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1971 PIPA Washington Meeting

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General

Remarks by Eugene M. Braderman Deputy Assistant Secretary of State for Commercial Affairs and Business Activities at the Pacific Industrial Property Association Luncheon Washington Hilton Hotel, Washington, D.C. May 6, 1971

Mr. J. B. Clark
% Washington Hilton Hotel
Washington, D. C.

cc: J. R. Shipman

Re: PIPA

Dear John:

I'm awfully sorry that I can't be with you on Tuesday. I'm simply committed to an out of town business trip.

A following report has been prepared for an 8-minute delivery which you may want to read to the group in attendance:

We have for you a paper that discusses briefly recent CCPA cases of interest in the area of computer programming.

A question has been asked whether recent judgments by the CCPA have opened up the U. S. patent law to programming patents. The answer must be "Yes" because the most recent decision (i.e., In re Foster et al) reaffirms the preceding Musgrave, Mahony, Bernhart and Prater cases. Each of these cases is commented upon briefly in the handout sheets.

It is important to recognize that this general line of CCPA decision may be modified or even reversed at some future time. Since the United States is divided into judicial districts, any one of the many federal courts in these districts may render a decision which differs from recent CCPA decisions. Accordingly, an appeal may eventually be taken to the U. S. Supreme Court which is the highest judicial authority in the United States and which may some future day deliver the final decision as to whether computer program inventions are patentable or not.

1A

Another question has been raised as to whether every kind of computer program can be patentable subject matter. The answer is yes if the invention is an apparatus which often is viewed as a special purpose computer. The answer is also yes if the invention is a process or method which contains physical steps --- i.e., invention claims which read on a purely mental process would be improper.

Still another question asks to what extent are the specification and drawings required to be described. The answer to this is that the invention must be described fully and completely. This has been done by disclosing an apparatus system which operates to carry out the function of the computer program. This has also been done by disclosing computer programming instructions for carrying out the function of the program. When only instructions are diclosed, however, the invention may be claimed only as a process.

Another question asks whether a computer programming patent would be infringed by the use of a general purpose computer programmed to do the function of the programming patent. We don't know because there has not been any such infringement action. Such a law suit will be raised in one of the judicial districts, and may eventually be appealed to the U. S. Supreme Court.

Still another question asks about the difficulty in examining computer programming inventions. It is very difficult to do this in the United States because of inadequate prior art data base and classification for searching purposes. A great deal of work must be done in this area if programming inventions

are to be searched adequately by the Patent Office.

The U. S. Copyright Office has accepted computer programs for copyright registration since 1964. Although we do not have an accurate count of the number of computer programs registered for copyright, we do know that there are several hundred. Copyright protection means that the computer program should not be copied --- i.e., in the same way that a book which is registered for copyright should not be copied. The U. S. law requires the authors literary work to be respected by not copying it.

Another question asks whether patent application or copyright registration is the most suitable protection for a computer program. Of course, to obtain patent protection, the computer program must be unobvious and inventive. To obtain copyright registration, the computer program need not be inventive. It must simply be an original work. The patent will provide protection for the inventive concept (e.g., the function of the computer program), whereas the copyright registration will simply provide protection against copying the programming instructions as they have been written. Unfortunately, time does not permit a more detailed discussion about this very important question.

The last question is directed to the possible protection of computer programming by a new legal system. Consideration is being given to the advisability of a new form of computer programming protection. One such new legal system would include the registration of computer programming without examination. Furthermore, the protection under such a new system would be

for a short time --- i.e., possibly only 5 years. It is difficult to say when this matter will be resolved within the United States even though it is under study at the present time by a special committee associated with the National Council of Patent Law Associations.

One final bit of information for you --- i.e., the U. S. Patent Office no longer uses any guidelines for processing computer programming inventions. The programming patent applications are handled in the same way as any other invention patent applications.

Sincerely,

J. Jancin, Jr.

CASES DECIDED TO DATE

CASE	SUBJECT MATTER	HOLDING
In re tarczy-Hornoch 158 USPQ 141 June 27, 1968	A method for counting pulses.	1. Inherent function of an apparatus patentable subject matter as a process. 2. Kirkpatrick and Worley dissented.
In re Naquin Phillips Petroleum 158 USPQ 317 July 3, 1968	Mathematically correcting seismic data.	1. Insufficient disclosure rejection overcome by uncontroverted affidavit stating specification was sufficient to inform skilled programmer to program general purpose computer.
In re Prater & Wei Mobil Oil 162 USPQ 541 Aug. 4, 1969 Patent No. 3,551,658	Method for solving an overdetermined set of simultaneous equations by the largest determinant method.	1. Claims which read on a purely mental process improper under 35 USC 112 as failing to particularly point out and distinctly claim invention because encompasses pencil and paper markings which a mathematician might make in recording his mental calculations. 2. Footnote 29. Could see no reason why apparatus and process claims covering the operation of a program general purpose digital computer are necessarily unpatentable. 3. Process claims with physical steps not truly mental. 4. Apparatus claims do not involve the mental step issue.
In re Bernhart Boeing 163 USPQ 611 Nov. 20, 1969 Patent No. 3,519,997 Issued 7/7/70	Programming a general purpose computer to mathematically change 3-dimensional input data to 2-dimensional data.	1. Court noted Congress meant to exclude principles or laws of nature and mathematics from patentable subject matter. 2. Even though the novelty resided in the mathematical computations, no mental step involved since means plus function language did not encompass a human being. Although mathematics not patentable, patentable when claimed with machine because mental steps not required. 3. Allowed method claim because required both digital computer and plotter.

	In re Mahony Bell Labs. 164 USPQ 572 Feb. 26, 1970	A method of synchronizing a receiver with a transmitter by determining which bits are the data bits thereby establishing the remaining bits are the synchronizing bits.	Method claims avoid mental step rejection because bit stream were electrical signals which could not be operated upon in the mind.
	In re Musgrave Mobil Oil 167 USPQ 280 Oct. 8, 1970	Mathematically correcting seismic data.	1. Court overruled In re Abrams which held claims relying on mental steps for patentability non-statutory. 2. Definition of process in Cochrane v. Deener erroneous and did not require physical acts applied to physical things. 3. All that was necessary to make a sequence of operational steps a statutory process was that it be in the "technological arts". 4. Judge Baldwin vehemently disagreed. Further than necessary for court to go in this case. Court should consider on a case by case basis. Questions whether the court proper in doing away with mental step doctrine. But agreed with result of majority.
	In re Foster et al Mobil Oil Decided Mar. 18, 1971 90 days to appeal	Mathematically correcting seismic data.	1. Reaffirmed Musgrave, Mahony Bernhart, and Prater. 2. If in "technological arts" mental steps immaterial. 3. "Signals" not patentable. "Electrical signals" are. 4. New use claims patentable.

CURRENT STATUS OF CCPA CASES

APPLICANT ASSIGNEE APPEAL NO.	SUBJECT	ISSUE	STATUS
In re Benson Bell Labs. 8376	Mathematically converting numerical information from BCD to binary.	Mental steps. Cochrane v. Deener, In re Abrams	Hearing Nov. 4, 1970 No decision to date.
In re Ghiron Bell Labs. 8458	Overlap mode computer re transfer instruction.	Block diagram re sufficient disclosure.	Hearing February 5, 1971. No decision to date.
In re Sengbush Mobil Oil 8459	Mathematically correcting seismic data.	Mental steps. Method for manipulating "signals". Like rejected in Prater, Musgrave and Foster.	Remanded to the Patent Office.
In re McIlroy Bell Labs. 8534	Machine processing of symbolic data constituents. Generating signals.	Mental steps. Cochrane v. Deener. Like rejected in Prater and Musgrave.	Record, Briefs are in. Hearing May 6, 1971.
In re Christensen Oil Co. 8558	Mathematical method of determining porosity of a subsurface.	Mental steps. In re Abrams and Yuan.	All briefs filed. Hearing Oct. or Nov. 1971.
In re Kolatis Bell Labs. 8596	Method for operating a data processor.	Decided after Prater I. Mental process.	Record and Appellant's Briefs Oct. 22, 1970 Motion by Patent Office to remand Remanded to Patent Office Board of Appeals
In re Waldbaum Bell Labs. 8619	Method for counting 1's in a data word.	Can you have new use invention without disclosing apparatus? Only method claims in case. Mental process rejection. Computer built with capability to carry out mathematical operation.	Record and Appellant's briefs. Hearing possible last of 1971 or early 1971.

CASES OF POTENTIAL INTEREST

In re Sebek 8631	Process	Not of interest (was on previous list)
In re Forman 8742	Graphic system	Record not available
In re Wagener 8851	Novel process	Record not available
In re Smythe 8855	Automatic analysis apparatus and method (Filed 8/20/70, Attorney S. P. Tedesco)	Record not available
In re McMullan 8867	Novel process	Record not available
In re Brandstadter 8892	Message retrieving organization (Filed 10/15/70)	Record not available
In re Knowlton 8896 Bell Labs.	System for processing list information (Filed 10/16/70)	Record not available

Search for cases of potential interest was made up to Docket 8963.

Comm. ...c.

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Mr Sanbou

S.643 vs. PRESENT LAW

Primary distinctions

1. Term of 20 years from earliest U.S. filing date (§154)

2. Issuance of application containing allowed claims during pendancy of appeal (from decision of Board of Appeals) on remaining claims (§154)

3. Reexamination after issue upon anyone notifying Patent Office of pertinent prior art or other facts (§191, 192)

4. One who imparts into the U.S. a product made in another country by a process patented in the U.S. is an infringer. (§271)

5. Cancellation of compulsory licensing provisions of the Clean Air Amendments Act of 1970 (§6 supplementary)

Secondary distinctions

1. The owner of the invention may apply for a patent (§100d, 101, 111, 115)

2. Joint inventors need not be joint in any claim of an application (§116)

3. To claim the benefit of an earlier filing date in the U.S. it is only necessary that the "applicant" be the same. Thus Monsanto (as applicant) could file a continuation application even though different inventor entity. (§120)

4. Commissioner given authority to require that applicant cite prior art and provide a patentability brief (§131)

5. Priority contests can be appealed only to the CCPA (§141)

6. Presumption of correctness given Patent Office decisions (§148)

1 B

Minor distinctions

1. Can obtain a filing date on the signature of an agent, with ratification later (§111)

2. Three month time limit for claiming the benefit of an earlier date (§119, 120)

3. Interferences modified even further toward first to file (§193)

4. Application for re-issue to obtain broader claims must be made within 1 year of issue (§251)

H. Comm.

PRINCIPAL CHANGES IN S.643 PATENT BILL
FROM PRESENT LAW

Note: Section numbers refer to S.643

Patentability of Inventions

100(d) New defined term - "applicant" is the owner of the application. This term runs throughout the act since the "applicant" would be empowered to do most of what the inventor does under present law.

100(f) New defined term - "actual filing date in the U.S." Many rights are tied to this date. Note that this definition appears to recognize the possiblity of different priority dates for different claims in the application and patent.

101 Grants the inventor or his successor in title the right to apply for a patent.

102 Has been reworded, which could lead to changes in interpretation. For example the present "known by others" bar of 102(a) is reworded to "made known to persons in the art ---", which may be more than a mere codification of present interpretation of 102(a).

103 Some new language has been added to the last sentence of present 103. This would appear to simply clarify the present language.

Application for Patent

111 Either the inventor or the owner of the invention may apply for a patent. If the owner applies the oath must contain a statement of facts on which his right is based, he must provide a list of persons who made an inventive contribution, and he must notify the inventor of the filing within 30 days. If the inventor challenges ownership, the patent will issue to the inventor (it is not clear who would control prosecution, but consistency would appear to give the inventor the right). An application may be signed by an agent to secure a filing date but it must be ratified within 6 months.

115 Provides for the oath by the owner of the invention.

116 Joint inventors need not be joint inventors of any claim in an application.

119 One who seeks to claim the benefit of an earlier foreign date must do so within 3 months of filing in the U.S. or during reexamination (upon showing adequate cause for not claiming benefit earlier).

120 To claim the benefit of an earlier filing date in the U.S. it is only necessary that the "applicant" be the same and that such benefit be claimed within 3 months or during reexamination (upon showing adequate cause for not claiming benefit earlier).

Application for Patent (Continued)

120 This would clear up the controversy which once surrounded a series of continuing applications since it is specified that the last application in a series can get the benefit of the earliest cases filing date, even though said last application is copending only with the immediately preceding application.

Examination of Application

131 Requires Commissioner to strive for disposal of applications within 18 months of filing. Would authorize the Commissioner to require the applicant to cite art considered in preparing the application and provide a patentability brief.

131 & 282 Codifies the present law with respect to terminal disclaimers; i.e., two or more patents can claim the same invention provided they all expire on the same date and as long as the right to sue for infringement is in the same legal entity.

Review of Patent Office Decisions

141 Changes present law with respect to appeals to the extent that a "contest of priority" (presently, interference) cannot be taken to the District Court, but rather only the CCPA. Appeals of an affirmed final rejection or from the Patent Office decision on reexamination may be taken to either the CCPA or the District Court.

148 The decision of the Patent Office is given a presumption of correctness.

Comment - This probably wouldn't have any practical affect on appeals since the office seems to be accorded this presumption anyway. It could, however, give a boost to the presumption of validity of issued patents.

Issue of Patent

151 Patent is issued to the "applicant". The current 3 month time limit on the late payment of any issue fee dropped, giving the Commissioner greater flexibility in setting rules for acceptance of late payments.

154 The patent term is 20 years from the earliest U.S. priority date. The term of any patent whose issuance was delayed due to a secrecy order under §181 will be extended for a period equal to the delay.

154 A novel provision provides for the issuance of any application on appeal to the CCPA or District Court which contains allowed claims. The patent would take immediate effect as to the allowed claims. Any claims later allowed as a result of the appeal would be added by a certificate to be attached to each copy of the patent.

Comment - in considering any patent, it would be necessary to determine if any further claims have been added, as well as whether any are on appeal.

Reexamination after Issue & Contests of Priority

191 Within 6 months after issue, anyone may notify the Patent Office of pertinent published prior art and the Commissioner may require reexamination of any or all claims of the patent. The identity of the person notifying the Patent Office of such art would be kept secret.

191 Rejection of any claim after reexamination (after becoming final) would constitute a calcellation of that claim and a certificate of that fact would be attached to each copy of the patent.

Comment - again a need to check each patent being considered as to status of claims and any reexamination or appeal which may be taking place.

192 Within 1 year after issue, anyone may notify the Patent Office of facts showing (a) a prior public use or sale such as to be a statutory bar, (b) he himself made the invention first, or (c) the invention was derived from him. If such person can make a prima facie showing, the matter is determined by the Board of Appeals.

193 Provides for "priority of invention contests", replacing present interference (§135) practice. The patent would issue to the party with the earliest "actual filing date in the U.S." If the other party makes a prima facie showing of priority within 1 year, or within 3 months after his claims are rejected over such issued patent, the question of priority will be determined by the Board of Appeals. The question of patentability of any or all claims of the application and/or patent can be raised by either party or by the Patent Office during such proceedings and the Board will simultaneously consider those issues also.

Patents and Protection of Patent Rights

251 Application for re-issue patent to expand the scope of the claims must be made within 1 year of issue, as opposed to present 2 year limit.

257 When any claim is allowed after appeal where the patent was issued prior to conclusion of the appeal, the Commissioner must attach a certificate containing such claims to every copy of the patent thereafter distributed and publish a notice in the O.G.

271 One who imports into the U.S. a product made in another country by a process patented in the U.S. is an infringer.

271 No longer distinguishes between "infringement" and "contributory infringement". Acts presently described as contributory are simply called infringing in the bill.

IC

Patents and Protection of Patent Rights (Continued)

285 Attorney fees can be awarded to prevailing party where claim is held invalid after having previously been held invalid on the same ground in another court whose decision has become final.

301 Anti-preemption provision.

Comment - This provision is considered inadequate to lay to rest the preemption theory as set forth in the dissent in Lear v. Adkins and later applied by Judge Motley in Painton v. Bourne. Senator Scott's amendment is necessary to accomplish this.

Transitional and Supplementary Provisions

§4(b) Reexamination as well as all provisions from §251 on (i.e., concerning the issued Patent and its enforcement) apply to all patent applications still pending on the effective date of this bill, if enacted.

§4(c) All provisions from §251 on (i.e., concerning the issued patent and its enforcement) apply to all unexpired patents in effect on the effective date of this bill, if enacted.

§6 Cancellation of the provisions of the Clean Air Amendments Act of 1970 (i.e., §308) concerning compulsory licensing.

#1 Committee

J.C.

Fraud on the patent office

When John Clark called me on April 15 and asked if I would take part in this meeting, I guess I wasn't very polite. Of course, April 15 is tax day in the USA; not only must one settle up for calendary year 1970 by this date, but it is also the first date to start settling up for 1971: In other words, I'd been paying money to Uncle Sam that date. Also, he asked me to talk about "Fraud on the Patent Office". Because of its ethical implications, the subject is distasteful and repugnant to me. I told John I'd call him the next day, which I didn't. That next day was Friday. Over the week-end I cooled off. On Monday morning when I came in the office, there was a note to call John's office. I did, and here I am.

The subject "Fraud on the Patent Office" is still repugnant to me. I am not a legal scholar, but merely a practicing patent lawyer representing a corporation, my client, which owns over 7,500 active patents (approximately 5,500 of which are outside the USA), and about 4000 pending applications; for which I am primarily responsible. My only and absolute admonition to all members of our corporate patent operation about any patent or patent application is that our patent assets as a whole are too valuable to be placed in jeopardy for any one patent or patent application. If any question at all can be raised, we drop the patent or patent application. With that said first, I will proceed to the subject, "Fraud on the Patent Office" as a whole.

This subject has only become popular in the last five to eight years. It has become popular in the USA basically because of two cases or actions.

The first of these was the Walker Process case. In this case, the U. S. Supreme Court held that attempted enforcement of a patent known to be procured fraudulently, if proven, could constitute a Sherman Act violation entitling an original defendant to treble damages. This holding is covered with dollar signs for patent infringers. If they can show the necessary facts, not only is their infringement excused, but their damages may be trebled.

The second of these cases was the Federal Trade Commission case against Chas. Pfizer with reference to the tetracycline patent. The allegation of the case was that affidavits were filed in the patent applications, in answer to a question raised by the Patent Office, denying the inherent production of tetracycline in an old process for the production of chlorotetracycline, at a time when the applicants and their attorneys knew that such by-product production did in fact occur. The Federal Trade Commission, which is a regulatory agency of the Executive Branch of the Federal Government, was satisfied with an order compelling compulsory licensing of the resultant patent at 2½% royalty. As a bystander this result has always astounded me. Here, a government enforcement agency has ordered a patentee to grant licenses to all who ask under a theoretically unenforceable patent.

What has happened since is a plethora of cases in which the defense of "fraud on the Patent Office" is alleged. Fraud in the procurement of a patent has been a defense since 1933 to a suit for infringement. Today it has gotten to be more than that and I will get around to my ideas about that later. Now is a good time to define what constitutes fraud.

Fraud derives from the common-law tort of Deceit. A tort is a civil wrong for which a common law action for money damages lies. The elements of Deceit are:

1) a False representation, ordinarily of fact.

2) Scienter, or knowledge that the representation is false.

3) Intention to induce action (or to refrain from action) by reliance on the misrepresentation.

4) Reliance upon the representation in taking action or refraining from it.

5) Damages.

Let me repeat: fraud derives from the common-law tort of deceit. The courts are becoming more and more critical in their interpretation of the relationship existing between applicants for patents and the Patent Office. Applicants before the Patent Office are being held to a relationship of confidence and trust to that agency. It is a principle of the law of agency that where a relationship of trust and confidence obtains between parties, there is a duty to disclose all material facts, and failure to do so constitutes fraud. Does it not then follow that all material facts must be disclosed to the Patent Office?

In Norton v. Curtiss decided November 12, 1970, the Court of Customs and Patent Appeals stated that it subscribes "to the recognition of a relationship of trust between the Patent Office and those wishing to avail themselves of the governmental grants which that agency has been given authority to issue. The ex parte prosecution and examination of a patent application must not be considered as an adversary proceedings and should not be limited to the standards required in interparty proceedings.

With the seemingly ever increasing number of patent applications before it, the Patent Office has a tremendous burden. While being a fact finding as well as an adjudicatory agency, it is necessarily limited in the time permitted to ascertain the facts necessary to adjudge the patentable merits of each application. In addition, it has no testing facilities of its own. Clearly, it must rely on applicants for many of the facts upon which its decisions are based. The highest standards of honesty and candor on the part of applicants in presenting such facts to the Office are those necessary elements in a working patent system. We would go so far as to say they are essential." It will be noted that the court said that it must rely on applicants for many of the facts upon which its decisions are based and did not go so far as to require a complete disclosure of "all material facts". The direction in which this decision leads is apparent, however.

This language should be contrasted to that used previously by the United States Supreme Court in the so-called Precision Instrument case decided in 1945. In the Precision Instrument case the United States Supreme Court went so far as to impose upon all who are parties to proceedings before the Patent Office "an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the application in issue". The duty here spelled out in reporting all facts applies to evidence of possible fraud and is not excused by doubt as to the sufficiency of the evidance. I submit that it is today, and will be more so tomorrow, extremely difficult to draw the line between "all facts concerning possible fraud" and "relying on applicants for many of the facts upon which Patent Office decisions are based".

Two years ago in Dallas, Texas at the meeting of the Patent Section of the American Bar Association, the then new and present Commissioner of Patents proposed what he termed "patentability briefs" to be filed along with new patent applications. Subsequent to that time, hearings have been held on the subject and although I have not attended any of them, I understand that the response to the proposal has been mostly negative. I have to be frank to admit that my initial reaction was, likewise, negative. It is apparent, however, that the Commissioner's clairvoyance should be applauded. I now believe that every effort should be made by the patent bar to move quickly in the direction of disclosure of all material facts relating to patent applications to the Patent Office at the time of filing of the patent application, and in all subsequent proceedings before the Patent Office. Absent a record in which such a showing has been made, it is my belief that more and more patents will be held unenforceable for failure to so do. The difficulty with the Commissioner's proposal is the question of what constitutes fulfillment of the duty to supply all material facts. Under the present practice in the United States Patent Office, there is no prescribed procedure for disclosing such information. In the absence of a formal rule, the duty is too often complied with in the breach instead of in the fulfillment. The opinion of the appellate courts in the federal judicial system towards patents is reflected in the constant holdings of invalidity. It has recently been proposed that an underlying reason for this is that the process of patent procurement astonishes and amazes most federal appellate judges once they understand how it operates. To bolster the system as a whole, it is necessary to bolster the system of procurement. It is submitted that this should be done and done soon by a rule of practice requiring a disclosure of all material facts.

The courts who have struggled with the disclosure problem have largely focused on the question of proper disclosure of prior art. The results have not been consistent. For example, a district court in Oregon has held that the duty to disclose prior art exists only where the inventor knows and believes he is not the first inventor in view of such art. A district court in Texas has held that the duty to disclose exists only where such prior art would invalidate the patent. The seventh circuit court of appeals and district courts in Illinois, Maryland and Georgia have held the duty to disclose exists only where the prior art anticipates. The alternative phrase "or comes so close to anticipating that every reasonable man would say it anticipates" has been added to the previous duty by the seventh, ninth and tenth circuits and by district courts in Massachusetts and California. Wisconsin and Ohio district courts have held the duty exists when the prior art is the most pertinent or is highly relevant to the claimed invention. North Carolina and Illinois district courts have found the duty to exist when such prior art would affect the breadth of the claims. I believe these statements or holdings are enough to illustrate the point that divergent views are the rule and not the exception.

In his proposal for patentability briefs, the Commissioner included a provision for submission of known relevant prior art. Since then most thought has been devoted to the question of how to comply with the requirement. I believe the Commissioner's proposal was based on the premise that pre-examination searches are usua. y carried out. My limited experience is otherwise. We rarely search an invention submission prior to filing an application. Of course, if we know relevant prior art, we call it to the attention of the Patent Office. If we know of prior art which, in our opinion, is more relevant than that found by an Examiner, we call

the Examiner's attention to it. None of this, however, seems to be sufficient in today's environment.

The environment today is a popular political subject. It is submitted that we must clear the air on this subject of fraud on the Patent Office. The air is not being cleared voluntarily elsewhere. We should clear the air here by either statute, rule of the Patent Office, professional custom, or cannon of ethics, or perhaps by some combination of more than one of these approaches.

I look forward to the day when the Federal judges in patent cases will no longer find an allegation of fraud in the Patent Office in every case filed or tried.

I have given some thought to the subject of how the Patent Office will survive under a deluge of all material facts. For the life of me, I don't know. Perhaps the age of computers will come up with an answer. I believe that the Congress must become more sympathetic to the needs of the Patent Office. Perhaps it will if it sees that a first and major step has been taken by those whose interests are most promoted by progress in the useful arts.

1D

CORNING GLASS WORKS

CORNING

CORNING, NEW YORK

April 21, 1971

MEMBERS OF COMMITTEE #2 -
Harmonization of Trademark Law and Practice
Pacific Industrial Property Association

Gentlemen:

You will by now have received from PIPA Headquarters the agenda outline for the forthcoming PIPA International Congress to be held in Washington on May 4, 5, and 6; and you will also have noted that the several Committees will meet jointly with their respective Japanese counterparts in two sessions, one in the late morning, and the other in the afternoon of May 4th. A report of the deliberations of the joint sessions of Committee #2 will be rendered as a second order of business on the morning of May 5th.

Mr. Akaoka, Chairman of the Japanese Committee #2 Group (and also PIPA Coordinator), has asked me to establish the order of business to be discussed in our joint sessions.

As you know, both the Japanese Group and our own group have given some thought and devoted discussions to two general subjects: (1) International registration of marks, and (2) trademark use in the United States and Japan.

Neither the Japanese Group nor our group has proposed any resolutions for consideration by the Joint Committee; and, therefore, it seems to me that the best approach for our meeting is one of somewhat "unstructured" discussions.

Mr. Paul Hoffmann has graciously consented to lead the discussion concerning international registration of marks. It is anticipated that he will review progress of BIRPI to date in its proposals regarding a revision of the Madrid Arrangement or a "new" arrangement, giving the consensus of reported views of American business

and professional organizations. After Mr. Hoffmann's presentation, I would propose that one of the Japanese delegation comment upon any official or unofficial Japanese position with regard to an international arrangement; and that we thereafter call upon the Committee membership, at large, to discuss proposals for international arrangements and the pros and cons of adherence to such an arrangement by our respective countries. I would anticipate that the morning session would be devoted to this subject.

Tentatively, we will plan to have Mr. Akaoka or another member of the Japanese delegation lead off in the discussions relevant to Subject Number 2 (I say tentatively, because Mr. Akaoka has already left his office on a business trip to Europe, on his way to the PIPA meeting, and will not receive his copy of this proposal until he arrives in Washington on the afternoon of May 3). I foresee this part of our discussions as involving an exchange of views as to problems which each of us has had with his own trademark system as well as with that of the other country, with a view to hopefully coming up with suggestions for alleviation of such problems.

I have already sent to each of you a copy of the report of the meeting of the American Group of Committee #2 which was held on January 21, 1971. I am enclosing copies of papers sent to me by Mr. Akaoka following a meeting of the Japanese Group.

Since these papers from Mr. Akaoka, together with the report of the American Group meeting on January 21, will form the basis for our discussions, I ask that each of you bring these papers with you to the joint sessions.

I am also enclosing a copy of a self-explanatory letter (with enclosures) which I received from Mr. Donald W. Peterson, Trademark Counsel for Monsanto, which suggests a subject which we might wish to consider in some depth at the forthcoming meeting.

I sincerely hope that it will be possible for each of you to attend the forthcoming PIPA International Congress, and especially

the joint meetings of Committee #2. I am sending herewith to each Committee member a self-addressed card which I urge you to return to me promptly advising me whether or not you plan to attend our Committee meetings.

Incidentally, it will certainly be appropriate for any member of the Committee to bring up for discussion any other matters or problems he may deem appropriate--it is certainly not intended to foreclose consideration of matters other than those related to the two specific subjects above identified.

I hope to see each of you in Washington.

Sincerely,

Clarence R. Patty, Jr.
USA Chairman, Committee #2

CRP:LC
Enclosures

Monsanto Company
800 N. Lindbergh Boulevard
St. Louis, Missouri 63166
Phone: (314) 694-1000

March 29, 1971

Mr. Clarence R. Patty, Jr.
Corning Glass Works
Corning, New York 14830

Dear Mr. Patty:

John Clark asked that I write you concerning a matter which should be a timely topic for review by your PIPA committee on Harmonization of Trademark Law and Practice. No doubt you have seen the recent article in the Trademark Reporter (pages 530 - 532 enclosed) which illustrates the problem facing every American company with important product trademark registrations in Japan.

For your further information, I have enclosed a copy of an excerpt from a letter from our Managing Director of Monsanto Japan Ltd., an American who is fluent in the Japanese language. You will note that he attempts to explain how the Japanese examiner renders judgments on English word distinctions. The above-mentioned article came to his attention in connection with his activities as a member of the American Chamber of Commerce Committee on Licensing, Patents and Trademarks.

I, for one, would like to hear the views of the Japanese members of your committee with respect to this topic.

If I can be of any further assistance with respect to this matter, please let me know.

Very truly yours,

Donald W. Peterson
Trademark Counsel

DWP:plk

cc: Mr. John B. Clark

2 A

RECEIVED
PATENT DEPARTMENT

JAPAN

Confusing Similarity

Trademark owners are often confused by the rules of comparison used by Japanese Examiners in determining the issue of confusing similarity. The following list is given in the hope that the study of precedents will provide some insights. In each of these cases the following factors are applicable:

(1) the same classes were involved and the goods were the same or almost the same;

(2) the opposer was an American;

(3) the applicant was Japanese; and

(4) the marks were held NOT to be confusingly similar.

Registered Opposition Mark	*Opposed Mark*	*Application No.*	*Application Date*
CAPROLAN	CORPILON	15823/55	[illegible]
CLORETS	CLOR-AID	19026/52	July 31, 1952
CALCO	CALCORA	4977/50	March 9, 1950
ESTROGEN	ESTIROGEN	21422/53	August 15, 1953
ACHROMYCIN	ORCHIMYCIN	22945/55	August 29, 1955
AUREOMYCIN	EUROMYCIN	30272/55	November 8, 1955
VI-FERRIN	VIFRON	22652/56	July 20, 1956
AUREOMYCIN	AUREO LOTION	[illegible]	[illegible]
MALATHION	MALACIDE	13499/60	March 31, 1960
LEDER	LEDIRIN	14079/61	May 12, 1961
CLESLAN	LESLAN	40512/62	December 6, 1962
CLESLAN	CRISLON	31520/64	July 7, 1964
CRESLAN	CRYSLON	55457/64	December 2, 1964
ACETEST	FASTEST	24520/54	October 8, 1954
ASPIN	TAKAASTIN	25671/58	September 6, 1958
CLINISTIX	CLINIZYME	38704/62	November 27, 1962
AMP	AMPET	26041/60	June 17, 1960
ATLANTIC	NORTH ATLANTIC REFINING	37412/59	December 22, 1959
EVERGLAZE	EVERIZE	15532/52	June 16, 1952
EVERGLAZE	PERMAPAST	24730/52	September 19, 1952
BAN-LON	LANLON	31077/57	December 12, 1957
BAN-LON	LON LON	6326/63	February 19, 1963
LIFE SAVERS	LIFE	[illegible]	March 14, 1956
KLIM	KILMAX	[illegible]	October 5, 1955
KLIM	KIN	[illegible]	April 30, 1957
POLYCO	POLICOL	37120/59	October 14, 1960
BIOLAC	BIOLACTIS	27010/59	June 22, 1960
KANTREX	KANTERES	18191/59	April 25, 1959
UROPOL	UROKOPOL	37706/58	December 20, 1958
CALOL	CALSO	23427/54	November 22, 1954
ALCOR	ALCO on A	35566/56	August 19, 1962
CHEMSTRAND	KEMSRAN	33454/57	November 21, 1957
ACRILAN	KRILAN	[illegible]	November 12, 1958
ACRILAN	ACRYLON	32217/59	August 16, 1960
CLAIROL	CLAIR	17248/59	June 12, 1959

Registered Opposition Mark	Opposed Mark	Application No.	Application Date
CLAIROL	HAIROL	20496/59	September 21, 1959
ARROW	ARROWTEX	7412/57	March 12, 1957
ARROW	ARROWLION	15468/63	April 22, 1959
ARROW	KINGARROW	28191/60	June 6, 1960
ARROW	RABBITARROW	31611/60	August 1, 1960
ARROW	ASAHIARROW	30604/60	July 25, 1960
ARROW	ARROWBEAR	13899/61	June 20, 1961
VENTORIZED	KINGRIZED	18064/62	June 15, 1962
PYREX	PHIREX	26926/58	September 19, 1958
SONOLA	SONOLA	26735/60	June 15, 1960
ARGO	ARGOLD	5458/65	February 10, 1965
BABY RUTH	BABYRICH	33775/64	August 12, 1964
MILIUM	MILKUN	31235/65	July 2, 1965
EATON	EATONIA	6836/64	February 18, 1964
EX-LAX	EXLAN	27736/59	September 15, 1959
WOODHUE	WOODSON	11056/55	April 25, 1955
FoMoCo	FAMCO	28752/59	September 23, 1959
AUTO-LITE	AUTOLINE	30062/60	July 22, 1960
ANTARA	SANTAR	21815/55	August 8, 1955
ANTARA	AMITAR	21816/55	August 8, 1955
ANTARA	ANTARK	14602/56	May 4, 1956
JELL-O	GELJO	3169/55	February 9, 1955
JELL-O	JELLOX	30754/59	October 20, 1959
SANKA	SANKI	33846/60	November 1, 1960
JELL-O	JELLIN	30327/62	September 20, 1962
GF Seal	GFC	52180/63	December 2, 1963
SANKA	AI NO SANKA	18970/64	April 28, 1964
AC	ACS	26778/53	October 12, 1953
AC	ACK	542/54	January 13, 1954
PROM	PROMENADE	33880/53	December 25, 1953
PROM	PROME	13204/59	May 6, 1959
THREE FLOWERS	THREE ROSES	23283/57	August 15, 1957
PLAYTEX	BLEATEX	505/57	January 11, 1957
LIVING	LIVING USE	24286/61	August 10, 1961
LIVING	LIVIN	25361/62	August 15, 1962
PLAYTEX	PLAYTIME	26142/62	August 21, 1962
PLAYTEX	PYTEX	44360/60	December 21, 1960
LIVING	LAVING	44468/63	October 16, 1963
PLAYTEX	PANTEX	11134/64	March 17, 1964
LIVING	EASYLIVING	33101/64	August 15, 1964
SUPP-HOSE	SUPP-FIT	26835/64	June 11, 1964
KENTILE	KENTEI	13814/53	May 28, 1953
SAABA	SAABAN	29707/59	October 6, 1959
SAABA	SABANNA	35252/59	December 6, 1959
DARLENE	SHINE DARLENE	18806/64	April 27, 1964
CORTONE	CORTALON	6930/55	March 16, 1955
CORTONE	CORTINE	34388/58	November 29, 1958
BENTYL	BENTELON	19594/56	August 8, 1956
ACRILAN	ACRYLEX	10737/65	March 9, 1965
NCR	JCR	18459/62	June 19, 1962
FURACIN	FURASERIN	6810/62	March 13, 1962
PFIZER	PYZID	18714/54	July 30 1954
TETRACYN	TETRACLIN	19030/54	May 15, 1954
MEGAMYCIN	MEGAMON	35611/56	November 30, 1956
CYCLOZID	CYLOCIDE	3491/57	February 8, 1957
PERMAPEN	PERMACHEM	3413/57	February 8, 1957
TETRACYN	TETRACYDE	38480/64	August 17, 1964
DURACRON	DURACON	17472/62	June 9, 1962

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Registered Opposition Mark	Opposed Mark	Application No.	Application Date
POLAROID	POLAREX	24217/59	August 8, 1959
DCA	DCC	3814/54	February 15, 1954
DCA	ACA	33802/60	August 30, 1960
REXALL	REXALITE	30778/56	October 12, 1956
KELTHANE	KELDAN	3263/63	March 6, 1963
TRITON	TITON'S	48881/62	December 21, 1962
RONSONOL	RESINOL	23851/56	August 1, 1956
ESTINYL	ESTEN	7250/63	March 15, 1963
TRILAFON	TRILAMIN	8751/58	March 31, 1958
METICORTEN	METICODE	164/60	January 5, 1960
DIAPARENE	DIAPYRIN	9104/59	March 26, 1959
LIFE	MYCAR LIFE	19239/63	May 13, 1963
LIFE	DENKA LIFE	54011/63	December 12, 1963
PERITRATE	PARATATE	17097/56	May 30, 1956
ANUSOL	ONESUL	35877/56	December 7, 1956
TRANCOPAL	TRANCOLON	7087/64	February 20, 1964
TRANCOPAL	TOCOPAL	10339/64	March 11, 1964
WONDER	WONDER BON	18037/65	1965
WONDER	WONDER THREE	22283/65	1965
ARROW	DIAARROW	44750/63	1963

In each of the following cases the opposition by an American company was dismissed on the ground that the goods involved were different and that use of the junior mark in relation to such goods would not be likely to lead to public deception or confusion.

Registered Opposition Mark and Goods	Opposed Mark and Goods	Application No.	Application Date
WONDER bread	WONDER THREE flour	31915/63	May 8, 1963
KITCHENAID electrical household appliances	KITCHENAID rubber scrapers	25655/52	October 9, 1952
THREE FLOWERS perfumery and cosmetics	THREE FLOWERS soap	37695/58	December 29, 1958
THREE FLOWERS perfumery and cosmetics	THREE FLOWERS cleaning materials	630/59	January 10, 1959
SUPERMAN printed publications	SUPERMAN clothing	33042/56	November 5, 1956
SUPERMAN toys and printed publications	SUPERMAN cutlery	15665/59	May 5, 1959
RONSON cigarette and cigar lighters and fuel	RONSAN chemicals	11534/57	April 20, 1957
OROTAN chemicals	OROTAN pharmaceuticals	3543/59	February 7, 1959
TALON zippers	TALON clothing	31006/59	October 20, 1959

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P.S

Some explanation of the Japanese examiner's problems in making judgements on English word distinctions is probably in order so you can understand the situation a little better.

