed by the Courts and commentators.[33] The early cases, commonly referred to as *Hass I*,

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29. See, *In re Magerlein*, 602 F.2d 366, 202 USPQ 473 (CCPA 1979). Note, however, that while the unexpected properties of the end product can be used to support the patentability of the intermediate, they will not support the patentability of an otherwise obvious "analog" process for making the final product from the intermediate. *In re Durden*, 763 F.2d 1406, 226 USPQ 359 (Fed. Cir. 1985).

30. *In re Hoeksema*, 399 F.2d 259, 158 USPQ 596 (CCPA 1968).

31. *In re Lunsford*, 357 F.2d 385, 148 USPQ 721,724 (CCPA 1966).

32. See, *In re Mercier*, 185 USPQ 774, 778 (CCPA 1978).

33. See, e.g., *In re Hass and Susie*, 141 F.2d 122, 60 USPQ 544 (CCPA 1944) (*Hass I*); *In re Hass and Susie*, 141 F.2d 127, 60 USPQ 548 (CCPA 1944) (*Hass II*) and *In re Hass and Strickland*, 141 F.2d 130, 60 USPQ 552 (CCPA 1944) (*Hass III*); *In re Henze*, 181 F.2d 196, 85 USPQ 261 (CCPA 1950); the Wegner paper; *Chisum* §5.04[6] and the Armitage paper.

Hass II, Hass III, and *Henze* set forth the so-called *Hass-Henze* doctrine. In *Hass I,* the CCPA noted:

> It is well understood by chemists that members of a homologous series of chemical compounds possess the same principal characteristics; that generally the chemical and physical properties of the individual members vary gradually from member to member; and that knowledge of the properties and chemical behavior of one of the other members of the series suggest to the chemist the properties and chemical behavior of the other members of the series.[34]

Similarly, in *Hass II,* the court held that in order to be patentable, novel members of a "homologous" series of compounds must possess some unobvious or unexpected beneficial properties not possessed by the compounds disclosed in the prior art.[35] Similarly, in *Hass III,* the court found that where the prior art compound was acknowledged to be an adjacent lower homologue, the claimed compound was unpatentable thereover, even though the applicant discovered that the compound was useful for purposes other than those disclosed for the prior art compound. The court noted that "It is sufficient to say that there is nothing of record to indicate that the prior art compounds do not possess the same properties as the compound here involved, or that they would not be useful for the same purposes as the involved compound."[36]

The rule to be drawn from these cases is set forth in *In re Henze.*[37] In *Henze,* the court held that where the adjacent homologue is old in the art,

> The burden is on applicant to rebut [the presumption of unpatentability] by a showing that the claimed compound *possesses* unobvious or unexpected beneficial properties not actually *possessed* by the prior art homologue. It is immaterial that the prior art homologue cannot be recognized or *known* to be useful for the same purpose or to possess the same properties as the claimed compound.[38] [Emphasis in original.]

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34. *Hass I,* 141 F.2d at 125-26 60 USPQ at 547.

35. *Hass II, supra,* 60 USPQ 551.

36. *Hass III,* 141 F.2d 132, 60 USPQ 554.

37. 181 F.2d 196, 85 USPQ 261 (CCPA 1950).

38. 181 F.2d at 201, 85 USPQ at 265.

In the *Henze* case, the applicant attempted to rebut prima facie obviousness by showing that the claimed compound was active at a lower dosage than the dosage stated for the prior art compound. However, there was no evidence that the prior art compound wasn't also useful at that lower dosage. The court noted that it would be inconsistent with the purpose of the patent laws if one would be allowed to obtain a patent on a compound closely related to a prior art compound by showing a useful property for the new compound, without showing that the same property is not inherent in the old homologue.[39]

A succession of cases after the *Hass/Henze* series set forth various doctrines which have led various writers, examiners, and patent practitioners to elicit hard and fast rules regarding which structural modifications of prior art compounds are "structurally obvious" without further prior art showings setting forth equivalence or motivation.[40]

It often happens that patent examiners, and sometimes even patent attorneys, become so fond of chemical labels that they take rejections based on such labels at face value, without subjecting them to the appropriate critical analysis. This approach is unwise. For example, the CCPA has noted, with regard to labels, such as "homolog", "analog", and "isomer," that

> The name used to designate the relationship between related compounds is not necessarily controlling; it is the closeness of that relationship which is indicative of the obviousness or unobviousness of the new compound.[41]

Similarly, the Federal Circuit has clearly indicated that this is not the proper approach. In *In re Grabiak*,[42] the court stated that when chemical compounds have "very close" structural similarities and similar utilities, a *prima facie* case may be

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39. 181 F.2d at 202. This ultimately led to the seminal case of *In re Papesch*, 315 F.2d 381, 137 USPQ 43 (CCPA 1963), discussed *infra*.

40. See, e.g., Wegner, "Prima Facie Obviousness of Chemical Compounds," 6 APLA Quart. J. 271 (1978).

41. *In re Payne*, 203 USPQ 245, 255 (CCPA 1979), and cases cited therein.

42. 769 F.2d 729, 731, 226 USPQ 870, 871-72 (Fed. Cir. 1985).

made without any more showing.[43] The court noted that under such circumstances, where close structural similarity to prior art compounds is shown, the burden of coming forward shifts to the applicant, and evidence affirmatively supporting unobviousness is required. The Court went on to state, however, that

> Analysis of those circumstances in which a *prima facie* case has or has not been made in view of the degree of the structural similarity or dissimilarity, or the presence or absence of similar utility between the prior art compound and that of the applicant, has inspired generations of applicants, courts, and scholars. Upon review of this history, we have concluded that generalization should be avoided in so far as specific chemical structures are alleged to be prima facie obvious one from another. Although we do not accept Grabiak's argument that when biological activity is involved there can be no presumption (i.e., no prima facie case) of obviousness, in the case before us there must be adequate support in the prior art for the ester/thio ester change in structure, in order to complete the PTO's *prima facie* case and shift the burden of going forward to the applicant.[44]

In *Grabiak*, the applicant was claiming certain thiazole thiocarboxylates useful as herbicidal safeners. The prior art described similar thiazole carboxylic and thiazole carboxamide compounds also useful as safeners. The difference between the prior art compounds and the claimed compounds was the replacement of an oxygen with a sulfur atom. The examiner also cited a reference to certain other, structurally dissimilar safeners, which had a ring system wherein one element of the ring could have been oxygen or sulfur. Further, the Board of Appeals stated that the close analogy between sulfur and oxygen is well known as a general chemical principle. The Board of Appeals also cited two CCPA cases[45] for the proposition that oxygen and sulfur are well known to be interchangeable. These two cases had found the sulfur oxygen exchange to be obvious in view of prior art.

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43. In this regard, the court cited *In re Wilder*, 563 F.2d 457, 1895 USPQ 426 (CCPA 1977) (adjacent homologues and structural isomers); *In re May*, 574 F.2d 1082, 197 USPQ 601 (CCPA 1978) (sterioisomers); *In re Hoch*, 428 F.2d 1341, 166 USPQ 406 (CCPA 1970) (acid and ethyl ester).

44. *Grabiak, supra*, 226 USPQ 871-872.

45. *In re Fancher*, 410 F.2d 813, 161 USPQ 613 (CCPA 1969) and *In re Albrecht*, 579 F.2d 92, 198 USPQ 208 (CCPA 1978).

However, the Federal Circuit noted that the prior art cited by the examiner did not suggest the interchangeability of sulfur for oxygen in the *ester* moiety of the claimed compounds. Further, the court noted that in the cases cited by the Board of Appeals, the interchangeability of sulfur for oxygen was suggested in structures much more similar to the claimed compounds.

The court then repeated the statement found in *In re Bergel*,[46] to the effect that the mere fact that it might be possible to find two isolated disclosures which might be combined to produce a new compound does not render that compound obvious unless the art also contains something to suggest the desirability of making this combination.[47] In the absence of such a reference, the court held there was inadequate support for the PTO's position that this modification would *prima facia* have been obvious.

Finally, the court rejected the solicitor's attempt to argue that the activity of the claimed compounds was predictable from the prior art. As part of his argument in this regard, the solicitor cited the statement in the applicant's own application that the compounds were useful as safeners. The court rejected this out of hand, noting that if evidence of similar biological properties is to be relied upon, it must come from the prior art, and not from the applicant's own specification.

The significance of this decision in terms of the standards for *prima facie* obviousness is not to be underestimated. In *Grabiak*, the applicant was claiming a compound having the same properties as the prior art compounds. It is not apparent from reading *Grabiak* that the claimed compounds had superior properties, as compared to the compounds cited in the prior art.

However, the applicant was not required to make any showing, since the PTO had failed to establish a *prima facie* case of obviousness. Thus, before a patent practitioner takes an examiner's rejection at face value, the rejection should be closely examined to see whether the prior art provides the necessary motivation for making the claimed substitution. In the absence of such a disclosure in the prior art, the evidentiary burden remains with the PTO, and no showing need be made by the applicant.

COMPARATIVE SHOWINGS

The principle that *prima facie* obviousness, once properly established by an examiner, can be rebutted by a showing of

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46. 292 F.2d 955, 956-957, 130 USPQ 206, 208 (CCPA 1961).

47. *Grabiak*, 226 USPQ at 872.

unexpected properties of the claimed compound as compared to the prior art compounds is well established. Perhaps the leading case in this area is *In re Papesch*[48]. Citing a long series of cases, the CCPA held that patentability in chemical cases is not determined on the basis of obviousness of the structure alone. Therefore, it is appropriate to take into consideration the biological or chemical properties of the compounds in determining whether they are obvious in view of the prior art. Thus, the CCPA stated:

> "From the standpoint of patent law, a compound and all of its properties are inseparable; they are one and the same thing. The graphic formulae, the chemical nomenclature, the systems of classification and studies such as the concepts of homology, isomerism, etc., are mere symbols by which compounds can be identified, classified and compared. But a formula is not a compound and while it may serve in a claim to *identify* what is being patented, as the metes and bounds of a deed identify a plot of land, the *thing* that is patented is not the formula but the compound identified by it. The patentability of the thing does not depend on the similarity of its formula to that of another compound but of the similarity with the former compound to the latter. There is no basis in law for ignoring any property in making such a comparison. An assumed similarity based on a comparison of formulae must give way to evidence that the assumption is erroneous."[49]

Thus, in *Papesch*, the court allowed the claims to a compound, even though the prior art was conceded to disclose a lower homolog thereof, in view of the applicant's showing of pharmacological data demonstrating that the claimed compound was active as an antiinflammatory agent whereas the prior art compound was not. Thus, after *Papesch*, it was clear that *prima facie* obviousness could be rebutted by a showing of an unexpected difference in properties.

Subsequent cases expanded this to include significant differences in the degree of the same property.[50] The quantum of evidence necessary to establish that a difference in properties is sufficient to rebut a prima facie case is, of course, subject to

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48. 315 F.2d 381, 137 USPQ 43 (CCPA 1963).

49. *Papesch, supra*, 315 F.2d at 391, 137 USPQ at 51.

50. *In re Hoch*, 428 F.2d 1341, 1344, 166 USPQ 406 (CCPA 1970).

some debate.[51] In general, what is surprising and unexpected depends to a great extent on the art. Each factual situation is unique and the persuasive skills of the patent attorney are clearly called for in close cases.

CLOSEST PRIOR ART

The patent applicant is often faced with a situation wherein there are several prior art references disclosing compounds similar to the claimed invention. Assuming the appropriate structural similarity and/or motivation is presented in the prior art, the question then arises regarding which prior art compounds to which a comparison must be made, and further how many of such comparisons must be made?

The CCPA dealt with this issue stating as follows:

> Given the enormous variety of technologies and claimed subject matter, no all-encompassing principle or test can be delineated for determining the closest prior art. However, an almost self-evident guideline would appear effective in most cases. A comparison of the *claimed* invention with the disclosure of each cited reference to determine the number of claim limitations in common with each reference, bearing in mind the relative importance of particular limitations, will usually yield the closest single prior art reference, if one such reference can be found .[52]

Thus, the principle is established that to rebut a prima facie case of obviousness, one need only compare to the closest prior art reference.

The closest prior art compound may not necessarily be the closest reference cited by the examiner. Where two pieces of prior art are in fact equally close to the claimed invention, there is no logical reason for requiring applicant to make a comparison with one in favor of the other. Thus, the CCPA has held that the applicant may compare the claimed invention with a piece of prior art actually used in the real world if the applicant "establishes

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51. See, Chisum, *supra*, Section 5.04[6][e], *In re Lohr*, 317 F.2d 388, 137 USPQ 548 (CCPA 1963)("clear and convincing evidence" necessary), *In re Lunsford*, 357 F.2d 380, 148 USPQ 716 (CCPA 1966) (4.6-7 times more potent sufficient), and *In re Wagner*, 371 F.2d 877, 152 USPQ 552 (CCPA 1967) (must be a difference in degree and in kind).

52. *In re Merchant*, 575 F.2d 865, 197 USPQ 785 (CCPA 1978).

that its teachings are equal to the relevant disclosure ... relied upon in the examiner's rejection."[53]

However, care should be exercised if an applicant wishes to compare the claimed invention against one piece of prior art instead of another. This is particularly true if the applicant wishes to compare the claimed invention against prior art not cited by the examiner but which the applicant believes is equally close to that cited by the examiner. In such a case, the applicant must establish such an equivalence on the record before the PTO. The Federal Circuit recently discussed this situation in *In re Johnson*.[54] In this case, the applicant chose one of two pieces of prior art over which to make the comparison to overcome prima facie obviousness. The examiner cited both pieces of prior art, and made no showing or comment regarding which piece of prior art was the closest. Before the Court, the solicitor on behalf of the Patent Office argued that the one prior art reference for which no comparison was made was actually closer than the other, but the Federal Circuit stated that resolution of this dispute was unnecessary. The Court stated that the burden was on the applicant to establish that the two pieces of prior art were equivalent such that a showing of superiority over one piece of prior art would of necessity be a showing of superiority over the other piece of prior art.[55] Because the applicant's affidavit did establish this equivalence, and did not show the relative effectiveness of the claimed compounds as compared to all the compounds of the prior art, the applicant was held not to have overcome the case of prima facie obviousness, and the rejection was affirmed.

The basic principle is that when an applicant tests less than all of the cited compounds in making the comparison to the claimed compounds, the tests must be sufficient to permit a conclusion respecting relative effectiveness of the claimed compounds and the compounds of the closest prior art.[56]

CONCLUSION

Prima facie obviousness is merely a procedural device. It does not change the basic law concerning the conclusion of non-obviousness embodied in 35 USC 103, as interpreted by the courts. However, a thorough understanding of the concept is necessary in order that patent applicants are aware of when it is, and is not,

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53. *In re Holladay*, 584 F.2d 384, 199 USPQ 516, 518 (CCPA 1978).

54. 223 USPQ 1260, 1263 (CCPA Fed. Cir. 1984).

55. *Johnson, supra*, 223 USPQ at 1264.

56. *In re Payne*, 606 F.2d 303, 203 USPQ 245, 256 CCPA 1979).

necessary to come forward with proof to rebut an inference of obviousness. For, as we have seen from an analysis of some of the important cases, the knowledge of when, if and how to produce rebuttal evidence can mean the difference between obtaining or not obtaining a patent.[57]

Obviousness of chemical compounds is a problem of patent law, and not of chemistry.[58] However, a thorough knowledge and analysis of the facts is necessary in each case. This of necessity includes the structure and disclosed properties of the prior art compounds as well as the properties of the claimed invention, i.e., the art as a whole.[59] The process of obtaining patents is not a cut and dried area of comparisons to well-defined prior art compounds. Often the distinctions between the claimed compounds and the prior art compounds require a thorough analysis of several different references, and each of these references should be analyzed carefully to see what the entire teaching may be.

A thorough understanding of the principles of *prima facie* obviousness will go a long way toward helping patent practitioners to identify the important issues and successfully obtain patents.

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57. Compare *Grabiak, supra,* wherein the applicant was able to obtain a patent without any evidence of unexpected properties with *Johnson, supra*, wherein the applicant was denied a patent because an effective showing was not made against all of the relevant prior art.

58. *In re Johnson, supra*, 223 USPQ at 1263. Note that the U.S. Supreme Court has vacated a finding of validity and requested the Court of Appeals for the Federal Circuit to more clearly delineate the factual as opposed to legal bases for obviousness in *Panduit Corp. v. Dennison Manufacturing Co.*, __U.S.__,54 USLW 3695 (1986). As of this writing, the decision on remand has not been seen.

59. See, e.g. *Graham, supra,* and *In re De Blauwe, supra,* 222 USPQ at 196.

Parallel Import of Genuine Goods
- In the case of "LACOSTE" trademark -

Japanese Group, Committee No. 1
Trademark Subcommittee

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Yukio Sasaki, Fujitsu Limited
Toshihiro Tanaka, Fujisawa Pharmaceutical Co., Ltd.
Kiyoshi Tanabe, Toshiba Corporation
Akimasa Tamura, The Yokohama Rubber Co., Ltd.
Kooji Tsuchida, Sony Corporation

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(Summary)

Parallel import of genuine goods embraces complicated issues which require measures to balance the interest of the trademark owner and general consumers. There are two landmarking decisions in Japan which ruled legality of parallel import, the "Parker Case" in 1970 and the "LACOSTE Case" in 1984.

This paper outlines the "LACOSTE" case and discusses basis for legality of parallel import referring to some other important cases.

Parallel import of genuine goods has a close connection with economic environment, such as exchange rate or trade balance. Under the circumstances of strong yen and foreign criticisms against Japan's enormous trade surplus, the Japanese government has started investigations to accelerate competition between the authorized exclusive agent and parallel importers of genuine goods expecting that foreign goods will be much sold at lower prices.

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Parallel Import of Genuine Goods
- In the case of "LACOSTE" trademark-

Japanese Group, Committee No. 1
(Trademark Subcommittee)

1. Introduction

As international transactions and information exchange become more active, chances to see foreign goods and foreign trademarks have much increased. Under these circumstances, trademarks play, beyond borders, an important role as an effective means for expanding sales channels or acquiring goodwill and as a tool for selecting products.

However, it is also true that the protection of a trademark is legally restricted to a country where it is registered, which is, in legal terms, called a "territorial principle". Thus, parallel import of genuine goods is an issue to be analysed in view of the relationship between a territorially restricted trademark right and its beyond-the-boundary role as a business tool. Today, international transactions are commonplace. It seems that the issue of parallel import of genuine goods should be studied from an international standpoint.

In the United States of America, we understand that unauthorized import of genuine goods is called "gray market" which currently evokes serious concern among the trademark owners together with trademark counterfeit problems. Taking such tendency in the United States into account, the Committee No. 1 has selected the issue of parallel import of genuine goods for review of Japan's position.

In Japan, the number of court decisions on parallel import of genuine goods are not so large compared with the United States. However, we have a recent good case, La Chemise Lacoste et al v. Shinshin Boeki K.K. et al (the

"LACOSTE" case), ruled in 1984 by the Tokyo District Court which approved parallel import of genuine goods, following the well-known "PARKER" case (N.M.C. Ltd. v. Shriro Trading Co.) decided by the Osaka District Court in 1970. This paper first discusses the "LACOSTE" case in detail, and further other relevant decisions as well as custom practices which deal with parallel import.

2. The "LACOSTE" Case

(1) Facts (See Appendix)

(i) The plaintiff, Lacoste, owns a trademark registerd in Japan which consists of a figure of an alligator and the word "lacoste" inside the alligator (Registered trademark; see List A in Appendix). The co-plaintiff, Sankyo Seiko, owns an exclusive license ("senyoshiyoken") under the registered trademark(Note 1.).

(ii) The co-plaintiff, Sankyo Seiko, has been manufacturing in Japan shirts and sweaters bearing the alligator trademarks and "LACOSTE" marks (plaintiff's trademarks; see List B in Appendix) under a license agreement with the plaintiff, Lacoste. Sankyo has been selling these goods in Japan, Korea and Taiwan.

(iii) Izod, Inc., a U.S. company, executed a license agreement with Lacoste Alligator Inc., a Swiss corporation and subsidiary of the plaintiff, Lacoste, in connection with the alligator trademarks and the "LACOSTE" trademarks. Under this agreement, Izod manufactured in the United States and sold in the United States and the Caribbean countries shirts and the like bearing the alligator trademarks and the "LACOSTE" trademarks ("defendent's trademarks"; see List C in Appendix). The sales territories of Izod were restricted to the United

States and the Caribbean countries by the license agreement.

(iv) The defendant, Shinshin Boeki, imported into Japan Izod's goods marketed in the United States and the co-defendant, Miura, purchased these goods from Shinshin Boeki and resold them in Japan.

(v) The plaintiffs, Lacoste and Sankyo Seiko brought an action in the Tokyo District Court for injunction against the defendants based on the registered trademark and the exclusive license thereunder. Injunction was also claimed in view of the Unfair Competition Prevention Law, Art. 1-1-1 (Provision on injunction of acts to cause confusion of source by using unauthorized indications similar to well-known marks) (Note. 2).

(vi) The defendants contended by denying the alleged similarities between the defendant's trademarks and the registered trademark, and denying alleged likelihood of confusion of their goods in view of the source of goods. The defendants further contended that their importation constituted parallel import and lacked in substancial illegality.

(2) Decision of the Court

The Tokyo District Court, while partly refusing the plaintiff's assertion as to similarities between the defendant's trademarks and the registered trademark, admitted similarities between the registered trademark and the indication of "LACOSTE" in the defendant's trademarks. In view of the Unfair Competition Prevention Law, further, the court upheld that the indications on the plaintiff's goods (i.e., the alligator trademarks and the "LACOSTE" trademarks) were well known and that defendant's goods caused confusion as to the source of goods with the plaintiff's goods.

In view of defendants' defense that parallel import lacks in illegality, the court agreed with the defendants' assertion by stating as follows:

(i) The Trademark Law aims at protecting the business reputation of persons using trademarks and the interests of the consumers. The importation and sale of goods by defendant do not harm such business reputation nor such interests. The acts of defendants do not harm functions of the trademark to distinguish the source of goods and to guarantee quality of the goods. For these reasons, the defendants' importation and sale lacks in substantial illegality and the plaintiffs can not enjoin the defendants' act based on the trademark right and its exclusive license.

(ii) The Unfair Competition Prevention Law aims at preventing unfair practices of competition which are in the breach of commercial ethics. This law does not impose any restrictions on fair trade. The purpose of Art. 1-1-1 of this law is to prevent a so-called "free-ride" on others' trust and reputation in business that has been establishd under well-known marks. The importation and sale of defendants' goods bearing defendant's trademarks, which indicate the same source as the plaintiff's trademarks, do not constitute unfair practice of competition under the law. Defendant's importation and sale lacks in substancial illegality and thus the plaintiffs can not enjoin such defendant's act under the Unfair Competition Prevention Law.

In the decision, the court reasoned as follows.

(a) "The plaintiff, Lacoste is well recognized in the world including Japan as a source of goods bearing the famous "LACOSTE" trademarks and the alligator

trademarks including this registered trademark, and administers its own trademarks by itself or through Lacoste Alligator, Inc., which is under financial control of the plaintiff, in order to maintain such business reputation as established under said recognition. It can be recognized that the plaintiff, Lacoste, strictly performs quality control on goods manufactured and sold by its licensees including Izod, Inc. who has a license in the United States and the Caribbean countries, and the co-plantiff, Sankyo Seiko who has a license in Japan, Korea and Taiwan. In this respect, Izod in the United States and Sankyo Seiko, the co-plaintiff, in Japan are on the same position that they sell their own "LACOSTE" goods under and utilizing the trust and reputation of the plaintiff, Lacoste. While the plaintiff's trademarks have been widely recognized as an indication of the goods sold by the co-plaintiff, Sankyo Seiko, this is due to the background that the co-plaintiff, Sankyo Seiko, has been in business relationship with a known Lacoste, the plaintiff, and can act as its licensee."

(b) "The defendants asserted that there are differences between the plaintiffs' goods and the defendants' goods in quality and shape. However, quality and shape of apparel vary depending upon the fashion of the time. The plantiff, Lacoste, agreed that Izod, Inc. may manufacture goods of different quality and shape under trademarks identical to the "LACOSTE" trademarks, Izod, Inc. is a licensee of Lacoste Alligator Inc. in the United State who is under the financial control of the plaintiff, Lacoste. For this reason, alleged differences in the quality and shape of the goods at issue are within an allowable scope to identify that the goods come out of world known Lacoste, the plaintiff. These differences can not be regarded as adversely affecting the function of the trademark for guarantee of quality.

(c) "The importation of defendant's goods does not damage the distinction-of-source function and the guarantee-of-quality function of the registered trademark and the plaintiff's indications. It does not injure trust and reputation of the plaintiff, Lacoste or the co-plaintiff, Sankyo Seiko, who is a licensee of Lacoste and is selling Lacoste goods utilizing the trust of Lacoste, nor injure the interest of general consumers."

In connection with the territoral limitation that Izod

is granted a license only in the United States and the Caribbean countries and is prohibited from selling any trading companies under its agreement, the court stated that this fact is not a facter to be respected in examining whether or not the act of defendants lacks in substantial illegality under the Trademark Law and the Unfair Competition Prevention Law in Japan.

3. Parallel Import of Genuine Goods

(1) In the Parker case, the Osaka District Court first held on February 27, 1970 that parallel import of genuine goods was legal. Following this decision, the above Lacoste case is an important one, holding that the trademark right is unenforceable against parallel import of genuine goods. This decision further seems to be landmarking because legality of parallel import of genuine goods was affirmed in the light of not only trademark infringement but also the Unfair Competition Prevention Law. Because of its significance, readers of this paper will allow a bit lengthy introduction of this case.

In the Lacoste case, the court concluded that neither of the plaintiff, Lacoste nor the co-plaintiff, Sankyo Seiko as an exclusive licensee were harmed by parallel import of genuine goods and that the interest of consumers was not damaged. In view of the purpose of the Trademark Law and the Unfair Competition Prevention Law, the court determined the lack of substantial illegality and the unenforceability of injunction under these two laws. Judgement taking into account the balance between the interest of the trademark owner and the interest of general consumers was already made in the Parker case. (Note 3.)

(2) In the Parker case, the court, while agreeing with

the territorial principle, states:

> "the object of protection by a trademark is a function of the trademark, and by means of protection of these functions, not only the interest of the trademark owner but also the interest of the public can be protected altogether. In this point of view, the trademark right has much stronger links with the society or the public than other industrial property rights do."
> "Although the trademark right has in principle nature of a private property, the scope of its protection is inevitably subject to social restrictions. The application of the territorial principle must be reasonably determined in view of the sprit of trademark protection with more emphasis on the infringement of trademark functions."

Injunction of a third party's act due to trademark infringement requires that the act is made by a person who has no formal title, and that the act is substantially illegal. Based on these reasons, the court thus admitted legality of parallel import of genuine goods.

(3) In the Parker case (Note 3.), at the request of an exclusive licensee of a registered trademark, the Bureau of Customs with the Ministry of Finance enjoined the importation of U.S. goods under Article 21 of the "Kanzei Teiritsu" (Custom Law) (Note 4.) which prohibits the importation of goods to infringe industrial property rights such as patents and trademarks. The importers brought an action claiming a declaratory judgement that the prohibition of import and sale of goods has no appropriate ground. In accordance with the custom practices, genuine goods had been subject to the prohibition of an importation under Article 21 of the Custom Law.

However, upon the decision of the Parker case, the Bureau of Customs in charge of the custom practices changed its position to exempt the genuine goods from the import embargo and promulgated the change in 1972 (Note 5). The promulgation formally ordered that import of genuine goods

had to be treated as not constituting a trademark infringement. The promulgation defines the genuine goods as follows:

> "In case that a person attaching a mark to and distributing goods is same as the trademark owner in Japan or can be deemed as practically identical to the trademark owner in view of their special relationship, such goods so distributed shall be genuine goods. However, this shall not apply to those goods in case of the respective use of the mark can be separately recognized, namely, the trademark used on the distributed and imported goods indicates a separate source or guarantee a separate quality distinctive from the source or quality that alleged trademark indicates or guarantees."

The decision of the Parker case had an influence on not only the custom practices but also the policy of the Fair Trade Commission of Japan as well as the custom authority. In its "Criteria for examining unfair method of transactions in Exclusive Agent Agreement for Import, etc.", the Commission listed "unreasonable hindrance of parallel import of goods under the agreement" as one of the transactions likely to be considered as unfair transactions (November 22, 1972).

(4) The Parker case was supported by a large number of lawers and practitioneers and since this decision, parallel import of genuine goods has been regarded as legal practice. However, there may be several situations with respect to the relationship between the parallel import and a domestic trademark right. In some cases, it may be difficult to ditermine as to whether or not an unauthorized import of genuine goods amounts to leagal import of genuine goods. There are several cases in which arguments were made to determine whether it is parallel import or not. In this regard, we would like to discuss two outstanding cases below.

(a) The "Mercury" Case (Decided August 31, 1973, Tokyo

District Court)

The plaintiff is engaged in the import and sale of miniature cars based upon a sole agent agreement with a subsidiary of Mercury Inc., an Italian manufacturer of miniature cars. The subsidiary thereafter granted to the defendant, a Japanese company, a license to resell imported goods in Japan. This license was granted without prior permission of the plaintiff and the subsidiary refused to supply goods to the plaintiff. The plaintiff sued the defendant for infringement of two "MERCURY" trademarks which the plaintiff registered by itself in Jpaan. In this case, the plaintiff, having past experience of other trademark disputes, had independently filed trademark applications consisting of the word "MERCURY" and a design. The prior registration of "MERCURY" was cited by the examiner during prosecutions. The plaintiff finally succeeded in registering a trademark by obtaining an assignment of the citation "MERCURY".

In this case, the court stated that an issue concerning parallel import of genuine goods occurs if:

> "a third party imports into Japan goods manufactured and sold by a trademark owner residing in a foreign country providing that the foreign trademark owner has registered a corresponding trademark in Japan or has granted an exclusive licence to the special person, or that the special person has registered a corresponding trademark in Japan but is in a close connection with the foreign trademark owner legally (e.g., a sole sales agent on behalf of the foreign trademark owner) or economically (e.g., a company within the same concern as the foreign trademark owner)."

In this case, the court did not support the assertion of the defendant on parallel import of genuine goods because required legal or economical relationship between the parites did not subsist.

(2) "Technos" Case (decided May 31, 1978, Tokyo District Court; Decided December 22, 1981, Tokyo High Court)

A Japanese company who registerd a "TECHNOS" trademark in Japan sued for infringement of its registered trademark the defendant who imported from Hong Kong and sold in Japan watches bearing a trademark "TECHNOS". The defendant defended by asserting that the defendant's trademark is originally owned by a Swiss corporation (Technos). The defendant further contended that (a) Swiss Technos owned the trademark in Switzerland, (b) the goods at issue were genuine goods exported to Hong Kong by a Korean company who was a sole agent in Korea for Swiss Technos and the owner of the corresponding trademark in Korea, and (c) the plaintiff also imported watch parts (movement) from Swiss Technos, assembled them and machined to get finished watches for which the trademark was used. The defendant asserted that the source and quality indicated and guaranteed by the defendant's trademarks and those by the registered trademark were identical. Based on these grounds, the defendant asserted that their importation constituted parallel import of genuine goods.

Regarding the defence of parallel import of genuine goods, the Tokyo District Court stated that:

> "It is true that these requirements are prerequisites for constituting parallel import of genuine goods. However, they are not necessary sufficient. The plaintiff as the owner of the Japanese trademark concerned should be identical to Swiss Technos, the owner of the trademark in Switzerland or in a special relationship to constitute a ground to regard the parties as sufficiently identical."

The court further stated that if the plaintiff of this case had registered the trademark in Japan with an approval from Technos or had been an assignee of the trademark

registration that Swiss Techons had formaly obtained the case could fall under the lawful parallel import of genuine goods. In actuality, however, the plaintiff registered the trademark irrespective of any relationship with Swiss Technos and entered thereafter into a business relationship with Swiss Technos. Based on these findings, the court rejected the assertion of defendant that its importation constituted lawful parallel import of genuine goods.

In the appeal court (Tokyo High Court, Decided: December 22, 1981), the High Court supported the conclusion of the first trial court but reasoned that the defendant's goods had not been genuine goods from the first finding that Swiss Technos did not grant Korean Company a license to use its trademark.

In these two cases, the courts commented on some criteria for accepting parallel import of genuine goods. While their criteria seem reasonable, their reasonings for the respective conclusions are yet insufficient namely, the court should have fully studied the cases from the view point of interest of the plaintiff and the interest of the consumers concerning the related trademark and goods as discussed in the Parker case and the Lacoste case. (In this respect, the decision of the appeal court in the "TECHNOS" case finding that the defendant goods have no relationship with Swis Technos on a factual basis and that they are not genuine goods, is reasonable because the case was judged at the first stage not involved in the issue on parallel import of genuine goods.)

(5) In determining whether unauthorized import constitutes permissible parallel import of genuine goods or not, fact analysis shall lead a decision, but as factual basis to be respected for studying a case, we wish to pick up the following, in the light of the cases above discussed.

(a) The relationship between a national trademark owner (owner of a national trademark registration or its licensee) and the owner of a trademark which is labelled on imported goods (owner of a foreign trademark) - a legal or business connection

To be specific:

- The parties are identical.

- A national trademark owner is a assignee of a national trademark that a foreign owner has registered.

- A national trademark owner has acquired a national registration with a special approval of a foreign owner.

- A national trademark owner and a foreign trademark owner are under a same control (capital) like in the case of the parent-child or brothers relationship.

- A national trademark owner is an exclusive sales agent of the goods of a foreign trademark owner.

(b) The relationship between imported goods and a foreign trademark owner.

To be specific:

- The goods are those manufactured and sold by a foreign trademark owner.

- The goods are those manufactured and sold by a licensee of a foreign trademark owner.

- The goods are labelled with the trademark by a foreign trademark owner by himself or a person with his permission.

- The goods are under quality control by a foreign trademark owner.

(c) The relationship between the imported goods and the goods handled by a national trademark owner

Example:

- Differences in their sources
- Differences in their quality
- Substantial identity of the trademark put on the respective goods.

4. Conclusion

We have discussed outstanding court decisions dealing with parallel import of genuine goods in Japan. In principle, parallel import of genuine goods is now regarded as legal. However, it embraces delicate theoretical conflicts between the principle of trademark protection and the territorial principle. Unless they are standard cases, therefore, it is not simple to adjust two principles.

Use of a trademark, namely trade of trademark-bearing goods is an economic activity which can be greatly influenced by society and economy. Parallel import of genuine goods is also a profit-oriented activity. Thus, parallel import is influenced by the balance of international trade, or by the fluctuations of exchange rates. For example, in Japan, as the retail prices of foreign goods has not been so lowered even under strong yen and there are much criticism against the enormous surplus trade, it is reported that the government is investigating the practices of sole agents for importation and trying to accelate parallel import of foreign goods so that foreign goods may be much imported and sold at lower prices.

To the contrary, if parallel import of genuine goods are broadly applied, it is likely that such broad application will stimulate the appearance of counterfeit goods bearing trademarks illegaly. If so, the interest of the trademark owner will be adversely affected.

Parallel import of genuine goods is a difficult problem as it must be studied from economical aspects as well as the

principle of trademark protection. We hope that this paper will be of some help for readers to review the matter.

Note)

1. Exclusive License ("Senyoshiyoken")

The Trademark Law provides an exclusive licensee with a right to exclusively use a registered trademark within the scope which is granted by the trademark owner. Under the Trademark Law, an exclusive licensee is entitled, like the trademark owner, to claim an injunction against use of a registered trademark and a similar trademark by a third party since such use constitutes an infringement of his own right to exclusively use the registered mark. (Trademark Law, Art. 30 and Art. 36). However, a non-exclusive licensee is not entitled to seek an exclusion of others' use. The exclusive license becomes in effect upon its recordation in the Patent Office.

2. The Unfair Competition Prevention Law, Art. 1-1-1

"If either of the following acts is likely to injure the business interest of a person, the person may claim an injunction against the injuring acts.

i) Act of causing confusion with another person's goods by using an indication identical or similar to his name, tradename or trademark, the package or container of his goods, which are well recognized in the territory where this law is applicable, or by selling, distributing or exporting goods using such indication.

ii) (not cited)"

3. The Parker Case

This case was appealed to the Osaka High Court for dismissal of the decision by the Osaka District Court in 1970. After the decision by the District Court, however, the exclusive license agreement terminated. The appeal court dismissed the appeal by the plaintiff, importers, for absence of grounds for injunction without substantially reviewing the issue of parallel import of genuine products.

