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PRESENTATIONS

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1973 PIPA San Francisco Congress

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Remarks by

Melvin C. Holm

Chairman of the Board, Carrier Corporation

at the

International Congress

Pacific Industrial Property Association

San Francisco, California

October 1, 1973

I am honored and delighted to have been invited to address the Pacific Industrial Property Association. Although PIPA is still relatively young, I believe it is developing into a vital and exciting organization in the Pacific basin.

PIPA is concerned with the Far East. The Far East promises to be one of the world's great growth areas in industrial, political and social progress. It has major importance in many fields related to the world's needs. PIPA and its membership can do much to make the economic future of the Far East increasingly attractive and productive.

As industry groups are measured, PIPA is presently small in size. But there is an old saying, "From tiny acorns mighty oaks grow." I believe the experience of my company, Carrier Corporation, well illustrates this and shows the benefits to be derived from the joining together of U.S. and Far Eastern enterprise.

Carrier became interested in entering the Japanese market in 1929, some 44 years ago. Our foreign business at that time was tiny. It was confined to Great Britain and a small part of Europe. However, a study had been made of our opportunities in Japan by our one-man export department. Its climate, its industrious people, and the integrity of its business community all pointed to Japan as a good market for air conditioning and refrigeration.

Fortunately, a wonderful gentleman named Kunitaro Fukui approached us to propose a joint venture with one of Japan's great companies. We promptly dispatched the export manager and a young lawyer. Negotiations were concluded in a relatively short time. As a result, in 1930, Toyo Carrier Kogyo Kabushiki Kaisha was born.

The tiny acorn has grown into a good-sized oak. Toyo Carrier does a substantial business in Japan, selling its products and services through 500 dealers. Virtually all of its executives are Japanese. The American personnel consists of one man. The cooperation between the Japanese management and Carrier's home organization is harmonious and of the highest order both in policy and personal relations. The warm ties and the success flowing from this operation are a source of pride and mutual satisfaction in terms of industrial progress, financial benefit and close personal friendships.

Since then, we have planted small acorns in other areas of the Far East. Our confidence in these vast and challenging markets is boundless.

We have found, in the case of Toyo Carrier and others, that in order to attain desired growth and profits certain prerequisites must be met in building a successful organization.

The most important element is harmony between managements abroad and in the United States. To establish confidence we have tried to be frank and candid in our planning and flexible in dealing with growth problems.

Promptly after Toyo Carrier was formed, we sent a senior engineer to Japan and delivered without stint the technology required to build a modest line of equipment suited to the Japanese market. A plant engineer followed to help in shop layout, manufacturing, assembly techniques and field installation and service.

As the business grew, we invited manufacturing and sales personnel to come to the United States to attend our engineering school and other training sessions, and to confer about sales and budget planning.

The growth in sales required growth in manufacturing, and this of course called for substantial investment, intensive training of personnel, and the building of sales and administration forces suitable to a sizable organization. In all of these moves, we were able to enjoy the necessary mutual respect, confidence and harmony, despite changes in economic climate and the usual pains which come with growth.

In an enterprise such as Toyo Carrier, which joins together a foreign company with a local company, it is my view that the character and cooperation of the local executive and operating personnel are of prime importance. While Toyo Carrier depends to a large extent on Carrier Corporation's extensive research, development and engineering departments, it is in increasing measure making its own additions to its technology. This is especially important in meeting local competition where knowledge of the market by our Japanese counterparts plays a major role in adapting equipment, systems and installation practices as may be required by the special needs of Japanese customers.

Properly encouraged, exchange of technology becomes a valuable two-way profit avenue.

The experience we and many other companies have had reinforces my conviction that commercial activity is the best way to promote international prosperity. If pursued with mutual trust and cooperation, it offers great promise for the building of international enterprises on a scale which will benefit countless people now depending upon unproductive aid.

I look with confidence to an era which will produce closely interwoven activities of American and Far Eastern industry. East and West have a wonderful opportunity to embrace diverse sources of capital, technology and brainpower. Such programs, jointly enlisting industrialists, banking interests, governmental agencies and all others genuinely concerned, cannot fail to produce economic growth and social progress. In this meritorious effort PIPA can play an important role.

I believe there are certain fundamentals to success in international business. I think it basic that domestic and foreign capital join in common purpose, that domestic practices be reconciled with outside world requirements and that laws and regulations be blended with the production goals that are necessary to foster gainful employment of personnel and to attract needed additions to venture capital.

You are all aware that there is currently a world-wide demand for money. The competition for capital shows no sign of lessening. The political stability of great trading areas in the Far East, their giant pools of cooperative labor, and their assets of capital, skills and other resources, combine to make this part of the world one of the most attractive fields for investment.

On the other hand, the United States has a wealth of expertise in many kinds of manufacture, distribution, finance, research, development and advanced technology. Thus, there is a mutual advantage for industrial and governmental cooperation on both sides of the Pacific to bring together human and material resources to develop useful production, increased employment, and profitable return on capital.

When I speak of joint enterprise, let me add that national boundaries should not be allowed to restrict successful world-wide commerce and capital participation. Money and ideas know no boundaries. Our neighbors north and south of the United States have resources of great importance in men and materials. They, too, can contribute to intercontinental development in the PIPA area. I suggest that PIPA's efforts offer

a broad spectrum of encouragement to business cooperation around the Pacific basin. Trade can be a great stimulant also to abundance for constructive participants not only in developed lands, but even more so in undeveloped lands where population growth and aspirations create needs of giant size.

I have been associated with trade organizations for many years. I believe they can give inestimable help in disseminating information and in expounding trade philosophy both to their members and to the general public. Since PIPA is in some measure still in a formative state, may I suggest that you consider some thoughts I should like to offer.

First, PIPA should be non-political in the broadest sense. Governments may be favored or disliked by groups or individuals, but the internal affairs of a nation should not be influenced nor disrupted by an organization representative of diverse elements covering a wide territorial area.

A great deal has been said about the need to protect infant industries or, for that matter, established industries. Scarce raw material sources and non-scarce materials and products have brought cries by special interests for embargoes, limitations and restrictive measures on imports and exports. Tariffs, a variety of imposts and other forms of official harassment and restrictive legislation have too often plagued free exchange of goods, services and personnel and are often practiced on a discriminatory basis.

PIPA and its membership can be helpful in espousing policies which expose discriminatory practices and assure equal treatment in commercial dealings across international boundaries.

Countries differ in the way they organize their political and social lives. But mutual progress requires fair play in the development of economic enterprise and in commercial transactions. PIPA can be the catalyst among diverse interests to help assure fair play in business practices and contractual obligations.

Finally, I would suggest that international financial institutions can do much to develop new enterprise and to enlarge existing international ventures. The participation of these institutions in equity financing of an enterprise, even to a small degree, often can build confidence in the conduct of the business and in the observance of sound financial practices.

Here again PIPA can act as liaison in making firm and constructive contacts with governmental financial agencies and institutions. It can help establish norms for the conduct of relations between these institutions and applicants for financial support in the Pacific area.

I firmly believe that investments coupled with good management, fertile ideas and fair play can do more than any of us may imagine to bring to the people of the Pacific area the economic prosperity and abundance that men of good will so earnestly yearn to achieve.

# # #

Keynote Address by Shoji Matsui, President, PIPA,

October 1, 1973

Distinguished Guests and Fellow Members!

It is a great privilege and honor for me to address our distinguished guests and members of the American and Japanese Groups.

During the space of time as short as one year and a half from the last Tokyo meeting, we have witnessed many events of worldwide importance, literally suggestive of the turbulent 1970's.

In the political field, following the United States, Japan also restored diplomatic relations with the People's Republic of China through friendly dialogue. It appears that relations with the Soviet Union are also being improved.

According to the newspaper, the People's Republic of China is considering her participation in the international system of industrial property rights, and this possibility

was suggested when the economic delegation headed by Mr. Uemura, Chairman of the Keidanren visited Peking about a month ago.

Turning our eyes to the economic field, we can say that a new order is being established in the world's economy, although undoubtedly many problems remain yet to be solved in the aspect of international currencies. Against this background, the economic relations between your country and ours are also said to have entered upon a new stage. I believe, however, that the long-established friendly relations between the United States and Japan will remain unaffected for many years to come.

While we must admit that there are some complicated and delicate problems between the two countries in the economic and industrial fields, these will be ultimately solved on the basis of our mutual understanding of the other's standpoint. Actually, it seems that, through the meetings of The Joint U.S.-Japan Trade & Economic Committee held every year at the governmental level for the purpose of solving various problems

in the economic and industrial fields, efforts have been made by both countries along this line. In addition to the meeting of this governmental level, mutual talkings at other various levels have been held between the United States and Japan.

In the field of industrial property rights, the basic attitude should not be different. In this very field, we are fortunate in that we have this annual "Congress" where we can deepen mutual understanding and keep reviving our friendly dialogue.

Now we have, on the agenda of this meeting, many diverse items, for example, ~~the current Japanese practices concerning "Deferred Examination" and "Multiple Claiming", the present status and development of Contemplated Legislation concerning Licensing" in U.S.A.~~ "Interpretation of claim for patent infringement", "problem on parallel importation and trademark right", " use of know-how after termination of license agreement", and the "Compulsory Licence System and Its Operation" ~~in Japan~~.

Further, the report on Japan's way of thinking about TRT and the report on the ~~publication~~ sign of TRT by the United States

and her subsequent revision of relevant domestic laws will give us a key to finding out the basic ideas of the two nations on TRT and to realizing possible differences between them.

~~On the subject of "Licence and Product Liability", which will be presented by the American Group, the Japanese members will be all ears as a matter of vital importance from legal points of view, for we are today involved in consumer's movements in some way or other, which are now gaining their momentum also in Japan.~~

The subject of "Conciliation" as means of settling disputes over licence agreements, which has been carried over from the Tokyo Congress last year, will, I hope, make progress toward its realization.

Needless to say, it is of great significance that the two groups meet together annually, take up matters which are interesting and informative for the respective members, discuss matters earnestly for better understanding. Further, we can

also make use of the communication channels between the respective committees of the two Groups for a mutual exchange of information and opinions.

Now, I would like to refer to the activities of PIPA directed to international problems. As you know, in March this year, there was a move in the Republic of the Philippines to revise her patent Law, which we were afraid might have an adverse influence on the protection of inventions. The American Group and the Japanese Group independently sent written opinions to the Philippine government.

I understand that in May this year, representatives of the American Group attended the diplomatic conference on TRT held in Vienna. Further, in the PCT conference of WIPO to be held in Tokyo this month, participation by representatives of both American and Japanese Groups is expected.

As regards the establishment of an industrial property rights system on a global basis, the difference between the

legal systems of the U.S. and Japan might lead to different opinions, but it is to be desired that matters of common interest should be studied jointly by the two Groups so that our opinions may be unified and formally expressed in the form of resolutions from PIPA, which is an international organization. This, I believe, should be one of "Raisons d'être" of PIPA.

Now, as I look back upon the short but brilliant career of PIPA, I cannot but believe that this Association, which has such great possibilities, will play an increasingly important role in the field of industrial property rights. With such an expectation, I wish to listen to the reports and discussions of the two Groups.

I sincerely hope that you will develop active discussions at this Congress and bring forth fruitful results.

Thank you!

1973 PIPA San Francisco Congress

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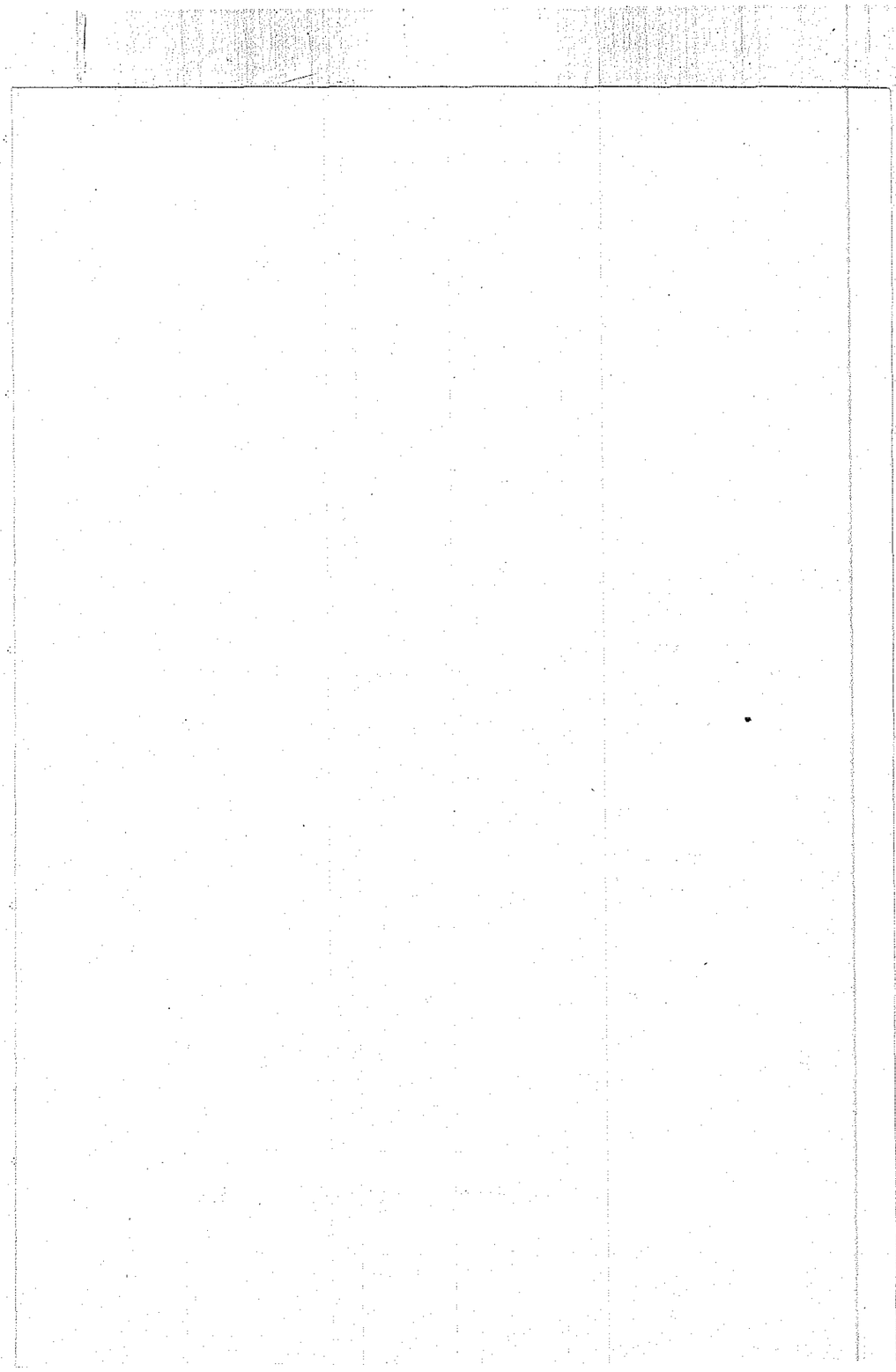
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INTERPRETATION OF CLAIMS
FOR INFRINGEMENT PURPOSES IN THE UNITED STATES

Comm. #1
U.S.