The Japanese written language is complex, using over 5,000 "Kanji" or Chinese ideographs (Kanji literally means "China letter"). These form precise meaning distinctions. Anywhere from 10 to 100 Kanji have the same pronunciation (or nearly the same when reproduced via phonetic spelling), so the spoken word or its phonetically written equivalent does not provide the fine distinctions that our English vocabulary does, where some 50,000 words out of perhaps 100,000 in the dictionary are in use.

In addition to Kanji, the Japanese also write in two phonetic alphabets (really syllabaries), "hiragana" and "katakana", the latter one being used for words of foreign origin. The 44 in Katakana are syllables, not vowels and consonants independently. These are not too many pleasing short words of trademark nature that can be made from combinations of 44. On the other hand, English with 22 consonants and 5 vowels (plus long and short vowels, double vowels, diphthongs, double consonants) can make literally tens of thousands of distinct trademarks. Additionally, there are no alphabetical distinctions in Katakana between "r" and "l", between "f" and "h", between "b" and "v", "d" and "t", etc. Many of our consonants have no pronounced equivalent here.

Acrilan becomes ah-ku-ri-rahn (with no accent) by transliterating into Katakana. Since the syllabary distinctions are few, Japanese would conclude dropping or substituting any of these syllables is a major and novel distinction. They would not imagine that "a Krilan sweater" could be confused with "Acrylan sweater" because there are no articles in Japanese grammar. They would transliterate Acrylon as "ah-ku-rah-e-ro-nu" or "ah-ku-ri-ro-nu" (depending on assumed pronunciation) both containing more syllables and different than Acrilan.

This may be confusing, but the key factor is that application of Japanese syllabary transliteration thinking, with little knowledge of English or English

usage leads to very peculiar reasoning by our standards of logic.

In summary, Japanese rely more on designs, ideographs or Kanji for trademark distinction. A Japanese examiner, not being an English linguist, applies his own syllabary thinking and logic to English words.

Committee #2 TM(A)-3
Discussion on International Trademark Treaty

Discussion. In the realm of international trademark treaties and laws, center stage has been held for the past two years, and probably will be held for a number of years in the immediate future, by the prospects of revision of the Madrid Arrangement for the International Registration of Trademarks, or in the alternative the creation of a new Treaty for the same purpose.

The Madrid Arrangement, to which the United States is not a party, comprises twenty-one countries, mostly Western European. It enables nationals of member countries to file, but only on the basis of a registration in their country of origin, an international registration with the International Bureau (heretofore BIRPI, now WIPO) in Geneva. This is forwarded to the Patent Offices of member countries, which treat the international registration as a national application, and may within twelve months reject the same for reasons virtually identical to those permissible under national law. The system, despite its name, is therefore one for national filings through an international [illegible], rather than a true international registration. The international registration remains, for five years, dependent upon the home registration, so that it fails everywhere if cancelled in the home country; this legal device is commonly called "central attack".

The requirement of dependence upon a home registration results in great inequality in ability to obtain an international registration, since this corresponds directly to the differences in national requirements for registration of a trademark. Our own requirements being at present much stiffer, in most respects, than those of present members of the Arrangement, the position of American nationals in the event of our adherence to the present text would be substantially inferior to that of nationals of other members. Professional Associations and other private circles in this country have, therefore, consistently opposed the rule of dependence, and largely for this reason the Section resolved in 1967 to oppose United States adherence to the present text of the Madrid Arrangement. This Section has further already gone on record on this point in connection with the International Convention of Union of Paris, to which we are a party. In 1953, we passed a Resolution the first part of which is as follows:

> "the Section approves in principle the....proposition....that no trademark filed by a person of a member country of the International Convention for the Protection of Industrial Property in another member country shall be refused or invalidated for the sole reason that the same trademark has not been previously filed or registered in the country of origin".

In 1954, this Resolution was in turn adopted by the House of Delegates, and represents the position of the American Bar Association. The Resolution which your Committee now proposes extends to the area of the international registration of trademarks the position which we have already endorsed in regard to national applications under the Paris Convention (and which position, it may be noted, was adopted at the 1958 Lisbon Revision of the Paris Union).

Study by WIPO of a revision of the Madrid Arrangement began in earnest in October 1969, when WIPO issued a lengthy and thorough study to serve as the basis for a first Conference of Government Experts scheduled for Geneva in April 1970. This study proposed twelve general areas in which revisions of the Madrid Arrangement might be considered, and supplied alternative solutions

to each of the questions, examining the advantages and disadvantages of each solution. These areas were reported upon in detail in this committee's 1970 report ("1970 Committee Reports", page 105), and are not repeated here.

The Conference of Government Experts convened in Geneva on April 13, 1970. A number of the major countries were invited, both members and non-members of the Madrid Arrangement. The United States delegation was headed by Commissioner W. E. Schuyler.

On the question of dependence on, as against independence from, basic home registrations, a distinction was made between dependence prior to filing as a condition precedent thereto, and dependence subsequent to filing as a condition to the maintenance of the registration.

All delegations excepting those of the United States and Germany supported continued dependence. As to dependence as a condition precedent, there was a widespread feeling that this was one of the original and essential elements of the entire system of the Madrid Arrangement, although few concrete reasons were advanced for its continued existence. One was the need for a preliminary "screening", and the German delegation suggested that national Patent Offices could do this without dependence. As to dependence as a condition subsequent for the maintenance of an international registration, there was a willingness to reduce the five-year term, but not to eliminate dependence completely. Here, one concrete reason advanced was the need for preserving a central attack mechanism.

In the end, the Experts decided, despite the preponderance of opinion in favor of dependence, not to take a definite stand yet, but to ask WIPO to continue its study.

It will be difficult for the United States to adhere to the Madrid Arrangement unless this country is able to persuade the present members of the Arrangement to change views insofar as concerns dependence as a condition precedent to the international filing. As to dependence as a condition subsequent to maintenance we could perhaps compromise on this, if some way can be found to establish dependence after registration without requiring it before. There appears to be some difference of opinion in the United States as to the merits of the one reason for retaining post-registration dependence: the possibility of central attack. Some think it a useful device. Others think that Americans, as prospective owners of a large number of international registrations if the United States should adhere, might suffer more than gain from this device.

On the questions of territorial limitation, and supplementary fees, the Experts were in accord with the United States position. These questions turn largely on the view held by many that the present Madrid Arrangement encourages an unnecessary proliferation of trademarks which clutters Registers with unused trademarks and unneeded protection. Additional fees per country and per class might deter somewhat this proliferation. A second argument for such fees is that they would help defray the higher costs of examining national offices, such as those of the United States and the United Kingdom, were these countries to adhere.

Concerning the twelve-month time limit for refusing protection, and the proposed lengthening of the term to eighteen months, as suggested by the United States delegation to alleviate the special problems of countries which both practice ex-officio examination, and provide for publication for opposition purposes after examination, there was general reluctance to agree to such an extension. It was pointed out that even eighteen months could not guarantee that applications would be published for opposition purposes; indeed, no specific time term can guarantee this. We may have to change our practice, if we adhere to the Madrid Arrangement, to provide for publication for opposition purposes within twelve months, and prior to completion of the official examination.

As to the term of registration, there was near-unanimity that this should be reduced to ten years.

There was also a great majority against providing for the recordal of licenses with BIRPI.

Concerning distribution of fees, again a great majority of the Experts agreed that member countries should be divided into four categories, according to the degree of their examination, and receive commensurate fees.

On working languages, there was unanimity that English should be added, at least if and when English-speaking or English-preferring nations were to adhere.

With regard to WIPO conducting searches for anticipation, there was much disagreement. It was decided, however, that computer technology offered certain possibilities which WIPO ought to explore further.

At the end of the Experts' Conference, it was the opinion within the United States delegation that many of the issues posed by WIPO had been left unanswered because of their relationship to the unresolved issue of dependence versus independence from the home registration; and other issues had been explored in insufficient depth.

Accordingly, Commissioner Schuyler made a statement to the Experts at the closing session to the effect that the issues defined by WIPO had raised great interest in the United States, and seemed to form the necessary study basis for a universally-acceptable system for the international registration of trademarks; Mr. Schuyler therefore felt that these issues would be of interest also to a larger number of countries, and indicated the likelihood that the United States would place BIRPI's alternatives before the Executive Committee of the 79-member Paris Convention. The implication was that such a larger assembly could study WIPO's alternatives either as a basis for the revision of the Madrid Arrangement or for a new system for the international registration of trademarks.

At the September 1970 meeting of the Executive Committee of the Paris Union, Commissioner Schuyler did in fact present BIRPI's alternative for consideration by the entire membership of the Paris Union. The reaction was generally favorable, and the representatives of most countries supported continuing study of the issues defined in the WIPO documents as a basis either for revision of the Madrid Arrangement, or for a new agreement for the international registration of trademarks.

2B

The officials of WIPO thereafter held informal discussions with government officials and private circles in a number of countries.

As a result of these discussions, WIPO sponsored a new round of conferences in Geneva during the week of February 15, 1971. These conferences included both representatives of private associations (including American groups such as the American Bar Association) and Government consultants from a number of invited countries. Once again, the American delegation to the Government Consultants Conference was headed by Commissioner Schuyler.

In preparation for this series of conferences, WIPO issued in December 1970 a document (IRA/GC/1) setting forth for the first time BIRPI's concrete proposals as to substantive changes in the existing system. This document was remarkable in two respects:

a) it was presented, without favoring either alternative, as a basis either for a revision to the Madrid Arrangement, or for a new treaty for the international registration of trademarks. Although it makes little difference to the United States whether the final result, if acceptable in substance, is labelled a revision of the Madrid Arrangement or a new agreement, there is a substantial difference in the procedures involved and thus in the likelihood of our obtaining a substantively acceptable text. In a revision of the Madrid Arrangement, only the present member countries are entitled to vote, and the vote must be unanimous. In a new agreement, the United States would be entitled to participate on an equal footing with any other country in attendance, and (judging from the ground rules adopted by recent diplomatic conferences) a two-thirds majority would be sufficient for the adoption of a text.

b) It contained a number of radical features, particularly in the light of the positions taken by the representatives of most Madrid Arrangement member-countries at the April 1970 Government Experts' Conference:

I) there would be complete independence from a home registration, as a condition precedent to the international registrations;

II) filings for international registrations could be effected directly with WIPO, and the possibility was raised that such filings could include the applicants' home country;

III) each country and class desired to be covered would have to be named, and a corresponding fee paid;

IV) WIPO would have the right to reject international registrations on certain purely formal grounds;

V) alternative proposals were made for no "central attack", or for a very limited "central attack" as outlined below;

VI) the term of the international registration would be reduced to ten years;

VII) finally, and most drastic for us, all national user requirements would be suspended for the first five years of an

III) There was also general agreement that each country and class desired to be covered should be designated separately, and a fee paid for the same.

IV) There was equally agreement in principle that WIPO should be able to reject, in the event of direct filing, applications for international registrations defective on formal grounds. There was, however, a good deal of discussion indicating that much hard work remains to be done in defining precisely the formal grounds upon which WIPO might reject.

V) For the reasons indicated above, "central attack" is now the focus of discussion and disagreement.

The thinking of American practitioners on this point has heretofore been conditioned by our experience as (a) outsiders to a Treaty which (b) permitted the swift and easy registration of trademarks among member countries (c) many of which had little or no examination, and no user requirements. In this experience, we have repeatedly found American trademarks blocked by swarms of unused trademarks which had been registered internationally as reserve marks or defensive marks. Nor was this unwarranted proliferation of trademarks offset by any advantage to our own nationals, since we ourselves could not profit from the mechanism of the Madrid Arrangement.

In this context, most of us have in the past favored the possibility of central attack, as the one practical means whereby an interfering international registration could, occasionally, be eliminated. It may be time, however, to rethink the issue in terms of the characteristics of the type of Treaty to which we are likely to adhere in the future, rather than those of the existing Madrid Arrangement. In the emerging new text, coverage would neither be as automatic nor as inexpensive as at present, since every country and every class would have to be designated separately, and paid for separately. Quite probably, most member countries would have examination procedures, and user requirements, partly by virtue of the fact that a number of present Madrid Arrangement members have, over the years, amended their domestic legislation to provide for both; and partly by virtue of the possible adherence of many common law and other countries already having both. Our own citizens, as nationals of a member-country, might be on the receiving end of a central attack even more frequently than on the firing end. On the theoretical plane, there would seem to be little to justify the sweeping destruction of a trademark in scores of countries, in a system where the mark had been separately paid for in each country, and separately examined. On the practical plane, Americans as participants in the new Treaty might have more to lose than to gain through central attack.

In view, however, of the great insistence by spokesmen for some countries on provision for a central attack system as a condition to their agreement to eliminate the dependence requirement, it may well eventually be that we shall have to accept central attack as the price for the abolition of dependence. If so, most of us would probably agree to pay that price; but in that event, we had better exert all of our efforts to devise a sensible and practical central attack system.

The central attack system proposed by WIPO has large defects. It is limited to conflicts between trademarks internationally registered, and thus eliminates as

international registration. This would mean that international registrants could get on the United States Register without alleging use anywhere in the world. WIPO proposed that nationals of receiving countries may, at that country's option, remain subject to its user requirements. If we wished, however, to avoid discrimination to our own nationals in such a system, we would have to surrender the requirement of use, not merely as a condition to filing, but even as a condition to registration. This raises both a constitutional question, and a policy question.

These February 1971 conferences were informal in structure. No resolutions were proposed or passed, and the basic purpose was to exchange views so as to enable WIPO to gather a general feel of the consensus of opinion.

The general impression was that there had been much change in the attitudes of representatives, official and private, of foreign countries, and particularly of present members of the Madrid Arrangement, since the April 1970 Government Experts' Conference. This year, most participants were prepared to accept most of our proposals, although the quality of acceptance varied greatly. Some participants actively supported and favored our proposals; others were willing to accept them, although without enthusiasm; and still others accepted them only subject to serious conditions and reservations. There were almost no unconditional "hard-line" rejections of our most important claims. This latest series of conferences therefore seems to represent an important step forward in the formulation of an international system for the international registration of trademarks acceptable to the United States, to many other countries not presently party to the Madrid Arrangement, and to many if not all countries party to the Madrid Arrangement. Such a system may be within reach in the next few years, although it is too early to prophesy whether it will be a Revision of the Madrid Arrangement, or an entirely new Treaty.

With regard to the various points of the WIPO position paper under discussion (IRM/GC/1) the consensus of the discussion seemed to be as follows:

I) No one any longer supported the rule of dependence for its own sake. However, the representatives of several countries (particularly France, Switzerland and the Netherlands) expressed their great interest in, indeed their insistence upon, a mechanism for "central attack". Spokesmen of countries that deemed central attack to be essential were willing to accept independence from a home registration only if some system other than one based on dependence could be devised for an effective central attack; if not, they would favor retaining dependence in order to insure the possibility of a central attack.

In view of the unanimous position taken by all American participants that dependence as a condition to an international registration must be eliminated from the standpoint of American interests, the question of central attack must now come to the fore in our discussions, in which regard please see (V) below.

II) There was general agreement that, in the event of independence, filings for international registrations could be effected directly with WIPO, and that such filings could include the applicants' home country.

grounds for central attack several important possibilities (fraud; non-use; lack of qualification on the part of the international registrants; flaws in inherent registrability). It is further limited in its effects, to those countries where the conflict between the two marks exists and therefore might produce results in relatively few countries. The matter of the choice of forum for the central attack is complicated and unsatisfactory: the forum would be preferably the registrants' home country; if the international registration did not extend to that country, then the plaintiffs' home country; and if the international registration under attack did not extend to that country either, then any other country where the two marks coexisted (which might lead to some "forum-shopping"). Finally, central attack would be possible only within the first two years from the date of an international registration. The entire WIPO proposal is, in fact, so restricted and ineffectual a system of central attack that those who oppose the notion of central attack might well be able to accept it as having minimal practical consequences.

On the other hand, it is easier to criticize than to propose constructive alternatives. It is quite possible that we shall find that no sensible system of central attack can be erected without the principle of dependence. If that should turn out to be the case, and a number of present Madrid Arrangement members insisted on retaining dependence, we in the United States would have a decision to make in regard to the creation of a separate Treaty.

VI) There was virtually no disagreement among the conferees that the term of registration should be reduced to 10 years.

VII) The issue of user requirements within the first five years of a registration is also one to which it will be necessary to give the most careful and thorough thought. We would have to grant registration to unused trademarks, and provide that substantive legal rights would flow from such registrations (whether precisely to the same extent as for used trademarks may be debatable, but the writer believes this to be WIPO's intent). The proposal would also probably require us to surrender, during the first five years, our "abandonment" rule, to the extent that two years' non-use within that term could no longer constitute a rebuttable presumption of abandonment.

The foreign participants in the February 1971 Geneva Conference did not find any objection to WIPO's proposal, and understandably enough: none of their countries requires use as a condition precedent to registration, and most of those having user requirements have adopted five years as a reasonable term. The British, presumably, were mollified by the fact that WIPO's proposal includes a requirement that international registrants state their intention to use in a particular country when designating it as one of the countries to be covered.

For the American participants, both Governmental and private, WIPO's proposal had to be recognized as one that would deeply affect the legal philosophy underlying the concept of American trademark law---indeed, the very definition of a trademark. However, the practical consequences, although considerable, might not be as great as the theoretical effect.

Although WIPO's proposal, made only in December 1970, was a completely new one and there had been no opportunity for interested American circles collectively to digest the same, it was remarkable to note that nearly all American partici-

parts in the February 1971 Geneva conferences came individually to the same conclusion: namely, that the WIPO proposal inherently had merit, and that we should attempt to promote its discussion among our own professional associations and, if possible, persuade them to support it in its broad outline.

The support of American participants was not unanimous, nor was it unqualified. Most thought that the five-year term of suspension of use requirements was too long, and that two or three years from the date of the international registration was sufficient. Some of us also made proposals that would restrict the rights deriving from the registration of unused trademarks as against used trademarks; for example, that no infringement action might be instituted while a mark was still unused.

The present intention is that WIPO, on the basis of the observations made at the conferences in Geneva in the week of February 15, 1971, shall prepare the first formal draft of a new text, and distribute it some time during April. After opportunity for consideration by Government officials of various countries, and private associations, a second conference of Government Experts will convene in Geneva in October 1971.

#2 Committee

TM-(U.S).1

MEETING REPORT
PIPA Committee #2 - Trademarks

The meeting of PIPA Committee #2, which was held at 10:00 a.m., January 21, 1971, was attended by the following:

Clarence R. Patty, Jr.	- Corning Glass Works (Chairman)
J. Raymond Curtin	- Carrier Corporation
Franklin G. Davis	- Thiokol Chemical Corporation
Paul Hoffmann	- General Electric Company
Cornelius P. Quinn	- Johns-Manville Corporation

The first order of business was to discuss the matters raised in Mr. Akaoka's letter to me of November 17, 1970, a copy of which had been sent to each member of Committee #2 in advance of the meeting. There being general agreement to the desirability of considering the several topics set forth in Mr. Akaoka's letter, we proceeded to discuss them in the order in which they appear in his letter. I should say that our discussions were limited to attempted recognition of differences between United States and Japanese trademark statutes and practices and the extent, if any, to which those differences might create significant problems. In other words, we did very little by way of suggesting solutions to problems.

On the topic of Definition of Use, we noted that whereas the Japanese statute apparently recognizes display of trademarks in advertisements, price lists, or business papers as "use" of a trademark; "use in commerce" in the United States requires that the trademark must be "placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto."

On the question of "use as a requisite of registration", it was noted that whereas proof of actual "use in commerce" is a prerequisite to registration in the United States (except registrations based upon corresponding foreign applications, filed under the Paris Convention) there appears to be no requirement of use as a prerequisite to application or registration in Japan.

On the question of "right or benefits resulting from the use before registration", the most obvious right or benefit in the United States is that use before registration gives the user at least a prima facie right to seek registration. Additionally, the "common law" rights associated with actual use of a mark

gives an actual user the right to oppose registration or actual use by any other party in connection with goods of the same or similar type. No one on our Committee knew very much about Japanese law in regard to this matter, although we thought that Paragraph 10 of ARTICLE IV of the Japanese Trademark Law might be interpreted as giving one whose mark has become "well known" in Japan through actual use (even though not registered) at least some degree of protection against the registration of his mark by another party. Otherwise, it would appear that use before registration confers no right or benefit in Japan.

Our Committee was not clear as to the distinction intended between the topic referred to as "figurative scope of a mark which may be construed as the rightful use of a mark and the effect of use of a mark outside such scope" and "use of a mark for goods which are not identical but similar to those covered by the registration." Assuming, as we did, that the former topic is concerned with likelihood of confusion between similar (but not identical) marks used in connection with goods of the same description, and that the latter is concerned with likelihood of confusion between goods of somewhat different (but related) description but bearing identical marks, we doubted that very much could be gained from a study of treatment of these problems in Japan as compared to treatment of the same problems in the United States. Our reasoning is that the test for "likelihood of confusion" is so subjective that each case must be decided on the merits of the particular facts surrounding it; so that it would be optimistic to think that we might ever achieve a "standard" in either country, much less a "standard" which might be applicable to both.

As to "use of the transliteration or translation of foreign marks", several members of the Committee noted that their respective companies followed the practice of seeking registration of transliterations and/or translations of their marks, as well as registrations of the "English" form in which actually used. There was no clear consensus as to whether this practice is necessary, or even desirable.

On the question of "effect of non-use for a certain period of time", it was noted that in the United States, failure to file an affidavit of use (or justification of non-use) after the fifth year but before the end of the sixth year after registration will lead to cancellation of the registration; and furthermore, non-use for two consecutive years shall be prima facie

abandonment. So far as our Committee is aware, the fact of non-use has no bearing upon the right to maintain and renew trademark registrations in Japan.

On the question "who may apply a mark as rightful user thereof and who may be such as an infringer", it was the consensus of our Committee that there is a substantial and growing body of law on this subject which would require study and analysis before any meaningful conclusions might be drawn.

The consensus of the Committee was in agreement with the view expressed in Mr. Akaoka's letter that under Japanese practice, similarity between marks seems to be decided essentially on the basis of similarity of sound. While similarity of sound is certainly one criteria considered by the United States Examiners, both appearance and meaning seem to be given more consideration than seems to be the case in Japan.

One point discussed briefly by our Committee which was not mentioned in Mr. Akaoka's letter had to do with the matter of the filing of "consents." It had been his experience that Japanese Examiners gave substantially no "weight" to Statements of Consent in reaching an ultimate decision as to registrability of a mark. That is to say, if the Examiner refuses registration because of what he considers to be "confusing similarity" with a prior registered mark, he will not be persuaded to permit such registration merely because the owner of the prior registration has consented to the subsequent registration. It is suggested that this matter might bear further study by both the Japanese and the American group.

Unfortunately, those in attendance at our Committee meeting lacked sufficient familiarity with the substance or implications of the proposed revision of the Madrid Agreement to be able to make meaningful comments with respect to it. Certainly, this is a matter deserving of further study in order to determine whether there may be basis for a "PIPA Position" with respect to a revised Madrid Agreement or "new" international trademark arrangement.

Respectfully submitted,

Clarence R. Patty, Jr.
U.S.A. Chairman, Committee #2

CRP:LC
February 22, 1971

US-4

#3 Committee

"SOME ASPECTS OF KNOW-HOW LICENSING PRACTICE UNDER THE LAWS OF THE UNITED STATES"

Introduction - Chester A. Williams, Jr. Singer Co.

Chairman
Know-How Subcommittee
of Committee # 3, PIPA

Section I - "Definition of Know-How"

By I. Louis Wolk

Section II - "Legal Nature of Know-How and Know-How Licensing Agreements"

By I. Louis Wolk (Marek)

Section III - "Antitrust Considerations and Know-How Licensing Agreements"

By Chester A. Williams, Jr.

"SOME ASPECTS OF KNOW-HOW LICENSING PRACTICE UNDER THE LAWS OF THE UNITED STATES

INTRODUCTION

The main purpose of this paper is to give the Japanese members of the Pacific Industrial Property Association some general background information concerning a few of the more important aspects of know-how licensing as it is practiced under United States law. This paper is not a legal dissertation in which the fine points of the latest case law will be discussed. Rather, it is intended as a practical and very broad guide on certain points of our know-how law for the Japanese lawyer who is involved in transfers of technology. We also hope it will be a useful beginning point for those who may want to probe more deeply.

This paper has been divided into three main sections. The first section deals with various definitions of know-how. The second part of this paper examines the legal nature of know-how and know-how licensing agreements under American law. In addition, this second section discusses certain very recent case law in the United States which may affect enforcement of know-how rights and agreements significantly now and in the future. The third and final section of this paper deals with antitrust considerations as these apply to the know-how area. Some of the problems to be touched upon in this third section include the applicability of United States antitrust law to foreign commerce and the legality of certain restrictions, such as territorial limitations, in know-how licensing agreements.

Please bear in mind that this paper does not discuss many areas of American law which also affect know-how licensing prac-

tice. Among such areas are tax considerations and governmental regulations relating to the export of technical data. Such matters are extremely important and hopefully will be covered in future materials developed by PIPA. We mention them here only to alert you to their existence and the fact that this paper is not intended as a complete treatment of know-how licensing practice.

This paper was prepared by two authors, each working separately and independently. One person wrote the first two sections and the other, the antitrust topic. The law relating to know-how in the United States is presently in a state of great uncertainty and controversy. Much of the material in this paper relates to many unsettled questions of law. Therefore, the points of view expressed in each section are to be regarded solely as the opinion of the particular author of the section. Also, please remember that the comments of each writer are being presented in his capacity as an individual attorney and not as the viewpoint of the corporation with which he is associated.

We hope this paper will be useful to our Japanese friends regarding American law and practice in the know-how area. Additionally, we hope it will contribute, if only in some small measure, to greater friendship and understanding between Japanese and American lawyers who may sit down hereafter at the bargaining table to negotiate transfers of technology.

DEFINITION OF KNOW-HOW

The term "know-how" is a generic term which includes technical and business information as well as trade secrets. Not all know-how is protectable in the sense that it can be protected sold, or licensed as property. For example, the acquired skill and accumulated experience of a technical employee is of value, but such an employee cannot be deprived of such knowledge to the extent that it is his own and does not involve trade secrets or other information which has become the property of his employer. The areas of this definition beyond that of trade secrets is difficult to define and represents one of the problem areas of the law. As one court has stated -

> "In the law of trade secrets, embracing mechanical en gines, chemical formulae, confidential lists and the like, matters ranging from sugar in tea for sweetening purposes to the most complicated machines will be encountered. Questions as to classification will arise and their solution may not always be free from difficulties. Examples may be more helpful than definition or attempted redefinition."

Most licensing situations involve matters which can properly be classified as trade secrets. The definition of this subject which is most generally followed by the courts in the United States in civil cases is that provided by the Committee on Torts of the American Institute, in Section 757 of Restatement of Torts. Because of the importance of this definition, Section 757 (a) and (b) of the Restatement are set forth below:

RESTATEMENT
OF
TORTS

DIVISION NINE

INTERFERENCE WITH BUSINESS RELATIONS (continued)

PART 1. BY TRADE PRACTICES (continued)

Chapter 36

MISCELLANEOUS TRADE PRACTICES

Section
757. Liability for disclosure or use of another's trade secret—General principle
758. Innocent discovery of secret—Effect of subsequent notice or change of position
759. Procuring information by improper means
760. Misrepresentation in marketing goods of which another is the commercial source—Liability to the other
761. False advertising—Liability to competitor

§ 757. Liability for Disclosure or Use of Another's Trade Secret—General Principle.

One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if

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(a) he discovered the secret by improper means, or

(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or

(d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

Comment:

a. Rationale. The privilege to compete with others (see § 708, vol. III) includes a privilege to adopt their business methods, ideas or processes of manufacture. Were it otherwise, the first person in the field with a new process or idea would have a monopoly which would tend to prevent competition. This privilege has some limitations, however. In the first place, in order to promote the progress of science and the useful arts, patent and copyright laws provide protection to the originator. The patent laws prohibit the witting or unwitting manufacture, sale or use by any person of a device, process or article which infringes a patent granted to another. The copyright laws prohibit the plagiarism of a work copyrighted by another. The protection afforded by both types of legislation is limited to a fixed number of years. Both types of legislation establish a monopoly for the purpose of encouraging invention and

art. In the second place, the law of torts prohibits copying in a manner which creates in the market avoidable confusion of commercial source. The privilege to copy is not a privilege to palm off one's goods as those of another. Thus, when the physical appearance of one's goods has acquired in the market a significance as identifying the goods of which he is the commercial source, another may not copy that appearance if it is non-functional, and if it is functional, he may copy it only upon taking reasonable precaution to avoid confusion (see § 741, vol. III). The rule stated in this Section is a further limitation on the privilege to copy when the thing copied is a trade secret. This limitation is not imposed because of any difference in function or value between trade secrets and other devices or processes. A formula for a medicinal compound or a process of manufacture is equally effective in making its product when the formula or process is generally known as when it is secret. Its original discovery may require equal ingenuity and labor when it must necessarily be disclosed by the product which results from it as when it can be kept secret. Exclusion of others from the privilege of using it will give it the same value to the originator in the one case as in the other. Indeed, a patent monopoly is granted only upon full disclosure of the subject matter of the patent. The significant difference of fact between trade secrets and processes or devices which are not secret is that knowledge of the latter is available to the copier without the use of improper means to procure it, while knowledge of the former is ordinarily available to him only by the use of such means. It is the employment of improper means to procure the trade secret, rather than the

mere copying or use, which is the basis of the liability under the rule stated in this Section.

There is considerable discussion in judicial opinions as to the basis of liability for the disclosure or use of another's trade secrets. Analogy is sometimes found in the law of "literary property," copyright, patents, trade-marks and unfair competition. The suggestion that one has a right to exclude others from the use of his trade secret because he has a right of property in the idea has been frequently advanced and rejected. The theory that has prevailed is that the protection is afforded only by a general duty of good faith and that the liability rests upon breach of this duty; that is, breach of contract, abuse of confidence or impropriety in the method of ascertaining the secret. Apart from breach of contract, abuse of confidence or impropriety in the means of procurement, trade secrets may be copied as freely as devices or processes which are not secret. One who discovers another's trade secret properly, as, for example, by inspection or analysis of the commercial product embodying the secret, or by independent invention, or by gift or purchase from the owner, is free to disclose it or use it in his own business without liability to the owner. As to the liability of one who procures the secret from a third person without notice of any impropriety in the third person's disclosure of it, see § 758. As to the procurement of information other than trade secrets, see § 759. For a definition of trade secrets, see Comment *b*.

The protection afforded by the rule stated in this Section is in some respects greater and in some respects less than that afforded by the patent law. It is greater in that it is not limited to a fixed number of

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years and does not require novelty and invention as in the case of patents (see Comment *b*). It is less in that secrecy of the process and impropriety in the method of procuring the secret are requisite here but not in the case of patents.

b. Definition of trade secret. 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 materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see § 759) in that it is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management.

Secrecy. The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appro-

priated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Novelty and prior art. A trade secret may be a device or process which is patentable; but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make. Novelty and invention are not requisite for a

trade secret as they are for patentability. These requirements are essential to patentability because a patent protects against unlicensed use of the patented device or process even by one who discovers it properly through independent research. The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret. For this limited protection it is not appropriate to require also the kind of novelty and invention which is a requisite of patentability. The nature of the secret is, however, an important factor in determining the kind of relief that is appropriate against one who is subject to liability under the rule stated in this Section. Thus, if the secret consists of a device or process which is a novel invention, one who acquires the secret wrongfully is ordinarily enjoined from further use of it and is required to account for the profits derived from his past use. If, on the other hand, the secret consists of mechanical improvements that a good mechanic can make without resort to the secret, the wrongdoer's liability may be limited to damages, and an injunction against future use of the improvements made with the aid of the secret may be inappropriate.

Information not a trade secret. Although given information is not a trade secret, one who receives the information in a confidential relation or discovers it by improper means may be under some duty not to disclose or use that information. Because of the confidential relation or the impropriety of the means of

discovery, he may be compelled to go to other sources for the information. As stated in Comment *a*, even the rule stated in this Section rests not upon a view of trade secrets as physical objects of property but rather upon abuse of confidence or impropriety in learning the secret. Such abuse or impropriety may exist also where the information is not a trade secret and may be equally a basis for liability. The rules relating to the liability for duties arising from confidential relationships generally are not within the scope of the Restatement of this Subject. As to the use of improper means to acquire information, see § 759.

With respect to definitions of trade secrets under criminal law, these are incorporated in the criminal statutes of many states. The Pennsylvania Statute (Penal Code, Section 899.2) for example reads as follows:

"(3) The term 'trade secret' means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula or improvement which IS OF VALUE AND has been specifically identified by the owner as of a confidential character, and which has not been published or otherwise become a matter of general public knowledge. There shall be a rebuttable presumption that scientific or technical information has not been published or otherwise become a matter of general public knowledge when the owner thereof takes measures to prevent it from becoming available to persons other than those selected by him to have access thereto for limited purposes." (Emphasis added.)

The New York State Statute (Penal Code Sections 1296, 155.30 and 1630.35) is as follows:

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Grand Larceny in Second Degree

"Property of any value consisting of a sample, culture, microorganism. specimen, record, recording, document, drawing or any other article, material, device or substance which constitutes, represents, evidences, reflects, or records a secret scientific or technical process, invention or formula or any phase or part thereof. A process, invention or formula is 'secret' when it is not, and is not intended to be available to anyone other than the owner thereof or selected persons having access thereto for limited purposes with his consent, and when it accords or may accord the owner an advantage over competitors or other persons who do not have knowledge or the benefit thereof."

Grand Larceny in the Third Degree

"The property consists of a sample, culture, microorganism, specimen, record, recording, document, drawing or any other article, material, device or substance which constitutes, represents, evidences, reflects, or records a secret scientific or technical process, invention or formula or any phase or part thereof. A process, invention or formula is 'secret' when it is not, and is not intended to be, available to anyone other than the owner thereof or selected persons having access thereto for limited purposes with his consent, and when it accords or may accord the owner an advantage over competitors or other persons who do not have knowledge or the benefit thereof;"

The Massachusetts Statute is broad in scope and includes trade secrets along with other types of property in the definition of "property" as follows:

"The term 'property' as used in this section shall include money, personal chattels, a bank note, bond promissory note, bill of exchange or other bill, order or certificate, a book of accounts for or concerning money or goods due or to become due or to be delivered, a deed or writing containing a conveyance of land, any valuable contract in force, anything which constitutes, represents, evidences or records a secret scientific, technical, merchandising, production, or management information, design, process, procedure, formula, invention or improvement, a receipt, release or defeasance, a writ, process, certificate of title or duplicate certificate issued under chapter one hundred and eighty-five, a public record, anything which is of the realty or is annexed thereto, and any domesticated animal, other than a dog, or a beast or bird which is ordinarily kept in confinement and is not the subject of larceny at common law." (Emphasis added.)

SECTION II

LEGAL NATURE OF KNOW-HOW AND KNOW-HOW LICENSING AGREEMENTS UNDER AMERICAN LAW

I. THE LEGAL NATURE OF KNOW-HOW

Until quite recently it was well settled in American law that a trade secret or know-how of confidential or secret nature is property and that the possessor has a property right in it. (1) As property, its owner has the right to retain possession, to prevent unauthorized disclosure or use by others, and to transfer possession to others by contract (license) or otherwise. These attributes of property remain as long as the trade secret retains its confidential or secret character. As the Supreme Court has stated -

"The complainant relies upon the ownership of its secret process and its rights are to be determined accordingly. Anyone may use it who fairly, by analysis and experiment, discovers it. But complainant is entitled to be protected against invasion of its rights in the process by fraud or by breach of trust or contract. The secret process may be the subject of confidential communication and/or sale or license." (2)

Professor Stedman in the 1969 Patent Law Annual (3) has described the nature of this property right as follows:

"There is not much to be gained from an extended philosophical discussion of whether trade secret protection is based upon a concept of 'property' or of wrongful conduct. One thing is clear. Overwhelmingly, trade secret cases arise out of some sort of misconduct: theft, bribery, breach of an express or implied contract, violation of a confidence consciously entered into or implicit in a relationship such as that of employee. In marginal cases, liability may be predicated upon knowingly taking advantage of the wrongful acts of others, or occasionally of mistaken or inadvertent disclosure--cases, in other words, where one uses or further discloses the information with full knowledge that it is not publicly available and was not intended to be made available to him.

"In consequence, no protection will be given where the trade secret is the subject of independent discovery or discovery through examination or analysis of publicly available materials or products, where it is acquired through legitimate channels such as disclosure without any express or implied restriction,

where the user or discloser is under no obligation to refrain from use or disclosure as, for instance, where the information is deemed to be part of the acquired general knowledge and skill of an ex-employee. (Emphasis added)"

II. PROTECTION OF KNOWHOW RIGHTS UNDER AMERICAN LAW

(A) By Contract

1. Sale

A trade secret may be sold and if sold may be subject to capital gains tax treatment under regulations of the Internal Revenue Service. Contractual obligations relating thereto are enforceable.(2)

2. Licensing

As a corollary to the right of sale, a trade secret may be licensed, and licensor retains his property right. Reasonable restrictions which protect the trade secret against loss may be enforced.(2)

3. Employer-Employee Agreements

A recent report by the National Industrial Conference Board(4) among 86 large corporations revealed that 83 use an employment agreement to protect invention and trade secret rights.

Despite the widespread use of such agreements with employees there are numerous problems of enforcement and interpretation based, to a large extent, upon the fundamental conflict of interests betweem employer and employee when the employee changes jobs. The courts are faced with the dilemma of protecting the employer's interest without unreasonably depriving the employee of the right to work and to utilize his

own knowledge and skills. The American Chemical Society, in recognition of this problem has issued a booklet directed to both employers and employees in which the problem is reviewed and sound recommendations are made as follows:(5)

RECOMMENDATIONS FOR THE EMPLOYER OF SCIENTISTS AND ENGINEERS

1. Use a written contractual employment agreement in which the employee clearly agrees to make no unauthorized disclosure or use of proprietary information.
2. Consult the employee's previous employer about any job restrictions, particularly if the technology involved is believed to be proprietary or demands skills of a special nature.
3. Ask new employees about any job restrictions or ethical problems connected with their former employers. Remember that a person who shows no qualms about revealing a former employer's trade secrets may do the same with those of his new employer.
4. Educate (and periodically remind) employees on the general aspects and importance of trade secrets and advise them about the legal aspects of any act which constitutes a trade secret misappropriation.
5. Promote effective employer-employee relationships. The contented employee is not likely to look for other jobs or to disclose trade secrets.
6. Develop effective, but not overly restrictive, physical controls for securing vital proprietary information. While security is important, the restriction of a free flow of information could reduce employee morale and retard technological productivity within the company.
7. Limit the accessibility of important trade secrets to individuals on a need-to-know basis and clearly identify trade secrets as such.
8. Don't place an employee on a compromising job which would restrict him from exercising the best of his abilities and which could chance his revealing a former employer's trade secret.
9. Caution employees and academic consultants to exercise due care when discussing company work at such places as technical meetings and otherwise when off the job.
10. Provide for an exit-interview with all departing employees to remind them of trade secret obligations. In appropriate cases, new employers should be informed of the possible legal and ethical conflicts which might arise from a job change.