4. The Custom Law, Art. 21

"Any one of the following shall not be imported.

i)-iii) (citation omitted)

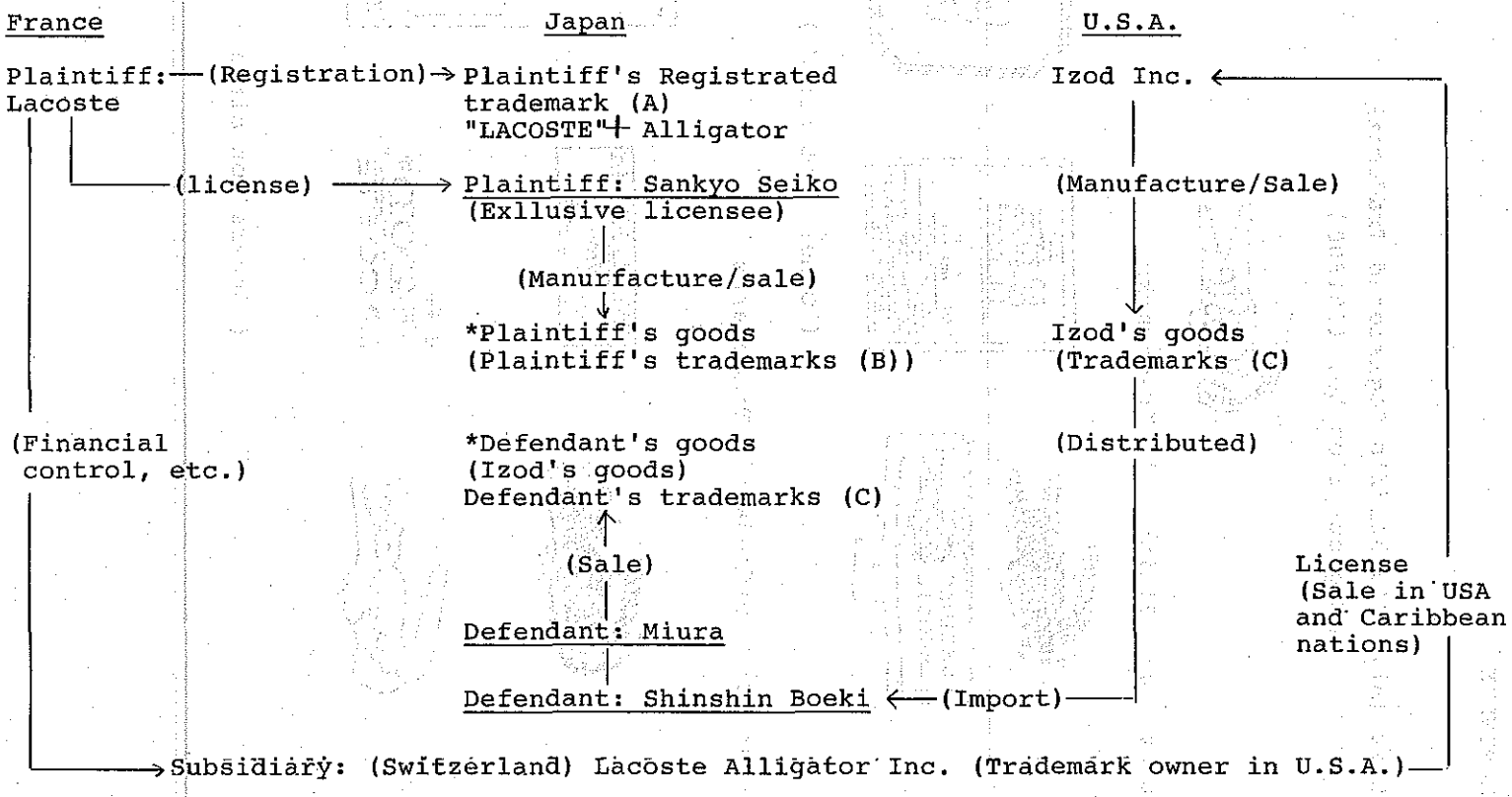
iv) Articles which infringe a patent right, utility model right, industrial design right, trademark right, copyright or copyright neighbouring right."

5. Promulgation of the Bureau of Customs, Finance Ministry

Promulgation of Partial Amendment (No. 1443 of August 25, 1972) to the "promulgation for injunction against importation of articles infringing intellectual property rights" (No. 522 of May 31, 1966)

Diagram of the Parties)

The Lacoste Case (Decided Dec. 7, 1984, Tokyo District Court)

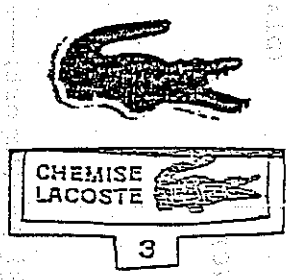


APPENDIX)

List (A): Plaintiff's Registered Trademark
(Registration No. 1151800)



List (B): Plaintiff's Trademarks





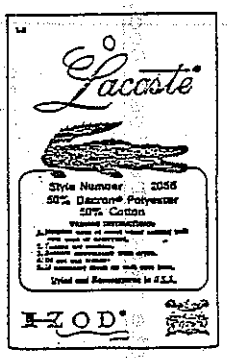


(Others not cited)

List (C): Defendant's Trademarks











(Others not cited)

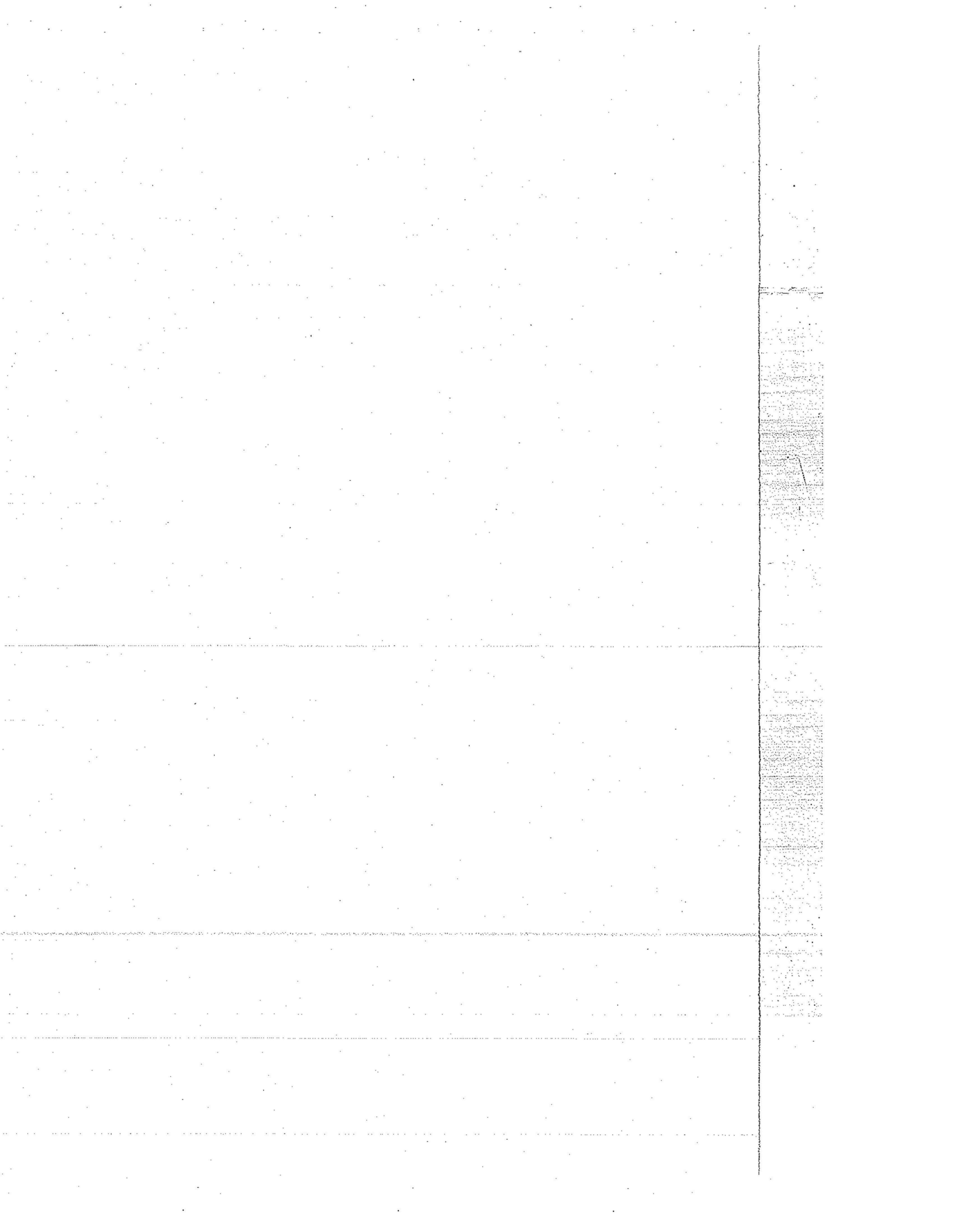
COMMITTEE NO.2

* Panel Discussion: The Possible Effects and Problems on License which may arise out of Transfer of Business or of Business tie-Up

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The Possible Effects and Problems on License which may arise out of Transfer of Business or of Business Tie-up

Presented at PIPA 17th Congress

Japanese Group, Committee No. 2
Subcommittee A

Yoshihisa Endo, Asahi Glass Co., Ltd.
Hisaaki Kato, Toshiba Corp.
Sakuei Shinoda, Nippon Kokan Kabushiki Kaisha
Keiji Kawamoto, Fujisawa Pharmaceutical Co., Ltd.
Minoru Tawara, Fuji Heavy Industries Ltd.
Hideo Doi, Mitubishi Electric Corp.

Panelist - Hideo Doi

Abstract

License agreements are based on highly fiduciary relations between the parties. Assignments by either party of his contractual position as such in his license agreement to any third party as well as taking over by any third party of the said position as a result of assignment of business, merger or any other cause is, therefore, a matter of great concern of the other party to the agreement.

Transfer of business will have to be so construed that, in the case of the so-called general succession (merger), the agreement itself may validly be assigned to any third party without the consent of the other party but, in all other cases, it should not be allowed to be assigned without the other party's consent.

The license agreement usually contains a sort of provision for its assignment, some of which go even further to stipulate provisions (e.g. for reviewing terms and conditions of the agreement then in effect) in case the assignment of the agreement does take place. If transfer of business should give rise to assignment of the agreement, would the assignment provisions really be enforced as stated? We are afraid they would oftentimes prove useless.

To solve the problem, the agreement may be cancelled or a proposal for amendment to the terms and conditions made, based on the doctrine of clausula rebus sic stantibus. In the event neither of them is feasible, then it will be necessary to seek for a solution by virtue of the arbitration clause provided in the agreement or apply to the court for conciliation.

1. Introduction

Licensing of patent and know-how creates contractual relations, over a long period of time, based on mutually fiduciary relations between the parties. Assignment by either party of his contractual position as such to any third party or succession by a third party to the said contractual position as a result of assignment of business, merger or any other cause, therefore, is a great concern of the other party.

A review of industrial mergers, business acquisitions, and assignment en bloc of businesses, all of which have become more and more popular in the United States of America and other advanced countries, would seem to be indicative of a number of problem areas existing in the license agreements.

What rights each of the licensor and the licensee has in respect of assignment of their license agreement and what restrictions each is subject to must be agreed upon between the parties involved.

As far as we can ascertain, provisions are not fully stipulated in the patent law or other statutes of any country in regard to what would happen if a license agreement fails to contain a specific provision for assignment of that agreement. While there has been established in some countries the principle of deciding cases after precedents, there are many other countries, like Japan, in which the established precedents are not available.

In the event a patent or know-how license is accompanied by a trademark license, assignment of the license agreement may not be left to the licensee's option because it is necessary for the licensor to continue exercising control necessary for

maintenance of the trademark.

For the above reasons, it is customary that a license agreement contains some sort of provisions for its assignment.

Assignment of license agreements will have to be studied from two angles; assignment by the licensor and assignment by the licensee. A study made this time, however, is restricted to the assignment of the license agreements by the licensor, with particular reference to impact of the transfer of business by the licensor on the licensee in respect of the license agreement.

The term "transfer of business," as used in this discussion, relates to, among other things, acquisition by a third party of shares of stock (capital participation), merger, acquisition of business, assignment of business, apportionments and bankruptcies. The study made this time covers the problem areas that are common among them, leaving out problems inherent in individual cases of the business transfer.

Problems centering on the trademark must also be studied. Our examination was, however, limited to the patent and know-how licenses.

Our study, particulars of which are given in the following, is made on the basis of the Japanese law.

Provisions in the license agreement that relate to its assignment may be classified into three different categories: The first prohibits the assignment, the second requires a prior consent of the other party to it, and the last requires no prior consent of the other party to it.

We will not make particular reference this time, however, to the first category which prohibits the assignment, because

cases in which the assignment of the license agreement is prohibited are very rare.

2. Cases Requiring Prior Consent for Assignment of Agreement

It will generally be advantageous to the licensee to make bilateral the restrictions on assignment of the license agreement, binding both the licensor and the licensee. It will particularly serve for the purpose of equity in the event of a cross-license.

The most popular bilateral provision thus binding both the parties sets forth to the effect that assignment of the license agreement requires a prior consent of the other party.

The above provision embraces two problem areas. The first would be whether, in the event of the transfer of business which is generally required to be kept in confidence until it is boiled down to the final stage, would the licensee who is a third party to that negotiation be properly contacted for the prior consent under the prior consent provision of the license agreement, and when should the licensee be so contacted?

Transfer of a license agreement by the licensor to a third party, if implemented while the licensee is kept uninformed of it, would undoubtedly give rise to a number of problems as dealt with in detail in Section 3. Thus, the prior consent by the licensee should be a reasonable requirement.

In addition, the "prior consent" as referred to in this Section is usually bilateral, and the license agreement is based on highly fiduciary relations between the parties to it. From these points of view, prior notice of the transfer of business should properly be given to the licensee, however confidential it may be for the purpose of the transfer of business. Friendly

relations between the licensee and the new licensor would only be conditioned upon fulfillment of the "prior notice" obligation.

With respect to the question of when the licensee should be contacted to meet the prior notice requirement, the best time would probably be when the transfer of business is substantially boiled down to the final stage.

The second question incident to the "prior consent" provision would be whether , if asked by the licensor for the prior consent to assignment of the license agreement, the licensee could refuse it. Generally speaking, licensees expect to enjoy continuously the benefit of patent and know-how of licensors. Refusal by a licensee of the licensor's assignment of the license agreement would mean that the licensee is no longer entitled to the benefit under the license agreement.

Particularly in the event of the transfer of business in which patent and know-how covered under the license agreement are normally also assigned to the third party, the licensee would not refuse the prior consent. Nevertheless, if assignment by the licensor of a license agreement does give rise to any of the problems detailed in Section 3, it would be advantageous to the licensee to study the possibility of giving the prior consent subject to certain terms and conditions.

It would also be necessary to examine the possibilities of making changes in the current terms and conditions of the license agreement based on the doctrine of clausula rebus sic stantibus and, depending on the circumstances, it might even be necessary to terminate the license agreement.

If assignment of the license agreement by the licensor is based on the general succession, it may be unrealistic to apply

the above-mentioned ideas. Criteria for determining whether the licensee should give a prior consent to assignment by the licensor of the license agreement would include whether it could give rise to any of the problems set forth in Section 3 and, if it could, then what counter-measures would be available for them.

3. Cases Requiring No Prior Consent for Assignment of Agreement

Most of average license agreements contain the "prior consent" provision mentioned in Section 2, which however does not require in many instances a prior consent of the other party with respect to the general succession (inheritance, merger, etc.).

Nowadays the merger and acquisition of business are rather everyday affairs in the United States of America and other advanced countries. However close the fiduciary relations between the parties to a license agreement may be, any such arrangements as could restrict the business activities would not be realistic. With respect to assignment of license agreements taking place together with the transfer of business which includes the general succession, waiver of the consent of the other party is expected to prevail in more and more license agreements.

As a matter of fact, the difference of the position between the licensor and the licensee, or the power relationship between both the parties, causes not a few license agreements to state "The consent of the licensee shall not be requisite for assignment by the licensor of the license agreement," rather than "The consent of the licensor shall be requisite for

assignment by the licensee of the license agreement."

Even in the above-mentioned cases, however, it goes without saying that, in the event of assignment of the license agreement, the condition necessary for counteraction against a third party is a notice to the licensee. In Japan, in addition, the assignment of the license agreement is made subject to an approval under the Law Concerning Foreign Investment.

In the event such provision is stipulated in license agreement that no consent of licensee is required on assignment by the licensor of license agreements resulting from transfer of business, the licensee is likely to face a number of problems stated in the following. It will be very important, therefore, that a thorough study be made prior to signing of the license agreement and all necessary matters are properly provided in it.

(1) If, in the event of a cross-license or a license with the grant back provision, technology and development ability of the licensee happen to exceed those of the new licensor, the balance of contractual power between both the parties would be destroyed. In cases like this, the licensee will have to review terms and conditions of the license agreement in respect of the consideration, which includes the license fee, and of other aspects and, wherever necessary, to study the possibility of terminating the agreement.

(2) If, in the event of a cross-license or a license with the grant-back provision, the patent or know-how covered by the license is assigned to any competitor of the licensee, competition will take place with the new licensor in the market, to defeat the purpose of the agreement previously entered into by the licensee and to destroy the balance of the contractual

power in a sense different from the one cited in (1) above. Here again the review of the terms and conditions or the possibility of termination of the agreement will have to be studied.

(3) If, under terms of the license, the licensee is entitled to an additional license on a continuous basis in respect of any technological innovation or improvement patent, but the new licensor is not interested or enthusiastic in promoting the development in the related fields of the technology, with the result that the licensee could no longer expect any benefit of the continuous licensing of any technological innovation or improvement patent, and if in determining the consideration, which includes the license fee, consideration was given to the said expected license for the technological innovation or improvement patent, then the terms and conditions of the agreement will have to be reviewed for possible deduction in the consideration etc.

(4) If patent and trademark of the licensor, together with his business, moves to a third party, a study will have to be made to make sure that proper steps have been taken with the patent office or any other competent authorities for a transfer registration of the same. In the United States of America and certain other countries in which the transfer registration does not seem to be made obligatory, no official means would be available to make sure that all such transfer formalities have been completed. If that is the case, it will be necessary to obtain from the former licensor documents which evidence the assignment of the patent and trademark.

In Japan and some other countries, the non-exclusive

license cannot set up against the new patentee, unless the creation of the same is registered with the patent office.

(5) If, in the event of a license agreement which requires renewal after a certain period of time from the date of its execution, a change of the licensor has given or is likely to give rise to any change of the licensing policy, the licensee may become unable to acquire the license on such terms and conditions as are the same as or more lenient than those so far in effect.

A study must be made on the promise made in the terms and conditions for renewals of the agreement, i.e. the same as or more lenient than those under the former agreement. In addition, the necessity of securing the promise of renewal of the agreement must be studied inasmuch as a change in the license policy could end up with refusal of renewal of the agreement.

Particularly when execution of the license agreement is largely dependent on human relations between the parties to it, or if there is any side agreement behind with the licensor, a change of the licensor could bring about substantial impact on the renewal of the agreement.

(6) If a license agreement is assigned to a third party, it is usually terminated and a new agreement entered into with the new licensor. In cases like this, a study must be made for arrangements to be made with the former licensor in respect of duties of the former licensor to keep secrets and not to make a misappropriation of information pertaining to the licensee.

If, in the event of assignment of a license agreement, no other measures are taken except for exchange of a side letter

for change of the licensor, a study will have to be made particularly for necessary precautions to be taken in respect of the duties to keep secrets and not to make a misappropriation, in respect of information (including any technical information) on the licensee acquired by the former licensor under the agreement.

(7) If, particularly in the know-how license agreement, the licensor provides any guarantee or warranty in case of infringement with a licensed product on patent etc. owned by a third party and technical (quality) warranty, change of the licensor could result in lack of the future guarantee service. A careful study will be necessary to ensure that the said service may be continuously provided as promised.

(8) The bankruptcy of a licensor will mostly result in liquidation proceedings by the receiver. It will be necessary to prepare for a possible refusal by the receiver of continuation of the license proposed by the licensee. A study must be made well in advance of the bankruptcy to ensure that the licensee may familiarize himself with the situation and prepare himself for exercise of the first refusal right so the licensee may be entitled, prior to any third parties, to assignment of the patent and know-how covered under the agreement.

The best method for the licensee to protect his interests in the event of assignment of the agreement by the licensor will be to make a careful study, at the time of executing the agreement, of counter-measures to be taken on the assumption that the above-mentioned cases take place, and to incorporate the counter-measures into the agreement. It may also be useful

to draw up the agreement which permit the licensee to terminate it.

It may, however, be infeasible for the licensee to have all of the above incorporated into the agreement because of the difference in the position between the licensor and the licensee in the course of negotiation for the proposed agreement. Even when the above-mentioned counter-measures are incorporated into the agreement, it would not be easy, under the terms and conditions of the agreement then in effect, to successfully have the amendments to the terms and conditions of or termination of the agreement agreed to by the new licensor, when the assignment by the licensor of the agreement becomes a reality and is, for example, a result of the general succession (merger) of the agreement. It is expected that the new licensor would not agree in many occasions to the proposal so raised by the licensee.

Even when the above-mentioned situation takes place, the licensee would generally be permitted to change the terms and conditions of the agreement by virtue of the doctrine of clausula rebus sic stantibus. Thus, a study on this doctrine will be of importance.

Each of the parties to a license agreement has a sort of comprehensive, legal status, as a result of which he acquires certain rights (such as the right of claim for the license fee). In the event a change takes place in the actual, individual circumstances in which the parties are involved and which form such close relations between themselves as are represented by the continuation of a certain legal status between themselves, it becomes appropriate in most cases to have that change properly reflected on the legal relations between themselves.

In cases like this, there is much room for applying the said doctrine of clausula rebus sic stantibus. It is a generally accepted practice as a restriction against the doctrine of liberty of contract.

If, after execution of an agreement, a sudden, economic change unforeseeable by the parties takes place and, as the result, it would bring about an extremely inequitable disadvantage to either party to cause the agreement to be enforced as literally set forth in it, simply based on the doctrine of Treu und Glauben or "good faith," the said doctrine entitles him to terminate the agreement or to change the agreement so as to adjust itself to the new circumstances so created.

There are two strict requisites for application of this doctrine, however; (1) the change in circumstances was not foreseen nor foreseeable by the parties to the agreement, and (2) it took place because of an event for which neither party was liable.

If the new licensor does not comply with the licensee's proposal, based on the said doctrine, for cancellation of or an amendment to the agreement, the licensee may seek for a solution by virtue of the arbitration clause contained in the agreement or apply to the court for conciliation.

The recent precedents in Japan indicate that, in the case of lease agreements which have the continuous obligatory relations in the same manner as in the license agreement, trends of the court decisions are to take the destruction of human relations between the parties involved as a sufficient cause for termination of the continuous legal relations between

themselves.

4. Cases in Which No Provision is Made for Assignment

As is evident from the foregoing, it is very important that a license agreement provides for its assignment. Should a license agreement fail to do so, what may be done in the event of the assignment by the licensor?

Generally speaking, the licensor would be justified, without the consent of the present licensee, in assigning to a new licensor the rights originating in the license agreement, such as the right to receive the license fee.

With respect to such duties to disclose information and give notice of any improvement invention (including the grant-back) as are imposed on the licensee, however, the licensee would have reasonable grounds for refusing the performance of his duty for the new licensor, if the new licensor is his competitor and the manufacture and sale by the former licensor has been none or practically none.

Also, if, in the event of assignment of the licensor's rights, it results in substantial lessening of the licensor's obligation, the license agreement as a whole should be considered unassignable.

Because of the above, and in view of the highly fiduciary relations between the parties on which, as previously stated, the license agreement is based, the transfer of business by the licensor will have to be construed so that, in the case of the general succession (merger), the licensor may assign the license agreement itself to any third party without the consent of the licensee, while in all other cases the agreement itself should not be permitted to be assigned without the licensee's consent.

Transfer by the licensor of the license agreement, if effected together with the transfer of his business, is likely to give rise to disadvantages to the licensee, such as the failure of the licensor to perform his obligations, when, as previously explained, the license agreement in effect is dependent substantially on the human relations between the parties to the agreement or when there is some sort of side agreement with the licensor behind the license agreement. Care must be taken in this regard, when executing a license agreement.

Although, in the event of the general succession, the license agreement may generally be assigned without the licensee's consent, the licensee must arrange a demand on the licensor, based on the said doctrine of clausula rebus sic stantibus, for termination of or an amendment to the terms and conditions of the agreement, when change of licensor gives rise to any economic change unforeseeable by licensee of the execution of a license agreement.

If, together with the transfer of business, a Japanese patent covered under the license agreement is assigned to a third party, and if a non-exclusive license created in respect of that patent is registered with the patent office in accordance with Article 99 of the Japanese Patent Law, the license will be binding upon any new licensor.

In connection with the above, there would be a question as to whether the terms and conditions, particularly the license fee, of the license agreement taken over by the new licensor are supposed to be the same as those of the license agreement to which the former licensor was a party. Or, would it be

sufficient for the new licensor simply to acknowledge the license then in effect, with its terms and conditions to be separately negotiated and agreed upon?

We are of the opinion that the new licensor is bound to admit the license, subject to the terms and conditions of the agreement under which the license was initially granted. If the new licensor intends to raise the license fee or otherwise amend the terms and conditions of the agreement, then he should negotiate it with the licensee, not on the grounds of assignment of the patent, but subject to the terms and conditions of the agreement so far in effect and further to such rules and principles as are applicable to general agreements.

We would say so because, unless the new licensor acknowledges the license on the same terms and conditions as were under the agreement so far in effect, the purport of the law which gives, to the parties to the agreement, the right to assert their rights lawfully against a third party in respect of the license granted under it, would be defeated.

In the event of assignment of a license agreement which includes a patent right of a country in which the creation and registration system of a license is not provided, complex problems would take place, partly because of its governing law. The new licensor would be required to acknowledge the license already in existence, because the licensee is not basically prejudiced by his assignment of the agreement based on the general succession.

5. Conclusion

This time, we have examined some of the impact of the transfer of business upon the license agreement and of problem

areas incident to it. There are many other problems to be studied, about which we will have to wait for the next opportunity.

This presentation includes views which would serve as the trigger for prompting of the discussion to start from now on. We welcome your energetic participation in it because we want to make the discussion really a fruitful one. Thank you.

Pacific Industrial Property
Association 17th Congress
Kanazawa, Japan - November 1986

Committee No.2

- Panel Discussion -

The Possible Effects and Problems on License which may arise out of Transfer of Business or of Business Tie-up

-Report-

Effect of Parallel Importation on International Business Tie-up

Katsuhiko Shimizu
Ebara Corporation

Abstract

Though parallel importation problem has long history, it seems worthy to review the effect of it on international business tie-up, because recent cases have different aspect from old cases.
The summary of recent leading cases, the interpretation of the United States, German and Japanese Trademark law and the comparison of patent system and the trademark system are discussed.

I. Introduction

We can conceive several possible effects on license which can arise out of international business tie-up. This paper will focus on the effect of parallel importation problems which are closely related to an international license.

Histically, there have been two types of cases, regarding importation of trademarked goods without authorization by trademark owner.

The first type involves identical goods originating from the same manufacturing source but imported by different trade channels. This is most common types of the past parallel import cases; and the leading Japanese decision of this type is the Parker pen case.

The second type is related to importation of similar goods originating from different manufacturing sources ("Type 2 Case").

I would like to review, in this paper, the Type 2 Case and then discuss the pertinent differences between the trademarks system and the patent system in this type of parallel import case.

II. Review of Type 2 case

Type 2 Case are further divisible into two categories.

The first category involves conflicts between domestically manufactured goods and similar imported goods.

The second category involves conflicts between similar imported goods manufactured by different foreign sources.

Below is summary of leading cases from some important jurisdictions.

1. United States:

The Vivitar case:	The decision of the Court of International Trade, August , 1984 and The U.S. Court of Appeals for the Federal Circuit, May 6, 1985.
The Coalition to Preserve the Integrity of American Trademarks case:	The decision of the District Court of Columbia Circuit, December , 1984 and the U.S. Court of Appeals for the District of Columbia Circuit, May 6, 1986.

The Duracell case: The determination of the U.S. International Trade Commission in Investigation No. 337-TA-165, November , 1984. The determination of the President Regarding the above I.T.C. dertermination.

In these cases, the plaintiffs were U.S. manufacturers of trademarked goods and owners of the trademark. The Plaintiffs sought an order excluding the importation of trademarked goods manufactured by the Plaintiffs' foreign subsidiaries.

Section 526 of the U.S. Tariff Act of 1930, 19 U.S.C. §1526, appears to support the Plaintiffs' claims, by providing:

> (a) Importation prohibited
> Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

However, Section 133.21 of the Customs Services Regulation of 1984, 19 C.F.R. (1984), provides to the contrary, in pertinent part:

> §133.21 Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) Copying or simulating marks or names. Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual couterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) Identical trademark. Foreign made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) Restrictions not applicable. The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§133.2(d) and 133.12 (d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner;

Therefore, in these cases, the tribunals focused on the validity of the Custom Services Regulations under Section 526 of the Tariff Act and the Section 42 of the Trademark Act.

The decisions conflict, giving different interpretations of the statute and the regulations because the conflict among the statute, legislative history and long standing consistent practice of the Customs Service.

It has been reported that the U.S. Administration is currently reviewing the United States position on this issue and is likely to propose a reconciling change to either the legislation or regulations.

2. West Germany, the Cinzano case:
Federal Court Decision, Feb.2, 1973.

The Plaintiff holding the registered trademark "Cinzano" in West Germany, a German subsidiary for a distirbution of the goods manufactured by the Italian parent company, brought suit to obtain an order to prevent the importation of similar trademarked goods manufactured by Spanish subsidiary and French licensee of the Italian company. The quality of the imported goods was different from that of goods manufactured by Italian parent company.

The tribunal focused on the point whether such importation violate the Section 24 of the German Trademark Law, further, whether it is against the purpose of the Law provided in the Section 1, and held against the Plaintiff, concluding that:

> If the (original) trademark owner has authorized its foreign subsidiaries or independent licensees to use the trademark identical to its trademark (registered in original country) on their goods and to put such trademarked goods on the market, a company who has registered the identical trademark in its resident country under authorization of the (original) trademark owner shall not be permitted to prevent the import of goods marked with such genuine trademark abroad. This conclusion is also applicable in principal to the case in which the imported goods are not the same in contents as the goods of domestic trademark holder.

Under current law, question concerning parallel imports

between European community member State would be significantly affected by European Community Law. However, I am not sure about the application of European Community Law to importation from third country of this Type 2 Case.

3. Japan, the Lacoste case:
Tokyo District Court Decision, Dec.7, 1984, appeal filed.

The Plaintiff were the French company La Shoes, Lacoste, an owner of the registered trademark "Lacoste" in Japan and the Japanese exclusive licensee to manufacture and sell the goods marked with the trademark in Japan, brought suit to obtain an order to prevent the importation and the sale of similar goods manufactured in the United States under license of French Licensor (one of the Plaintiff) and marked with the registered trademark in U.S.A.

The tribunal focused on the point whether there is a obvious difference in quality between imported goods and that of the Plaintiff, further, whether such importation is against the purpose of the Japanese Trademark Law set forth in Section 1 of it, and held against the Plaintiff concluding that:

> The two main role (distinguishing of supply source and quality assurance) of trademark system, the business reliability of the Plaintiff and the interests of the consumers were not be injured by the importation and the sale of the goods manufactured by the foreign parallel licensee, because French licensor strictly controles the quality of the goods manufactured by its licensees.

III. Interpretation of Trademark Law

1. The U.S. Trademark Act (Trademark Act of 1946)

Through my study, I found that the U.S. Trademark Act is not independent of the Tariff Act and the Trademark Act does not have any provisions appropriate for judging of Type 2 Case.

Therefore, I think it would be better to cite a part of two recent judgement papers of the U.S. Court of Appeals for reference.

The Vivitar case: The U.S. Court of Appeals for the Federal Circuit May 6, 1985

Statutory Interpretation

The issue, as framed by the parties, is whether the regulations of the Customs Service correctly interpret the extent of protection afforded by the statute, 19 U.S.C. §1526 (Section 526, Tariff Act of 1930, hereinafter §1526). The provisions of §1526(a) appear to create a sweeping bar to importation of any goods bearing the same trademark as that owned by a U.S. company without the latter's consent. In contrast, Customes' regulations provide for a more limited prohibition. Under current regulations, a U.S. company must disclose foreign affiliated companies as part of the information required upon recordation of its mark. 11/ With respect to goods of these affiliated companies, Customs does not require consent to importation and will not bar importation of goods from these sources bearing the recorded trademark, even if the U.S. trademark owner demands--as Vivitar has done--that the goods be excluded. 12/

The government makes two arguments in support of a narrow reading of the statute which would limit §1526(a) protection to that provided by the regulations: (1) Congressional intent expressed at enactment and subsequently, and (2) long standing administrative interpretation and practice. Vivitar, on the other hand, argues that the regulations violate the statute. Neither party's position is persuasive for reasons discussed below.

11/ 19 C.F.R. §§133.2(d) and 133.12(d)

12/ 19 C.F.R. §133.21(c)(1), quoted supra. In 1982, Vivitar submitted a formal request for a letter ruling of its entitlement to exclude all goods bearing the VIVITAR mark unless it consented to importation. After 18 months without reply, Vivitar commenced this action.

A.

Congressional Intent at Time of Enactment

The Court of International Trade concluded from a review of the legislative history that the sole purpose and effect of §1526 was to nullify the result of the decision of the Second Circuit in A. Bourjois v. Katzel, 275 F. 539 (2d Cir. 1921). The government urges that we adopt the lower court's analysis. Our review of legislative history, however, indicates that, while reversal of the Katzel decision was one purpose of §1526, it was clearly, and we use that word advisedly, not the sole purpose. Review of events leading to passage of §1526 must begin somewhat earlier than that case.

The Trademark Act of 1905, contained, inter alia, the following provisions [13]:

> §27: That no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this act . . . shall be admitted to entry at any custom house of the United States.

The statute also specified that, "to aid" in enforcing the prohibition, the registrant was to record his certificate of registration with the Department of Treasury.

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Omission

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Our review of the comments in the floor debate leads us to the conclusion that the debate is too unfocused and misinformed to serve as a definitive basis for interpretation of §1526. The floor debate, like the above committee report, indicates an erroneous understanding of the facts of the Kazel case, namely, that the French seller of the JAVA trademark was violating its contract and that the Second Circuit dealt with §27 of the Trademark Act of 1905 in Katzel.

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Omission

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The only clear indication from the debate is that Congress realized it was providing a bar to importation even though at least one circuit (the Katzel court) would hold that the concurrent use of the mark on the parallel import would not be an infringement. With respect to infringing uses of trademarks on imports, such goods were already excluded, or at least excludable, by §27 (the predecessor of Section 42 in the 1946 statute) of the trademark statute. Congress did not debate or intend to change trademark law to make uniform what the various courts might hold to be infringements. Rather, it ignored trademark law and, by amendment to customs law, gave a U.S. owner of a trademark a right to exclude foreign goods bearing the same trademark as the U.S. company had registered in the U.S. and recorded with Customs.

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Omission

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Despite the reversal of Katzel and the holding in Aldridge by the Supreme Court, which it is argued made §1526 unnecessary, the provision has not been nullified, but has remained part of the customs law. Indeed, a proposal to eliminate §1526 from the customs law, because the Trademark Act of 1946 would carry §27 forward as part of the new statute, was unsuccessful. Old §27 became §42 (15 U.S.C. §1124) in the 1946 statute.

We conclude that no limitations, based on indications of congressional intent at the time of enactment, can be read into the statute itself.

13/ A comparable provision had appeared in statutes prior to the Act of 1905. See, e.g., 16 Stat. 580 (1871), apparently the first of such provisions.

B.