By William J. Keating

I AM DELIGHTED TO HAVE THIS OPPORTUNITY TO MEET WITH MEMBERS OF THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION. I WOULD LIKE TO ADD MY WELCOME TO THE MEMBERS OF THE JAPANESE DELIGATION. MY COMPANY, AMP INCORPORATED, HAS A JAPANESE SUBSIDIARY AND I ESPECIALLY ENJOY MY VISITS TO JAPAN.

IN THE PAST TEN YEARS, MY COMPANY HAS BEEN INVOLVED IN ABOUT FIFTY PATENT INFRINGEMENT SUITS IN THE UNITED STATES ---IN 49 CASES WE WERE THE PLAINTIFF, ENFORCING THE PATENT--- IN ONE CASE WE WERE THE DEFENDANT, BEING SUED FOR PATENT INFRINGEMENT. WE HAVE ALSO HAD ABOUT 6 CASES IN JAPAN---IN EACH CASE WE WERE ENFORCING THE PATENT.

SO YOU SEE, THE QUESTION OF INTERPRETING CLAIMS IS IMPORTANT TO US.

THERE ARE SEVERAL OCCASIONS WHEN AN INTERPRETATION OF A PATENT CLAIM BECOMES IMPORTANT. ONE I HAVE ALREADY ALLUDED TO IS PATENT LITIGATION. WHEN THE PATENT IS IN SUIT, THE JUDGE MUST DECIDE WHETHER THE INTERPRETATION OF THE CLAIM RENDERS THE PATENT INFRINGED OR ALTERNATIVELY RULE THAT THE CLAIM IS NOT INFRINGED. ANOTHER OCCASION WHEN CLAIM INTERPRETATION IS IMPORTANT IS WHEN THE OWNER OF THE PATENT CONSIDERS BRINGING A SUIT FOR INFRINGEMENT OR WHEN A MANUFACTURER DECIDES TO MAKE A NEW PRODUCT LINE COVERED BY A PATENT OWNED BY A COMPETITIVE COMPANY. IN EACH CASE THEY WILL HAVE TO DETERMINE WHAT THE PROBABLE INTERPRETATION

OF THE CLAIM WOULD BE IN AN INFRINGEMENT ACTION. ONE MUST CONSIDER CLAIM INTERPRETATION FOR THE PURPOSE OF LICENSE. THE INTERPRETATION OF THE PATENT CLAIM MAY AFFECT THE AMOUNT OF ROYALTY PAID. ALSO IN THE SALE OF A PATENT, THE BREADTH OF CLAIM INTERPRETATION WILL AFFECT THE VALUE OF THE PATENT.

FOR PURPOSES OF THIS DISCUSSION LET'S CONSIDER CLAIM INTERPRETATION IN THE CONTEXT OF ACTUAL LITIGATION---SINCE THE SAME PRINCIPLES APPLY IN EACH OF THE OTHER SITUATIONS.

ALSO, LET'S ASSUME THAT THE DEFENDANTS' DEVICE (OR METHOD) IS NOT EXACTLY DESCRIBED BY THE CLAIMS OF THE PLAINTIFF'S PATENT. LET'S ASSUME THAT THERE IS SOME VARIATION BETWEEN THE LANGUAGE OF THE PATENT CLAIM AND THE DEVICE WHICH IS ACCUSED OF INFRINGEMENT.

QUITE FREQUENTLY THE VARIATION ARISES BECAUSE OF A RELATIVE TERM USED IN THE CLAIM. EXAMPLES: (1) IF THE CLAIM SAYS THAT TWO PARTS ARE "CLOSELY" ADJACENT---HOW FAR APART MUST THEY BE BEFORE THEY ARE NO LONGER "CLOSELY" ADJACENT? (2) IF THE CLAIMS DESCRIBE A PART AS---"RAPIDLY" MOVING---HOW SLOWLY MUST THEY TRAVEL BEFORE THEY CAN NO LONGER BE CONSIDERED "RAPIDLY" MOVING?

IN ORDER TO DISCUSS CLAIM INTERPRETATION WE MUST FIRST CONSIDER THE STRUCTURE OF A CLAIM. A CLAIM USUALLY CONSISTS OF:

A) INTRODUCTION - WHAT IT IS

B) CONSTRUCTION (OR STEPS) (1 ELEMENT
(2 ELEMENT
(3 ELEMENT

C) CONCLUSION - WHAT IT ACCOMPLISHES

USUALLY ONE OR MORE OF THE ELEMENTS WILL CONSTITUTE THE INVENTIVE STEP, WHAT I WILL CALL THE "HEART" OF THE INVENTION.

THE FIRST PRINCIPLE OF CLAIM INTERPRETATION IS, THE COURT WILL GIVE A NARROWER INTERPRETATION TO THE LANGUAGE CONSTITUTING THE "HEART" OF THE INVENTION AND A BROADER INTERPRETATION TO THE OTHER PARTS OF THE CLAIM. THE COURTS ARE RELUCTANT TO BROADEN THE LANGUAGE OF A CLAIM IF THE LANGUAGE COMPRISES THE HEART OF THE INVENTION. THIS IS BASED ON THE U. S. LAW, SECTION 112 OF THE PATENT STATUTE, WHICH STATES:

> "THE SPECIFICATION SHALL CONCLUDE WITH ONE OR MORE CLAIMS PARTICULARLY POINTING OUT AND DISTINCTLY CLAIMING THE SUBJECT MATTER WHICH THE APPLICANT REGARDS AS HIS INVENTION."

THE CLAIM MUST CONTAIN LANGUAGE PARTICULARLY POINTING OUT AND DISTINCTLY CLAIMING THE INVENTION, WHAT I HAVE REFERRED TO AS THE "HEART" OF THE INVENTION. IT MAY ALSO CONTAIN LANGUAGE WHICH COMPRISES BACKGROUND MATERIAL, THAT IS LANGUAGE DESCRIBING WHAT THE DEVICE IS AND HOW IT OPERATES, WHAT I HAVE REFERRED TO AS THE INTRODUCTION AND THE CONCLUSION, THE CLAIM MAY ALSO INCLUDE OTHER ELEMENTS WHICH ARE NOT PART OF THE HEART OF THE INVENTION BUT ARE NECESSARY TO COMPLETELY DESCRIBE A DEVICE USING THE INVENTION.

THE COURTS WILL STRICTLY INTERPRET THE LANGUAGE OF THE CLAIMS COMPRISING THE HEART OF THE INVENTION, AND LIBERALLY

INTERPRET THE LANGUAGE WHICH COMPRISES BACKGROUND MATERIAL.

THIS SECTION OF THE LAW IS ALSO THE BASIS FOR MULTIPLE CLAIMING. THE LAW WILL NOT PENALIZE THE INVENTOR FOR HIS MISTAKE OR THE MISTAKE OF HIS ATTORNEY. RATHER THAN REQUIRING ONE CLAIM WHICH WOULD BE INVALID IF TOO BROAD AND USELESS IF TOO NARROW, THE LAW PERMITS A SERIES OF CLAIMS RANGING FROM BROAD TO NARROW. THEN IF THE BROAD CLAIMS ARE FOUND INVALID THE REMAINING CLAIMS MAY STILL PROTECT THE INVENTION.

THE SECOND PRINCIPLE OF CLAIM INTERPRETATION IS THAT THERE ARE FOUR SOURCES FROM WHICH A COURT SEEKS ADVICE IN INTERPRETING THE LANGUAGE OF A CLAIM:

(1) DICTIONARY DEFINITION - THE COURT WILL NOT DISTORT THE ORDINARY MEANING OF THE LANGUAGE--IT WILL CHOOSE BETWEEN TWO INTERPRETATIONS ONLY IF THEY ARE BOTH CONSISTENT WITH THE ORDINARY MEANING OF THE LANGUAGE;

(2) THE NEXT SOURCE IS THE LANGUAGE OF THE PATENT SPECIFICATION. THE COURT WILL INTERPRET THE CLAIM LANGUAGE SO THAT IT IS CONSISTENT WITH THE LANGUAGE OF THE SPECIFICATION.

(3) THE THIRD SOURCE FOR THE INTERPRETATION OF THE LANGUAGE OF THE CLAIMS IS THE RECORDED PROCEEDINGS IN THE PATENT OFFICE DURING THE PROSECUTION OF THE PATENT APPLICATION, IE: THE FILE WRAPPER. THE PATENTEE CANNOT URGE ONE INTERPRETATION OF THE CLAIMED LANGUAGE IN THE PATENT OFFICE TO PERSUADE THEM TO ISSUE A PATENT, AND THEN URGE A CONTRARY INTERPRETATION IN THE COURTS--WHAT WE CALL "FILE WRAPPER ESTOPPEL".

(4) THE FOURTH SOURCE FOR INTERPRETING THE LANGUAGE OF THE CLAIM IS THE PRIOR ART. THE COURTS WILL LOOK TO THE PRIOR ART TO SEE IF THE LANGUAGE OF THE CLAIM HAS ANY SPECIAL MEANING. ALSO THE COURT WILL NOT EXTEND THE CLAIM LANGUAGE, IF DOING SO WOULD CAUSE THE CLAIM TO COVER THE PRIOR ART AND THUS INVALIDATE THE PATENT.

THE NEXT AREA OF INQUIRY IS, "HOW FAR WILL A COURT BROADEN THE LANGUAGE OF THE CLAIMS?" I HAVE A PERSONAL VIEW ON THIS MATTER. TO BEGIN WITH, IN THE UNITED STATES, THE JUDGES WHO PRESIDE OVER PATENT LITIGATION ARE NOT SCIENTIFICALLY TRAINED. THEY ARE THE SAME JUDGES WHO PRESIDE OVER CRIMINAL CASES, ANTI-TRUST CASES, ETC. IF THE PATENT CASE IS THE LEAST BIT COMPLICATED, THE JUDGE WILL PROBABLY NOT FULLY UNDERSTAND THE SCIENTIFIC ISSUES. WHAT HE WILL DO, IS DETERMINE FROM ALL THE EVIDENCE WHICH PARTY SHOULD PREVAIL AS A MATTER OF JUSTICE, AND TAILOR THE DECISION IN HIS FAVOR. IF HE IS PERSUADED THAT THE PATENTEE MADE A WORTHWHILE CONTRIBUTION AND THE DEFENDANT APPROPRIATED THE INVENTION UNLAWFULLY, THEN THE JUDGE WILL RULE FOR THE PATENTEE, EVEN IF HE HAS TO BROADEN THE LANGUAGE OF THE CLAIMS TO DO SO. HOWEVER, IF THE JUDGE FEELS THAT THE PATENTEE'S INVENTION IS OF A MINOR NATURE AND THAT THE DEFENDANT'S PRODUCT IS CLOSER TO THE PRIOR ART THAN IT IS TO THE PATENT, THEN HE WILL REFUSE TO INTERPRET THE CLAIM LANGUAGE TO FIND INFRINGEMENT.

ALSO THE JUSGE'S PERSONAL PHILOSOPHY MAY AFFECT HIS DECISION. IF HE BELIEVES THAT PATENTS REPRESENT AN

UNDESIREABLE MONOPOLY HE WILL LIMIT THE SCOPE OF THE CLAIMS. ON THE OTHER HAND IF HE HAS STRONG VIEWS AGAINST COPYING A COMPETITOR'S PRODUCT, HE MAY EXTEND THE SCOPE OF THE CLAIMS.

BECAUSE OF ALL THESE CONSIDERATIONS, IT IS NOT ALWAYS POSSIBLE TO BE CERTAIN WHETHER OR NOT INFRINGEMENT EXISTS. A PATENT LAWYER WILL USUALLY ADVISE HIS CLIENT IN TERMS OF PROBABILITY OF SUCCESS, E.G., YOUR CHANCES OF PROVING INFRINGEMENT ARE 75% -- OR 3 OUT OF 4.

ANY ATTORNEY STUDYING THE QUESTION OF INFRINGEMENT MUST TAKE THESE FACTORS INTO CONSIDERATION.

October 2, 1973

Japanese Group, Committee #1

Patent Commiittee,
Sub-committee 3

Chairman: Tunewo Simada
(Takeda Chemical Industries,Ltd.)

Vice-chairman: Mitsuomi Wakahara
(Sekisui Chemical Co.,Ltd.)

THE CONSTRUCTION OF CLAIMS IN PATENT INFRINGEMENT ACTIONS

Summary

The question that seems to be of great concern to the patent owner is how the court would construe the scope of patent right in patent infringement actions in Japan and it is of supreme importance for the patent owner, from both offensive and defensive points of view, to know the bearing which the matters recited in the claim would have in the construction of the scope of right by the court. Therefore, in this session, the attitudes of the courts will be studied and the overall trend be diagnozed through a review of cases.

Of the many questions involved, "the doctrine of equivalents" and "the relation of the known matters included in the claim with the construction of the scope of right" will be central themes of this session.

The existing Patent Law of Japan provides that the technical scope of a patented invention shall be decided on the basis of the language of the Scope of Claim for Patent (claim) of the specification attached to the application (Article 70 of the Patent Law). The Utility Model Law provides for the application mutatis mutandis of the same provision (Article 26 of the Utility Model Law).

As regards the meaning which the terms "technical scope" of a patented invention may have in the field of patent law, there is no express provision of law, although it is said that the terms mean the scope of protection afforded by a patent, that is to say, the technical range of a monopoly right. And since this is the only provision of law delineating the range of right of a patented invention, this provision is of considerable significance in the delineation of the scope of right in patent infringement suits.

The existing Patent Law was promulgated in 1959 and took effect in 1960. The law has since been amended a few times, the amendment of 1970 introducing a new provision for the early laying-open of specifications.

However, the above-mentioned provision relating to the technical scope of a patented invention has remained unchanged from what it was at the time when the law was first promulgated. According to the guide book(1) compiled by the Patent Office prior to the effective date of the above Law, there had been two schools of thought in connection with the determination of the technical scope of a patented invention under the old law (promulgated in 1921), i.e. one that argues that the scope should be limited to the matters recited in the claim and the other arguing that it should be judged from the entire specification, and in this respect, the new law made it clear that the technical scope of a patented invention must be delineated on the basis of the language of the claim. However, as will be seen from the fact that there have thence arisen an almost endless number of disputes over the construction of the scope of monopoly right (technical scope) of a patent, one cannot necessarily say that the introduction of this new provision of law was instrumental to the interprstation of the technical scope. This vagueness may be attributed to the fact that the phrase "on the basis of ..." is far from being articulate. That, in construing the technical scope of a patented invention (the scope of right of a patent), the matters recited in the claim have a central importance is also apparent from the fact that Paragraph 5, Article 36 of the Patent Law prescribes to the effect that in the Scope of Claim for Patent there shall be stated only the matters indispensable for the construction of the invention. However, the provision of Article 70 gives no

indication as to whether the technical scope is strictly the very matter recited in the claim or it can be either broader or narrower and, evidently, the question must be decided case by case.