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against other parties in the absence of contracts, implied contracts or confidential relationships. These have been classified by Milgrim as follows:

1. Against the honest independent discoverer. A trade secret is not protected against one who discovers it independently by fair means as the court stated in Junker v. Plummer(6).

"The owner of a trade secret, in contradistinction to the owner of a patent, has no right in the idea as will enable him to exclude others from using it. Thus if one acquires the secret by honest means he may use it. Relief is granted to protect the secret only where one is attempting to use or disclose it in violation of contract or abuse of confidence."

2. Against an innocent wrongful user--one who in good faith acquires from another source knowledge of a trade secret without breach of contract or of a confidential relationship, has no liability to the owner of a trade secret; however, once such a user receives notice of the trade secret he may be required to cease its use and can be enjoined and held liable for damages. However, the Restatement of Torts protects the innocent purchaser of a trade secret and modifies this general rule--note the following from the Restatement:

"One, who learns of another's trade secret from a third person without notice that it is secret and that the third person's disclosure is a breach of his duty to the other, or who learns the secret through a mistake without notice of the secrecy and the mistake,

"(a) is not liable to the other for a disclosure or use of the secret prior to receipt of such notice, and

"(b) is liable to the other for a disclosure or use of the secret after the receipt of such notice, unless prior thereto he has in good faith paid value for the secret or has so changed his position that to subject him to liability would be inequitable."

3. Against a knowingly wrongful user. One who receives a trade secret with knowledge that a breach of contract or confidence is involved can be enjoined and may be subject to damages. When the wrongful user induced the breach or conspired to misappropriate the secret he may also be subject to criminal sanctions as discussed further below:

III. PROTECTION OF TRADE SECRETS UNDER CRIMINAL LAW

Under Criminal Laws applicable to trade secrets they are treated as property subject to theft. Since most trade secrets are intangible, at least in part, existing theft statutes are some times difficult to apply. Recently many states have enacted more effective legislation but Federal Laws are narrow and often inapplicable.

A. Under Federal Law(7)

"Whoever transports in interstate or Foreign commerce any goods, wares, merchandise, securities or money, of the value of five thousand dollars or more, knowing the same to have been stolen, converted or taken by fraud... shall be fined not more than ten thousand dollars or imprisoned not more than ten years or both."

This act relates to tangible property, and although it has been held to apply to drawings and blueprints where

the value has been established it falls short of the definition established in more effective state legislation.

B. Under State Laws

In the last ten years some twenty states(8) have enacted or amended their criminal statutes to strengthen the laws relating to theft of trade secrets. These statutes generally follow the provisions of the New Jersey Law which was enacted in 1965 and is reproduced as follows:

L. 1965, c. 52
N. J. S. Cum. Supp. 2A:119-5.1 et seq.

TITLE.

AN ACT concerning crimes and supplementing chapter 119 of Title 2A of the New Jersey Statutes.

[Higgins, Woodcock, Gelber, Mallett and Randall]

STATEMENT.

This bill makes clear that trade secrets are property and that stealing articles representing trade secrets (including the trade secrets represented) constitutes a crime.

In 1964, New Jersey industry spent approximately 1½ billion dollars in research, development and discovery resulting in trade secrets in graphic form such as secret processes, formulae, blueprints, maps, drawings and the like. These trade secrets benefit the discoverors by improving their ability to compete, create new jobs for New Jersey workers and create wealth for New Jersey communities through increased commercial activity and increased taxes. Our ability to protect trade secrets is an important element in retaining and attracting industry to New Jersey.

In recent years, trade secrets have increasingly become the subject of theft, both by individuals and groups working inside industry and by conspiracies involving outsiders. Recently the participation of organized crime in these thefts has become alarmingly evident.

In attempting to enforce criminal penalties for these thefts, however, law enforcement officers have been hampered by technical defenses raised by the criminals. For example, the defense is asserted that only an "idea" was stolen, which is not property. Or the criminal asserts that he only photographed or copied the article and, hence, did not "take" or "steal" any "property." Or he might assert that he intended to return the article (although after copying its secret) and that without proof of an intent to permanently deprive the owner of his "property" he was not guilty of a crime.

The foregoing legislation is designed to make it clear that such defenses are not available.

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L. 1965, CHAPTER 52 N.J.S. Cum. Supp. 2:119-5.1 et seq.

Chapter 119. LARCENY AND OTHER STEALINGS.

Section
2A:119-2. Stealing money, chattels and other articles, property and things.
2A:119-5.1. Purpose.
2A:119-5.2. Definitions.
2A:119-5.3. Stealing or embezzling articles representing trade secret.
2A:119-5.4. Taking article representing trade secret by force or violence.
2A:119-5.5. Returning or intention to return article no defense.
2A:119-8.1. Stealing or breaking and entering with intent to steal, narcotic drugs.

2A:119-2. Stealing money, chattels and other articles, property and things. Any person who:

a. Steals any money, goods, chattels or other personal property of another; or

b. Digs, pulls, pulls up, picks, gathers, breaks, rips, cuts, severs, roots up, or otherwise destroys or damages, carries away or unlawfully appropriates, with intent to steal, any real or personal property of another, or any part thereof; or

c. Willfully kills any animal with intent to steal it or any part thereof, the property of another—

Is guilty of a misdemeanor, if the price or value of such property be under $200.00, and if the price or value thereof be $200.00 or over such person is guilty of a high misdemeanor.

Source. L. 1957, c. 56, §1. Approved May 24, 1957, effective immediately.

2A:119-5.1. Purpose. It is the purpose of this act [N. J. S. Cum. Supp. 2A:119-5.1 et seq.] to clarify and restate existing law with respect to crimes involving trade secrets and to make clear that articles representing trade secrets, including the trade secrets represented thereby, constitute goods, chattels, materials and property and can be the subject of criminal acts.

Source. L. 1965, c. 52, §1. Approved May 17, 1965, effective immediately.

2A:119-5.2. Definitions. As used in this act [N. J. S. Cum. Supp. 2A:119-5.1 et seq.]:

(a) The word "article" means any object, material, device or substance or copy thereof, including any writing, record, recording, drawing, sample, specimen, prototype, model, photograph, micro-organism, blueprint or map.

(b) The word "representing" means describing, depicting, containing, constituting, reflecting or recording.

(c) The term "trade secret" means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula or improvement which is secret and of value; and a trade secret shall be presumed to be secret when the owner thereof takes measures to prevent it from becoming available to persons other than those selected by the owner to have access thereto for limited purposes.

(d) The word "copy" means any facsimile, replica, photograph or other reproduction of an article, and any note, drawing or sketch made of or from an article.

Source. L. 1965, c. 52, §2. Approved May 17, 1965, effective immediately.

2A:119-5.3. Stealing or embezzling articles representing trade secret. Any person who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his own use or to the use of another.

(a) steals or embezzles an article representing a trade secret, or,

(b) without authority makes or causes to be made a copy of an article representing a trade secret,

Is guilty of a misdemeanor, if the value of the article stolen, embezzled or copied, including the value of the trade secret represented thereby, is less than $200.00, and of a high misdemeanor if such value is $200.00 or more.

Source. L. 1965, c. 52, §3. Approved May 17, 1965, effective immediately.

2A:119-5.4. Taking article representing trade secret by force or violence. Any person who by force or violence or by putting him in fear takes from the person of another any article representing a trade secret is guilty of a high misdemeanor and shall be punished by a fine of not more than $5,000.00, or by imprisonment for not more than 15 years, or both.

Source. L. 1965, c. 52, §4. Approved May 17, 1965, effective immediately.

2A:119-5.5. Returning or intention to return article no defense. In a prosecution for a violation of this act it shall be no defense that the person so charged returned or intended to return the article so stolen, embezzled or copied.

Source. L. 1965, c. 52, §5. Approved May 17, 1965, effective immediately.

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Under this statute, and generally under other state statutes, to constitute a crime the state must prove that the article embodying the trade secret was taken with the intent to appropriate the secret represented by the article. Thus while the required intent relates to the secret idea, the criminal act must be with relation to a physical object. The statute, therefore, does not make criminal the mere improper use by an ex-employee of skills or even secrets which he learned in his former employment, without some unlawful action taken in connection with appropriation or copying of a physical object incorporating the idea. Thus memorization followed by use, or transmission of the idea orally might not be subject to the New Jersey State and a civil action of the nature of an action for unfair competition or contract violation would have to be relied on.

Other state statutes are somewhat broader, i.e., the Pennsylvania Statute (Penal Code, Section 899.2) makes it a crime to obtain access to a trade secret either lawfully or unlawfully followed by conversion thereof to his own use of the use or disclosure thereof to another person.

With respect to those states which have not specifically

amended their theft statutes to apply to trade secrets, reliance must continue upon general laws relating to grand or petty larceny with attendant difficulties in proving theft of tangible articles having specific intrinsic values as in the case of articles of commerce or other goods.

There is a strong movement under way to enact uniform trade secret theft legislation spearheaded by the American Bar Association's Section on Patents, Trademarks, and Copyrights through its Committee No. 402 which has been studying the drafting of a proposed uniform trade secrets act prepared by a special committee of the National Commissioners on Uniform State Law and has made the following recommendations:

"(1) the property theory of trade secret protection be expanded to make clear that trade secrets can be assigned and licensed, (2) customer lists and information concerning a business not be excluded from the definition of a trade secret, (3) 'readily ascertainable by proper means' be the test for the existence of a trade secret rather than either 'easily discoverable by independent means' or 'common knowledge', (4) the concept of misappropriation of a trade secret be favored over the concept of trade secret infringement, (5) misappropriation of a trade secret be expressly declared to be unlawful, (6) a person who obtains a trade secret from a misappropriator with knowledge of the misappropriation be considered a misappropriator, (7) only a trade secret owner be allowed to recover for misappropriation of a trade secret, (8) injunctive relief for trade secret misappropriation be left to the court's discretion not limited in the statute as to time, (9) a good faith infringer be allowed to continue use of a trade secret only in exceptional cases, (10) both damages and profits be allowed in appropriate cases where there is no overlap and to the extent both are recoverable in unfair competition cases generally, (11) treble damages be awarded only in exceptional cases such as when justice requires additional compensation to the trade secret owner or when exemplary damages would be warranted, (12) a good faith infringer who is allowed to continue to use a trade secret because of good faith material change of position prior to any notice of misappropriation not automatically be liable for a reasonable royalty, (13) the proposed act preempt common-law

tort remedies for trade secret misappropriation in or affecting interstate commerce, and (14) a statute of limitations on liability be included.

"The committee has prepared a revised draft of the proposed Uniform State Trade Secret Act. This revised draft has been furnished to the Special Committee appointed by the National Conference of Commissioners on Uniform State Law, together with the Committee's recommendations. A new draft, substantially incorporating the Committee's recommendations, is expected from the Special Committee this year."

C. Possible Changes in Present Law

A recent decision by the U.S. Supreme Court, Lear v. Adkins(9), contained dissenting language by Justice Black, which appeared to question the legality of licensing knowhow in the absence of patents in the following language:

"One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kind of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State."

This was followed by a decision in the Federal District Court for the Southern District of New York(10) in which Justice Motley stated -

"This court holds that federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel consideration for the use of his idea."

This was based on adoption by the court of the philosophy of the dissent in the Lear Case using the following language:

> "...Our patent policy of strict regulation of inventions would be undercut if inventors could enforce agreements for compensation for alleged secret ideas without being required to submit those ideas to the Patent Office, and, thereby, eventually having the ideas disclosed to the public. Furthermore, patent policy (reaffirmed by the holding in Lear that estoppel will not be a bar to challenging the validity of a patent, Lear at 655-71, 162 USPQ at 2-8) which allows compensation only for ideas which rise to the level of invention would be further undermined by the enforcement of such a contract, since compensation would be awarded for noninventions." (164USPQ596)

These decisions have created uncertainty with respect to the future of trade secret licensing agreements. For the present, the Supreme Court seems to have left it to the State Courts to determine "whether and to what extent the States may protect the owners of unpatented inventions who are willing to disclose their ideas to manufacturers only on a payment of royalties."

However, in the Painton v. Bourns, the lower court has ignored this language of the majority and instead has accepted the language in the dissenting opinion by Justice Black referred to above.

This is not yet the law and this lower court decision may be reversed on appeal. If not, and if the right to sell or license knowhow is rejected, it will be necessary to rely only on patent protection and licensing of patents, at least in the United States. A strong effort is being made to clarify the legal aspects of this situation by means of amendments incorporated in the proposed Patent Reform Act now reintroduced by

Senator McClellan (S. 2754). These amendments are known as the Scott Amendments and would make it clear that the property rights in trade secrets would be independent of the Patent Statutes.

SUMMARY

Legal remedies for violation of trade secret agreements will generally fall into the following categories:

1. Recovery of damages in civil suits
2. Accounting for profits
3. Injunctive relief
4. Criminal penalties

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(6) Junker v. Plummer, 320 Mass 76, 67 NE 2d 667

(7) National Stolen Property Act, 18 U.S.C. Sec. 2314

(8) Arkansas, California, Colorado, Georgia, Illinois, Indiana, Maine, Massachusetts ,Michigan, Minnesota, Nebraska, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Tennessee and Wisconsin.

(9) Lear v. Adkins, 395 U.S. 653, 162 USPQ 1

(10) Painton v. Bourns, 164 USPQ 595

SECTION III

ANTITRUST CONSIDERATIONS AND KNOW-HOW LICENSING

Why, one may ask, do American lawyers place such great emphasis on the antitrust laws of the United States before they are willing to enter any proposed business arrangement, either domestic or foreign. The answer to this question is one of the few easy ones in the antitrust area. It is simply that the consequences of not paying close attention to the antitrust laws of the United States can be so enormous. For example, businesses can be faced with treble damage judgments against them based on antitrust liability for many millions of dollars.[1] Individual corporate officers may have to go to jail[2] and pay heavy fines[3] for antitrust violations. In addition, a business may be compelled to license important industrial property rights which it does not wish to license.[4] These dangers are not limited to American nationals. Foreign businessmen, unaccustomed to the United States antitrust laws, may suddenly find themselves subject to the application of such laws with some of the enormous possible consequences just mentioned.[5] Since these consequences are not remote possibilities to be taken lightly by either American or foreign lawyers, we must now proceed to consider fully and take very seriously the impact of the American antitrust laws upon know-how licensing. We shall, of course, for the purposes of this discussion, assume that contracts relating to know-how are lawful and enforceable in general, despite the possible implications of the Lear[6] and Painton[7] opinions to the contrary.

As a preliminary consideration, one may wonder why there

is so much difficulty with the American antitrust laws if the consequences of violating them are so enormous. Basically, it is because of the generality of the wording of our Federal antitrust laws which we shall see when reviewing the statutes in detail. The sections of these laws are mostly phrased in very broad terms. This, of course, permits the application of the antitrust laws to new and constantly changing situations. However, such a general approach has the great disadvantage of being very unpredictable since the meaning of the law depends to such a large measure on how each court interprets the factual circumstances of each particular case. In addition to their general nature, another reason the American antitrust laws are so uncertain is that, in addition to the courts, these laws are interpreted by several agencies involved in their enforcement, such as the U.S. Department of Justice and the Federal Trade Commission. The approaches of these agencies and the courts are not always in harmony Moreover, governmental policy often changes with differing administrations so that one may consider certain activities as lawful for many years and then suddenly a burst of cases is initiated by the government challenging what had been thought to be settled law on a particular point.[9]

We are in the midst of such a period now in terms of the Department of Justice's intense interest and emphasis upon the interrelationship between the licensing of technology and the American antitrust laws.[10] In January 1970, the Department of Justice announced the formation of a new Patent Unit within the Antitrust Division to coordinate the Department's attack on

violations of the antitrust laws through illegally restrictive practices in licensing agreements.[11] For the past two years, representatives of the Justice Department have made numerous speeches setting forth the viewpoint of the Department on the antitrust laws and indicating which restrictive practices in licensing agreements the Department could be expected to challenge.[12] The fact that the new Patent Unit and these speeches were intended to be taken [illegible] seriously was highlighted when the Department of Justice filed an [illegible] in the U.S. District Court for the Northern District of California on April 22, 1970 against the Westinghouse Electric Corp. and two Japanese codefendants, Mitsubishi Electric Corporation and Mitsubishi Heavy Industries, Ltd.[13] These defendants were accused of violating the American antitrust laws through a series of technical assistance agreements involving exchanges of technology between the parties within certain broad product fields.

This paper intends to focus primarily on the details of the Westinghouse case and the speeches of the representatives of the Department of Justice because the writer believes there are no better guidelines as to the most dangerous areas one can expect to encounter from the antitrust viewpoint in know-how licensing. However, this does not mean to imply that the Department of Justice's viewpoint is the final and correct one concerning whether or not a particular licensing provision is unlawful. Indeed, according to many practioners[14] in the antitrust field, the present state of the law as decided by the courts seems quite contrary to the positions the Department of Justice has taken in its recent speeches.

However, with litigation costs so high and the consequences of mistakes in the antitrust area so enormous, we think the prudent know-how licensor and licensee would be well advised to consider the Department's views most carefully. In this manner, one can hope at least to try and avoid being made the defendant in that case we know the Department wants to bring in its attempts to prove in the courts that its position on a particular point is indeed the correct one.

Before considering the Westi[illegible] case and the Department of Justice's speeches in detail, let us review briefly some fundamentals of American antitrust law, beginning with the basic policy behind these laws. Both the legislative history and the application of the antitrust laws by the courts have indicated that their main purposes are to promote free and fair competition and freedom of economic opportunity.[15] This policy is based upon the belief that free and open competition in the market place is the best mechanism for bringing low priced goods and high quality products to the public and also, that it achieves the best allocation of our economic resources. In the light of these goals, the antitrust laws are designed to promote free competition by stopping practices which interfere with and eliminate competition and by preventing the creation of monopolies.

One major exception to the basic policy against monopolies has been the patent system which is a limited monopoly authorized to be granted inventors by the American Constitution.[16] The founders of our nation believed that progress of the useful arts would be promoted by giving exclusive rights for a limited period to

inventors in return for disclosure to the public of the details of their inventions. This approach is in contrast to the other route an inventor might follow, namely, to keep his invention secret as long as possible, thereby depriving the public of knowledge to use and upon which to build for an indefinite and uncertain period.[17]

There are many lawyers who do not regard the patent law as an exception to the pro-competition policy of the American antitrust laws but rather, as a supplement to them.[18] This is because they believe the patent system stimulates competition on a long-term basis. First, it encourages the development of new technology which results in new competitive products and industries. For example, the existence of patents encourages investment of time and money to develop new commercial products since there is some certainty of a return of reward. The patent system also promotes the creation of new industries by protecting them during their early stages. Eventually, such industries offer a choice to the public between established possibly dominant products and new ones. Recent outstanding examples of this effect are the Xerox Corporation and the Polaroid Corporation. Patents also tend to encourage competitors to design new features so as to avoid coverage of a particular patent, again resulting in better quality or a greater variety of products. Whether patents are regarded as an exception or a supplement to the American antitrust laws, they confer benefits which have long been recognized in our law.

However, the patent system does not always go unchallenged. Thus, when patents are used to do more than bring a fair reward

to their inventors such as when they are used to dominate and regulate an industry, the whole system itself is likely to come under attack. Such an attack is often aided by the inherent monopolistic character of a patent, although it is limited to 17 years, because of the strong basic feeling against the whole idea of monopoly as embodied in our main antitrust laws. Let us now examine these in some detail.

The basic federal antitrust statute is the Sherman Act which was enacted in 1890. Section 1 of this Act provides:

> "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal..."[19]

Section 1 of the Sherman Act makes illegal acts which tend to eliminate competition and create monopoly. There are three essential elements of a Section 1 violation. First, there must be concerted action, that is, a contract, combination or conspiracy. Secondly, there must be an undue restraint of trade. Although the wording of Section 1 of the Sherman Act seems to apply to every restraint of competition, it soon became clear that businesses could not function under an absolute rule of this nature. All contracts bind a party to some extent and thereby have some restraining effect on competition. Therefore, in 1911, the Supreme Court adopted the "Rule of Reason" test in applying Section 1 of the Sherman Act.[20] This simply means that the Section 1 prohibitions would not apply to all restraints but rather, only when the particular business conduct was unreasonably anti-competitive

in its character or effect in the light of the surrounding economic circumstances.

Of course, some business activities by their very nature are unreasonably anti-competitive. They have no other purpose or effect but to hinder competition. These types of activities are referred to as per se illegal. Some per se illegal restraints are agreements by competitors to fix prices, to divide markets or to boycott other parties.[21] Once such a restraint is found, a court need not proceed any further to determine whether or not it is a reasonable restraint under the circumstances. It is conclusively presumed so. The question of industry position and dominance or other surrounding economic circumstances is of no importance if a per se restraint is found.[22]

The third requirement of a Section 1 antitrust violation is that the undue restraint must be imposed on trade or commerce between the states of our country or with foreign nations. It is because of this mention of foreign trade or commerce in both sections 1 and 2 of the Sherman Act that foreign know-how licensees and licensors must be concerned with the American antitrust laws. Before touching on the applicability and jurisdictional questions of these laws when foreign trade and nationals are involved, however, let us examine Section 2 of the Sherman Act.

This Section provides:

> "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor".[23]

As you will note, this section is aimed at several offenses.[24] First, it prohibits the act of monopolization, which is the existence of monopoly power plus an intent to use that power. Monopoly power is regarded as the power by an individual or group of individuals to control prices or the entry of competitors in a particular product market (often referred to as the "relevant market"). Where such power has been secured or is being maintained by methods indicating an intent to exercise that power, then, Section 2 of the Sherman Act has been violated. This intent is only required to be a general one and may be inferred from lawful or unlawful actions but not from mere bigness or the possession of monopoly power which is thrust upon an entity or achieved by superior products, historic accident, business acumen or great technological accomplishments.[25]

Section 2 of the Sherman Act also outlaws attempts and conspiracies to monopolize so that conduct whose objective is monopoly can be reached as illegal whether or not the act of monopolization has actually been accomplished. Here, where monopoly power is absent, a specific intent to monopolize must be proved for a violation of this portion of Section 2 as opposed to the more generalized intent which is sufficient proof of its violation when monopoly power is in fact present.[26]

When a Section 2 violation of the Sherman Act is charged, a definition of the market or, in other words, the area of effective competition in which the act of monopolization is alleged to have occurred is fundamental. This definition depends on an analysis of many factors. However, primarily, the relevant competitive market in monopolization and antitrust cases generally is defined

geographically and along distinctive lines of products or categories of trade. The aim of such a definition is to determine the limits of the markets in which the products of the seller, though not exactly the same as those of all other sellers in that market, are regarded by the buyers in that market as substitutes for each other so that the price of one such product would directly affect the price of the others.[27]

One should note that Section 2 reaches monopolization or attempts to monopolize by an individual as opposed to the joint action which is required under Section 1. This is important to remember because it is under Section 2 of the Sherman Act that a patentee who, when acting without others tries to extend the limits of what is recognized as his legal monopoly, may be subject to attack. It is also interesting that Sections 1 and 2 of the Sherman Act overlap in several respects. For example, actual monopolization violating Section 2 would always be an unreasonable restraint of trade in violation of Section 1.[28]

The criminal penalties for violating either Section 1 or 2 of the Sherman Act are:

1. A fine, not exceeding $50,000;
2. Imprisonment, not exceeding one year; or
3. Both fine and imprisonment, in the discretion of the court.[29]

There is presently a bill pending in Congress to increase the maximum Sherman Act fine to $500,000 if a corporation or $50,000 if any other person.[30]

In addition, civil actions for damages and injunctive relief may be brought by the Department of Justice[31] and under subsequent antitrust legislation, private litigants can seek injunctions and

treble damages for violations of the Sherman Act.[32]

In the light of these severe penalties, the foreign businessman as well as the American must consider whether he is subject to the Sherman Act. Two main questions are involved here. First, does the United States have the power to deal with business conduct such as acts or contracts which take place outside its border so as to be able to apply its antitrust laws to such conduct? In other words, does a United States court have the right to consider whether the restrictions of a know-how licensing agreement may violate American antitrust law. The second jurisdictional question is whether the United States has power over the parties involved in any challenged anti-competitive conduct so as to be able to impose upon them criminal sanctions or civil remedies.

The general consensus of the commentators on the applicability of the federal antitrust laws is that they may reach any restraint which has a direct and substantial effect on the flow of commerce into or out of the United States.[33] Of course, the presence of an American national in the transaction is a factor increasing the likelihood jurisdiction over the subject matter will be found;[34] but the lack of such a participant that is, an arrangement only between foreign nationals does not prevent such jurisdiction's being assumed by an American court. The direct and substantial effect test also applies regardless of where the particular acts causing the effect took place. Thus, a know-how agreement could be made completely outside the United States and solely between foreign nationals and still fall within the scope of the

American antitrust laws if it had a direct and substantial effect on our foreign commerce.[35]

Applying the antitrust laws of the United States to acts done abroad or to foreign nationals is not an attempt to acquire an extra-territorial application of American law; rather, it is based upon the generally accepted principle under international law that a sovereign has jurisdiction over acts which operate within or cause effects within its borders.[36] The really controversial question on the jurisdictional issue is what constitutes a direct and substantial effect on United States foreign commerce so as to bring the Sherman Act into play.

There are relatively few cases on the point and they are, regretfully, inconsistent.[37] Just about the only criterion which is theoretically agreed upon is that no jurisdiction exists if the effect on United States commerce is non-substantial and non-direct but there is a realistic doubt as to whether such an instance can actually be found.[38] For example, take an agreement between a foreign and American competitor concerning the price of goods not to be sold in the United States? Might not such an agreement have a damaging effect on the exports of the American enterprise to the third country where the price fixed goods are being sold and thereby be held to have a direct and substantial effect on American foreign commerce?

Generally speaking, in recent times, the interpretation of what constitutes a direct and substantial affect on our foreign commerce seems to be getting broader. Any act or practice which affects imports into or exports from the United States is likely to bear close scrutiny.[39] If one of the participants is of American

nationality, there is an additional make-weight in favor of finding such jurisdiction. Therefore, it would seem to the writer of this paper that the safest course in an international know-how licensing agreement where an American company is involved is to assume jurisdiction over the subject matter exists at the inception of the arrangement and to make all efforts to comply with the American antitrust laws so as to minimize the risk of becoming a defendant in a suit under these laws.

On the matter of jurisdiction, there is a second major point to be kept in mind. It has been noted that the conduct of a foreign corporation may bring the Sherman Act into operation if such acts produce substantial and direct effects within the United States, that is, on American exports and imports or on conditions in the American market. This rule exists to determine whether or not an American court has jurisdiction over the subject matter. However, not only must there be jurisdiction of the subject matter for court action to be effective against a party under our antitrust laws but also, the person against whom a court action or order is directed must be properly before the court.[40] By this we mean that the person or business entity must be "present" within the operative area of the court's jurisdiction so that the powers of the court affect him directly. He must also be properly served with papers giving him due notice of the action against him. These requirements form the basis of what we call the concept of in personam jurisdiction. Such jurisdiction enables a court to act lawfully on the body of a defendant.

Often, in personam jurisdiction over a foreign party involved in acts violating the antitrust laws may be lacking because the foreign corporation is not "present" in the sense of doing business in any respect in the United States. For example, all its activities including the unlawful antitrust conduct might be performed completely outside the borders of the United States. Suppose the members of an international cartel who are participating in a division of markets arrangement agree that each will conduct certain activities within their own territories and not ship or sell the controlled goods in the territories of the others. A foreign member of such a cartel would thus not be doing any act in the United States so as to be considered "here" for the purpose of in personam jurisdiction although the effect of his act in the United States may be direct and substantial and therefore confers jurisdiction over the subject matter. However, if a foreign corporation has any facilities, offices, subsidiaries or agents in the United States, it may be found to be "doing business" in the United States so as to be subject to the in personam jurisdiction of our courts. Just what constitutes "doing business" for this purpose involves many factors and is beyond the scope of this paper. The most recent trends, however, would seem to indicate that the United States Government is being permitted much more latitude in its attempts to hold foreign corporations directly accountable before American courts for antitrust violations.[41] It is interesting to note that the United States Government in the Westinghouse case served the Mitsubishi Companies by mail in Japan and that this type of service was apparently not challenged by these Japanese companies.[42]

In addition to this trend, a foreign corporation must always bear in mind that there are legislative provisions permitting the Government to seize and condemn goods belonging to a foreign corporation in the course of their transportation to a foreign country if such goods are related to an antitrust violation.[43] This is a very important means for holding a foreign corporation which is not subject to in personam jurisdiction responsible for its unlawful activity from the antitrust viewpoint. There have been several instances where the government has made seizures of substantial quantities of a foreign corporations' goods in transit under these legislative forfeiture provisions resulting in pressure on such foreign parties to agree to in personam jurisdiction or consent decrees.[44]

On March 5, 1970, the head of the Antitrust Division emphasized the Government's intention of paying special attention to the relationship of foreign trade and our domestic antitrust policies. He indicated that barriers to the entry of foreign firms into the American market by cartel arrangements or unduly restrictive patent, know-how and technology licenses would be challenged. He said it is part of the Division's policy to seek out and prosecute anti-competitive international business practices and relationships affecting United States trade.[45] To be forewarned is, to some degree, to be forearmed and this pronouncement leaves no doubt as to the direction in which the Antitrust Division is heading.

We have now examined the pro-competitive policy consideration behind the American antitrust laws, the patent monopoly

exception to this policy, the main sections of the Sherman Act and the jurisdictional applicability of this Act to international business operations. Since it is not possible in this paper to discuss all the federal anti-trust legislation which may apply to know-how licensing arr[illegible], we have chosen to concentrate on the Sherman Act which is [illegible] fundamental antitrust law and the one most likely to be involved in such licensing.

However, in passing, it is important to note two other major acts relating to the antitrust field. Both were adopted in 1914.[46] They are the Clayton Act and the Federal Trade Commission Act.[47] These acts were designed primarily to prohibit probable restraints of trade as opposed to existing ones which are covered by the Sherman Act. The Federal Trade Commission Act is a very broadly worded one, like the Sherman Act, and prohibits "unfair methods of competition in commerce" and "unfair or deceptive acts or practices in commerce."[48] This Act is exclusively enforced by the Federal Trade Commission and it is aimed at stopping trade restraints in their very early stages through the expertise of an administrative agency. The purpose of the Clayton Act is also to catch restrictions on competition and the creation of possible monopolies as early as possible. That law prohibits certain specific acts, such as exclusive dealing contracts, tie-in arrangements and acquisitions and mergers where the effect of such acts "may be to substantially lessen competition or tend to create a monopoly".[49] The Clayton Act is enforced by the Department of Justice, which may bring actions for damages and injunctions[50] and, also, the Federal Trade Commission, who may act through cease and desist orders.[51] In addition, private litigants who have been

injured by violations of the Clayton Act may sue for treble damages and injunctive relief.[52] Where sections of the Clayton Act are likely to relate to know-how activities, they will be mentioned in further detail later in this paper.

The foregoing discussion has been an attempt to present the general policy aims and legislative framework of American anti-trust law. Let us now proceed specifically to see how that law may affect know-how licensing. As in the case of patents, there would seem to be a conflict between laws designed to prevent anti-competitive effects and monopolies, and the inherent nature of secret know-how. For example, the possession of know-how gives its owner a position substantially like a patent monopoly in the sense that so long as the know-how is secret and in his possession, its owner has exclusive rights to its use. He can give up these exclusive rights, however, by permitting others to use his know-how in much the same way the patentee gives up his exclusive rights by allowing others, through licensing, to operate under patent rights.

The broad justification for giving the possessor of secret know-how protection of certain rights in his know-how is essentially the same as for granting the limited patent monopoly, namely, to encourage investment of time and money so as to generate technical innovation. If all are equally free to use the results of the sometimes vast expenditures of time and money necessary to develop new commercial products, who will take the initial risks of such development? Licensing of secret know-how for compensation

enables the cost of developmental work to be recouped and used for new developmental purposes. Licensing, by disseminating technology, enables the more efficient and quicker entry of competitors into new product fields. Know-how licensing saves resources by avoiding duplication of effort and can result in better quality and lower priced goods through the increased efficiency gained by the knowledge of new techniques.

We have, however, seen that some significant and recent court opinions[53] imply that both the protection of secret know-how itself and its licensing may run counter to the pattern intended by the framers of our Constitution for the protection of innovation in this nation. These opinions are based on the belief that this pattern is solely embodied in our statutory patent and copyright systems. Accordingly, the holders of this belief would not enforce any rights of trade secret owners against third parties or contracts relating to such rights unless the inventor has first submitted his idea to the Patent Office. Thus, the very concept of know-how as property and the existence of know-how licensing is under a serious cloud at present. However, for the purposes of the following analysis, we must assume that this cloud, though not without influence, will pass over shortly and that a legally protectible property right in know-how exists.

There are relatively few pure know-how licensing cases in the antitrust field. However, the trends in the patent license field would seem particularly applicable to know-how licensing because of the surface similarity in the types of rights involved.

As we have seen, both involve the initially exclusive use of new or valuable technology. The nature of know-how seems highly analogous to a patent covering a manufacturing process which results in an unpatented product. Licensing of both patents and know-how serves the desirable goal of generally increasing competition by the benefits which result from the dissemination of technology, such as new entrants into product fields and increased efficiency. As in the case of patent licenses, know-how transfers often involve contracts between actual or potential competitors and are therefore suspect as such under the antitrust laws.

However, at the outset let us keep the main characteristics of patents and know-how in mind so we will not be trapped by false analogies. First, let us look at patents. Fundamentally, a patent is a legal monopoly recognized in our Constitution and statutes. It is thus clearly limited in scope and in time and in territory. It defines certain rights operative within a particular state for a specific period. A patent is published information. Therefore, a license under a patent involves payment for the exercise of certain rights under the patent as opposed to the disclosure of information which is the essence of a know-how transfer. Finally, a patent is a powerful anti-competitive weapon because it may be offensively used to interfere and prevent the operations of others. By its very nature, it can eliminate competition completely.

Know-how, on the other hand, is not based on our Constitution or created by statute. It, therefore, does not have the same status and stature before the courts or in the eyes of the

enforcers of the antitrust laws as the more legitimate patent monopoly.[55] Today this is even more apt to be true when we have seen the very concept of know-how as protectible property under attack.[56] Secondly, know-how is not in itself territorial in any sense. The only possible way to impose territorial limits or other restrictions on its use is by contract. Unlike patents, the possession of know-how involves no right to exclude others who may independently discover the know-how. Therefore, it lacks the powerful offensive capability of a patent to eliminate competition completely. Moreover, the duration of know-how is extremely uncertain. Its value can end tomorrow or extend indefinitely. Unlike a published patent, the essence of know-how is its secret nature. Thus, many argue[57] that when one is licensed under know-how, one is really paying primarily for the disclosure of the secret information rather than for the right to use such information as in the case of the right obtained under a patent license. Finally, know-how is usually a bundle of diffuse and varied pieces of information. It therefore lacks the more exact limits and relatively clearer boundaries of patents.

Keeping the essential differences between patents and know-how in mind, let us now look to see how restraints of competition which are included as conditions of a patent license have fared under American law.[58] We have noted our strong basic policy against monopolies and any elimination or lessening of competition. The limited patent monopoly is a recognized exception to this fundamental general policy. Since the Patent

Code permits a patentee to exclude others from making, using or selling the patented invention for seventeen years, the law has accepted the licensing of patent rights subject to reasonable restrictions. This is because the patent owner has the legal power to exclude others entirely from the use of the invention covered by the patent. Therefore, it is not considered unreasonable for him to keep part of his totally exclusive right for himself when he is giving up some of the other parts of that exclusive right by licensing.

Contracts relating to patents are subject to the limits set by the general antitrust laws. Thus, the patent owner cannot impose contractual restrictions on the competitive decisions of his licensee. He cannot expand the scope of the legal monopoly granted him by any provision in a contract. He must be very cautious when licensing as to the realistic effects of the arrangement. For example, when two competitors exchange exclusive patent licenses, they are in fact agreeing not to compete in certain areas and this could, in turn, possibly violate the antitrust laws.

On the other hand, restrictions in contracts are sometimes helped from the antitrust viewpoint by the existence of a patent. 59 That is, some conditions, such as price fixing or quantity controls, which are usually considered unreasonable per se under the antitrust law may be upheld on the basis of the existence of a patent. This is because the restrictive condition is regarded as a reasonable means of exploiting the patent monopoly or, in other words, reasonably necessary to reward the patentee for his

invention. For example, in a famous decision upholding the right of the licensor to set a licensee's price for the licensed product, the Supreme Court said:

> "One of the valuable elements of the exclusive rights of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent but not so as to destroy the profit that I wish to attain by making them and selling them myself.'" [60]

As will be discussed in greater detail later in this paper, the Department of Justice today greatly disputes this 1926 reasoning. It would therefore appear that the reality in this field of law is that the reasonableness of a restraint in a patent license is not some simple rule of thumb such as whether the restriction is within the scope of the patent grant. Rather, the matter is one of a balancing of policy considerations and these change from decade to decade. What was within the scope of the patent and reasonable in the 1920's is not necessarily so in the 1970's.

For example, among the specific provisions in patent license situations which the Department of Justice [61] has indicated are likely to be attacked in this decade are:

1) field-of-use limitations;

2) assignment and exclusive license grantbacks of improvement patents;

3) foreign patent licenses which do not give licenses in all countries where the licensor has patents;

4) price-fixing;

5) restrictions on the form, manner or channels of distribution of sale of patented products;

6) contractual provisions which tend to inhibit the granting of future licenses;

7) domestic territorial divisions of patent rights in the U.S.; and

8) mandatory package licensing of patents.

Many of these practices have long been regarded as lawful and supportable on the basis of existing case law.