Subsequent Legislative and Administrative History

The appellees maintain that the Customs regulations are supported by developments in the half-century since the passage of Section 526 of Tariff Act of 1930. First, they contend that the regulations embody a reasonable, longstanding administrative interpretation of the statute; second, they suggest that Congress has manifested its "acquiescence" in that interpretation. We have already explained that the first argument must fail because deference to an agency's construction is inappropriate when congressional intent is clear; alternatively, we conclude that even if the Customs Service properly enjoys some role in construing the scope of Section 526, the regulations at issue do not in fact constitute a "sufficiently reasonable" interpretation of the statute. Federal Election Comm'n, 454 U.S. at 39. See infra P.29. We also reject the appellees' argument that Congress has somehow ratified the Customs Service's interpretation through its silence. See infra pp.29-31.

1. Developments in the 1930s and 1940s.--Neither the 1923 nor the 1931 regulations had recognized any exceptions to the broad mandate of Section 526. Each contained separate articles enforcing the prohibition of Section 27 of the Trade-Mark Act of 1905 (the predecessor to Section 42 of the Lanham Act) against the entry of goods bearing trademarks that "copy or simulate" registered trademarks. See Customs Regulations of 1923, Art. 475; Customs Regulations of 1931, Art. 517 (b). In 1936, however, the Customs Service unveiled a new approach. Article 518 of the 1931 regulations, which had dealt solely with Section 526, was now amended to correspond to the language of Section 27. The new Article 518 provided, inter alia, that foreign goods bearing a genuine trademark identical to an American trademark "shall be deemed for the purposes

of these regulations to copy or simulate such protected trade-mark," T.D. 48,537 (1936);[13] however, it then exempted from this prohibition articles bearing foreign trademarks owned "by the same person, partnership, association, or corporation" as the American trademark in question. Id. The Customs Service regulations offered no explanation for this change, and it is doubtful that amended Article 518 even purported to interpret Section 526 as well as Section 27.[14]

Certainly the United States Tariff Commission (now the International Trade Commission), another agency dealing with trade matters, did not think so. In 1944, when Congress held hearings on legislation that eventually became the Lanham Trade-Mark Act of 1946, it considered a memorandum submitted by that agency suggesting that Article 518 of the 1936 regulations, in view of its "copy or simulate" language, implemented Section 27 but not Section 526. Hearings before a Subcomm. of the Comm. on Patents on H.R. 82, United States Senate, 78th Cong., 2d Sess. 86-87 (1944). The Commission justified this interpretation of Section 27 on the grounds that an enterprise could not "copy or simulate" its own trademark. Id. at 87. On the other hand, the Commission maintained, "Section 526 of the tariff act does apply to the merchandise of the trade-mark owner which bears his trade-mark if the merchandise was produced abroad and if the trade-mark owner is a citizen of the United States." Id. (emphasis added). After having been informed of the relationship between the two statutes and the prevailing administrative practice, Congress left Section 526 untouched and reconstituted Section 27 in identical form as Section 42 of the Lanham Act.

13 Amended Article 518 also contained a marginal reference to A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923), which, it will be recalled, had held that Section 27 barred grey-market imports under circumstances similar to those present in Katzel. See supra note 10.

14 However, although Article 518 of the 1936 regulations did not expressly rely upon Section 526 as statutory authority, the Customs Service's 1943 recondification of its regulations did add a marginal citation to Section 526. See 19 C.F.R. §11.14(b) (1943).

2. The German Trademark Law (Text of Jan. 2, 1968 with amendments)

Section 1 of the Law provides:

> Any person who wishes to make use in his business of a trademark for the purpose of distinguishing his goods from the goods of others may make application for the mark to be registered in the register of trademarks.

, Section 15 of the Law provides:

> (1) The registration of a trademark shall have the effect that only the proprieted is entitled to apply the trademark to goods of the type forming the subject of the application or to their wrapping or packing, to vend the goods thus marked and to use the trademark in advertisements, price lists, business letters, circulars, invoices, and the like.
>
> (2) If the trademark has been cancelled, any rights derived from registration shall cease to be enforceable in respect of the period during which legal grounds for the cancellation were already present.

and, Section 24, 25, 26 and 28 of the Law provides:

Section 24

> (1) If any person in the course of trade unlawfully applies the name or the trading style of another, or a trademark protected under the provisions of this law, to goods, to their wrapping or packing, or to any advertisements, price lists, business letters, circulars, invoices or the like, or vends or offers for sale any goods thus unlawfully marked, the injured party may take proceedings against him to discontinue these practices.
>
> (2) If any party commits such an act either intentionally or negligently he shall be liable for the damage sustained by the injured

party as a result of such act.

(3) If the act has been committed intentionally, the offender shall be punished by imprisonment for up to six months or by a fine upto 180 daily rates.

Section 28

(1) Foreign goods unlawfully marked with the name of a German firm and with the name of a German locality, or with a trademark protected under the provisions of this law, on entering the territory to which this law applies for the purposes of importation or transit, shall be seized for removing the unlawful markings at the request of the injured party, who shall deposit security. Seizure shall be effected by the customs authorities and confiscation shall be enforced by a penal decision on the part of the customs authorities.

(2) Seizure shall be effected by the customs authorities; they shall also take the necessary measures for removal of the unlawful markings. If the orders of the customs authorities are not followed or if removal is impracticable then the cusoms authorites shall order confiscation of the goods.

(3) Seizure and confiscation can be appealed by means of those legal measures which are admissible against seizure and confiscation in the manetary penalty procedure according to the law relating to irregularities. In this procedure the petitioner is to be heard. An immediate appeal may lie from decisions of the civil court; the provincial court of appeal decides on such appeal.

Namely, if the German Trademark Law is interpreted according to the purpose set forth in Section 1, the importation of the goods manufactured and lawfully marked in the foreign country of origin shall not be prohibited by the existence of domestic registered same trademark, at least in the event all such trademarked goods were marked with the trademark under the common authorization or controle of the same party in the country of origin and in West Germany.

Further, there is a possibility of being permitted the importation of such kind trademarked goods in a case there is no business connection between the foreign source of such goods and the owner of domestic registered trademark.

3. The Japanese Trademark Law (Law No.127 of April 13, 1959 as amended)

Section 36 (1) of the Law provides:

> The owner of a registered trademark or person who is granted the exclusive right to use such trademark may require a person who is infringing or is likely to infringe its trademark right or exclusive right to discontinue or refrain from such infringement.

Meanwhile, Section 1 of the Law provides:

> The purpose of this Law shall be to ensure the business reputation of persons using trademarks by protecting trademarks, and thereby to contribute to the development of industry and to protect the interest of consumers.

Therefore, if the Japanese Trademark Law is interpreted according to the policy set forth in Section 1, the importation of similar goods lawfully marked in the foreign country of origin with the genuine trademark should not be prohibited by the existence of domestic registered genuine trademark, provided the business reputation of domestic persons using the

trademark and the interests of consumers are not injured by such imported goods, e.g. through maintaining proper quality control procedures designated by the owner of both trademarks.

IV. Comparison of The Patent and The Trademark System

The discussion above indicates that, with several exceptions, the territoriality theory of trademarks does not seem to be the prevailing position.

However, the territoriality theory appears to continue to apply to patents. This is due to the difference in the purpose and role of the leagal systems governing patents and trademarks.

As legal scholars may discuss such difference more theoretically, I would try to compare patent and trademark from a practical viewpoint as follows:

(1) Basic purpose of the law

The Patent system: To encourage invention.

The Trademark system: To specify the source or manufacturer of goods (and under U.S. law to embody the goodwill of the owner).

(2) Monopolization

Patent: A patent gives the inventor a monopoly to exploit the invention.

Trademark: Monopolization of the market by a trademark is not possible; rather, competition between different trademarks is expected.

(3) Term

Patent: Term is limited.

Trademark: Unlimited term.

(4) Free-ride on the reputation created by the owner or licensee

Patent: The patent system gives the inventor a limited monopoly in exchange for public

disclosure of the invention.
Subject to the limitations of the monopoly, the patent system is intended to give the public the benefits of disclosure, including avoiding other's investing to rediscover the technology, and facilitating improvements and the development of applications by the public.
To this extent, others are allowed a "free ride" on the inventor's efforts, while still fulfilling the system's purpose of encouraging invention.

Trademark: In contrast, it is serious problem whether a "free ride" on the interests protected by trademark, the holders business reputation, is permitted.
If third parties are permitted to benefit from this reputation, the holder (or licensee) will loose the incentive to maintain quality, because the economic benefit will accrue to others.

Though, a "free ride" on the trademark holders business reputation is not desirable, based on other differences in practical features of patent and trademark, I think it would be reasonable to give patent more positive role than trademark for the protection of dominant position of the owner of a domestic right or domestic exclusive licensee.

V. Conclusion

Considering several decisions on Type 2 Case and the differeces between patent and trademark discussed above, I think it would be hard to prohibit the importation of such goods as shown in Type 2 Case, unless such goods are manufactured using the technology protected by patent in the country of importaion, because all imported goods considered in this report are manufactured and sold properly and legally in the country of origin.

Provided that, I am not sure whether such parallel imports should be permitted, in a case where there is no business connection between the foreign source of such trademarked goods and the owner of domestic registered trademark, or, in a case where there is a obvious difference in quality or contents between imported goods and that of domestic trademark holder.

Therefore, when we make plans for an international business tie-up including a trademark license, we need to respect Type 2 Case parallel import.

Finally, I wish to express my appreciation to Mr. Juro Ichimura, Mr. Minoru Tawara and other member of Committee No.2, Mr. Danny P. Jackson and Miss. Ikue Osada for their assistance and cooperation in the preparation of this report.

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
17TH CONGRESS
KANAZAWA - NOVEMBER 1986

BUSINESS TRANSFERS, ALLIANCES AND MERGERS - EFFECT ON TECHNOLOGY LICENSES

HEINZ GORETZKY
WESTINGHOUSE ELECTRIC CORPORATION

"THIS AGREEMENT SHALL BE BINDING UPON AND INURE TO THE BENEFIT OF THE PARTIES HERETO AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS."

"THIS AGREEMENT SHALL BE BINDING UPON AND INURE TO THE BENEFIT OF THE PARTIES HERETO AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS; PROVIDED, HOWEVER, THAT THIS AGREEMENT SHALL NOT BE ASSIGNABLE BY EITHER PARTY WITHOUT THE PRIOR WRITTEN CONSENT OF THE OTHER, EXCEPT (i) BY EITHER PARTY (SUBJECT TO THE RIGHT OF PARTY X TO TERMINATE IN ACCORDANCE WITH SECTION ...) TO A CORPORATION OR OTHER ENTITY WHICH SHALL ACQUIRE ALL OR SUBSTANTIALLY ALL DEVELOPMENT, DESIGN, ENGINEERING AND MANUFACTURING FACILITIES FOR ANY PARTICULAR PRODUCT LINE OF THE ASSIGNING PARTY AND WHICH SHALL EXPRESSLY ASSUME IN WRITING THE PERFORMANCE OF ALL THE TERMS AND PROVISIONS OF THIS AGREEMENT TO BE PERFORMED BY THE ASSIGNING PARTY IN RESPECT OF SUCH PRODUCT LINE; OR (ii) BY PARTY X TO ENTITY Z OR TO ANOTHER WHOLLY-OWNED SUBSIDIARY OF ENTITY Z, PROVIDED Z OR SUCH SUBSIDIARY SHALL AGREE TO PERFORM ALL THE TERMS AND PROVISIONS OF THIS AGREEMENT AS A PARTY HERETO."

ASSIGNMENT PROVISIONS ALONG THE FAMILIAR LINES OF THE FIRST CLAUSE MAY WELL SUFFICE IN THE CASE OF A SINGLE PRODUCT LINE PATENT LICENSE WITH NO GRANTBACK PROVISIONS. HOWEVER, IN MORE COMPLEX TECHNOLOGY AGREEMENTS PROVIDING FOR COMPREHENSIVE LICENSES OR CROSS-LICENSES INCLUDING GRANTBACKS UNDER BOTH UNPATENTED KNOW-HOW AND TRADE SECRETS AS WELL AS PATENTED TECHNOLOGY, EVEN RATHER DETAILED ASSIGNMENT PROVISIONS PATTERNED AFTER THE SECOND CLAUSE QUOTED ABOVE MAY TURN OUT TO BE INADEQUATE.

THE ARRAY OF MUTUAL RIGHTS AND OBLIGATIONS CREATED BY COMPREHENSIVE TECHNOLOGY LICENSES SPANS A WIDE SPECTRUM. IT MAY REACH FROM THE LICENSOR'S RIGHT TO RECEIVE ROYALTIES - A RIGHT GENERALLY DEEMED ASSIGNABLE IN THE ABSENCE OF CONTRACT LANGUAGE TO THE CONTRARY - TO A PARTY'S OBLIGATION TO RENDER RESEARCH OR ENGINEERING SERVICES, THAT IS, A CONTRACTUAL DUTY SO CLOSELY ASSOCIATED WITH THE PERCEPTION OF PERSONAL SERVICES THAT TRANSFERABILITY OF THIS DUTY TO A THIRD PARTY MAY NOT BE ENDORSED BY THE MAJORITY VIEW UNLESS THE CONTRACTING PARTIES AGREE TO SUCH TRANSFER. ASSIGNMENT CLAUSES, HENCE, SHOULD DESERVE MORE THAN CASUAL ATTENTION IN TECHNOLOGY LICENSE CONTRACTS, NOTABLY IN COMPLEX LICENSES UNDER PATENTS AS WELL AS UNPATENTED KNOW-HOW AND FREQUENTLY ALSO TRADEMARKS. THESE INTEGRATED TECHNOLOGY LICENSES, MUCH MORE SO THAN MERE PATENT LICENSES, PLAY AN INCREASINGLY PREDOMINANT ROLE IN INTERNATIONAL TECHNOLOGY LICENSE TRANSACTIONS OF THE SEVENTIES AND EIGHTIES.[1]

AS SUGGESTED, THE PROLIFERATION OF COMPREHENSIVE TECHNOLOGY CONTRACTS POSES FORMIDABLE DEMANDS ON THE IMAGINATION OF THE CONTRACT NEGOTIATOR WHO IS EXPECTED TO DRAW UP VIABLE ASSIGNMENT CLAUSES. IDEALLY, SUCH CLAUSES SHOULD SURVIVE, OF COURSE, ANY CHALLENGE NO MATTER HOW DRASTICALLY THE BUSINESS STRUCTURE OF THE CONTRACTING PARTIES MIGHT CHANGE DURING THE AGREEMENT TERM. THIS PROBLEM IS NOW COMPOUNDED BY A SHARP INCREASE IN BUSINESS REORGANIZATIONS, ACQUISITIONS, DISPOSITIONS, JOINT VENTURES AND MERGERS DURING RECENT YEARS. GENERAL ELECTRIC IS IN THE MIDST OF DIGESTING THE MULTI-BILLION DOLLAR ACQUISITION OF RCA.

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1 Bleeke & Rahl, The Value of Territorial and Field-of-Use Restrictions in the International Licensing of Unpatented Know-How: An Empirical Study, I Nw. J. Int'l L. & Bus. 450 (1979).

CLOSER TO MY HOME TOWN, THE LARGEST BUSINESS ENTITY IN PITTSBURGH, GULF OIL CORPORATION, DISAPPEARED FROM THE CORPORATE SCENE BY WAY OF MERGER JUST TWO SHORT YEARS AGO, AND RIGHT NOW, USX CORPORATION, THE FORMER UNITED STATES STEEL CORPORATION, IS FIGHTING OFF TAKEOVER BIDS ON SEVERAL FRONTS.

"MERGER MANIA" WAS THE WORDING R. B. COOLLEY USED JUST A FEW MONTHS AGO TO CHARACTERIZE THE BUSINESS ENVIRONMENT OF THE EIGHTIES.[2] THE EUROPEAN ECONOMIC COMMUNITY COMMISSION IS SAID TO HAVE RECORDED NO FEWER THAN 357 MERGERS AND ACQUISITIONS AMONG INDUSTRIAL ENTERPRISES JUST FOR 1985,[3] AND A RECENT "BUSINESS WEEK" ARTICLE, REPORTING ON THE LATEST RAGE OF JOINT VENTURES, HAILS "STRATEGIC ALLIANCES" AS THE WAVE OF THE FUTURE, PAIRING UP "ARCHRIVALS, SUCH AS GE AND WESTINGHOUSE, GM AND TOYOTA...".[4]

AS WE REFLECT FOR A MOMENT ON THE EVOLUTION OF COMPREHENSIVE-TYPE TECHNOLOGY LICENSES ON THE ONE HAND, COINCIDING WITH THE RAPID CHANGES IN THE CORPORATE BUSINESS WORLD ON THE OTHER, I SUGGEST OUR PIPA COMMITTEE CHAIRMEN SHOULD BE CONGRATULATED ON SELECTING A MOST TIMELY TOPIC FOR THE PANEL DISCUSSION THIS MORNING.

ASSIGNABILITY AND TERMINATION PROVISIONS IN TECHNOLOGY LICENSES, PERHAPS MORE SO THAN IN OTHER CONTRACTUAL TRANSACTIONS, HAVE A CERTAIN KINSHIP WITH PRE-NUPTIAL CONTRACTS: THE ENGAGED COUPLE IN LOVE, WHILE IN THE MIDST OF WEDDING PREPARATIONS, IS NOT OVERLY RECEPTIVE TO THOUGHTS

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2 Coolley, Transfer of Trademarks in Acquisitions, Mergers and Bankruptcies, 68 JPOS 115 (1986).

3 51 ATTR 254 (8-14-86).

4 Business Week, p. 100, July 21, 1986.

OF DIVORCE OR RE-MARRIAGE - AT LEAST NOT ON THE AMERICAN SIDE OF THE PACIFIC. (AS THE FATHER OF A YOUNG BRIDE MARRIED JUST A FEW SHORT YEARS AGO, I SHOULD KNOW!); YET, IN TODAY'S RAPIDLY CHANGING BUSINESS CLIMATE WITH ALMOST DAILY HEADLINES OF MAJOR BUSINESS DISSOLUTIONS, DIVESTITURES, MERGERS AND ALLIANCES, NO PARTY STRIKING A TECHNOLOGY LICENSE DEAL TODAY CAN IGNORE THE POSSIBILITY OF A NEW BUSINESS TIE-UP TOMORROW. LIKE THE CONCERNED PARENT OF THE BRIDE, THE CONTRACT NEGOTIATOR SHOULD WARN HIS BUSINESS CLIENT OF THE PITFALLS OF CASUALLY DRAFTED BOILERPLATE TYPE ASSIGNMENT AND TERMINATION CLAUSES.

A PARTY'S INTEREST IN ANY VIABLE TECHNOLOGY LICENSE, BE IT THAT OF THE LICENSOR OR THE LICENSEE, SHOULD BE A VALUABLE BUSINESS ASSET. IT IS THIS ASSET THAT SHOULD ENHANCE THE BARGAINING POSITION IN ANY SUBSEQUENT BUSINESS SALE, MERGER OR JOINT VENTURE NEGOTIATION; YET, BECAUSE OF SLOPPY TERMINATION OR ASSIGNMENT CONTRACT LANGUAGE, THE PARTY'S INTEREST IN THE CONTRACT MAY TURN OUT TO BE A BURDENSOME LIABILITY.

LET ME BRIEFLY REVIEW WITH YOU A FEW SALIENT RULES OF LAW IN VARIOUS COUNTRIES AS THEY APPLY TO THE TRANSFERABILITY OF RIGHTS AND DUTIES ESTABLISHED BY LICENSE CONTRACTS. I DO NOT CLAIM, OF COURSE, FOR THIS REVIEW EITHER TOTAL ACCURACY OR UP-TO-DATE COMPLETNESS. INDEED, I WOULD SUGGEST A MORE COMPREHENSIVE COMPARATIVE STUDY AS A SEPARATE TOPIC FOR A PIPA MEETING IN THE FUTURE. ONE THING, HOWEVER, I AM QUITE SURE OF: THOSE RULES ARE NOT CONSISTENT - NOT EVEN WITHIN THE CONFINES OF MY HOME COUNTRY! BUT JUDGE FOR YOURSELF AS WE SCAN THEM ON A COUNTRY-BY-COUNTRY BASIS.

I WOULD LIKE TO START OUT WITH AN ODD OBSERVATION: STATUTORY LAWS OF VIRTUALLY EVERY MAJOR COUNTRY IN THE WORLD CONTAIN MORE OR LESS

DETAILED PROVISIONS WHICH GOVERN ASSIGNMENTS OF PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS; YET, IN MOST COUNTRIES, ONE LOOKS IN VAIN FOR STATUTORY LAW DIRECTLY APPLICABLE TO THE TRANSFERABILITY OF PATENT LICENSES.

JAPAN

AMONG THE NOTABLE EXCEPTIONS IS THE JAPANESE PATENT ACT. AS I UNDERSTAND IT, PATENT LICENSES - BOTH NON-EXCLUSIVE AND EXCLUSIVE - ARE GENERALLY ASSIGNABLE:

(i) TOGETHER WITH THE RELEVANT BUSINESS OF THE LICENSEE;

(ii) BY WAY OF INHERITANCE OR OTHER GENERAL SUCCESSION;

(iii) WITH THE CONSENT OF THE PATENTEE (PLUS THE SUB-LICENSOR IN CASE OF A NON-EXCLUSIVE SUBLICENSE).[5]

JAPANESE COUNSEL TELLS ME THAT QUESTIONS OF TRANSFERABILITY IN KNOW-HOW AND INTEGRATED PATENT AND KNOW-HOW LICENSES WOULD BE DEALT WITH IN A SIMILAR FASHION.

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5 Law No. 121 of April 13, 1959, As Amended.

Art. 77(3) An exclusive license may be transferred only together with the business in which it is worked, or only with the consent of the patentee or in the case of inheritance or other general succession.

Art. 94-(1) A non-exclusive license, with the exception of one which results from ..., may be transferred, but only together with the business in which it is worked or only with the consent of the patentee (or the patentee and the exclusive licensee in the case of a non-exclusive license on an exclusive license) or in the case of inheritance or other general succession.

SPAIN

ANOTHER NOTEWORTHY EXCEPTION IS THE NEW SPANISH PATENT ACT EFFECTIVE ONLY AS OF JUNE 26 THIS YEAR.[6] THE NEW ACT APPARENTLY CODIFIES THE SPANISH MAJORITY VIEW WHICH CONSIDERS LICENSES NON-TRANSFERABLE BECAUSE OF THE PERSONAL RELATION BASED ON MUTUAL TRUST CREATED BY THE LICENSE CONTRACT.

UNITED KINGDOM

GENERAL RULES OF ENGLISH CONTRACT LAW ARE APPLIED TO TECHNOLOGY LICENSES IN THE ABSENCE OF CONTRACT LANGUAGE TO THE CONTRARY. CONTRACTUAL RIGHTS ARE GENERALLY ASSIGNABLE; HOWEVER, CONTRACTUAL DUTIES, DEEMED TO BE OF A PERSONAL NATURE, ARE NOT. A PATENT LICENSE IS CONSIDERED PERSONAL AND, HENCE, IS NOT ASSIGNABLE UNLESS THE PARTIES AGREE TO THE ASSIGNMENT.

CANADA

UNDER RELEVANT CANADIAN CASE LAW GENERALLY FOLLOWING ENGLISH COMMON LAW TRADITION, A LICENSE DOES NOT CREATE AN INTEREST IN REM. IT ESTABLISHES A PERSONAL OBLIGATION WHICH IS NOT ASSIGNABLE WITHOUT LEAVE FROM THE OTHER PARTY. AS IN THE UNITED KINGDOM AND OTHER COUNTRIES,

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6 Law 11/1986, Official State Bulletin March 26, 1986.

Art. 75.3. Except as otherwise previously agreed, the holders of contractual licenses may not assign them to others, nor grant sublicenses.

Art. 104.1. For the valid assignment of a compulsory license, the license must be transferred together with the enterprise, or that part of the enterprise which exploits the same, and the assignment must be expressly registered by the Patent Office. When dealing with licenses on grounds of patent dependency, the license must be transferred together with the dependent patent.

INCLUDING THE UNITED STATES, A NON-ASSIGNABLE LICENSE, ONCE ASSIGNED, IS VOIDABLE, BUT THE LICENSOR IS ESTOPPED FROM VOIDING IT IF HE HAS KNOWINGLY ACCEPTED MATERIAL PERFORMANCE BY THE ASSIGNEE, FOR EXAMPLE, ROYALTY PAYMENTS.[7]

ITALY

THE CLOSEST STATUTORY PROVISION OF ITALIAN LAW IS ART. 1594 OF THE CODE CIVIL DEALING WITH LEASES. LIKENING TECHNOLOGY LICENSES TO LEASES, THE MAJORITY VIEW HOLDS LICENSES NON-ASSIGNABLE WITHOUT THE LICENSOR'S CONSENT. ACCORDING TO ITALIAN COUNSEL, NO REPORTED CASES IN POINT ARE KNOWN AT THIS TIME.[8]

BRAZIL

IN THE BRAZILIAN MAJORITY VIEW, WHICH EVOLVED FROM GENERAL CONTRACT LAW, PATENT LICENSES ARE GRANTED ON THE BASIS OF TRUST; THEY ARE GENERALLY DEEMED NOT ASSIGNABLE WITHOUT LEAVE FROM THE LICENSOR. NO REPORTED CASES IN POINT ARE KNOWN AT THIS TIME.[9] HOWEVER, REALISTICALLY, THIS VIEW IS OF LITTLE IMPORT FOR THE FOREIGN TECHNOLOGY LICENSOR TO A LICENSE CONTRACT WITH A BRAZILIAN LICENSEE. IRRESPECTIVE OF CONTRACT LANGUAGE, AN ASSIGNMENT OF A PATENT LICENSE WILL BE EFFECTIVE ONLY IF IT HAS COMPLIED WITH ALL FORMALITIES OF A MAZE OF BAFFLING REGISTRATION REQUIREMENTS, REGULATIONS, NORMATIVE ACTS, ETC., WHICH CONTROL TIGHTLY THE ENTIRE PROCESS OF TECHNOLOGY TRANSFER IN BRAZIL. SIMILAR REGULATIONS

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7 Henderson, 4 Ottawa Law Review 62 (1970) at 67 Patent Licensing: Problems From the Imprecision of the English Language.

8 Guido Modiano, Private Communication.

9 Denis A. Daniel, Private Communication.

IN EFFECT TODAY IN A HOST OF THIRD WORLD COUNTRIES, ARE FREQUENTLY SPEARHEADED BY MEXICO AND BRAZIL. AS TO UNPATENTED "KNOW-HOW" CONTRACTS, BRAZILIAN AUTHORITIES, ARMED WITH A BATTERY OF GOVERNMENT REGULATIONS INCLUDING THE MIND-BOGGLING "NORMATIVE ACT 15", APPARENTLY ENDORSE POLICIES FAVORING LIBERAL TRANSFERABILITY OF (IMPORTED) KNOW-HOW BY THE LOCAL RECIPIENT. IN THEIR VIEW, AND THOSE OF OTHERS PRIMARILY IN TECHNOLOGY-IMPORTING COUNTRIES, KNOW-HOW IS NOT LICENSABLE INDUSTRIAL PROPERTY; IT IS A COMMODITY SOLD TO THE LOCAL RECIPIENT AND, THEREFORE, ULTIMATELY CONTROLLED, AND DISPOSABLE AT WILL, BY IT.

GERMANY

COURTS EXAMINE QUESTIONS OF TRANSFERABILITY OF LICENSES IN LIGHT OF THE CIVIL CODE PROVISIONS RELATING TO CONTRACTS AND LEASES. CASE LAW DEVELOPED ESSENTIALLY ALONG THESE LINES:

(i) A NON-EXCLUSIVE PATENT LICENSE ATTACHES TO THE (NATURAL OR JUDICIAL) PERSON; IT IS NOT TRANSFERABLE EITHER BY INHERITANCE OR OTHERWISE, AND THE DISSOLUTION OF THE LICENSED ENTITY EXTINGUISHES THE LICENSE; IT MAY NOT BE PLEDGED.

(ii) AN EXCLUSIVE PATENT LICENSE IS A RIGHT IN REM READILY TRANSFERABLE BY ASSIGNMENT, INHERITANCE OR OTHERWISE; IT MAY BE PLEDGED.

(iii) AN EXCLUSIVE OR NON-EXCLUSIVE PATENT LICENSE WHICH IS GRANTED AS A PLANT OR FACILITY LICENSE (BETRIEBSLIZENZ), IS A QUALIFIED RIGHT IN REM; IT IS TRANSFERABLE, BUT ONLY TOGETHER WITH THE FACILITY; IT MAY NOT BE PLEDGED.[10]

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10 Rudolf Busse, Patentgesetz und Gebrauchsmustergesetz 228 (3rd Ed. 1964).

QUESTIONS OF TRANSFERABILITY OF LICENSES AS RIGHTS, THUS, ARE RATHER WELL SETTLED BY GERMAN CASE LAW IN THE THREE SITUATIONS DISCUSSED. IN THE EVENT OF A MERGER BETWEEN THE LICENSED ENTITY AND ANOTHER, THE LICENSE, TO THE EXTENT TRANSFERABLE, DOES PASS TO THE SURVIVING ENTITY. HOWEVER, FOLLOWING THE FACILITY LICENSE RULE, ONE HAS TO CONCLUDE THAT THE LICENSE WILL NOT EXTEND TO THE ENTIRE SURVIVING BUSINESS CONCERN BUT WILL BE CONFINED TO THE FACILITIES OF THE ACQUIRED ENTITY. KNOW-HOW LICENSES ARE HELD TO CREATE A STRONG PERSONAL RELATION BETWEEN THE PARTIES BASED ON MUTUAL TRUST. IN GENERAL, THEY ARE NOT ASSIGNABLE, THEREFORE, BY EITHER PARTY WITHOUT THE EXPRESS CONSENT OF THE OTHER.[11]

LESS WELL SETTLED ARE ISSUES ADDRESSING THE TRANSFERABILITY OF CONTRACTUAL OBLIGATIONS WHICH ARE DEEMED TO BE CREATED ON THE BASIS OF MUTUAL TRUST AND GOOD FAITH BETWEEN THE PARTIES. THESE OBLIGATIONS ARE FREQUENTLY SO INTERWOVEN WITH THE RIGHTS - BOTH PERSONAL AND IN REM - THAT NEITHER THE LICENSEE NOR THE (EXCLUSIVE) LICENSOR IS CAPABLE OF TRANSFERRING THE ONE WITHOUT THE OTHER. LEADING GERMAN PRACTITIONERS AND SCHOLARS, LIKE THOSE IN THE UNITED STATES AND, I SUPPOSE, IN JAPAN AS WELL AS ELSEWHERE, DO RECOMMEND, THEREFORE, THAT QUESTIONS OF TRANSFERABILITY OF RIGHTS AND DUTIES UNDER TECHNOLOGY LICENSE CONTRACTS NOT BE LEFT IN ABEYANCE "AS A MATTER OF LAW". THEY URGE WELL THOUGHT-OUT TRANSFERABILITY LANGUAGE IN THE CONTRACT.[12, 13]

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11 Herbert Stumpf, Der Know-How-Vertrag 68 (2nd Ed. 1971).

12 Eduard Reimer, Patentgesetz und Gebrauchsmustergesetz 426 (2nd Ed. 1958).

13 Harry R. Mayers & Brian G. Brunsvold, Drafting Patent License Agreements 114 (2nd Ed. 1984).

UNITED STATES

STATUTORY LAW OF THE UNITED STATES, AS IS THE CASE IN THE MAJORITY OF BOTH COMMON LAW AND CIVIL LAW COUNTRIES, IS SILENT ON THE ASSIGNABILITY OF RIGHTS OR TRANSFERABILITY OF OBLIGATIONS UNDER PATENT LICENSES.

AMONG THE LEADING FEDERAL COURT CASES CONCERNED WITH THE TRANSFERABILITY OF PATENT LICENSES IS HAPGOOD v. HEWITT.[14] THE COURT HELD IN THIS CASE THAT A PATENT LICENSE IS A PERSONAL RIGHT WHICH IS NOT TRANSFERABLE WITHOUT THE LICENSOR'S CONSENT; IT IS EXTINGUISHED WITH THE DISSOLUTION OF THE LICENSED CORPORATION.

IN LANE & BODLEY v. LOCKE,[15] THE COURT RULED THAT A LICENSE, INDEPENDENT OF ANY ASSIGNABILITY QUESTION, WILL PASS TO A TRANSFEREE WHO TAKES OVER ALL RELEVANT PROPERTY ASSETS, LIABILITIES AND OBLIGATIONS OF THE LICENSEE. THE COURT, WITHOUT DISTURBING THE HAPGOOD RULE, DISTINGUISHED BETWEEN THE DISSOLUTION OF THE LICENSED ENTITY ON THE ONE HAND AND THE TRANSFORMATION OF A LICENSED PARTNERSHIP INTO A CORPORATION CARRYING ON THE LICENSED ACTIVITY ON THE OTHER.

THE MORE RECENT CASE, UNARCO INDUS., INC. v. KELLY CO., INC.,[16] UPHELD THE LONG-ESTABLISHED FEDERAL RULE OF CASE LAW AS TO THE NON-ASSIGNABILITY OF PATENT LICENSES. HERE, THE COURT RULED THAT FEDERAL, RATHER THAN STATE, LAW APPLIES TO QUESTION OF ASSIGNABILITY OF PATENT LICENSE WHICH IS PERSONAL AND NOT ASSIGNABLE UNLESS EXPRESSLY MADE SO IN THE AGREEMENT. THE COURT'S RATIONALE MAKES INTERESTING READING

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14 Hapgood v. Hewitt, 119 US 226 (1886).

15 Lane & Bodley v. Locke, 150 US 193 (1893).

16 Unarco Indus., Inc. v. Kelly Co., Inc., 175 USPQ 199 (7th Cir. 1972), cert den 176 USPQ 513 (1973).

"THIS [PATENT] MONOPOLY CONFERRED BY FEDERAL STATUTE ..., SO AFFECTS THE LICENSING OF PATENTS, AND THE POLICY BEHIND SUCH LICENSING IS SO INTERTWINED WITH THE SWEEP OF FEDERAL STATUTES, THAT ANY QUESTION WITH RESPECT THERETO MUST BE GOVERNED BY FEDERAL LAW."

IN THE COPYRIGHT INFRINGEMENT CASE HARRIS v. EMUS RECORDS CORP.,[17] THE NINTH CIRCUIT COURT OF APPEALS, CITING UNARCO WITH APPROVAL, HELD A COPYRIGHT LICENSE NOT TO BE ASSIGNABLE WITHOUT EXPLICIT AUTHORIZATION IN THE AGREEMENT.

IN PPG INDUSTRIES, INC. v. GUARDIAN INDUSTRIES CORP.,[18] THE SIXTH CIRCUIT COURT, APPROVING OF UNARCO, RULED THAT A NON-EXCLUSIVE, NON-TRANSFERABLE LICENSE FOR THE BENEFIT AND USE OF THE LICENSEE DOES NOT PASS FROM THE LICENSED CONSTITUENT ENTITY TO THE SURVIVING CORPORATION IN A STATUTORY MERGER BUT TERMINATES UPON ITS MERGER.

IN OTHER CASES, QUESTIONS OF ASSIGNABILITY OF RIGHTS AND DUTIES UNDER LICENSE CONTRACTS WERE DECIDED ESSENTIALLY ON THE BASIS OF THE CONTRACT TERMS.

AS TO THE TRANSFERABILITY OF RIGHTS AND OBLIGATIONS BY THE LICENSOR, THE COURTS GENERALLY ENDORSED TRANSFERABILITY OF RIGHTS BUT NOT OF DUTIES. FOR EXAMPLE, IN GRAY ENGINE STARTER CO. v. GRAY & DAVIS, INC.,[19] THE COURT RULED A PATENT LICENSE CONTRACT NOT TO BE ASSIGNABLE AS A WHOLE BY LICENSOR IN THE ABSENCE OF PROVISIONS THEREFOR. IT FOUND THAT THE LICENSOR MAY ASSIGN HIS RIGHTS (TO RECOVER ROYALTIES) BUT MAY NOT TRANSFER HIS OBLIGATION (TO WARRANT THE VALIDITY OF THE LICENSED PATENT AND INDEMNIFY THE LICENSEE).

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17 Harris v. Emus Records Corp., 222 USPQ 466 (9th Cir. 1984).