It is generally acknowledged that the technical scope of a patent is decided on the basis of language of the scope of claim for Patent while taking into consideration the description elsewhere in the specification, the drawings, the technical level obtaining at the application date and even the materials appearing in the course of examination. However, the other way around, there can be the way of thinking that the very language of the claim is the sole determinant of the technical scope of a patented invention. There also is the way of thinking which is intermediate therebetween. Actually there have been advanced arguments endorsing these ways of thinking. However, it seems to be of no great practical value, though it may be an object of scholastic curiosity, to list and comment on such arguments or discuss about their validity or invalidity. The questions that are of utmost concern to us in practice are how the courts have been thinking and what kinds of judgements they have entered in the past.

Equivalence

The basic way of thinking which the Supreme Court seems to have entertained about the construction of the scope of patent right since 1921 is that the scope of a patent right is not necessarily dictated by the language of the claim alone but should

more properly be marked off by clarifying the gist of the novel invention (or, under the Utility Model Law, the novel device) while taking into consideration the disclosure in the Detailed Description of the Invention. The judgement in 1922 of the Supreme Court(2) and the judgement in 1962 of the Supreme Court(3), among others, endorse this position. Thus, this attitude has been almost consistently sustained by the courts. Because of the existence of such a way of thinking in the courts and because under the Japanese Patent Law which is an offshoot of German law the German way of thinking is predominant in Japan, there are cases in which the scope of right is construed as being broader than the language of the claim. Here, we are dealing with what is known as "equivalence". Thus, if the technique or art which is the object of an infringement charge is beyond the language of the claim but its deviation from the latter is no more than the difference arising from the replacement (of an element) by its "equivalent" or the difference caused by "equivalent means"(For the meaning of "equivalent" or "equivalent means" as used here, see below), the art in question is deemed to infringe the patent right.

Here, reference will be made of the judgement in 1961 of Osaka District Court(4) which proclaimed in succinct and easily understandable terms the doctrine of equivalents. This case was such that its greatest point of issue related to the question of whether "propane" as used by the defendant was equivalent to the "easily volatile organic liquid" as recited in the claim. The court

said, "An equivalent element or means is a concept which recognizes an art to be identical with a patented invention on condition that any technical element of the former is functionally equal to the corresponding element of the latter in that replacement of one with the other brings about the same effect, that is to say the two elements are interchangeable and that (this interchangeability) could be readily foreseen by an artisan of average caliber at the application date (note: expectability)". (Incidentally, in the above case, the court held that the two substances at issue were not equivalent because they failed to meet the above definition), This definition of equivalence has thence been accepted by many, including the courts, and the district courts of Osaka(5), Kyoto(6) and Tokyo(7) and Tokyo High Court(8), among others, have entered judgements on the same reasoning, although some scholars have dissented to the effect that the time element relevant to the existence or non-existence of equivalence should not be the application date of the patent but be the time of infringement. However, cases are very rare in which the courts, defining equivalence in the above way, judged that the art at issue was equivalent to a patented invention. In most cases, while blessing the doctrine of equivalents, the courts concluded that the defendant's art was not equivalent to the patented invention. Below given is a recent judgement entered in favor of the plaintiff on the strength of the doctrine of equivalents, to which our attention has been particularly directed. This is a judgement entered by Tokyo District Court in 1966(7) in an infringement suit over a metal band to be used with

a wrist watch or the like. There, the court judged that the defendant's act constituted an infringement, saying, "Though they differ in shape, they function in like manner and though the effect attainable (by one) is somewhat inferior (to that attainable by the other), they may be considered almost identical. Moreover, the alteration in shape apparently fell within the purview of an artisan of average caliber at the application date. Therefore, the two are equivalents."

Whether the court would affirm equivalence or not depends in a considerable measure upon the allegations and techniques of proof of the parties but is more significantly affected by the individual propensity of the judge in charge. For example, there is no denying the fact that a judge who has a great mental affinity for the German doctrine of equivalents tends to give a greater breadth to equivalence and, on the other way around, it is also true that there are judges who take a diametrically opposite point of view.

Thus, excepting a very few cases, there is a trend that, while admitting the possibility that the range of equivalence lies in the marginal area (fringe area) of the claim, the court takes a more and more restricted view of equivalence. This fact, taken together with the fact that only in rare cases have the courts actually affirmed infringements on the basis of the doctrine of equivalents, suggests that it is not easy to attack the infringer by the doctrine of equivalents.

The known matters and the construction of the scope of right

In Japan, a patent right is the right which the Patent Office, an administrative agency, confers upon the applicant for a patent as an administrative disposition. And even if there is a cause of invalidity in the right conferred by the Patent Office, the validity of the right is never reversed unless the Patent Office declares its invalidity as an administrative disposition. Thus, even if it can be shown in an infringement suit that the right owned by the plaintiff has a cause of invalidity, it cannot in theory be a plea that might justify the defendant's act of infringement. In this sense, ours is quite a departure from juridical systems including that of American law where the allegation of invalidity of a patent as a plea in an infringement suit is evaluated by the court and might lead to a judgement to the effect that by virtue of this invalidity, the defendant's act does not constitute an infringement.

This way of thinking prevailing in Japan is based on the principle that any act to invalidate an industrial property right is an administrative disposition which belongs exclusively to the Patent Office, an administrative agency, and it is beyond the authority of justice that the court, which is an agency of justice, does such an administrative disposition. This reasoning was clearly set forth in the judgement in 1922 of the Supreme Court(2) which reads in part:

"Even if a patented invention is devoid of novel elements and, for that reason, has a cause of invalidity, the validity of the patent remains unaffected unless the Patent Office has formally invalidated it. Therefore,(this fact) is no bar to the establishment of the scope of right, nor does they force us the court to construe the scope narrowly".

This judgement shows that even if a patented invention consists of known elements, the act of infringement is no less than an act of infringement and if one wishes to evade the charge of infringement, he has nothing that he can do but demand an invalidation trial to the Patent Office and obtain a judgement invalidating the patent. Further, in a judgement of 1965, Tokyo High Court(9) rejected the plaintiff's allegation that the scope of right of a patent including known matters should be decided without regard to the known elements, holding, "(The plaintiff's allegation) cannot be accepted, for if these elements were excluded (from the scope of right) only because they are known facts, it would disintegrate the art which the inventor has created as an organic unit for the purpose of solving the problem."

On the other hand, there are judgements to the effect that in construing the claims, known matters should be excluded. A judgement entered by the Supreme Court in 1964(10) disregarded known elements in construing the claim. This way of thinking seems to follow that underlying a judgement entered by the Supreme Court in 1937(11), which reads in part.

"When there is found a matter which was already known or in

use at the application date, it should be excluded from the claim. If all the elements of the device in question were known or in use at the application date, the scope of right of the patent should be restricted to the particular mode of combination responsible for the novel result".

At the extreme of cases which took known matters into account, there is a judgement entered by Osaka District Court in 1970(12). While accepting the above principle that the court is not authorized to judge on the validity or invalidity of a patent and reasoning that the plaintiff's patent right was currently valid because the patent had not been declared invalid (by the Patent Office), Osaka District Court held that in view of the fact that all the structural elements of the plaintiff's patent were known and because the art known or in use at the application date was the common property of the general public, (the patent owner) is not allowed to exercise an exclusive right over others and (accordingly) there cannot be an infringement of the right by others.

The general conclusion which may thus be drawn or cannot be denied is that more and more judgements are being entered in which, in delineating the scope of right of a patent issued on an invention including known matters, the known matters are taken into consideration insofar as the court is not trespassing upon the area of conduct over which the administrative agency has an exclusive jurisdiction.

So far, relating to the two questions concerning the construction of the scope of right of a patent in Japan, the trend of court judgement has been reviewed by way of decided cases. As mentioned above, cases are extremely divergent and decided by different courts. And the strategies and skills of the parties as to allegation and proof affect judgements in subtle ways. In any event, since the technical scope of a patented invention is decided on the basis of the language of the Scope of Claim for Patent in the specification, it is important for the applicant to draft the specification, especially the claim, with sufficient caution and consideration so that he may have his right adequately protected.

Of course, an invention or a device is the creation of a technical concept and it is a difficult task to express the invention or device accurately and in terms which are neither more than nor less than it. It is a natural human trait for the applicant to have the scope of his right broadened as much as possible and it seems to be an unavoidable propensity (of the applicant) to draft the specification especially the claim, in rather functional terms. The Supreme Court has a benign view of this attitude, holding that "Because experience tells us that matters which do not constitute the gist of a device but are merely related to the gist are sometimes recited in the claim and, on the other way around, the matters which may be more properly regarded as constituting the gist of a device are sometimes omitted from inadvertence", it is in many cases difficult to grasp the gist (substance,

essence) of a device and delineate its technical scope from the claim alone and, therefore, in delineating the technical scope, it is important that while taking the claim as a basis, one should not be obsessed with the very language of the claim alone but should also take into consideration the other descriptions in the specification, the drawings and even the technical level of the days(13). However, it is essential for the applicant to avoid future disputes and useless litigations by not relying upon such a favor of the court but drafting as accurately as possible the specification, especially the claim, with which his invention or device is to be protected.

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PARALLEL IMPORTS AND UNITED STATES LAW

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For presentation at the Pacific Industrial Property Rights Association Meeting on October 2, 1973

Let us begin this discussion of parallel imports and United States law by supposing that I am a trademark owner and conduct my business in various forms in the United States and several other countries. Can I stop you, whoever you are, from importing into the United States goods bearing my mark which you purchased abroad from me or one of my business affiliates and will probably sell more cheaply in the United States? This essentially is the practical problem of so-called parallel imports.

In more general terms, I can pose this question as what exactly is the extent to which a trademark owner in the United States can prevent unauthorized imports of goods bearing a trademark identical to his which goods he or an affiliated firm or his licensee first sold abroad. Such goods are often referred to as parallel imports of "genuine" goods[1] but, as we shall see, the word "genuine" has so many possible definitions that to use it in discussing this problem without specifying a particular meaning for the word only seems to confuse the real issues.

For our purposes, therefore, at the outset I shall use the word "genuine" to describe goods bearing a trademark which has been legitimately applied in their country of origin. Such "genuine" goods in the context of this paper on parallel imports and United States law are usually goods made by the American trademark owner abroad or his foreign affiliate, licensee or supplier. These legitimately trademarked goods are purchased abroad by a third party who then seeks to import them into the

United States and sell them i.e., the parallel imports,at a lower price than the goods of the United States owner of the said trademark.

Many articles[2] have been written concerning United States law and the various ramifications of parallel imports. Undoubtedly, the intense interest in this subject exists because such imports are likely to be sold more cheaply than the goods of the party asserting the exclusive American trademark rights.[3] A competitive importer can often sell his imported goods at a lower price in the United States because he may have obtained them in a foreign market where the manufacturing costs were considerably less expensive than in this country. Also, the competitive importer may not have to invest in American advertising to sell his goods since the United States trademark owner, who might be the originator of the trademark or the exclusive American distributor for a foreign manufacturer of the product may have already done so to build up the good will in the trademark in the United States.

As we shall see, many variables can exist from a factual and definitional viewpoint in situations involving parallel imports; however, let us proceed, without defining exactly who the parties are or what their relationship to each other may be and also, without deciding whether the goods in question are in fact or theory "genuine", to examine why the problem of parallel imports arises from a theoretical viewpoint.

Under traditional concepts of trademark law, a trademark right is territorial in nature, i.e., it exists only in a particular jurisdiction.[4] This territorial basis for trademark protection means that separate and distinct rights may co-exist in the same mark in separate jurisdictions. The owner of a trademark right is the only party lawfully able to use the particular trademark on certain goods in the one jurisdiction which gave him his right, because of his use or registration in that jurisdiction. The right means that the public in that jurisdiction looks to the owner of the trademark therein as the source of the goods. That is the prime function of a trademark, namely, to indicate the origin of goods and thereby distinguish them from the goods of another so the public can identify clearly which goods in a particular class it wants to buy. There is a strong public interest in the fact that this information is accurate and a secondary (albeit private) one in protecting the investment of the trademark owner in his reputation. There are other secondary functions of a trademark such as being a guarantee of consistency of quality or as an advertising medium; but the signification of source is the prime one.[5]

To maintain the association in the public's mind with a particular source and to protect the good will built up and maintained by the trademark owner in the jurisdiction, this owner can exclude all others from using the same trademark on the same class of goods in that one jurisdiction. His rights,

however, do not extend beyond this one jurisdiction, except in those jurisdictions where the "famous" trademark theory prevails. Thus, a strict application of the territorial principle in trademark law with reference to the opening question I posed would permit me, regardless of who I am or my nationality or my relationship to the foreign user of the mark, to exclude from the United States any products bearing my mark.

Why then is there a problem regarding parallel imports? First, you will recall that under the territorial principle, the same trademark can be owned by a different party in separate jurisdictions. Each can lawfully affix his trademark to his product in his jurisdiction; but when the goods of one enter the second jurisdiction, there is infringement because the public is likely to be confused as to the source of the goods because two products of the same class of goods bear the same trademark but the source of each is entirely different.[6] Parallel imports, however, fall into a hazy area under this principle because the parties legitimately using the same trademark in separate jurisdictions are not completely different, i.e., the parties bear some relationship to each other and, therefore, where this relationship is very close, e.g., one is the agent or subsidiary or licensee of the other, the goods of each can be regarded as coming from one and the same source or, in other words, being "genuine" in the sense of coming from one source which controls the quality and good will in a particular trademark.

This relaxation of the territorial principle where the trademark users in separate jurisdictions may be the same or related parties arises because trademark rights are being looked at as ones which must be measured against certain public interests.[7] For example, if the prime function of a trademark is to indicate origin and the origin of goods as presented to the public is true, why should a private interest then be able arbitrarily to stop the free flow of such goods between nations? Of course, when the price differential between competing goods is great, the anti-competitive results of the exercise of the territorial trademark right to exclude cheaper goods proves very vulnerable to anti-trust attack as a division of markets which illegally eliminates all competition.[8]

Moreover, many argue if the trademark owner himself puts the goods into circulation in another jurisdiction or does so through an affiliate or a licensee, it would seem that he has exhausted his trademark rights with respect to those goods.[9] In this era of multi-national corporations where the same trademark is owned in several countries by the same or related or associated companies, these anti-trust and exhaustion of rights theories are growing as jurisdictional boundaries seem far less tangible. The explosion of licensing arrangements further complicates the nature of relationships and the concepts as to what degree of control or closeness may constitute a single international enterprise or one source of goods.