In the light of the inherent differences between patents and know-how, can we expect similarly restrictive provisions in know-how licenses to be treated any differently than those in patent licenses? The answer is no, according to the head of the Antitrust Division, Mr. Richard W. McLaren. He observed that some lawyers thought they could avoid the trend against anti-competitive restrictions in patent licenses by placing such restrictions in know-how licenses. He then said,

> "I hasten to disabuse you of that notion. We will be looking at trade secret and know-how licensing just as closely as we do similar restrictions in patent licenses, if not more so".[62] (Emphasis supplied.)

So far, we have seen that contracts relating to know-how are subject to the antitrust laws and will be very closely examined by the Antitrust Division. However, again as with patents, the existence of the know-how sometimes can be the basis for sustaining as reasonable a restriction which might otherwise be unlawful. One theoretical basis for permitting

such restrictions is that the know-how licensor might have withheld the knowledge altogether from the licensee by keeping the information entirely secret. Therefore, any limit he places on the use of the knowledge does not add an additional restraint to the present competitive situation but rather, like the traditional view of the patent license, is a partial and desirable lessening of a monopoly picture in which exclusive use of certain technology otherwise would only be available to one party.

A second theoretical basis which has been used to uphold restrictions in know-how licenses which might otherwise be condemned as anti-competitive is the "ancillary restraints" doctrine. The policy behind the "ancillary restraints" rule recognizes that certain situations may require protection of the seller of property against injury which the buyer of such property may be able to do the seller by reason only of the sale. Therefore, restrictions for protection of the seller in such situations were not regarded as a lessening of competition but only as protecting the seller against increased competition of his own making. Without such restrictions, a seller would not be likely to sell. Such restrictions were therefore permitted in order to promote the free purchase and sale of property. Buyers of businesses were also given protection to further the policy in favor of the free alienation of property. Thus, the seller of a business could legally agree not to compete for a certain time in the same area as the buyer of his business. Otherwise,

the seller might be able to destroy the value of the property which he had transferred.

For the same policy reasons, namely, to induce the transfer of know-how more freely, the "ancillary restraints" doctrine has been applied by the courts to know-how licenses and sales.[64] For a restraint to be lawful under this doctrine, it must be "ancillary" or incidental to the lawful main purpose of the contract, namely, the transfer of the know-how property. In addition, the scope and duration of the restraint must be no broader than is necessary to further the lawful main purpose of the agreement and finally, the restraint must also be otherwise reasonable under the circumstances.

What are some of the types of restrictions in know-how licenses which have been upheld under the "ancillary restraints" doctrine or as otherwise reasonable? One example is the usual limitation in a know-how license against disclosure of the know-how by the recipient.[65] Such a limitation has been deemed reasonable because it is necessary to protect the value of the know-how by keeping it secret. If the know-how licensor could easily lose his entire competitive advantage through disclosure by the licensee, he would not license the know-how in the first place and the advantages of the dissemination of technology would be altogether lost. For a similar reason, limits on the method or time or place where licensed know-how is to be used have also been upheld as reasonable.[66] Please note that the limitations just discussed are ones which are placed on the use of the know-how itself and not on the products made from

the use of the know-how. However, even restrictions on the sale or use of such products have been sustained in the past under the "ancillary restraints" doctrine.

Examples of the type of restraints which are likely to be imposed on products made from licensed know-how relate to price-fixing of such products, limitations of the territory in which they may be sold, and restrictions on the fields of use for such products. Briefly, let us now see whether these restraints will be considered reasonable and lawful in the 1970's.

First, price fixing. The Department of Justice has announced many times[67] that it will attack any arrangements for fixing the price of patented goods made pursuant to a license. Price-fixing is generally regarded as a per se violation of Section 1 of the Sherman Act.[68] But in 1926 the Supreme Court held lawful an arrangement under which a patentee licensed a competing party to manufacture and sell incandescent electric lamps under the licensor's patents for such lamps on the condition that the licensee's prices for the product were to be fixed by the licensor. This is the famous General Electric decision[69] which the Department of Justice has tried several times to get overruled.[70] The Department believes a patentee is sufficiently rewarded under his legal monopoly when he receives royalties for the use of his patent or when he exploits the patent himself. Thus, the Department feels a patentee should not be allowed to use the extra device of a price-fixing agreement to increase the reward for his invention and "impose an unjust charge upon the public."[71]

...partment thus seems to disagree with the Supreme ...on in the General Electric case, which was quoted ... this paper, that it is reasonable for a patentee to ...vent his being undersold by his licensee so as to ... patentee's profit margin. Rather, under the Justice ...s view, an efficient patentee need not really fear the ... of a licensee who always has the additional burden of ...lties. Moreover, because the licensee may equally ...m a guaranteed fixed price for the product, the De- ...foresees many potential monopolistic abuses in any price- ...ngement. Such abuses include suppression of unpatented ...hat compete closely with the price-fixed one and a ...centive in the licensee to develop new substitutes. As ...s Department representative stated,

> ...would be better to limit production to the patentee ...self than permit licensing that would result in such ...opoly abuses".[72]

...n potential abuses can similarly and easily be found when ... set upon goods made from licensed know-how. However, ...1911 Supreme Court opinion[73] containing language which ...hat a license to use a secret process could contain ...ns as to price. This wording was unrelated to the holding ... which was that a manufacturer could not enjoin purchasers ...cts which were made by a secret process from reselling ... prices. Accordingly, this 1911 language is dicta and ...y weak precedent to cite. When this weak case authority ... the knowledge of the Department of Justice's present ... philosophy in the price-fixing area, it would seem

very foolhardy indeed to place such a feature in a license today relating to know-how.

We now come to the form of restraint on products made by or with licensed know-how which is the most common and important in this field, namely, territorial limitations. Remember that we have seen restrictions limiting use of the know-how to a particular territory upheld. Here we are talking about limitations placed upon the territories in which products made by the use of that know-how may be sold. There are two main lines of case authority in this area.[74] One group of cases finds and supports such restraints if they are ancillary to the main purpose of a lawful agreement, are reasonable in time and scope, and seem necessary to protect the know-how licensor or newcomer licensee. The other line of case authority finds and condemns such restraints if they are part of a sham arrangement and the real intent of the parties is to divide markets between competitors. How can one really tell the difference between those two extremes? The main distinctions seem to be in the character of the know-how involved, that is, the extent of its secrecy and actual value; the nature of the pre-existing competition between the parties to the licensing agreement; the presence of other restrictive conditions in the arrangement, such as price-fixing and grantbacks of patents; and, the market structure of the particular industry.[75]

Thus, there were a group of territorial restraint cases about twenty years ago which involved for the most part, international cartels. The parties in these cases had dominance in their particular fields of commerce, usually on a world-wide basis.

In addition, the arrangements between the parties in these cases contained a combination of several questionable anti-competitive conditions such as price fixing arrangements, territorial restrictions and patent exchanges. The Supreme Court handed down a series of opinions in these cases condemning the territorial restraints in the parties' licenses of know-how merely as sham arrangements which were nothing more than a division of markets among the parties.[76]

In a case brought in 1953, shortly after the international cartel line of cases, the government attacked territorial restraints in a know-how license as illegal per se but this argument was rejected.[77] Also, in this case which was U.S. v E.I. duPont De Nemours & Company, the government charged a violation of Section 2 of the Sherman Act because it regarded the know-how licensing agreement between the parties as part of a plan to divide markets and an attempt to protect duPont from import competition. The District Court, however, found that the transferred technology covered an entire manufacturing process, took years to develop, was precisely imparted by the licensor in written form and plant disclosure and was essential to the manufacture of the product. It held such technology secret, novel and of substantial commercial value. It also found that the parties were not in present competition with each other and that neither was motivated by anti-competitive considerations. Rather, the arrangement had resulted in the establishment of a new business in a new territory. The court therefore upheld the territorial limitations as reasonable.

Is the Dupont case still good law? The Department of Justice in discussing the significance of the Westinghouse case has stated that it is not there attempting to obtain a ruling from the courts that territorial restrictions are illegal per se.[78] Rather, the Department of Justice regards the Westinghouse case as following in the same pattern as the international cartel cases of the early 1950's where major manufacturers exchanged patents and technology in broad fields with the purpose and effect of barring each other from selling the licensed products in each other's home country.[79] In 1969, the head of the Antitrust Division, Mr. McLaren, indicated the following criteria would be analyzed in considering the legality of territorial limitations in know-how licenses by the Department of Justice:

1. Is the transferred knowledge really secret?
2. Is the transferred knowledge really valuable?
3. Is the restriction necessary to enable the licensed firms to enter the field?
4. Is the term of the restriction reasonable in length under all the circumstances?[80]

These criteria are objective in nature and seem in line with the most recent precedent on the territorial restraint issue.

However, in late 1970 and early 1971,[81] the head of the Justice Department's new Patent Unit, Mr. Richard Stern, seriously questioned whether territorial restraints could ever be justified in know-how licenses. He noted the policy considerations in favor of the dissemination of technology through such licensing, but he

asked, whether owners of know-how really require the protection of territorial restraints in order to be induced to license. Would not such licensing occur anyway because of the other incentives for licensing such as "the advantage to the licensor of royalty payments, the demand by customers for alternative sources of supply, the licensor's unwillingness to invest in additional production facilities and the licensor's concern about competitors' inventing around the technology"?[82]

Mr. Stern's view seems to regard the licensor as sufficiently protected without the need for territorial restraints because he can cover any anticipated profit loss due to the licensee's direct competition in the licensor's market by the royalty rate he imposes for the know-how.[83] Additionally, Mr. Stern believes the licensor is protected by transportation costs and tariffs against any effects of the licensee's competition which would be too serious.[84] In his talk, Mr. Stern also emphasized that the prospective know-how licensee "should not be presumed to be incapable of duplicating the technology or developing an alternative, and thereby making a restriction-free entry into the market".[85] For these reasons and others, Mr. Stern stated his belief that the courts may ultimately prohibit all territorial restraints on goods made with licensed know-how.[86] However, until such a ruling occurs, Mr. Stern indicated that the test for the probable outer limit of permissiveness toward territorial restraints in know-how licenses involved three factors;

1. Is the know-how essential to the licensee's entry into the market;

2. Is the know-how unavailable from alternative, restriction-free sources; and

3. Is the restraint limited in time to approximately the break-in period? Although these three factors are not any guarantee of the eventual legality of a territorial restraint, their presence would tend to lessen the anti-competitive effect of the territorial restriction.[87]

If the Westinghouse case is pursued, it may help clarify the territorial restraints issue. The complaint in this civil action[88] charges that Westinghouse, Mitsubishi Electric and Mitsubishi Heavy Industries entered into various reciprocal technical assistance agreements over a long period of time and that these were in unreasonable restraint of trade between the United States and Japan. The violation of Section 1 of the Sherman Act is alleged because the agreements restrain the importation of electrical and other products into the United States by the Mitsubishi companies and the export of similar goods by Westinghouse to Japan.

More specifically, in the Westinghouse suit, the government charges:

First, the defendants agreed not to sell the licensed products in each other's home country regardless of whether the products were patented or not. Neither party had specified the patents, if any, which were applicable to the more than thirty defined product areas covered by the agreements. Among the variety

of goods in these product areas were power transformers, switch gear and distribution apparatus, industrial control equipment, refrigerators, television sets, air conditioning equipment and elevators.

Secondly, the government alleges in the Westinghouse case that during the negotiations Mitsubishi Electric had tried to limit the number of product areas covered by the agreement but that Westinghouse would only do so if Mitsubishi paid higher royalties for the product fields in which it wanted technology.

Thirdly, the government in the Westinghouse suit charges that the defendants agreed to make royalty payments to each other regardless of whether the products on which the royalties were applicable were patented or made under the transferred technology.

The Department of Justice in the Westinghouse case is seeking to terminate the technical exchange agreements between the parties; an order compelling the defendants to grant each other reasonable royalty patent licenses under their respective patents so as to permit sales in each other's home country; and an injunction against Westinghouse's participating in any similar licensing agreement with other foreign parties preventing them from selling in the United States or Westinghouse from selling in any foreign countries.

The speeches of Mr. Stern and the Westinghouse case, whatever its outcome, suggest several danger areas in the licensing of know-how which the careful draftsman will heed, particularly where large companies and broad product lines are involved. Under such circumstances, wisdom would dictate the

avoidance of territorial restraints all together. Where the know-how is secret and extremely valuable and such a restraint could seem reasonable, prudence requires that it be kept of extremely short duration.

In addition to price-fixing and territorial limitations, another restraint which is likely to be placed on products made from licensed know-how are field-of-use restrictions. The Department of Justice has indicated that, despite the present general legality of such a restriction in a patent [illegible] General Talking Pictures[89] case, the Department will challenge fields-of-use licenses which divide the fields among licensees who could otherwise be expected to compete.[90] Although there is case law which seems to permit field-of-use restrictions in a know-how license,[91] the Justice Department has also made it clear it will consider divisions of fields of use amongst know-how licensees on the same basis that it will apply in evaluating such restrictions in patent licenses.[92]

Now that we have looked at three common types of restraints on products made from licensed know-how, let us turn our attention briefly to some other possible problem areas in know-how licenses from the antitrust viewpoint. First, we will deal with possible tie-in problems. A tie-in generally means the seller of one product, usually a patented or other highly unique or desirable product, will only agree to sell it to the buyer on condition that the buyer also purchases another product from the seller.[93] The highly desired product is called the "tying product" and the goods imposed on the buyer are referred to as the "tied" products.

A tie-in is mainly anti-competitive because it forecloses the opportunity for other sellers of the "tied" products to sell them to the buyer. A tying arrangement is per se illegal under Section 1 of the Sherman Act if the seller enjoys a monopolistic position in the "tying" product (which is presumed when such a product is patented or copyrighted) and a "not insubstantial" volume of trade in the "tied" product is foreclosed. A tie-in arrangement may also be a violation of Section 3 of the Clayton Act.[94]

In the licensing context, an example of a tie-in would involve a requirement by a know-how licensor that the licensee purchase goods, perhaps to be used in the valuable manufacturing process to be disclosed, from the licensor in order to obtain the license of the technology.[95] It would seem that know-how can easily be regarded as giving its owner a monopolistic position in a "tying" product, that is, the secret technology, in much the same manner that a patent is presumed to give such a position to the patentee. If a "not insubstantial" amount of commerce was involved in the goods required to be purchased from the know-how licensor by his licensee, a tie-in charge, in violation of Section 1 of the Sherman Act, is almost certainly foreseeable.

Package licensing is another type of tie-in which has been condemned as a violation of the Sherman Act.[96] This means that the granting of a particular industrial property right, e.g., one patent, is conditioned on the licensee's taking another license, e.g., a second patent, which he may not desire. Here the element of the amount of coercion the licensor places on

the licensee is important. This is because if the "tied industrial property right is a second patent or is a money in another sense such as a trademark, competition is not in the usual manner of a tie-in. In this case, no one co could have "sold" or "licensed" the second patent or the mark to the buyer so no market is being foreclosed. But h still occurs to the public in the sense that the licensee pay a royal for an item he may not want which cost then be included in the price of the products. Remember the cha against Westinghouse that it forced Mitsubishi Electric to to licenses in product areas it did not really want.

Since know-how is a bundle consisting of various typ pieces of information, it is conceivable that the antagoni the Justice Department toward mandatory package patent lic could be extended to the know-how field. If a licensee wan one bit of information in the bundle, must he take and pay the whole bundle? Another possible tie-in which a case alr questions is conditioning a patent license on acceptance of patentee's know-how. Why would a patent licensor want to f his technology on the potential licensee? The reason is th know-how in recent years has been included in patent licens to achieve purposes which cannot be done directly in patent censes. Cases in the patent field strike down attempts to e the term of a patent, such as by collecting royalties after expiration date,[99] or most efforts to broaden the scope of a p by collecting royalties on products not covered by the pate

Therefore, patent licensors have seen an advantage in having their licenses contain a transfer of know-how. For example, the know-how can then be used as a basis for extending the royalty obligation under the license for as long as the know-how may be used, i.e., even after expiration of the patents. Including know-how also permits broadening the royalty base to include not only products covered by the licensed patents but anything else which in some way employs the know-how. Fresh installments of know-how in a continuing exchange of technology arrangement may extend this obligation and any restraints, such as territorial limitations, in the agreement indefinitely. Since a combination patent and know-how agreements thus presents opportunities for the parties to try and get about the more strict patent license rules, they are very dangerous today. Moreoever, under the Painton decision, the mere inclusion of know-how on which no patent applications have been filed may condemn the whole agreement as void against public policy. Therefore, apart from the tie-in problem, many practioners currently recommend separate agreements relating to patent rights and know-how.

In addition to tie-ins, another broad antitrust problem area in know-how arrangements relates to restraints imposed on products which are not made with the licensed know-how. Generally speaking, the patent monopoly does not permit restrictions to be placed on products not covered by the claims of a valid and existing patent.[101] Similarly, what case authority[102] there is and the writers in this field[103] indicate that restraints on products not embodying or manufactured by the know-how would not be considered reasonable. Also,

remember the government's charge against the defendants in the Westinghouse case that royalties were imposed on all products within a certain defined area whether or not a particular product was produced by use of the transferred technology. A restriction on the licensee against manufacture of products competitive with those made by the licensed know-how would also probably not be upheld unless there are very extenuating circumstances.[102]

The speeches of the Antitrust Division indicate one other important danger area in the patent licensing field which may be applicable to know-how licenses. This is the matter of grantbacks.[105] A grantback means a licensee, as a condition of receiving a license, agrees to grant back to the licensor various rights in inventions the licensee may make. There is a good reason for a licensor to insist on putting this condition in a license since it is the licensed technology which may enable the licensee to develop improvements in the first place. Such improvements could put the licensor under a serious competitive handicap vis-à-vis the licensee and, therefore, permitting the licensor to receive some right in the licensee's improvement seems entirely justified.

The Department of Justice believes a grantback to the patent licensor which is an assignment of a licensee's invention or an exclusive license in it is, by its very nature anti-competitive.[106] First, it discourages research and innovation by the licensee who has nothing to gain by his efforts. Secondly, such a grantback

strengthens the position of one who may already have superior technology in the particular line of commerce by adding more patents or know-how to his already powerful supply. Thirdly, effective competition based on the new technology between the licensee and licensor is eliminated.[107] There is case authority holding an assignment grantback in a patent license is not illegal per se;[108] but again, the prudent lawyer in the light of the Department of Justice's announced position will carefully consider any grantback provisions before including them in a patent or know-how license. Most importantly, if such a provision is to be part of a licensing arrangement, the grantback should be on a non-exclusive basis.

The matter of acquisition of additional technology by grantback raises the general question as to when the accumulation of know-how by sale or license may involve violations of the antitrust laws.[109] The acquisition of know-how by one's own efforts, as in the case of patents, is not likely to be challenged as monopolistic or as an attempt to monopolize since this would penalize the very investment in innovation one hopes to encourage. But where one buys valuable competitive rights such as exist in patents or know-how from others, Section 2 of the Sherman Act or Section 7 of the Clayton Act[110] may apply. The latter section prohibits the acquisition of assets which may tend to lessen competition substantially in a particular line of commerce. Patents and exclusive licenses of patents have been held "assets" within the meaning of this section.[111] Know-how is likely to be deemed so.[112] Note, only if the probable, not actual, effect of one's acquiring valuable

know-how will be to substantially lessen competition, one may expect problems under Section 7.

Of course, acquisition of know-how by purchase or grantback is less of a danger to competiton than acquisition of patents in these ways because the duration of the actual value in the know-how is likely to be shorter than patents. Also, know-how cannot be used to dominate an industry in the way patents may since others cannot be blocked from using the ideas if they are independently discovered. On the other hand, if the accumulation of know-how from others achieves or maintains control over an industry or indicates a specific intent to monopolize, then Sections 1 and 2 of the Sherman Act conceivably could be used to condemn such acquisitions. This is an area of such quickly developing law and speculation that one can only call attention to the possibly applicable sections of the antitrust statutes and urge their consideration when know-how is acquired by purchase, exclusive license or grantback.

We have now completed a brief outline of some of the more important antitrust problems which are likely to arise in connection with know-how licensing. We have seen that these involve price-fixing, territorial limitations, field-of-use restrictions, tie-ins, restraints on products not covered by the licensed technology, grantbacks and the accumulation of technology. We have also noted the Department of Justice's current policy of attacking certain restrictive provisions in licensing agreements.

One last point remains to be emphasized. This is that the form of a business arrangement or the wording of a contract or the nature of industrial property rights today is not decisive when considering antitrust implications. For example, the Department of Justice has recently taken a position that if an American company licenses its foreign patent to a foreign company, there may be situations in which it must also license the counterpart United States patent to the foreign licensee.[113] The head of the Department's Patent Unit, Mr. Stern, has discussed certain factors that he considers significant in connection with determining such situations. These factors would seem applicable to some extent to all licensing situations and so they will be discussed briefly here as possibly the most practical guidelines which currently exist in this field.

The first of these factors is the size and economic importance of the parties and the degree of their establishment in the industry to which the license agreement relates.[114] The main policy argument in favor of a restrictive territorial arrangement in international licenses is that no competition is really limited because, "but for" the patent license, the licensee could not manufacture the product. However, Mr. Stern has stated that when the parties to a licensing agreement are major industrial factors, the idea that "but for" the license, the parties receiving it would not enter the market is questionable.[115] If a party is a major factor in the industry, it would have the capacity as well as a considerable incentive to try and enter the market by developing around the patent. This same factor applies to a potential know-how licensee

in that if it had the capacity, it would have the incentive to enter a market through independently developed technology rather than have to agree to stay out of that market in order to get existing know-how.

In the Westinghouse suit, the matter of size and economic importance of the parties is very much present. The complaint there describes the defendants as follows:[116]

> Westinghouse is the 17th industrial corporation in rank in the United States in sales. In 1968, its net sales amounted to approximately $3.3 billion. Mitsubishi Electric Corp. is 80th in sales among the 200 largest industrial corporations outside the United States. Its total annual sales are approximately $675 million. It is one of the largest manufacturers of heavy and light electric machinery in Japan.
>
> Mitsubishi Heavy Industries, Ltd. stands about 13th in sales among the 200 largest industrial corporations outside the United States. Its total annual sales are about $1.6 billion. It is the largest heavy industry company in Japan.

A second factor Mr. Stern indicates should be considered in judging whether an international patent license arrangement may be unreasonable is the subject matter of the agreement.[117] This means an analysis of the variety of products covered by the license, their dollar value, the number of patents involved and their technological importance. Mr. Stern believes that the more varied the product

coverage of the license is, the weaker the "but for" argument becomes.[118] Although a licensor's patents and by analogy, its technology might be required for the licensee's entry into one line of activity, this becomes highly questionable when many different product lines are involved. This undoubtedly was an important factor in the Westinghouse case where more than thirty product areas were covered by the agreements. The higher the dollar value and the greater the product range covered by any licensing arrangements, the greater the anti-competitive impact of a restraint, particularly a territorial one, is likely to be.

A third important factor listed by Mr. Stern in judging the antitrust picture in a licensing arrangement would be the length of the term of the agreement.[119] In the Westinghouse case, the basic arrangement had lasted for more than forty years.[120] The time factor can arise in several ways. For example, one of the recognized justifications for imposing a territorial restraint on the licensor is that it is necessary for the "struggling newcomer" licensee to have time to establish itself and to enter the field. Thus, it is likely that the Department of Justice would now regard such a restraint as reasonable if imposed only for the time necessary for such a "newcomer" licensee to break into the market. Another way in which time may be a critical factor is a licensing agreement which contemplates a continuing flow of technology.[121] If a restraint is perpetuated by each installment of fresh know-how for a long time and over a broad line of products, the arrangement is very likely to be subject to attack.

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A fourth factor in Mr. Stern's approach for evaluating a patent licensing arrangement from the antitrust viewpoint is whether or not cross or reciprocal licenses are involved.[122] If they are and territorial limitations are inherent in the situation because of the existence of patent rights, the possibility of antitrust problems is increased.

The fifth factor of importance in judging the antitrust legality of a licensing situation under Mr. Stern's analysis is whether or not, several restrictions are present in the business arrangement.[123] If, for example, in addition to territorial limitations, customer restrictions or quantity limitations were present, the possibility of antitrust difficulties increases.

Remember that Mr. Stern's five factors are being used to answer two fundamental questions he poses in assessing the legality of a territorial restriction on the sale of licensed goods under the "rule of reason". As you will remember, this rule means the restriction is not automatically condemned, i.e., per se illegal but rather, that we must look at the economic context in which the restriction is imposed and decide if it is reasonable. Mr. Stern indicates he will do this by asking two questions, namely the probable competitive effect of the restraint and whether it has a legitimate business justification.[124] It would be well for us also to consider these two questions extremely carefully, when drafting any future licensing agreements. If the parties do not seriously consider these factors and the antitrust implications which may follow from them, it is highly likely in today's climate that someone else will, namely, the Department of Justice or the private litigant seeking millions of dollars in a

treble damage action. We hope some of the ideas presented in this paper will help avoid such an outcome and will encourage the free exchange of technology by having indicated the relatively permissible limits of licensing arrangements as affected by American antitrust law.

FOOTNOTES TO SECTION ON

"ANTITRUST CONSIDERATIONS AND KNOW-HOW LICENSING"

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1. E.g., Zenith Radio Corp. v. Hazeltine Research Inc., 1971 CCH TRADE CASES, Para. 74,484 or 39 U.S.L.W. 4250 (Decision relating to reinstatement of patent pool damage award by Supreme Court on 2/24/71); Rehearing by Supreme Court declined-CCH Trade Regulation Report No. 513, dated April 12, 1971, p.5; see also National Union Electric Corp. v. Matshushita Electric Industrial Co. et. al, infra note 36, in which complaint requests damages totaling $360 million.

2. See generally, CCH TRADE REGULATION REPORTS, Para. 8801

3. See generally, Id. Para. 8800.

4. E.g., Chas. Pfizer & Co. v. Federal Trade Commission, 401 F. 2d 574, 159 U.S.P.Q. 193 (6th Cir. 1968) Cert. denied, 394 U.S. 920. See also, relief sought by U.S. government in United States v. Westinghouse Electric Corp., Mitsubishi Electric Corp. and Mitsubishi Heavy Industries, Ltd., Civil No. C-70-852-SAW as reported in CCH TRADE REGULATION REPORTS at Para. 45,070 (Case 2095).

5. See generally, Fulgate, FOREIGN COMMERCE AND THE ANTITRUST LAWS, Sec. 2.14 (1958)

6. Lear, Inc. v. Adkins, 395 U.S. 653,162 U.S.P.Q. 1 (1969)

7. Painton & Co. v. Bourns, 309 F. Supp. 271, 164 U.S.P.Q. 595 (S.D.N.Y. 1970)

8. See, for example, text discussion at pages 25 to 27 and applicable footnotes about the case law concerning price-fixing in a patent license and the Department of Justice's attitude in this area.

9. See, for example, text discussion at pages 23 to 25 and applicable footnotes concerning the "ancilliary restraints" doctrine and the international cartel cases brought in the late 1940's and early 1950's.

10. Kadish, "Patents and Antitrust: Guide and Caveats", 13 IDEA 83 (Spring 1969)

11. New York Times, January 1, 1970, p. 55.

12. NOTE: Often, persons who hold positions in the American government when delivering addresses state that the views expressed are those of the speaker and do not necessarily represent those of any governmental agency. This qualification should be borne in mind wherever references are made in the text of this paper to viewpoints of the Department of Justice.

The following is a partial listing of such speeches:

(a) Lionel Kestenbaum, Director of Policy Planning, Antitrust Division, Department of Justice, "Field-of-Use Restrictions in Patent and Know-How Licensing", Address before the Lawyers Institute of the John Marshall Law School on February 21, 1969;

(b) Assistant Attorney General Richard W. McLaren, Head, Antitrust Division, Department of Justice, "Patent Licenses and Antitrust Considerations", Address before the Patent, Trademark and Copyright Research Institute of George Washington University on June 5, 1969 (161 U.S.P.Q. No. 11, dated June 16, 1969, pp. II-VI);

(c) Roland W. Donnem, Director of Policy Planning, Antitrust Division, Department of Justice, "The Antitrust Attack on Restrictive Patent License Provisions", Address before the Michigan State Bar Convention on September 25, 1969 (5 "Les Nouvelles" 32, 1/70);

(d) Richard H. Stern, now Chief, Patent Unit, Antitrust Division, Department of Justice, "A Future Look at Patent Fraud and Antitrust Laws", Address before the Federal Bar Association Symposium on September 25, 1969 (52 J.P.O.S. 3, Jan. 1970);

(e) Bruce B. Wilson, Special Assistant to the Assistant Attorney General, Antitrust Division, Department of Justice, "Patents and Antitrust-The Legitimate Bounds of The Lawful Monopoly", Address before the Patent Law Association of Pittsburgh on November 19, 1969 (5 "Les Nouvelles" 2, 1/70);

(f) Bruce B. Wilson, (See his title above in this footnote) "The Legitimate and Illegitimate in Patent and Know-How Licensing", Address before The Lawyers Institute of the John Marshall Law School on February 20, 1970;

(g) Richard W. McLaren, Assistant Attorney General, (See title above in this footnote), Address before the

National Industrial Conference Board in New York City on March 5, 1970 as reported in CCH Trade Regulation Report, No. 456, dated 3/9/70;

(h) Norman H. Seidler, Chief of New York Office of Antitrust Division, Address before the New York Patent Law Association on March 19, 1970 as reported in Vol. 9, No. 8, May 1970 NYPLA Bulletin;

(i) Richard H. Stern (see title above in this footnote), Address on territorial limitations in international technology agreements before American Patent Law Association Stated Spring Meeting on May 15, 1970 as reported in APLA Bulletin for July-August 1970 at pp. 306-324;

(j) Richard W. McLaren (see title above in this footnote), Address on antitrust and foreign commerce before the Symposium on Antitrust and Related Issues and Their Solutions in International Trade and Productive Investment on October 16, 1970 as reported in CCH Trade Regulation Report, No. 489, dated 10/26/71 and 6 "Les Nouvelles" 44, 3/71);

(k) Richard H. Stern (see title above in this footnote), "Territorial Limitations in International Technology Agreements", Address before the Federal Bar Association-Government Patent Lawyers Association - Bureau of National Affairs Briefing Conference on November 16, 1970;

(l) Richard H. Stern (see title above in this footnote), "The Antitrust Status of Territorial Limitations in International Patent Licensing", Address before Antitrust Law Section of New York State Bar Association on January 27, 1971; BNA Antitrust & Trade Regulation Report, No. 498, dated 2/2/71 at p. F-1;

(m) Richard H. Stern (see title above in this footnote), Address concerning antitrust implications of international technology agreements before Chicago Bar Association in February 1971 as reported in BNA's Patent, Trademark & Copyright Journal, No. 15, dated 2/18/71 at p. A-3; and

(n) Roland W. Donnem (see title above in this footnote), Address before Board of Governors of the National Electrical Manufacturers Assn. in New York City on January 18, 1971 as reported in CCH Trade Regulation Report, No. 504, dated 2/8/71 at p. 10.

13. See Westinghouse case citation at footnote 4. See also 5 "Les Nouvelles" 183 (9/70).

14. E.g., Talk entitled "A Plea for Redirection in Patent Antitrust" by James M. Wetzel before Association of Corporate Patent Counsel on June 29, 1970.

15. See generally, Von Kalinowski, 1 ANTITRUST LAWS AND TRADE REGULATION, Sec. 3.02 [4] at 3-54.

16. U.S. Const., Art. 1, Sec. 8, Cl. 8 and see generally, Milgrim, TRADE SECRETS, Sec. 8.02 at 8-2; 1 von Kalinowski, op. cit. supra note 15, Sec. 2.04 and Briskin, "An Area of Confusion: Patents, Monopolies and the Antitrust Laws", 45 J.P.O.S. 741 (1963);

17. Milgrim, op. cit. supra note 16, Sec. 8.02 [1] at p. 8-3.

18. E.g., Brisken, op. cit. supra note 16; Finnegan, "Recent Developments in United States Law That Affect International Licensing", 5 "Les Nouvelles" 150 (9/70); Costner, PATENT LICENSING TRANSACTIONS , Sec. 7.03 [2]. See also address of Richard McLaren, op. cit. supra note 12, Item (b), at pages II-III.

19. 15 U.S.C. Sec. 1.

20. Standard Oil Co. (New Jersey) v. United States, 221 U.S. 1 (1911).

21. 1 von Kalinowski, op. cit. supra note 15, Sec. 6.02 [3].

22. See generally, Id. Sec. 6.02.

23. 15 U.S.C. Sec. 2.

24. See generally, 1 von Kalinowski, op. cit. supra note 15, Sec. 8.01.

25. United States v. Grinnell Corp., 384 U.S. 563 (1966); Aluminum Co. of America v. United States, 148 F. 2d 416 (2d Cir. 1945); 1 von Kalinowski, op. cit. supra note 15, Sec. 7.01.

26. 1 von Kalinowski, op. cit. supra note 15, Sec. 8.02 [4].

27. Id. Sec. 8.02 [2].

28. Id. Sec. 7.01 [2].

29. 15 U.S.C. Secs. 1 and 2.

30. Celler H.R. 3246 as reported in American Patent Law Association Bulletin, March 1971 at p. 243.

31. 15 U.S.C. Sec. 4.

32. Id. Sec. 15.

33. E.g., Fulgate, op. cit. supra note 5, Chapter 2 and Douglas McL. More, "U.S. Antitrust Laws and Territorial Provisions in Licensing Foreign Patents and Know-How for Foreign Use", 5 "Les Nouvelles" 49 (3/70); See also generally on this subject, Report of the Attorney General's National Committee to Study the Antitrust Laws, pp. 66-76 (1955) and Costner, op. cit. supra note 18, Sec. 7.02 [3]; and 1 von Kalinowski, op. cit. supra note 15, Sec. 5.02.

34. Fulgate, op. cit. supra note 5, Sec. 29.

35. Id. Sec. 2.14. Some writers such as the ATRR commentator quoted below in this footnote do, of course, refer to "extraterritorial" effect of the American antitrust laws. In any event, the fact that these laws can possibly have far-reaching effects is highlighted by an antitrust case which a private litigant has recently brought against Japanese manufacturers of television sets and their American subsidiaries charging violations of Sections 1 and 2 of the Sherman Act, the Robinson-Patman Act (which relates to price discrimination), the Wilson Tarriff Act of 1914 and an anti-dumping provision found in 15 U.S.C. Sec. 72. It is alleged that the defendants in this case (which is National Union Electric Corp. v. Matshushita Electric Industrial Co, et al.)sell 37% of all television sets in the United States. They have been charged with conspiring to maintain depressed prices for television sets in the United States for the purpose of eliminating and destroying domestic competitors such as the plaintiff which, it is alleged, was forced to close certain of its plants as a result. The complaint requests injunctive relief and treble damages totaling $360,000,000. for lost profits, the destruction of plaintiff's manufacturing capability, and the loss of reasonable prospective profits. (See BNA Antitrust & Trade Regulation Report, No. 494, dated January 5, 1971 at p. A-9 and No. 508, dated April 13, 1971, pages A-10 to A-11.)

A commentator in ATRR No. 508 has written an extremely interesting note on the ramifications of this case and a companion class action brought by a union representing former employees of the plaintiff in the first-mentioned case. The union is suing to recover damages for the loss of the employees' jobs at the plants closed down due to the alleged conspiracy of the defendants in the National Union case. Some of the observations of this commentator follow:

> "...The implications of the current action could be staggering. In effect, the complaint seeks to give American antitrust laws, particularly the price-discrimination provisions of the Robinson-Patman Act a tremendous extraterritorial effect. Its allegations that the constitutional scope of the 'commerce' to which the Robinson-Patman Act extends includes foreign trade as well as interstate trade, could conceivably result in a ruling that barred all imports into the United States unless the overseas manufacturers and exporters were in compliance with American antitrust laws. It is possible that could be the effect even if the combinations and other business activities of the overseas companies were permitted and even encouraged by their governments and laws.***" (ATRR, No. 508, 4-13-71 at page A-11.)

36. Fulgate, op. cit. supra note 5, Sec. 2.4.

37. 1 von Kalinowski, op. cit. supra note 15, Sec. 5.02.

38. Barton, "Limitations on Territory, Field-of-Use, Quantity and Price in Know-How Agreements with Foreign Companies", 28 U. Pitt. L. Rev. 195, footnote 8 (1966).

39. See addresses on March 5, 1970 and October 16, 1970 of Richard H. McLaren, Chief, Antitrust Division, op. cit. supra note 12, Items (g) and (j) and address of Roland W. Donnem on January 18, 1971, op: cit. supra note 12, Item (n).

40. See generally, Fulgate, op. cit. supra note 5, Chapter 3.

41. Id. Sec. 3.7 and address of James H. Wallace, Jr. before Mid-America World Trade Conference as reported in BNA Patent, Trademark & Copyright Journal, No. 17, dated 3/4/71 at A-13.

42. Reported as having been stated in James H. Wallace's address, op. cit. supra note 41.

43. 15 U.S.C. Secs. 6 and 11.

44. See generally, Fulgate, op. cit. supra note 5, Sec. 3.8.

45. Address of Richard McLaren on March 5, 1970, op. cit. supra note 12, Item (g).

46. 15 U.S.C. Secs. 12 et seq.

47. 15 U.S.C. Secs. 41 et seq.

48. 15 U.S.C. Sec. 45.

49. 15 U.S.C. Secs. 14 and 18.

50. 15 U.S.C. Secs. 15a and 26.

51. 1 von Kalinowski, op. cit. supra note 15, Sec. 11.05 [1] [a].

52. 15 U.S.C. Secs. 15 and 26.

53. See pages 14-16 of the text of the second section of this paper and the Lear and Painton cases, op. cit. supra notes 6 and 7.

54. For a tabular comparison of the differences between patents and trade secrets, see Milgrim, TRADE SECRETS, Sec. 8.02 [8].

55. Address of Richard H. Stern on November 16, 1970 op. cit. supra note 12, item (k) at pages 8-9 of copies of Mr. Stern's address as distributed to registraints of conference.

56. For general discussion of the "property" aspects of know-how, see Ladas, "Legal Protection of Know-How", 7 Patent, Trademark and Copyright Journal, No. 4, p. 397 (Winter 1963-1964). For a general discussion concerning the possible future effects on trade secret law of Lear, Inc. v. Adkins, (cited op. cit. supra note 6) see Milbank, "Finders, Keepers, Licensors Weepers", 52 J.P.O.S. 343 (June 1970)

57. E.g., Arnold and Goldstein, "Painton v. Bourns, The Progeny of Lear v. Adkins: Commentary upon Know-How Law and Practice" in PLI publication "Trade Secrets Today" (1971)

pp. 99-144 at 140; Milgrim, op. cit. supra note 54, Sec. 6.05 [4] at p. 6-106.