18 PPG Industries, Inc. v. Guardian Industries Corp., 202 USPQ 95 (6th Cir. 1979).

19 Gray Engine Starter Co. v. Gray & Davis, 224 Fed. 723 (D. Mass. 1914).

AMONG THE LEADING CASES REJECTING THE HAPGOOD RULE WHICH, AS NOTED, IS FEDERAL CASE LAW, IS FARMLAND IRRIGATION CO. v. DOPPLMAIER.[20] IN THIS CASE, THE CALIFORNIA SUPREME COURT HELD THAT ASSIGNABILITY OF PATENT LICENSES IS NOT A FEDERAL QUESTION BUT IS GOVERNED BY GENERAL COMMON LAW OF CONTRACTS, WHICH IS STATE LAW. NOTEWORTHY IS THE OPINION OF THE COURT WRITTEN BY JUSTICE TRAYNOR, AS HE CHALLENGES EARLIER FEDERAL CASES

> "WE ARE NOT PERSUADED THAT THE UNITED STATES SUPREME COURT WOULD, IN VIEW OF THE MODERN TENDENCY IN FAVOR OF ASSIGNABILITY, ADHERE TODAY TO THE RULE IT LAID DOWN IN HAPGOOD v. HEWITT. ...."

THE UNARCO CASE, DECIDED MORE THAN 15 YEARS LATER, EVIDENTLY DID NOT TAKE UP THE CHALLENGE JUSTICE TRAYNOR HURLED AT THE FEDERAL COURTS. NEVERTHELESS, THE FARMLAND DECISION DESERVES CAREFUL SCRUTINY AS IT REFLECTS EMERGING STATE POLICY WHICH FAVORS MORE LIBERAL TRANSFERABILITY OF PROPERTY RIGHTS, INCLUDING LICENSES ESTABLISHED BY CONTRACT. IT DOES MAKE OUT A STRONG CASE FOR TESTING THE TRANSFERABILITY OF LICENSES UNDER CONTRACT COMMON LAW OF THE STATES AND SUGGESTS THAT IT IS AN EXAMINATION OF THE CONTRACT LANGUAGE THAT SHOULD DETERMINE WHETHER OR NOT A LICENSE IS A NON-TRANSFERABLE PERSONAL RIGHT. PARTIES INTENDING TO LIMIT THE TRANSFERABILITY OF RIGHTS AND OBLIGATIONS ARISING FROM TECHNOLOGY CONTRACTS ARE WELL ADVISED, THEREFORE, TO BEAR IN MIND THE LESSON OF FARMLAND: SPELL OUT ANY TRANSFERABILITY RESTRICTIONS IN THE CONTRACT. THIS LESSON SHOULD BE OF PARTICULAR IMPORT FOR THOSE LICENSE CONTRACTS WHICH ARE NOT NEARLY AS INTERTWINED WITH FEDERAL LAW AS ARE PURE PATENT LICENSES, THAT IS, BROAD SCOPE COMPREHENSIVE-TYPE TECHNOLOGY CONTRACTS WHICH INCLUDE

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20 Farmland Irrigation Co. v. Dopplmaier, 113 USPQ 89 (Cal. Sup. Ct. 1957).

LICENSE PROVISIONS UNDER BOTH PATENTS AND UNPATENTED TECHNICAL INFORMATION, OR LICENSES PRIMARILY UNDER UNPATENTED KNOW-HOW ONLY.

LET ME CONCLUDE OUR REVIEW OF RELEVANT RULES OF LAW WITH A FINAL COMMENT ON THE FARMLAND CASE WHICH SHOULD BE OF MORE THAN PASSING INTEREST TO PIPA: THE FARMLAND DECISION, OBVIOUSLY, IS AT ODDS WITH PREVAILING CASE LAW DEVELOPED BY THE FEDERAL COURTS OF THE UNITED STATES; IT IS VERY MUCH IN TUNE, HOWEVER, WITH ARTICLES 77 AND 94 OF THE JAPANESE PATENT ACT MENTIONED EARLIER.

HOW DO WE AT WESTINGHOUSE COPE WITH QUESTIONS OF TRANSFERABILITY OF RIGHTS AND DUTIES ARISING FROM TECHNOLOGY LICENSE OR DEVELOPMENT CONTRACTS IF WE ARE CONFRONTED WITH POTENTIAL BUSINESS ACQUISITIONS, DISSOLUTIONS, DIVESTITURES OR STRATEGIC ALLIANCES? OUR OVERRIDING CONCERN IS ESSENTIALLY TWO-FOLD: MAKE SURE THAT (i) LICENSES OR ANY OTHER CONTRACTS OF OURS DO NOT CONFLICT WITH COMMITMENTS TO OTHERS, AND (ii) INTELLECTUAL PROPERTY RIGHTS, INCLUDING LICENSE INTERESTS, AND CONTRACTUAL DUTIES, DO NOT PASS INVOLUNTARILY TO A THIRD PARTY AS A MATTER OF LAW.

I WILL DISREGARD IN MY FOLLOWING REMARKS THE TEDIOUS LEGAL FORMALITIES NECESSARY FOR RECORDING TITLE TRANSFERS AND ASSIGNMENTS OF PATENTS, TRADEMARKS AND OTHER STATUTORY INTELLECTUAL PROPERTY RIGHTS WHICH ACCOMPANY VIRTUALLY EVERY MAJOR BUSINESS ACQUISITION OR DIVESTITURE. I SHOULD REFRAIN ALSO FROM RECOMMENDING SPECIFIC ASSIGNMENT LANGUAGE SINCE EACH TECHNOLOGY LICENSE TRANSACTION - BE IT A SINGLE-PRODUCT, ONE-WAY PATENT LICENSE, OR A COMPLEX CROSS-LICENSE FOR MULTIPLE PRODUCT LINES UNDER BOTH PATENTED AND UNPATENTED TECHNOLOGY - RAISES ITS OWN UNIQUE TRANSFERABILITY ISSUES WHICH SHOULD BE EXAMINED ON A CASE-BY-CASE

BASIS. RATHER, I WOULD LIKE TO SUGGEST SOME GENERALLY APPLICABLE GUIDEPOSTS FOR CONTEMPLATION WHEN WORKING ON TECHNOLOGY LICENSE OR DEVELOPMENT CONTRACTS:

1. ENGAGE - MENTALLY IF YOU WILL - IN A SECOND NEGOTIATION (WITH AN IMAGINARY THIRD PARTY) WHICH SHOULD FOCUS ON THE FUTURE; IDENTIFY REASONABLY PREDICTABLE INTERNAL OR EXTERNAL BUSINESS RESTRUCTURES OR REORGANIZATIONS EITHER PARTY TO THE WOULD-BE CONTRACT MIGHT UNDERGO; TO THE EXTENT THE REORGANIZATION MIGHT AFFECT THE RELEVANT BUSINESS ON PRODUCT LINES OF THE PROSPECTIVE CONTRACT, INCLUDE HERE:

   (i) BUSINESS MERGERS AND ACQUISITIONS INCLUDING TRADEMARKS AND TECHNOLOGY RIGHTS WHICH WOULD ENHANCE THE CAPABILITY OF THE ACQUIRING PARTY IN FIELDS APPLICABLE TO, OR OVERLAPPING WITH, THE TECHNOLOGY OF THE CONTRACT UNDER NEGOTIATION;

   (ii) BUSINESS DIVESTITURES, SUCH AS THE SALE BY A MULTI-DIVISION CORPORATION OF A PARTICULAR PRODUCT LINE OR DIVISION INCLUDING ALL ITS BUSINESS ASSETS AND LIABILITIES INCLUDING TECHNOLOGY CONTRACTS AND TRADEMARK LICENSES WITH OTHERS;

   (iii) INTERNAL RESTRUCTURES, SUCH AS BREAKUP OR CONSOLIDATION OF BUSINESS UNITS OR DIVISIONS WITH PRODUCT CHARTER RESPONSIBILITIES AFFECTED BY THE TECHNOLOGY OF THE WOULD-BE LICENSE OR DEVELOPMENT CONTRACT;

(iv) PARTNERSHIPS AND JOINT VENTURES WITH THIRD PARTIES FOR SPECIFIC PRODUCT LINES OVERLAPPING WITH THE RELEVANT TECHNOLOGY OF THE PENDING CONTRACT NEGOTIATIONS;

(v) JOINT DEVELOPMENT AND TECHNOLOGY LICENSE CONTRACTS WITH THIRD PARTIES FOR TECHNOLOGIES OVERLAPPING WITH THE PENDING CONTRACT NEGOTIATIONS.

2. IRRESPECTIVE OF THE "APPLICABLE LAW" PROVISIONS OF THE PROSPECTIVE CONTRACT, FROM THE STANDPOINT OF YOUR OWN PARTY, ASSUME THE WORST CASE OF ASSIGNABILITY OR NON-TRANSFERABILITY BY OPERATION OF LAW.

3. PREPARE A CHECKLIST WHICH IDENTIFIES THE RESPECTIVE RIGHTS AND DUTIES OF THE PARTIES TO THE PENDING CONTRACT NEGOTIATIONS.

4. BREAK DOWN THE RIGHTS AND DUTIES INTO THOSE THE PARTIES INTEND TO BE TRANSFERABLE, AND THOSE THEY INTEND TO BE NON-TRANSFERABLE; ANALYZE AND SUPERIMPOSE UPON THIS BREAKDOWN, IN A MATRIX-LIKE FASHION, THE PREDICTABLE BUSINESS REORGANIZATIONS IDENTIFIED IN STEP 1, ABOVE.

5. APART FROM THE USUAL PREMATURE TERMINATION PROVISIONS IN CASE OF DEFAULT, INSOLVENCY, DISSOLUTION PROCEEDINGS, BANKRUPTCY, AND ACQUISITION OF A PARTY TO THE WOULD-BE CONTRACT BY QUALIFIED COMPETITORS OF THE OTHER PARTY, EXAMINE THE RESPECTIVE RIGHTS AND OBLIGATIONS EITHER PARTY TO THE PENDING CONTRACT, IN CASE OF BUSINESS RESTRUCTURE, MAY WISH EITHER (i) TO TERMINATE PRIOR TO NORMAL EXPIRATION, OR (ii) TO RETAIN, RATHER THAN TO PERMIT TRANSFER TO ANOTHER PARTY BY ASSIGNMENT OR OTHERWISE.

6. IN MULTI-PRODUCT TECHNOLOGY LICENSES OR DEVELOPMENT CONTRACTS, STIPULATE FLEXIBLE SEVERABILITY PROVISIONS, ALLOWING EITHER

FOR TRANSFERABILITY OR FOR PREMATURE TERMINATION ON A PRODUCT-BY-PRODUCT BASIS.

7. WHILE WORKING ON WHAT WE CALL AT WESTINGHOUSE THE "LEGAL DUE DILIGENCE CHECKLIST", USED AS A TOOL FOR EXAMINING WOULD-BE BUSINESS ACQUISITIONS, MERGERS, JOINT VENTURES AND DIVESTITURES, REVERSE IN TIME THE MENTAL EXERCISE OF STEP 1; THAT IS, LOOK AT PATENT, KNOW-HOW OR TRADEMARK LICENSES, TECHNICAL DEVELOPMENT CONTRACTS, ETC., WHICH THE PARTY OR PARTIES TO THE PROPOSED BUSINESS RESTRUCTURE MAY HAVE CONCLUDED WITH OTHERS IN THE PAST.

THE GUIDEPOSTS ARE NOT MANIFESTING, OF COURSE, CORPORATE POLICY DIRECTIVES AT WESTINGHOUSE OR ANYWHERE ELSE. YOU MIGHT TAKE THEM AS SUGGESTIONS IF YOU WILL. FOR ME, THEY ARE BOTH A HELPFUL CHECKLIST AND AN EXPRESSION OF THOUGHTS, REFLECTIVE OF PAST EXPERIENCE AND REFRESHING MY RECOLLECTION OF SPECIFIC PROBLEM ISSUES ENCOUNTERED FROM TIME TO TIME. LET ME IN MY CONCLUDING REMARKS PARAPHRASE SOME OF THESE ISSUES AS A LEAD-OFF TO THE FORTHCOMING PANEL DISCUSSION.

STARTING OUT WITH A TRADEMARK-TRADE NAME EXAMPLE WHICH CAN RAISE TROUBLESOME PROBLEMS OF ITS OWN, CONSIDER A BUSINESS MERGER OR DIVESTITURE INCLUDING A BRAND-NAMED PRODUCT LINE. THE WOULD-BE BUYER IS ATTRACTED BY THE REPUTATION AND GOODWILL ASSOCIATED WITH THE BRAND-NAMED PRODUCT AND, OF COURSE, THE RELEVANT TRADEMARK OR TRADE NAME. NOT SURPRISINGLY, THEREFORE, HE INSISTS ON THE RIGHT TO USE THIS MARK OR NAME FOR A LONG PERIOD OF TIME AFTER THE CLOSING DATE. THE DIVESTING ENTITY IS PERFECTLY WILLING TO SIGN A NON-COMPETE CLAUSE; HOWEVER, IT IS CONCERNED WITH POTENTIAL TRADEMARK OR TRADE NAME DILUTION PROBLEMS AND HAS IN EFFECT A CORPORATE POLICY PROHIBITING THE USE OF ITS CORPORATE NAME OR HOUSE MARK IN THE COMPANY NAME OF ANY ENTITY OTHER THAN ITS MAJORITY-CONTROLLED SUBSIDIARIES.

AS ANOTHER EXAMPLE, CONSIDER THE CASE OF A MULTI-DIVISION ENTITY PUTTING UP A PARTICULAR DIVISION OR PRODUCT LINE FOR DISPOSITION WHICH WILL INCLUDE ITS PATENTS, KNOW-HOW AND LICENSES USED MAINLY IN THE PRODUCT LINE TO BE DISPOSED OF. TO WHAT EXTENT, IF ANY, SHOULD THE DISPOSING ENTITY RETAIN USE RIGHTS (i) UNDER ANY OF ITS OWN PATENTS TO BE ASSIGNED (SUBJECT, OF COURSE, TO COMMITMENTS TO OTHERS), AND (ii) UNDER ANY TECHNOLOGY LICENSE WITH ANOTHER PARTY TRANSFERRED TO THE BUYER? ASSUME THAT THE TECHNOLOGY LICENSE IS TRANSFERABLE AND APPLICABLE TO BOTH PRODUCTS OF THE LINE DISPOSED OF AND (OTHER) PRODUCTS REMAINING WITH THE SELLER.

AS A FINAL EXAMPLE, CONSIDER THE SCENARIO OF A PENDING DIVESTITURE INCLUDING A WOULD-BE SOLD PRODUCT LINE WHICH OVERLAPS WITH THE TECHNOLOGY OF AN EARLIER JOINT DEVELOPMENT CONTRACT BETWEEN THE DISPOSING ENTITY AND A THIRD PARTY. DOES IT MAKE ECONOMIC SENSE FOR THE SELLER TO CONTINUE WITH DEVELOPMENT WORK AT THE LEVEL AS CONTRACTED, EITHER DIRECTLY OR BY WAY OF SUBCONTRACTING? WHAT VIABLE OPTIONS ARE LEFT TO THE SELLER IF THE POTENTIAL BUYER IS NOT WILLING TO ASSUME THE CONTRACTUAL OBLIGATION TO ENGAGE IN DEVELOPMENT WORK? WITH 20:20 HINDSIGHT, EITHER PARTY TO THE EARLIER DEVELOPMENT CONTRACT PROBABLY SHOULD HAVE RESERVED AN OPTION TO DIVORCE THIS OBLIGATION FROM OTHER CONTRACTUAL OBLIGATIONS AND RIGHTS AND TO TERMINATE IT IN CASE THE RELEVANT PRODUCT LINE IS BEING SOLD OR DISCONTINUED. SUPPOSE THE WOULD-BE SELLER DID NOT RETAIN SUCH AN OPTION, IS IT CONCEIVABLE THAT THE WOULD-BE BUYER'S REFUSAL MIGHT KILL THE DEAL?

THANK YOU.

COMMITTEE NO.3

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SOME VIEWS ON HARMONIZATION OF PATENT LAWS

Presented at PIPA 17th Congress
Japanese Group, Committee No. 3
Subcommittee on Patent Harmonization

Mamoru TAKADA, Mitsubishi Electric Corporation
Hirohisa SUZUKI, Nippon Steel Corporation
Speaker: Kazuo KAMISUGI, Takeda Chemical Industries, Ltd.

Abstract

The issue of international harmonization of patent laws is discussed, particularly on the items of (1) Unity of Invention, (2) Grace Period and (3) Prior Art Effect of Senior Application, based on WIPO's proposals. As the requirement for unity of invention, the idea of "a single general inventive concept" is in principle agreeable. However, since there are some problems in specific combination of claims from several categories, we propose that the principles for unity be made flexible so as to be easily applicable in various circumstances. The concept to grant the grace period is also acceptable because it would contribute to earlier public disclosure of invention and development of technology. Regarding the period, six months would be sufficient to prepare an application with regard to the disclosed invention. The prior art effect or patent defeating effect of the whole contents of a senior application should be considered for the sole purpose of novelty determination of a junior application from the filing date or, if applicable, from the priority date of the senior application, on the condition that the senior application is published subsequently. In addition, it is desirable that inventor's or applicant's own senior applications be excluded from determining the prior art effect against their junior applications.

INTRODUCTION

The international harmonization of laws for patent protection has been an issue to be attained since the establishment of the patent system. In view of recent remarkable development of international trade and close interrelation in the world economy, it is desirable that the patent system be widely harmonized on the international basis, thereby permitting applicants to obtain smoothly patent right and patent protection in any country in the world.

The issue of harmonization has been and is being discussed in various international organizations such as the WIPO, AIPPI and trilateral conferences between European,

United States and Japanese Patent Offices. In Japan, the Patent Office, Patent Association and Association of Patent Attorney are studying this issue. At present, however, the development and stage of their studies are different each other.

From the standpoint of a group of patent practitioners of Japanese corporations, this paper discusses some of the items for the harmonization of the patent system with a much emphasis on the proposal of WIPO experts committee. It should be noted that any opinion in this paper does not represent the position of any named organizations. More specifically, the following items are discussed in this paper.

I. Unity of Invention
II. Grace Period
III. Prior Art Effect of Senior Application

I. UNITY OF INVENTION

1. The following is an outline of the principles on the unity of invention proposed by the WIPO experts committee.

(1) Principle 1: Requirement

A patent application shall relate to one invention only or to a group of inventions so linked as to form a single general inventive concept.

(2) Principle 2: Claims of Different Categories

a) The committee introduced the following five categories

A. claim for a product

B. claim for a process for the manufacture of the product

C. claim for a use of the product

D. claim for an apparatus for carrying out the process

E. claim for an apparatus for carrying out the said use

b) Then eight permissible combinations of claims of these categories were proposed. These are combined with an independent claim for a given product.

c) In addition to an independent claim for a given process, a combination was proposed with an independent claim for a means for, or also for, carrying out the said process (B + D).

d) In addition to an independent claim for use of a product, a combination was proposed with an independent claim for a means for, or also for, carrying out the said use (C + E).

(3) Principle 3 is the rule for permissible combination of the one and the same category, and Principle 4 is the rule for dependent claim.

(4) These principles should be required to comply with Principle 1.

2. Referring to the discussion at the second session of the WIPO Committee of Experts in this May, we would like to introduce our opinion on the proposed WIPO principles.

(1) Concerning Principle 1, we think that the original proposal is acceptable.

(2) Concerning Principle 2, no problem would arise for the combinations of up to three categories. On the combination of more than four categories, any combination with category E (claim for an apparatus for carrying out the use of the product) would not always be acceptable because such combination will cause difficulties in the examination by the patent offices and problems in admitting a single general inventive concept. We are of the opinion that the combination with category E would be permissible when they could be considered as linked by a single general inventive concept.

(3) We would also like to suggest that the WIPO principles be made flexible so as to be easily applicable in the various circumstances when account is taken of the efficiency, convenience for examination in patent offices and technical search and of the future technical development.

3. Although it has been pointed out that the unity of invention in Japan at present is too narrow in comparison with those of the United States and European countries and the EPC practices, and improvement has been requested, it will be rather improved as the result of the Japanese patent law amendment expected in the spring of 1987.

We expect that the planned amendment will relax the requirement for the unity of invention in Japan to the level of the present EPC by adopting the following principles:

a) Inventions with close interrelationship under a series of technical development, for example, those having close technical linkage judged from their purposes, constitutions or effects may be filed as an application.

b) Independent and dependent multi-claims with various expressions will be permissible in an application as far as they are supported by the whole contents of the specification and satisfy the requirement of the unity of invention.

II. GRACE PERIOD

1. The WIPO draft regarding the grace period (HL/CE/II/2; March 12, 1986) essentially proposes as follows:

Even if an inventor discloses the content of his/her invention prior to a patent application, the prior disclosure will not bar against the later-filed patent application on certain conditions.

Such conditions include:

(1) Disclosure can be made in any manner. However, if the Patent Office lays it open based on the filed application, this remedy is not applicable.

(2) Period is either 6 months or 1 year.

(3) Regarding a notice of prior disclosure to the Patent Office, the draft proposes that both either it is "required" or "not required".

2. The followings are our discussion with regard to the WIPO's proposal:

(1) General discussion

In principle, the proposal regarding the grace period is acceptable because it will contribute to earlier disclosure of an invention to public and development of technology. It will also provide inventors and applicants with an appropriate protection.

(2) Scope not affected by prior disclosure

The WIPO proposes that prior disclosure should not bar against a later application in view of not only the identical scope of disclosure but also inventive-step consideration. This proposal is acceptable.

(3) Period

This type of remedy which the later application can enjoy is an exceptional treatment so that six months would be sufficient. Six months will also be sufficient for preparing an application therefor.

(4) Notice

While application of this provision should be claimed when a patent application is filed, submission of documentary evidence should not be compulsory. If necessary or required, the applicant may submit evidence to prove it during prosecution.

If the notice is compulsory, the applicant will be required to follow complicated procedures. Absence of notice requirement will not harm a third party.

Regarding the identity of the person who disclosed the invention at issue and the inventor to that invention, the proposal should make it clear that substantial identity but not formal identity be met.

(5) Priority and Grace Period

If this provision is legitimate in the country where a patent application was first filed, priority-claiming application in other countries should also be given the

benefit of grace period. In this respect, we agree to the proposal.

III. PRIOR ART EFFECT OF SENIOR APPLICATION

The prior art effect of senior applications is one of the important issues to be discussed from the view point of recent trend of international harmonization of laws. What extent of status as prior art should be given to senior applications, i.e. previously filed but yet unpublished patent applications, has the crucial influence upon the patentability of junior applications, especially in the field of high technology where patent competition is very intensive. In the United States, for instance, this prior art effect of senior applications is called "patent defeating effect".

As the result of having studied provisions of the Patent Cooperation Treaty (PCT), European patent Convention (EPC) and 18 main countries including the United States and Japan, the WIPO has drafted the following proposal regarding the prior art effect of senior applications (HL/CE/II/6):

> "The whole contents of a patent application shall, for the sole purpose of determining the novelty of an invention claimed in another patent application, be considered as prior art from the date on which the former application was filed or, where priority is claimed, from the priority date, to the extent that the former application or the patent granted thereon is published subsequently."

While this WIPO proposal is considered to be substantially the same as the provision in the present EPC, we would like to discuss each essential point in the proposal hereinafter.

1. Whole Contents Approach

There are the following two ways of approach about what scope of the senior application be considered to be a bar against the junior application:

(1) Whole Contents Approach

(2) Prior Claim Approach

We agree to the whole contents approach proposed by WIPO for the reason that the prior claim approach is not a realistic way from the practical point of view. Under the system of prior claim approach, there is a defect that the examination of junior applications has to be awaited until the final determination of all claims of the senior application and, where a divisional application is filed, until the final determination of claims of the divisional application. In fact, according to the WIPO's study, the prior claim approach is adopted in only a few countries such as Switzerland, Austria and Canada in which law changes are expected, and many countries including the United States, EPC and Japan adopt the whole contents approach.

It is, therefore, considered that international harmonization toward the whole contents approach would be practically feasible, on the condition that the senior application is published subsequently.

2. Determination Only For Novelty

Concerning how the contents of the senior application be considered in the examination of the junior application, there are also two ways, i.e.

(1) Using it only for the novelty examination, and

(2) Using it for the novelty and unobviousness examination.

The above system (1) is adopted in many countries including EPC and Japan while the system (2) is adopted in a few countries such as the United States and East Germany.

It is proposed that the system (1), i.e. using the contents of the senior application only for the novelty examination of the junior application, be adopted for the purpose of international harmonization because of the following reason.

Since the senior application has not been published yet at the time of filing the junior application, as a matter of

fact, the invention of the junior application was made without any knowledge about the contents of the senior application. It is, therefore, too severe for the applicant to take into consideration the senior application not only for the novelty examination but also for the unobviousness examination of the junior application.

3. Prior Art Effect From The Priority Date

We propose that the prior art effect of the senior application should take place from the priority date where it is applicable.

In most countries including EPC and Japan, the senior application is considered to be the prior art as of its priority date, if any priority is claimed. However, under the law of the United States, such prior art effect takes place not as of the priority date but only as of the actual filing date in the United States (c.f. 35 USC § 102(e); In re Hilmer, 149 USPQ 480(1966)).

This unique way of treatment to the foreign priority under the United States law and practice is causing substantial disadvantage to foreign applicants by reducing their priority right by half and, besides, is incompatible with the idea and spirit of the Paris Convention which provides that domestic and foreign applicants be treated equally.

In view of the fact that the United States is the only PCT Contracting State which has made a reservation on PCT Article 64(4) with regard to the present issue, it is strongly desired that the United States make positive consideration and improvement on this point in order to admit the whole priority right for the purpose of international harmonization.

4. No Self Collision

As one of the issues which are not specifically referred to in the WIPO's proposal, there is the problem of self collision in the EPC. The self collision is that the junior application is rejected based on the disclosure of the applicant's or inventor's own senior application. We propose

that such self collision should be eliminated in the treaty of international hermorization in view of the following reason.

Since it may be necessary or unavoidable for the applicant to disclose his other related invention or inventions in the specification of his application in order to support adequately the claimed invention, it is desirable to consider the applicat's own senior application differently from senior applications by others in the examination of his junior application.

On this point, section 29 bis of the Japanese Patent Law defines that the applicant's own senior application is excluded from the subject of consideration for the prior art effect against his junior application. Under the United States Patent Law, the §102(e) or §102(e)/§103 rejection based on the applicant's own senior application is easily overcome by the submission of Rule 131 declaration. In our understanding, the recent amendment on §102(f),(g)/§103 of the U.S. Patent Law also intends to resolve the problem that the junior application is rejected in view of the disclosure of the senior application which was made in the same organization as that of the junior application with different inventive entity.

According to the WIPO Report HL/CE/II/8, the issue of self collision was discussed in the Committee of Experts held in May of this year in Geneva and it was agreed to take the issue into consideration when revising the present proposal.

Under the circumstances, it is desired that the EPC will resolve the self collision problem in view of the international harmonization of patent laws.

Report on Second Session of WIPO Committee of Experts on the Harmonization of Certain Provisions in Laws for the Protection of Inventions Geneva, May 26 to 30, 1986

PIPA

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Committee No. 3 U.S. Group

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I. Introduction

The so-called "Committee of Experts" on Harmonization of Certain Provisions in Laws for the Protection of Inventions held its second session in Geneva at WIPO headquarters from May 26 to 30, 1986. Thirty countries including, e.g., Canada, China, France, Germany, Indonesia, Italy, Japan, Philippines, Korea, Soviet Union, Switzerland, United Kingdom, and the United States were represented and 21 non-governmental organizations participated via observers, including, e.g., American Intellectual Property Law Association (AIPLA) (T. F. Smegal; H. C. Wegner), Asian Patent Attorneys Association (APAA) (F. Ohtsuka; I. Shamoto), GRUR, Inter-American Association of Industrial Property (ASIPI), International Association for the Protection of Industrial Property (AIPPI), International Chamber of Commerce (ICC), Japanese Patent Attorneys Association (JPAA) (T. Yamaguchi), Chartered Institute of Patent Agents (CIPA), The New York Patent, Trademark and Copyright Law Association (NYPTC) (J. O. Tramontine), Union of Industries of the European Community (UNICE) and, of course, the Pacific Industrial Property Association (PIPA) (K. F. Jorda).

According to the WIPO announcement of and the invitation to the Meeting of the Committee of Experts, "observers will fully participate in the discussions". This is true, observers can indeed speak to their hearts' content but their turn comes only after all the Experts have been heard.

The Committee of Experts unanimously elected Mr. J.-L. Comte of Switzerland as Chairman and Mr. M. K. Kirk (United States of America) and Mr. V. Belov (Soviet Union) as Vice-Chairmen. Mr. L. Baeumer (Director, Industrial Property Division, WIPO) acted as Secretary to the Committee of Experts. In addition, Dr. Arpad Bogsch, WIPO Director General and Dr. Klaus Pfanner, WIPO Deputy Director (now deceased), participated very actively in the deliberations, especially the latter who was always present. Other WIPO officials and staff members as well as WIPO consultants assisted. It was obvious that WIPO considered this meeting as very significant and put in a great deal of effort.

Incidentally, the Japanese delegation consisted of Koji Hirayama, Deputy Director, Examination Standards Office, Coordination Division, 2nd Examination Department, Japanese Patent Office and Yoshihiro Masuda, First Secretary, Permanent

Mission, Geneva and the U.S. delegation was made up of Michael K. Kirk, Assistance Commissioner for External Affairs, United States Patent and Trademark Office (PTO); Harvey J. Winter, Director, Office of Business Practices, Department of State; Louis I. Maassel, Patent Practice and Procedure Specialist, (PTO); Lee J. Schroeder, Intellectual Property Specialist, (PTO); and Jan Jancin, Jr., Counsel, Intellectual Property Law, IBM, Arlington, Virginia.

Mr. Jancin represented the private sector. It is commendable that the U.S. government delegation frequently has private sector representation.

Both the Japanese and U.S. delegations made many objective and positive comments and suggestions, with measured constraint and diplomatic caution and are to be commended for this. The WIPO staff also "kept their cool". With over 50 countries and organizations in attendance, deliberations often became debates and debates often became heated. On many issues representatives were extolling their countries' laws and

practices as though they were saying we are all in favor of harmonization as long as our system is adopted or as long as we don't have to change our system. At one point Dr. Bogsch stated with a touch of impatience that "there was no such thing as a new (harmonization) treaty under which somebody would not need to change its practices."

With all the haggling and jockeying that was going on and all the reservations made to this or that proposal or provision, it was difficult to see how a harmonization treaty would or could ever see the light of day but nevertheless a lot of progress I believe was made indeed. WIPO concluded itself:

> "Significant progress was made towards reaching an agreement on the solutions proposed by the International Bureau in respect of the seven questions considered by the Committee of Experts". (INDUSTRIAL PROPERTY, No. 7/8, July/August 1986, p. 309)

Seven subjects were under study by the Committee of Experts:

1) the grace period for public disclosure of an invention before filing an application;

2) the requirements in respect of the granting of a filing date to a patent application;

3) the requirements in respect of the naming of the inventor and in respect of evidence to be furnished concerning the entitlement of the applicant;

4) the requirements in respect of the manner of claiming in patent applications;

5) the requirements in respect of unity of invention in patent applications;

6) the extension of patent protection of a process to the products obtained by that process and proof of infringement of a process patent; and

7) the prior art effect of previously filed but yet unpublished patent applications.

Of these seven subjects four (4-7) were on the agenda for the first time; two (2-3) for the second time and one (1) for the third time.

II. Prior WIPO Sessions of the Committee of Experts on Harmonization

As just intimated, subjects 1) to 3) had been under considertation at Meetings of the Committee of Experts in Geneva once or twice before, i.e. in the "First Session" on the "Grace Period for Public Disclosure of an Invention Before Filing an Application" which was held between May 7 and 11, 1984 and in the "First Session" on the "Harmonization of Certain Provisions in Laws for the Protection of Inventions" which took place between July 8 and 12, 1985. Only 11 countries and 8 non-governmental organizations were in attendance at the first session in 1984 but participation grew to 22 countries and 18 non-governmental organizations in the second session in 1985. With the further increases in attendance at the 3rd session earlier this year, it appears that the momentum is gaining, the bandwagon is rolling.

In the 1984 session, WIPO was apparently merely testing the waters as not much happened. Note the WIPO summary:

> "Several delegations and most of the organizations expressed strong support for the solution proposed in the study, militating in favor of the proposed general grace period system. Other delegations expressed reservations as to the proposed system of a general grace period". (INDUSTRIAL PROPERTY, 1984, p. 313)

In the 1985 session, there was not only improved attendance but also an expansion of the agenda to include two new subjects: 1) requirements in respect of the naming of the inventor by an applicant who is not the inventor and in respect of evidence to be furnished concerning the entitlement of such applicant; and 2) requirements for granting a filing date to an application for a title of protection for an invention. With respect to this session WIPO concluded as follows:

> "... the Committee of Experts agreed that the three questions deserved a continued effort of harmonization at the international level. The Committee of Experts recommended, in essence, that the draft treaty provisions on the grace period should be revised in the light of its conclusions and, as far as the questions of the naming of the inventor and the requirements for granting a filing date were concerned, the International Bureau should, taking into account the recommendations that the Committee had made, not only revise the draft treaty provisions but also the arguments supporting them. (INDUSTRIAL PROPERTY, 1985, p. 268)

III. General Observations

As mentioned earlier, at the session this past May four new subjects were added and a goodly number of additional countries and non-governmental organizations showed up.

The discussions were based not only on a WIPO document, entitled "Draft Treaty on the Harmonization of Certain Provisions in Laws for the Protection of Inventions" (HL/CE/II/2) but also on a set of elaborate working papers or WIPO documents with the following titles:

"Requirements in Respect of the Granting of a Filing Date to a Patent Application" (HL/CE/II/2 Supp. 1);

"Requirements in Respect of the Naming of the Inventor and in Respect of Evidence to be Furnished Concerning the Entitlement of the Applicant" (HL/CE/II/2 Supp. 2);

"Requirements in Respect of the Manner of Claiming in Patent Applications" (HL/CE/II/3);

"Requirements in Respect of Unity of Invention in Patent Applications" (HL/CE/II/4);

"Extension of Patent protection of a Process to the Products Obtained by That Process; Proof of Infringement of a Process Patent" (HL/CE/II/5);

"Prior Art Effect of Previously Filed but Yet Unpublished Patent Applications" (HL/CE/II/6).

As a matter of fact, these subjects were discussed not only in general but the documents themselves were gone over paragraph by paragraph and in great detail so that not only principles and fundamentals but also language and terminology were under scrutiny.

With respect to general and preliminary observations made by participants, the delegation of Japan, for instance, expressed general support for WIPO's activity concerning the harmonization of certain provisions in laws for the protection of inventions but inquired as to the extent to which it was intended that also the terminology of national laws be harmonized along the lines of the proposed draft Treaty provisions.

The Director General's reply was that it was not intended that the terminology and wording of national laws had to be harmoninzed fully under the proposed draft Treaty. It was, however, important that the implementation of the Treaty

provisions was such that it resulted in harmonized practices. This did not, however, prevent the rules of the implementing legislation from being expressed in different ways. No member State was obliged to transfer the rules of the future Treaty word by word.

The U.S. Delegation expressed its appreciation of WIPO's efforts in the harmonization of patent laws and agreed that WIPO could play a useful and important role in strengthening industrial property protectionby setting standards--a role which should be recognized when discussing intellectual property matters within the framework of the General Agreement on Tariffs and Trade (GATT).

Poland suggested that instead of working out a new Treaty the Paris Convention should be revised and revamped and Italy felt that many of the proposed Treaty provisions should not be in the Treaty but in implementing regulations enacted at the national level. Dr. Bogsch in replying indicated that the standards of the Paris Convention were too loose and the proposed Treaty would be a special arrangement within the Paris Convention like PCT or the Budapest Treaty.

IV. The Grace Period

Most of the discussions were concerned with the grace period because of a fundamental disagreement with, if not diametrical opposition to, the concept of any grace period on the part of the Scandinavian delegations. At last year's session they were apparently dead set against any grace period for reasons of legal certainty. But at the May session this year they gave ground a little. At the very outset Denmark floated a proposal for a very limited grace period and moved that this subject be taken up first. This proposal was supported by the delegations of Finland, Norway and Sweden as well as Iceland. This proposal, embodied in WIPO Document HL/CE/II/7 and intended to constitute Art. 201 of the Harmonization Draft Treaty, reads as follows:

> (1) A patent shall not be refused or held invalid under any national law by virtue of the fact that a disclosure was made which may affect the patentability of the invention that is the subject of an application for a patent or of a patent, provided that the said disclosure was made:
>
> > (i) by the inventor, or a person acting on his behalf, in connection with a testing of the invention, provided that it occurred only to an extent considered reasonable in view of the nature of the invention, and provided that reasonable measures had been taken to keep the invention secret, or

(ii) by a third party, including an industrial property office, based on information obtained from, or in consequence of acts performed by, the inventor, if the third party was under an obligation to keep the invention secret, or if the information had been obtained by an unlawful appropriation, provided that the applicant and his legal predecessor had done all that could reasonably be required to keep the invention secret,

and provided that the said disclosure occurred no more than six months before the date on which the application was filed or, where priority is claimed, before the priority date, and provided, furthermore, that the said application was filed as soon as possible after the disclosure.