In the clash between the territorial principle and the public interest in promoting competition, jurisdictions differ as to

how strictly they will enforce a trademark owner's rights.[10] In the United States, the answer to this question is not clear.[11] Regretfully, American law relating to the problem is particularly confusing because it involves case law whose effect is uncertain;[12] a legislative history of one of the most important statutes involved which is unclear as to the intent of Congress in having passed the law;[13] and, a conflict between the traditional territorial principle of trademark law and strong anti-trust policy considerations in favor of promoting the free and competing movement of goods in international trade.[14] Further, the Regulations relating to the entry of trademarked goods into the United States as adopted and administered by the United States Bureau of Customs have changed many times during the past twenty years.[15] Before we examine the complex American law in this area, it may be helpful to consider the problem of parallel imports from the factual viewpoint as to who the parties might be and the nature of the goods involved.

This is not as simple as it sounds. To cite just a few examples, the party asserting the right to exclude parallel imports from the United States could be:

1. The American owner of the trademark who originated the mark and manufactures the goods in the United States; or
2. An American subsidiary of a foreign trademark owner which subsidiary owns the mark in the United States by virtue of being an exclusive manufacturing licensee

or exclusive distributor of products made by the foreign trademark owner abroad; or

3. An American independent exclusive distributor of a foreign trademark owner's products which distributor has been granted or assigned the United States trademark rights in the mark on the goods by his foreign supplier; or
4. An independent exclusive licensee which manufactures the goods in the United States under license from the foreign manufacturer.

The identically-marked goods each of the foregoing parties may be trying to keep out of the United States could be those made by either their parent or sister companies or their supplier or fellow licensee in another jurisdiction, each of which has lawfully placed the mark on the goods in that jurisdiction. The factual variation as to the nature of the trademarked goods which are the "parallel imports" themselves and the goods being sold under the same trademark in the United States can be as great as the nature of the parties we have just seen. As just a few examples of the great number of possibilities which might arise when we consider the nature of so-called "genuine" goods, let us ponder whether parallel imports of so-called "genuine" goods mean the same thing to consumers as the American-sold goods under the same trademark:

1. When the parallel imports are precisely the same goods made by the same manufacturer in the same country and sold by that manufacturer in trademarked packages ready for sale by either the American trademark owner or the

competitive importer?

2. Are parallel imports the same as the American goods sold under the same trademark when they are precisely the same goods made by the same manufacturer in the same country but sold in different form by that manufacturer for resale as, e.g., the American trademark owner buys the goods in bulk from the foreign manufacturer for packaging in the United States and sale under the foreign manufacturer's trademark and the competitive importer buys the goods abroad in the original packages of the foreign manufacturer?

3. Are parallel imports the same as the American goods sold under the same trademark when their essential ingredients as (e.g., perfume essences or beer yeast) are the same and the formula and physical and chemical characteristics are the same, but the manufacture of the goods takes place in different countries (which place of manufacture may influence the consumer in his choice of a product or impart a different taste to the product)?

4. Are parallel imports the same when they are made by the same manufacturer or his affiliates or licensees in several countries, and though essentially of the same character, the goods differ in certain physical characteristics (e.g., taste or style, or a line of less sophisticated models) since they are tailored for different specific national markets (which differences might affect adversely

the reputation of the trademark owner in a country for which the products were not tailored)?

Are all these goods the same? Are they all "genuine" in fact? The dictionary definitions[16] of the word "genuine" include the following:

First, "having the qualities or character claimed or appearing to have: PURE;"

Secondly, "actually produced by or proceeding from the reputed or alleged source or author: not faked or counterfeit: AUTHENTIC";

Thirdly, "conforming precisely to its name and description: properly so called: TRUE".

Which one or more of the above meanings do the courts and commentators intend when they refer to "genuine" goods in discussing parallel imports? Does "genuine" mean precisely the same physical goods themselves made by the same manufacturer in the same country or just that the goods, in whatever territory made and though perhaps different in some physical characteristics come from one source indicated by the trademark. And what does one source mean? Does it mean the same source in the sense of being the same maker of the goods or the same seller of the goods or is one source meant in the sense of one source controlling the quality of the goods?

One writer has described "genuine" as meaning "that the mark as applied to the goods in question signifies the same source of origin as that which it normally means to the purchasing public. Source of origin is used in the technical trademark sense rather than in a broad, geographic, etc. sense".[17] Another

commentator has written that the reference to "genuine" goods "define goods to which the trademark has been legally affixed in the country of origin".[18]

Another meaning of "genuine" has been noted by a famous treatise writer in the trademark field as follows:

> "To the modern consumer, a 'genuine' article connotes not only the source of manufacture but also the chain of selection, distribution and servicing upon which he has previously relied. Many articles designed for export are expressly adapted to the conditions, taste, etc., of the different markets for which they are intended. If several types of the same article suddenly appear under the same trademark, because a third party has imported goods destined for another foreign country, there will be considerable public confusion as to the article's identity or 'genuineness'." [19]

Because of the confusion as to what precisely is meant by the word, "genuine", I shall from time to time hereafter use a specific meaning or a combination of words to indicate what meaning of "genuine" I intend. Thus, the words "genuine-identical" shall mean genuine goods in the factual sense in that they are precisely the same goods from exactly the same foreign maker as those sold by the United States trademark owner. In the case of such "genuine-identical" goods, the maker of the goods and the United States trademark owner may or may not be independent of each other.

I shall use the words "genuine-authentic" to mean goods made by the American trademark owner abroad or by his affiliated company or his licensee. In the case of such "genuine-authentic" goods, the goods may or may not be precisely the same in fact.

Let us now proceed to examine United States law on the subject of parallel imports. First, there are two important statutes to keep in mind. One is Section 42 of the federal trademark statute[20] and the other is Section 526[21] of the Tariff Act. Section 42 states in part as follows:

> "No article of imported merchandise ***which shall copy or simulate a trade-mark registered in accordance with the provisions of this chapter ***shall be admitted to entry at any customhouse of the United States; and, in order to aid the officers of the customs in enforcing this prohibition, any domestic manufacturer or trader, and any foreign manufacturer or trader, who is entitled under the provisions of a treaty, convention, declaration, or agreement between the United States and any foreign country to the advantages afforded by law to citizens of the United States in respect to trademarks and commercial names, may require his name and residence, and the name of the locality in which his goods are manufactured, and a copy of the certificate of registration of his trade-mark, issued in accordance with the provisions of this chapter, to be recorded in books which shall be kept for this purpose in the Department of the Treasury, under such regulations as the Secretary of the Treasury shall prescribe, and may furnish to the Department facsimiles of his name, the name of the locality in which his goods are manufactured or of his registered trade-mark, and thereupon the Secretary of the Treasury shall cause one or more copies of the same to be transmitted to each collector or other proper officer of customs."

The second important statute to keep in mind is Section 526 of the Tariff Act of 1930 which states in part:

> "(a) That it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States,*** if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner pro-

created

vided in section [42] of such Act, unless written consent of the owner of such trademark is produced at the time of making entry."

Let us examine certain important wording in these two statutes. First, note that recordation of a trademark certificate under Section 42 which takes place with the Treasury Department or, as happens more exactly, the United States Customs Bureau which is a part of the Treasury Department, brings Section 526, where applicable, automatically into effect.

Secondly, the recordation under Section 42 prevents the importation of goods which "copy or simulate" the trademark of an American registrant. In contrast, the wording of Section 526 seems to give such a recordation with the Customs the effect of preventing the importation of goods of foreign manufacture merely if they bear a trademark owned by a United States business domiciled in the United States and registered with the United States Patent Office. In other words, all the language of Section 526 requires for the exclusion of certain goods is that they bear an identical trademark to one owned and registered by a United States citizen and domiciliary.

Thirdly, it should be noted Section 42 permits all owners, whether foreign or American, of a registered United States trademark to deposit their certificate of registration and thereby prevent the importation of goods bearing a mark which copies or simulates their mark, i.e., goods with a trademark which infringes their mark or, in other words, Section 42 bars the entry of goods into the United States which bear counterfeit marks and are "spurious" goods. However, in contrast, Section

526 allows only registrants of United States trademarks who are United States citizens or a corporation or association created or organized in the United States and domiciled within the United States to invoke the right to exclude imports under its provision. Thus, foreign owners of registered United States trademarks are not within the protection of Section 526.

Fourthly, we see that Section 42 applies to all imported merchandise whereas Section 526 is limited to imported "goods of foreign manufacture". Thus, the wording of Section 526 would not exclude the re-importation into the United States of goods of United States manufacture which bear trademarks identical to those owned and registered by United States citizens and domiciliaries .

Incidentially, it should be noted that Section 42 applies to all federal trademark registrations except those on the supplemental register.[22]

To summarize the major statutes again, Section 42 protects both United States and foreign owners of registered United States trademarks except those on the supplemental register against copies or simulations, i.e., infringing trademarks. The wording of Section 526 protects only United States citizens or business concerns of American origin domiciled in the United States; but, the Section 526 wording protects such registrants against importation of goods of foreign manufacture which merely bear an identical trademark.

Let us now look at the latest pertinent Regulations of the Customs Bureau, the governmental agency which administers Sections 42 and 526. Here is part of Section 133.21 of Title 19 of the Code of Federal Regulations which are the latest pertinent Regulations of the Bureau[23] and became effective November 2, 1972.[24]

> "(a) Copying or simulating marks or names. Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.
> "(b) Identical trademark. Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.
> "(c) Restrictions not applicable. The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:
>
> > "(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
> > "(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see Sections 133.2(d) and 133.12(d));
> > "(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.***(Emphasis supplied.)[25]

Why are the Customs Regulations so different from [redacted] Sections 42 and 526. Why do these Regulations restrict the rights of a United States trademark owner to exclude certain imports if that trademark owner bears a certain relationship to the foreign

user of the mark or in fact uses the mark himself abroad. As we have seen, there seems to be no restrictive wording in Sections 42 and 526. Therefore, let us look now at American case law to find perhaps some of the reasons for the Customs Bureau's restrictions which seem on the surface inconsistent with the wording of these statutes. Also, let us see what would happen if an American trademark owner were to follow another possible remedy against the parallel importer and, instead of recording the American trademark with the Customs Bureau, he were to sue the importer in a civil action for infringement.

However, before proceeding, let me remind you of the definitions of the word, "genuine", which I shall use occasionally. First, the words "genuine-identical" shall mean genuine goods in the factual sense in that they are precisely the same goods from exactly the same foreign maker as those sold by the United States trademark owner although the maker and United States trademark owner may or may not be related.

Secondly, the words "genuine-authentic" shall mean goods of the American trademark owner made by him abroad or by his affiliated company or his licensee which goods may or may not be precisely the same in fact.

Thirdly, from time to time, I shall use "genuine" to describe goods to which the trademark was legitimately applied in their country of origin.

Also, before discussing the case law in this field, I would like to remind you that the fundamental criterion of trademark

infringement under both American common law and the federal trademark statute is "likelihood of confusion".[26] The test of infringement of trademarks registered with the United States Patent Office is specifically the question whether the defendant's use of a particular trademark is "likely to cause confusion, or to cause mistake, or to deceive".[27]

The significant American cases which bear upon the problem of parallel imports can be divided into 3 major categories.

First, there are the early cases[28] decided in the late 19th century and the beginning of the 20th century holding imported "genuine-identical" goods were <u>not</u> infringements of the United States trademarks and <u>not</u> copies or simulations within the meaning of Section 42 (which was then Section 27 of the Act of 1905).*

Secondly, there are two very important 1923 United States Supreme Court cases[29] which hold apparently contrary to the decisions in the early cases, that "genuine-identical" goods, <u>were infringements</u> and <u>were copies</u> <u>or</u> <u>simulations</u> within the meaning of Section 42, where there had been <u>an assignment</u> of the United States business, good will and trademark of a foreign originator of a trademark to an <u>independent</u> American business firm so that there was a separate and independent good will in the American party signified by the particular trademark.

Thirdly, there are the "Perfume" cases[30] which involved a District Court anti-trust decision in 1957 holding Section 526

*Since Section 42 of the present Act of 1946 is the same as Section 27 of the Act of 1905 I shall as a matter of convenience refer only to Section 42.

could not be invoked by an American party to keep out "genuine-authentic" or "genuine-identical" goods if the American registrant and the foreign user of the same trademark were part of a single international enterprise. This District Court decision was later vacated at the request of the United States Department of Justice, so its exact effect now is uncertain.

Let us examine these major categories of cases in detail now. For ease in describing the factual situation, I shall use alphabetical letters. Thus, B will be the person asserting the United States trademark rights; X will be the foreign user of the trademark and A will be the competitive importer.

As noted, early judicial decisions in the United States held that a competitor's sale of precisely the same imported goods bearing a trademark identical to the one under which the goods were sold in the United States was not an infringement of the rights of the party asserting the exclusive American trademark rights. In these cases the genuineness of the goods themselves which were being sold by the competitive importer, (e.g., mineral water from a particular spring in Hungary[31] or glue from a particular manufacturer[32]) was stressed by the courts in not finding an infringement since the trademark was regarded as indicating the true origin of the goods.

For example,[33] in 1886 B brought an action to restrain A from importing into or selling in the United States any water under the name "Hunyadi Janos" or offering to sell any water in bottles

with that name upon them or use labels similar to those adopted and used by B to distinguish the water from other mineral waters. X owned the trademark in Hungary and transferred to B "the sole right to export the waters from Hungary to Great Britain and America, and to sell them in these countries and to use"[34] the trademark "Hunyadi Janos". X put a label on the bottles it sold in continental Europe stating such bottles were not intended for export and if exported and sold in Great Britain or America the public was cautioned against purchasing them. B used a label on its bottles in place of the aforesaid cautionary notice used by X. B's label said "Sole Exporters - B Company". A bought bottles of the water from X's customers in Germany which bore X's cautionary label and imported them for sale into the United States whereupon B brought the infringement action against A. B lost against A because the court, although it recognized that the name "Hunyadi Janos" when applied to the water was a valid trademark stated:

> "But the defendant [i.e., A] is selling the genuine water, and therefore the trade-mark is not infringed. There is no exclusive right to the use of a name or symbol or emblematic device except to denote the authenticity of the article with which it has become identified by association. The name has no office except to vouch for the genuineness of the thing which it distinguishes from all counterfeits; and until it is sought to be used as a false token to denote that the product or commodity to which it is applied is the product or commodity which it properly authenticates, the law of trade-mark cannot be invoked."[35]

36

Similarly, an early case also held that such "genuine-identical" goods when bearing the same mark as one registered in the United States were not copies or simulations of the American registered trademark within the meaning of Section 42 so as to enable their entry into the United States to be barred. In this case, the unauthorized imported trademarked goods were again, in fact, the same exact goods being imported by the party asserting rights in the United States trademark, i.e., all the goods were manufactured by or originated from the same foreign party and bore its trademark; only the identity of who would be selling these goods in the United States was different, i.e., either A or B. There was, thus, in these early cases an obvious logical factual basis for not regarding A's imported goods as "copies or simulations" or an infringement because the public was obtaining what it expected to obtain in connection with the trademark and was not being misled. The approach in these early cases therefore, emphasized the "genuineness" of the thing itself.