58. See generally, Nordhaus and Jurow, PATENT-ANTITRUST LAW, Sec. 27 (1961); Fulgate, op. cit. supra note 5, Sec. 8.9; Costner, PATENT LICENSING TRANSACTIONS, Secs. 5.03 [2] and 7.02; Stedman, "Acquisition of Patents and Know-How By Grant, Fraud, Purchase and Grantback", 28 U. Pitt. L. Rev. 161 (1966); Van Cise, "Antitrust Laws and Patents", 52 J.P.O.S. 776 (Dec. 1970).

59. Nordhaus and Jurow, op. cit. supra note 58, Sec. 28.

60. United States v. General Electric Co., 272 U.S. 476, 490 (1926).

61. See particularly addresses op. cit. supra note 12, by:
Richard McLaren on 6/5/69 - Item (b);
Roland Donnem on 9/25/69 - Item (c);
Bruce Wilson on 11/19/69 - Item (e);
Norman Seidler on 3/19/70 - Item (h);
Richard Stern on 5/15/70 - Item (i); and
Richard Stern on 1/27/71 - Item (l).

62. Address of Richard W. McLaren as reported in BNA's Antitrust & Trade Regulation Report No. 429, dated 9/30/69 at A-17.

63. See cases cited infra note 77. The most famous statement of the "ancillary restraints" doctrine is found in United States v. Addyston Pipe and Steel Co., 85 Fed. 271 (6th Cir. 1898) aff'd 175 U.S. 211 (1899).

64. See generally, MacDonald, "Know-How Licensing and The Antitrust Laws", 62 Mich. L. Rev. 351, 360 (Jan. 1964) and Stedman, "Legal Problems in the International and Domestic Licensing of Know-How", 29 A.B.A. ANTITRUST SECTION 247 (1965); Costner, op. cit. supra note 58, at Sec. 5.03 [2] [6].

65. MacDonald, op. cit. supra note 64, at p. 359; Milgrim, op. cit. supra note 54, Sec. 2 [a].

66. MacDonald, op. cit. supra note 64, at p. 358.

67. E.g. See particularly addresses, op. cit. supra note 12, by:

Roland Donnem on 9/25/69 - Item (c);
Bruce Wilson on 11/19/69 - Item (e); and
Norman Seidler on 3/19/70 - Item (h).

68. 1 von Kalinowski, op. cit. supra note 15, Sec. 6.02 [3] [6].

69. 272 U.S. 476 (1926).

70. E.g., United States v. Huck Mfg., 382 U.S. 197, 147 U.S.P.Q. 404 (1965). See Milgrim, op. cit. supra note 54, at Sec. 6.05 [1] [b], fn. 10.

71. Address of Roland Donnem on 9/25/69 op. cit. supra note 12, Item (c), 5 "Les Nouvelles" 32, 34 (1/70).

72. Ibid.

73. Dr. Miles Medical Co. v. John D. Park & Sons, 220 U.S. 373 (1911).

74. See generally, Milgrim, op. cit. supra note 54, at Sec. 6.05 [2] [b] and Sec. 6.05 [7], the latter being a reprint of the MacDonald article cited op. cit. supra note 64; Also, Costner, PATENT LICENSING TRANSACTIONS, Sec. 7.02 [2].

75. Costner, op. cit. supra note 58 at p. 7-14.

76. United States v. National Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945), aff'd, 332 U.S. 319 (1947); United States v. General Electric Co., 80 F. Supp. 989 (S.D.N.Y. 1948) United States v. General Electric, 82 F. Supp. 753 (D.N.J. 1949); United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N.D. Ohio 1949), aff'd, 341 U.S. 593 (1951); and United States v. Imperial Chemical Indus., Ltd., 100 F. Supp. 504 (S.D.N.Y. 1951) Final decree entered 105 F. Supp. 215 (S.D.N.Y. 1952). See an excellent discussion of these cases in MacDonald article cited op. cit. supra note 64, at pp. 365-377.

77. United States v. E.I. duPont De Nemours & Co., 118 F. Supp. 41, 99 U.S.P.Q. 462,466 (D. Del. 1952), aff'd. on other grounds 351 U.S. 377 (1956); See also, Foundry Services, Inc. v. Beneflux Corp. 110 F. Supp. 857, 97 U.S.P.Q. 36 (S.D.N.Y. 1953), reversed on other grounds, 206 F. 2d 214, 99 U.S.P.Q. 150 (2nd Cir. 1953).

78. Address of Richard McLaren on October 16, 1970, op. cit. supra note 12, Item (j).

79. Ibid.

80. Address of Richard McLaren, op. cit. supra note 62.

81. Address of Richard Stern on November 16, 1970 and in February 1971, op. cit. supra note 12, Items (k) and (m).

82. Address of Richard Stern on November 16, 1970 op. cit. supra note 12, Item (k) at pages 11-12 of copy of Mr. Stern's address distributed to participants at conference.

83. Id. at 12.

84. Ibid.

85. Id. at 12-13.

86. Id. at 13.

87. Id. at 10.

88. Civil No. C-70-852-SAW. The discussion of the complaint and other aspects of the Westinghouse case is based on the report which appears in CCH TRADE REGULATIONS, Para. 45,070 (Case 2095), pages 52,756 and 52,757, dated 4/27/70 and The Wall Street Journal, dated July 30, 1970, page 1.

89. General Talking Pictures Corp. v. Western Electric Co., 304 U.S. 175 (1938), aff'd upon rehearing, 305 US. 124 (1938).

90. E.g., Address of Richard Stern on 9/25/69, op. cit. supra note 12, Item (d); Address of Roland W. Donnem on 9/25/69, op. cit. supra note 12, Item (c) and address of Bruce Wilson on 11/19/69, op. cit. supra note 12, Item (e).

91. A. & E. Plastik Pak Co. v. Monsanto, 396 F. 2d 710 158 U.S.P.Q. 375 (9th Cir.1968); Aktiebologet Bofors v. United States, 194 F. 2d 145, 91 U.S.P.Q. 285 (D.C. Cir. 1951).

92. Address of Bruce Wilson on 11/19/69, op. cit. supra note 12, Item (e), 5 "Les Nouvelles" 2, 3.

93. See generally, Milgrim, TRADE SECRETS, Sec. 6.05 [37].

94. 15 U.S.C. Sec. 14 which reads:

> "It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other

#3 Comm'th

THIS IS A PAPER PRESENTED TO THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION'S SECOND INTERNATIONAL CONGRESS HELD AT WASHINGTON, D. C., ON MAY 4 - 6, 1971.

TO ARBITRATE OR TO LITIGATE

BY PETER F. CASELLA
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NIAGARA FALLS, NEW YORK

TO ARBITRATE OR TO LITIGATE -- THAT IS THE QUESTION. WHETHER IT IS WISER TO SUFFER THE SLINGS AND ARROWS OF OUTRAGEOUS FORTUNE THAT GO WITH LITIGATION OR TO TAKE THE QUICKER AND EASIER ROUTE THROUGH ARBITRATION ONLY TO FIND THAT YOU HAVE BEEN COMPROMISED. LET ME TELL YOU THAT I HAVE PONDERED THIS QUESTION, I HAVE RESEARCHED IT AND I HAVE TALKED IT OUT WITH MANY OF MY BUSINESS AND PROFESSIONAL ASSOCIATES. I DO NOT WANT TO HOLD YOU IN SUSPENSE, SO I SHALL GIVE YOU MY CONCLUSION NOW -- THERE IS NO MORE CLEAR-CUT ANSWER TO THIS GENERAL QUESTION, I.E. WHETHER TO ARBITRATE OR TO LITIGATE, THAN THERE IS TO HAMLETS. BUT WHAT I CAN DO IS GIVE YOU SOME OF THE CHARACTERISTICS AND PROS AND CONS THAT YOU CAN INCLUDE ON EITHER SIDE OF THE LEDGER OF ITEMS THAT YOU SHOULD EVALUATE IN EACH GIVEN SITUATION THAT YOU ARE TRYING TO ANSWER THIS QUESTION ON.

I WOULD LIKE TO MAKE A FEW REMARKS ON THE MAIN WAY ONE MIGHT TRY TO SETTLE DISPUTES. FOR THE MOST PART, I WILL BE CONCERNED WITH SETTLING DISPUTES BETWEEN CORPORATE PARTIES TO WRITTEN AGREEMENTS WHO HAVE HAD A FALLING OUT OR A MISUNDERSTANDING ON ONE OR MORE POINTS THAT THEY THOUGHT THEY UNDERSTOOD BETWEEN THEMSELVES WHEN THEY SIGNED UP. MOST OF MY EXPERIENCE HAS BEEN IN PATENT AND/OR KNOW-HOW AGREEMENTS BETWEEN TWO COMPANIES, USUALLY REASONABLY LARGE-SIZED CORPORATIONS WHO HAVE ACCESS TO THE FULL LINE OF SKILLS AND PROFESSIONAL SERVICES NECESSARY IN NEGOTIATING AND WRITING UP THE DEAL, AND USUALLY THESE HAVE BEEN CALLED UPON AND USED IN MOST OF THESE NEGOTIATIONS AND AGREEMENTS. NOW EVEN IN THESE CASES, WE HAVE HAD MISUNDERSTANDINGS IN SPITE OF ALL THE TALENT AND EFFORT THAT HAD BEEN USED IN TRYING TO COME UP WITH A GOOD WRITTEN STATEMENT OF THE AGREEMENT.

WHEN A MISUNDERSTANDING ARISES BETWEEN TWO SUCH PARTIES, THEY USUALLY TRY TO SETTLE SUCH DISPUTES AMONG THEMSELVES BY THE SIMPLE AND STRAIGHTFORWARD APPROACH OF GETTING TOGETHER -- AND OFTENTIMES OVER LIQUID REFRESHMENTS -- AND TRYING TO RESOLVE THE PROBLEM. THIS IS THE WAY TO DO IT. THE PROBLEM IS WORKED OVER AND SATISFACTORILY WORKED OUT AND OUT OF THE MEETING COMES AMENDMENT I OR SUPPLEMENT A SIGNED AND ATTACHED TO THE MAIN AGREEMENT -- AND ALL GOES WELL.

BUT WHEN THAT SIMPLE "DO IT YOURSELF" SETTLEMENT APPROACH DOESN'T WORK AND THE PARTIES STILL HAVE A CONSCIENTEOUS DESIRE TO MAKE AN AMICABLE SETTLEMENT BUT ARE STILL HAVING TROUBLE UNDERSTANDING EACH OTHER'S POINT OF VIEW, THEY CAN ENGAGE THE GOOD OFFICES OF A FRIENDLY POWER, THAT IS A MEDIATOR, TO HELP THEM OUT. MEDIATION IS THE PROCESS FOR BRINGING ABOUT AGREEMENT OR RECONCILIATION BETWEEN OPPONENTS IN A DISPUTE. IT IS A DELIBERATION THAT MAY OR MAY NOT BE ACCEPTED BY THE CONTENDING PARTIES. IT IS A PROCESS WHICH INVOLVES A THIRD PARTY WHO TRIES TO HELP THE DISPUTING PARTIES TO HELP THEMSELVES ARRIVE AT A SOLUTION TO THEIR PROBLEM WHICH BOTH OF THEM CAN ACCEPT.

MEDIATION IS ALSO A GOOD WAY OF SETTLING DISPUTES, ESPECIALLY SINCE ACCEPTING THE SETTLEMENT IS PURELY VOLUNTARY BETWEEN THE PARTIES.

MY PRESENTATION TODAY STARTS WHERE THE DO-IT-YOURSELF SETTLERS CANNOT COME TO TERMS. WHERE THEY HAVE REACHED A POINT WHERE THEY CAN'T DECIDE FOR THEMSELVES ON HOW TO SETTLE AND A THIRD PARTY MUST DECIDE FOR THEM.

ARBITRATION AND LITIGATION DO THAT.

ARBITRATION IS DEFINED BY THE AMERICAN ARBITRATION ASSOCIATION AS -- "THE REFERENCE OF A DISPUTE BY VOLUNTARY AGREEMENT OF THE PARTIES TO AN IMPARTIAL PERSON OR PANEL OF PERSONS FOR DETERMINATION ON THE BASIS OF EVIDENCE AND

ARGUMENT PRESENTED BY SUCH PARTIES, WHO AGREE IN ADVANCE TO ACCEPT THE DECISION OF THE ARBITRATOR AS FINAL AND BINDING."

LITIGATION IS TO MAKE THE DISPUTE THE SUBJECT OF A LAWSUIT, AND AS WE ALL KNOW, THE DECISIONS ARE ALSO BINDING ON THE PARTIES. LITIGATION IS HAPPINESS WHEN YOU WIN, AND LITIGATION IS SADNESS WHEN YOU LOSE.

THE MAIN ADVANTAGE OF ARBITRATION OVER LITIGATION IS THE COST AND TIME SAVINGS TO THE PARTIES.

A BASIC CHARACTERISTIC OF ARBITRATION IS IT IS ESSENTIALLY CONSENSUAL IN NATURE. IT OPERATES BEST WHEN BOTH PARTIES VOLUNTARILY AND READILY AGREE TO BE SUBJECT TO ARBITRATION. AMONG THE ADVANTAGES OF ARBITRATING RATHER THAN LITIGATING IS THE PROCEEDINGS ARE CONDUCTED IN A MUCH MORE INFORMAL ATMOSPHERE THAN IN A COURTROOM. THE PROCEEDINGS ARE CAPABLE OF BEING MAINTAINED ON A MUCH MORE CONFIDENTIAL BASIS THAN IF ARGUED IN OPEN COURT. FURTHER, IT IS USUALLY A MUCH SWIFTER FORM OF GETTING JUSTICE THAN GOING THROUGH THE LONG AND TORTUROUS PROCEEDINGS IN THE COURTS WHETHER THEY BE IN THE UNITED STATES OR JAPAN. ONE OF THE MOST IMPORTANT CONSIDERATIONS FOR ARBITRATING AGREEMENTS IS THAT ARBITRATORS EXPERT IN THE TECHNOLOGY AND INDUSTRY AND EVEN ON THE PATENTS, TECHNOLOGY AND KNOW-HOW SPECIFICALLY INVOLVED, ARE SELECTED, RATHER THAN JUDGES FROM THE COURTS

WHO AT BEST ONLY HAVE BROAD GENERAL KNOWLEDGE OF THE INDUSTRY AND TECHNOLOGY. ARBITRATION AND THE RESULTS OF IT WILL OFTENTIMES INVOLVE MORE COMPROMISE THAN WOULD BE HANDED DOWN WHEN THE SAME QUESTIONS ARE LITIGATED IN COURT. IN ADDITION, ARBITRATORS USUALLY PAY LITTLE REGARD TO PRIOR LEGAL PRECEDENT; THE CONSISTENCY OF RESULTS OF ONE ARBITRATION TO THE OTHER IS ALMOST TOTALLY LACKING. THERE IS GENERALLY NO DETAILED, FORMAL WRITTEN TRANSCRIPT AND THE RULES OF EVIDENCE ARE NOT NECESSARILY FOLLOWED IN ARBITRATION, IF AT ALL. ARBITRATION ALSO ALLOWS FOR LITTLE OR NO OPPORTUNITY FOR APPEAL OF THE DECISION EXCEPT IN CASES OF FRAUD, MISCONDUCT OR ANTI-TRUST CONSIDERATIONS HAVING ERRONEOUSLY BEEN INCLUDED, OR PERHAPS IF POOR OR IMPROPER NOTICE WAS GIVEN.

A SERIOUS DISADVANTAGE IN ARBITRATING IS IF IT IS NECESSARY TO COMPEL THE ARBITRATION AWARD TO BE ENFORCED BY MEANS OF LITIGATION, THEN ONE HAS LOST THE REAL ADVANTAGE BY NOT ONLY GOING THROUGH AN ARBITRATION PROCEEDING, BUT ALSO A LITIGATION -- AND THIS, OF COURSE, NEGATES MOST OF THE ADVANTAGES THAT MIGHT BE ASSOCIATED WITH ARBITRATION, AND THAT IS WHY IT IS SO IMPORTANT FOR BOTH PARTIES TO ENTHUSIASTICALLY AGREE TO ARBITRATION AS THE MEDIUM FOR RESOLVING DISPUTES BETWEEN THEM.

ARBITRATION WORKS BETTER WHEN RESOLVING FACTUAL ISSUES RATHER THAN COMPLEX LEGAL ISSUES BECAUSE THE FACTUAL ISSUES CAN BE MORE READILY RESOLVED BY INDUSTRY AND TECHNICAL EXPERTS WHO ARE SELECTED AS ARBITRATORS.

INSOFAR AS DEALING IN THE SPECIFIC QUESTION, THAT IS TO ARBITRATE OR TO LITIGATE, BETWEEN U. S. AND JAPANESE COMPANIES IS CONCERNED, AND ESPECIALLY ON PATENT AND KNOW-HOW LICENSE AGREEMENTS, THERE ARE CERTAIN DIFFICULTIES PECULIAR TO INTERNATIONAL LITIGATION WHICH ARE NOT NECESSARILY ASSOCIATED WITH INTERNATIONAL ARBITRATION. IN THE UNITED STATES--JAPANESE CONTEST, THE DIFFICULTIES IN INTERNATIONAL LITIGATION INVOLVE DIFFERENCES OF JURISDICTIONAL REQUIREMENTS AND WHETHER THE RESPECTIVE COURTS HAVE JURISDICTION OF THE FOREIGNERS INVOLVED. THERE IS UNCERTAINTY ABOUT WHICH LAW WILL BE FOUND TO COVER AN INTERNATIONAL CONTRACT UNDER CURRENT CHOICE OF LAW RULES. THERE IS UNCERTAINTY AS TO THE ENFORCEABILITY IN THE UNITED STATES OF GOVERNING LAW AND PROGOROGATION CLAUSES WHICH HAVE BEEN AGREED TO BY THE PARTIES. THE UNCERTAINTY OF BEING ABLE TO ENFORCE THE FOREIGN JUDGMENTS MADE BY THE FOREIGN COURTS IN BOTH COUNTRIES OF THE PARTIES TO THE AGREEMENT. MORE PRACTICALLY, DELAY AND EXPENSE OF LITIGATION IN THE UNITED STATES AND THE BURDENS PECULIAR TO FOREIGN LAWSUITS SUCH AS LACK OF FAMILIARITY WITH THE

HABITS OF FOREIGN LAWYERS, TRANSLATION OF DOCUMENTS FROM JAPANESE TO ENGLISH, THE DISTANCE THE WITNESSES HAVE TO TRAVEL, THE VAST DIFFERENCES IN TRIAL PROCEDURES AND THE PROBLEMS INVOLVED IN PROVING FOREIGN LAW. ALL THESE MAKE LITIGATION OF INTERNATIONAL AGREEMENTS UNATTRACTIVE. THUS, INTERNATIONAL LITIGATION IS NOT ONLY PROTRACTED AND TEDIOUS, BUT ABSORBS EXECUTIVE TIME AND TALENT AND IS INORDINATELY EXPENSIVE. FURTHER, LITIGATION BETWEEN PARTIES ALWAYS SEEMS TO DAMAGE COMMERCIAL RELATIONS MUCH WORSE THAN ARBITRATION BETWEEN THE SAME PARTIES ON THE SAME QUESTIONS AND WITH THE SAME AWARDS.

THE GENERAL CONSENSUS AMONG BUSINESSMEN DEALING WITH THEIR JAPANESE COUNTERPARTS IS THAT LITIGATION CREATES BAD WILL AND THE SENSITIVITY OF THE PEOPLE INVOLVED IS AGGREVATED SO THAT THERE IS A STRONG URGE TO AVOIDING LITIGATION AND TO SETTLING DISPUTES BY COMPROMISE -- FIRST ON A DO-IT-YOURSELF BASIS AND THEN BY ARBITRATION.

THE DIFFERENCES IN PROCEDURES BETWEEN ARBITRATION AND LITIGATION IN THE UNITED STATES ARE THE DIFFERENCES BETWEEN THE COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION (A COPY OF A 12-PAGE PAMPHLET ON THESE IS ATTACHED) AND THE MANY VOLUMES OF LAW IN THE UNITED STATES INCLUDING THE FEDERAL RULES OF CIVIL PROCEDURE PLUS THE CONSIDERABLE BODY OF JUDGE-MADE LAW IN THIS COUNTRY COVERING THESE POINTS.

THE PROCEDURES FOR ARBITRATION IN JAPAN ARE GIVEN IN THE ATTACHED PAMPHLET ON COMMERCIAL ARBITRATION RULES BY THE JAPAN COMMERCIAL ARBITRATION ASSOCIATION, AND I SURMISE THERE IS AN EQUALLY LARGE BODY OF LAW AND LAWBOOKS IN JAPAN RELATED TO THE PROCEDURES FOR LITIGATION THERE.

THUS, THE PROCEDURES FOR ARBITRATION ARE CONSIDERABLY MORE SIMPLE IN BOTH THE UNITED STATES AND JAPAN THAN THE CORRESPONDING PROCEDURES FOR LITIGATION.

IN ORDER TO FURTHER EVALUATE THE QUESTION TO ARBITRATE OR TO LITIGATE, IT IS IMPORTANT TO TALK ABOUT ENFORCEMENT OF AWARDS MADE BY ARBITRATION.

THE ENFORCEMENT OF ARBITRAL AGREEMENTS OR AWARDS PRIMARILY BETWEEN UNITED STATES AND JAPANESE COMPANIES IS PROVIDED FOR BY VARIOUS FACILITIES. THERE ARE SEVERAL PROVISIONS IN THE LAWS OF EACH COUNTRY, THERE ARE TREATIES OR CONVENTIONS SIGNED BY BOTH THE UNITED STATES AND JAPAN, AND THERE ARE PRIVATE ARRANGEMENTS BETWEEN THE JAPANESE AND AMERICAN ARBITRATION ASSOCIATIONS, ALL OF WHICH CAN BE USED TO FACILITATE THE ENFORCEMENT OF ARBITRATION CLAUSES AND AWARDS.

FIRST, THE TREATY OF FRIENDSHIP, COMMERCE AND NAVIGATION BETWEEN THE UNITED STATES AND JAPAN WHICH WAS CONSUMMATED ON APRIL 2, 1953 (4 UST AND 01A2063), AND

WHICH OFTENTIMES IS REFERRED TO AS THE FCN TREATY, IS EFFECTIVE LAW IN BOTH COUNTRIES INSOFAR AS IT APPLIES TO ARBITRATION. THIS TREATY PROVIDES THAT ARBITRAL CONTRACTS SHALL NOT BE UNENFORCEABLE MERELY ON THE GROUNDS THAT THE ARBITRATORS OR PLACE OF ARBITRATION ARE FOREIGN. THUS, IT IS LEFT TO THE PARTIES TO AGREE ON THE PREVAILING LAW AND IF THEY HAVE NOT CONTRACTED ON THIS, THE JAPANESE LAW OR THE FEDERAL LAW OR THE STATE LAW IN THE UNITED STATES WHICH GOVERNS THE ARBITRATION AGREEMENT WILL BE USED, AND IT CAN BE USED TO EITHER GET AN ORDER TO ARBITRATE OR TO RESULT IN THE DISMISSAL OF A LOCAL SUIT OR TO RESULT IN A STAY OF SUCH LITIGATION OR TO ENJOIN A SUIT IN ANOTHER COURT.

SECOND, THERE ARE ARBITRATION PROVISIONS IN THE JAPANESE CIVIL PROCEDURE CODE, PARTICULARLY IN ARTICLES 786 THROUGH 805, AND ARBITRATION STATUTES ARE IN UNITED STATES FEDERAL LAW, PARTICULARLY IN VOLUME 9 OF THE UNITED STATES CODE, SECTIONS 1 THROUGH 14. ALSO, THE UNITED STATES UNIFORM COMMERCIAL CODE, WHICH IS USUALLY REFERRED TO IN THE UNITED STATES BY THE INITIALS UCC, MAKES SOME PROVISION FOR HAVING UNIFORM ARBITRATION STATUTES IN THE SEVERAL STATES THAT ENACT IT, AND THESE ARE IMPORTANT, PARTICULARLY IN SALES AGREEMENTS.

THE JAPAN--AMERICAN TRADE ASSOCIATION AGREEMENT ENTERED INTO BY THE JAPANESE COMMERCIAL ARBITRATION ASSOCIATION (JCAA) AND THE AMERICAN ARBITRATION ASSOCIATION (AAA) IN 1952, IS A MAJOR AND SIGNIFICANT AGREEMENT, EVEN THOUGH THIS AGREEMENT IS A PRIVATE AGREEMENT AND DOES NOT HAVE THE FORCE OF LAW. IT PROVIDES RULES OF PROCEDURE FOR ARBITRATION IN EITHER COUNTRY WHEN THE PARTIES INCLUDE IN THEIR CONTRACTS A STANDARD CLAUSE WHICH INCORPORATES THE ASSOCIATION RULES. A COPY OF THE 1952 AGREEMENT BETWEEN THE JCAA AND AAA IS ATTACHED, AND A SAMPLE OF A STANDARD CLAUSE TO INCORPORATE IS GIVEN IN THAT ATTACHMENT.

THERE ARE MODEL ARBITRATION CLAUSES UNDER STUDY BY THIS PANEL, AND I BELIEVE THERE WILL BE A MODEL ARBITRATION CLAUSE PROPOSED FOR INCLUSION IN OUR AGREEMENTS.

AMONG THE MORE IMPORTANT FACILITIES FOR ENFORCEMENT OF ARBITRAL AGREEMENTS AND AWARDS BETWEEN THE UNITED STATES AND JAPAN IS THE UNITED NATIONS CONVENTION ON RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRATION AWARDS. THIS TREATY JAPAN ACCEPTED AND RATIFIED IN 1961 AND THE UNITED STATES JUST ENTERED AND RATIFIED IT DURING 1970 SO THAT IT BECAME LAW BY JANUARY 1, 1971 IN OUR COUNTRY. A COPY OF THIS TREATY, AND A COPY OF UNITED STATES PUBLIC LAW 91-368 IMPLEMENTING IT, AND A LIST OF THE COUNTRIES WHO ARE PARTY TO IT, ARE ATTACHED.

THIS NOW MAKES IT MORE CERTAIN THAN EVER IN THE PAST THAT AGREEMENTS TO ARBITRATE DISPUTES WILL BE AS EFFECTIVE ABROAD AS THEY HAVE BEEN AT HOME, AND OUR FOREIGN PARTNERS CAN HAVE RENEWED CONFIDENCE IN AWARDS TO BE ENFORCED HERE IN THE UNITED STATES OF AMERICA.

ENFORCING ARBITRAL AWARDS UNDER THE FOREGOING AGREEMENTS, TREATIES AND LAWS, AND STILL OTHER RULES AND REGULATIONS EMBRACED WITHIN BOTH OF OUR COUNTRIES' STATUTES AND PRECEDENTS SEEMS TO BE BECOMING EASIER AND MORE DEFINITE. THE TREND IS TOWARD MORE SUCCESSFUL ENFORCEMENT BEING REALIZED.

IN THE UNITED STATES, OUR 50 STATE JURISDICTIONS HAVE SPLIT INTO TWO GROUPS, ONE WHICH THE MOST RECENT SURVEY AVAILABLE TO ME SHOWED 27 STATES HAVING WEAK ARBITRATION FACILITIES IN THAT THEY FOLLOW MORE THE COMMON LAW DOCTRINE TO THE EFFECT THAT GENERAL ARBITRAL AGREEMENTS COVERING FUTURE DISPUTES ARE REVOCABLE BY THE PARTIES AND UNENFORCEABLE IN COURT. THESE STATES ON LAST COUNT INCLUDED ALABAMA, ALASKA, ARKANSAS, COLORADO, DELAWARE, GEORGIA, IDAHO, INDIANA, IOWA, KANSAS, KENTUCKY, MAINE, MISSISSIPPI, MISSOURI, MONTANA, NEBRASKA, NEW MEXICO, NORTH CAROLINE, NORTH DAKOTA, OKLAHOMA, SOUTH CAROLINA, SOUTH DAKOTA, TENNESSEE, UTAH, VERMONT, VIRGINIA AND WEST VIRGINIA. THE OTHER 22 STATES AND THE FEDERAL JURISDICTION

COURTS IN THE UNITED STATES BY MODERN STATUTE HAVE MADE ARBITRAL CLAUSES ENFORCEABLE, INCLUDING FOREIGN ARBITRATION. THESE STATES INCLUDE ARIZONA, CALIFORNIA, CONNECTICUT, FLORIDA, HAWAII, ILLINOIS, LOUISIANA, MARYLAND, MASSACHUSETTS, MICHIGAN, MINNESOTA, NEW HAMPSHIRE, NEW JERSEY, NEW YORK, OHIO, OREGON, PENNSYLVANIA, RHODE ISLAND, TEXAS, WASHINGTON, WISCONSIN AND WYOMING. OF THESE, SEVERAL HAVE WITH VARYING CHANGES ADOPTED THE UNIFORM ARBITRATION ACT OF 1956 SUPERSEDING THE PRIOR UNIFORM ACT OF 1926, NEW YORK STATE BEING INCLUDED AMONG THOSE ADOPTING THE NEWEST MODERN VERSION.

THUS, THE TREND IS QUITE APPARENT THAT THE STATES ARE LEANING TOWARDS ADOPTING LAWS TO MAKE ARBITRAL CLAUSES MORE ENFORCEABLE.

WHEN ONE LOOKS AT THIS TREND WITH THE RECENT SUGGESTION OF THE CHIEF JUSTICE OF THE UNITED STATES SUPREME COURT, MR. BURGER, WHO RECENTLY URGED THAT MORE USE OF ARBITRATION MUST BE MADE TO HELP MINIMIZE AND CUT DOWN THE BUILDING UP OF THE BACKLOG OF LAWSUITS IN OUR COURTS, IT SEEMS THAT WE CAN EXPECT ARBITRATION TO BECOME MORE IMPORTANT FOR AMERICAN COMPANIES BOTH IN THEIR DOMESTIC AND ESPECIALLY IN THEIR FOREIGN AGREEMENTS.

INSOFAR AS PATENT AND KNOW-HOW AGREEMENTS ARE CONCERNED, THERE IS A SERIOUS QUESTION IN THE UNITED STATES ON WHETHER THE VALIDITY OR INFRINGEMENT OF A UNITED STATES PATENT IS AN ISSUE THAT CAN BE ARBITRATED UNDER THE LAWS OF OUR COUNTRY. RECENTLY, AND ONLY AS A SIDE ISSUE IN AN IMPORTANT PATENT LITIGATION, BECKMAN INSTRUMENTS, INC. AGAINST TECHNICAL DEVELOPMENT CORPORATION (167 USPQ 10), THE COURT OF APPEALS FOR THE 7TH CIRCUIT FOR THE UNITED STATES QUESTIONED WHETHER PARTIES TO AN AGREEMENT ARE PERMITTED TO ARBITRATE A CONTROVERSY INVOLVING INFRINGEMENT OR VALIDITY OF A PATENT. THE COURT RECOGNIZED THAT THE PARTIES IN THE ARBITRATION CLAUSE DID NOT EXPRESSLY PROVIDE FOR THE ARBITRATION OF PATENT VALIDITY QUESTIONS, BUT THE COURT WENT ON TO SAY, "MOREOVER, WE ARE IN ACCORD WITH THE DISTRICT COURT'S VIEW THAT SUCH QUESTIONS ARE INAPPROPRIATE FOR ARBITRATION PROCEEDINGS AND SHOULD BE DECIDED BY A COURT OF LAW, GIVEN THE GREAT PUBLIC INTEREST IN CHALLENGING INVALID PATENTS. LEAR V. ADKINS, 395 U. S. 653, 670, 162 USPQ 1, 8 (1969). AS THE DISTRICT COURT SAID: "THE COMPLEX PRINCIPLES OF PATENT LAW WHICH A COURT MUST CONSIDER AND APPLY WHEN DECIDING ISSUES OF VALIDITY AND INFRINGEMENT, AFFECT IMPORTANT QUESTIONS OF PUBLIC POLICY AND PUBLIC RIGHTS. IN CONSIDERING THE VALIDITY OF PATENT CLAIMS, A COURT MAKES DECISIONS CRUCIAL NOT ONLY TO THE

PARTIES INVOLVED, BUT OF VITAL IMPORTANCE TO THE PUBLIC GENERALLY." THERE HAVE BEEN A SERIES OF PRIOR PRECEDENTS LONG-ESTABLISHED WHICH HAD SIMILAR HOLDINGS. HOWEVER, JAMES A. DOBKIN IN A RECENT ARTICLE, "ARBITRABILITY OF PATENT DISPUTES UNDER THE UNITED STATES ARBITRATION ACT", (23 ARBITRATION JOURNAL, PAGES 1 THROUGH 17) IN 1968 ESTABLISHES THE APPARENT COMPATABILITY OF PATENT QUESTIONS TO THE ARBITRAL PROCESS. MOST RECENTLY, SOME PRACTITIONERS IN THE UNITED STATES HAVE URGED UPON SENATOR MCCLELLAN THAT THERE BE AN AMENDMENT TO THE NEW PATENT REVISION BILL IDENTIFIED IN THE SENATE AS S-643 BY THE ADDITION OF A PROPOSED SECTION 294 WHICH WOULD CLEARLY HAVE IT MADE LAW IN THE UNITED STATES THAT ARBITRATION OF INFRINGEMENT AND VALIDITY OF PATENTS SHALL BE A VALID ISSUE FOR ARBITRATION WHEN THE PARTIES VOLUNTARILY AGREE TO ARBITRATE. THE ARBITRATION PROVISION CONTEMPLATED BY NEW SECTION 294 WOULD NOT REQUIRE OR COMPEL ANYONE TO SUBMIT TO ARBITRATION THESE QUESTIONS, BUT WOULD MERELY PROVIDE THAT THEY COULD DO SO IN THE EVENT BOTH PARTIES FREELY ENTERED INTO AN AGREEMENT TO THE EFFECT.

CONSIDERABLE STUDY WILL BE GIVEN TO THIS QUESTION BY MEMBERS OF THE PATENT BAR AND OTHERS WHO ARE INTERESTED, ESPECIALLY SINCE THEY SEEM TO BE COMING UP IN THE HEARINGS BEFORE SENATOR MCCLELLAN'S COMMITTEE DURING MAY 11 AND 12.

IT IS MY VIEW THAT THERE IS A TREND TOWARDS FAVORING ARBITRATION TO LITIGATION IN INTERNATIONAL AGREEMENTS. NOW THAT THE UNITED STATES HAS RATIFIED AND IMPLEMENTED THE UNITED NATIONS CONVENTION ON ARBITRATION, I PREDICT A GREATER PERCENTAGE OF OUR INTERNATIONAL AGREEMENTS WILL HAVE ARBITRATION CLAUSES IN THEM. WE CAN EXPECT ARBITRATION OF PATENT, INFRINGEMENT AND VALIDITY ISSUES TO EVENTUALLY BE RECOGNIZED IN UNITED STATES PRACTICE. HOWEVER, I DO NOT FEEL THAT IT WILL HAPPEN WITHIN NEXT WEEK'S REVIEW OF THE NEW PATENT BILL.

COMMERCIAL ARBITRATION RULES

Revised on June 14, 1963

THE JAPAN COMMERCIAL ARBITRATION ASSOCIATION

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COMMERCIAL ARBITRATION RULES

OF THE

JAPAN COMMERCIAL ARBITRATION ASSOCIATION

I. Agreement of Parties

Section 1. Agreement of Parties. —The parties shall be deemed to have made these Rules a part of their arbitration agreement whenever, in the Submission or other written agreement, they have provided for arbitration by The Japan Commercial Arbitration Association or under its Rules. These Rules and any amendment thereof shall apply in the form obtaining at the time the arbitration is initiated.

II. Tribunals

Section 2. Name of Tribunal. —Any Tribunal constituted by the parties for the settlement of their dispute under these Rules, shall be called a Commercial Arbitration Tribunal, hereinafter referred to as "Tribunal."

Section 3. Administrator. —When parties agree to arbitrate under these Rules or provide for arbitration by The Japan Commercial Arbitration Association and an arbitration is initiated thereunder, they thereby constitute The Japan Commercial Arbitration Association the Administrator of the arbitration in accordance with its Rules. The authority and obligations of the Administrator are limited in the manner prescribed in the agreement of the parties and in these Rules.

Section 4. Director of Tribunals and Tribunal Clerks. —The administrative duties of the Association may be carried out through a Director of Tribunals or other officers of the Association, or such Tribunal Clerks, Committees or Agents as the Association may direct.

Section 5. Panels of Arbitrators. —The Association shall establish and maintain Panels of Arbitrators and shall appoint Arbitrators therefrom in the manner prescribed in these Rules, and such Arbitrators shall hereinafter be referred to as "Panel Arbitrators".

Section 6. Office of Tribunal. —The general office of a Tribunal is the headquarters of the Association. The Association, however, may assign the administration of any arbitration to any branch office or to a designated Tribunal Clerk.

III. Initiation of Arbitration

Section 7. Initiation under an Arbitration Provision in a Contract. —Any party to a contract containing a clause providing for arbitration by The Japan Commercial Arbitration Association or under its Rules, or any party to a contract containing a general arbitration clause, when the parties have agreed, by stipulation or otherwise, to arbitrate under the Rules of The Japan Commercial Arbitration Association, may commence an arbitration in the following manner:

(a) By such party giving written notice to the other party of intention to arbitrate (Demand), which notice shall contain a statement setting forth the nature of the dispute, the amount involved if any, the remedy sought, and

(b) By filing with the Association at any of its offices two copies of said notice, together with two (2) copies of the contract or such parts thereof as relate to the dispute, including the arbitration provisions, together with the appropriate administrative fee as provided in Rule IX, Section 44 and the Association shall give notice of such filing to the other party.

(c) The party upon whom the demand for arbitration is made may, if he so desires, file an answering statement in duplicate with the Association within twenty-one days after notice from the Association, in which event he shall simultaneously send a copy of his answer to the other party. If a monetary claim is made in the answer the appropriate fee provided in Rule IX, Section 44, shall be forwarded with the answer to the

Association. If no answer is filed within the stated time, it will be assumed that the claim made is denied. Failure to file an answer shall not operate to delay the arbitration.