This proposal, in other words, would recognize only a six-month grace period and only

1) for a disclosure by the inventor or a person acting on his behalf, but further only if such disclosure occurred in connection with the technical testing of the invention, and

2) for a disclosure of an invention by a third party, including an industrial property office, but further only if the third party was under an obligation to keep the invention secret or if the information had been obtained by an unlawful appropriation, provided that the applicant had done all that could be reasonably required to keep the invention secret.

Several participants opposed and debated this because the purpose of any grace period was to protect inventors, in particular those who did not have sufficient knowledge of patent law and that, in addition to testing, there were other cases which deserved the same treatment. At the end the Delegation of Denmark was asked and promised to further elaborate its proposal prior to the next session, taking into account the discussion that had taken place.

Otherwise, a number of delegations and organizations agreed with the proposed grace period draft treaty provision, according to which there should be a general grace period of six or 12 months for any disclosure by the inventor or someone having obtained the information on the invention from the inventor, regardless of the grounds or methods of such disclosure. Opinions of government delegations were about equally divided as regards the question of whether the general grace period should be a six-month period or a 12-month period, whereas most of the organizations present favored a 12-month period. Opinions were similarly divided as to the question whether there should be an obligation to notify formally the industrial property office of any prior disclosure: government

delegations were about equally divided as regards such a requirement, whereas all of the organizations were against such a requirement. It was agreed that third party rights in respect of the continued exploitation of the patented invention which had been started before the filing or priority date should be safeguarded in the future treaty, subject to clarification that such third party rights were limited to persons who had made the invention independently from the person invoking the grace period.

V. Other Agenda Items

(For the summarizations in this section the "NOTE" which appeared in the INDUSTRIAL PROPERTY, July/August issue (p. 309) has been heavily relied upon.)

A. Filing Date Requirements

Since the majority of the Committee of Experts, at the session held in 1985, had already agreed on the basic approach of providing, as a matter of principle, for both obligatory ("minimum") requirements and additional option ("maximum") requirements, the Committee of Experts this time focused on thesubstance of the proposed requirements.

It was generally agreed that the first among the proposed obligatory minimum requirements, namely that there must be an indication that protection for an invention was sought, would be satisfied by a request for the grant of a patent or another title of protection for an invention, such as an inventor's certificate, utility model or certificate of addition. As to the question whether the obligatory minimum requirement of an identification of the applicant should also include an indication of the applicant's address, it was argued that giving the applicant's address may be necessary in some, but not all, cases and that a solution should be formulated with this possible need in mind. Views were also divided as regards two further proposed obligatory minimum requirements, namely that the application must contain a part which, on its face, appeared to be a description, and a part which, on its face, appeared to be a claim or claims. Several delegations and representatives of organizations stated that what was important was that an application contain a disclosure of the invention in order to be accorded a filing date but that it was not necessary that such disclosure include a claim or claims. In conclusion, it was agreed that a compromise solution might consist of providing that any national law would, on the one

hand, be free to require the presence of a claim or claims in an application as a condition of according a filing date but would, on the other hand, be obliged to require the presence of a description as a condition of according a filing date.

B. Inventorship Designation Requirements

It was suggested that the indication of the name of the inventor should include both his family name and his given name. It was also suggested that it should be required that the inventor's address be indicated. It was furthermore suggested that national laws should be free to require that either the applicant or his representative make the declaration indicating the legal grounds of entitlement to file the application. It was also agreed to study further the question of whether the sanction for non-compliance with the requirements of naming the inventor and the declaration of entitlement should be that the application must be refused or must, instead, be deemed to have been withdrawn.

C. Manner of Claiming Requirements

The memorandum prepared by the International Bureau had a relatively liberal aproach, in order to facilitate the drafting

and reading of claims. It was pointed out that harmonization in this field was of great interest to the users of the patent system. A number of detailed suggestions for the improvement of the proposal of the International Bureau were made.

D. Unity of Invention Requirements

The International Bureau had made a proposal for the harmonization of the presently largely divergent practices under national laws, in order to facilitate the drafting of patent applications. The usefulness of harmonization in this field was recognized, and several suggestions were made in respect of the International Bureau's proposal. It was generally agreed that the principle, proposed by the International Bureau, according to which a patent application must relate to one invention only or to a group of inventions so linked as to form a single general inventive concept, was acceptable. Additional information was requested from governments, particularly on the actual practice of their industrial property offices, since the differences amoung the various countries seemed to consist in the practical application of the general principle of unity of invention.

E. Process Patent Protection

As concerns the extension of patent protection of a process to the product obtained by that process and proof of infringement of a process patent, the solution proposed by the International Bureau was that the Treaty should require such an extension, as well as the reversal of the burden of proof in the case where the process is for the manufacture of a new product. That solution was in general considered as acceptable.

However, there were differences of opinion on certain details. In connection with the reversal of the burden of proof, views were divided on the questions whether that reversal should apply only where the defendant's product is identical to the one described in the process patent and whether the product had to be new. As regards the question of whether products had to be obtained directly by the patented process in order to be covered by the proposed, extended process patent protection, there was a general view that this should be the rule.

F. Prior Art Effect of Prior Patent Applications

As regards the prior art effect of previously filed but yet unpublished patent applications, the Committee of Experts, in general, took a favorable view of the principles of a solution submitted by the International Bureau, according to which the treaty would require that Contracting States consider the whole contents of a patent application, to the extent that they are subsequently published, as prior art from the filing date or the priorty date of the application.

As regards the meaning of "whole contents," it was suggested that the prior art effect of previously filed but yet unpublished patent applications should be dated back to the priority date only with respect to subject matter which had also been disclosed in the priority application and that the filing date should be the effective date for prior art purposes for any other subject matter which had not been disclosed in the priority application.

Moreover, it was pointed out that the proposed solution should make it absolutely clear that previously filed but yet unpublished patent applications were meant to be taken into

account as prior art only for purposes of determining novelty and not for purposes for evaluating inventive step.

In addition, it was suggested that the proposed solution should include measures to prevent that a conflict between several patent applications filed by the same applicant cause the applicant to destroy the novelty of his own invention merely by reason of having described his invention in a patent application previously filed by him but not yet published.

VI. Conclusions

The conclusions regarding this last Session as stated by WIPO were to the effect that the Committee of Experts and/or WIPO agreed (INDUSTRIAL PROPERTY, 1986, p. 311) that

1) the "questions discussed deserved a continued effort of harmonization at the international level",

2) "(o)ther possible topics for inclusion in the draft treaty should be studied, such as exclusion of certain categories of inventions from patent protection, interpretation of patent claims, duration of patents, first-to-file versus first-to-invent principle, manner of description, and rights conferred by the patent",

3) the proposed provisions of the draft treaty would be revised or new provisions formulated in light of the discussions, and

4) the "revised" text of the draft treaty as well as memoranda on one or several of the new topics to be studied would be submitted to the Committee of Experts at its next session."

The next session, which was initially scheduled for November of this year, has now been set for March 23 to 27, 1987 and announcements and invitations have been issued. It is to be hoped - and this is my plea today - that PIPA will again seize the opportunity and be represented in an observer capacity. Since observers can participate in the deliberations, it is to be hoped further that PIPA will study the issues on the agenda, formulate positions and issue instructions or guidelines to the observer(s) so that PIPA will have input and will be able to affect the outcome.

Harmonization is in the air. It is an idea whose time has come. Harmonization efforts are gaining momentum and the trend toward harmonization appears irreversible.

Karl F. Jorda

SOME VIEWS ON THE EUROPEAN PATENT SYSTEM

Presented at PIPA 17th Congress
Japanese Group, Committee No. 3
Subcommittee on European Patent System

Mitsuru NISHIMURA, TEIJIN LIMITED
Takeo HAMAZAKI, MITSUBISHI RAYON CO., LTD.
Keiji KOMAKI, FUJISAWA PHARMACEUTICAL CO., LTD.
Speaker: Mitsuo TANIGUCHI, EISAI CO., LTD.

Abstract

It is already eight years since the EPC Patent System was established, and the number of applications has been increasing steadily with the operation of the system becoming smoother and smoother. The Japanese industry has watched the European Patent System with great interests from the beginning and their patent applications to Europe are now filed mainly through the EPO.

We would like to report here upon the result of our study concerning the problems we are facing in obtaining European Patent at the EPO, and the points to be improved, particularly the following eight points are those which we consider the most important.

(1) Self-collision
(2) Grace period
(3) Period for filing request for examination
(4) Requirement of disclosure as the grounds for opposition
(5) Invention of second use in the pharmaceutical field
(6) Furnishing of microorganism samples
(7) Harmonization of procedures after grant of European patents
(8) Submission of translations of priority documents

1. Introduction

The patent systems of the world have followed their own unique courses of development, and differ from country to country. It is not desirable, however, that an excellent invention is protected or not protected as a patent right depending on a country or that the scope of protection differs extensively from one country to another, even though it is in fact protected. In the three advanced areas of US, Europe and Japan which play the leading roles in the patent world, such a situation is not desirable. Thus, harmonization of patent systems and practices of the

countries of the world is strongly desired.

PIPA Japanese Group Committee 3 reported last year at the Sixteenth International Congress held in Chicago on various problems of the US Patent System, mainly focusing upon the first-to-invent system.

This year, the Committee No. 3 studied the problems of the European Patent System which the Japanese industry had encountered, and we report here upon the result of our study.

The European Patent System entered its eighth year since the first filings were made on June 1, 1978. Its operation has been quite smoothly conducted and the number of applications has increased yearly to reach about 40,000 cases per year. The number of contracting states is now 13 as Spain and Greece joined the Convention on October 1, 1986. Both the US and Japan have been keenly interested in the European Patent System from the very beginning, and applications originating from the US are at the top of the list (a little less than 27%), followed by W. Germany (24%) and Japan (slightly below 15%).

The European Patent System was established beyond the complex interests of contracting states, and was epoch-making and highly evaluated in this regard. The European Patent System is similar in many points to that of Japan, therefore, Japanese Industry finds it easier to understand and cope with the same in comparison to the US Patent System.

However, it is felt that there are many points which should be improved from the standpoint of Japanese Industry. We studied the eight items discussed in the following sections 2 - 9, and report here upon the result of our study.

2. Self-collision

Under EPC Articles 54 (3) and (4), the content as filed of a prior application, i.e. prior European application or prior domestic application in the designated

country, is considered to constitute the state of the art, and a later application claiming the same matter which was disclosed in the prior application is not granted a patent even if the inventor or applicant thereof is identical to that of the prior application. There arises a so-called self-collision or rejection of a later application by unpublished first application of the same inventor or applicant.

Although Japan adopts the whole content approach which is similar to EPC, this is not applicable where the inventor or applicant is identical. The later application is rejected only when a problem of double patenting of the prior application occurs. In the United States, rejection of a later application by the prior application of the identical inventor can be avoided except in the case of double patenting. As a result of the amendment of the Patent Law in 1984, there are hardly any problems of self-collision even when there are different inventors.

EPC, on the other hand, applies the whole content approach even for applications of an identical inventor or applicant, giving rise to self-collision, and a later application of an inventor/applicant may be rejected over his unpublished prior application.

In the following cases, an application with a later priority date may be rejected by reasons of self-collision:

(a) The prior application claiming a novel compound also discloses its use, method of use, etc. in order to clarify its utility, and another application claiming the use is filed on a later date for disclosing the detailed experimental data.

(b) The priority right of the prior application is not admitted for some reason and the chronological relation between the senior and the junior applications is reversed so that the convention date of the basic invention (the prior application) falls behind that of the improvement invention (the later application).

(c) An EPC application claiming combined priority rights is divided because of an objection concerning the unity of invention.

When Japan - EPO Liaison Committee consisting of Japanese applicants and agents visited EPO in July last year, they requested improvement on this point. EPO answered that they considered that there would be no problems since the pertinent portion of the prior application would be interpreted somewhat narrowly. EPO Guidelines do not specify, however, the degree of disclosure in the prior application which would result in defeating novelty of the later application, and there are actually applications which received a notice of rejection citing a prior application of the same applicant. Applications are therefore not without problems in this respect.

It is general practice for an applicant to file several consecutive patent applications on the improvements and uses after they filed a patent application for the basic invention as research and development advances. Therefore, it is preferable to exempt the applications with an identical inventor or applicant under the whole content approach as is the practice at US and Japanese Patent Offices from the viewpoint of the protection of inventions. This will also lead to encouraging sufficient disclosure of the invention in the specification.

We therefore believe that EPC Articles 54 (3) and (4) should be amended to harmonize with US and Japanese patent practice.

3. Grace Period

Concerning the non-prejudicial disclosure by the applicant or a predecessor, EPC Art. 55 (1) provides that it would not consider disclosure within six months preceeding EP application limited to the following instances.

(a) An evident abuse in relation to the applicant or his legal predecessor

(b) The fact that the applicant or his legal predecessor has displayed the invention at an official or officially recognized international exhibition.

Thus, if an inventor or assignee publishes the invention at scientific meetings or in printed publications, or causes the invention to become known by experiments prior to the convention date, such invention will be deemed not novel and unpatentable.

There are given six month and twelve month grace periods in Japan and US respectively, and applications filed for inventions which became publicly known because the inventor published the invention at scientific meetings or conducted experiments will not be rejected for such disclosure as long as they are filed within six months or twelve months respectively following publication. The protection given to inventions in these two countries is therefore more extensive compared to Europe where the scope of non-prejudicial disclosure is extremely limited.

Such grace periods adopted in Japan and US, on the other hand, are considered too short for a foreign applicant to fully benefit from it, due to it being based upon the actual filing date.

In order to strengthen the international protection of inventions, we believe it is desirable that harmonization of the practices of major countries should be attempted by establishing the general grace rule which is now being discussed at WIPO. We support WIPO's proposal to count the grace period from the priority date and not to consider the disclosure by the inventor or his assignee during the grace period (except by publication or laying-open of patent applications by Patent Office) as the state of art. We, however, believe that the grace period should preferably be six months in view of the balance of interests between the inventor and any third party.

The matter of grace period was also discussed at the meeting of the above mentioned delegation and EPO. EPO acknowledged that some European countries wanted re-introduction of the grace period and suggested that they were prepared to review the matter on the following premises.

(a) The rule should be uniform world-wide (at least on the OECD base).

(b) In principle, the first-to-file system should be adopted and the grace period should be limited to a certain period (preferably 6 months).

We found that the bill to amend Canadian Patent Act announced in June this year introduced a grace period of 12 months prior to the priority date under the first-to-file system. We consider this bill epoch-making.

We hope that the grace rule based on the priority date will lead to encouraging developed countries to advance toward harmonization and the EPC to amend their Art. 55 (1) to harmonize with the other countries of the world.

4. Period for Filing Request for Examination

The period for filing a request for examination for an EPC patent application is currently up to the end of six months after the date of the publication of the European search report under EPC Art. 94. This is felt to be too short for applicants. The period for filing a request for examination is, for example, within 7 years from the filing date in Japan, W. Germany and the Netherlands, within 5 years from the filing date in Australia, within 4 years from the laying-open date in Yugoslavia and 3 years from the priority date in the People's Republic of China. The period set by EPC Art. 94 is so short that the applicants do not have sufficient time to consider whether they should actually file a request for examination or not for the annually increasing European patent applications and result

in their filing requests for all their applications to be on the safe side. Thus the increase in the backlog of unexamined cases at EPO is accelerated.

In view of the fact that scrutiny of references written in foreign languages takes up an enormous time for Japanese applicants, evaluation of an invention does require quite a long period of time, and an optimum request for examination should be made from a good patent management point of view, it is preferable to amend the period for filing request for the examination for EPC patent applications to, for instance, within 1 or 2 years from publication of the European search report. This harmonization of the period for filing request for examination will certainly pave the way for filing request for examination in an optimum way.

5. Requirement of Disclosure as the Grounds for Opposition

EPC Article 83 stipulates the following concerning disclosure of inventions;

> "The European application must disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art".

EPC Article 84 stipulates the following concerning the claims;

> "The claims shall define the matter for which protection is sought. They shall be clear and concise and be supported by the description".

However, the grounds for opposition as stipulated in EPC Art. 100 covers Art. 83 but not Art. 84. Neither does Art. 138 on Revocation covers Art. 84. In other words, a failure to support the scope of claims by the description in the specification does not constitute the ground for opposition or that for revocation. This is clearly stated in EPO guideline Part D IV. 5.

If the matter not described in the specification is

claimed, e.g. the scope of the invention as claimed is broader than that described in the specification, such claims are not allowed according to the practice of most countries. If such a claim is allowed, this means an invention not disclosed in the specification is protected and this is contrary to the intent of the patent system. Such practice at EPO may possibly allow a patent right with an unreasonably wide scope of protection compared to the description of the specification and may seriously affect the industry. More specifically, there may be mentioned the following example. In the field where the competition for technical development is fierce, we can easily find that more than two companies often file related invention separately at about the same time; in such a situation if the earlier applicant obtains the patent on the basis of the claim not being supported by the description, it may lead to offering serious problem to competitors.

At the Japan - EPO Liaison Committee meeting held last year, the EPO commented on this point that "an opposition cannot be raised only on the ground that a claim is not sufficiently supported by the description of a specification. However, if the claim is so broad that the disclosure of the specification fails to satisfy the requirement of Article 100 (b), there is a possibility that filing of an opposition based on this ground will be allowed". Art. 100 (b) corresponds to only Article 83 mentioned above, and this alone is insufficient. We strongly urge inclusion of the provision corresponding to Article 84 in the grounds for opposition under Article 100 and the grounds for revocation under Article 138.

6. Invention of Second Use in the Pharmaceutical Field

The EPO Enlarged Board of Appeal made an epoch-making decision which recognized a patent with Swiss-type claims for an invention of the second pharmaceutical use on December 5, 1984. (The use of a substance or composition for the manufacture of a medicament for a specified new and

inventive therapeutic application). (Gr. 05/83 et al.) This enabled obtaining a right for an invention of second pharmaceutical use at EPO like in US and Japan. However, this decision did not necessarily obliterate the problems. There still remain the following points which we would like to see improved.

(1) It is not clear whether or not contracting states will recognize the above decision although they have domestic provisions corresponding to Articles 52 and 54 of EPC. The British High Court made a decision recognizing Swiss-type claims on July 4, 1985, and the contracting states are expected to follow this direction. We are expecting all of the contracting states, including countries such as France which have so far strongly denied the invention of second pharmaceutical use, to recognize the above EPO decision and to give the invention of second pharmaceutical use a patent right.

(2) In what form can the Swiss-type claims which were recently recognized be enforced? Are they different from W. German-type claims which read as follows? "The use of a substance or composition for the treatment of the human or animal body by therapy". Does the effect of the patent right reach the product obtained or is it limited to the act of manufacture? What about the case where the product is manufactured outside the country where the patent right exists and then imported to said country? Can the right be asserted not only over the pharmaceutical manufacturers but also the merchandisers or end users?

In view of the above situation, we think that the Japanese type of claim for invention of second pharmaceutical use such as "a therapeutic agent for diabetes comprising A as an effective ingredient" should be

considered as one of the claim types for protection thereof also in the EPO.

7. Furnishing of Microorganism Samples

EPC Rule 28-(3) stipulates that if the invention involves the use of the microorganism, the culture deposited shall be available to any person upon request from the date of the laying-open of the European patent application. According to Rule 28-(5), microorganism samples shall be unrestrictedly furnished even when a patent application is refused, withdrawn or deemed to be withdrawn.

Provisions of different countries concerning the furnishing time of microorganisms may roughly be classified into the following two groups.

(a) Furnishing from the time the patent right in substance (right to demand for damages, etc.) has accrued (publication after examination or registration). (Japan, USA, etc.)

(b) Furnishing from the time the patent right in substance has not yet accrued (laying-open of applications) (EPC, W. Germany, etc.)

In the case of an ordinary chemical invention, it is indispensable to describe the method of manufacture of the starting material in the specification if said material is novel. In the invention using microorganisms, deposition and furnishing of the microorganisms would be necessary in view of the purposes of the patent law.

The inventions using microorganisms, however, are specially different from ordinary chemical inventions in the following points;

(i) the microorganism has the ability of self-replication,

(ii) the microorganism per se is know-how itself,

(iii) a superior microorganism (such as a mutant) can be easily produced from the original

microorganism.

Thus the inventions using microorganisms are special types of inventions, and therefore we think it objectionable to furnish the microorganism developed at a great cost and expenses to third parties free of charge as early as at the time of "laying-open of the applications" when there has not yet accrued any substantial right.

In other words, delivery to third parties of the microorganism which is know-how itself and which is capable of self-replication not only constitutes a disadvantage for the applicant but also reduces research efforts toward the invention of microorganisms in general, and ultimately results in hindering the technology development in this area.

We see another problem in that a microorganism is furnished unrestrictedly to third parties even when its application has been refused, withdrawn or deemed to be withdrawn. Since microorganism of the invention for which a patent is not definitely to be granted is to be furnished, this will give disadvantage to the applicant and increase storage costs of microorganisms extensively.

In order to obviate the above-mentioned problems, we believe it is preferable to admit furnishing of microorganisms from the time the substantial patent right has accrued or when the patent application is published after examination or registered as is the case in Japan and USA.

8. Harmonization of Procedures after Grant of European Patents

Use of EPC route is annually increasing as a result of simplified filing procedure up to grant of the European patent compared to the national routes. After the grant, however, various procedures are necessary for transferring the rights to designated contracting states. Following problems are conceivable in this stage.

(1) Appointing a national agent
(2) Payment of annuities
(3) Submission of translation of the specification of the European Patent

Since the Japanese Committee No. 3 reported upon the item (3) above at PIPA 14th International Congress held in Washington, D. C. on October 19 through 21, 1983, we shall take up the items 1 and 2 above.

(1) Appointing a national agent

The rules concerning appointment of the national agent in the designated contracting states for annuity payment, receipt of notice for non-payment of annuity, procedure for restoration of a patent right expired by non-payment of annuity, and submission of translation of European patent specification differs from country to country among EPC contracting states and are not necessarily uniform.

(2) Payment of annuities

Annuities are roughly classified into two; maintenance annuities paid to the EPO for maintaining the application from filing until the notification of the grant of the European patent, and renewal annuities paid to national patent offices for maintaining the patent right after grant.

Since maintenance annuties are paid to EPO, there are no complex procedures for the applicants. The procedure for renewal annuity payments differs greatly from country to country; the annuity amounts, the year when the first payment is due, the due date for payment, the grace period, the additional fees, notification in case of non-payment of annuity, restoration of the right and its conditions, etc. are all different, imposing a great burden on the applicants for their patent management and in considering whether to maintain the patent or not.

These differences in the provisions concerning appointment of national agents and annuity payments after the patent rights are transferred to designated contracting states are most troublesome for patent management, and we would like to see early harmonization of patent procedures in the contracting states for the sake of simplification.

The items (1) and (2) above were taken up at JAPAN - EPO Liaison Committee meeting held in Munich on July 8, 1985 and EPO responded that they were considering Centralized Register for these states in the future. We would like to see this be realized at an early date. We sincerely hope that unification of national laws and procedures in the stage of transfer of European patents to designated contracting states will be accelerated and EPO will make further efforts toward early realization of CPC.

9. Submission of Translations of Priority Documents

EPC Article 88-(1) requires submission of translation of priority documents within twenty months after the priority date. For a country like Japan of which the language is not an official EPO language and which often claims multiple priorities, a great deal of work and expenses are involved in preparing translation of priority documents.

EPO's examination department reviews such translation of priority documents only when intercalary references (references published after the priority date) are uncovered. Thus, these translations are not the requisite material at the filing stage. In fact, both the Japanese and the US Patent Offices do not require the translations at the filing stage. In order to save the work and expenses which the applicant incurs for preparing the translations, we believe that their submission should be required only when the actual need for examining the content of the priority document arises or when an intercalary reference is uncovered.

Conclusion

We have discussed the problems under the European Patent System which the Japanese industry faces and our requests and suggestions on these points. We believe these problems deserve closer attention for the international harmonization of the patent system. We intend to reflect this paper on the discussion between the EPO and the representatives of the Japan Patent Association scheduled for February, 1987.

REVIEW OF PROPOSED INTERNATIONAL TRADE COMMISSION LEGISLATION

COMMITTEE 3 - U.S. GROUP

by

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At the 14th International PIPA Congress in Washington, a paper was presented on Proposed U.S. Patent Law Revisions Affecting Foreign Trade. Although the proposed revisions discussed at that time involved only the Patent Laws in Title 35 of the U.S. Code, the speaker also discussed certain related provisions of the Tariff Act of 1930 which is part of Title 19 of the U.S. Code. These related provisions deal with unfair methods of competition and unfair acts in the importation or sale into the United States of protected articles of intellectual property. Proceedings under these provisions are handled by the United States International Trade Commission (ITC). The speaker identified a number of weaknesses that had been experienced by persons seeking protection through the ITC procedures.

Since that time there has been an increasing awareness of international counterfeiting and piracy with respect to intellectual property. Concern in the United States about these

problems has led to the introduction of numerous bills designed to improve the protection presently provided by U.S. laws. My presentation today will deal specifically with legislation now before the U.S. Congress for the purpose of amending Section 337 of the Tariff Act of 1930 (19 U.S.C. 1337, 1337a).

The bills which are of primary interest are S. 1869 in the Senate and H.R. 4747 in the House of Representatives. Each of these bills is limited only to the amendment of Section 337 which governs ITC proceedings. For completeness I will also identify three other pending bills which deal with Section 337, but these other bills also include provisions which deal with different subjects. S. 2435 contains added provisions relating to foreign market access for U.S. companies under the Trade Act of 1974. S. 1860 and H.R. 4800 are massive bills dealing with all aspects of trade and international economic policy. They are commonly referred to as "omnibus trade bills," and H.R. 4800 was passed by the House of Representatives in May, 1986.

To assist in understanding the specific changes which have been proposed by bills S. 1869 and H.R. 4747, the Appendix to this paper contains the present text of Sections 337 and 337a of the Tariff Act.

Paragraph (a) of Section 337 defines the unfair acts and unfair methods which are considered to be unlawful, and it gives the ITC the authority to deal with such acts and methods. At present, such acts and methods must affect an industry which is "efficiently and economically operated." Both of the proposed bills would delete this limitation on the manner in which the

industry is operated. The present law also covers acts and methods which "prevent" the establishment of an industry. Both of the proposed bills expand this coverage to include acts and methods which "impair or prevent" such establishment.

Paragraph (a) of Section 337 also states that in order for the unfair acts and unfair methods to be considered as unlawful, they must have the effect or tendency "to destroy or substantially injure an industry" or "to prevent the establishment of such an industry". The nature and extent of the injury suffered by an industry is not defined and the present law also lacks any identification of the different types of intellectual property which it is intended to protect. This latter deficiency is particularly significant because the scope of recognized intellectual property rights has changed greatly in recent years.

In order to correct these problems, each of the proposed bills would add provisions to paragraph (a). Under these provisions, proof of acts which would violate specified intellectual property rights would be all that is needed to show the existence of an injury. The acts which would violate these rights are the unauthorized importation or the sale of an imported product which infringes a valid United States patent, copyright, trademark, or maskwork. In addition, only S. 1869 would also include among such acts the unauthorized importation or the sale of an imported product which infringes a valid trade secret in the United States. Finally, both of the proposed bills cover products made by a process which would infringe a valid U.S. patent if that

product had been made in the U.S. This last proposed addition is in the present law as Section 337a which would be cancelled.

Paragraph (b) of Section 337 relates to investigation by the ITC of alleged violations and no changes are contained in the proposed bills. Paragraph (c) of Section 337 requires that each investigation made by the ITC must determine whether or not there has been an actual violation. S. 1869 makes no change in this requirement. However, H.R. 4747 would permit the ITC to terminate an investigation without any determination of violation if a consent order is issued or a settlement agreement is reached.

Paragraph (d) of Section 337 allows the ITC to exclude the accused products from entry into the U.S. if a violation has been found. No changes are contained in the proposed bills.

Paragraph (e) of Section 337 allows the ITC to exclude the accused products from entry into the U.S. during the investigation if there is reason to believe that a violation will be found. Both of the proposed bills would add a provision to permit the complaining party to petition for a preliminary exclusion of entry order at an early date if the complaining party posts a bond. The proposed bills have small differences in the time period within which the ITC must make such a preliminary decision. H.R. 4747 would add a further provision to permit the granting of a preliminary injunction or a temporary restraining order. This would serve to prevent the sale of products which had already been imported into the U.S.

Paragraph (f) of Section 337 deals with orders that can be issued by the ITC and with the civil penalties for violation of these orders. The present law permits a penalty of not more than $10,000 or the domestic value of the products imported or sold on each day the violation occurs, whichever is greater. S. 1869 would increase the maximum penalty to "twice the domestic value of the products". The change proposed in H.R. 4747 would raise the maximum dollar figure to $100,000.

The proposed Senate bill, S. 1869, would add an entirely new paragraph to Section 337. In the case of products which had already been imported into the U.S., and which were found to be a violation, the ITC could issue an order that such products be seized and forfeited to the United States. The Secretary of the Treasury would be authorized to enforce the order. This remedy would be in addition to the exclusion from entry orders permitted by paragraphs (d) and (e).

The proposed House bill, H.R. 4747, would add an entirely new paragraph to Section 337 on a different subject. It would authorize the ITC to order sanctions against any party to the proceedings for abuse of discovery or for abuse of legal process. These sanctions would be the same as those provided in the Federal Rules of Civil Procedure.

Both the House and Senate bills would also add another new paragraph dealing with default. The provisions in the two bills are very similar but they are not identical. This new paragraph would require that:

(1) a complaint is filed alleging a violation by a party;

(2) the complaint is served on that party;

(3) The party fails to respond or appear;

(4) the party fails to show good cause why he should not be held in default; and

(5) the complaint seeks relief only against the named party.

If all of these requirements are satisfied, the ITC shall presume that the facts alleged in the complaint are true and may then grant relief solely against that named party. S. 1869 does not specify the nature of such relief but H.R. 4747 expressly permits both exclusion from entry and a cease and desist order. The new default paragraph in H.R. 4747 contains a further provision which is not in the proposed Senate bill. This states that if no person, either the accused party or anyone else, appears to contest the complaint, and if the alleged violation is established by "substantial, reliable, and probative evidence", then the ITC is permitted to order a general exclusion from entry of the accused product against any and all persons.

Paragraph (g) of Section 337 provides that a decision of the ITC shall be published and a copy of that decision shall be sent to the President of the United States. The President then has 60 days to review the decision and notify the ITC if he does not approve. If the President does not disapprove, the ITC decision then becomes final. H.R. 4747 does not propose any change on this subject. However, since S. 1869 would add the new "seizure" paragraph noted above, the Senate bill would here permit the accused party to post a bond to prevent such seizure until the decision becomes final.

Paragraph (h) of Section 337 states that an exclusion from entry order or a seizure order shall remain in effect until the ITC shall notify the Secretary of the Treasury that the conditions which led to such orders no longer exist. Both of the proposed bills would permit a petition for relief by a party previously found by the ITC to be in violation of Section 337. The petitioner would have to show that he is no longer in violation or that the order should be modified for some other reason. The burden of proof is on the petitioner and the ITC may only consider evidence which is either new or which could not have been presented in the original proceeding.

Paragraph (i) of Section 337 provides that orders made by the ITC shall not apply to products which are imported by or for the use of the United States government. The present paragraph speaks only of products relating to patents. Both of the proposed bills would add reference to trademarks and copyrights. H.R. 4747 would further add reference to maskworks.

The proposed House bill would include an entirely new paragraph dealing with handling of confidential information. It would provide that if such information is submitted to the ITC or exchanged among the parties, it shall not be released to any other person without the consent of the submitting party. Exceptions under this paragraph permit limited release by the ITC under a protective order and also permit disclosure to ITC employees involved in the investigation or to Customs Service employees involved in administering an exclusion order.

Paragraph (j) is the final portion of Section 337. It defines the territory of the United States and there are no changes in the proposed bills.

Clearly, the most significant changes which are being proposed for Section 337 are those involving paragraph (a). The requirement for "an industry in the United States" has been retained. This prevents access to ITC proceedings by those who have no business interest in the U.S. but who simply have some form of U.S. intellectual property rights. The ITC would thus continue to adjudicate trade disputes between a domestic industry and one who seeks to import products from abroad. Where such disputes are not involved, the U.S. court system would have jurisdiction.

The deletion of the efficient and economical operation requirement removes a rather vague and highly subjective standard from paragraph (a). This will eliminate the need for extensive and expensive discovery by the accused party and will surely help to simplify the proceedings. It should be noted that the ITC has never denied relief to a complaining party for failure to conform to that standard.

The revision of the "injury" requirement appears to now expressly state something which should have been readily understood in the present law. The grant of an intellectual property right in the U.S provides the owner with a temporary statutory monopoly covering the subject matter of that right.

Any sale in the United States of an infringing product is a sale that properly belongs only to the owner or licensee of that right. The importation of infringing merchandise detracts from the authorized monopoly and decreases the value of the intellectual property. Under such circumstances, requiring further proof of injury, in addition to the injury inherent in the infringement of a valid intellectual property right, should not be necessary.

During the Congressional hearings on each of the proposed bills, there was considerable discussion on whether or not these proposed revisions would be compatible with the U.S. obligations under the General Arrangement on Tariffs and Trade (GATT). The issues particularly raised were those of non-tariff barriers, national treatment and the grandfather clause in GATT. Resolution of these issues must await final enactment of some legislation by Congress and approval by the President.

CURRENT STATUS

As of the date this paper was put in final form, the two bills discussed above were still pending before the Congress. S. 1869 was awaiting consideration by the Senate Finance Committee, and H.R. 4747 was awaiting consideration by the House Judiciary Committee. Legislative assistants of the Senator and the Representative who introduced these bills expressed doubt about whether either of the bills would actually receive any consideration before the Congress adjourns for this year.

It was also learned that a new Tariff bill, H.R. 5686, had just been introduced in the House. A copy of this bill was not available as yet but it was said to contain all of the H.R. 4747 provisions relating to Section 337. An attempt to expedite the new bill was expected.

APPENDIX

§ 337. Unfair Practices In Import Trade

Unfair methods of competition declared unlawful

(a) Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section.

Investigation of violations by Commission; time limits

(b)(1) The Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative. Upon commencing any such investigation, the Commission shall publish notice thereof in the Federal Register. The Commission shall conclude any such investigation, and make its determination under this section, at the earliest practicable time, but not later than one year (18 months in more complicated cases) after the date of publication of notice of such investigation. The Commission shall publish in the Federal Register its reasons for designating any investigation as a more complicated investigation. For purposes of the one-year and 18-month periods prescribed by this subsection, there shall be excluded any period of time during which such investigation is suspended because of proceedings in a court or agency of the United States involving similar questions concerning the subject matter of such investigation.

(2) During the course of each investigation under this section, the Commission shall consult with, and seek advice and information from, the Department of Health, Education, and Welfare, the Department of Justice, the Federal Trade Commission, and such other departments and agencies as it considers appropriate.

§ 337.

(3) Whenever, in the course of an investigation under this section, the Commission has reason to believe, based on information before it, that a matter, in whole or in part, may come within the purview of section 1303 of this title or of part II of subtitle IV of this chapter, it shall promptly notify the Secretary of the Treasury so that such action may be taken as is otherwise authorized by such section and such Act. If the Commission has reason to believe the matter before it is based solely on alleged acts and effects which are within the purview of section 1303, 1671, or 1673 of this title, it shall terminate, or not institute, any investigation into the matter. If the Commission has reason to believe the matter before it is based in part on alleged acts and effects which are within the purview of section 1303, 1671, or 1673 of this title, and in part on alleged acts and effect which may, independently from or in conjunction with those within the purview of such section, establish a basis for relief under this section, then it may institute or continue an investigation into the matter. If the Commission notifies the Secretary or the administering authority (as defined in section 1677(1) of this title) with respect to a matter under this paragraph, the Commission may suspend its investigation during the time the matter is before the Secretary or administering authority for final decision. For purposes of computing the 1-year or 18-month periods prescribed by this subsection, there shall be excluded such period of suspension. Any final decision of the Secretary under section 1303 of this title or by the administering authority under section 1671 or 1673 of this title with respect to the matter within such section 1303, 1671, or 1673 of this title of which the Commission has notified the Secretary or administering authority shall be conclusive upon the Commission with respect to the issue of less-than-fair-value sales or subsidization and the matters necessary for such decision.