In 1923, however, these early cases seemed to be over-ruled by two landmark decisions of the United States Supreme Court. The first of these cases entitled, Bourjois vs. Katzel[37] was a decision involving a "genuine" product in the sense we have been using it up to now, i.e., the imported goods sold by the competitive importer, A, were precisely the same goods coming from a particular manufacturer in one country which B, the United States trademark owner was selling in the United States. In

this case, the product was face powder made by X in France. X had done business in France and the United States. In 1913, X, the foreign firm sold to B, an American firm, X's business in the United States including X's trademarks and good will. Thereafter, B imported X's face powder from France in bulk, called the powder "Poudre Java", and repackaged it with the following label which stated in part:

> "Trade Marks Reg. U.S. Pat. Off. Made in France. Packed in the U.S.A. By B Company of New York."

A imported the same powder and sold it in the original French boxes of X which did not bear the above label but used the "Java" trademark in longer form, i.e., "Poudre de riz de Java". The United States Supreme Court held contrary to the early cases that here there was an infringement of B's United States trademark rights when A sold the boxed powder bearing the "Java" trademark in the United States. The Supreme Court said in part:

> "***There is no question that the defendant [i.e., A] infringes the plaintiff's [i.e., B's] rights unless the fact that her [i.e., A's] boxes and powder are the genuine product of the French concern gives her a right to sell them in the present form.
>
> "We are of the opinion that the plaintiff's rights [i.e., B's] are infringed. After the sale the French manufacturers could not have come to the United States and have used their old marks in competition with the plaintiff. That plainly follows from the statute authorizing assignments.*** If, for the purposes of evading the effect of the transfer, it [i.e., X, the foreign assignor] had arranged with the defendant [i.e., A, the competitive importer] that she should sell with the old label, we suppose that no one would doubt that the contrivance must fail. There is no such conspiracy here, but, apart from the opening of a door to one, the vendors [i.e., X] could not convey their goods free from the restriction to which the vendors were subject. Ownership of the goods does not carry the right to sell them with a specific mark. It does not necessarily carry the right to sell them at all in a given place. If the goods were patented in the United States, a dealer who lawfully bougnt

similar goods abroad from one who had a right to make and sell them there could not sell them in the United States.*** The monopoly in that case is more extensive, but we see no sufficient reason for holding that the monopoly of a trademark, so far as it goes, is less complete. It deals with a delicate matter that may be of great value, but that easily is destroyed, and therefore should be protected with corresponding care. It is said that the trademark here is that of the French house, and truly indicates the origin of the goods. But that is not accurate. It is the trademark of the plaintiff only in the United States, and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff, although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought.*** It stakes the reputation of the plaintiff upon the character of the goods.***" (Citations omitted; emphasis supplied.)[38]

Thus, we see that under certain circumstances, namely, an assignment of a United States trademark to an independent American firm where the public in the United States understands certain trademarked goods to come from B, the American owner of the trademark, although not made by it, "genuine-identical" goods, i.e., precisely the same goods from the same maker, when sold by A in the United States infringe B's trademark rights.[39] Also, under these circumstances, the Supreme Court later held the importation of such "genuine-identical" goods by A can be stopped by B under Section 42 which, as you will recall, bars entry of copies or simulations of registered United States trademarks. As noted, the famous Supreme Court case in which the decision just described recognizing infringement of B's trademark rights by A was entitled Bourjois v. Katzel[40] and took place in January, 1923. The case relating to Section 42 was called Bourjois v. Aldridge[41] and was decided in October of 1923.

In the Aldridge case, the United States Supreme Court, on the authority of the Katzel case but without a detailed opinion,

held that the collector of customs under Section 27 (now Section 42) of the federal trademark statute had to exclude from entry certain "genuine" face powder from X marked "Manon Lescaut" which A bought in France and sought to import into the United States. This was because B owned this trademark in the United States and such goods were therefore deemed "copies and simulations" under Section 42.

In the Aldridge case as in the Katzel case, B was an independent American corporation which was the assignee of a foreign party's United States trademark rights. However, it is interesting to note that in the Aldridge case the products sold by A and B were not exactly the same in the sense of being precisely the same goods coming from the same maker since B had the right to manufacture X's goods in the United States. Here is a partial statement of the facts from a lower court[42] in the Aldridge case with our alphabetical letters substituted for the actual names involved and certain successor relationships not mentioned:

> "Plaintiff's [i.e., B's] method of preparing Manon Lescaut powder is to obtain, usually from France, but not necessarily from the firm of ***[X] a powder and various tinting preparations and perfumes. The powder is then screened, bolted, or refined, and appropriately mixed with colors and perfumes to produce various tints and smells, there being several variations of Manon Lescaut powder. The ***[X] firm continued to make and sell Manon Lescaut powder in France, using that trade-name and placing the completed product in packages substantially similar in dress and decoration to the style registered as a trade-mark by plaintiff [B]. In fact, *** [X] in France, and plaintiff [B] in the United States, have since 1913 independently made this product, and sold it

under the name, in the package dress, and with the package decoration originally devised by the former French firm *** [which was X's predecessor and the originator of the trademark].

"Defendant ***[i.e., A] bought in France some Manon Lescaut powder made by *** [X] and attempted to import the same. Chemical analysis shows that this powder is substantially identical with plaintiff's. In name, dress, and decoration there is no difference between the two containers, except that each truly, but inconspicuously, states origin from plaintiff [B] or ***[from X] as the case may be. Both emphasize the name "Bourjois". No ordinary purchaser would notice the difference; for sale purposes the powders in substance and container appearances are identical.***" (Citations also omitted; emphasis supplied.) 43

Thus, we see that the nature of the goods was apparently not a determining factor in these two cases because the Supreme Court failed to make any distinction between the "genuine-identical" goods of the Katzel case and the independently made goods in the Aldridge case. Rather, the important element in both the Aldridge case and Katzel case in 1923 seems to have been the fact situation of an assignment of the United States trademark rights and the meaning given by the United States Supreme Court to the "origin" designated by the trademark on the goods, namely, as indicating a separate and independent local good will in the American seller of the goods. Thus, if a trademark denotes that the business of dealing in particular goods within the United States is B's business, then B under these cases, would seem to be protected and other goods bearing that trademark when sold in the United States by A, though from exactly the same maker as B's goods or from a party which has lawfully affixed

the trademark to goods of the same physical character in the country of origin constitute infringements of B's rights and copies or simulations of B's trademark in the United States.

You will recall that the Supreme Court decided the landmark Katzel and Aldridge decisions protecting B in 1923 and also, that these decisions reversed many earlier ones which did not protect B since they held A's imported "genuine-identical" goods (i.e., precisely the same goods as B's) did not infringe B's United States rights and also, were not copies or simulations under Section 42.[44] In 1922, before these landmark Supreme Court cases were decided and therefore at a time that B, the United States trademark registrant, was not getting help from the court system against the importation of goods bearing identical trademarks unless such goods were counterfeit or spurious so as to be copies or simulations within Section 42, the legislative branch of the United States government acted to help B by passing Section 526 of the Tariff Act.[45] As we have seen, the wording of Section 526 seems to reflect the traditional territorial concept of trademark law because, if literally read, it would permit a United States trademark registrant, if of United States citzenship and domiciled in the United States, to exclude all goods bearing a trademark identical to his merely by filing a copy of his registration certificate with the Customs Bureau. But, as we have also seen, the Customs Bureau has placed additional restrictions on the application of Section 526 denying its protection where

the American registrant and the foreign user are the same or affiliated parties or, in other words, not independent parties as in the Katzel and Aldridge cases.

This administrative position may have some justification under the third significant category of American case law on the subject which we shall now examine, namely, the "Perfume" cases of 1957.[46] These cases involved a civil anti-trust action by the Department of Justice against certain American companies which were both distributors and manufacturers of French-originated perfumes in this country. These American companies had invoked Section 526 to keep out parallel imports of products purchased by competitive importers in France from the original French companies. It should be noted that the French goods sought to be excluded in the "Perfume" cases were not always physically identical to the goods being sold in America as in the Katzel case since the American companies in the "Perfume" cases were both distributors and manufacturers. Thus, in these cases, the French companies either supplied the American ones with the products manufactured under secret formulae, or the essential ingredients of those products which the American companies then compounded in the United States or, sold the goods in bulk which were then bottled in the United States.

The United States District Court (which is the lowest Court in our federal court system) in the "Perfume" cases found as a matter of fact that the American companies and the French

ones, despite apparent independence of ownership, were part of a single international enterprise.[47] This Court then held as a matter of law that where a United States trademark is part of "a single international enterprise" the American part of that enterprise may not bar, by invoking Section 526, the importation of the trademarked products sold abroad by the foreign part of the enterprise.[48] The decision seemed to be based upon the legislative history of Section 526 with the District Court finding that the tariff statute was enacted by Congress only to protect "the rights of Americans who bought foreign trademarks" involving an American trademark owner independent of the foreign manufacturer. The District Court's decision, thus, was that Section 526 was passed only to protect independent American trademark owners from the importation of "authentic" goods. However, "authentic" was not defined.[49] It should be specifically noted that, in the "Perfume" cases, the goods were not always exactly the same, i.e., they were not all made by the same manufacturer, but rather some were different goods made by different manufacturers under common control. Moreover, such control was not, generally speaking, of an ownership nature but rather by certain contractual provisions, and the District Court found such contracts made the American and French parties parts of a single international enterprise.[50]

This point as to whether Section 526 was intended to be used by the type of American trademark registrants here involved was very important since the Court found that the advertisements of these registrants did not emphasize a United States origin of the goods so as to be within the independent seller's good will doctrine of the Supreme Court in the Katzel case. Thus, since the defendants' use of Section 526 to exclude competitive imports was not authorized because they were parts of a single international enterprise, their conduct in having so used Section 526 to exclude imports of "authentic" goods constituted monopolization in violation of our anti-trust laws (i.e., Section 2 of the Sherman Act).[51] The District Court thus upheld the government's position in connection with the anti-trust charge which had been brought against the defendants in the "Perfume" cases. However, as one well known commentator on trademark law has noted concerning this aspect of these cases:

> "***In finding monopolization, the Court distinguished the Supreme Court's recent decision in the Cellophane case on the ground that in the case of famous perfumes, every trademarked perfume constituted a 'substantial market' in itself. The conclusion was therefore reached that the perfumes involved 'did not compete with each other'. According to the Court, the respondents' own evidence supported the conclusion that 'the most important element in the appeal of a perfume is a highly exploited trademark' and 'there seems to be agreement that no quality perfume can be successfully marketed without a famous name'." 52

Consequently, one could argue to escape the anti-trust aspect of the "Perfume" cases that here the goods constituted a highly unique product in that the trademark was the major selling point of the goods and no other product, even one which was exactly the same physically but marked differently, could compete with it so as to broaden the relevant market. There are highly unusual facts which could narrow the future influence of the "Perfume" cases even apart from the fact that the judgment was eventually vacated.

It is also interesting to note the District Court's comments in the "Perfume" cases on the interrelationship between traditional trademark principles and anti-trust considerations:

> "But the defendants insist that it would destroy the very essence of the trademark and the property values represented by it to permit those who do not contribute to the good will, identified with the mark, nevertheless, to divert that good will to themselves, on a free ride. The argument is one for the protection of advertising expenditures and expected profits not necessarily related to good will. Obviously advertising is for the purpose of building good will, but the defendants make an exclusive American market an element of that good will. The exclusive right to sell in the American market on the part of an international concern exploiting world markets is not an element of good will except in so far as it may be made so artificially by import prohibitions. A competing importer selling identical merchandise under the same trademark would not be a 'pirate' or a 'cheat'. The public would not be deceived about the authenticity or origin of the product and the reputation of the trademark owner could not suffer from the marketing of inferior merchandise under his mark. Even the trademark owner's advertising expenses bear fruit, in some measure, from the activities of the 'free riders', for the international enterprise reaps some benefit from all sales. That the defendants may be disappointed in their expectations of profit from an exclusive domestic market, after having made substantial expenditures for advertising, involves not the diversion of their good will or the repudiation of their trademark rights, but the denial of a special privilege. And I am not persuaded that it was the intention of Congress to grant such

a special privilege for the benefit of an international enterprise.

"Moreover, to ascribe such an intention to Congress would have the effect of reading into the legislation an implied exception to the Sherman Act. Indeed, the defendants maintain, as a reason why they should not be held in violation of the Sherman Act, that their conduct is under the legal license of Section 526. Assuming a case where the products involved are unique so as to constitute a relevant market in themselves, a construction permitting the American part of a single international enterprise to exclude imports by purchasers from the foreign part of the enterprise would authorize monopolization by permitting a manufacturer to prevent purchasers of his merchandise from competing with him.*** But exemptions from the operation of the antitrust laws are explicitly made by Congress, and repeals by implication are not favored. 'The intention of the legislature to repeal 'must be clear and manifest.'***There must be 'a positive repugnancy between the provisions of the new law, and those of the old; and even then the old law is repealed by implication only pro tanto to the extent of the repugnancy."*** I find no 'clear and manifest' intention on the part of Congress to limit the scope of the Sherman Act for the benefit of an international enterprise by means of Section 526, and to construe that section in accordance with the purpose disclosed by the history detailed avoids a 'positive repugnancy' in favor of a harmonious consistency between the two laws.***" (Citations omitted; Emphasis supplied.)[53]

We thus see the very clear restrictive interpretation given to Section 526 by the District Court in the "Perfume" cases if one finds a single international enterprise is involved. Now comes one of the most surprising eventsin the chronological history of United States law in the area of parallel imports. The defendants in the "Perfume" cases appealed to the Supreme Court but before the Supreme Court had the opportunity to rule on the case, the Department of Justice moved to vacate the judgment it had won in the District Court. The Justice Department argued that the matter of clarifying the scope of a trademark owner's rights against parallel imports could be better handled through legislation which would make it

absolutely clear that a product bearing a trademark legitimately affixed by an affiliate of the American trademark owner could not be denied entry.[54]

Thus, although the holding of the District Court in the "Perfume cases" was vacated ("with prejudice"[55] - meaning that the government could not again bring the case on the merits), the reasoning of the District Court's decision is still of major importance. This is because it is the latest case directly in point concerning Section 526[56] and its reasoning has never been overruled. Moreover, the legislation i.e., the "Celler" bill[57] which had been anticipated by the Justice Department in moving for the dismissal of the "Perfume" cases was never passed by Congress. Section 42 and Section 526 thus remain unchanged and we shall now turn to the practices of the United States Bureau of Customs which administers these sections to see how its approach affects parallel imports.