Section 8. Change of Claim. —After filing of the claim, and answer if any, if either party desires to make any new or different claim such claim shall be made in writing and filed with the Tribunal Clerk and a copy thereof mailed to the other party, who shall have a period of twenty-one days from the date of such mailing within which to file an answer with the Tribunal Clerk.

However, after the Arbitrator is appointed no new or different claim may be submitted to him except with the consent of the Arbitrator.

Section 9. Initiation under a Submission. —Parties to any existing dispute may commence an arbitration under these Rules by filing at any office of the Association two (2) copies of a written agreement to arbitrate under these Rules, signed by the parties, containing a statement of the matter in dispute, the amount of money involved, if any, and the remedy sought, together with the appropriate administrative fee as provided in Rule IX, Section 44.

Section 10. Fixing of Locality. —The parties may mutually agree on the locality where the arbitration is to be held. If the locality is not designated in the contract, or if within seven days from the date of filing the Demand, the parties do not notify the Association of such designation, the Association shall have power to determine the locality and its decision shall be final.

IV. Appointment of Arbitrator

Section 11. Qualifications. —No person shall serve as an Arbitrator in any arbitration if he has any financial or personal interest in the result of the arbitration, unless the parties, in writing, waive such disqualification.

Section 12. Appointment from Panels. —If the parties have not appointed an Arbitrator and have not provided any other method of appointment, the Arbitrator shall be appointed in the following

manner: Immediately after the filing of the Submission or copy of a Demand, as required under Rule III, the Tribunal Clerk shall submit simultaneously to each party to the dispute, an identical list of names of persons chosen from the Panels. Each party to the dispute shall have seven days from the date of the mailing of such lists in which to examine the list, cross off any names to which he objects and number the remaining names, indicating the order of his preference, and return the list to the Tribunal Clerk. When any party or both parties fail to return the list within the time specified, all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, and in accordance with the designated order of mutual preference, if any, the Tribunal Clerk shall invite the acceptance of an Arbitrator to serve. If the parties fail to agree upon any of the persons named, or if those named decline or are unable to act, or if for any other reason the appointment cannot be made from the submitted lists, the Association shall have power to make the appointment from other members of the Panels without the submission of any additional lists.

Section 13. Direct Appointment by Parties. —If the Submission or other agreement of the parties names an Arbitrator or specifies any direct method by which an Arbitrator is to be appointed, that designation or method shall be followed. The notice of appointment, with name and address of such Arbitrator, shall be filed with the Tribunal Clerk by the appointing party. Upon the request of any such appointing party the Tribunal Clerk shall submit a list of members of the Panels from which the party may, if he so desires, make the appointment.

If the Submission or other agreement specifies a period of time within which an Arbitrator shall be appointed, and any party fails to make such appointment within the period, the Association shall have power to make the appointment.

If no period of time is specified in the Submission or other agreement, the Tribunal Clerk shall notify the parties to make the appointment, and if within seven days thereafter such Arbitrator has not been so appointed, the Administrator shall then have power to make the appointment.

Section 14. Appointment of Additional Arbitrator by Named Arbitrators. —If the parties have named their Arbitrators or either or both of them have been named as provided in Section 13, and have authorized such Arbitrators to appoint an additional Arbitrator within a specified time and no appointment is made within such time or any agreed extension thereof, the parties, under these Rules, authorize the Association to appoint such additional Arbitrator who shall act as Chairman.

If no period of time is specified by the parties within which such Arbitrators are to appoint an additional Arbitrator, a period of seven days from the date of the appointment of the named Arbitrator last appointed, shall be allowed for their appointment of the additional Arbitrator. In the event of their failure to make the appointment within such seven days, the parties, under these Rules, authorize the Association to appoint such additional Arbitrator who shall act under the agreement with the same force and effect as if he had been appointed by the named Arbitrators and he shall act as Chairman.

If the parties have agreed that their named Arbitrators shall appoint the additional Arbitrator from the Panels, the Tribunal Clerk shall furnish to the named Arbitrators, in the manner prescribed in Section 12, a list selected from the Panels and the appointment of the additional Arbitrator shall be made as prescribed in such Section.

If the parties have so agreed, in place of such an additional Arbitrator, an umpire shall be appointed in the manner as provided for the additional Arbitrator.

Section 15. Designation of Number of Arbitrators and Selection from Other Nationals. —If the arbitration agreement does not specify the number of Arbitrators, the dispute shall be heard and determined by ~~three~~ Arbitrators, while, if the agreement designates the number of Arbitrators, then that number shall be observed.

In case where one or more Arbitrators shall be appointed, the sole Arbitrator or the third Arbitrator shall, upon the request of either party to the dispute, be chosen from among the nationals of a country other than that of any one of the parties.

Section 16. Notice of Appointment to Arbitrator and Parties. —

REVISION

(Revised on May 26, 1969)

Section 15. Designation of Number of Arbitrators and Selection from Other Nationals.——If the arbitration agreement or other agreement does not specify the number of Arbitrators, the dispute shall be heard and determined by sole Arbitrator, while, if the agreement designates the number of Arbitrators, then that number shall be observed.

In case where one or more Arbitrators shall be appointed, the sole Arbitrator or the third Arbitrator shall, upon the request of either party to the dispute, be chosen from among the nationals of a country other than that of any one of the parties.

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Notice of the appointment of the Arbitrator, whether appointed by the parties, or by the named Arbitrators or by the Association, shall be mailed to the Arbitrator and to the parties, as the case may be, by the Tribunal Clerk and the signed acceptance of the Arbitrator shall be filed with the Tribunal Clerk prior to the opening of the first hearing. Together with such notice to the Arbitrator, the Tribunal Clerk shall enclose a copy of the Rules and call attention to the requirements of Sections 11 and 17 of these Rules.

Section 17. Disclosure by Panel Arbitrator of Disqualification. — At any time of receiving his notice of appointment, the prospective Panel Arbitrator is required to disclose any circumstances likely to create a presumption of bias or which he believes might disqualify him as an impartial Arbitrator. Upon receipt of such information, the Tribunal Clerk shall immediately disclose it to the parties, who if willing to proceed under the circumstances disclosed, shall, in writing, so advise the Tribunal Clerk. If either party declines to waive the presumptive disqualification, the vacancy thus created shall be filled in the manner prescribed in Section 18.

Section 18. Vacancies. —If any Arbitrator should resign, die, withdraw, refuse or be unable or disqualified to perform the duties of his office, the Association shall, on proof satisfactory to it, declare the office vacant. Vacancies shall be filled in the same manner as the original appointment was made and the matter shall be reheard by the new Arbitrator.

V. Procedure for Oral Hearing

Section 19. Time and Place. —The Arbitrator shall fix the time and place for each hearing. The Tribunal Clerk shall mail at least five days prior thereto notice thereof to each party, unless the parties by mutual agreement waive such notice or modify the terms thereof.

Section 20. Representation by Counsel. —Any party may be represented by counsel. A party intending to be so represented shall notify the other party and file a copy of such notice with the Tribunal

Clerk at least three days prior to the date set for the hearing at which counsel is first to appear. When the initiation of an arbitration is made by counsel, or the reply of the other party is by counsel, such notice is deemed to have been given.

Section 21. Taking of a Stenographic Record. —The Tribunal Clerk shall make the necessary arrangements, if practicable, for the taking of a stenographic record of the testimony whenever such record is requested by one or more parties. The requesting party or parties shall deposit the estimated cost of such record with the Tribunal Clerk.

Section 22. Interpreters. —The Tribunal Clerk shall make the necessary arrangements for the services of an interpreter upon the request of one or more of the parties who shall deposit the cost of such service with the Tribunal Clerk.

Section 23. Attendance at Hearings. —Persons having a direct interest in the arbitration are entitled to attend hearings. It shall be discretionary with the Arbitrator to determine the propriety of the attendance of any other persons. The Arbitrator shall have the power to require the retirement of any witness or witnesses during the testimony of other witnesses.

Section 24. Adjournments. —The Arbitrator for good cause shown may take adjournments upon the request of a party or upon his own initiative and shall take such adjournment when all of the parties agree thereto.

Section 25. Majority Decision. —Whenever there is more than one Arbitrator, all decisions of the Arbitrators may be by majority vote. The award may also be made by majority vote unless the concurrence of all is expressly required by the arbitration agreement or by law.

Section 26. Order of Proceedings. —A hearing shall be opened by the filing of the oath of the Arbitrator, where required, and by the recording of a Minute by the Tribunal Clerk. The Minute shall set forth the place, time and date of the hearing, the presence of the Arbitrator and parties, and counsel, if any, and the receipt by the Arbitrator of the Submission or of the statement of the claim, and

answer if any. The Tribunal Clerk shall keep as part of the record a list of the names and addresses of all witnesses.

Exhibits, when offered by either party, may be received in evidence by the Arbitrator, and when so received shall be numbered by the Tribunal Clerk and made part of the record.

The complaining party or his counsel shall then present his claim and proofs and his witnesses, who shall submit to questions or other examination. The defending party or his counsel shall then present his defense and proofs and his witnesses who shall submit to questions or other examination. The Arbitrator may in his discretion vary this procedure but shall afford full and equal opportunity to all parties for the presentation of any material or relevant proofs.

Section 27. Arbitration in the Absence of a Party. —Unless the law provides to the contrary, the arbitration may proceed in the absence of any party, who, after due notice, fails to be present or fails to obtain an adjournment. An award shall not be made solely on the default of a party. The Arbitrator shall require the other party to submit such evidence as he may require for the making of an award.

Section 28. Evidence. —The parties may offer such evidence as they desire, and shall produce such additional evidence as the arbitrator may deem necessary to an understanding and determination of the dispute. When the Arbitrator is authorized by law to subpoena witnesses or documents, he may do so upon his own initiative or upon the request of any party. The Arbitrator shall be the judge of the relevancy and materiality of the evidence offered and conformity to legal rules of evidence shall not be necessary. All evidences shall be taken in the presence of all the Arbitrators and of all the parties except where any of the parties is absent in default or has waived his right to be present.

Section 29. Evidence by Affidavit and Filing of Documents. —The Arbitrator may receive and consider the evidence of witnesses by affidavit.

All documents not filed with the Arbitrator at the hearing, but which are offered at the hearing or subsequently by agreement of the parties, shall be filed with the Tribunal Clerk for transmission to the

Arbitrator. All parties shall be afforded opportunity to examine such documents.

Section 30. Inspection or Investigation. —Whenever the Arbitrator deems it necessary to make an inspection or investigation in connection with the arbitration, he shall direct the Tribunal Clerk to advise the parties and obtain their consent in writing before such inspection or investigation may be made. The Arbitrator shall set the time and the Tribunal Clerk shall notify the parties thereof. Any party who so desires may be present at such inspection or investigation.

Section 31. Conservation of Property. —The Arbitrator, with the consent of the parties, may issue such orders as may be deemed necessary safeguard the subject matter of the arbitration, without prejudice to the rights of the parties or to the final determination of the dispute.

Section 32. Closing of Hearings. —The Arbitrator shall specifically inquire of all parties whether they have any further proofs to offer or witnesses to be heard. Upon receiving negative replies, the Arbitrator shall declare the hearings closed and a Minute thereof shall be recorded. If briefs are to be filed, the hearings shall be declared closed as of the final date set by the Arbitrator for the receipt of the briefs. If documents are to be filed as provided in Section 29 and the date set for their receipt is later than that set for the receipt of briefs, then such later date shall be the date of closing the hearing. The time limit within which the Arbitrator is required to make his award shall commence to run, in the absence of other agreement by the parties, upon the closing of the hearings.

Section 33. Reopening of Hearings. —The hearings may be reopened by the Arbitrator on his own motion or upon application of a party for good cause shown, at any time before the award is made. If the reopening of the hearings would prevent the making of the award within the time agreed upon by the parties hearings shall not be reopened unless the parties agree upon the extension of such time limit. When hearings are reopened the effective date of closing the hearings shall be the date of closing the reopened hearings.

VI. Procedure for other than Oral Hearings

Section 31. Waiver of Oral Hearing. —The parties by written agreement may submit their dispute to arbitration by other than oral hearing. The arbitration shall be conducted under these Rules, except such provisions thereof as are inconsistent with this Rule.

If no method is specified by the parties, the Tribunal Clerk shall notify the parties to present their proofs in the following manner: The parties shall submit to the Tribunal Clerk their respective contentions in writing, including a statement of facts duly shown to, together with such other proofs as they may wish to submit. These statements and proofs may be accompanied by written arguments or briefs. All documents shall be submitted within seven days from the date of the notice to file such statement and proofs in such number of copies as the Tribunal Clerk may request. The Tribunal Clerk shall forthwith transmit to each party a copy of the statement and proofs submitted by the other party. Each party may reply to the other's statement and proofs, but upon the failure of any party to make such a reply within a period of seven days after the mailing of such documents to him, he shall be deemed to have waived the right to reply.

The Tribunal Clerk shall then transmit all proofs and documents to the Arbitrator, who shall have been appointed in any manner provided for in Rule IV. The Arbitrator shall have ten days from the date of their mailing or delivery to him within which to request a party or parties to produce additional proof. The Tribunal Clerk shall notify the parties of such request and the party or parties shall submit such additional proof within seven days from the date of the mailing of such notice. The Tribunal Clerk upon receipt thereof shall forthwith transmit to each party a copy of the additional statement and proofs submitted by the other party. Each party may make reply to such statement and proofs, but upon the failure of any party to make such a reply within a period of seven days after the mailing to him of such documents, he shall be deemed to have waived the right to reply.

Upon mailing or delivery to the Arbitrator of all documents, submitted as provided above, the arbitration shall be deemed closed and the

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time limit within which the Arbitrator shall make his award shall begin to run.

VII. Special Provisions

Section 35. Waiver of Rules. —Any party who proceeds with the arbitration after knowledge that any provision or requirement of these Rules has not been complied with, and who fails to state his objection thereto in writing, shall be deemed to have waived his right to object.

Section 36. Extensions of Time. —The parties may modify any period of time by mutual agreement. The Association for good cause may extend any period of time established by these Rules, except the time for making the award. The Association shall notify the parties of any such extension of time and its reasons therefor.

Section 37. Serving of Notices. —Each party to a Submission or other agreement which provides for arbitration under these Rules shall be deemed to have consented and shall consent that any papers, notices or process necessary or proper for the initiation or continuation of an arbitration under these Rules and for the entry of judgement on any award made thereunder may be served upon such party (a) by mail addressed to such party or his attorney at his last known address or (b) by personal service, within or without the country wherein the arbitration is to be held; provided that reasonable opportunity to be heard with regard thereto has been granted such party.

VIII. The Award

Section 38. Time. —The award shall be rendered promptly and, unless otherwise agreed by the parties, or specified by law, not later than thirty days from the date of closing the hearings, or if oral hearings have been waived, then from the date of transmitting the final statements and proofs to the Arbitrator.

Section 39. Form. —The award shall be in writing and shall be signed either by the sole Arbitrator or by a majority if there be more than one.

Section 40. Scope. —The Arbitrator, in his award, may grant any remedy or relief which he deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract. The Arbitrator, in his award, may assess arbitration fees and expenses in favor of any party or of the Administrator.

Section 41. Award upon Settlement. —If the parties settle their dispute during the course of the arbitration, the arbitrator, upon their request, may set forth the terms of the agreed settlement in an award.

Section 42. Delivery of Award to Parties. —Parties shall accept as legal delivery of the award (a) the placing of the award or a true copy thereof in the mail by the Tribunal Clerk, addressed to such party at his last known address or to his attorney, or (b) personal service of the award, or (c) the filing of the award in any manner which may be prescribed by law.

Section 43. Notice of Compliance. —The Tribunal Clerk, for the purpose of closing the record, may request either party to notify the Administrator of compliance with the award.

IX. Fees and Expenses

Section 44. Administrative Fees. — An administrative fee in the amount prescribed in the following schedule shall be paid to the Tribunal Clerk at the time of initiating the arbitration. When a demand for arbitration is filed the full initial fee covering the share of both the claimant and the answering party shall be advanced by the claimant, subject to final apportionment by the Arbitrator in his award.

When a Submission Agreement is filed the full initial fee covering the share of both parties to the agreement shall be paid by the filing party subject to apportionment by the Arbitrator in his award.

When a matter is withdrawn or settled subsequent to the filing of a demand for arbitration or of a Submission Agreement, and notice of such settlement is given the Association 48 hours or more before

the hour and date set for the first hearing, there shall be a partial refund of the fee in accordance with the schedule in paragraph (C) of this Section. In settled cases any apportionment of the initial fee paid by the claimant must be made by the parties themselves. The Association will refund only as prescribed in this schedule.

(A) Schedule of Administrative Fees. —

The fee for each party is based upon the amount of the claim as disclosed when the arbitration is initiated, and the fees for both parties shall be advanced by the filing party:

1½% for each party of the amount involved up to $10,000;
the minimum fee for each party, no part of which is refundable, is $25.00;
plus 1% for each party of the amount involved in excess of $10,000 to $25,000;
plus ½% for each party of the amount involved in excess of $25,000 to $100,000;
plus ¼% for each party of the amount involved in excess of $100,000 to $200,000;
plus ⅛% for each party of the amount involved in excess of $200,000.

(Payments will be made in equivalent Japanese-Yen currency.)

When a claim is disclosed in the answer, or if an increased claim is filed later by either party, an additional fee shall be paid at the time of filing in accordance with the above schedule for both parties by the party making such claim.

Where no amount is involved or where the amount is not disclosed;
Initial Fee for each party (Fees for both parties to be advanced by the filing party) :—
$100.00 subject (a) to adjustment with the Administrator, or (b) to adjustment in accordance with preceding schedule if an amount is subsequently disclosed.

Fees for Second and Subsequent Hearings:—
Each party shall pay 50% of the Initial Fee but in no event more than a maximum of $30.00.

Postponement Fee:—

$10.00 payable only by party causing adjournment of hearing duly called by notice or as the Arbitrator may direct.

Overtime Fee:—

$5.00 per hour payable by each party. Chargeable after 6:00 P.M. weekdays and Saturdays afternoon.

(B) Apportionment of Fees:—

The Arbitrator shall take cognizance of the fees paid and in his award shall allocate them either in equal shares or in such proportion as he may deem equitable.

The Administrator, in the event of proved extreme hardship on the part of any party, may waive the established fees or any portion thereof.

(C) Schedule of Refunds:—

If a case is settled or withdrawn, and the Association is so notified, before the list of Arbitrators has been sent out, all the fees in excess of the minimum fee of $50.00 will be refunded.

If a case is settled or withdrawn, and the Association is so notified after the list of Arbitrators has been sent out, but before the due date for the return of such list to the Association, ½ of the fee in excess of the minimum of $50.00 will be refunded.

If a case is settled or withdrawn after the due date for the return of the list of Arbitrators, and the Association is notified of such settlement or withdrawal at least 48 hours before the date and time set for the hearing, ⅓ of the fee in excess of the minimum of $50.00 will be refunded.

There will be no refund when a matter is settled or withdrawn if the Association is not notified in accordance with the foregoing requirements.

Section 45. Fee when Oral Hearings are waived. —When all Oral Hearings are waived under Section 34, the fee shall be the Initial Fee as determined under Section 44 hereof.

Section 46. Expenses. —The expenses of witnesses for either side shall be paid by the party producing such witnesses. The total cost

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of the stenographic record, if any is made, and all transcripts thereof, shall be paid by the party ordering the service, unless they shall otherwise agree among themselves. All other expenses of the arbitration including required traveling and other expenses of the Arbitrator and Tribunal Clerk, and the expenses of any witness or the cost of any proofs produced at the direct request of the Arbitrator, shall be borne equally by the parties unless they agree otherwise, or unless the Arbitrator in his Award assesses such expenses or any part thereof against any specified party or parties. The Arbitrator may award to the Association any expenses advanced or incurred by it and any fees due and remaining unpaid by any party responsible therefor.

Section 47. Arbitrator's Fee. —If the parties desire to compensate the Arbitrator, the compensation shall be fixed by the Association. Any arrangements for the compensation of a Panel Arbitrator shall be made through the Association and not directly by him with the parties.

Section 48. Deposits. — The Tribunal Clerk may require the parties to deposit in advance with the Association such sums of money as he deems necessary to defray the expense of the arbitration, including the Arbitrator's fee if any, and shall render an accounting to the parties and return any unexpended balance.

X. Interpretation and Application of Rules

Section 49. Interpretation and Application of Rules. —The Arbitrator shall interpret and apply these Rules in so far as they relate to his powers and duties. When there is more than one Arbitrator and a difference arises among them concerning the meaning or application of any such Rules, such dispute shall be decided by a majority vote. If that is unobtainable, either an Arbitrator or a party may refer the question to the Administrator for final decision. All other Rules shall be interpreted and applied by the Association.

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THE JAPAN COMMERCIAL ARBITRATION ASSOCIATION

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AMERICAN ARBITRATION ASSOCIATION

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AAA-6-20M-9-69

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Attachment

COMMERCIAL ARBITRATION RULES

of the

AMERICAN ARBITRATION ASSOCIATION

As amended and in effect June 1, 1969

AMERICAN ARBITRATION ASSOCIATION
140 West 51st Street New York, N. Y. 10020

IMPORTANT

When you include in your Agreements an arbitration clause naming the AAA, you rely on AAA service, and you place upon the Association the responsibility of providing that service. You will enable AAA to carry out that responsibility with maximum speed and efficiency if you will advise the Association immediately whenever such a clause is used, and not wait until a dispute arises to inform it of its responsibility.

For the Arbitration of future disputes:—

The American Arbitration Association recommends the following arbitration clause for insertion in all commercial contracts:

STANDARD ARBITRATION CLAUSE

Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.

For the Submission of existing disputes:—

We, the undersigned parties, hereby agree to submit to arbitration under the Commercial Arbitration Rules of the American Arbitration Association the following controversy: (cite briefly). We further agree that the above controversy be submitted to (one) (three) Arbitrators selected from the panels of Arbitrators of the American Arbitration Association. We further agree that we will faithfully observe this agreement and the Rules and that we will abide by and perform any award rendered by the Arbitrator(s) and that a judgment of the Court having jurisdiction may be entered upon the award.

COMMERCIAL ARBITRATION RULES

Section 1. AGREEMENT OF PARTIES — The parties shall be deemed to have made these Rules a part of their arbitration agreement whenever they have provided for arbitration by the American Arbitration Association or under its Rules. These Rules and any amendment thereof shall apply in the form obtaining at the time the arbitration is initiated.

Section 2. NAME OF TRIBUNAL — Any Tribunal constituted by the parties for the settlement of their dispute under these Rules shall be called the Commercial Arbitration Tribunal.

Section 3. ADMINISTRATOR — When parties agree to arbitrate under these Rules, or when they provide for arbitration by the American Arbitration Association and an arbitration is initiated thereunder, they thereby constitute AAA the administrator of the arbitration. The authority and obligations of the administrator are prescribed in the agreement of the parties and in these Rules.

Section 4. DELEGATION OF DUTIES — The duties of the AAA under these Rules may be carried out through Tribunal Administrator, or such other officers or committees as the AAA may direct.

Section 5. NATIONAL PANEL OF ARBITRATORS — The AAA shall establish and maintain a National Panel of Arbitrators and shall appoint Arbitrators therefrom as hereinafter provided.

Section 6. OFFICE OF TRIBUNAL — The general office of a Tribunal is the headquarters of the AAA, which may, however, assign the administration of an arbitration to any of its Regional Offices.

Section 7. INITIATION UNDER AN ARBITRATION PROVISION IN A CONTRACT — Arbitration under an arbitration provision in a contract may be initiated in the following manner:

(a) The initiating party may give notice to the other party of his intention to arbitrate (Demand), which notice shall contain a statement setting forth the nature of the dispute, the amount involved, if any, the remedy sought, and

(b) By filing at any Regional office of the AAA two (2) copies of said notice, together with two (2) copies of the arbitration provisions of the contract, together with the appropriate administrative fee as provided in the Administrative Fee Schedule.

The AAA shall give notice of such filing to the other party. If he so desires, the party upon whom the demand for arbitration is made may file an answering statement in duplicate with the AAA within seven days after notice from the AAA, in which event he shall simultaneously send a copy of his answer to the other party. If a monetary claim is made in the answer the appropriate fee provided in the Fee Schedule shall be forwarded to the AAA with the answer. If no answer is filed within the stated time, it will be assumed that the claim is denied. Failure to file an answer shall not operate to delay the arbitration.

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Section 8. CHANGE OF CLAIM — After filing of the claim, if either party desires to make any new or different claim, such claim shall be made in writing and filed with the AAA, and a copy thereof shall be mailed to the other party who shall have a period of seven days from the date of such mailing within which to file an answer with the AAA. However, after the Arbitrator is appointed no new or different claim may be submitted to him except with his consent.

Section 9. INITIATION UNDER A SUBMISSION — Parties to any existing dispute may commence an arbitration under these Rules by filing at any Regional Office two (2) copies of a written agreement to arbitrate under these Rules (Submission), signed by the parties. It shall contain a statement of the matter in dispute, the amount of money involved, if any, and the remedy sought, together with the appropriate administrative fee as provided in the Fee Schedule.

Section 10. FIXING OF LOCALE — The parties may mutually agree on the locale where the arbitration is to be held. If the locale is not designated within seven days from the date of filing the Demand or Submission the AAA shall have power to determine the locale. Its decision shall be final and binding. If any party requests that the hearing be held in a specific locale and the other party files no objection thereto within seven days after notice of the request, the locale shall be the one requested.

Section 11. QUALIFICATIONS OF ARBITRATOR — No person shall serve as an Arbitrator in any arbitration if he has any financial or personal interest in the result of the arbitration, unless the parties, in writing, waive such disqualification.

Section 12. APPOINTMENT FROM PANEL — If the parties have not appointed an Arbitrator and have not provided any other method of appointment, the Arbitrator shall be appointed in the following manner: Immediately after the filing of the Demand or Submission, the AAA shall submit simultaneously to each party to the dispute an identical list of names of persons chosen from the Panel. Each party to the dispute shall have seven days from the mailing date in which to cross off any names to which he objects, number the remaining names indicating the order of his preference, and return the list to the AAA. If a party does not return the list within the time specified, all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, and in accordance with the designated order of mutual preference, the AAA shall invite the acceptance of an Arbitrator to serve. If the parties fail to agree upon any of the persons named, or if acceptable Arbitrators are unable to act, or if for any other reason the appointment cannot be made from the submitted lists, the AAA shall have the power to make the appointment from other members of the Panel without the submission of any additional lists.

Section 13. DIRECT APPOINTMENT BY PARTIES — If the agreement of the parties names an Arbitrator or specifies a method of appointing an Arbitrator, that designation or method shall be followed. The notice of appointment, with name and address of such Arbitrator, shall be filed with the AAA by the appointing party. Upon the request of any such appointing party, the AAA shall submit a list of members from the Panel from which the party may, if he so desires, make the appointment.

If the agreement specifies a period of time within which an Arbitrator shall be appointed, and any party fails to make such appointment within that period, the AAA shall make the appointment.

If no period of time is specified in the agreement, the AAA shall notify the parties to make the appointment and if within seven days thereafter such Arbitrator has not been so appointed, the AAA shall make the appointment.

Section 14. APPOINTMENT OF NEUTRAL ARBITRATOR BY PARTY-APPOINTED ARBITRATORS — If the parties have appointed their Arbitrators or if either or both of them have been appointed as provided in Section 13, and have authorized such Arbitrators to appoint a neutral Arbitrator within a specified time and no appointment is made within such time or any agreed extension thereof, the AAA shall appoint a neutral Arbitrator who shall act as Chairman.

If no period of time is specified for appointment of the neutral Arbitrator and the parties do not make the appointment within seven days from the date of the appointment of the last party-appointed Arbitrator, the AAA shall appoint such neutral Arbitrator, who shall act as Chairman.

If the parties have agreed that their Arbitrators shall appoint the neutral Arbitrator from the Panel, the AAA shall furnish to the party-appointed Arbitrators, in the manner prescribed in Section 12, a list selected from the Panel, and the appointment of the neutral Arbitrator shall be made as prescribed in such Section.

Section 15. NATIONALITY OF ARBITRATOR IN INTERNATIONAL ARBITRATION — If one of the parties is a national or resident of a country other than the United States, the sole Arbitrator or the neutral Arbitrator shall, upon the request of either party, be appointed from among the nationals of a country other than that of any of the parties.

Section 16. NUMBER OF ARBITRATORS — If the arbitration agreement does not specify the number of Arbitrators, the dispute shall be heard and determined by one Arbitrator, unless the AAA, in its discretion, directs that a greater number of Arbitrators be appointed.

Section 17. NOTICE TO ARBITRATOR OF HIS APPOINTMENT — Notice of the appointment of the neutral Arbitrator, whether appointed by the parties or by the AAA, shall be mailed to the Arbitrator by the AAA, together with a copy of these Rules, and the signed acceptance of the Arbitrator shall be filed prior to the opening of the first hearing.

Section 18. DISCLOSURE BY ARBITRATOR OF DISQUALIFICATION — Prior to accepting his appointment, the prospective neutral Arbitrator shall disclose any circumstances likely to create a presumption of bias or which he believes might dis-

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qualify him as an impartial Arbitrator. Upon receipt of such information, the AAA shall immediately disclose it to the parties who, if willing to proceed under the circumstances disclosed, shall so advise the AAA in writing. If either party declines to waive the presumptive disqualification, the vacancy thus created shall be filled in accordance with the applicable provisions of these Rules.

Section 19. VACANCIES — If any Arbitrator should resign, die, withdraw, refuse, be disqualified or be unable to perform the duties of his office, the AAA may, on proof satisfactory to it, declare the office vacant. Vacancies shall be filled in accordance with the applicable provisions of these Rules and the matter shall be reheard unless the parties shall agree otherwise.

Section 20. TIME AND PLACE — The Arbitrator shall fix the time and place for each hearing. The AAA shall mail to each party notice thereof at least five days in advance, unless the parties by mutual agreement waive such notice or modify the terms thereof.

Section 21. REPRESENTATION BY COUNSEL — Any party may be represented by counsel. A party intending to be so represented shall notify the other party and the AAA of the name and address of counsel at least three days prior to the date set for the hearing at which counsel is first to appear. When an arbitration is initiated by counsel, or where an attorney replies for the other party, such notice is deemed to have been given.

Section 22. STENOGRAPHIC RECORD — The AAA shall make the necessary arrangements for the taking of a stenographic record whenever such record is requested by a party. The requesting party or parties shall pay the cost of such record as provided in Section 49.

Section 23. INTERPRETER — The AAA shall make the necessary arrangements for the services of an interpreter upon the request of one or more of the parties, who shall assume the cost of such service.

Section 24. ATTENDANCE AT HEARINGS — Persons having a direct interest in the arbitration are entitled to attend hearings. The Arbitrator shall otherwise have the power to require the retirement of any witness or witnesses during the testimony of other witnesses. It shall be discretionary with the Arbitrator to determine the propriety of the attendance of any other persons.

Section 25. ADJOURNMENTS — The Arbitrator may take adjournments upon the request of a party or upon his own initiative and shall take such adjournment when all of the parties agree thereto.

Section 26. OATHS — Before proceeding with the first hearing or with the examination of the file, each Arbitrator may take an oath of office, and if required by law, shall do so. The Arbitrator may, in his discretion, require witnesses to testify under oath administered by any duly qualified person or, if required by law or demanded by either party, shall do so.

Section 27. MAJORITY DECISION — Whenever there is more than one Arbitrator, all decisions of the Arbitrators must be by at least a majority. The award must also be made by at least a majority unless the concurrence of all is expressly required by the arbitration agreement or by law.

Section 28. ORDER OF PROCEEDINGS — A hearing shall be opened by the filing of the oath of the Arbitrator, where required, and by the recording of the place, time and date of the hearing, the presence of the Arbitrator and parties, and counsel, if any, and by the receipt by the Arbitrator of the statement of the claim and answer, if any.

The Arbitrator may, at the beginning of the hearing, ask for statements clarifying the issues involved.

The complaining party shall then present his claim and proofs and his witnesses who shall submit to questions or other examination. The defending party shall then present his defense and proofs and his witnesses, who shall submit to questions or other examination. The Arbitrator may in his discretion vary this procedure but he shall afford full and equal opportunity to all parties for the presentation of any material or relevant proofs.

Exhibits, when offered by either party, may be received in evidence by the Arbitrator.

The names and addresses of all witnesses and exhibits in order received shall be made a part of the record.

Section 29. ARBITRATION IN THE ABSENCE OF A PARTY — Unless the law provides to the contrary, the arbitration may proceed in the absence of any party, who, after due notice, fails to be present or fails to obtain an adjournment. An award shall not be made solely on the default of a party. The Arbitrator shall require the party who is present to submit such evidence as he may require for the making of an award.

Section 30. EVIDENCE — The parties may offer such evidence as they desire and shall produce such additional evidence as the Arbitrator may deem necessary to an understanding and determination of the dispute. When the Arbitrator is authorized by law to subpoena witnesses or documents, he may do so upon his own initiative or upon the request of any party. The Arbitrator shall be the judge of the relevancy and materiality of the evidence offered and conformity to legal rules of evidence shall not be necessary. All evidence shall be taken in the presence of all of the Arbitrators and of all the parties, except where any of the parties is absent in default or has waived his right to be present.

Section 31. EVIDENCE BY AFFIDAVIT AND FILING OF DOCUMENTS — The Arbitrator shall receive and consider the evidence of witnesses by affidavit, but shall give it only such weight as he deems it entitled to after consideration of any objections made to its admission.

All documents not filed with the Arbitrator at the hearing, but arranged for at the hearing or subsequently by agreement of the parties, shall be filed with the AAA for transmission to the Arbitrator. All parties shall be afforded opportunity to examine such documents.

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Section 32. INSPECTION OR INVESTIGATION — Whenever the Arbitrator deems it necessary to make an inspection or investigation in connection with the arbitration, he shall direct the AAA to advise the parties of his intention. The Arbitrator shall set the time and the AAA shall notify the parties thereof. Any party who so desires may be present at such inspection or investigation. In the event that one or both parties are not present at the inspection or investigation, the Arbitrator shall make a verbal or written report to the parties and afford them an opportunity to comment.

Section 33. CONSERVATION OF PROPERTY — The Arbitrator may issue such orders as may be deemed necessary to safeguard the property which is the subject matter of the arbitration without prejudice to the rights of the parties or to the final determination of the dispute.

Section 34. CLOSING OF HEARINGS — The Arbitrator shall specifically inquire of all parties whether they have any further proofs to offer or witnesses to be heard. Upon receiving negative replies, the Arbitrator shall declare the hearings closed and a minute thereof shall be recorded. If briefs are to be filed, the hearings shall be declared closed as of the final date set by the Arbitrator for the receipt of briefs. If documents are to be filed as provided for in Section 31 and the date set for their receipt is later than that set for the receipt of briefs, the later date shall be the date of closing the hearing. The time limit within which the Arbitrator is required to make his award shall commence to run, in the absence of other agreements by the parties, upon the closing of the hearings.

Section 35. REOPENING OF HEARINGS — The hearings may be reopened by the Arbitrator on his own motion, or upon application of a party at any time before the award is made. If the reopening of the hearing would prevent the making of the award within the specific time agreed upon by the parties in the contract out of which the controversy has arisen, the matter may not be reopened, unless the parties agree upon the extension of such time limit. When no specific date is fixed in the contract, the Arbitrator may reopen the hearings, and the Arbitrator shall have thirty days from the closing of the reopened hearings within which to make an award.

Section 36. WAIVER OF ORAL HEARING — The parties may provide, by written agreement, for the waiver of oral hearings. If the parties are unable to agree as to the procedure, the AAA shall specify a fair and equitable procedure.

Section 37. WAIVER OF RULES — Any party who proceeds with the arbitration after knowledge that any provision or requirement of these Rules has not been complied with and who fails to state his objection thereto in writing, shall be deemed to have waived his right to object.

Section 38. EXTENSIONS OF TIME — The parties may modify any period of time by mutual agreement. The AAA for good cause may extend any period of time established by these Rules, except the time for making the award. The AAA shall notify the parties of any such extension of time and its reason therefor.

Section 39. COMMUNICATION WITH ARBITRATOR AND SERVING OF NOTICES —

(a) There shall be no communication between the parties and a neutral Arbitrator other than at oral hearings. Any other oral or written communications from the parties to the Arbitrator shall be directed to the AAA for transmittal to the Arbitrator.

(b) Each party to an agreement which provides for arbitration under these Rules shall be deemed to have consented that any papers, notices or process necessary or proper for the initiation or continuation of an arbitration under these Rules and for any court action in connection therewith or for the entry of judgment on any award made thereunder may be served upon such party by mail addressed to such party or his attorney at his last known address or by personal service, within or without the state wherein the arbitration is to be held (whether such party be within or without the United States of America), provided that reasonable opportunity to be heard with regard thereto has been granted such party.

Section 40. TIME OF AWARD — The award shall be made promptly by the Arbitrator and, unless otherwise agreed by the parties, or specified by law, no later than thirty days from the date of closing the hearings, or if oral hearings have been waived, from the date of transmitting the final statements and proofs to the Arbitrator.

Section 41. FORM OF AWARD — The award shall be in writing and shall be signed either by the sole Arbitrator or by at least a majority if there be more than one. It shall be executed in the manner required by law.

Section 42. SCOPE OF AWARD — The Arbitrator may grant any remedy or relief which he deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract. The Arbitrator, in his award, shall assess arbitration fees and expenses in favor of any party and, in the event any administrative fees or expenses are due the AAA, in favor of the AAA.

Section 43. AWARD UPON SETTLEMENT — If the parties settle their dispute during the course of the arbitration, the Arbitrator, upon their request, may set forth the terms of the agreed settlement in an award.

Section 44. DELIVERY OF AWARD TO PARTIES — Parties shall accept as legal delivery of the award the placing of the award or a true copy thereof in the mail by the AAA, addressed to such party at his last known address or to his attorney, or personal service of the award, or the filing of the award in any manner which may be prescribed by law.

Section 45. RELEASE OF DOCUMENTS FOR JUDICIAL PROCEEDINGS — The AAA shall, upon the written request of a party, furnish to such party, at his expense, certified facsimiles of any papers in the AAA's possession that may be required in judicial proceedings relating to the arbitration.

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Section 46. APPLICATIONS TO COURT —

(a) No judicial proceedings by a party relating to the subject matter of the arbitration shall be deemed a waiver of the party's right to arbitrate.

(b) The AAA is not a necessary party in judicial proceedings relating to the arbitration.