(c) Determinations; review

The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section. Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of Title 5. All legal and equitable defenses may be presented in all cases. Any person adversely

affected by a final determination of the Commission under subsection (d), (e), or (f) of this section may appeal such determination, within 60 days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit for review in accordance with chapter 7 of Title 5. Notwithstanding the foregoing provisions of this subsection, Commission determinations under subsections (d), (e), and (f) of this section with respect to its findings on the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of Title 5.

Exclusion of articles from entry

(d) If the Commission determines, as a result of an investigation under this section, that there is violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry.

Exclusion of articles from entry during investigation except under bond

(e) If, during the course of an investigation under this section, the Commission determines that there is reason to believe that there is a violation of this section, it may direct that the articles concerned, imported by any person with respect to whom there is reason to believe that such person is violating this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and

welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry, except that such articles shall be entitled to entry under bond determined by the Commission and prescribed by the Secretary.

Cease and desist orders; civil penalty for violation of orders

(f)(1) In lieu of taking action under subsection (d) or (e) of this section, the Commission may issue and cause to be served on any person violating this section, or believed to be violating this section, as the case may be, an order directing such person to cease and desist from engaging in the unfair methods or acts involved, unless after considering the effect of such order upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such order should not be issued. The Commission may at any time, upon such notice and in such matter as it deems proper, modify or revoke any such order, and, in the case of a revocation, may take action under subsection (d) or (e) of this section, as the case may be.

(2) Any person who violates an order issued by the Commission under paragraph (1) after it has become final shall forfeit and pay to the United States a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order of not more than the greater of $10,000 or the domestic value of the articles entered or sold on such day in violation of the order. Such penalty shall accrue to the United States and may be recovered for the United States in a civil action brought by the Commission in the Federal District Court for the District of Columbia or for the district in which the violation occurs. In such actions, the United States district courts may issue mandatory injunctions incorporating the relief sought by the Commission as they deem appropriate in the enforcement of such final orders of the Commission.

Referral to President

(g)(1) If the Commission determines that there is a violation of this section, or that, for purposes of subsection (e) of this section, there is reason to believe that there is such a violation, it shall --

(A) publish such determination in the Federal Register, and

(B) transmit to the President a copy of such determination and the action taken under subsection (d), (e), or (f) of this section, with respect thereto, together with the record upon which such determination is based.

(2) If, before the close of the 60-day period beginning on the day after the day on which he receives a copy of such determination, the President, for policy reasons, disapproves such determination and notifies the Commission of his disapproval, then, effective on the date of such notice, such determination and the action taken under subsection (d), (e), or (f) of this section with respect thereto shall have no force or effect.

(3) Subject to the provisions of paragraph (2), such determination shall, except for purposes of subsection (c) of this section, be effective upon publication thereof in the Federal Register, and the action taken under subsection (d), (e), or (f) of this section with respect thereto shall be effective as provided in such subsections, except that articles directed to be excluded from entry under subsection (d) of this section or subject to a cease and desist order under subsection (f) of this section shall be entitled to entry under bond determined by the Commission and prescribed the Secretary until such determination becomes final.

(4) If the President does not disapprove such determination within such 60-day period, or if he notifies the Commission before the close of such period that he approves such determination, then, for purposes of paragraph (3) and subsection (c) of this section such determination shall become final on the day after the close of such period or the day on which the President notifies the Commission of his approval, as the case may be.

Period of effectiveness

(h) Except as provided in subsections (f) and (g) of this section, any exclusion from entry or order under this section shall continue in effect until the Commission finds, and in the case of exclusion from entry notifies the Secretary of the Treasury, that the conditions which led to such exclusion from entry or order no longer exist.

(i) Importation by or for United States

Any exclusion from entry or order under subsection (d), (e), or (f) of this section, in cases based on claims of United States letters patent, shall not apply to any articles imported by and for the use of the United States, or imported for, and to be used for, the United States with the authorization or consent of the Government. Whenever any article would have been excluded from entry or would not have been entered pursuant to the provisions of such subsections but for the operation of this subsection, a patent owner adversely affected shall be entitled to reasonable and entire compensation in an action before the United States Claims Court pursuant to the procedures of section 1498 of Title 28.

Definitions of United States

(j) For purposes of this section and sections 1338 and 1340 of this title, the term "United States" means the customs territory of the United States as defined in general headnote 2 of the Tariff Schedules of the United States.

§ 337a. Importation of products produced under process covered by claims of unexpired patent

The importation for use, sale, or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for the purposes of section 1337 of this title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent.

Recent Developments in Intellectual Property Fields in Korea

Presented at PIPA 17th Congress
Japanese Group Committee No. 3
Subcommittee on Korean intellectual property

Kenzo Hayashi, Kanebo, Ltd.
Takashi Matsuyama, Sumitomo Electric Industries, Ltd.
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Abstract

The movement for the revision of laws relating to intellectual properties has become active in 1986 under strong outside influence, particularly from the United States. The Korean Patent Office announced a proposed amendment of the patent and trademark law on May 1, 1986. At the US-Korea trade negotiations held in July, 1986 in Washington, an effective date of July 1, 1987 was confirmed for amendments of the patent law, trademark law, and copyright law. The utility model law and the design law also are expected to be amended to harmonize the laws with the amendment of the patent law. Unlike other major industrialized countries, Korea will address copyright type protection for computer software in separate legislation which is scheduled to become effective on July 1, 1987. A delay in the implementation of an unfair competition prevention law amendment is likely.

1. Introduction

Japanese Group Committee No. 3 previously has been reporting about developments in the industrial property field in Korea at the annual PIPA Congress. The movement for the amendment of the Korean laws has become very active in 1986, particularly since the proposal for the amendment of patent law was announced by the Korean Patent Office on May 1, 1986.

The economic issues represented by trade conflicts with industrialized countries, particularly with the United States, have been increasing further. This economic climate has stimulated Korea to take a step toward internationalization in the intellectual property field, through revision of existing laws, under strong outside influence, particularly from the United States.

This report introduces briefly the recent movement within Korea for revision of its laws, and reviews some other related topics on intellectual property rights.

2. Patent Law

The Korean Patent Office announced a proposal for amendment of the patent law and the trademark law on May 1, 1986. The proposed amended patent law, scheduled to be submitted to the current National Assembly, is expected to come into force on July 1, 1987 with some changes. In the preparation of the amendment, a positive attitude has been taken to provide Korea with more favourable conditions for inviting foreign technology and capital, in order to establish Korea in a firm position as a member of the industrialized countries.

The major points of amendment include introduction of product patent protection, extension of the term of the patent right and change of the sanction for the non-working of a patented invention. With respect to the introduction of product patent protection and extension of the term of the patent right, there is still strong opposition among Korean industrialists. However, it seems that political considerations including requests from foreign countries, particularly from the United States, have taken preference over this opposition.

(1) Introduction of product patent protection, use invention (Art. 4), (Extension of patentable inventions)

The extension of patentable inventions makes it possible to protect chemical products, uses of chemical products, and medicines and their preparation. The inventions of foods and drinks, the products manufactured by the transformation of the atom, and those which contravene public order, morality or public health are considered unpatentable subject matter.

According to an agreement resulting from US-Korea trade negotiations, announced on July 21, 1986, the following retroactive rights are to be given solely to U. S. citizens:

(i) A right to the conversion or amendment of pending process patent applications filed before the effective date of the amended patent law to include claims.

(ii) A right to protect products patented in the United States since January 1, 1980, providing that such products have not been marketed either in the United States or in Korea prior to the effective date of the amended patent law.

(2) Extension of the term of the patent right (Art. 53)

The term of the patent right is extended 3 additional years. Under the revised law, the term will be 15 years from the date of publication of the patent application. A provision that the term shall not exceed 18 years from the date of filing was deleted from the original proposal. In addition, a new provision permits further extension up to a maximum 5 years where government regulatory reviews prevent the immediate working of the patentable invention. The details of the provision are to be determined by Presidential Decree. This provision corresponds to the U. S. patent term restoration law. There is no such provision in the current Japanese patent law, but this concept is being considered by the Japanese pharmaceutical industry.

(3) Sanctions for non-working of a patented invention (Arts. 51 and 52)

Under the current law, the Commissioner of the Patent Office may grant a non-exclusive compulsory license at the request of an interested party, with remuneration also determined by the Commissioner, when a patented invention is not worked in Korea, or the patent right is abused. It is reported that there has been only one case where this provision was applied in the past that being in 1980. However, the existence of such a provision and the potential revocation of a patent have been a cause of concern for foreigners.

Under the revised law, an interested party initially request a license from the patentee. In a case where the party cannot reach an agreement, the interested party may request arbitration by the Commissioner. The provision of the revised law is almost same with that of Japanese patent law, except for the requirement of revocation of the patent right after two years or more of non-working following the date of an arbitration.

(4) Activities to which the effect of the patent right does not extend (Art. 46)

Current Article 46-2 exempts infringing goods from a preliminary or interim injunction if an export license for the goods has been filed with the Customs Office. This provision has been deleted, and a new Article 46-2 has been introduced which would exclude from infringement the activities of doctors or others who prepare medicines in accordance with a prescription of a doctor or dentist.

(5) Reconsideration by the examiner (Art. 126)

At present, appellate trials take a long time (about a year), and this has been one of the obstacles to early acquisition of Korean patents. Under the new law, the examiner who rejected an application can examine the case again at the appellate trial after a final rejection, providing that the application has been amended. This reconsideration system is expected to simplify the procedure and save time. The system is the same as with that stipulated in the Japanese patent law.

(6) Simplification of PCT filing procedure (Art. 157)

The revised law deletes the requirement for submission of a translation of application forms, and makes it possible for an applicant to submit the translation of a specification without the assignment of a patent administrator at the initial filing stage. This amendment is made to coincide with the PCT rules.

(7) Tightening of penal provisions against infringement (Art. 158)

Under the current law, there is no lower limit for the monetary penalty against infringement. The revised law provides a lower limit of 2,500,000 won together with the current 10,000,000 won upper limit to tighten the penalty against infringement.

(8) Transitional treatment (Addenda)

The revised law does not extend to patent applications filed before the effective date of the revised patent law.

3. Utility Model Law

In compliance with the amendment of the patent law, the Korean Patent Office is now studying the amendment of the current utility model law, although there has been no official announcement on this matter. According to unofficial information, the provision that "the term of utility model right shall not exceed twelve years from the date of filing application" has been deleted from the current utility model law in order to harmonize this law with the amended patent law. The effective date would be the same as for the patent law and trademark law, i.e. July 1, 1987.

4. Design Law

The Korean Patent Office is also studying an amendment of the design law, although an official announcement has not been made. According to unofficial information, there would be no major amendment, but some minor ones. The effective date also is expected to be on July 1, 1987.

5. Trademark Law

(1) Outline of the revised law

The Korean Patent Office announced a proposal for

amendment of the trademark law on May 1, 1986. It is expected to come into force on July 1, 1987. The forthcoming new law is only a partial revision as opposed to a 1985 draft law which proposed a more complete revision of the trademark law. The 1985 draft was withdrawn when the forthcoming new law was announced. The object of the current proposed revisions is directed to streamlining tradmark use in order to cope with an internationalization of the trademark system. The draft includes changes in the requirements for recording of licenses, deletion of the former provision relating to the quality guarantee for designated goods, introduction of the sanction of invalidation into the provision for the trial for cancellation of a trademark registration where a trademark owner has caused misconception of the quality of the goods or confusion as to the origin of the goods, and deletion of the obligatory provision of a licensee's title to the goods.

(2) Major points of the amendment

(i) Changes in requirements for recordation of a non-exclusive license (Arts. 29 and 30)

* The term "non-exclusive license" in the current trademark law is replaced by the term "license".
* The provision requiring a guarantee of the quality of the designated goods is deleted. The provision for cancellation or invalidation of a trademark license which violates the above quality provision also is deleted. Thus, a trademark license may be recorded based on a mutual agreement between the parties concerned.
* The license becomes effective only upon its recordation. Unless a license is recorded, the recorded trademark can be challenged under Article 45, and may be cancelled.
* With respect to procedures for recording a license to use a jointly-owned trademark, the consent of both co-owners is required.

(ii) Exemption from obligation to indicate licensee's title to the goods (Art. 31)

The obligatory provision under current law for the licensee to indicate its ownership of the goods is deleted.

(iii) Addition of grounds for cancellation of trademark registration (Art. 45)

A new ground for cancellation of a trademark registration would be available where the use by a licensee of a trademark creates "misconception of the quality" or "confusion as to the origin of the goods". The exception in the present law related to trademarks on goods solely for export has been deleted. Therefore, the above new grounds would apply also to such export goods.

(3) Problems in the revised law

In general, the contemplated revisions are focused on the removal of problems relating to licensing. However, problems still remain in the provision prohibiting transfer of trademark rights apart from the business concerned (Art. 27-1). It appears that studies will be carried out in the near future aimed at further revisions such as deletion of this provision and clarification of the exclusive vs. non-exclusive license.

6. Copyright Law

(1) Outline of the revised law

An amendment of the copyright act was announced on March 6, 1986 by the Ministry of Culture and Information (MOCI). This amendment is scheduled to become effective on July 1, 1987. The current act has been in force without any revision since its inception in 1957. Thus, many problems in addition to those of current emphasis needed to be addressed. Although some provisions are supplemented in the proposed amendment for the protection of foreigner's copyrights, and the term of protection is extended, the protection of foreigner's copyrights is still insufficient. Since Korea is

scheduled to enter into the international copyright treaty (i.e., the Universal Copyright Convention (UCC)) by September 30, 1987, it would resolve remaining deficiencies.

(2) Major points of the amendment

(i) Provisions newly introduced for the protection of foreigner's copyrights.

In general, a foreigner's copyrightable works are protected in accordance with the treaties to which Korea has acceeded. However, at present foreigner's copyrightable works are protected only when the copyrighter has a permanent address in Korea or if the copyrightable works are first published in Korea.

(ii) Extention of the term of copyright protection

The term of copyright protection is extended from thirty years to fifty years after the author's death for individuals, and fifty years after publication for corporations. The term of protection for photographic works, cinematographic works and derivative works of pre-existing subject matter is extended to fifty years after publication. Sound recordings are regarded as neighbouring rights and are protected for twenty years.

(iii) Tightening of penal provisions

Punitive provisions against copyright infringement are tightened. The amendment provides for a fine of up to three million won, and up to three years imprisonment.

(iv) Copyright protection of computer programs

The revised law stipulates a computer program is an example of copyrightable work (Art. 4-1-9) and its details would be promulgated under a separate law (Art. 4-2) in order to clarify the relationship with the computer software protection laws.

7. Computer Software Protection Law

The Ministry of Science and Technology announced a proposal for a new computer software protection law on March 27, 1986. The law is scheduled to go into effect on July 1, 1987 with some amendments. This law creates a form of independent protection. The contents of the law are similar to the provisions for the protection of computer software in both the current Japanese copyright law and the U. S. copyright law. Another feature is that the right to use, which is not included in the Japanese copyright law, is given to the program authors, like the model provisions for the protection of computer software, published by WIPO in 1978. The term of protection is 30 years.

The proposed law was expected be a part of the copyright law, following the general world tendency. However, the independent form of protection , as well as the effective date, were confirmed at the US-Korea trade negotiations, held in July, 1986. This law seems to be combined with the copyright act in the future.

8. Unfair Competition Prevention Law

Reportedly, the Korean Patent Office is planning to prepare an amendment to the unfair competition prevention law which is scheduled to be enacted and become effective on July 1, 1987. However, a delay in the implementation is likely.

The current unfair competition prevention law has been in force without any revision since its adoption in 1961. Although the current unfair competition prevention law regulates some types of unfair competitive activities, including passing-off, it has a number of defects or difficulties for effectively controlling the spread of counterfeiting.

The major points of the amendment are as follows:

(1) The Minister of Commerce and Industry may issue an injunction order against export and import of counterfeit

goods.

(2) The Commissioner of the Patent Office has a right to investigate unfair competition acts, and may request competent authorities to take an action to issue an injunction order.

(3) Tightening of penal provision provides for up to two years of imprisonment or a fine of not more than ten million won.

(4) The scope of unfair competition acts is extended to include the manufacture, distribution and possession of counterfeit goods. Further, importation is included in the coverage of counterfeit acts in addition to the current "sale, free distribution and exportation".

(5) Foreigners are treated equally with Korean nationals under the revised unfair competition prevention law.

9. Topics

(1) Patent and Utility Model Filing/Grant (Annex 1)

Table 1 shows the number of applications filed and patents issued in 1984 and 1985. Fig. 1 shows the six-year trend from 1980. The number of patent applications increased rapidly in 1985 over 1984. However, the number of issuances decreased in 1985. This resulted in an increase in the backlog of the Korean Patent Office. Actually, the average time from filing an application with a request for substantive examination to grant of a patent has been extended to 4-4.5 years. If the backlog increases further, it is likely to be a cause of considerouble concern and interest.

The Patent Office has a plan to increase the number of examiners to avoid increasing the backlog further. However, the present situation in the Patent Office does not seem to allow for a large increase of examiners in the very near future.

(2) Agreements on US-Korea Intellectual Property Right Negotiations

The subject negotiations took place in July, 1986 in Washington. Details were not announced. However, a brief on the negotiations is attached as Annex 2. The United States obtained a number of key concessions at the negotiations, including several retroactive protections. The Korean Government has also agreed to study the possibility of extending copyright protection to data bases and semiconductor chips.

(3) Protection of Microorganism

Accession to the Budapest Treaty is scheduled in 1987.

(4) Liberalization of Foreign Trademark License

The amendment of the Enforcement Decree to the Foreign Capital Inducement Act came into force on July 1, 1986. The amendment deleted the prohibition on licenses for mere use of a foreign trademark. Also, the requirement for technological inducement as a precondition for a trademark license was deleted. A foreign licensee, however, cannot receive tax incentives for royalties when the purpose of the license is only use of the trademark.

Annex 1 --- Table 1

Patent and Utility Model Applications

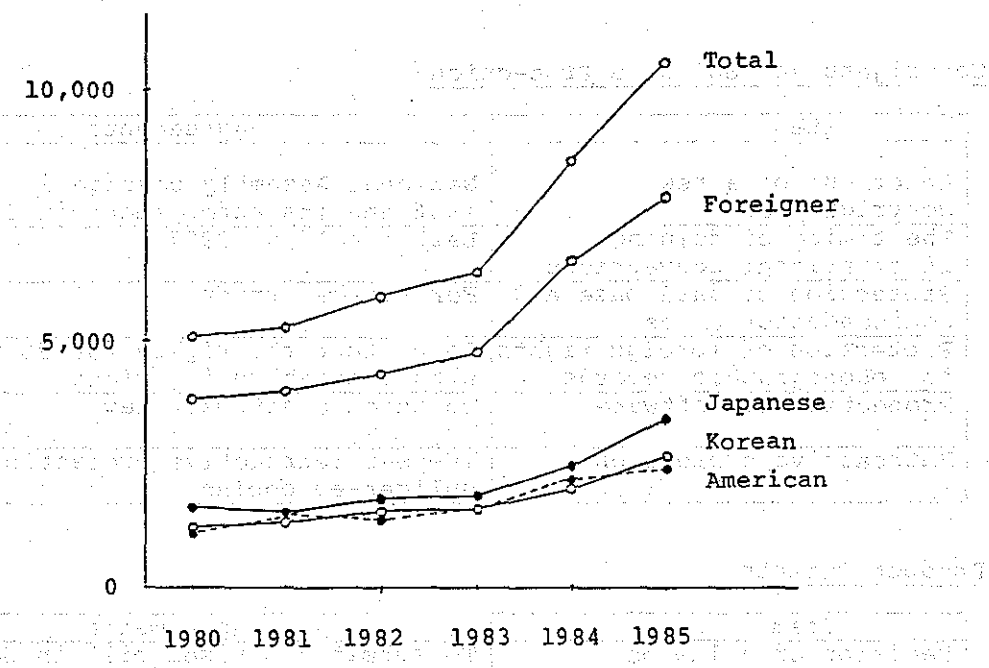
		1984	1985	% Change	% Share
Patent	Total	8633	10586	+22.6	
	Korean	1997	2702	+35.3	25.5
	Foreigner	6636	7884	+18.8	74.5
	Japanese	2454	3444	+40.3	32.5
	American	2178	2426	+11.4	22.9
Utility Model	Total	14765	18548	+25.6	
	Korean	13760	17615	+28.0	95.0
	Foreigner	1005	933	- 7.2	5.0
	Japanese	793	752	- 5.2	4.1
	American	102	88	-13.7	0.5

Patent and Utility Model Issuances

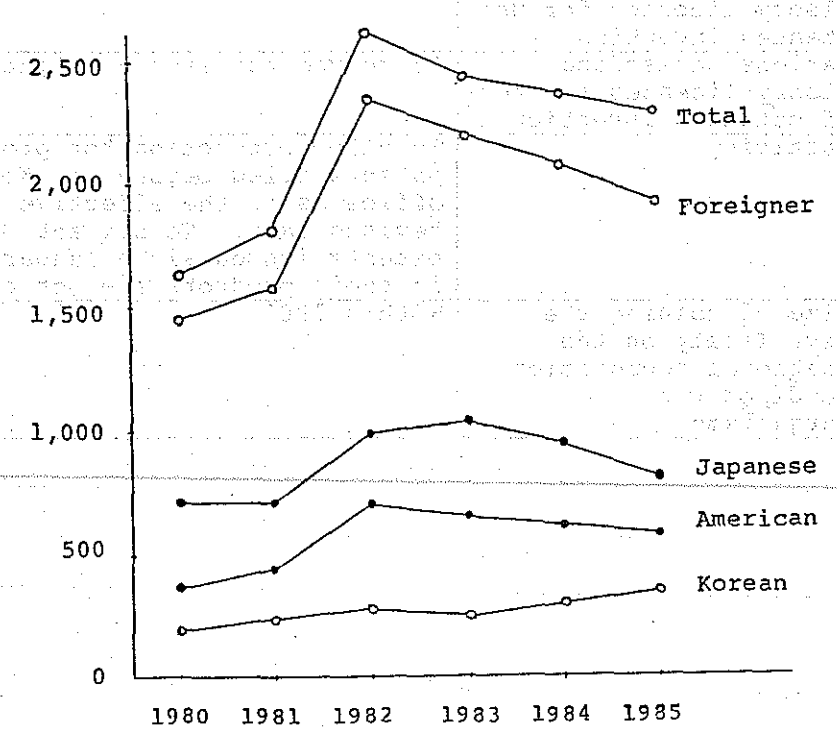
		1984	1985	% Change	% Share
Patent	Total	2365	2268	- 4.1	
	Korean	297	349	+17.5	15.4
	Foreigner	2068	1919	- 7.2	84.6
	Japanese	954	811	-15.0	35.8
	American	614	583	- 5.0	25.7
Utility Model	Total	2360	2327	- 1.4	
	Korean	1817	1873	+ 3.1	80.5
	Foreigner	543	454	-16.4	19.5
	Japanese	440	325	-26.1	14.0
	American	53	72	+35.8	3.1

Annex 1 --- Fig. 1

Trend of Filing of Patent Applications



Trend of Patent Issuances



Annex 2

Agreements on US-Korea Intellectual Property Right Negotiations

Copyrights and Software Protection

Item	Agreements
Enactment of a new copyright law	National Assembly passage in September 1986 and its enforcement in July 1987
The timing of joining international conventions	Latter half of 1987
Protection of data base and semiconductor chips	For further study
Protection of foreign rights for phonographic records	To protect the rights for 20 years with a neighbouring right
Protection of software	To enact a software law
Retroactive protection	10-year retroactive protection for unlicensed copies

Product Patents

Item	Agreements
Revision of a law on foreign product patents	To submit a revised bill in September 1986 and implement it in July 1987
Term of patent	Extension of 3 years to 15 years
Regulations on issuing compulsory licenses for use of patented invention	To reduce the issuing rights
Regulations on issuing compulsory licenses for non-use of patented invention	To reduce the issuing rights
Retroactivity	To allow protection for product patents filed before the Korean Patent Office as of the effective date of revised laws. To protect U.S. product patents issued since January 1, 1980 if their products are not on sale yet.
The time of joining the Budapest Treaty on the international recognition of the deposit of microorganisms	Within 1987

Recent Development in Taiwanese Intellectual Property

Japanese Group, Committee No.3
Subcommittee on Taiwanese Intellectual Property.

Shinya Tokuda	IBM Japan, Ltd.
Kazuya Hosaka	Hitachi, Ltd.
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Abstract

The government of the Republic of China has been undertaking the modification and perfection of its intellectual property system for the past few years at the request of the United States and other developed countries.

In May of this year, bills concerning amendments to the Patents Law and the Fair Trade Law were introduced in their national assembly and a summary of the main items of these bills is explained in this report.

1. Introduction

For the past few years, the government of the Republic of China has been undertaking the reorganization of its Intellectual Property System under the strong demand of the United States and other advanced countries as it has been a bottleneck in international trade and in the transfer of technologies.

As part of this effort, an overall revision of the Copyright Law that included a widening of the sphere of literary works to be protected, the possession of the voluntary right of instituting civil actions by people living abroad, and the tightening of penal regulations, etc., and an amendment to the Trademark Act that included the reinforcement of similar protection of rightful persons were announced and put into force during the last half of last year.

In May of the year, bills that partially amended that Patents Law, including the introduction of a material patent system (that contains provisions concerning utility models and designs), and the Fair Trade Law, including the introduction of a fair trade system for preventing unfair competition, monopolizing of markets, etc., were approved by the government and are now awaiting action by the national assembly.

2. Partial Amendment of the Patents Law

2.1 Summary

This amendment can be classified roughly into four groups: (1) international harmonization, (2) strengthening the protection of patent owner, (3) limiting the use of patent rights, and (4) clarification of procedures.

2.1.1 International harmonization

(1) Introduction of a Material Patent System (Art. 4 of the amendment)

Under the new law, patents will be granted to chemical substances, and to the inventions of uses of chemical substances and medicines. In addition, things for which patents will not be granted such as new species of plants and animals, the curing processes of the human body or of animals, the scientific principles of mathematics, the rules or methods of games and sports, and the processes or plans that can be practiced only by means of the reasoning ability and memory of a human being, etc., are stipulated in this provision. The above addition is not substantially different from the present provision and has been added only for clarification.

Along with the introduction of the above chemical substances, it is set forth in Art. 43-1 that the patent rights given to the concoction of medicines and the processes do not apply to the prescriptions made by physicians and medicines prepared from them.

(2) Right of instituting actions by a foreign juristic person or a corporate body (Art. 88 of the amendment).

The present law lacks any provision that any patentee who is a foreign juristic person or a corporate body may institute an action against any infringement of his right. The new law (in Art. 88-1) acknowledges on a basis of reciprocity the possession of the same right by a foreign juristic person or a corporate body to file a complaint and start a private or a civil action as a domestic national.

With the above-mentioned amendment, it is stipulated in Art. 88-2 that competent court may set up a special tribunal or designate a special person to handle the case involved.

(3) Reasons for Revocation (Art. 104 of the draft)

The present law stipulates to the effect that a patent right granted shall be revoked when the contents of the specification in the application are inconsistent with those disclosed in the application of the corresponding foreign patent. However, this provision is deleted in the amended law.

Therefore, there will be no concern about the revoking by reason of inconsistency of the contents of the specification with those of the corresponding foreign application.

(4) Loss of novelty of a new design (Art. 112 of the amendment)

As a reason for loss of novelty of a design, the present law stipulates that any design that is identical or similar to a new design already in use by the domestic public prior to the application for patent cannot be patented. This limitation of domestic public use is deleted in the new law, and public use anywhere, whether domestically or abroad, prior to the application for patent is a reason for loss of novelty.

2.1.2 Strengthening the Protection of Rightful Persons

(1) Burden of proof in the case of a patented manufacturing process (Art. 85-1 of the draft)

The present law lacks definite applicable provisions as to the burden of proof or evidence in the case of an infringement of a patented manufacturing process. However, considering that the infringed is entitled to provisionally seize the infringer's property, or to make claims for damages in the present law (Art. 83), the interpretation that the responsibility to furnish proof naturally rests with the infringed is generally accepted.

In the new law, it is stipulated that an article that is identical to another article made through the use of a patented manufacturing process of another person shall be considered to have been manufactured by using the said patented process and is an infringement of that patent.

Therefore, with the introduction of the above-mentioned provision of inference or presumption, the burden of proof in the case of a patented manufacturing process, is shifted from the infringed to the infringer.

(2) Options in calculating the amount of damages (Art. 82 of the amendment)

According to the present law, the patentee is entitled to claim the suspension of the infringement or claim for damages resulting from infringement of his patent rights (Art. 81). However, the estimation of the amount of damages is referred to the Patent Office upon entrustment of the court concerned,

In the new law the patentee may choose one of the following options in calculating the amount of damages:

(A) The balance (obtainable profit) between the profit, normally expected through the practice of the patented right, and the profit earned by the patentee through the practice of this patent right after the start of infringement

(B) The profit that the infringer may earn from his act of infringement (When the infringer is unable to produce proof to justify his costs or necessary expenses, his entire income derived from the sale of such infringed articles is considered as his profit)

(C) Amount evaluated by the Patent Office

If the business reputation of the patentee is damaged as the result of infringement of a patent, he may request compensation in a sizable amount independent from the above-mentioned loss.

(3) Increasing Punishment

As to the punishment for counterfeiting and imitating patented articles or inventions, the present law clearly prescribes it in Articles 89 through 92 (as to utility models, in Articles 106 through 108, and as to design, in Articles 125 through

127). The new law increases the punishment for such violations by increasing the amount of penalty.

2.1.3 Limiting the use of the patent right

(1) Limiting the use of patented manufacturing processes (Art. 42 of the amendment)

The present law clearly prescribes that in case the patented invention is a manufacturing process, the patent shall apply to an article manufactured directly through the use of that patented process.

The new law adds that in case the said article is patented by another person the patent right can not be enforceable to such an article, manufactured directly by the patented process, without the prior consent of that other person.

(2) Legal sanction against non-usage (Art. 67 of the amendment)

As to the non-usage of a patented invention, the present law prescribes that in case a patented invention has not been put into practical use without justifiable reasons after a lapse of three years from the granting of the patent, or has not been properly put into practice, the Patent Office may, upon the request of an interested party, grant special permission for practicing the said patent right. In the new law the said period of non-usage is extended to four years. And when the patentee has not put the patented invention into practice without justifiable reasons after a lapse of two years from the date of public announcement of the first special permission of practicing, the Patent Office may revoke the said patent right upon request of an interested party or ex officio.

2.1.4 Clarification of procedures, etc.

(1) Items of the specification (Articles 12 and 110)

The present law sets forth the requirements for application, but there are no definite provisions as to the items of the specification. The new law clearly sets forth that the specification to be attached to a patent and utility model application shall contain the scope of the claims of the patent requested, and a patent and utility model application concerning an employee's invention or a service invention shall be made by the person or persons who shall have the patent right.

(2) Scope of claims in application for a new design (Article 116)

In the present law, the scope of claims is not required in this case, but in the new law, the scope of claims is required in the specification just as in the case of a patent and utility model application.

(3) Modification of an application (Articles 100 and 115)

When an application for a patent and new design registration is replaced by an application for a utility model application, or a utility model application by a new design application, the present law prescribes that the filing date of the prior application shall be deemed as the filing date of the modified application. However, the new law sets forth that the applicant may request so.

2.2 Interim measures

The interim measures attendant upon the enforcement of the proposed amendment are expected to be prescribed in detail in the regulations of the new law.

Incidentally, new provisions accompanying the introduction of a material patent system is not retrogressive, but as to the pending application for patented manufacturing process, the applicant may, possessing the benefit of the application date unless the specification concerned is substantially amended, file an application for amendment after the new law is put into force.

3. Draft Fair Trade Law

3.1 Purpose and background

The Government of the Republic of China had been endeavoring to establish a fair market order for more than 10 years in the light of attitudes of other countries. In order to assure the practice of fair trade in the country, several discussion drafts were proposed and reviewed by the government and people. The final bill was decided last May and submitted to the Diet later.

It is expected that this bill will greatly affect not only business practices in industry but also the national economy of the country when it is implemented, a period of one year therefore, is set between the promulgation and enforcement to lessen the influence.

It is characteristic that this bill covers two legal regimes, that is, anti-trust and prevention of unfair competition.

This report touches upon the latter falling within an intellectual property system. Acts of unfair competition include an act of confusion aiming at an article or enterprise, an act of misrepresentation, slander inflicted to an enterprise, or a false advertisement. These acts are substantially the same as ones prevented by Article 10-3 of the Paris Convention, as revised at the Lisbon Conference of 1958, and also fair trade laws of advanced countries.

3.2 Acts of unfair competition

3.2.1 The said acts include the act of identical or similar use of symbols signifying the commodities of another person that are commonly and domestically known, or the acts of selling, transporting, exporting, or importing the commodities bearing such symbols. (Art. 20-1-1)

Symbols signifying the commodities of another person include the name, trade name, symbol signifying the business, trademark, product container and package, or external appearance.

It should be noted that more protection would be afforded for the injured than Japan in that one requirement in Japan "To cause a confusion" is not requisite for an illegality.

3.2.2 An act of the identical or similar use of business symbols of another person that are commonly known to the public and that causes a confusion with the facilities or activities of the business of another person. (Art. 20-1-2)

Business symbols of another person include the name, trade name symbols, signifying the business or services of another person, etc.

3.2.3 Unfair use of well-known foreign trademarks, etc. (Art. 20-1-3)

The use of a well-known foreign trademark not registered in the country on identical or similar commodities and the sale, transportation, exporting or importing of commodities bearing such trademarks are considered unfair uses.

This provision shows the intention and effort on the part of the Government to suppress commodities bearing false marks by extending the protection of trademarks to those well-known in other countries.

3.2.4 False Announcement (Art. 21)

Presentation that misleads consumers as to the quality, price, quantity, contents, manufacturing process, use, place of origin, place of manufacturing, etc., of commodities or advertisements relating thereto that of false facts concerning the sales, transportion, exporting and importing of such commodities are considered false annoucements.

This provision is for the protection of consumers.

3.2.5 Slander of another person's Business (Art. 22)

Any statement or publication of false facts that threatens to harm the business creditability of another person who is in competition is considered as slander.

3.2.6 Exclusion of Use of Generic name, etc. (Art. 20-2)

The use in an ordinary manner of a generic name, trademark, name used customarily in trading for commodities of the same category or bona fide use of own name are excluded from the acts of unfair competition, as long as they are used in an ordinary manner.

3.3 Remedies

3.3.1 Remedies provided for in civil code

(1) Claim for injunction

(2) Claim for damages

An injured person may claim damages from an injurer's profit and, moreover, may claim up to 3 times the amount of actual damage. (Art. 32)

(3) Prescription of the claim (statute of limitation)

The claim for damages can not be made when two years have elapsed after an injured person has an knowledge about the damage and the name of the injurer, or when 10 years have elapsed after the injuring act, whichever last comes. (Art. 33)

3.3.2 Punishment

(1) For slander relating to the business of another person, imprisonment for not more than 1 year or a fine of not more than 50,000 Yuan.

(2) For other acts of unfair competition, imprisonment for not more than 3 years or a fine of not more than 100,000 Yuan.

3.4 Competency of a foreign juristic person or corporate body for filing a complaint, or instituting a private prosecution or a civil action.

It depends on reciprocity principles (Art. 47).

4. Conclusion

The proposed amendments to the Patent Law are considered to sufficiently solve the following three problems raised by this 3rd Committee at the 16th General meeting of PIPA., as defects in the international harmonization and protection of holders of rights among others in relation with the present patent system: (1) Reasons for unpatentable subject matter of medicines and

chemicals, (2) Reason for invalidation due to inconsistency between the disclosure of the corresponding foreign patent and the contents of the specifications, and (3) Sharing of burden of proof between the parties of an infringement dispute or suit concerning a patented manufacturing process. As a whole this proposed amendment aims at reinforcing the protection of holders of rights, except revocation caused by the non-usage of a patent right. It is hoped that this proposed amendment will be promulgated and enforced as soon as possible.