This portion of my paper is based mostly on a comprehensive article detailing such practices which article was written by a Customs Law Specialist in the Customs Bureau and appears in the May-June 1969 issue of "The Trademark Reporter".[58]

Prior to the present 1972 Regulations, the details of the practice of the Customs Bureau had varied but the underlying approach has been <u>not to apply Section 526 literally</u> so as to permit a United States trademark registrant who is a citizen or of domestic origin and a domiciliary to be able to bar the

entry of all goods bearing his mark. Rather, the approach of the Customs Bureau has been a much narrower one "operating on the theory that Section [526] was intended by Congress to apply only to the fact pattern specifically mentioned in Bourjois v. Katzel." [59]

Thus, if it could be demonstrated to the Customs Bureau that the factual situation was not the same as in the Katzel and Aldridge cases (i.e. the American trademark was completely independent of its foreign assignor) but rather that the American trademark registrant was acting in concert with the foreign manufacturer or as his agent or was merely a prolonged arm of the foreign manufacturer so as to be in effect the "same" person, the Customs Bureau would not exclude identically marked goods. As the Commissioner of Customs once said:

> "It has been the long established practice of the Bureau not to prevent the importation of any article because of a recorded trade-mark which may appear thereon if it can be shown that the foreign user of said mark owns or, in some manner, controls the American corporation which holds title to the registered trade-mark in the United States. Under such circumstances, the American corporation is said to stand in the shoes of the foreign user who, once he introduces his product into commerce while bearing his trade-mark, cannot thereafter unreasonably restrict the use of the product. Or, expressed another way, a foreign owner of a United States trade-mark cannot partially assign that trade-mark to an American corporation so that the latter can use it, by recording it in this department, for the purpose of enforcing an exclusive United States sales agency agreement between the two parties with respect to said trade-marked articles." [60]

However, "where the registered trademarks [were] completely 'owned'

by the U.S. registrant [e.g., there was no reversionary interest in the trademark running to the foreign manufacturer] and [were] used by him in an independently built-up American business," [61] then Section 526 was enforced by the Customs Bureau.

The details of the Customs Bureau's regulations have changed frequently over the past twenty years but all carry out the underlying approach just described. The Customs Law Specialist in the comprehensive article which I mentioned earlier has described the Customs Bureau's practices in past years in part as follows:

> "***in partially limiting protection against the importation of merchandise bearing marks which were 'genuine' where applied, the Bureau of Customs is enforcing what it considers to be the Congressional intent to protect American firms against the fraud of foreign assignors of trademarks. Clearly if the American registered mark is owned or controlled by a foreign firm or an American firm under foreign ownership or control, that intent is not being carried out. That is why the Bureau does not interpret Section 526 literally whenever a firm "organized" in the United States is involved, but looks to the true controlling force over the trademark. This is not to say that the Bureau does, [i.e., in 1969, the date of this article] or will, or should, pierce corporate veils where representations are made that the American firm, for example, is independent from foreign control. Prospective competitors sometimes claim the Bureau is too ready to accept declarations of independence from firms which are actually related to, or are parts of, an international business organization. On the other hand, admitted American branches of foreign firms claim that they are entitled to complete protection.
>
> "The Bureau has never considered merchandise bearing a trademark registered in the United States Patent Office by a foreign firm to 'copy or simulate' within the meaning of Section [42], and of course a foreign firm does not qualify for Section [526] protection. A foreign registrant gets only the classical protection against counterfeits of his mark. An independent domestic firm gets

more extensive protection against the genuine mark under Section [42] because of the Aldridge decision. This distinction is justified, the Bureau feels, by Aldridge's reliance on Katzel with its fact pattern and the Congressional Hearings, both of which seem to comprehend protection for Americans against foreigners.***" 62

"***in its motion to vacate the judgments in its favor [in the "Perfume" cases] the Justice Department stated its reasons for seeking dismissal were that Customs Officials allowed American affiliates of French firms to exclude the French products, and the matter could be better handled by obtaining legislation making it clear that trademark protection is not available to prohibit the importation of a product legitimately marked by an affiliate of the American trademark owner.

> [Affiliated" in the Celler bill was defined as including but not limited to, an exclusive or a non-exclusive distribution contract and any arrangement whereby the person has a continuing contractual relationship or understanding, express or implied, with the foreign manufacturer or merchant with regard to the mark.] 63

"This strange turn of judicial events left the Bureau of Customs in an awkward position. Actually, it had always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information. To a degree, then, the position of Customs did agree with [the Department of] Justice, but it had not been developed to deprive any American registrant from full protection merely because there was some affiliation between the American firm and a foreign firm.

> "The desired legislation was never enacted, and the Bureau settled into a position whereby mere relationship as defined by Section 45 of the Trademark Act will not automatically deprive the American registrant of full protection, but an ownership or control relationship will.***" 64

[Parenthetically, let me note the definition of a related company in Section 45 of the 1946 Trade-Mark Act means "any person

who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used."[65] To return to our Specialist's description of the Customs Bureau's past practices, he continues as follows:]

> [To repeat] "Prior to 1953, the Regulations did not ask for information about related companies, but the mark on the merchandise was deemed not to copy or simulate the United States trademark if the foreign mark and the United States mark were owned by the same person.
>
> "In 1953, a Treasury Decision added the words, "or by a related company as defined in Section 45 of the Trade-Mark Act of 1946," to the existing presumption of non-copying where the mark was used by the same company. Since the language and administration of the Regulations were not previously aimed at related companies, some Customs trademark recordants who had recorded before 1953 undoubtedly continued to be permitted to exclude merchandise from their foreign supplier, since Customs did not know of the relationship between the two entities.
>
> "For six years, [i.e., 1953 to 1959] the Bureau denied full protection to related companies. In 1959, as a result of the Government's withdrawal in the Perfume cases, all reference to related companies was deleted from the Customs Regulations. However, full exclusionary protection continued to be denied where the foreign trademark and the United States trademark were owned by the same person, partnership, association or corporation.
>
> "As part of the procedures for recording a trademark with Customs, Section 11.15(a) of the Regulations [i.e., those Regulations in effect before the present 1972 Regulations] asks for information about principal-agency relationships. The effect of such relationships is to treat the firms as if they were the same. In fact, of course, the firms may or may not be under common ownership. Mere affiliation does not make companies the same or necessarily result in that treatment.

> Common control determines the extent of import protection. Licensees and licensors may or may not be considered the same, but again, less than complete protection (that is, against genuinely marked goods) will result since one firm is deemed to stand in the shoes of the other and must suffer the consequences of its own action. Usually, this situation arises where the trademark was American-originated and foreign use licensed. If the foreign firm originated the mark and sold it to the American, Section 526 (and Section 1124) would be appropriate, but if the foreign firm maintains ownership and merely licenses its American distributors, only protection against counterfeit marks is in order. Under the Bureau's current interpretation of applicable law, then, the Customs Regulations are administered in such a way as to elicit information about ownership and control relationships concerning trademarks. Related companies may or may not be denied full protection depending on ownership and control as viewed against the background of Bourjois v. Katzel, Bourjois v. Aldridge and Section 526 of the Tariff Act."[66]

Thus, we see that in the past the Customs Bureau has limited the protection against imports which seems to be covered by the wording of Sections 42 and 526. The new 1972 Customs Regulations seem to continue in this tradition except that the new Regulations specifically elicit more information about ownership and control than just that of principal and agent and seem to cover and define affiliated companies more explicitly than ever before.

Here is the information which a United States registrant must now submit to record a trademark with the Customs Bureau under Sections 42 and 526:

"(c) The name and principal business address of each foreign person or business entity authorized or licensed to use the trademark and a statement as to the use authorized; and

"(d) The identity of any parent or subsidiary company or other foreign company under common ownership or control which uses the trademark abroad. For this purpose:

"(1) Common ownership means individual or aggregate ownership of more than 50 percent of the business entity; and

"(2) Common control means effective control in policy and operations and is not necessarily synonymous with common ownership." 67

In comparison, Section 42 only requires the name and residence of the registrant and the name of the locality in which his goods are manufactured for recordation.[68] Nothing in this statute requires the additional information which the new Customs Regulations do.

A 1963 case dealing with Customs Regulations under Section 42, although not the exact point under discussion in this paper, stated:

"***Petitioners claim that the Regulation, the decision of the Customs Bureau and the action by defendants pursuant thereto are invalid and unlawful. In this regard, petitioners bear a heavy burden, for it is clearly established that a Regulation promulgated by a legitimate authority may be annulled only when, in the court's judgment 'it is plainly and palpably inconsistent with law'." 69

Are the new 1972 Regulations plainly and palpably inconsistent with Sections 42 and 526 so that they might be challenged in the future? Several industrial property rights organizations have thought so[70] and voiced objections both to the previous practice and the new Regulations of the Customs Bureau on the ground that the Bureau is exercising a legislative function through its Regulations which function belongs only to Congress. You will recall that Congress could have several times[71] in the past acted in this field by legislation. One Bill, the Celler Bill[72] would have gone very far by preventing an American distributor or exclusive licensee which had registered a trademark in the United States and which was an agent or subsidiary or affiliate of a foreign manufacturer or even an independent concern from excluding genuine foreign-made merchandise legitimately bearing the same trademark. But Congress did not pass such legislation and it is therefore argued by these industrial property rights organizations that the Customs Bureau, which is an administrative agency, by imposing restrictions on the scope of Sections 42 and 526 which restrictions were not passed by Congress is usurping Congress' function in this area. Incidentally, this argument that Congress' failure to enact a more restrictive interpretation of Section 526 meant its original intent was to have it apply to all goods including"genuine-identical"and"genuine-authentic" goods was explicitly rejected in "Perfume" cases decision.[73] So,

although the effect of the "Perfume" cases is not clear, this argument would appear to be without too much force.

Further, the new Regulations are unlikely to be challenged by a private litigant since the exposure to the possibility of anti-trust charges would obviously be very great. However, if one were willing to take the risk of an anti-trust charge, a private party could argue, of course, that certain "genuine-authentic" goods which it seeks to keep out of the United States are in fact physically different or not of common origin from a uniform quality point of view and, therefore, their sale in the United States would harm the American registrant's reputation in the United States. In other words, a brave party risking an anti-trust charge might argue that the situation was within the spirit of the Katzel and Aldridge cases although they were not exactly the same factual situations, i.e., they would be arguing that there is an existing and separate American good will in the trademark which merits protection because the public looks to that American business as the source of the goods. Also, as noted previously, the products in the "Perfume" cases were arguably very unique in that there were no other competing products possible because of the strong appeal of the trademark. However, the chances of winning these arguments, if a private party were brave enough to bring them, are highly speculative.

As far as Congressional legislation is concerned, if any

were contemplated, in today's era which tends toward the promotion of free trade it probably would be in the direction of the Customs Bureau's approach. On the other hand, if unemployment conditions or the balance of payments situation were to worsen in the United States, Congress might amend Sections 42 and 526 to more specifically exclude"genuine-identical"and"genuine-authentic"goods.

So, in conclusion, we are left with the likelihood that the question of a United States trademark's owner's right to exclude parallel imports will be determined in the next few years by the 1972 Customs Regulations. As we have seen, genuine-identical or genuine-authentic goods will not be excluded by the Customs Bureau:

1. If both the United States and foreign trademark are owned by the same party; or
2. If one trademark is owned by a parent corporation and the other a subsidiary or there is some other element of common ownership, i.e.,

"individual or aggregate ownership of more than fifty percent of the business entity"

or common control, i.e.,

"Effective control in policy and operations" which "is not necessarily synonymous with common ownership"; or

3. If the articles of foreign manufacture bear a recorded trademark applied under authorization of the United States owner. 74

The essential question in situations involving parallel imports under the Customs Bureau's 1972 Regulations is the degree of closeness and control between the United States trademark owner and the foreign user. The extreme applications of the new Regulations, of course, are obvious. (Let us here define the word "genuine" as meaning goods bearing a trademark lawfully applied in their country of origin.) If the United States trademark registrant and the foreign user of an identical mark are in fact independent of each other, the "genuine" goods of the foreign user may be excluded from the United States by a registrant of the United States trademark, whether he be of foreign or American origin. If the degree of closeness between the United States trademark registrant and the foreign user of the same mark fits into any of the relatively clear categories to which part 133.21 of the 1972 Customs Regulations say Sections 42 and 526 do not apply,[75] i.e., the United States registrant and the foreign user are either the same party, or parent and subsidiary or involve common ownership of more than 50%, or the goods seeking entry bearing a recorded trademark applied under the authority of the United States trademark owner, then

"genuine" goods may not be excluded. Just what situations will fall into the Customs Regulations category of "common control", i.e., "effective control in policy and operations" so as to be excluded from the protections of Sections 42 and 526 are anybody's guess at this time.

On the other hand, let us not forget that, despite the Customs Bureau's Regulations,[76] the U.S. Supreme Court has held that a United States trademark owner may bring an action for infringement for the importation and sale of even "genuine-identical" goods.[77] Thus, where the public understood that the U.S. trademark meant the goods came from the United States distributor which owned the trademark even though not made by it, it has been recognized that a sale of "genuine-identical" goods i.e., goods bearing a trademark which was true in the sense of indicating their true foreign maker by a third party could cause confusion.[78] Therefore, it is certainly arguable depending on the fact situation that, in any case of so-called "genuine" goods or where the Customs Bureau's Regulations may permit entry of "genuine identical" or "genuine-authentic" goods, there still may be infringement and a "copy or simulation" within Section 42 because there may be a separate and independent local good will in the mark which belongs to the American trademark owner.[79] However, whether antitrust aspects and policy considerations would

permit the courts today to find [redacted] such an independent American good will and therefore infringement where goods of a foreign affiliate or licensee are involved and a common ownership of the good will in the trademark seems likely is not very clear at this time.

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FOOTNOTES

1. E.g., Robert A. Castrodale, "The Current Reconsideration in Europe of Trademark Protection Available Against the Importation of 'Genuine Goods'", XLVI J. PAT. OFF. SOC'Y 502 (1964); E. C. Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem", 49 TMR 707 (1959)

2. Richard Wincor, "American Protection of Foreign Trademarks", 63 TMR 211 (1973); Lawrence E. Abelman, "Territoriality Principles in Trademark Laws", 60 TMR 19 (1970); John F. Atwood, "Import Restrictions on Trademarked Merchandise-The Role of the United States Bureau of Customs", 59 TMR 301 (1969); Kenneth W. Dam, "Trademarks, Price Discrimination and the Bureau of Customs", 57 TMR 14 (1967); Robert A. Castrodale, "The Current Reconsideration in Europe of Trademark Protection Available Against the Importation of "Genuine Goods'", XLVI J. PAT. OFF. SOC'Y 502 (1964); Daphne R. Leeds, "Other Government Agencies and Trademarks", 54 TMR 525, 530-532 (1964); Rudolf Callmann, "Another Look At the Unlawful Importation of Trademarked Articles", 52 TMR 556 (1962); E. L. Donegan, "Importation of Trademarked Articles: The Case of the 'Interloping Importer'", 50 TMR 1035 (1960); Walter J. Derenberg, "Current Trademark Problems in Foreign Travel and the Import Trade", 49 TMR 674 (1959); Gregory Thomas, "Licensing and Importing Under Trademarks", 49 TMR 1245 (1959); E. C. Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem", 49 TMR 707 (1959); Robert A. Bicks, "Antitrust and Trademark Protection Concepts in the Import Field", 49 TMR 1255 (1959); Milton Handler, "Trademarks-Assets or Liabilities?", 48 TMR 661 (1958); and Walter J. Derenberg, "The Impact of the Antitrust Laws on Trade-Marks in Foreign Commerce", 42 TMR 365 (1952), Part I

3. See generally, Kenneth W. Dam, "Trademarks, Price Discrimination and the Bureau of Customs", 57 TMR 14 (1967)

4. See generally, Lawrence E. Abelman, "Territoriality Principles in Trademark Laws", 60 TMR 19 (1970)

5. Rudolf Callmann, "Another Look At the Unlawful Importation of Trademarked Articles", 52 TMR 556, 557 (1962)

6. Menendez et al. v. Faber, Coe & Gregg, Inc., et al. 174 U.S.P.Q. 80 (S.D.N.Y. 1972)

7. See generally, E. C. Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem", 49 TMR 707 (1959); Robert A. Bicks, "Antitrust and Trademark Protection Concepts in the Import Field", 49 TMR 1255 (1959)

8. Walter J. Derenberg, "The Impact of the Antitrust Laws on Trade-Marks in Foreign Commerce", 42 TMR 365 (1952)

9. Kenneth W. Dam, "Trademarks, Price Discrimination and the Bureau of Customs", 57 TMR 14, 18 (1967); John F. Atwood, "Import Restrictions on Trademarked Merchandise-The Role of the United States Bureau of Customs", 59 TMR 301, 314 (1969); Xavier de Mello, "Trademarks and European Competition", CCH Common Market Reports, No. 192, Part III, August 1, 1972, Paragraphs 108 and 109 at pages 53-54.