Section 47. ADMINISTRATIVE FEES — As a nonprofit organization, the AAA shall prescribe an administrative fee schedule and a refund schedule to compensate it for the cost of providing administrative services. The schedule in effect at the time of filing or the time of refund shall be applicable.

The administrative fees shall be advanced by the initiating party or parties, subject to final apportionment by the Arbitrator in his award.

When a matter is withdrawn or settled, the refund shall be made in accordance with the refund schedule.

The AAA, in the event of extreme hardship on the part of any party, may defer or reduce the administrative fee.

Section 48. FEE WHEN ORAL HEARINGS ARE WAIVED — Where all Oral Hearings are waived under Section 36 the Administrative Fee Schedule shall apply.

Section 49. EXPENSES — The expenses of witnesses for either side shall be paid by the party producing such witnesses.

The cost of the stenographic record, if any is made, and all transcripts thereof, shall be prorated equally among all parties ordering copies unless they shall otherwise agree and shall be paid for by the responsible parties directly to the reporting agency.

All other expenses of the arbitration, including required travelling and other expenses of the Arbitrator and of AAA representatives, and the expenses of any witness or the cost of any proofs produced at the direct request of the Arbitrator, shall be borne equally by the parties, unless they agree otherwise, or unless the Arbitrator in his Award assesses such expenses or any part thereof against any specified party or parties.

Section 50. ARBITRATOR'S FEE — Members of the National Panel of Arbitrators serve without fee in commercial arbitrations. In prolonged or in special cases the parties may agree to the payment of a fee.

Any arrangements for the compensation of a neutral Arbitrator shall be made through the AAA and not directly by him with the parties.

Section 51. DEPOSITS — The AAA may require the parties to deposit in advance such sums of money as it deems necessary to defray the expense of the arbitration, including the Arbitrator's fee if any, and shall render an accounting to the parties and return any unexpended balance.

Section 52. INTERPRETATION AND APPLICATION OF RULES — The Arbitrator shall interpret and apply these Rules insofar as they relate to his powers and duties. When there is more than one Arbitrator and a difference arises among them concerning the meaning or application of any such Rules, it shall be decided by a majority vote. If that is unobtainable, either an Arbitrator or a party may refer the question to the AAA for final decision. All other Rules shall be interpreted and applied by the AAA.

ADMINISTRATIVE FEE SCHEDULE

The administrative fee of the AAA is based upon the amount of each claim as disclosed when the claim is filed, and is due and payable at the time of filing.

Amount of Claim	Fee
Up to $10,000	3% (minimum $50)
$10,000 to $25,000	$300, plus 2% of excess over $10,000
$25,000 to $100,000	$600, plus 1% of excess over $25,000
$100,000 to $200,000	$1350, plus ½% of excess over $100,000

The fee for claims in excess of $200,000 should be discussed with the AAA in advance of filing.

When no amount can be stated at the time of filing, the administrative fee is $200, subject to adjustment in accordance with the above schedule if an amount is subsequently disclosed.

If there are more than two parties represented in the arbitration, an additional 10% of the initiating fee will be due for each additional represented party.

OTHER SERVICE CHARGES

$30.00 payable by a party causing an adjournment of any scheduled hearing;

$25.00 payable by each party for each hearing after the first hearing;

$5.00 per hour payable by each party for hearings on Saturdays, legal holidays, and after 6:00 P.M. weekdays.

REFUND SCHEDULE

If the AAA is notified that a case has been settled or withdrawn before a list of arbitrators has been sent out, all the fee in excess of $50.00 will be refunded.

If the AAA is notified that a case has been settled or withdrawn thereafter but before the due date for the return of the first list, two-thirds of the fee in excess of $50.00 will be refunded.

If the AAA is notified that a case is settled or withdrawn thereafter but at least 48 hours before the date and time set for the first hearing, one-half of the fee in excess of $50.00 will be refunded.

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UNITED NATIONS CONFERENCE ON INTERNATIONAL COMMERCIAL ARBITRATION

CONVENTION ON THE RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRAL AWARDS

June 10, 1958

Article I

1. This Convention shall apply to the recognition and enforcement of arbitral awards made in the territory of a State other than the State where the recognition and enforcement of such awards are sought, and arising out of differences between persons, whether physical or legal. It shall also apply to arbitral awards not considered as domestic awards in the State where their recognition and enforcement are sought.

2. The term "arbitral awards" shall include not only awards made by arbitrators appointed for each case but also those made by permanent arbitral bodies to which the parties have submitted.

3. When signing, ratifying or acceding to this Convention, or notifying extension under article X hereof, any State may on the basis of reciprocity declare that it will apply the Convention to the recognition and enforcement of awards made only in the territory of another Contracting State. It may also declare that it will apply the Convention only to differences arising out of legal relationships whether contractual or not, which are considered as commercial under the national law of the State making such declaration.

Article II

1. Each Contracting State shall recognize an agreement in writing under which the parties undertake to submit to arbitration all or any differences which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not, concerning a subject matter capable of settlement by arbitration.

2. The term "agreement in writing" shall include an arbitral clause in a contract or an arbitration agreement, signed by the parties or contained in an exchange of letters or telegrams.

3. The court of a Contracting State, when seized of an action in a matter in respect of which the parties have made an agreement within the meaning of this article, shall, at the request of one of the parties, refer the parties to arbitration, unless it finds that the said agreement is null and void, inoperative or incapable of being performed.

Article III

Each Contracting State shall recognize arbitral awards as binding and enforce them in accordance with the rules of procedure of the territory where the award is relied upon, under the conditions laid down in the following articles. There shall not be imposed substantially more onerous conditions or higher fees or charges on the recognition or enforcement of arbitral awards to which this Convention applies than are imposed on the recognition or enforcement of domestic arbitral awards.

Article IV

1. To obtain the recognition and enforcement mentioned in the preceding article, the party applying for recognition and enforcement shall, at the time of the application, supply:

(a) the duly authenticated original award or a duly certified copy thereof;

(b) the original agreement referred to in article II or a duly certified copy thereof.

2. If the said award or agreement is not made in an official language of the country in which the award is relied upon, the party applying for recognition and enforcement of the award shall produce a translation of these documents into such language. The translation shall be certified by an official or sworn translator or by a diplomatic or consular agent.

Article V

1. Recognition and enforcement of the award may be refused, at the request of the party against whom it is invoked, only if that party furnishes to the competent authority where the recognition and enforcement is sought, proof that:

(a) the parties to the agreement referred to in article II were, under the law applicable to them, under some incapacity,

or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the country where the award was made; or

(b) the party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case; or

(c) the award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration, or it contains decisions on matters beyond the scope of the submission to arbitration, provided that, if the decisions on matters submitted to arbitration can be separated from those not so submitted, that part of the award which contains decisions on matters submitted to arbitration may be recognized and enforced; or

(d) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties, or, failing such agreement, was not in accordance with the law of the country where the arbitration took place; or

(e) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, that award was made.

2. Recognition and enforcement of an arbitral award may also be refused if the competent authority in the country where recognition and enforcement is sought finds that:

(a) the subject matter of the difference is not capable of settlement by arbitration under the law of that country; or

(b) the recognition or enforcement of the award would be contrary to the public policy of that country.

Article VI

If an application for the setting aside or suspension of the award has been made to a competent authority referred to in Article V paragraph (1) (e), the authority before which the award is sought to be relied upon may, if it considers it proper, adjourn the decision on the enforcement of the award and may also, on the application of the party claiming enforcement of the award, order the other party to give suitable security.

Article VII

1. The provisions of the present Convention shall not affect the validity of multilateral or bilateral agreements concerning the recognition and enforcement of arbitral awards entered into by the Contracting States nor deprive any interested party of any right he may have to avail himself of an arbitral award in the manner and to the extent allowed by the law or the treaties of the country where such award is sought to be relied upon.

2. The Geneva Protocol on Arbitration Clauses of 1923 and the Geneva Convention on the Execution of Foreign Arbitral Awards of 1927 shall cease to have effect between Contracting States on their becoming bound and to the extent that they become bound, by this Convention.

Article VIII

1. This Convention shall be open until 31 December 1958 for signature on behalf of any Member of the United Nations and also on behalf of any other State which is or hereafter becomes a member of any specialized agency of the United Nations, or which is or hereafter becomes a party to the Statute of the International Court of Justice, or any other State to which an invitation has been addressed by the General Assembly of the United Nations.

2. This Convention shall be ratified and the instrument of ratification shall be deposited with the Secretary-General of the United Nations.

Article IX

1. This Convention shall be open for accession to all States referred to in article VIII.

2. Accession shall be effected by the deposit of an instrument of accession with the Secretary-General of the United Nations.

Article X

1. Any State may, at the time of signature, ratification or accession, declare that this Convention shall extend to all or any of the territories for the international relations of which it is responsible. Such a declaration shall take effect when the Convention enters into force for the State concerned.

2. At any time thereafter any such extension shall be made by notification addressed to the Secretary-General of the United Nations and shall take effect as from the ninetieth day after the day of receipt by the Secretary-General of the United Nations of this notifica-

tion, or as from the date of entry into force of the Convention for the State concerned, whichever is the later.

3. With respect to those territories to which this Convention is not extended at the time of signature, ratification or accession, each State concerned shall consider the possibility of taking the necessary steps in order to extend the application of this Convention to such territories, subject, where necessary for constitutional reasons, to the consent of the Governments of such territories.

Article XI

1. In the case of a federal or non-unitary State, the following provisions shall apply:

(a) With respect to those articles of this Convention that come within the legislative jurisdiction of the federal authority, the obligations of the federal Government shall to this extent be the same as those of Contracting States which are not federal States;

(b) With respect to those articles of this Convention that come within the legislative jurisdiction of constituent states or provinces which are not, under the constitutional system of the federation, bound to take legislative action, the federal Government shall bring such articles with a favourable recommendation to the notice of the appropriate authorities of constituent states or provinces at the earliest possible moment;

(c) A federal State party to this Convention shall, at the request of any other Contracting State transmitted through the Secretary-General of the United Nations, supply a statement of the law and practice of the federation and its constituent units in regard to any particular provision of this Convention, showing the extent to which effect has been given to that provision by legislative or other action.

Article XII

1. This Convention shall come into force on the ninetieth day following the date of deposit of the third instrument of ratification or accession.

2. For each State ratifying or acceding to this Convention after the deposit of the third instrument of ratification or accession, this Convention shall enter into force on the ninetieth day after deposit by such State of its instrument of ratification or accession.

Article XIII

1. Any Contracting State may denounce this Convention by a written notification to the Secretary-General of the United Nations. Denunciation shall take effect one year after the date of receipt of the notification by the Secretary-General.

2. Any State which has made a declaration or notification under article X may, at any time thereafter, by notification to the Secretary-General of the United Nations, declare that this Convention shall cease to extend to the territory concerned one year after the date of the receipt of the notification by the Secretary-General.

3. This Convention shall continue to be applicable to arbitral awards in respect of which recognition or enforcement proceedings have been instituted before the denunciation takes effect.

Article XIV

A Contracting State shall not be entitled to avail itself of the present Convention against other Contracting States except to the extent that it is itself bound to apply the Convention.

Article XV

The Secretary-General of the United Nations shall notify the States contemplated in article VIII of the following:

(a) Signature and ratifications in accordance with article VIII;

(b) Accessions in accordance with article IX;

(c) Declarations and notifications under articles I, X and XI;

(d) The date upon which this Convention enters into force in accordance with article XII;

(e) Denunciations and notifications in accordance with article XIII.

Article XVI

1. This Convention, of which the Chinese, English, French, Russian and Spanish texts shall be equally authentic, shall be deposited in the archives of the United Nations.

2. The Secretary-General of the United Nations shall transmit a certified copy of this Convention to the States contemplated in article VIII.

RESOLUTION OF THE UNITED NATIONS CONFERENCE ON INTERNATIONAL COMMERCIAL ARBITRATION

June 10, 1958

The Conference, believing that, in addition to the convention on the recognition and enforcement of foreign arbitral awards just concluded, which would contribute to increasing the effectiveness of arbitration in the settlement of private law disputes, additional measures should be taken in this field,

Having considered the able survey and analysis of possible measures for increasing the effectiveness of arbitration in the settlement of private law disputes prepared by the Secretary-General, document E/CONF.26/6,

Having given particular attention to the suggestions made therein for possible ways in which interested governmental and other organizations may make practical contributions to the more effective use of arbitration,

Expresses the following views with respect to the principal matters dealt with in the note of the Secretary-General:

1. It considers that wider diffusion of information on arbitration laws, practices and facilities contributes materially to progress in commercial arbitration; recognizes that work has already been done in this field by interested organizations,[1] and expresses the wish that such organizations, so far as they have not concluded them, continue their activities in this regard, with particular attention to co-ordinating their respective efforts;

2. It recognizes the desirability of encouraging where necessary the establishment of new arbitration facilities and the improvement of existing facilities, particularly in some geographic regions and branches of trade; and believes that useful work may be done in this field by appropriate governmental and other organizations, which may be active in arbitration matters, due regard being given to the need to avoid duplication of effort and to concentrate upon those measures of greatest

1. For example, the Economic Commission for Europe and the Inter-American Council of Jurists.

practical benefit to the regions and branches of trade concerned;

3. It recognizes the value of technical assistance in the development of effective arbitral legislation and institutions; and suggests that interested governments and other organizations endeavour to furnish such assistance, within the means available, to those seeking it;

4. It recognizes that regional study groups, seminars or working parties may in appropriate circumstances have productive results; believes that consideration should be given to the advisability of the convening of such meetings by the appropriate regional commissions of the United Nations and other bodies, but regards it as important that any such action be taken with careful regard to avoiding duplication and assuring economy of effort and of resources;

5. It considers that greater uniformity of national laws on arbitration would further the effectiveness of arbitration in the settlement of private law disputes, notes the work already done in this field by various existing organizations,[2] and suggests that by way of supplementing the efforts of these bodies appropriate attention be given to defining suitable subject matter for model arbitration statutes and other appropriate measures for encouraging the development of such legislation.

Expresses the wish that the United Nations, through its appropriate organs, take such steps as it deems feasible to encourage further study of measures for increasing the effectiveness of arbitration in the settlement of private law disputes through the facilities of existing regional bodies and non-governmental organizations and through such other institutions as may be established in the future.

Suggests that any such steps be taken in a manner that will assure proper co-ordination of effort, avoidance of duplication and due observance of budgetary considerations.

Requests that the Secretary-General submit this resolution to the appropriate organs of the United Nations.

2. For example, the International Institute for the Unification of Private Law and the Inter-American Council of Jurists.

U.N. CONVENTION ON THE RECOGNITION AND ENFORCEMENT

OF FOREIGN ARBITRAL AWARDS

PARTIES TO THE CONVENTION ARE:*

1. Austria
2. Bulgaria
3. Byelorussia SSR
4. Cambodia
5. Central African Republic
6. Ceylon
7. Czechoslovakia
8. Ecuador
9. Federal Republic of Germany
10. Finland
11. France
12. Ghana
13. Greece
14. Hungary
15. India
16. Israel
17. Italy
18. Japan
19. Madagascar
20. Morocco
21. Netherlands
22. Niger
23. Nigeria
24. Norway
25. Philippines
26. Poland
27. Romania
28. Switzerland
29. Syria
30. Thailand
31. Trinidad and Tobago
32. Tunisia
33. Ukraine SSR
34. Union of Soviet Socialist Republics
35. United Arab Republic
36. United Republic of Tanzania
37. United States +

+ The United States deposited the instrument of ratification at the United Nations on September 30, 1970. Within 90 days the Convention will come in force with the United States.

* As of December 31, 1970.

Public Law 91-368
91st Congress, S. 3274
July 31, 1970

AN ACT

To implement the Convention on the Recognition and Enforcement of Foreign Arbitral Awards

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title 9, United States Code, is amended by adding:

"Chapter 2.-CONVENTION ON THE RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRAL AWARDS

"Sec.
"201. Enforcement of Convention.
"202. Agreement or award falling under the Convention.
"203. Jurisdiction; amount in controversy.
"204. Venue.
"205. Removal of cases from State courts.
"206. Order to compel arbitration; appointment of arbitrators.
"207. Award of arbitrators; confirmation; jurisdiction; proceeding.
"208. Chapter 1; residual application.

"§201. ENFORCEMENT OF CONVENTION

"The Convention on the Recognition and Enforcement of Foreign Arbitral Awards of June 10, 1958, shall be enforced in United States courts in accordance with this chapter.

"§202. AGREEMENT OR AWARD FALLING UNDER THE CONVENTION

"An arbitration agreement or arbitral award arising out of a legal relationship, whether contractual or not, which is considered as commercial, including a transaction, contract, or agreement described in section 2 of this title, falls under the Convention. An agreement or award arising out of such a relationship which is entirely between citizens of the United States shall be deemed not to fall under the Convention unless that relationship involves property located abroad, envisages performance or enforcement abroad, or has some other reasonable relation with one or more foreign states. For the purpose of this section a corporation is a citizen of the United States if it is incorporated or has its principal place of business in the United States.

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"§203. JURISDICTION; AMOUNT IN CONTROVERSY

"An action or proceeding falling under the Convention shall be deemed to arise under the laws and treaties of the United States. The district courts of the United States (including the courts enumerated in section 460 of title 28) shall have original jurisdiction over such an action or proceeding, regardless of the amount in controversy.

"§204. VENUE

"An action or proceeding over which the district courts have jurisdiction pursuant to section 203 of this title may be brought in any such court in which save for the arbitration agreement an action or proceeding with respect to the controversy between the parties could be brought, or in such court for the district and division which embraces the place designated in the agreement as the place of arbitration if such place is within the United States.

"§205. REMOVAL OF CASES FROM STATE COURTS

"Where the subject matter of an action or proceeding pending in a State court relates to an arbitration agreement or award falling under the Convention, the defendant or the defendants may, at any time before the trial thereof, remove such action or proceeding to the district court of the United States for the district and division embracing the place where the action or proceeding is pending. The procedure for removal of causes otherwise provided by law shall apply, except that the ground for removal provided in this section need not appear on the face of the complaint but may be shown in the petition for removal. For the purposes of Chapter 1 of this title any action or proceeding removed under this section shall be deemed to have been brought in the district court to which it is removed.

"§206. ORDER TO COMPEL ARBITRATION; APPOINTMENT OF ARBITRATORS

"A court having jurisdiction under this chapter may direct that arbitration be held in accordance with the agreement at any place therein provided for, whether that place is within or without the United States. Such court may also appoint arbitrators in accordance with the provisions of the agreement.

"§207. AWARD OF ARBITRATORS; CONFIRMATION; JURISDICTION; PROCEEDING

"Within three years after an arbitral award falling under the Convention is made, any party to the arbitration may apply to any court having jurisdiction under this chapter for an order confirming the award as against any other party to the arbitration. The court shall confirm the award unless it finds one of the grounds for refusal or deferral of recognition or enforcement of the award specified in the said Convention.

"§208. CHAPTER 1; RESIDUAL APPLICATION

"Chapter 1 applies to actions and proceedings brought under this chapter to the extent that chapter is not in conflict with this chapter or the Convention as ratified by the United States."

SEC. 2. Title 9, United States Code, is further amended by inserting at the beginning:

"Chapter Sec.
1. General provisions..... 1
2. Convention on the Recognition and Enforcement of Foreign Arbitral Awards..... 201"

SEC. 3 Sections 1 through 14 of title 9, United States Code, are designated "Chapter 1" and the following heading is added immediately preceding the analysis of sections 1 through 14:

"CHAPTER 1.-GENERAL PROVISIONS"

SEC. 4. This Act shall be effective upon the entry into force of the Convention on Recognition and Enforcement of Foreign Arbitral Awards with respect to the United States.

Approved July 31, 1970.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 91-1181 (Comm. on the Judiciary).
SENATE REPORT No. 91-702 (Comm. on Foreign Relations).
CONGRESSIONAL RECORD, Vol. 116 (1970):
Feb. 17, considered and passed Senate.
July 6, considered and passed House, amended.
July 16, Senate concurred in House amendment.

MODEL ARBITRATION CLAUSE - from University of Washington Law Review, March 1967, pp 585-6

Settlement of Disputes:

(1) This clause is an integral part of this contract and is not separable and has no independent validity.

(2) Questions of the validity of this contract and the scope of this arbitral clause are reserved for the court, but if such questions are raised and decided in court, the loser shall pay all cost including a reasonable fee for the winner's attorney.

(3) All other disputes, controversies, or difference which may arise between the parties, out of or in relation to or in connection with this contract, or for the breach thereof, shall be finally settled by arbitration pursuant to the Japan-American Trade Arbitration Agreement, of September 11, 1952, by which each party hereto is bound except as modified by these provisions.

(4) All arbitrations will be held in _____(c.t. and this contract (including this arbitral clause), and all arbitral proceedings and awards hereunder will be governed by the internal law of _____[usually the place of arbitra.

(5) The parties hereto also agree that they will instruct the arbitrator in any proceeding hereunder not to specify his reasoning in his award.

HOOKER CHEMICAL CORP.
PAT. DEPT.

attachment VI

AGREEMENT BETWEEN THE
JAPAN COMMERCIAL ARBITRATION ASSOCIATION
AND THE
AMERICAN ARBITRATION ASSOCIATION
TO FACILITATE THE USE OF COMMERCIAL ARBITRATION IN TRADE BETWEEN
JAPAN AND THE UNITED STATES OF AMERICA

Being convinced that a wider use of commercial arbitration would lend confidence and stability to commercial transactions between firms in Japan and in the United States of America, the Japan Commercial Arbitration Association and the American Arbitration Association are agreed henceforth to recommend that firms engaged in such trade should insert in their contracts the following clause:

> "All disputes, controversies, or differences which may arise between the parties, out of or in relation to or in connection with this contract, or for the breach thereof, shall be finally settled by arbitration pursuant to the Japan-American Trade Arbitration Agreement, of September 16, 1952, by which each party hereto is bound."

The terms of the agreement referred to in this clause are as follows:

1) Arbitration to be held in Japan shall be conducted under the rules of the Japan Commercial Arbitration Association; arbitration to be held in the United States of America shall be conducted in accordance with the rules of the American Arbitration Association.

2) If the place where the arbitration is to be held is not designated in the contract, or the parties fail to agree in writing on such place, the party demanding arbitration shall give notice to the Arbitration Association of the country in which the party resides. That Association shall notify the parties that they have a period of about 14 days to submit their arguments and reasons for preference regarding the place to a Joint Arbitration Committee of three members, two appointed by the respective Associations, and the third, to act as Chairman, to be chosen by the other two. The third member shall not be a member of either Association. The seats of the two Committees shall be in Tokyo and in New York. The determination of the place of arbitration by the Joint Arbitration Committee shall be final and binding upon both parties to the controversy.

3) The Associations each agree to establish such International Panels of Arbitrators as may be necessary to carry out the provisions of this agreement and to advise each other of the personnel of these panels.

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4) Both Associations will cooperate in advancing international commercial arbitration, through increased use of the facilities of their organization, and will advise each other concerning mutual policies and progress in the interests of Japanese-American trade.

The foregoing shall be known as the Japan-American Trade Arbitration Agreement and shall be deemed to be incorporated in any contract containing the following clause:

> "All disputes, controversies, or differences which may arise between the parties, out of or in relations to or in connection with this contract, or for the breach thereof, shall be finally settled by arbitration pursuant to the Japan-American Trade Arbitration Agreement, of September 16, 1952, by which each party hereto is bound."

Committee III - Subcommittee on Arbitration/Mediation

Topic C. Proposed Model Arbitration Clause

Pauline Newman (FMC Corporation)

The form of model arbitration clause which follows is quoted from an article by Professors Kawakami and Henderson in Volume 42 (March 1967) of the University of Washington Law Review, starting at page 541, entitled "Arbitration in U. S.-Japanese Sales Disputes".

"Settlement of Disputes:

"(1) This clause is an integral part of this contract and is not separable and has no independent validity.

"(2) Questions of the validity of this contract and the scope of this arbitral clause are reserved for the court but if such questions are raised and decided in court, the loser shall pay all cost including a reasonable fee for the winner's attorney.

"(3) All other disputes, controversies, or differences which may arise between the parties, out of or in relation to or in connection with this contract, or for the breach thereof, shall be finally settled by arbitration pursuant to the Japan-American Trade Arbitration Agreement, of September 16, 1952, by which each party hereto is bound except as modified by these provisions.

"(4) All arbitrations will be held in _____(city) and this contract (including this arbitral clause), and all arbitral proceedings and awards hereunder will be governed by the internal law of _____[usually the place of arbitration].

"(5) The parties hereto also agree that they will instruct the arbitrator in any proceeding hereunder not to specify his reasoning in his award." (pages 585-6)

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These authors and others (see "International Arbitration Liber Amicorum for Martin Domke" edited by Pieter Sanders, published by Martinus Nijhoff, The Hague) have taken pains to point out the pitfalls in using, in contracts involving U. S.-Japanese transactions, the brief general type of "boiler plate" arbitration clause, such as is recommended by the American or the Japanese arbitration associations.

It is important to state which arbitration agreement or procedure is intended to apply, since there are several alternatives to the Japanese-American Trade Arbitration Agreement. Arbitration under the rules of the International Chamber of Commerce may always be provided for; and some neutral location, equally inconvenient to both parties, is often selected. There are arbitration procedures in the Japanese Civil Procedure Code, as well as the various federal and state arbitration statutes of the United States; any of these may be selected -- and depending upon the site of performance of the contract, it may well be that any of these procedures will be as fair to both parties as any other choice of arbitration rules.

The concensus of the authors referred to above, however, is that the Japanese-American Trade Arbitration Agreement, entered into by the American Arbitration Association (AAA) and the Japanese Commercial Arbitration Association (JCCA), should be used. When this agreement is incorporated into a contract, either by including their recommended model arbitration clause or a modification of it as set forth herein, the result is that arbitration in Japan is conducted under the rules of the JCAA and that arbitration in the United States is conducted under the rules of the AAA. The Japanese-American Trade Arbitration

Agreement itself also provides a method, albeit complex, for fixing the place of arbitration if the parties themselves do not provide in the contract for the place of the arbitration. It is pointed out, in the context of the critical differences between the Uniform Commercial Code and Japanese sales law, that decisions on substantive issues can turn on the site of arbitration, which site may not be known until the controversy shall have arisen.

There is a school of thought which views arbitration as merely procedural, and that the law to be applied by the arbitrators in dealing with foreign elements must be the law which governs the forum of arbitration. But in Japan, by law, the parties have the right to choose the applicable law. If their choice is not made, or is not clear, then the applicable law may be judicially determined, and has been variously chosen as either the law of the place where the contract is to be performed, or the court has sought for the implied intention of the parties as to governing law.

From the viewpoint of drafting patent and know-how licenses, therefore, it appears to be more important to name the applicable law than to decide on the site of arbitration. For instance, the parties might not consider it at all fair to decide in advance that the arbitration will be held in New York, for example, no matter which party has committed the alleged breach. It is usual to compromise on the site of arbitration. At the same time, if the law governing the contract is named in the contract, the site of the arbitration becomes less controlling of the outcome.[1]

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[1] Maw, "Applicable Law and Conflict Avoidance in International Contracts", Record of the Association of the Bar of the City of New York, 365 (June 1970)

For patent and know-how licenses, and particularly for those not unusual licenses which involve patents in several countries, and know-how which may flow in both directions, this can become exceedingly complex. It may be expressly provided in the arbitration clause that issues relating to the validity and scope of the patent shall be governed according to the law under which the patent was granted. Suppose, however, an American firm licenses a Japanese firm under the American firm's Japanese, Australian, and Taiwanese patents for a particular subject matter. Suppose a dispute under a patent license has to do with not only patent scope, but also the contract terms, such as a dispute about royalty payments or conversion rates or accounting systems. It appears wise to explicitly set forth the parties' choice of governing law on all phases of the contract,[1] since the standard clause recommended by the American Arbitration Association and the JCAA, as well as existing treaty provisions, do not adequately deal with this problem. There does however seem to be some doubt as to the acceptance by all jurisdictions of the principle of applying any law other than that of the site of arbitration.[2]

It has been urged, particularly in international contracts, that the arbitrators be expressly freed from the need to include their reasoning in the award, as they would otherwise be required to do -- this, to avoid "suffocating" the arbitration with legal action. If such an agreement is not expressly included, an award can be voided if the arbitrators do not include adequate details of their reasoning.[3]

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[1] Ehrenzweig, "Contracts in the Conflict of Laws", 59 Columbia Law Review 973 (1959).

[2] Kitagawa, "Contractual Autonomy", International Arbitration, op. cit., 133, 140.

[3] Doi, "International Commercial Arbitration in Japan", ibid., 65, 67.

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It should also be stated that the arbitration clause is not separable -- so that the court rather than the arbitrators can determine if there was fraud in the inception of the contract. This is intended to counteract a trend to permit the arbitrators to decide threshhold questions.[1]

To sum up, the concensus appears to be that arbitration is a useful, valid, and binding procedure for settling disputes involving Japanese and American companies, with a long judicial and legislative history, and probably particularly well suited to the complexities of patent and know-how agreements. If the purpose is to avoid the expense and time of litigation, and to reach a fair result expeditiously, one must be careful to provide in the contract itself the arbitration procedure to be used, and to be specific about the site of the arbitration and the law or laws to be applied.

* * * * *

[1] Corbin on Contracts §1444 (1962).

PIPA Subcommittee on Arbitration of Disputes Under Japanese/American Patent and Know-How License

Subcommittee Report at PIPA
Conference in Washington, D.C.
on May 4-6, 1971

* * * * * * *

Title: Issues Arising Out of Patent and Know-How Licenses Under U.S. Arbitration Law

Subtitle: Laws and Procedures for Staying Arbitration

Thomas I. O'Brien
Union Carbide Corporation
May 4, 1971

CONCLUSIONS

Issues

Patent controversies are generally arbitrable except to the extent that public policy may render some issues that are often at the threshold of patent controversies inappropriate for enforcement by arbitration. There is little case law concerning the question of what issues are or are not properly the subject of arbitration in this field, but the following conclusions are drawn from the case law that does exist.

1. Patent validity questions (1)* and antitrust questions (2) concerning patents appear today to be in the category of being "inappropriate for enforcement by arbitration," even though arbitration awards on the same issues may be recognized by the courts as binding upon the parties as to existing controversies.

2. Infringement in the absence of a dispute on validity may be arbitrable. Disputes over royalty obligations often fall within this category (3).

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*bracketed numbers refer to notes in the Appendix

3. Determination of the rate of royalty.(4)

4. Questions of titles and obligations to assign inventions are arbitrable.(5)

Staying Arbitration

The courts will stay arbitration in the absence of statutory law providing for the enforcement of arbitration. As a procedural matter any court having competent jurisdiction can stay an arbitration from proceeding under an arbitration agreement if the arbitration agreement is not a valid, irrevocable and enforceable contract under the law or if an issue to be involved in the arbitration is not appropriate for arbitration. Patent licenses are usually matters of state law but where the license contract involves interstate commerce, the arbitration clause therein falls under and will be governed by federal arbitration law.

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DISCUSSION

Arbitration is a private proceeding in which parties voluntarily submit a controversy to a third party or parties for resolution and agree in advance that they will accept the arbitrator's decision as binding upon them. Mediation, also a private method of settling controversies, may employ a third party to help resolve a controversy, but there is no binding or enforceable decision that results from that procedure. Prior to the passage of laws lending the authority of the courts to the enforceability of arbitration agreements, the effectiveness of arbitration as a remedy to inter-party disputes depended almost entirely on the mutual respect of the parties to their commitments. Executory arbitration agreements were not enforceable at common law and only nominal damages were awarded for breaches of contract resulting from failure to perform under the arbitration clause.

Today there are statutes in most states, in the federal law (6), and in the international law (7) that recognize and enforce arbitration agreements. As contractural commitments

between parties, the validity, irrevocability and enforceability of arbitration agreements are governed by the substantive and procedural law of contracts, just as is the patent agreement of which the arbitration provision might be a part, such as licenses, assignments, interference priority settlements and patent infringement litigation agreements. The law applicable to the validity and enforcement of the arbitration provisions generally will be local state law (8), unless the agreement qualifies as one of "interstate commerce" under the federal Arbitration Act (9)(10). There is no clearly authoritative decisional law that brings arbitration of patent disputes under the federal Arbitration Act. Members of the U.S. patent bar have recently urged that the new Patent Revision Bill now before Congress be amended to specifically provide for arbitration of patent disputes under the U.S. Arbitration Act, including disputes on validity and infringement.

Two early U.S. District Court cases in the 1930's in Delaware and Pennsylvania (11)(12), respectively, held that the federal Arbitration Act did not apply to patent contracts because they were not contracts involving "interstate commerce." Both cases were prior to the subsequent broader interpretation of the "commerce clause" of the U.S. Constitution, and more recent cases have applied the test of a contract's factual involvement with interstate commerce to determine whether the agreement came under the federal Arbitration Act (13).

The paucity of reported cases on arbitration on controversies arising out of patent agreements may stem from the private nature of arbitration and the respect that has been accorded the arbitration commitments by the parties themselves. It probably also stems from the finality of the arbitration proceeding, long recognized by the courts, for once an arbitration award has been made, it is nonappealable and enforceable in the courts, even at common law.

Generally any dispute arising between parties to a contract can be the subject of arbitration under U. S. law, provided there is nothing in the applicable local or federal law which excludes the issue from arbitration (14) and provided there is no public policy which would render the particular issue inappropriate for enforcement by arbitration (15).

With respect to the enforceability of arbitration on a dispute over the validity of a patent, there is certainly nothing in Federal statutory law that excludes arbitration of any patent issue, even validity. Until the recent U.S. Supreme Court case in 1969 of Lear v. Adkins (16), there did not appear to be any Federal public policy foreclosing arbitration of the issue of patent validity, despite the exclusive jurisdiction conferred by Congress on the Federal courts on validity and infringement actions arising under the Federal patent law (17). State courts have had the power to make decisions on disputes over validity and infringement where such matters were raised as collateral to a matter properly within the jurisdiction of a state court, such as in a suit for royalties under a license contract (18). Likewise, contractual agreements in settlement of litigation that privately settled issues of validity and infringement between the parties have been enforceable in the courts.

However, in Lear v. Adkins (see n. 16) the U. S. Supreme Court discarded the long established contract doctrine of estoppel by contract as applied to patent validity. Under that doctrine a licensee, for so long as he was a licensee, had been estopped to contest the validity of the patent under which he was licensed. The court found this contract doctrine to be in conflict with Federal public policy on patents. Such policy, as enunciated by the court in Lear, overrides any conflicting state law on contracts that would prevent licensees from challenging the validity of the patents under which they are licensed. In the only decided case on arbitration subsequent to the Lear decision, the 7th Circuit Court of Appeals (19), held, in referring to Lear, that patent validity, even if the arbitration agreement had specifically referred to it, would be "inappropriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents." It is noted that the 7th Circuit Court in the Beckman case appeared to consider the arbitration clause in that patent contract in issue as being otherwise enforceable under Section 3 of the Federal Arbitration Act.

Antitrust Disputes Under Patent Agreements

Many of the controversies arising out of patents center on antitrust violations and on acts contrary to public

policy on monopolies that may render a patent unenforceable. It seems clear from cases involving attempted arbitration of non-patent antitrust disputes, that the law will not enforce agreements to arbitrate any antitrust claims.

In an action (20) brought by a trademark licensee against the licensor charging an antitrust violation, the licensee moved to enjoin an arbitration proceeding initiated by the licensor under the license agreement. The 2nd Circuit Court of Appeals in 1968 referred to the conflict between a federal policy, based on the statutory protection of the antitrust laws for a large segment of the public, and the encouragement of arbitration as a desirable solution to controversies, and decided the former did not permit the enforcement of agreements to settle these matters privately.

The 9th Circuit Court held similarly in 1970 (21) but appeared to limit its decision to future controversies as distinguished from violations that may have already arisen at the time the agreement to arbitrate is made. There had been a prior settlement of litigation over an alleged antitrust violation and the settlement agreement included a provision for arbitration of disputes. In refusing to stay the court action pending arbitration and to compel arbitration pursuant to the arbitration provision, the court rejected arguments presented to distinguish over American Safety to the effect that the settlement agreement should be enforceable because it was an agreement to arbitrate after a controversy had already arisen and because the parties could in any event resolve the dispute by settlement.

Arbitration Awards

The enforcement or confirmation of arbitration awards appears to stand on an entirely different footing from enforcement of contractural commitments to arbitrate. Once the arbitration has been completed and an award made, the award has been uniformly held to be binding on the parties and enforceable in the courts. A New York State appellate court in 1939 (22) upheld the confirmation of an award in a patent arbitration proceeding involving a dispute over infringement and an Ohio State appellate court in 1954 (23) upheld confirmation of an award on arbitration involving an antitrust dispute in a patent license controversy.

The Cavicchi case (22) raised the specific issue of conflict with the federal patent laws, and the N.Y. Court of Appeals held that the arbitration award under state law was not "repugnent to Article 1, Section 8 of the Constitution and does not offend Section 256 of the Judicial Code." The U.S. Supreme Court denied review for want of a substantial Federal question. Whether the Cavicchi award would be confirmed today in view of the public policy declared in the Lear case is uncertain. It is unlikely that an award concerning validity and/or infringement would be enforceable as to future obligations under a patent license if the courts continue to follow post-Lear cases in the analogous field of private settlements of litigation. In two district court cases since Lear (24)(25), prior settlement agreements, even one (Kraly) in which the prior court action was dismissed with prejudice, were not sufficient grounds for preventing the licensee from again raising an issue as to the validity of the patents under which he was licensed.

* * * * * * *

Despite the present unsettled state of the law on the arbitration of patent issues, arbitration does present an attractive alternative to the long and expensive court actions a potential litigant faces in most patent controversies. Arbitration is even more attractive for the settlement of patent disputes with citizens of other countries. The passage in 1970 of enabling legislation (26) for the enforcement in the USA of the International Commercial Arbitration Convention of 1958 should be an encouragement to greater use of arbitration in the international patent field, notwithstanding the apparent difficulties and uncertainties that have existed in the past and that have been additionally created for patent arbitration by the Lear decision.

A bibliography is also appended listing many fine and interesting articles on this topic.