Table 1 Number of Applications for Patents, Utility Model and Design filed during 1981-1985

Year	Number of Applications					
	Patent	Utility Model	Design	Residents	Non-Residents	Total
1981	3,872	7,411	3,751	10,132	4,902	15,034
1982	4,255	7,588	4,485	10,525	5,803	16,328
1983	4,766	9,029	5,652	13,173	6,274	19,447
1984	5,506	10,426	6,061	14,530	7,463	21,993
1985	5,950	11,279	6,641	16,324	7,546	23,870

Table 2 Number of Patents, Utility Models and Designs granted during 1981-1985

Year	Number of Applications					
	Patent	Utility Model	Design	Residents	Non-Residents	Total
1981	2,075	2,902	1,288	2,897	3,068	6,265
1982	2,219	3,547	1,696	3,784	3,678	7,462
1983	1,711	3,791	1,594	3,705	3,391	7,096
1984	2,070	4,493	2,029	4,637	3,955	8,592
1985	2,258	4,917	2,252	5,044	4,383	9,427

Table 3 Number of Trademark Applications, Publications and Registrations during 1981-1985

Year	Number of Applications	Number of Publications	Number of Registrations
1981	43,634	27,207	19,038
1982	42,819	34.291	34.760
1983	53,641	35,225	30,587
1984	62,968	41,656	39,236
1985	55,973	46,085	45,026

COMMITTEE NO.4

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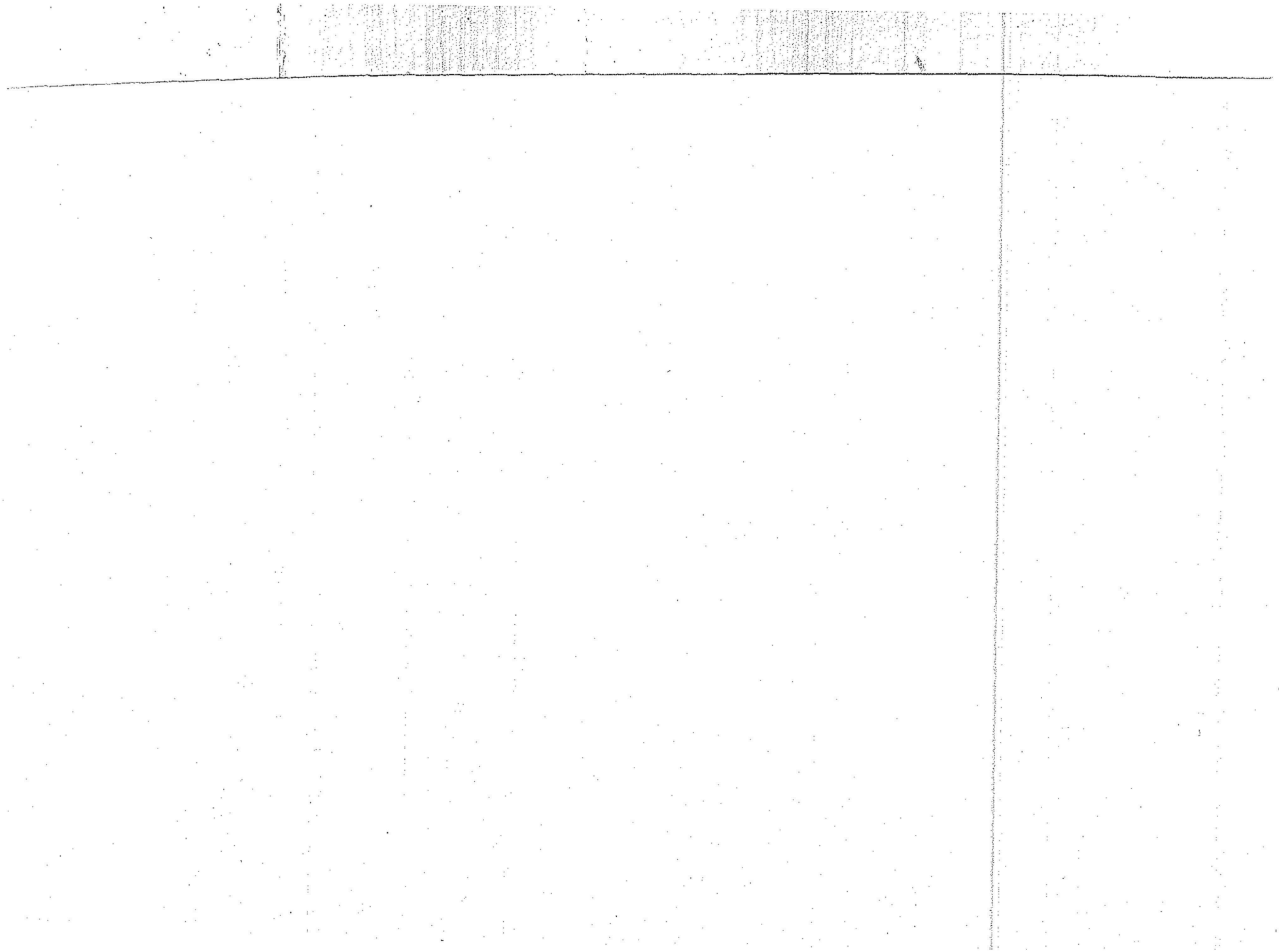
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NON-EXCLUSIVE LICENSE BY PRIOR USE IN JAPAN

Presented at PIPA 17th Congress
Japanese Group, Committee No. 4
Subcommittee No. 1

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Abstract

Concerning prior use, Article 79 of the Japanese Patent Law provides that a person who was commercially working the invention or making preparation for commercially working the same identically to the invention for which a patent application is filed at the time of such filing shall have a non-exclusive license under the patent right based on such patent application.

This paper reviews prior use and discusses the past court decisions, particularly on disputes regarding prior use. The disputed points are mainly (1) proving that the person was commercially working the invention or making preparation therefor, and (2) the technical scope of the license by prior use.

Concerning preparation, the decisions rule that proof is needed to show that the invention was completed, there was the intent to work the invention commercially, and the intent was expressed to such a degree that it could be recognized objectively.

As for the technical scope, it is not limited to specific embodiment but also covers the object or method, a part of which was substituted, which has the same operational effect and which had been aware by prior user.

I. Introduction

It is widely known that there are two types of patent systems for granting the patent right, the first-to-invent system and the first-to-file system.

In the Japanese patent system adopting the latter system, a first inventor may find himself in a position in which not only he will be prevented from obtaining a patent right for his invention for the sole reason that a second inventor filed an application for the same invention prior to his filing date, but also he may be prohibited from working his invention by the patent which issued on an application filed by the second inventor. In order to facilitate understanding of this perplexing problem, we shall now consider the following situations: This fact pattern was proposed by Mr. J. Jeffrey Hawley, of Eastman Kodak Company.

> A first inventor (A) invents a catalyst and decides to keep it a trade secret. He begins to use it at once on a large scale and to sell the product that is produced using the catalyst. It is not possible to determine what catalyst was used from the product that is sold.
>
> Sometime after the invention and commercial use by the first inventor (A), a second inventor (B) independently invents the same catalyst, files a patent application and obtains a patent that covers the catalyst.
>
> The second inventor (B) then sues the first inventor (A) for patent infringement.
>
> What is the outcome? Based on his prior use, although secret, can the first inventor (A) continue to use the catalyst?

The Japanese Patent Law provides a non-exclusive license based on such prior use in order to adjust the competitive relation between A and B as mentioned above, or, in other words, the conflict between the patent right and the secret prior use.

Article 79 of the Patent Law sets forth the following

concerning the license by prior use.

> Article 79 (Non-exclusive license by prior use): When, at the time of filing of a patent application ... a person who has made an invention by himself without knowledge of the contents of an invention claimed in the patent application or has learned how to make the invention from a person just referred to, has been commercially working the invention in Japan or has been making preparations therefor in Japan, such person shall have a non-exclusive license on the patent right under the patent application.

The license by prior use is a kind of non-exclusive license to be endowed statutorily free of charge instantly or automatically under the patent law at the time of accrual of the patent right. A similar non-exclusive license by prior use is provided in Article 26 of the Utility Model Law and Article 29 of the Design Law.

The purpose of this license system is to preserve equity between a first applicant and a prior user under the first-to-file system since it is not impartial for a prior user who had been working or preparing for the working of an invention prior to filing by a third party to be prevented from working his own invention by an accident such as filing by the third party, and it is disadvantageous for the national economy that the capital, equipment, and labor, already invested by prior user should be wasted. One example of many similar court decisions teaches that "it is reasonable to interpret the system of license by prior use as recognizing from the standpoint of equity the right to continuously work an invention for a party who is recognized not only having bona fide the same technical idea as the invention of the utility model application but also possessing the invention in fact (Aerosol Container Case: Osaka District Court Decision dated July 10, 1967). As similar decisions, there are Osaka District Court Decision dated June 29, 1966, Osaka District Court Decision dated November 21, 1966 and Tokyo High Court

Decision dated May 27, 1975.

It is true that the conflict between patent right and secret prior use discussed above is more likely to occur under a first-to-file system. There are no provisions whatsoever concerning the prior use situation in the Patent Law of the United States, which adopts a first-to-invent system. However, this conflict is not a matter unique to the first-to-file systems, but rather it may also occur under a first-to-invent system. Therefore we think that this problem is common to patent systems of many countries.

In Japan, it is the court, and not the Patent Office, which judges existence/non-existence of the license by prior use. An argument directed to the existence of a license by prior use may be used to rebut an action for infringement. At times the prior user may file a suit for confirmation of absence of the right of injunction (by the patentee) based on the prior use. We shall now discuss the non-exclusive license by prior use and relevant decisions in more detail.

II. Requirements for Obtaining Non-Exclusive License by Prior Use and Scope of the License

Article 79 of the Patent Law is analyzed as follows.

(1) The invention of the prior use should fall within the scope of the claimed invention.

(2) The invention of the prior use should have been made independently by the inventor himself without knowledge of the content of the invention under a patent application, or should have been learned from such inventor.

(3) The prior user should have been commercially working the invention or should have been making preparation therefor in Japan at the time of the patent application.

(4) Such license shall be limited to the invention which is being worked or for which preparations for working are being made, and to the purpose of such working or the preparations therefor.

1. Identity of the Invention

The license by prior use accrues when the scope of the patented invention covers the invention for which the prior use is claimed.

2. Acquisition Route of the Invention

The license by prior use is granted only for an inventor (Y) who made the invention separately and independently from an inventor (X) who completed the same invention for which a patent application is filed, or for a person who learned the invention from the inventor (Y). In most cases, the acquisition routes of the invention are different. However, the license by prior use may also be claimed when the invention is made by the same inventor. In this case, the license by prior use may be granted for a party who learned of the invention in a bona fide manner. The court decision held that ("the party having the license by prior use" in Article 26 of the Utility Model Law) may be interpreted as a party who was commercially working the invention of the Utility Model or preparing to work the invention at the time of filing by learning from the inventor without knowledge of the contents of the invention for which an application for a utility model is filed, ..., the defendant (C) is recognized at least in the present case to have the non-exclusive license by the prior use over the present utility model right for manufacture, sale, and display for sale of the subject moulds (Moulds for Manufacturing Tetrapods Case: Tokyo District Court Decision dated May 30, 1964).

3. Time of Prior Use

In order to obtain the license, it is required for the prior user to have been commercially working or making preparation therefor at the time of filing patent application at the priority date of Paris Convention. Patent law §79 has been construed such that working the invention commercially

only once before the time of filing or priority date does not justify the presence of license by prior use,[1] however we do not know of any decisions supporting this theory.

4. Regarding Working the Invention Commercially or Making Preparation Therefor

In order to assert "working the invention commercially or making preparation therefor," it is necessary, first of all, to show that the invention was completed by the prior user. A court decision indicates several points concerning the completion of an invention. Namely, the invention should have been completed in substance by the time of working or preparation therefor, and the prior user should understand the cause and effect which constitutes the invention. However, the prior user is not required to understand the invention academically (Fused Alumina Case: Osaka District Court Decision dated February 14, 1966).

However, although the invention is completed and may be worked commercially, insufficient proofs of the working the invention will leads to the denial of the license by prior use. A court decision held that even though the fact that a test machine was manufactured and sold is recognized, this stage could not readily be regarded as working the invention commercially or making preparation therefor (Grain Refining Devise Case: Tokyo District Court Decision dated May 28, 1974).

It is most difficult to prove "making preparation." The term "preparation" means the preliminary stage leading to working the invention commercially, and at this stage the invention is already completed. Further, the prior user intends to immediately work the completed invention, and his such intention is apparently shown.[2]

We shall now introduce the court decisions regarding "preparation."

(1) 8 mm Camera Case: Tokyo District Court Decision dated May 26, 1964.

"(The defendant) is recognized as having been preparing design drawings prior to the patent

filing, but this stage cannot be regarded as preparation." (The order for preparation for manufacture seemed to have been issued after the filing of an application for a patent.)

(2) Concrete Blocks Case: Osaka District Court Decision dated October 29, 1971.

"It is generally not rare that the advertising pamphlet describes the business of the sponsor sensationally, and it is also often observed that the pamphlet describes the merchandise as if the sponsor were manufacturing them on his own, whereas actually such might be arbitrarily purchased and sold upon receipt of an order. Therefore, description in the pamphlet cannot be readily accepted as proof of the manufacture by the sponsor. So, the description in the pamphlet alone cannot be allowed as proving that the defendant was manufacturing/selling alleged product of infringement or making preparation therefor."

(3) Candy Making Machine Case: Osaka District Court Decision dated March 11, 1977.

"As recognized above, the defendant purchased a high pressure boiler which is indispensable to said continuously manufacturing machine for candies prior to the filing date, and then ordered the candy moulding machine and made the final design drawings. The defendant is regarded as having been making preparation for candy moulding machine which was the same as the technical idea of the utility model at the time of filing the present utility model application. Therefore, the defendant has a non-exclusive license for the registered utility model based on their prior use."

(4) Heating Furnace Plant Case: Nagoya District Court Decision dated February 27, 1984.

"The prior user had submitted the written estimate, etc., but had not received the order yet, and the final drawings for manufacture were not yet completed; he had, however, prepared the drawings to

the stage which wuold have enabled his completion based on the detailed discussion with the client once the order was received. In addition to the above fact, considering that the heating furnace requires a long time from quotation to receipt of order and delivery, cannot be mass produced, and that its manufacture can be started only after receipt of an individual order, then the present case should be deemed as one wherein the preparation was actually taking place beyond the test production, experiments, or researches."

We shall consider here the fact pattern proposed by Mr. J. Jeffrey Hawley. According to the fact pattern, the license by prior use would be granted in Japan if the commercial use by the first inventor (A) had been continuously made since before the time of filing of the second inventor (B)'s patent application.

5. Technical Scope of the License by Prior Use

One of the problems related to license by the prior use is whether the technical scope of license by prior use is limited only to the embodiment which was worked commercially or made preparation therefor at the time of patent filing, or can be extended to the technical scope which may be understood through the embodiment.

Some old court decisions in Japan are based on the thought that it is "limited to the embodiment actually being worked then" (The Former Supreme Court Decision dated April 5, 1938). However, recent court decisions tend to hold that the technical scope of the prior use is not limited to the specific embodiment already being worked, but that it extends to the technical scope of the invention which the prior user had controlled and objectively represented.

We shall now introduce the decisions regarding the technical scope of the license by prior use.

(1) Aerosol Container Case: Osaka District Court Decision dated July 10, 1967.

The decision teaches that "the ground for being given protection to the prior user is not relied on the fact that the user already had the commercial facility, but relied on the state of possession of the invention by the prior user. Then, if said state of possession leads one to recognize that the prior user of the invention had been aware of the substitutable device or method having the same effect at the time of filing by the utility model applicant, then it is reasonable to grant license by the prior use for said substitutable device or method as being in the state of possession."

(2) Heat Treatment Devise Case: Tokyo High Court Decision dated May 27, 1975.

"The scope of a non-exclusive license by the prior use is within 'the scope of the invention which the prior user is working or making preparation for and within the scope of the purpose of the business.' The scope of invention being worked is not necessarily limited to the structure being worked actually, but it should be interpreted as extending to the scope of the invention which is being objectively represented by the structure being actually worked," and "if the prior user changes the structure within the scope which would not impair the identity of the invention, then holding that license by the prior use cannot extend to thus changed construction would force the original design on the prior user without freedom of changing even the minor details. This would prove too harsh a result for the prior user, and cause partiality between the utility model right holder and the prior user. In judging the scope of the invention, which was objectively expressed, from the construction already worked, we should judge in view of the then prevailing state of art, mainly the construction which was more concretely practicing the invention."

(Similar Decision: Heating Furnace Case Nagoya District Court Decision dated February 27, 1984)

6. Scope of Purpose of Working

The prior user has the license by prior use "within the scope of the purpose of working." This means that the prior user will be satisfied if he can continuously pursue the purpose of the business which he was working.

If we are to note that the essence of working the invention lies in "manufacturing" for the invention of a thing, and in "manufacturing a thing by using the process" for the invention of a process of manufacturing a thing, then the party engaged in commercially "manufacturing a thing" would be naturally allowed to switch to other types of working such as use or sale, while the party engaged in the mere sale or import would not be allowed to switch to manufacturing a thing. The party who was not manufacturing but merely using the thing would not be allowed to manufcture or sell the thing in question.[3/] However, it is free to expand the scale of the scope of the purpose of the working, and it is also free to replace the old facilities with new ones.

The prior user can also cause a third party to work the invention only for him. The decision holds that "(working the design) means working the design for himself by the party asserting the license by prior use, and it includes not only the instances where he directly manufactures the thing related to the design by using the commercial facilities owned by him and selling the same, but also the instances where he orders a third party which owns commercial facilities to manufacture the thing related to the design only for him, accept the deliver, and sell it to others." "If the third party merely manufactures or sells the thing related to said design based on the order from a party who has the license by prior use for said design registration, then the act of manufacture and sale of said thing by said third party falls within the scope of the right exercized by the prior user" (The Globe Type Transistor Radio Design Case: Supreme Court Decision dated October 17, 1969).

7. Transfer or Expiration of License by Prior Use

License by prior use can be transferred together with the business of working the invention, and can be transferred when

the consent of the patentee has been obtained or in the case of inheritance or general succession (Article 94-1 of the Patent Law). A pledge may be established on license by prior use if approved by the patentee (Article 94-2 of the Patent Law).

License by prior use accrues together with accrual of a patent right, and expires together with expiration thereof. It also expires when abandoned by the prior user. If the prior user dies without an heir, the license by prior use is considered to have expired.

III. Conclusion

In some cases, a first inventor does not file a patent application for his invention because of following reasons and he works his invention commercially.

The reasons typically are:

(1) he considered that his invention has poor patentability and/or

(2) he decided to keep his invention as know-how or a trade secret.

As we have already stated above, even if a second inventor obtains a patent right for the same invention sometime later, the first inventor can have a non-exclusive license under the patent right upon proof that he has been working the invention commercially or making preparation therefor (prior use).

However, it is often difficult to prove the prior use. Therefore, we recommend you to have a good system in your company of recording inventions and of their commercial uses, in order to have satisfactory evidence for a prior use license under Article 79.

(Notes)

1/ Yoshifuji, K., Outline of Patent Law, 7th Ed., p. 444: Yuhikaku, 1986

2/ Matsumoto, S., "First-to-File-Principle and Prior Use", Basic Problem of Industrial Property Rights, Vol. 1, p. 487: Yuhikaku, 1973

3/ Ibid., p. 492

On Prior Use Under Situations Equivalent to that of Japan

(Conflict Between
First Inventor/Trade Secret Owner
and Second Inventor/Patentee)

PIPA
Seventeenth International Congress
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Kanazawa, Japan

Committee No. 4 U.S. Group

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I. Introduction

Article 79 of the Japanese Patent Law provides that

> "A person who, being unaware of the contents of an invention under patent application, made such invention himself, or acquired the knowledge of it from a person who being unaware of the contents of an invention under patent application, made such invention, and who has been engaged in a business of working such invention or has been making preparations for such business in Japan at the time of filing of the application for patent is entitled to a nonexclusive license under the patent granted to such person."

Do we have anything like this in our Patent Code? Interestingly, the answer is yes and no.

The answer is no - and a clearcut no - because we have no statutory provision as such similar to Japan's or similar to the so-called right-of-first-user provisions in the patent laws of other countries, as e.g. in Germany which is typical and which reads:

> "A patent shall have no effect against a person who, at the time of the filing of the application, had already used the invention in ... Germany or had made the necessary arrangements for doing so. Such a person shall be entitled to use the invention for the purposes of his own business in his own plant or workshops of others."

According to an article by Angelo Notaro entitled "Patents and Secret Prior User Rights: A Comparative View" (PATENT AND TRADEMARK REVIEW, Vol. 81 No. 9, p. 347, 348, Sept. 1983) "provisions permitting the continuation of use initiated prior to the effective date of a patent application are found in the laws of more than thirty countries" and in some of those they have a long history dating back to the last century.

Incidentally, the reasons behind the lack of a first user right in the U.S., in contrast to other countries where such rights exist, has a lot to do with the "recognition of a limited novelty instead of an absolute novelty system and the recognition of a right to a patent in the first-to-invent, rather than the (first-to-file) wherein the first inventor is a de jure personage and not necessarily the actual first inventor" (Notaro, supra at 357).

But a negative answer to the question posed at the outset is not the end of it - not by a long shot! - and it would but represent a narrow and simplistic point of view. Viewed more broadly, and more pragmatically, the answer is yes or has been argued to be affirmative for numerous and interesting reasons. Actually, there are different kinds of yeses.

II. Statutory Precedents and Proposals

Historically, recognition of the prior use right was embodied in a statutory provision, at one time, namely, Section 7 of the Patent Act of 1836 but it was later removed. And two of the Patent Reform Bills introduced over the past twenty years proposed such a right, i.e., S.1042 of 1967 vintage (90th Congress), which provided that a prior good faith inventor would have a personal defense as a "prior user" provided his actions had not caused a statutory bar effective against a subsequent inventor (Section 274) and H.R. 12873 (94th Congress, 1976), which would have made prior commercial manufacture of a claimed product or process, or substantial preparations therefor, a defense in any patent infringement action (Section 282(b)). But, alas, these were not enacted.

In 1979, the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation recommended that the U.S. patent law be revised to provide that any prior use which is not obvious on inspection or analysis of a product, sold or available to the public, not bar patentability. In addition, it was suggested that the

prior user be allowed to continue using the invention. (Final Report on Patent Policy, Feb. 6, 1979). Nothing became of this proposal, either.

In 1982 the Patent, Trademark and Copyright Section of the American Bar Association passed the following favorable resolution:

> "Resolved, that the Section of Patent, Trademark and Copyright Law favors in principle legislation providing an in personam right or right of prior public user to the first inventor who elects to keep his invention a trade secret, and further provides that the patent on the same invention which was independently discovered by a subsequent inventor shall not be held invalid based on the trade secret public use of the first inventor."

Regrettably, this resolution went no place.

III. Prior User Rights in Special Situations

Apart from historical precedents and recent legislative proposals, there are areas where something akin or tantamont to

a prior user right already does exist. Notaro, supra at 357-361 lists a veritable litany of statutorily- or decisionally-created "co-uses", "forced sharing of inventions", "estoppels", "implied licenses", "intervening rights", "judicial recognition of prior user rights", etc. as, for example, shoprights, temporary uses of inventions on vessels or aircrafts, intervening rights in reissue cases, co-uses in supplier/customer, manufacturer/distributor, contractor/ contractee relationships, public interest situations where injunctive relief is denied, certain uses by government or uses under the Clean Air and Atomic Energy Acts, compulsory licenses as a remedy for antitrust violations, etc.

IV. Continuation of Prior Use Due to Invalidation of Patent Over the Prior Use

This is of course also true in a manner of speaking when the patent of the second inventor is invalidated due to the existence of the prior use or invention. It is a curious fact that there is actually no case on the books where a first inventor/trade secret owner has been enjoined from practicing his invention/trade secret by a late-comer patentee even though

there are literally scores of cases where the second inventor prevailed on the issue of priority in an interference context. Notaro confirms this by stating that "no U.S. court has dealt with the prior user issue by deciding to let use continue without invaliding the patent" (Notaro, supra at 361) and, of course, neither the Supreme Court nor the Court of Appeals for the Federal Circuit has yet resolved the question of which of the two parties - the trade secret user or the patentee - has a superior right to the invention.

However, a spate of District/Circuit Court decisions cut the Gordian knot by holdings in favor of the first inventor/trade secret owner. The Dunlop case, (Dunlop Holdings Ltd. v. Ram Golf Corp., 188 USPQ 481, 7th Cir. 1975, cert den. 189 USPQ 256, 1976), is undoubtedly the key case - clearly a landmark decision. It held that a noninforming use of an invention with secrecy intended, bars a patent to a subsequent inventor and it invalidated U.S. Patent No. 3,454,280 on a new kind of golf ball under Section 102(g).

The Seventh Circuit Court of Appeals in affirming the lower court said that an important distinction must be made between a "secret" use and a "noninforming" public use. Though

the inventor didn't tell what made his golf balls unusal, he certainly made every effort to market them and they were in widespread public use before February 1965 (the date of Dunlop's British application, the earliest date it could claim under 36 U.S.C. 104).

The Court gave

> "three reasons why it is appropriate to conclude that a public use of an invention forecloses a finding of suppression or concealment even though the use does not disclose the discovery. First, even such a use gives the public the benefit of the invention. If the new idea is permitted to have its impact in the marketplace, and thus to 'promote the progress of science and useful arts' it surely has not been suppressed in an economic sense. Second, even though there may be no explicit disclosure of the inventive concept, when the article itself is freely accessible to the public at large, it is fair to presume that its secret will be uncovered by potential competitors long before time when a patent would have expired if the inventor had made a timely application and disclosure to the Patent Office. Third, the inventor is under no duty to apply for a patent; he is free to contribute his idea to the public, either voluntarily by an express disclosure, or involuntarily by a noninforming public use. In either case, although he may forfeit his entitlement to monoply protection, it would be unjust to hold that such an election should impair his right to continue diligent efforts to make the product of his own invention."

In Westwood Chemical, Inc. v. Dow Corning Corp., 189 USPQ 649 (E.D. Mich. 1975), one finds the broadest and most drastic application of Section 102(g). A patent held by Westwood on pigmented silicone elastomers was held invalid in the face of a Section 102(g) defense based on prior independent secret work done at Dow Corning. The court held that a

> "'prior invention' which will invalidate a patent under §102(g) need not involve use of the invention in public. Prior private or secret knowledge is available as prior art.... This independent work of others is also clearly evidence of obviousness." (Id. 666)

The language in this holding as in many is quite loose if not confused (note, e.g., the reference to "secret knowledge"; "knowledge" is a bar only under Section 102(a) and only if it is public), but it seems that Dow Corning had a big-in-depth R&D project in this area while the Westwood patent was but a paper patent in the sense that first it was based on graphite chemistry and secondly was not in use. Again, apparently equity and justice considerations played a significant part, especially since a paper patent was involved.

Another case is Grain Products v. Lincoln Grain, 191 USPQ 177 (S.D. Ind. 1976), in which a patent applied for by

defendant in 1960 on cold-water-dispersible cereal products was voided under Section 102(g) because in 1949 (!) an employee of plaintiff "produced gelatinized cereal adhesive on a plastic extruder... (and) made 35 tests (!) using corn meal and flour and varying moisture, die area, feed rate and extruder temperature". The court considered this work as the "prior invention of the subject matter" of defendant's patent by plaintiff's employee.

Also to be noted in this context are such cases as Continental Copper and Steel Industries, Inc. v. New York Wire Co., 196 USPQ 30 (M.D. Pa. 1976), where the court, unlike in the two preceeding in cases, discussed at length the requirements and the burden of proof of a Section 102(g) defense but struck down Continental's patent nonetheless. This also happended in Norris Industries, Inc. v. The Tappan Co., 193 USPQ 521 (C.D. Ca. 1976), aff'd 203 USPQ 169 (9th Cir. 1979).

However, in a very recent District Court decision (Philip Morris v. Brown & Williamson Tobacco, D.C. for Middle District

of Georgia, 8/20/86 - 32 BNA-PTCJ 578, 9/25/86) a failed experiment was held not to be available as prior art under 35 USC 103 by virtue of Sec. 102(g) in reliance on Kimberly Clark v. Johnson & Johnson, 223 USPQ 603 (CAFC 1984). Hopefully, aberrations like Westwood Chemical and Grain Products are a thing of the past and this aspect of the law stands settled.

According to some of the prior Section 102(g) decisions, the prior activities, even if abandoned, are nonetheless evidence of the level of ordinary skill in the art at the time the later invention is made and can thus be used in a Section 103 context. (International Glass v. United States, 159 USPQ 434 (Ct. Cl. 1968)) Thus, the late-comer patentee may also face Section 103, Section 102(g)/103 and possibly also Section 102(b) defenses.

Interestingly, some older, pre-1952 cases have holdings in a similar vein. In the 1928 Supreme Court decision, Corona Cord Tire Co., v. Dovan Chemical Corp., 276 U.S. 358 (1928), a patent was invalidated over prior experimental use and in United Chromium v. General Motors Corp., 85 F.2d 577 (2d Cir. 1936), cert den. 300 U.S. 674 (1936), a patent was struck down over prior private use.

If there is a general rule that can be deduced from all of these and other apposite cases it is this: A second inventor can obtain a valid patent only if the first inventor's work amounted to nothing more than an abandoned experiment, i.e. where his invention was not developed, scaled-up and used commercially - or if he rediscovered a "lost art".

With respect to such decisions Roger Milgrim had this to say on the subject:

> "Actually as a non-patent lawyer, I am not terribly shocked by the result, for this reason: It seems to me that one of the key things that the courts expect from a patentee is that the patentee was the inventor. If you establish that the patentee was in fact not the inventor, you get into a very murky philosophical, economical and moral area as to whether a second 'discoverer' should be given a 17-year period of exclusivity."
> (Proceedings ABA-PTC Section Meeting, Chicago, August 8, 1977, p. 137)

And Stanley H. Lieberstein drew the following conclusion in a BNA Conference talk in 1979, entitled "The Commercially Utilised Trade Secret: Is It Prior Art?":

> "There is no case which flatly decides whether a prior inventor, trade secret owner, would have rights greater than a subsequent patentee, but it would seem fairly clear from the case law thus far that any patentee who maintained such a suit would run a substantial risk that his patent would be held invalid. A court is not only likely to find that the use by the trade secret owner, inherent in the definition of a trade secret, constitutes a public use but it is also possible that a trade secret owner could establish that he was the first inventor, that he was the first to reduce it to practice, and that he had not abandoned, suppressed or concealed it. In the latter event it appears that it would not even be necessary for a court to find a public use." (BNA Conference Course Book, "1979 Patent Conference: The Novelty Requirement And Other Important Aspects of 35 USC 102", Arlington, Va., Sept. 6-7, 1979, p. 339).

In view of these developments, I concluded that it should now indeed be possible and safer for a first inventor/trade secret owner to stand on his trade secret election rather than be "spurred into activity." He need not file an application as a panic-stricken but self-defeating reaction the moment he is alerted to competitive activities, in order to get into or provoke an interference in the hope of settling it on the basis of a royalty-free license. (Jorda, "The Rights of the First Inventor-Trade Secret User As Against Those of The Second Inventor-Patentee", 61 JPOS 593, 603, 1979)

However, we now have a new Court of Appeals for the Federal Circuit and one cannot be sanguine about the outcome of a case involving the issue of the respective rights if one came before it in view of ominous statements it made in Kimberly Clark v. Johnson & Johnson, supra, to the effect that "the use of ... secret (prior) art - as §103 'prior art' - except as required by §102(e), is not favored for reasons of public policy." In re Clemens, 206 USPQ 289 (CCPA 1980), was relied on for this statement. Note also the rather categorical statement in Gore v. Garlock, 220 USPQ 220, 226 (D.C. N.D. Ohio 1982), aff'd 220 USPQ 303 (Fed. Cir. 1983) that "(s)ecret uses do not constitute prior art".

V. Pro Arguments in Patent Literature

Over the years and decades, many authors have recommended that the prior user be indeed granted a limited prior user or in personam right permitting him to continue to practice his invention. See, for instance, Benjamin, "The Right of Prior Use", 26 JPOS 329 (1944); Gambrell, "The Constitution and the In Personam Defense of First Invention", 39 JPOS 791 (1957); Gambrell et al., "The Second Inventor's Patent, The Defense of

First Invention, and Public Policy", 41 JPOS 388 (1959); and, in particular, and more recently, Bennett, ("The Trade Secret Owner Versus the Patentee of the Same Invention: A Conflict?", 57 JPOS 742 1975) who even felt that such a right could be fashioned by courts without resort to legislation and that such a right would avoid an unconstitutional reading of Section 102 (g) (p. 747); Burke ("The 'Non-Informing Public Use' Concept and its Application to Patent-Trade Secret Conflicts, 45 Albany Law Review 1060, 1981) who reasoned that

> "In order to protect both patents and trade secrets from mutual destruction in the face of a conflict, legislative action should be taken. For the two systems to coexist, it is necessary for Congress to follow the footsteps of the other industrialized nations of the world and grant protection to both patents and trade secrets." (p. 1077);

and Notaro, supra, who concluded that "equity and public policy considerations favoring the recognition of an in personam right clearly reflect the Kewanee (Kewanee Oil Co., v. Bicron Corp., 181 USPQ 673, 1974) willingness to accept both patents and trade secrets as compatible forms of protection for technological development" (p. 361).

See also Milgrim, "Trade Secrets", §8.02(3):

> "In practical effect, the foregoing analysis creates a kind of 'shop right' in the first inventor and his assigns and licensees predating the second inventor's patent issuance."

And Ellis, "Trade Secrets", §180, speaks of "intervening rights":

> "On general grounds it would appear that intervening rights should exist in favor of one who has made a substantial investment to enable the public to buy the product of his machine or process. The secret user learned nothing from and owes nothing equitably or legally to the subsequent inventor. If the latter is granted a patent, it should not be enforceable against the prior secret user.
>
> * * * *
>
> To give a patent to a subsequent inventor without barring him from suing the first inventor and secret user of the invention, would be to offer as a reward to anyone who could discover the invention by independent research the economic scalp of the first inventor and secret user. The only requirement would be to disclose the invention in a patent application. A user of a secret process or machine would never know when he would wake up to find he had to stop using his process machine in which he had perhaps invested thousands of dollars and built up a substantial business."

Yet another author called it a "personal easement on the invention". (Silverstein, "The Value of Patents in the United States and Abroad....", 8 Corn. Int'l L. Rev. 135, 1975).

At any rate, no explicit statutory or decisional "right of prior user", "personal easement" or "in personam right" exists in this country. But the above authors have pointed out that such right

1) is a first inventor's common law right,

2) exists already in reissue law,

3) would be required by principles of equity,

4) and not according it would be taking property without compensation and, hence, would violate due process principles.

VI. Conclusion

From a narrow point of view, it may not be particularly material to a trade secret owner whether he is entitled to continued practice of his invention/trade secret because the

later inventor's patent is either invalid or is not enforceable against him. However, from a broader vantage point, it may of course be in his interest that his invention, which is now in the public domain by way of the later inventor's patent, is not a free-for-all.

Thus, it is manifest and compelling that a right of prior user or in personam right should be enacted into law. It is badly needed. The arguments advanced in favor of such a right are eminently logical and convincing. It would be the best and ideal solution and compromise between the clashing public policy considerations and the illogical extremes now faced by first inventors/trade secret owners and second inventors/ patentees.

Unless legislation is enacted providing protection for the prior user of a trade secret and also protection for the second independent inventor who secures a patent, there could be mutual destruction of patents and trade secrets and the legal situation woefully unsettled. The solution clearly is to let the patent stand without being invalidated by a prior trade secret use and the same time assure the trade secret holder

that he will not be the subject of a later filed patent infringement suit. By protecting the rights of both parties the patentee would receive protection for his invention and the independent trade secret user would be allowed to continue using his invention. This solution would be in conformity with the Kewanee decision and would satisfy the constitutional mandate concerning the use of patents to promote the progress of the Arts and Sciences.

After all, a Constitutional award to one inventor does not mandate a Constitutional penalty to another.