10. Mello, op. cit. supra note 9, Chapter III, Paragraphs 55 et seq, pages 27-48.

11. 3 Callmann, THE LAW OF UNFAIR COMPETITION AND MONOPOLIES, Sec. 84 at pp. 931-932 (3rd ed., Callaghan & Co., 1969.)

12. United States v. Guerlain, Inc. et al., 155 F. Supp. 77, 114 U.S.P.Q. 223 (S.D.N.Y. 1957). Judgment vacated and remanded on Government's motion, 358 U.S. 915 (1958). Dismissed 172 F. Supp. 107, 119 U.S.P.Q. 501 (S.D.N.Y. 1958)

13. John F. Atwood, "Import Restrictions on Trademarked Merchandise-The Role of the United States Bureau of Customs", 59 TMR 301, 303-5 (1969)

14. See generally, Walter J. Derenberg, "The Impact of the Antitrust Laws on Trade-Marks in Foreign Commerce", 42 TMR 365 (1952).

15. John F. Atwood, "Import Restrictions on Trademarked Merchandise-The Role of the United States Bureau of Customs", 59 TMR 301, 309-312 (1969)

16. "Webster's Third New International Dictionary of the English Language Unabridged", 1961 Edition at p. 948.

17. E. C. Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem", 49 TMR 707, 713 (1959)

18. Lawrence E. Abelman, "Territoriality Principles in Trademark Laws", 60 TMR 19, 21 (1970).

19. 4 Callmann, op. cit. supra note 11, Sec. 100.1 (b), p. 854, fn. 47.

20. 15 U.S.C. Sec. 1124. The opening portion of this statute, some of which was omitted in the text reads:

> "That no article of imported merchandise which shall copy or simulate the name of the /sic/ any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trademark registered in accordance with the provisions of this Act or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States; ***."

21. 19 U.S.C. Sec. 1526. Section 526 of the Tariff Act of 1930 reads in full as follows:

> "(a) That it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise or the label, sign, print, package, wrapper, or receptacle bears a trademark owned by a citizen of the United States, or by a corporation or association created or organized within the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of the Act entitled "An Act to authorize the registration of trademarks used in commerce with foreign nations or among the several States or with Indian tribes and to protect the same" approved February 20, 1905 as amended, if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in Section 27 of such Act, unless written consent of the owner of such trademark is produced at the time of making entry.

"(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs law.

"(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the damages and profits provided for wrongful use of a trademark under the provisions of such Act of February 20, 1905 as amended."

22. 15 U.S.C. Sec. 1094.

23. 37 Federal Register, No. 192, 10/3/72, pp. 20677-20683; Note also, 38 Federal Register No. 123, 6/27/73, p. 16850 amending Section 133.3 and 133.33; 38 Federal Register No. 152, 8/8/73, p. 21396 amend Section 133.31 (c); and 38 Federal Register, No. 176, 9/12/73, p. 25171 amending Chapter I, title 19 and the Code of Federal Regulations, the Customs Regulations to substitute "United States Customs Service" for "Bureau of Customs" whenever the latter appears.

24. 37 Federal Register, No. 192, 10/3/72, p. 20678.

25. The portion of Section 133.21 not set forth in the text follows:

"(4) The objectionable mark is removed or obliterated prior to importation in such a manner as to be illegible and incapable of being reconstituted, for example by:

"(i) Grinding off imprinted trademarks wherever they appear;

"(ii) Removing and disposing of plates bearing a trademark or trade name;

"(5) The merchandise is imported by the recordant of the trademark or trade name or his designate; or

"(6) The recordant gives written consent to an importation of articles otherwise subject to the restrictions set forth in paragraphs (a) and (b) of this section, and such consent is furnished to appropriate Customs officials."

26. J. Thomas McCarthy, TRADEMARKS AND UNFAIR COMPETITION, Sec. 23:1, pp. 34-35 (1st ed., The Lawyers Co-operative Publishing Co., 1973).

27. 15 U.S.C. Sec. 1114(1).

28. Apollinaris Co., Limited v. Scherer, 27 Fed. 18 (S.D.N.Y. 1886), Russia Cement Co. v. Frauenhar et al., 133 Fed. 518 (2nd Cir. 1904); Fred Gretsch Manufacturing Company v. Schoening and Malone as Collector, etc., 238 Fed. 780 (2nd Cir. 1916);

29. A. Bourjois & Company, Inc. v. Anna Katzel, 260 U.S. 689 (1923) reversing 275 Fed. 539 (2nd Cir. 1922); A. Bourjois & Company Inc. v. George W. Aldridge, Collector, etc., 263 U.S. 675 (1923) 292 Fed. 1013 (2nd Cir. 1922)

30. United States v. Guerlain, supra note 12.

31. Apollinaris Co., Limited v. Scherer, 27 Fed. 18 (S.D.N.Y. 1886)

32. Russia Cement Co. v. Frauenhar et al, 133 Fed. 518 (2nd Cir. 1904)

33. Apollinaris Co., Limited v. Scherer, 27 Fed. 18 (S.D.N.Y. 1886)

34. Id. at 19.

35. Id. at 30.

36. Fred Gretsch Manufacturing Company v. Schoening and Malone as Collector, etc., 238 Fed. 780 (2nd Cir. 1916).

37. Bourjois v. Katzel, supra note 29.

38. Bourjois v. Katzel, supra note 29 at 691-692.

39. Bourjois v. Aldridge, supra note 29.

40. Supra note 29.

41. Supra note 29.

. A. Bourjois & Co. v. George M. Aldridge, Collector, etc., 292 Fed. 1013 (2nd Cir. 1922)

Bourjois v. Aldridge, supra note 42 at 1014.

44. See cases cited supra note 28.

45. See text, pages 10-11 and supra note 21.

46. United States v. Guerlain, supra note 12.

47. United States v. Guerlain, supra note 12, 114 U.S.P.Q. at 224, 230, 233 and 236.

48. Id. at 225.

49. Id. at 226, fn. 17.

50. Id. at 224, 230, 233 and 236. Here is a sample of the District Court's findings in this regard:

"12. The owner of record of all of the common stock of American Lanvin is Edouard L. Cournand. Cournand acquired this ownership of record under the terms of a "stock purchase agreement" dated June 21, 1946. The purchase price recited in that agreement was $100.00. Under the provisions of the agreement, Cournand was obliged to terminate the business of the company in Lanvin toilet goods, and to change the name American Lanvin so as to exclude therefrom the word Lanvin, if for any reason the merchandise agreements or the intangible assets agreement between American Lanvin and French Lanvin were terminated. The termination of either of those agreements would render the common stock in American Lanvin worthless. The stock purchase agreement also precluded Cournand from disposing of his stock or voting it in favor of any proposal to merge the company with any other organization or to sell any part of its assets.

"13. The merchandise agreements between American Lanvin and French Lanvin, the first dated November 16, 1946 and the second dated January 5, 1953 prescribe the terms under which American Lanvin purchases Lanvin toilet goods from French Lanvin. Under the agreement now in effect Cournand must retain his ostensible majority ownership of the common stock of American Lanvin, and the agreement will terminate if Cournand ceases to be the chief executive officer of American Lanvin. American Lanvin is required to deal exclusively in the products of French Lanvin and to conduct all of its merchandising in a manner satisfactory to French Lanvin failing which French Lanvin may terminate the agreement.

"14. The intangible assets agreements, the first, with French Lanvin, dated November 16, 1946, the second, with Renacimiento, dated "as of" Nov. 18, 1946 and the third, with Coverep, C.A., dated March 25, 1953, control the manner in which American Lanvin may use Lanvin trademarks. These agreements, like the merchandise agreements, are conditioned upon American Lanvin associating Lanvin trademarks with goods supplied by French Lanvin in a manner satisfactory to French Lanvin. If American Lanvin fails to conduct its business in a manner satisfactory to French Lanvin or its Venezuelan affiliate, or if the merchandise agreement is terminated for any reason, the intangible assets agreement will terminate. Termination of the intangible assets agreement would require American Lanvin to release and reassign all its Lanvin trademarks to Coverep, C.A. Such termination would effectively destroy the business of American Lanvin and render its common stock worthless.

"15. American Lanvin, in deciding upon its action on the exclusion from importation into the United States of Lanvin toilet goods purchased in France from French Lanvin, accommodated its policies in this matter to the desires of French Lanvin.

"16. As a result of the facts found in Findings 12, 13, 14 and 15, French Lanvin effectively controls American Lanvin in the management of its business as well as in the nature and quality of the products sold by American Lanvin under Lanvin trademarks. American Lanvin and French Lanvin are parts of a single international business enterprise engaged in manufacturing and marketing Lanvin toilet goods." - 114 U.S.P.Q. at 236.

51. 15 U.S.C. Sec. 2.

52. Walter J. Derenberg, "The Tenth Year of Administration of the Lanham Trademark Act of 1946", 114 "Patent, Trademark and Copyright Weekly Reports, No. 7, Part II, August 12, 1957, p. 13; see also generally Milton Handler, "Trademarks-Assets or Liabilities?", 48 TMR 661 (1958)

53. United States v. Guerlain, supra note 12, 114 U.S.P.Q. at 225-226.

54. United States v. Guerlain, supra note 12, 172 F. Supp. at 107.

55. Id. at 108

56. For an interesting case dealing with Section 526 and the importation of "genuine-identical" goods for personal use, see Sturges v. Clark D. Pease, Inc., et al 48 F.2d 1035 (2nd Cir. 1931).

57. H.R. 7234, 86th Congress, 1st Session, Introduced May 19, 1959 by Mr. E. Celler. A copy of this proposed bill is set forth in 49 TMR 671-673 (1959).

58. John F. Atwood, "Import Restrictions on Trademarked Merchandise-The Role of the United States Bureau of Customs", 59 TMR 301 (1969)

59. Atwood, supra note 58, at 315

60. In the Matter of the Petition of Georg Jensen Inc. for Cancellation of the Recorded Trade Name "Georg Jensen Y Wendel A/S", T.D. 52711,86 Treas. Dec. 17, p. 4 (1951) as quoted in Derenberg, Walter J. Derenberg, "The Impact of the Antitrust Laws on Trade-Marks in Foreign Commerce", 42 TMR 365 (1952), Part I at 375

61. Derenberg, supra note 60, at 374.

62. Atwood, supra note 58, at 305-306.

63. H.R. 7234, supra note 57, sec. 2, 49 TMR 673 (1959).

64. Atwood, supra note 58, at 307.

65. 15 U.S.C. Sec. 1127.

66. Atwood, supra note 58, at 309-310.

67. 19 CFR Sec. 133.2.

68. See text page 10.

69. Muebles e Inmuebles, S.A., et al. v. Milton E. LeBlanc. Collector of Customs, etc., et al. 216 F. Supp. 384 (E.D. La. 1963)

70. E.G., letter dated April 7, 1971 from The United States Trademark Association to Commissioner of customs; The New York Patent Law Association, as reported in Vol. 12 of its Bulletin, No. 5, March 1973, at p.3.

71. See supra note 57 and also, e.g., S. 3713, 90th Congress Second Session, Introduced by Sen. J. McClellan, July 1, 1968.

72. Supra note 57.

73. United States v. Guerlain, supra note 12, 114 U.S.P.Q. at 225.

74. 19 CFR Secs. 133.2 and 133.21.

75. See text at pages 12-13.

76. As of August 1, 1973, the "Bureau of Customs" was designated the "United States Customs Service". Treasury Department order No. 165-23. Chapter 1, title 19 of the Code of Federal Regulations, the Customs Regulations, were amended to conform to the new designation effective September 12, 1973. 38 Federal Register No. 176, 9/12/73, Page 25171.

77. Bourjois v. Katzel and Bourjois v. Aldridge, supra note 29 It should be noted that:

"There are some who believe that the Supreme Court decision in Katzel was narrowed by the 1924 decision of Prestonettes, Inc. v. Coty. [264 U.S. 359, 68 L. Ed. 731, 44 S. Ct. 350 (1924)] There the Court permitted the importation of genuine goods even when the defendant importer repackaged the goods in this country. The holding was based on the fact that the public understood the goods to be of foreign origin.

"However, it is submitted that this was not in conflict with Katzel. The French manufacturer was the owner of the trademark in both France and the United States and the manufacturer brought the action, not the distributor. Although there was significant local good will, it was not local and independent good will." Lawrence E. Abelman, "Territoriality Principles in Trademark Law", 60 TMR 19, 24-25 (1970).

78. See, e.g., Menendez et al. v. Faber, Coe and Gregg, Inc. et.al. 174 U.S.P.Q. 80, 87-88 (S.D.N.Y. 1972).

79. Menendez et al v. Faber, Coe and Gregg, Inc. et al; supra note 77 at 90 where the District Court said:

"The remedies provided by Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, Section 42 of the Lanham Act, 15 U.S.C. 1124, are not, as the interventors urge, the exclusive remedies available against a foreign manufacturer or importer who infringes United States registered trademarks in this country. There is nothing in either statute which remotely indicates that the remedies they provide are or were intended to be the only remedies available. It is clear that the general provisions of the Lanham Act may be invoked against foreign citizens who infringe United States trademarks in this country, whether or not resort has been had to the remedies provided in 19 U.S.C. 1526 and Section 42 of the Lanham Act."