Appendix

(1) Beckman Instruments, Inc. v. Technical Developments Corp. et al 167 U.S.P.Q. 10, C.C.A. 7 (1970), cert. den. ___ 1971

(2) American Safety Equipment Corp. v. J.P. Maguire & Co. 391 F 2nd 821 C.C.A. 2 (1968); See also Power Replacements, Inc., et al v. Air Preheater Co. Inc. et al, 426 F 2nd 980, C.C.A. 9 (1970)

(3) Galion Iron Works & Mfg. Co. v. J.D. Adams Mfg. Co. 128 F 2nd 411, C.C.A. 7 (1942); Campbell et al v. Automatic Die & Products Co., 123 N.E. 2d 401 S.C. Ohio (1954); Leesona Corp. v. Cotwool Mfg. Corp. et al, 315 F 2d 538, C.C.A. 4 (1963)

(4) deStubner v. United Carbon Company et al, 67 U.S.P.Q. 214, D.C. D.S. of W. Va. (1945)

(5) American Locomotive Co. v. Chemical Research Corp., 171 F 2d 115, C.C.A. 6 (1948)

(6) Title 9 U.S. Code: Arbitration, 9 USCA 1-14 Act July 30, 1947, c. 392, Sec. 1, 61 Stat. 669 "U.S. Arbitration Act" Amended by 68 Stat. 1233

(7) U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards, U.N. 1958. Articles I-XVI

(8) Bernhardt v. Polygraphic Company of America, Inc., 350 U.S. 198 (1956). The U.S. Supreme Court, in discussing at p. 202 the applicability of Section 3 of the United States Arbitration Act, said "the Court [2nd Circuit in another case] did not consider the larger question here - that is, whether arbitration touched on substantive rights, which Erie R. Co. v. Tompkins held were governed by local law, or was a mere form of procedure within the power of the federal courts or Congress to prescribe. Our view . . . . is that Section 3, so read, would invade the local law field. We therefore read Section 3 narrowly to avoid that issue. We conclude that the stay provided in Section 3 reaches only those contracts covered by Sections 1 and 2."

(9) Robert Lawrence Company, Inc. v. Devonshire Fabrics, Inc., 271 F 2nd 402, C.C.A. 2 (1959). "The basic inquiry must be whether the validity and enforceability of the arbitration clause of the contract in this case is governed by Federal law, i.e. the federal Arbitration Act, or by local law," page 404. "We think it is reasonably clear that the Congress intended by the Arbitration Act to create a new body of federal substantive law affecting the validity and interpretation of arbitration agreements," page 406. "This is a declaration of national law equally applicable in state or federal courts," p. 407. "that the rights thus created are to be adjudicated by the federal courts whenever such courts have subject matter jurisdiction, including diversity cases," p. 409. "that the Arbitration Act envisages a distinction between the entire contract between the parties on the one hand and the arbitration clause of the contract on the other is plain on the face of the statute. Section 2 does not purport to affect the contract as a whole . . . . Our construction of Section 2 treating the agreement to arbitrate as a separable part of the contract is based not only upon the clear wording of the text but is buttressed by several other considerations," p. 410.

(10) Metro Industrial Painting Corp. et al v. Terminal Construction Co., Inc. et al, 287 F 2d 382, C.C.A. 2 (1960) p. 386 ". . . . Section 2 of the Arbitration Act did not merely render arbitration clauses in interstate commerce and admiralty contracts valid, irrevocable, and enforceable in federal and state courts regardless of state law, but that it also empowered the courts to develop a substantive body of federal law with regard to the interpretation and construction of such clauses. . . . . all such clauses in contracts within the scope of the act must be interpreted in the light of federal decisional law. . . . . local law must give way to the Supremacy Clause of the Federal Constitution, Art. 6." Quote is from Judge Lumbard's concurring opinion.

(11) Zip Mfg. Co. et al v. Pep Mfg. Co. 44 F 2d 184 (D.C. Del. 1930)

(12) In re Cold Metal Process Co. 9 F. Supp. 992 (D.C. Pa. 1935)

(13) Kirschner et al v. West Company 247 F. Supp. 550, D.C. Pa. (1965); See also Leesona v. Cotwool, supra n. (3), American Safety v. Maguire, supra n. (2) for cases that involved patents and trademarks which the court evidently treated under the federal Arbitration Act.

(14) Wilko v. Swan 346 U.S. 427 (1953)

(15) American Safety v. Maguire, supra n. (2); Beckman Instruments v. Technical Developments, supra n. (1)

(16) Lear v. Adkins, 395 U.S. 653, 162 U.S.P.Q. 1, (1969)

(17) 28 U.S.C. 1338

(18) Pratt v. Paris Gas Light and Coke Co., 168 U.S. 225 (1896); Leesona Corporation v. Concordia Mfg. Co. et al 165 U.S.P.Q. 386, D.C. R.I. (1970)

(19) Beckman Instruments, Inc. v. Technical Development Corp., supra n. (1)

(20) American Safety v. Maguire, supra n. (2). "A claim under the antitrust laws is not merely a private matter . . . . We do not believe that Congress intended such claims to be resolved elsewhere than in the courts . . . . We conclude that the antitrust claims raised here are inappropriate for arbitration."

(21) Power Replacements v. Air Preheater, supra n. (2). "With respect to all these contentions, it is clear that the parties did more than agree to arbitrate existing disputes. They expressed a 'wish' not only to settle existing disputes

but to agree upon a method for resolving 'any similar dispute' . . . during the next two years. . . . . The alleged violations which form the basis of this action were . . . . committed after the settlement agreement was executed. In other words, those controversies had not yet arison . . . The analogy to settlement is applicable only with respect to claims in existence at the time of the agreement. The parties knew what claims were then being submitted to arbitration. This is not true as to any possible claim in violation of the anti-trust laws which might arise during the ensuing two year period. . ."

(22) Mohawk Mfg. Co. v. Cavicchi 22 N.E. 2d 179

(23) Campbell et al v. Automatic Die & Products Co., supra n. (3). In a suit to confirm an arbitration award under exclusive patent license, the defense raised the question of illegality and unenforceability of the contract under the antitrust laws. The District Court confirmed the award and this decision was confirmed by the Ohio Supreme Court who held that the contract was not "so inherently bad that its provisions could not be waived in a dispute between the parties" and that Automatic's "claim of illegality came too late, and that it was then estopped from successfully raising that issue."

(24) Rialto Products Inc. v. Rayex, 166 U.S.P.Q. 222, N.Y. Supreme Court (1970)

(25) Kraly v. National Distillers and Chemical Corp., 168 U.S.P.Q. 51, D.C. N.D. Ill. E.D. (1970)

(26) U.S. Public Law 91-368 (1970) Ch. 2 - Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Sections 201-208. 84 Stat. 692

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3. Robb, "The Arbitration of Patent Controversies" 25 JPOS 413 (1943)

4. 17 Law & Contemp. Prob. 679 (1952) Robb "Arbitration Procedure Compared with Court Litigation in Patent Controversies"

5. Davis, "Patent Arbitration: A Modest Proposal" 10 Arb. J. (N.S.) 31 (1955)

6. Ellis, "Patent Licenses" 3rd Ed. Deller 1958 Baker Voorhis & Co. Inc. Sec. 443, P. 494, 471

7. 12 Arb. J. (N.S.) 87 (1957) Davis, "Patent Arbitration & Public Policy"

8. Aeschlimann, The Arbitrability of Patent Controversies JPOS Vol. XLIV No. 10, 1962, p. 655 (1962)

9. Commercial Arbitration, Martin Domke, Prentice Hall, 1965

10. Arbitration and Patent Problems, A Colloquy among Members of the New York Patent Law Association, 21 ARB Journal 98, 1966

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ANTITRUST PROBLEMS IN LICENSING PATENT

May 6, 1971

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It is a great honor and pleasure for me to have the opportunity to speak with you this morning in our lovely Washington, D.C. I am not going to take any time this morning in discussing the importance of the transfer of technology and its associated counterparts, know-how, patent rights and the like, between groups within a country and groups separated by international boundaries. I am quite confident that everyone in this room is quite familiar with the tremendous role that is played in developing our individual countries and the well-being of its citizens as well as the well-being of all mankind by the transfer and diffusion of the best and latest technology through license agreements. Heretofore, insofar as international transfers are concerned, the United States has enjoyed a very favorable position in this interchange and in recent years this has resulted in a favorable balance of payments to the credit of the United States in excess of one billion dollars; however, it is to be noted that this balance in favor of the United States has been declining in the last few years. This decline is probably attributable in part to certain public and judicial policies in this country which are tending to lessen, or in some cases even stifle, the incentive to innovate and to seek bold new technological solutions to problems the world is presently confronted with. This transfer of technology is by no means a one-way street, as numerous business groups in the United States are receiving technology from other countries so that they can arrive at their most productive level and highest output with the least amount of economic input. Usually this has resulted in the licensee being in a better

competitive situation relative to its normal competitors than would otherwise be the case.

Also, I will not be talking specifically on the subject of "know-how" as distinct from patents and will address my remarks primarily to patent licenses, including those which cover both patents and know-how.

My remarks are concerned with the rapid erosion by antitrust laws of the right to grant licenses, why this is occurring, and what is or can be done to halt such erosion.

That the application of the U.S. antitrust laws is not just a matter confined to the U.S. is clearly shown in the Westinghouse-Mitsubishi case filed last year by the Justice Department. Among other things, the complaint demands that Mitsubishi license to Westinghouse all of its Japanese patents relative to the subject matter of the complaint, both present ones and, for an uncertain time, those in the future. Frankly, gentlemen, while I am well aware of the legal basis for the Justice Department bringing such a complaint, it offends my sensibilities and I believe it is a form of arrogance on our part for us to export United States antitrust laws through using them in an extraterritorial sense. Under the U.S. laws, any international agreements which directly and substantially affect commerce in the U.S. would be exposed to the operation of the antitrust laws of the U.S. The manner by which the Justice Department obtains jurisdiction over foreign corporations is through the power to seize their goods which may come into United States waters and the power to seize or control any big business activities within the United States. This is referred to

in American jurisprudence as in personam jurisdiction.

Many of you who work for corporations involved in the licensing of patents have noted over the years that the opinions of your antitrust experts as to what is legally permissible to include in license agreements has seriously changed and always in a direction that permits fewer and fewer restrictions of any kind in such agreements. I would like to succinctly point out the erosion that has taken place in freedom to include restrictions in license agreements just in the past four years. I can turn to no better source than Edwin Zimmerman, partner in a prestigious Washington law firm, a leading antitrust expert and former Assistant Attorney General in charge of the Antitrust Division of the Justice Department. In a recent speech which will shortly be published in Les Nouvelles, he formulated a hypothetical case of the advice that would be given by a sophisticated and sensitive practitioner to his clients. Four years ago such a sophisticated and sensitive antitrust practitioner would have said that price control restrictions in patent licenses, although at the moment probably legal under the existing laws, were also probably doomed despite the failure of the Department of Justice in, at that time, the recent Huck case.

"He could say that field of use restrictions were, almost as a matter of Hornbook law, well within the protection of the patent system even despite the old rule in Adams v. Burke that the sale of a patented product forecloses further control on it. As a cautious lawyer, however, he would note the caveat that if field of use restrictions were used as a device to accomplish other forbidden ends and, in particular, were so used in cross-licensing agreements, they could in those circumstances be in trouble. But otherwise they should raise few problems.

He could advise his clients that since quantity restrictions often served the purpose of enabling a patentee to decide to issue a license, such restrictions only rarely affected competition adversely and the courts would uphold them as consistent with antitrust policy.

Finally, as to territorial restrictions, he could say that Congress clearly stated in its legislation that territorial restrictions by assignment or license were permitted within the United States, though, of course, as Adams v. Burke illustrates, the purchaser of the patented product was not to be bound. In the international area, he could say that one had an automatic and necessary right to license under foreign but not American patents, reserving the right to take action in support of the retained patent rights.

The same careful practitioner today, whose antenna remains sensitive to the nuances of enforcement policy and possible court response, would have to shift his advice in significant respects in at least three of these four items. He would still be as bleak as he was four years ago on the prospects for price restrictive licensing. He could, however, no longer assure his client that field of use licensing was as a matter of Hornbook law beyond reproach. He would have to note that if the field of use restrictions, whether exclusive or not, were imposed upon a licensee who purchased a patented product, it would be subject to attack and that there are now lower court decisions which take a dim view of restrictions on purchasers. He would also have to advise his client that exclusive field of use restrictions imposed upon manufacturing licensees have also been attacked by the Department of Justice, and that in speeches and writings present and past officials of the enforcement agencies, as well as a Presidential task force, have indicated that the grant of exclusive licenses for different fields of use to licensees who were potentially capable of competing with one another should be regarded as at least presumptively unlawful. The client using the exclusive field of use device would therefore be advised that unless he had strong justifications, he ran the risk of a lawsuit.

Again as to quantity restrictions, the sensitive practitioner today would probably give his client less optimistic advice than that which he gave four years ago. He would advise his client that in a number of complaints the Department of Justice attacked the imposition of restrictions on the ability of licensees to resell in bulk form or under generic names. These complaints were filed both in cases of licensees who purchased the patented product, and in the case of manufacturing licensees. He would note lower court decisions upholding the Government in the case of purchasers of a patented product. He could tell his client that, arguably, quantity restrictions could be differentiated from restrictions on selling in bulk, but that there was reason to suppose that the enforcement agencies would regard a quantity restriction as, perhaps, having the same vulnerability as a bulk restriction or a price restriction. He could also suggest, probably quite correctly, that the enforcement agency would probably regard the assertion that the quantity limitation device enabled additional licensing to occur, with the same skepticism that they regard such arguments when advanced in justification of a price restriction or a bulk restriction.

Finally, even as to territorial restrictions a careful practitioner would probably advise his client that while he thought the argument of a clear congressional basis for territorial restrictions within the United States on manufacturing licensees was reliable, there are eminently respectable scholars who after analysis of the history of the code reach the conclusion that the code cannot be so relied upon. He would also note the possibility that, as argued by a former head of the Antitrust Division, exclusive territorial licensing may, like exclusive fields of use, someday be regarded as presumptively unlawful. Moreover, today's practitioner in counseling his client on the consequences of international territorial allocations based upon patent rights would have to note that implicit in the Westinghouse-Mitsubishi complaint, and explicated in speeches of enforcement officials, is the warning that at least under some circumstances the enforcement agency might regard partial grants of patent or know-how rights between prospective competitors as amounting to unlawful territorial agreements on an international plane.

In sum, in the three areas of patent licensing as to which, as recently as four years ago, advice could be given with reasonable assurance as to the lack of problems, any such advice must now be heavily qualified. Indeed, it would be imprudent not to warn in the exclusive field of use and the quantity restriction areas of a significant threat of enforcement action."

Gentlemen, all of you know that seldom do you enter into patent license agreements for less than five years. The term is usually at least ten years, and most commonly is for the life of the patents involved and perhaps improvements thereupon. Thus, an agreement that you entered into just four years ago, that a leading antitrust lawyer would have approved, in those four short years could very well have become illegal on a number of different fronts.

This law has not developed by a policy decision of our legislative body and enactment into statute of various provisions concerning the licensing of patents. This law has not developed because any particular new need has recently arisen regarding the keeping of restrictions out of license agreements. Then why has this gone on?

In my opinion, the answer is found only in a study and understanding of the personal and human equation. Just as an inventor is in part propelled by desire to push back the frontiers

of technology, an antitruster working in a government agency is propelled to push back the frontiers of antitrust law. In the case of the inventor, when he comes up with an invention that is a poor one, it will be tested and knocked out on the market place, if not before. In the case of bad antitrust policy, no such safeguard is normally available. The only manner that a change of antitrust policy which is against the public interest can be brought about is by public reaction to such policies and a political reaction to such policies and a statutory clarification of the law. I might note that seldom has an appeal to reasonableness or logic to those directly concerned with making such antitrust policy been effective.

Those closely associated with making such policy, I believe, have tunnel vision, seeing only the antitrust aspects and not the many other public policies that should be simultaneously considered. Those directly dealing in the subject matter of patent licenses in the Antitrust Division of the Justice Department do so ignorant of any experience in negotiating license agreements themselves, their knowledge primarily being gleaned from case law far removed from the nutrient medium in which the license agreements were negotiated and the dynamic state of that medium at the time they were negotiated. The analysis of case law is a very poor way of setting public policy in this regard. Seldom do cases reported in the reference books give the full story of the subject matter being considered. It is an adversary situation between two parties, each party trying to put the black hat on the other party, and the judge writes an opinion which many times ignores facts and law against the opinion he is rendering, as one of his main aims is to deliver his decision in such a manner that he will not be "dumped" on appeal. Those who have had substantial trial practice

are quite aware of this.

The only adequate way of really formulating a public policy is to do so based on empirical data and hearing from the people actually having knowledge and judgment and experience in the matters concerned, such as those in this room, and the place such policy should be established is in the halls of Congress. The antitrusters do not choose this route of placing into the legislative hopper a proposed clarification of the laws on the licensable nature of patent rights which would permit a businessman to enter into a legal agreement today that he feels will still be legal five and ten years from now. To clarify the law by the legislative processes would take away the antitrusters' playground. Also, gentlemen, what is being done by antitrusters regarding the licensable nature of patent rights in the courts would not pass muster if they tried to do it by the legislative processes where policy of this kind should actually be made in the form of statutory enactments.

But those such as yourselves are finally beginning to awake as to what is going on, and Senator Scott, the minority leader of the Senate, has concerned himself with this problem and has introduced into the United States Senate an amendment to our patent laws which would clarify the nature of the patent right in a manner that would enable you with some more reasonable assurance to enter into a legal agreement today that would be considered legal by the courts tomorrow and the years after. The Scott amendment, for the most part, merely clarifies and stabilizes the law as it is today. It does not turn back the clock, it does not

specifically legalize price restrictions, which as a matter of fact are still legal today although they are expected to be declared illegal in some future court action. It would certainly seem to be that a stabilization and clarification of the law would be in the public interest so that all could recognize what the law is and enter into legal agreements.

As to what the specific laws should be, I will leave to the legislative processes, for even if the law takes the form of the most obtuse and convoluted reasoning of the antitrusters, that is better than the uncertainties we have in the law today. The antitrusters do not see it that way because they prefer to develop this in their own playground on a case-by-case basis. However, with the awakening of those familiar with the subject, there is expected to be three lively days of hearings next week in the United States Senate Judiciary Subcommittee, chaired by Senator McClellan on the Scott amendments.

As a matter of interest, Senator McClellan requested the Nixon Administration many months ago to inform his Subcommittee of its position with regard to the Scott amendments. The Commerce Department internally within the Administration has spoken strongly in favor of something of the nature of the Scott amendments. The Justice Department, through its Antitrust Division, has come out internally within the Administration strongly against any such amendments. Strangely, the State Department is not believed to have been involved in these matters. None of these positions are public, they are within the Administration, and my advice is based on informal contacts within the Administration itself. This

difference in policy between two major units of the Nixon Administration has gone all the way to the White House level and has resulted in Cabinet level meetings and meetings in the office of Management and Budget but, still, as of yesterday morning there was no word from the Administration as to what its position would be with regard to the Scott amendments. This is not a very helpful position and the Administration has been criticized on the floor of the Senate for failing to take one. As it stands now, there is still the possibility that it will take a position either favoring the Antitrust Division or favoring the Commerce Department's position or take no position at all, or permit both groups to testify. At this moment, just what the Administration is going to do is not known, although I am advised that they will be forced to explain why they have not taken a position, if that is the case.

At best, even though the Scott amendments are received with favorable attention by the United States Senate, I do not see their being enacted into law in the near future. Legislative processes are slow.

Gentlemen, I know that all of you are hard-working, busy, busy people, but you have a special obligation with your knowledge, experience and judgment, to take a portion of your time and try to articulate and bring to the attention of the public and the lawmakers the need for the relative unhampered right to enter into license agreements and transfer technology for the benefit of all mankind. The hour is late, but with the hearings on the Scott amendments a fresh wind is blowing. Let's you and I resolve to see that it is a favorable wind. I thank you.

Report of Committee #4 - Regional and International Patent Treaties and Conventions
PTMA World Congress - Washington, D. C.
May 4, 1971

The meetings of Committee #4 was attended by six United States and six Japanese members and rough draft minutes, including a list of participants, prepared by Mr. Donald C. McGaughey are available in the Chairman's files.

Discussions were based upon a proposed agenda and upon reports of Standing Committee's #4 of the United States and Japanese groups. Copies of the agenda and of the reports of the two group standing committees were distributed to all participants.

After full discussion, the following statements of position were agreed upon and recommended for acceptance in the plenary session held May 5:

(1) Committee #4 favors the early ratification of the Patent Cooperation Treaty and continued consideration and study of the desirability of instituting the provisions of Chapter 2 of this Treaty. Recognizing the complexity of the problems involved, the Committee also recommends that the various reservations permitted under the Treaty should not, if taken, operate to delay ratification of the Treaty;

(2) Committee #4 endorses and supports the principle of the proposed Strasbourg agreement concerning International Patent Classification. The Committee believes the establishment of the special union and the adoption of the international classification with a provision for continued development and improvement is a worthwhile and highly practicable step toward the realization of the universally desired ability to make truly comprehensive and reliable international patent searches;

(3) Committee #4 favors the increasing trend toward international collaboration to simplify international patenting and observes that the proposed European Patent System, if accessible to applicants of all Paris Union countries, would be an appropriate step toward such collaboration.

The following matters were discussed by the Committee but did not result in statements of position:

1. Changes in domestic laws made or required to be made in both Japan and the United States to promote ratification of the Patent Cooperation Treaty;

2. Efforts to improve documentation and machine searching capabilities;

3. The possibility that Article 29(bis) of the new Japanese patent law may make the so-called Hilmer reservation Article 64(4)(a) of interest [illegible].

Respectfully submitted,

J. W. Adams Jr.

May 24, 1971

DEPARTMENT OF STATE
FOR THE PRESS

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REMARKS BY EUGENE M. BRADERMAN
DEPUTY ASSISTANT SECRETARY OF STATE
FOR COMMERCIAL AFFAIRS AND BUSINESS ACTIVITIES
AT THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION LUNCHEON
WASHINGTON HILTON HOTEL, WASHINGTON, D.C.
MAY 6, 1971

NEW DIRECTIONS IN INTERNATIONAL PRODUCTION AND INTELLECTUAL PROPERTY

Introduction

I am delighted to have this opportunity to be with you today. This Washington meeting, it seems to me, is the culmination of the dedicated organizational work that went into forming PIPA in 1969 and carrying through since then to make it a vigorous and constructive representative of member country interests in the international patent field.

The participation of PIPA in the Diplomatic Conference to negotiate a Patent Cooperation Treaty (PCT) here at the State Department last May and June gave ample evidence of the usefulness of such an organization and the continuing need for it in the future.

Most of you are familiar with developments in the international industrial property field during the past several years, and I see no need to review them with you here in any detail. After noting the highlights, what I will do is to pose some basic issues and raise some questions about where international business developments, including cooperation in the industrial property field, may take us in the years ahead.

Review of the Last Decade's Development

The decade of the 1960's will, I believe, come to be regarded as the watershed in the international

industrial property field. There had been successful international cooperation in this field earlier, as, for example, the Council of Europe Conventions on formalities required for patent applications (1953) and on international patent classification (1954). But these were both essentially regional conventions.

In 1962 the member States of the Paris Union Executive Committee and the Berne Union's Permanent Committee approved a study looking toward the administrative reorganization and modernization of the two Unions and the United International Bureau for the Protection of Intellectual Property (BIRPI). This action culminated five years later in the Stockholm Intellectual Property Conference.

As a result of this Conference, the administrative machinery of the Paris Industrial Property Convention was reorganized to make it more directly responsible and responsive to the member States, and a new organization -- the World Intellectual Property Organization (W.I.P.O.) -- was established.

As you know, the W.I.P.O. Convention came into force in April of last year. As of January 1, 1971, eighteen (18) States had ratified the administrative provisions of the Stockholm Act of the Paris Convention.

We believe that the new W.I.P.O. is better prepared to cope with the rapidly moving developments concerning industrial property and copyright protection occurring all over the world. As for the reorganized Paris Union, we believe that it now has the administrative machinery to operate much more efficiently and effectively than it had in the past in furthering industrial property protection.

Evidence of this was the successful negotiation of the world-wide Patent Cooperation Treaty (PCT) at the Washington Diplomatic Conference, in which your organization participated last May and June. Fifty-five (55) member States of the Paris Union attended the Conference, and thirty-five (35) States, including the U.S. and Japan,

had signed the PCT as of December 31, 1970, the closing date for signatures.

We in the Department of State view the PCT as making a real contribution toward our foreign policy objectives in the areas of patents and foreign trade. We believe that the PCT will facilitate the filing abroad for patents by U.S. industry and that increased filing will materially help our foreign trade position. Further, we believe that the PCT will strengthen the patent system in developing as well as in industrialized countries. These are the reasons that the Department of State, in cooperation with the Patent Office, took the initiative in the Executive Committee of the Paris Union in 1966 to propose a multilateral effort in the international patent field which culminated in the Washington Diplomatic Conference. These are the two reasons today why I would urge American industry to study the PCT and let us have the views of your organizations with respect to United States ratification.

Further Industrial Property Developments

As to the future -- one of the most significant developments on the horizon in the international industrial property field is the proposed European Patent Convention. In many ways this Convention may be regarded as a corollary of the PCT.

Substantial progress on the European Convention has been made during the intervening months since the PCT Diplomatic Conference. Our best estimate at this time is that a diplomatic conference to negotiate this Convention may be held in the spring of 1973. There is a widespread air of optimism in Western Europe that these negotiations will be successful.

Looking beyond the more immediate benefits resulting from the coming into force of the PCT and the European Patent Convention, there are many experts here and abroad who regard the long-term implications of these two agreements as being equally important. They believe that there are elements of harmonization built into these agreements which may ultimately lead to harmonization

of certain aspects of patent law and procedures which will benefit Patent Offices and patent applicants in the U.S. and abroad.

Another development in the international industrial property field that should be mentioned, because of its importance to major trading countries such as the United States and Japan, is the work that is going on in the W.I.P.O. in the trademark field. Two meetings of experts in this area have already been held and another is scheduled for October. The purpose of these meetings is to consider how the Madrid Agreement Concerning the International Registration of Marks should be revised or, whether a new treaty should be developed in order to devise a system which is attractive both to countries which are and countries which are not members of the Madrid Union. Neither the United States nor Japan are members of Madrid.

Importance of Japanese-U.S. Relationships

As you know, the United States and Japan were two of the key countries in all of the preparatory meetings leading up to the PCT Diplomatic Conference, and have been mentioned as prospective Searching Authorities under the Treaty. I would like to say how gratifying it was that all during those long and difficult negotiations, the various Japanese representatives approached the problems about which their Government was especially concerned with a cooperative and constructive attitude.

It was this spirit of cooperation on the part of governments, with the support and assistance of industry, that undoubtedly was one of the key factors in the successful negotiation of the PCT. And there is no question in my mind that cooperation among governments is going to be a most important factor in the successful operation of this Treaty when it comes into force. This will certainly be true in U.S.-Japan bilateral economic relations because of the high technology content of goods traded, of

licenses and of direct investments, and simply because of the sheer size of the exchange that takes place.

For corporations engaged in manufacture in patent oriented or advanced technology industries, as for example, electrical-electronics, chemicals and pharmaceuticals, effective patent protection abroad is of great importance. This is true whether a firm manufactures in a particular foreign country, licenses a domestic company in that country to produce its product, or merely uses the patent to protect its import position in that country.

The high level of patent filings between the United States and Japan indicates the great number of firms, large and small, national and multinational, which feel they need patent protection in Japan and vice-versa. For example, in 1969 U.S. nationals filed more than 13,000 applications and were granted 4,600 patents. This was by far the largest number of applications filed and patents granted in Japan to any group of foreigners. In the same year, Japanese nationals filed 5,400 applications and were granted over 2,100 patents. Only one other country -- the Federal Republic of Germany -- had a larger number of filings and patent grants in the U.S.

This large number of cross filings between the two countries is partly a reflection of the size and nature of U.S.-Japanese trade. Thus, in 1970 U.S. exports to Japan totaled more than $4.6 billion and imports from Japan amounted to almost $5.9 billion. The volume of patent filings and the volume of trade are indicators of how necessary continued cooperation will be.

Even though there are large numbers of applications being filed today by American enterprises in Japan, we believe that there are additional companies that ought to consider a patenting program in Japan not only in terms of the domestic market there but also because of its position as one of the world's leading trading nations.

Since both the United States and Japan are members of the Paris Industrial Property Convention, U.S. businessmen are entitled to the same treatment under Japanese industrial property laws as that Government extends to Japanese nationals -- that is, "national treatment." There are, of course, other important benefits accruing to American nationals under the Paris Convention such as the "right of priority." Similarly, these benefits are also extended to Japanese nationals in the United States.

We have come a long way and accomplished a great deal in the industrial property field. But as we look ahead to prospective developments in the years to come, I believe we must think in the context of the internationalization of production and the multinational corporation.

Internationalization of Production

Once upon a time, with rare exceptions, a firm produced at home and, if it had excess production, it tried to sell that excess production abroad. Or a company may have been induced to go into the export market by exhortation -- exporting is good for you; it will bring you profits. And it is good for your country; it will help our balance of payments.

The pattern has changed. U.S. companies have been investing abroad at a constantly increasing rate. The book value of U.S. foreign direct investments today stands at an estimated $78 billion.

You know the reasons firms have gone abroad: to be close to markets, to manufacture within preferential trade areas such as the Common Market or the European Free Trade Association, to secure markets that otherwise would be closed by quotas or other protective devices, or to take advantage of local labor and other resources.

Today more and more decisions by boards of directors on where to produce and what to produce are being made with little regard to national borders. The non-political risk questions are being decided purely on the basis of the economic desirability of producing in locality A or in locality B. These decisions may involve the siting of research and development facilities, manufacturing establishments, or sales and distribution organizations.

The so-called multinational corporation has been the principal instrument of these developments. The quantitative growth of multinational corporations over the past two decades has convinced many people that a significant qualitative change has taken place and that we are seeing something new and vital in the realm of international economic relations. Scholars, businessmen, labor and government are all exploring the subject in order to extend our knowledge of the multinationals and their impact on the lives of nations. Although we have only scratched the surface of information needed to formulate public policies with respect to the multinational corporation, we are beginning to get a fairly good fix on the public and foreign policy issues and problems associated with them.

The number of multinational corporations runs into the thousands -- over 600 U.S. firms operate in the UK alone. But the truly influential firms, the ones which account for the vast preponderance of foreign direct investment, are far fewer in number. It has been estimated that at least 80 percent of all U.S. foreign direct investment is accounted for by some 200 firms. Many of these are such familar household names as General Motors, Chrysler, Ford, Singer, IBM and ITT. About 100 foreign firms comprise the major multinationals of the rest of the world, including, for example, Philips, Nestle, Shell and Lever Brothers. This means that about 300 firms, two-thirds of them U.S.-owned, dominate the field of international direct investment.

A characteristic feature of these firms is that they are "multinational" not only in operations, but in

organization and outlook. They usually have operating divisions in several countries andlocal operations are customarily in the hands of locally recruited staff, at least at middle management level. Top level management may be from headquarters staff and of any nationality. The trend thus seems to be towards firms of truly cosmopolitan outlook, not just national firms operating abroad.

Now to develop a feel for the magnitudes. In 1970 the book value of the U.S. share of foreign direct investment was estimated at $78 billion. Geographically, about 28% of this investment was located in Canada, 28% in Europe, 18% in Latin America and the remaining 26% scattered in other areas of the globe. By sector, about 42% was in manufacturing, 28% in petroleum, 8% in mining and smelting, and the remaining one-fifth in miscellaneous operations, including services. The rate of return on U.S. foreign direct investment in manufacturing has averaged about 12 percent in recent years. The total return on all foreign direct investment was about $6 billion in 1970. Netted against new investment outflows of $4 billion from the United States, this yielded a positive contribution of $2 billion to our balance of payments. If net income from fees, royalties and other income from U.S. direct investments abroad is added, the total net contribution to our balance of payments probably was on the order of $4 billion. This may be compared with our merchandise trade surplus in 1970 of $2.7 billion (only $1.3 billion in 1969 and $.8 billion in 1968).

What are some of the more important issues arising from the business decisions and operations of the multinationals?

As international company operations have grown, they have called forth varying degrees of nationalist response, in developed as well as in developing countries. On the one hand these concerns have led to cries that foreign capital, particularly American, was dominating the economy and influencing general policy unduly, and that steps must be taken to reverse the trend. Others, particularly the companies themselves, have expressed

a need for greater harmonization of laws among countries or spelling out the rules of the game so that international companies can most effectively use world-wide economic resources for productive purposes without running into conflicts of law.

The areas most often cited in the latter connection involve antitrust, tax policy, securities regulation and company law, export control policy, and balance of payments measures. Others receiving attention include weights and measures, product standards, food and drug regulations and, of course, patents. But the fact is that harmonization of laws among nations is a long way off. We face not only problems of international negotiation but strong resistance on the part of domestic companies as well.

With or without harmonization of laws, there are many questions we need to be asking ourselves. Some of them are:

Is the growing internationalization of production good or bad? What does it mean for U.S. exports and imports? What does it mean for world trade? How do our foreign trade policies affect the flow of private investment abroad? What role does and should internationalized production play in the economic growth of the developing countries? Where do the Communist countries fit into this picture? What are the implications for foreign policy -- or for domestic policy? How are the attitudes of business and labor and the consumer affected? What does it mean for domestic employment -- for our overall economic growth? For the Japanese and others, there are related questions.

The general question of the government's role with respect to private direct investment abroad is an important consideration in these developments. Private direct investment has always been considered an affirmative factor in our relations with other countries. First of all, foreign direct investment is thought to contribute to economic development abroad. Secondly, the

returns on that investment have been a positive factor in our own balance-of-payments picture.

Development as a goal for the less developed countries (LDCs) still seems sensible and right, and most people continue to believe that foreign direct investment is a necessary ingredient if there is to be much hope for achieving this goal. It benefits a country by adding to and improving the quality of its existing resources. It brings in new capital, provides employment, pays taxes, produces export goods and import substitutions, provides access to marketing networks, stimulates the local capital market and brings in advanced technology, industrial know-how and management experience. When foreign investors train local personnel, when they invite local financial participation, when they contribute to an industrial hinterland by subcontracting locally, they make a significant contribution to continuing growth. This catalytic effect is, I think, of foremost importance to the developing countries if they are to achieve substantial growth.

The growth of our foreign direct investments has brought an intensification of old and some new problems. They stem primarily from a more pronounced and overt sense of economic nationalism abroad. These developments have led President Nixon to suggest several modifications in a policy which might have been previously described as one which -- except for "temporary" measures to limit the outflow of capital from the United States for balance of payments reasons -- encouraged U.S. foreign direct investment almost without qualification.

The President first signalled the change in policy on October 31, 1969 when he said, "Just as a capital-exporting nation cannot expect another country to accept investors against its will, so must a capital-importing country expect a serious impairment of its ability to attract investment funds when it acts against existing investments in a way which runs counter to commonly accepted norms of international law and behavior....We will not encourage U.S. private investment where it is not wanted; or where local political conditions face it with unwarranted risks.

But my own strong belief is that properly motivated private enterprise has a vital role to play in social as well as economic development."

And in his "State of the World" Message to Congress on February 19, 1970, the President said, "In practical terms, we shall confront increased pressures against foreign investments....Foreign investments are the most exposed targets of frustration, irrational politics, misguided nationalism....For their part, investors must recognize the national sensitivities and political needs of the 1970's....There is no more delicate task than finding new modes which permit the flow of needed investment capital without a challenge to national pride and prerogative....Private investment must play a central role in the development process to whatever extent desired by the developing nations themselves."

The question of limiting assistance to U.S. private firms which seek to invest abroad "to the extent desired by host countries," was noted again by President Nixon in his second foreign policy report on February 25 of this year.

What then should U.S. Government policy be with respect to investments? Should investment be encouraged on a selective basis, taking into account the factors noted in the President's remarks? (I should observe here that with respect to friendly developing countries our legislation establishing the Overseas Private Investment Corporation (OPIC) laid down a policy of selectivity in the encouragement and support by OPIC of private investment abroad. OPIC's operating guidelines accordingly place particular emphasis not only on the commercial soundness of each project to be assisted but also on its social and economic developmental impact including, for example, its effect on the host country's revenues, foreign exchange, employment and ecology.) Or, as some suggest, should the Government be completely neutral, which is to say we will let the market place, meaning the investor and the recipient country, decide whether

investment will take place and in what form? Still others believe that the U.S. Government should promote investment without qualification--or that the U.S. Government should actively discourage it. There are pros and cons for all of these positions.

I don't have the answers to these questions. No one does. There are no clear signposts pointing to the correct or most efficient way to develop an internationalization of production that will provide maximum benefits for all. But we do have some principles to guide us: cooperation instead of conflict; flexibility instead of rigidity; fair competition instead of restrictionism.

Regionalism in the Pacific Basin

The moves we have made toward harmonization of patent procedures will contribute to a favorable climate for the internationalization of production. I think this kind of cooperation can lead to further cooperation in other areas. I am thinking specifically of the many possibilities for joint U.S.-Japanese endeavors in third country development.

Japan is increasingly active in Asia as a direct investor and a direct competitor of our investors. All three parties involved -- U.S. firms, Japanese firms and host countries -- stand to gain not only from this competition but from the cooperative ventures that this makes possible. At the same time such consortia diffuse the nationality of the investors and help to take investment out of political contexts.

From our efforts to persuade Japan to liberalize its rules on direct investment more quickly, we have learned how different the Japanese system is from ours. It works very well for Japan, and the Japanese therefore have discouraged the entry of foreign influences which they believe may disturb the smooth operation of their economy. But if both Japan and the U.S. are to gain the full advantages of internationalization of production, both are going to have to change. Perhaps we can learn to reconcile at least some aspects of our systems through cooperative investment ventures in third countries

where neither Japanese nor American firms need be locked into their traditional business practices.

Whether it is patent cooperation or joint development investment, it is too limiting to dwell on the role of Japan and the U.S. to the exclusion of other Pacific nations. Because of size, the U.S. and Japan are going to be the principal players in multinational projects in the Pacific, but we should think in broader terms which include other nations in the Pacific area. The Pacific Basin Economic Cooperation Council (PBECC) -- Japan, United States, Canada, Australia and New Zealand) may be one means; the Private Investment Company for Asia (PICA), another. We want to see regionalism develop in the Pacific. Japanese-American cooperation is a necessary condition.

You in PIPA through your efforts to achieve cooperation in intellectual property matters, can contribute much to economic integration. Technology is the key to development. You hold that key.

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