Licensee Estoppel in Japan

Presented at PIPA 17th Congress
Japanese Group, Committee No. 4
Subcommittee No. 2

Masao Shimokoshi : Ajinomoto Co., Inc.
Shin Ando : Kyowa Hakko Kogyo Co., Ltd.
Shunichi Tonouchi: Sekisui Chemical Co., Ltd.
Kouji Tsuchida : Sony Corporation
Akira Atsumi : Teijin Limited
Akira Sasaki : Toshiba Corporation
Speaker : Tetsuya Kondo: Kokusai Denshin Denwa Co., Ltd.

Abstract

The decision in Lear v. Adkins modified the US practice that the licensee is prohibited from contesting the validity of the licensor's patent by the doctorine of Licensee Estoppel. Presently, the licensee estoppel is not recognized in the United States.

The present report judges whether the licensee estoppel is recognized or not in Japan by discussing the decisions where the qualification of the demander for patent invalidation trial was questioned under Article 123 of the Patent Law.

The trial decisions do not recognize that the demander has the interest to demand invalidation if the agreement contained the no-contest clause. Even when the agreement containing a no-contest clause was concluded after the demand for invalidation trial had been made and then the patent was held invalidated, such decision is cancelled by the suit seeking cancellation of the trial decision, or the licensee estoppel is recognized.

On the other hand, the licensee estoppel is not recognized if the licence agreement does not contain no-contest clause as the demander is held to have interests.

The licensee estoppel is thus not recognized in Japan by the legal act of contract alone, and it is preferable for the licensor to include the no-contest clause in the agreement.

The report discusses whether or not inclusion of the no-contest clause is allowable and whether the licensee is entitled to contest the agreement if the no-contest clause is included in view of the Civil Code and the Anti-Monopoly Law and concludes that it is quite difficult in practice although the problems such as abuse of rights would require review of validity of the agreement per se.

1. Introduction

Estoppel is a doctrine of Anglo-American Laws which prohibits assertions contrary to actions in the past and protects the safety of trade.....

In Japan which mainly relies on statutes for legal matters, it is not the usual practice to directly rely on the doctrine of estoppel in legal proceedings. However, there are number of statutory provisions which may read as reflecting the doctrine of estoppel, or the laws may at times be interpreted based on the doctrine of estoppel. For instance, it is possible to recognize the doctrine of estoppel in Article 1-2: the fair and equitable principles of the Japanese Civil Code, and to bring into the general legal conduct the concept of estoppel depending on the facts and interpretation of the fair principles.

When license agreements are examined from the standpoint approving the estoppel, the following statement may be made. A licensee enters an agreement while agreeing that the patent in question is valid, and this constitues "the action in the past", and any subsequent assertions contrary to the above are prohibited. In other words, the validity of a patent once agreed to cannot be denied afterward.

This paper discusses rulings which question the qualification of the person demanding invalidation of a patent under Article 123 of the Patent Law, and deliberates whether the licensee estoppel may be asserted under the license agreement.

2. Licensee Estoppel and Lear v. Adkins

The principle prohibiting the licensee from contesting the validity of the licensor's patent at least during the term of license even in absence of no-contest provision has been established and recognized by the court decisions in the United States. However, the decision for Lear v. Adkins rendered by the Supreme Court of the United States dated June 16, 1969 (162 USPQ 1) caused the doctrine

of licensee estoppel to concede to the Federal Government's patent policies.

Lear v. Adkins case concerns the licensee Lear who was sued by the licensor Adkins for payment of royalties, and Lear asserted that the Adkins' patent was invalid.

The California Superior Court which was the court of first instance held that Lear was not permitted to contest the validity of Adkins' patent because of estoppel under the license agreement.

The California District Court of Appeal which was the court of second instance made no reference to estoppel.

California Supreme Court which was the court of third instance held that Lear could not contest the validity of Adkins' patent because of the doctrine of estoppel. It taught the following concerning the doctrine of estoppel.

> "One of the oldest doctrines in the field of patent law states that so long as a licensee is operating under a license agreement, he is estopped to deny the validity of his licensor's patent in a suit for royalty payment. The theory underlying this doctrine is that a licensee should not be permitted to enjoy the benefit afforded by the agreement while simultaneously asserting that the patent which forms the basis of the agreement is invalid."

The Supreme Court of the United States which was the court of fourth instance examined the case by the writ of certiorari, and then quashed the decision by California Supreme Court and remanded the case. The Supreme Court of the United States first discussed the role of estoppel in the past and quoted a series of decisions which excluded application of estoppel. It taught that estoppel had to concede in the face of public interests and was no longer the general principle. It also held that the licensee estoppel was a matter inherent to the patent for which the license agreement was concluded. Therefore, application of

the state laws which were the governing laws recognized that estoppel was excluded from this case.

3. Licensee Estoppel in Japan

3-1. The Japanese System of Patent Invalidation Trials

Comparison of Japan and the United States in respect of the way the validity of a patent is contested may facilitate understanding of the following section 3-2 since it bears a grave significance to licensee estoppel. The United States Patent Office does not have the authority to invalidate a patent once it issues except in the case of infrignement examination between an already issued patent and a pending patent application (35 USC 135) and in the case of re-examination (35 USC 307). Validity of a patent is contested, as a rule, by assertion as a counterclaim of a defendant in a patent infringement suit (civil proceedings) or an invalidation suit of patent claims as a counter-action, or a suit for confirmation of invalidity of patent claims when a patent right is asserted prior to filing of a patent infringement suit. Even when the patent claims are found irrevocably invalid, the decision binds only the parties to the suit and does not extend to third parties as a rule. (Exception: Blonder-Tongue v. University of Illinois, 169 USPQ 513 (1971)).

In the case of the interfering patents, the court may declare either of the interfering patents invalid in the civil proceedings (35 USC 291), and in this case the invalidating decision extends to third parties.

Contrary to the above, the Japanese system for patent invalidation (Article 123, Patent Law) provides that a patent can be invalidated only by the patent invalidation trial at the Patent Office. A patent becomes, therefore, invalid only when the trial ruling invalidating a patent becomes final and conclusive.

Accordingly, a patent which is involved in a patent infringement suit cannot be asserted invalid by the defendant even if the powerful reasons for invalidating the

patent exist unless the Patent Office declares it invalid in the trial.

When a patent is invalidated, its patent right is deemed to have been non-existent from the beginning (Article 125 of the Patent Law), and this naturally extends to third parties.

The statutory reasons for invalidating patents include cases where an invention lacks novelty or inventiveness, and where the description in the specification is insufficient (Article 123 of the Patent Law).

The question here concerns the qualification of a person demanding an invalidation trial. It is clearly stipulated that "any person" can become an opposer in a patent opposition proceeding which prevents issuance of a patent having a reason for invalidation (Article 55 of the Patent Law), while there are no provisions concerning the qualification of a person demanding an invalidation proceeding.

Since a decision "considers the principle of law suit that 'there is no cause of action without beneficial interest' is reasonable because the trial constitutes a procedure having the character of a so-called quasi-judicial dispute" and therefore the person demanding the trial must have beneficial interest which is legally justifiable (Tokyo High Court Decision dated Feb. 25, 1970). Majority of the academia support this decision, and the practice at the Patent Office seems to follow this decision in making ruling.

Whether or not the licensee is qualified to demand an invalidation trial will become clear from the examples discussed in "4: Trial Decisions".

3-2. Licensee Estoppel

3-2-1. Estoppel and Patent Invalidation Trial

Discussion of licensee estoppel can be deduced to discussion of whether or not the licensee can question the

validity of the licensor's patent. A patent validity can be contested in Japan only by patent invalidation trial under Article 123 of the Patent Law. Therefore, the presence/absence of licensee estoppel depends on the judgment of whether the demandant in a patent invalidation trial is an interested party or not. In other words, if a licensee is to be prohibited from asserting the patent invalidity because of estoppel, he is judged as having no beneficial interest to demand a patent invalidation trial.

Perusal of trial rulings and decisions which addressed this matter of beneficial interest in the patent invalidation trials reveals that there are two types of cases. One is where the licensee demands the patent invalidation trial under Article 123, and the other is where the demandant of the trial becomes a licensee after making the demand but before the trial ruling is rendered.

3-2-2. Presence/absence of Licensee Estoppel (When the licensee demands the trial for invalidating the patent) (Refer to 4-1)

We shall first examine the case where a licensee demands the invalidation trial under Article 123. We should first determine if the license agreement contains the no-contest clause.

Since the no-contest provision embodies the object for applying the licensee estoppel as discussed in this paper, it would be unnecessary to examine the presence of licensee estoppel. Where the no-contest clause exists in a license agreement, a licensee should merely assert the presence of such clause in their response in said trial (Article 134 of the Patent Law). Then, the judge would determine that the licensee who is also the demandant has no interest in making the demand, judge that the demand is illegal under Article 135 of the Patent Law, and dismiss the demand.

What happens in absence of the no-contest clause? As will be apparent from discussion of the trial rulings in

4-1, licensee estoppel is not recognized in Japan. A licensee is found to have the beneficial interest for making the demand since they would benefit from exemption of royalty payment, etc. if the patent was declared invalid.

(When the demandant becomes a licensee after making the demand for patent invalidation trial)

We shall first examine whether the license agreement contains clauses such as that for incontestability and settlement (such as withdrawing the demand, etc.) (hereinafter collectively referred to as the no-contest clause). If yes, the licensee estoppel is automatically recognized as in the above case of no-contest clause when "the licensee demands the patent invalidation trial". In other words, the demandant loses their beneficial interest for demand at the moment they conclude the agreement. Therefore, if it is possible to submit evidences attesting to the fact that the party lost their interest of demand, then the judge will dismiss the case on the ground that it is illegal. In many cases, the demandant withdraws the demand under Article 155.

The presiding judge issues a notice to terminate the proceedings when the case is ready for ruling (Article 155-1). After the notice is served, the parties can no longer submit the materials and documents for attack/defence or withdraw the trial demand. Thus, there may arise an instance where the demand is allowed or the patent is judged invalid in spite of the fact that the demandant had lost their interest in making the demand. In this case, revocation of the trial ruling may be sought at the Tokyo High Court in the revocation suit for the trial ruling under Article 178 of the Patent Law.

The section 4-2-1 below discusses an instance where the no-contest clause was present.

What about the case without the no-contest clause? As will be apparent from the discussion of decisions in

4-2-2, the licensee estoppel is not recognized. In other words, if the no-contest clause is not included in the license agreement, the right of the demandant to make demand is not damaged even if the demandant is the licensee.

4. Trial Decisions

4-1. Cases where the licensee demanded invalidation trial for patent, etc. and qualification of the demandant was questioned

Case 1: Patent Invalidation Trial Case

Trial No. Sho 50-671

Ruling rendered on November 7, 1979

(Patent held invalid)

The ruling:

Since a patent rightis for granting the function of monopoly of practice for a certain period of time to a person who has made the invention which the state can utilize for the industry in respect of a product of technical thought of the mankind which would have been free to enjoy by all, if granting of this monopoly is invalidated, then the invention may be used freely by all. Thus, the person who is suffering direct disadvantages by the presence of the patent right to be invalidated is without doubt the person having the beneficial interest in demanding the invalidation trial. This is considered also true where the person is the licensee under said patent. Therefore, the respondent's assertion that the demandant has no beneficial interest in the present trial case is not adopted.

The cases 2 and 3 are similar to the case 1.

Case 2: Utility Model Registration Invalidation Trial

Trial No. Sho 49-5835

Ruling rendered on June 23, 1978
(Utility Model held invalid).

Case 3: Utility Model Registration Invalidation Trial
Trial No. Sho 49-7205
Decision rendered on November 5, 1982
(Utility Model held valid).

4-2. Cases where the demandant for invalidation trial became the licensee after making the demand and their beneficial interests was disputed

4-2-1. The case where the presence of interests was affirmed

Case 4: Design Registration Invalidation Trial
Case No. GYOKE-7 of 1984
Decision rendered on July 30, 1985
Judgment of the Decision

If a person who was granted a non-exclusive license by the exclusive licensee becomes automatically unable to demand the invalidation trial for the design registration for which the license was granted, he would be subjected to the disadvantage of having to continue payment of the license fees for a design registration judged to contain reasons of invalidation. Since there is no rational reason for yielding to this, it is reasonable to understand that even a non-exclusive licensee does not go against the principle of faith and equitable by demanding said invalidation trial unless the circumstances direct otherwise, and in absence of assertion or proof of such special circumstance, the above assertion by the plaintiff is found without ground.

Case 5: Patent Invalidation Trial
Case No. GYONA-48 of 1956
Decision rendered on January 3, 1963
The case concerns invalidation of a patent under the old Patent Law (Taisho Law).

Case 6: Trademark Registration Invalidation Trial
Case No. GYOKE-188 of 1978 (Decision rendered on

November 21, 1979)

Case No. GYOKE-189 of 1978 (Decision rendered on November 21, 1979)

4-2-2. Cases where the presence of interests was not affirmed

Case 7: Law suit for revocation of ruling in patent invalidation trial

Case GYOKE-127 of 1977

Decision rendered on November 28, 1979

Decision

It is reasonable to understand that persons who can demand a trial are limited to those who have the legal interests in demanding this trial as the principle of "there is no cause of action without beneficial interest" is applied in the civil proceedings.

When this case is examined in the light of above, it is recognized that a settlement has been reached between the plaintiff (the respondents in trial) and the defendants (the demandant in trial) during the time when the present patent invalidation proceedings were pending before the ruling of this trial, and an agreement to withdraw the trial demand had been reached. It is therefore deemed that the legal interest to demand this trial has ceased to exist.

The following cases are similar to Case 7.

Case 8: Law suit for revocation of a ruling in a utility model registration invalidation trial

Case No. GYOKE-42 of 1980

Decision rendered on December 23, 1980

Case 9: Law suit for revocation of a ruling in a patent invalidation trial

Case No. GYOKE-133 of 1982

Decision rendered on March 30, 1983

Case 10: Law suit for revocation of a ruling in a trademark invalidation trial

Case No. GYOKE-228 of 1984

Decision rendered on December 20, 1984

5. No-contest Provision in Japan

5-1. As has been discussed above, the legal act of a license agreement does not lead to license estoppel which denies the demand for invalidating patent in Japan. Therefore, if the licensor wishes to maintain their position of not recognizing the licensee's action to invalidate the patent, the licensor must include in their license agreement a clause to the effect that the validity of patent in question will not be contested. The practice of including such a clause is widespread in Japan. On the other hand, this no-contest provision may at times be considered as problematic under the Civil Code, the Anti-Monopoly Law and the Patent Law. We shall discuss them sequentially.

5-2. Under the Civil Code

As general discussion goes, if a person is sued despite an agreement not to sue in respect of a certain right, the demand is dismissed by the court for the reason that the defendant has no beneficial right in the trial upon the defendant's assertion that there exists such an agreement. Under Articles 1, 90 and 91 of the Civil Code, the degree and validity of restraint imposed by agreement (contract) may be subject to the judgment of the court. An agreement not to resort to legal proceedings without specifying the nature of disputes is deemed as abandoning the right to sue in general, and is held invalid as it violates Article 90 of the Civil Code concerning public order and morals. If the agreement is deemed to be one for resolving disputes with faith and avoiding rush actions such as taking the matter to the court, and also deemed that there have been made sufficient arbitrary efforts for resolution, the no-contest provision becomes invalid. It is judged that the restraint up to that time has been sufficient in view of the fair and equitable principle under Article 1-2 of the Civil Code, and any further assertions are held invalid under Article 1-3 of the Civil

Code concerning abuse of rights.

What about the clause of not contesting the validity of a patent? If the object Patent is clearly named, then it is deemed as specified and therefore there is no abandonment of the right to sue. Abandonment of the general rights to sue is considered as the unreasonable restriction on fundamental human rights (the right to fair trial and the right to own property), and any agreements inducing such actions will be deemed as contrary to the public order and morals.

Under Article 1 of the Civil Code, the no-contest clause may be regarded as the abuse of rights depending on the facts. These cases include extreme conditions such as the licensee is not allowed to dispute the patent validity long after the agreement has expired, and the licensor does not agree to consultation for change of the license or termination even though the patent is clearly defective, or that they fail to show sufficient faith.

5-3. Under the Anti-Monopoly Law

The Anti-Monopoly Law of Japan prohibits private monopoly, unreasonable restraint on trade and unfair methods of trade. We shall address here the clauses concerning prohibition of private monopoly (Article 3) as the contractural parties v. public interests, and unfair business practices (Article 19) as concerning licensor v. licensee.

(Contractural Parties v. Public Interest)

The Patent Law allows private monopoly through patents. The patent system, in other words, is intended to encourage creation and development of new technology by causing the inventor to publish his/her invention for the inventor's monopoly for a certain period of time as compensation. Therefore, any patent application meeting the requirements imposed by the Patent Law is granted a patent and the private monopoly is recognized. However, a

patent application not meeting these requirements should not be allowed to issue as a patent, and a patent granted on such a patent application is interpreted as not eligible for application of Article 23 of the Anti-Monopoly Law (exclusion of application of the law).

Private monopolization means "such business activities, by which any enterpreneur, individually or by combination, conspiracy, or any other manner with other enterpreneurs, excludes or controls the business activities of other entrepreneurs, thereby causing, contrary to the public interest, a substantial restraint of competition in any particular field of trade" (Article 2-5 of the Law Relating to Prohibition of Private Monopoly and Methods of Preserving Fair Trade).

Therefore, the no-contest clause at times excludes the business activities of other entrepreneurs by maintaining the effect of a patent which is suspected to be defective by an agreement such as conspiracy between the licensor and the licensee not to disclose such a cause for invalidity. This damages the democratic and healthy development of national economy achieved by securing fair and free competition, and is contrary to the public interest.

Can the licensee, then, rely on Article 3 of the Anti-Monopoly Law to assert the invalidity of no-contest clause?

We personally believe that it is possible by bringing to the district court a suit for declaration of nullity of the no-contest clause. While said court cannot invalidate a patent, we believe that it can judge that a patent has the ground for invalidation during examination of the suit. In other word, if the interest of a lawful demand is recognized, the court can render a judgement on matters required for examination.

However, if violation of Article 3 of the Anti-Monopoly Law was declared by the court, both the licensor and the licensee must be aware of possibilities to be held

liable for indemnification of damages through no fault under Article 25 of the Anti-Monopoly Law, indemnification of damages by illegal acts under Article 709 of the Civil Code, and be subject to penal servitude under Article 89 of the Anti-Monopoly Law. However, we are not aware of any instances where the no-contest provision was held as violating Article 3 of the Anti-Monopoly Law.

(Licensor v. Licensee)

This considers whether or not the act of including the no-contest clause in the agreement falls subject to Article 19 of the Anti-Monopoly Law and Article 14-3 of the Notice of Fair Trade Commission on Methods of Unfair Trade:

> "By utilizing the fact that their position in business is superior to that of the other party, committing any one of the following activities unreasonably in the light of normal business practice";
>
> "3: Setting or changing the trade conditions in such a way that they will be disadvantageous to the other party."

If a licensor forces the no-contest clause unreasonably on a prospective licensee by taking advantage of their stronger position, the no-contest clause violates Article 9 of the Anti-Monopoly Law.

The following decision rendered by the Supreme Court in re Gifu Commercial and Industrial Credit Cooperative concerning compulsory deposit as a loan condition (SAIHAN June 20, 1977; Minshu Vol. 31, No. 4, P. 449) is to be addressed here. "Concerning the effect under the private laws of violation of Article 19 of the Anti-Monopoly Law by agreements, the agreement should not be readily understood as invalid as alleged by the appellant because the said Article is the imperative law except where the agreement is held to be contrary to public policy or good morals".

Determining the validity of an agreement by the degree of violating the public morals is not recommendable

in view of the intent of the Anti-Monopoly Law and legal stability. Therefore, if we are to base our argument on the theory of limited invalidity (Imamura, N.: Anti-Monopoly Law, P. 222), the assertion that the no-contest clause is invalid is admissible if the no-contest clause was determined as violating Article 19 of the Anti-Monopoly Law. In this case, it is also necessary to bring a suit for declaration of invalidity for the no-contest clause at the district court.

Violation of the above mentioned Article 19 is not subject to penal servitude. We have no knowledge of the decisions at the court or Patent Office which held the no-contest clause as violating Article 19 of the Anti-Monopoly Law. For reference only, we wish to mention that the book entitled "Practice of New Anti-Monopoly Law" edited by the Secretary General of the Fair Trade Commission states at P. 342 that there is no disputes that obligation of no-contest of patent cannot be admitted as exercising the patent right as in the case of restrictions on re-sale purchase, restrictions on suppliers of raw materials and restrictions on clients.

5-4. Under the Patent Law

This is the same as the teaching of the US Supreme Court in re Lear v. Adkins. Since leaving a defective patent unattended is contrary to the legislative intent of the Patent Law, it is held inadmissible to provide the no-contest clause in a patent license.

P.S.

When this paper has been substantially finished, the authors received August issue of "Tokkyo Kanri - Patent Management". A dissertation by M. Amamiya on "Obligation not to contest the right" is published in it, which is in the direction substantially the same as our report. With its complete bibiography, we believe that the paper is worth anybody's while.

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(all in Japanese)

R. H. CHILDRESS

PRACTICAL ASPECTS OF TRADE SECRET PROTECTION IN THE UNITED STATES

My talk covers practical aspects of protecting trade secrets in the United States. Specifically, I will briefly comment on trade secret law for background or overview purposes, discuss the need for a trade secret program in most companies and the nature of such a program, the requirements for and the types of protection for trade secrets in the courts and, lastly, trade secret concerns involved in employee-employer relationships.

TRADE SECRET LAW OVERVIEW

The basic policy of our country under federal law doctrine requires all ideas in general circulation to be dedicated to the common good and freely used unless patented. Notice that the policy addresses only ideas that are in general circulation. Trade secrets are, therefore, a recognized exception to the policy. Trade secret doctrine is based on the maintenance of standards of commercial ethics and fair business practices between competitive entities. It also recognizes the value and importance of ideas which may or may not be patentable.

Trade secret law and patent law have coexisted in the United States for over 100 years. Each has a particular role to play and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those ideas of lesser or different invention than might be accorded protection under the patent laws but which still have an important part to play in the technology and scientific advancement of the United States. Trade secret law promotes the sharing of knowledge and the efficient operation of industry. It permits the individual inventor to reap the reward of his labor by contracting with a company to develop or exploit it.

Our federal patent law derives from Article I, Section 8, Clause 8 of the Constitution and states within the United States are precluded from having a state patent law by the supremacy clause of the Consititution. This federal law does not endorse nor forbid trade secret law. As a generality, there is no federal law encompassing trade secrets. Therefore, trade secret law is derived from our basic common law and is a matter for each state to deal with. Most states have codified their trade secret law and the only requirement for such laws is that they not conflict with federal patent law.

Many states have adopted the definition of a trade secret found in the Restatement of Torts which is as follows: "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving material, a pattern for a machine or device, or a list of customers." As can be appreciated, the extent and breadth of subject matter which can be protected as a trade secret is very wide and does not have to be of a technical nature; as for example, customer lists.

The factors which are considered for valid trade secret protection are as follows:

1. The expenditure of money, time and labor in developing the trade secret;
2. The novelty of the secret;
3. The question whether the secret is in fact a secret, that is the extent to which outsiders know of the information or the extent to which an employee knows of the secret;

4. The conscious and continuing effort by the owner to maintain secrecy, including the prevention of unauthorized disclosure by employees;
5. The value of the secret to the owner's business;
6. The extent to which the trade secret may be isolated by analysis and procedures or reverse engineering;
7. The relationship between the parties having knowledge of the secret.

Trade secret protection can last as long as the secret is used and its confidentiality is safeguarded. The trade secrets owners' costs for trade secret protection are relatively minimal and are primarily concerned with the cost of keeping the information confidential, such as, security within a plant and legal agreements with recipients. The trade secret owner has a right in most instances to use his trade secret but has no right to exclude others from its use who independently develop it or who obtain a product in the open market and reverse engineer it. The only right exclusion by a trade secret owner is against those who misappropriate or violate the obligation of confidentiality. The obtaining of a trade secret by

improper means includes lawful conduct improper under the circumstances of the case, such as an airplane flight over a competitor's plant.

The property rights of the owner in a trade secret are of a nature which permits the subject matter to be licensed or sold to third parties. The licenses, or permission to use, are extremely important with respect to trade secrets since they are the basis for the transfer of technology between parties or between countries.

COMPANY TRADE SECRET PROGRAMS

Company's who have trade secrets should have a trade secret program. These programs can take many different forms depending on the nature and extent of the trade secrets and are usually relatively inexpensive.

The reasons for a trade secret program include the situation where a trade secret may actually be the essence of a particular company. An example of this is the formula for Coca Cola which is known only to a few people. The Coca Cola Company would probably not be as successful as it now is if others could produce the same product as Coca Cola.

Next, trade secrets are company assets. They are developed at great expense and usually after long periods of experimentation. Thus, if one of the company's trade secrets is disclosed to a competitor or to the public, an asset to the company will be destroyed or rendered useless to the company. Additionally, people who work for companies occupy a position of trust and confidence. Since such employees have a duty to the company, to disclose information given in trust is to breach the duty of trust and confidence.

Normally, trade secret programs should cover the following items:

1. Basic list of company trade secrets.
   It is advantageous if the company can set forth certain categories of information which it considers at all times to be confidential.
2. Distribution of the trade secrets.
   Not all employees should have access to the company's trade secrets. Access should be given only on a "need to know" basis. Employees who do have access are in essence "trustees" of that information. By limiting access to the information, the company is

reducing the possibilities of compromising the information.

3. Labels on the information.
   The best way for the company to indicate to its employees which items are to be treated confidentially is to follow a labeling program which, at the very least, should insure that written documents are marked "confidential."
4. Transmittal of trade secrets.
   Materials disseminated within the company's facilities should be placed inside an envelope marked "confidential" with the envelope also marked "to be opened by addressee only" and sealed. For external transmittal through normal postal channels, the material should be placed in an envelope described above and then into a second envelope addressed and sealed but not marked "confidential" in any way. The documents then should be forwarded as first class mail. In certain instances of extreme sensitivity, the document should be sent as registered or certified mail with return receipt requested.
5. Prior clearance of technical speeches and articles.

Routing procedures should be instituted which insure that technical speeches and articles are reviewed by the Patent Department for trade secret clearance. This is to insure that no trade secrets are permitted to be publically disclosed through inadvertence or ignorance.

6. Visitors access to company facilities.
   For those facilities which contain equipment or information of a sensitive nature, visitors should not be permitted access or if permitted access should be accompanied by an employee within the facility at all times.
7. Employee secrecy agreements.
   All employees who may have access to trade secrets should be put under an employee confidential information agreement preferably at the time of hiring. These are standard agreement forms which usually refer to the nature of the employee's duties, the fact that the employee has access to trade secrets and the employee's obligation to not disclose those trade secrets to third parties and to use the trade secrets only in the course of his employment and on behalf of his employer.

8. Termination interviews.

It is important that employees who leave the company and have had access to trade secrets be interviewed by preferably his immediate supervisor. The items to be covered during the interview should be:

a. remind the employee that he owes a fiduciary duty to the company and, after he leaves the company, he continues to occupy a position of trust and confidence.

b. the company has placed full faith in him since they revealed to him important corporate assets of the company, namely, certain trade secrets.

c. the company requires that each employee who leaves also leaves all company property such as notebooks, correspondence and the like and he is not to take any copies of company trade secrets with him nor is he to disclose company trade secrets after he leaves.

d. The confidential information agreement should be reviewed with him regarding his obligation to maintain the information in confidence and not to use it other than for the company. It would be a good idea

to provide a copy of the agreement even though he probably already has one.

9. Storage of company trade secrets. Company confidential materials should be secured at all times to prevent unauthorized disclosure. During non-working hours, the material should be in a locked file cabinet or desk. During normal working hours, office doors should be closed and locked whenever the office is unattended and where the material is unsecurely stored as on a desk top. All confidential material should be destroyed only by shredding.

In order to illustrate a typical company trade secret program, I will briefly describe the program which we have at my company. We have two levels of trade secret material. The first level, which is our highest level, is called "company confidential controlled access." This is information which the company believes is the "family jewels" and it is, therefore, limited to extremely selected and sensitive information; such as, tire machines and rubber compound formulations. Our company's headquarters staff designates which information is to be "company confidential - controlled access." With respect to

this information, all documents are numbered and an index is maintained as to the recipient of each numbered document. This material is kept in files which are locked and all offices which have the files are "limited access" offices. All of the information and the access to the facilities are on a strict need-to-know basis. For company employee visitors, the appropriate Vice President in charge of the facility must grant approval to the employee for either visiting the facility or given access to the information. For non-employee visitors to a facility, only the President and Chief Operating Officer can approve such a visit and then only after a confidential agreement is executed by the visitor. In addition, all such visitors are escorted at all times during their visit.

Because we have a number of different sized plants making a variety of products, each individual plant manager has the ability to designate within his plant certain machines or information which he considers "confidential." This is the second level of our trade secret program and such information is designated as "company confidential." Each plant manager designates those employees who can be given access to the information or the equipment and also establishes procedures regarding non-employee visitors access to

the facilities. Many plant managers take advantage of this program to some extent, but they all are required to observe "company confidential-controlled access" equipment and information which may be within their plant. We feel this is a very flexible approach and adequately protects not only our latest and extremely important trade secrets but also other information and equipment which are valuable to our company.

TRADE SECRET PROTECTION IN THE COURTS

There are several considerations which should be determined prior to initiating a court action. The first issue, of course, is whether or not to litigate. After the necessary background regarding the misappropriation of a trade secret has been determined by the trade secret owner, various remedies such as civil litigation, institution of criminal proceedings and/or attempting to negotiate settlements with the wrongdoers should be considered. Additionally, the cost of such litigation should be considered. Included within this cost is not only the cost of conducting the lawsuit such as attorney fees, court costs and the like, but also the reasonable value of time and effort spent by the company personnel in preparation of litigation such as conferences, production of

documents, depositions and the like that otherwise would be productively devoted to the company's normal business.

Moreover, business effects should be weighed as factors in considering litigation. Such effects include unfavorable publicity that could damage the company's public image. Another factor is the deterrent value of the lawsuit since by litigating against a wrongdoer whether the suit is won or lost may establish a reputation for the company of vigorous enforcements of its trade secrets in order to discourage future or potential wrongdoers. And finally, a factor which should be measured in advance in the effect on its business if it loses in court and its trade secrets become public property.

In enforcing trade secrets in the courts, the presence of a viable, formal trade secret program is helpful to the trade secret owner not only in establishing the validity and protectability of his trade secret but in demonstrating the wrongfulness or misappropriation by the party taking the trade secret. Since one of the prerequisites of legal protection is the extent of measure taken by the trade secret owner to guard the secrecy of the information, courts

generally require some minimal program or affirmative action by the employer. Thus, one of the primary reasons for a trade secret program is to assist in establishing before the court the steps or measures taken by the trade secret owner to maintain the confidentiality of the information.

A further pivotal issue in trade secret litigation are the trade secrets to be protected. The subject matter of the trade secret must be defined in some manner and that definition is used much like the claim of a patent in the litigation. There is usually considerable controversy as to the definitional scope given such subject matter and the novelty of such subject matter since some slight degree of novelty is required by the court in order for the subject matter to be considered a trade secret.

During the litigation the trade secret matters within the litigation are usually preserved as confidential under a court's protective order in order that third parties or the public are not permitted access to the trade secrets. In addition, stringent restrictive and confidentiality obligations are placed on defendant and its counsels in order to preserve the confidentiality of the information. This aspect of

trade secret litigation is always troublesome since the trade secret owner must by necessity rely on the court's opposing counsels obligations and ethics.

The remedies in trade secrets litigation are substantially the same as those usually found in other unfair competition cases. Damages may be awarded to the plaintiff or trade secret owner. These damages can be loss of profits if there is a satisfactory basis for estimating plaintiff's probable earnings in the absence of wrongful conduct. Plaintiff may also recover damages for any start up expenses he has incurred in connection with the business as well as any overhead expenses as a result of defendant's wrongful conduct. Sometimes diminution in the value of good will can be assessed and its loss may be the subject of damages. When there is particularly egregious conduct by the wrongdoer, such as malice or fraud, the court may award punitive damages.

The more typical remedy against a defendant or trade secret wrongdoer is injunctive relief. This relief is particularly suited to trade secret litigation since the alleged wrong doing often consists of a continuous course of conduct by defendant that, in the absence of an injunction, would require multiple

suits for damages with the damages being difficult to determine. Additionally, since the law supports competition, injunctive relief would be the appropriate remedy if the wrongdoers actively threaten the very existence of plaintiff's business.

An injunction may be either mandatory or prohibitory. A mandatory injunction compels the defendant to undertake some affirmative action. A prohibatory injunction restrains the defendant from engaging in the proscribed action. In essence, therefore, the mandatory injunction changes the position of the parties or compels some action in accordance with the order whereas the prohibitory injunction leaves the parties where they were before the order. Mandatory injunctions since they generally compel an affirmative act are rarely granted except in urgent cases. Further, enforcement of a mandatory injunction is automatically stayed during appeal while in general prohibitory injunctions must be obeyed during appeal. Courts will generally limit the duration of the injunction to the estimated time that it would have taken the wrongdoer to reverse engineer the product if he had acted solely upon the information that was available to the general public.

EMPLOYEE-EMPLOYER TRADE SECRET CONCERNS

Employee-Employer relationships usually provide special obligations in dealing with trade secrets. Normally, companies will execute agreements with their employees concerning patents and trade secrets. These agreements provide that the employee will keep confidential and use only for the benefit of the employer the trade secrets that he becomes privy to in the course of his employment. A formal agreement as such is not required, however, since an implied agreement having the same effect is often found by a court. The implied agreement is based on existence of a confidential relationship. This relationship must exist prior to or concurrent to disclosure of the trade secret and impose an absolute duty on the recipient not to use or disclose the secret.

The use of an express agreement to protect an employer's trade secret is preferred to any agreement implied by law. The evidentiary value of requiring all technical personnel to sign a confidentiality agreement is extremely positive since it establishes that the employer has determined the trade secret is important and has taken definite action to prevent its unauthorized disclosure and use. The express agreement

should be executed at the time that the employee is hired in order that it would be ancillary to, or a condition of, his employment.

In some express agreements, there may be restrictive covenants in which the employee agrees not to compete with his former employer. These restrictive covenants have been given careful judicial scrutiny and many states have refused to enforce such covenants because they are unduly broad and thereby constitute an unreasonable restraint of trade. If you have employees in most of the states within the United States, it is generally advisable to not use restrictive covenants. Even in those states which permit such covenants to be used, they must be reasonable both in a time period and work area scope. Restrictive covenant type clauses which permit the former employer to continue to pay the salary of the terminated employee for a limited period of time in order to preclude his working for a competitor during that period of time, is an acceptable form of restrictive covenant that has been upheld in the courts. The salary provided should be within a reasonable amount of the employee's actual salary in order that it not be viewed as a hardship on the terminated employee.

In an express agreement, it is advisable to incorporate a clause that specifies an employee's continuing obligation of confidentiality after he leaves the company. Such clauses are helpful in the event of a controversy over post employment inventions since they often shift the burden of proof to the new employer.

The most difficult aspect of employee-employer relationships and the enforcement by the courts of confidential provisions in express agreements is the basic public policy of balancing the rights of the employer with the rights of the employee. Our society favors employee mobility and advancement. The employee must not be prevented from obtaining employment that affords not only an equitable salary, but also a chance for advancement. Further, the employee should be able to use his education and experience since denying this to him would in effect render him a "slave" to his employer. On the other hand the employer has a right to protect his asset or trade secret and expect the employee to live up to his obligation to keep the trade secret confidential and not disclose it to his new employer for its use. This aspect is the most difficult aspect of litigating trade secret cases between an employer and a former employee who is now working for a competitor.

CONCLUSION

Trade secrets are regarded in the United States as extremely important assets or business tools but usually in the defensive sense, since trade secret law endeavors to protect subject matter which the trade secret owner desires to keep to himself in order to provide a competitive edge in his business.

It is important, therefore, that companies establish and maintain a trade secret program, use the court system to protect their valuable assets when it is needed, and take special precautions in the crucial area of employee-employer relationships.

R. H. Childress

CONCLUSION

Trade secrets are regarded in the United States as extremely important assets or business tools but usually in the defensive sense, since trade secrets law enables us to protect subjects matter which the trade people cannot derive by long to himself in order to provide a competitive edge in his business.

It is important, therefore, that companies [illegible] and maintain a trade secret program. The first steps should be to protect their valuable assets when it is needed, and thus special precautions in the conduct of acts of employer-employee relationships.

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