ON THE PROBLEM OF PARALLEL IMPORTATION
OF GENUINE GOODS IN JAPAN

-1-

Comm #1 JN
M. Tsukamoto

PREFACE:

I would like to introduce major cases involved in parallel importation of genuine goods in Japan and hope they will be of some use to you. You will note later from my speech that some of the cases show that parallel importation of genuine goods constitute infringement, and some do not. .... A review of these cases will enable you to know the changes in the attitudes judicially as well as administratively towards this controversial problem of parallel importation of genuine goods in Japan. So, let me present to you a brief chronological summary of these cases.

CASE 1:

FARBEN FABRIKEN BAYER AG v. AMERICAN DRUG CORPORATION

TOKYO DISTRICT COURT DECISION 29 Feb., 1964

INJUNCTION OF INFRINGEMENT (TOKYO DISTRICT COURT SHOWA 38 (U) No. 10414)

This case is referred to as the first case in a series of cases involving this particular problem of parallel importation of genuine goods in Japan.

Bayer, the well-known German pharmaceutical company, began a suit for injunction against American Drug in Tokyo who imported and sold genuine Bayer aspirin on the basis of trademark ownership in Japan of its trademark BAYER. The court acknowledged Bayer's plea and ordered injunction.

CASE 2:

SHRIRO TRADING COMPANY LTD. v. AKI SHOKAI LTD.

TOKYO DISTRICT COURT DECISION 1 June, 1964

PROVISIONAL DISPOSITION (TOKYO DISTRICT COURT SHOWA 39 (YO) No. 2339)

Plaintiff Shriro was a trading firm doing business in Japan with its head office in Canada, was sole agent for Parker fountain pens, products of the Parker Pen Co. of Wisconsin and was the exclusive licensee for the registered trademark PARKER in fountain pens in Japan. Defendant, Aki Shokai, its business being the importation of stationery, imported genuine Parker pens through a trading firm in Hong Kong.

Consequently Plaintiff Shriro sued for a provisional disposition against Defendant Aki Shokai, and the Tokyo District Court ordered an injunction on the basis of the exclusive licensee's right on the registered trademark PARKER No. 171867.

In this connection, let me add that this particular case has a close connection with a similar case which I will bring to your attention later in my speech.

CASE 3:

NESTLE NIPPON LTD. v. SANKAI SHOTEN

TOKYO DISTRICT COURT DECISION 29 May, 1965

PROVISIONAL DISPOSITION AND OBJECTION (TOKYO DISTRICT COURT SHOWA 40 (Mo) No. 969)

Defendant Sankai Shoten imported instant coffee bearing the trademark NESCAFE, and Plaintiff Nestle Nippon, as exclusive licensee for the registered trademark NESCAFE, sued for a provisional disposition, which was approved by Tokyo District Court.

Although Defendant Sankai Shoten filed an opposition against a provisional disposition, it was unsuccessful.

These three cases to which I have just referred all are examples showing that parallel importation of genuine goods constituted infringement.

CASE 4:

N. M. C. LTD. v. SHRIRO TRADING CO.

OSAKA DISTRICT COURT DECISION 27 Feb., 1970

SUIT FOR CONFIRMATION OF NON-EXISTENCE OF INJUNCTION RIGHT (OSAKA DISTRICT COURT SHOWA 43 (WA) No. 7003)

This case is considered to be quite significant in clarifying that there is some limitation on the right of an exclusive licensee calling for an injunction over parallel importation of genuine goods, so let me discuss this case in some detail.

Plaintiff N. M. C. was a successor to Aki Shokai, a party Defendant to Case 2, established by the same representatives after the latter was dissolved.

Defendant is identical to Plaintiff in Case 2. So, Surprisingly enough both parties to this case are substantially the same as in Case 2, with the only difference being that the positions of the parties are reversed and with this case being for a confirmation of the non-existence of an injunction right while Case 2 was for provisional disposition.

A summary of this case is as follows:

Because Defendant Shriro filed with Customs "a petition for an import injunction on goods infrigning intangible properties to the effect that an importation by a third party of designated goods bearing the registered trademark PARKER be held in custody on the basis of its exclusive licensee's right, customs decided on the policy of not clearing the goods in the absence of defendant's letter of consent, even though the goods were genuine.

This was the reason, plaintiff N. M. C. sued for confirmation that the defendant had no right to object to importation by plaintiff. Interestingly enough the Osaka District Court approved plaintiff's petition giving a decision contrary to the one decided in Case 2. The full text of the judgement is too long to relate in a short time, so we have to confine ourselves only to a few major points, I am afraid:

(1) Defendant Shriro had never engaged in the manufacture of pens bearing the trademark PARKER. Defendant was given by Parker Co. an exclusive right of sale in Japan for Parker pens and other designated goods manufactured by Parker Co. and bearing the trademark PARKER and had been engaged in the importation and sale in Japan as Sole Agent for Parker pens.

There was no difference in quality between the Parker products imported by plaintiff N. M. C. through Hongkong and those imported by defendant directly from the United States.

(2) The legitimacy of plaintiff's petition needs to be considered on the basis of the substance of protection for trademarks.

According to the Trademark Law, a trademark is designed to perform the functions of distinguishing the identity of origin, as well as guaranteeing equality of quality of goods. The reason why the Trademark Law provides a trademark owner with an exclusive right of use should be construed as preventing the functions of distinguishing origin and guaranteeing quality from being impaired by the use of an identical or similar trademark by a third party on goods identical or similar to the designated goods.

The Trademark Law is intended for the protection of the good will established by use of a trademark by a trademark owner, for maintenance of order in the flow of goods, and protection of benefit to consumers through the protection of origin function and the quality

guarantee of a trademark thus enabling consumers to obtain goods of the same origin or quality that they want without being misled.

Thus the direct objectives of trademark protection lie in these functions of a trademark, through the protection of which the benefit to a trademark owner as well as the interest of the public are protected. In this connection it should be pointed out that a trademark right is a stronger right from the view point of society and the public interest than other forms of intellectual property rights.

Since the protection for a trademark should rightfully be subjected to social restriction, although a trademark right is basically a kind of private property right, the ambit of the principle of territoriality of trademarks should be decided by considering much of the presence of infringement on trademark's functions in the light of the spirit of the protection for trademarks.

(3) Although plaintiff quoted the exhaustion theory of trademarks which is known in West Germany as, Erschöffung or Verbrauch and has been occasionally adopted by various courts in order to disapprove the right to ban free importation of genuine goods, the court did not recognize plaintiff's assertion based on this theory by saying 'the court could not readily subscribe to this theory".

(4) The court reflected on how plaintiff N. M. C. 's act of importation and sale of genuine Parker products affected the functions and related interest of the registered trademark PARKER for which defendant Shriro was an exclusive licensee.

The result is that since Parker products imported by plaintiff are of identical quality with those imported by defendant, there is no danger of deception of origin or confusion of quality taking place in the public, nor is there any danger of the good will and other business interest of the trademark owner Parker Pen Co. being impaired.

(5) The court reflected on whether the trademark PARKER symbolized good will on the part of the Parker Co. or good will on the part of the exclusive licensee.

The result is that defendant's good will in business as the exclusive licensee and the world reputation of Parker products formed by the Parker Co. combine to form one and the same good will that is inseparable from each other.

Accordingly, since the Parker Co. good will in business is not impaired by plaintiff N. M. C. 's importation and sale of genuine Parker products, although defendant's monopolistic control over the Japanese market is threatend, it follows that defendant's good

will is not impaired either. Furthermore, the approval of parallel importation of genuine products by third parties will give rise to fair and free competition in price and service and so on in the domestic market, thus bringing about such positive advantages as an improvement in international trade and industries in addition to bringing about benefits to consumers, eventually serving the purpose of Trademark Law.

(6) The Court's conclusion was as follows:

Plaintiff's act of import and sale of genuine Parker products cannot be construed as conflicting with the purpose of the Trademark system.

The threat to defendant's exclusive control over the Japanese market does not provide a substantial reason for condemning plaintiff's importation and sale. In the light of trademark protection, plaintiff's act of importation and sale of genuine Parker products lacks illegality, and does not constitute any infringement of right.

(7) Defendant Shriro appealed to the Osaka Higher Court from this decision. However, the exclusive license contract between Shriro and Parker Co. was cancelled later by Parker Co., accordingly the Osaka Higher Court over ruled the original decision on the ground that defendant did not hold an exclusive right of use of the trademark in question.

This case, as I have said previously, is quite a significant case and considered breakthrough in allowing parallel importation of genuine goods on the basis of the substance of protection for trademarks. It is also an interesting case as a example showing that plaintiff through its painful and strenuous efforts, despite its initial failure, finally achieved success.

CASE 5:

FINANCE MINISTRY'S NOTICE ON PETITION FOR IMPORT INJUNCTION ON GENUINE GOODS

(NOTICE No. 1443, issued 25 Aug., 1972 effective 1 Oct., 1972)

The series of cases 1 mentioned today culminate in this case 5 which is not really a judiciary precedent though.

Japan's Customs Tariff Law, Art. 21 specifies that goods infringing a patent right, a trademark right and so on fall under an import embargo.

Just over a year ago the Finance Ministry issued a Notice by which it lifted the embargo on the importation of genuine goods under certain conditions.

The main purport of the Notice is as follows:

(1) When either a foreign manufacturer and trademark owner in Japan are one and the same enterprise or are in such a special relation to each other as to be deemed as one and the same

(2) Where goods to be imported and sold either by a trademark owner or its exclusive licensee, respectively, in Japan and those to be imported and sold by a third party bear the same trademark and are of same quality.

Provided that these two conditions are satisfied, the parallel importation of genuine goods does not constitute a trademark infringement, so the goods are not subject to an embargo injunction at customs.

This Finance Ministry's Notice is an epoch making administrative measure.

Because, hitherto on the basis of the Customs Tariff Law a trademark owner or its exclusive licensee could ban the parallel importation of genuine goods as well as spurious goods by a third party by submitting to customs a petition demanding injunction.

Customs used to take the position that importation of goods falling under a trademark as specified by Customs Tariff Law Art. 21 was not permitted, unless a letter of consent was submitted.

Accordingly it follows that with the enforcement of this Notice the Finance Ministry is going to free the importation of those goods that it had previously embargoed because of trademark infringement.

Why did the Finance Ministry take such a measure.

Firstly, the Osaka District Court's decision as referred to in Case 4 was obviously instrumental in influencing the Finance Ministry to issue this notice. Secondly, the Finance Ministry reportedly attributes one of the reasons why the prices of imported goods do not drop despite the up-valuation of yen to the monopolistic import by distributors with an exclusive licensee's right.

According to this Notice, the parallel importation by a third party of genuine goods of different quality is still forbidden as it used to be.

However, there is the opinion that even in such a case, if the quality or the market to which the goods are intended is indicated on goods, free parallel importation will not at all impair the purpose of protection for trademarks.

Actually, based on such an opinion, the Fair Trade Commission announced Anti-monopoly Act Guidelines for Sole Import Distributorship

etc. in which it regarded the act of unduly hindering parallel importation of genuine goods as tending to constitute unfair business practices.

However, many distributors who are now unable to ban parallel importation by a third party of genuine goods due to this measure of the Finance Ministry sue to determine the legitimacy of customs' measure due to this Notice, although consumers doubtlessly welcome with applause this Notice enabling them to get genuine goods either of identical or different quality for cheaper prices than they would otherwise have to pay.

CONCLUSION:

I have just reviewed the Japanese judicial and administrative positions taken during the course of five cases, and hope they will be of some use to you.

FRANCHISE SYSTEM AND JAPANESE LAWS

Comm#1 JN
T. Fujimoto

In Japan, Franchise System has recently made a rapid progress, but laws, acts and/or regulations concerning franchising has not yet come to be well established. We (WILL) refer to and comment on the related laws now in force, although (SOME OF THEM MAY STILL BE) unsolved ~~matters~~ and pending.

According to (THE PUBLICATION) "The Franchise Distribution" ~~in collaboration with~~ Mr. E.H. Lewis and Mr. R.S. Hancock, "Franchise Distribution System" is defined as being an agreement (IN WHICH) ~~that~~ a franchiser who developed a certain pattern or formula in relation to the specific undertaking gives the right to carry on the undertaking to a franchisee under the condition that the franchisee yields to the ~~common~~ pattern already set up by the franchiser.

In ~~such a sense as~~ (THE CONTEXT, above,) there has existed (A) "Franchise System" in Japan since old times, ~~named~~ (CALLED) Iemoto-seido (OR representation system) which has been ~~set up~~ (ESTABLISHED) and ~~succeeded~~ (HANDED DOWN) in (SCHOOLS OF) flower arrangement (Kado in Japanese) and tea ceremony (Sado).

However, it is ~~in~~ only (IN) recent years that (THE) Franchise System, which such well-known companies as Macdonald's and Kentucky Fried

Chicken have now adopted in circulating field has found its way in Japan remarkable that is to say Franchise System in the form that a certain package is sold from franchiser to franchisee, which package includes products, service, training of employees in sales promotion with the right to sell products and service under a tradename and service mark, and in turn franchisee assume responsibility of paying franchise fee and royalties based on profits rising from the sale of products and service.

Therefore, investigation of franchise and the related laws have not been in advance yet, and the laws with the object of regulating franchises like Franchise Investment Law that was set up in California, U.S.A. in 1970, has not yet been enacted in Japan. However, in Japan, Franchise System has been prevailing in great strides, and thus, merit and demerit of franchises and protection of franchisees have recently been raised as a problem by people concerned.

In response to their requirements, a commercial promotion law for the medium and small trader which is aimed at promoting smaller enterprises, was laid before the Diet by the Japanese

Government and passed ~~through~~ on August 31, 1973. The law is expected to become effective from September 29, 1973.

We quote the following article from the law.

"When ~~such~~ A clause that THE franchisee is allowed to use the franchiser's trademark, trade name and other indication and in turn shall pay an affiliation fee, guaranty money and others to franchiser, is provided in a franchise agreement by THE franchiser, then THE franchiser is compelled to ~~grant~~ SUBMIT papers ~~mentioning about~~ EXPLAINING the follwoing items to the would-be franchisee ~~to explain~~ and, if THE franchiser fails to do so, THE franchisee is able to advise THE franchiser to ~~grant~~ SUBMIT the papers and explain in details."

THE ITEMS ARE:

1) An affiliation fee and guarantee fee and others levied on THE franchisee, in going into a franchise agreement.

2) The sales conditions of a package from THE franchiser to THE franchisee.

3) The technical guidance of the management.

4) The trademark and tradename and other indication.

5) The term, renewal and cancellation of a contract.

In entering into an agreement, it is a matter of course that we have to provide the above items in an agreement, and is ~~thought~~ NOT CONSIDERED

~~not to be so in need as~~ NECESSARY to provide the above items in laws, but we see THAT such a simple ~~thing~~ MATTER is ~~not~~ often NOT observed by the concerned parties.

As THE franchisee is often forced to sign an agreement unfairly without obtaining enough time to investigate the contents of the agreement carefully in advance, the Japanese Government NOW forces THE franchiser to disclose the contents of the agreement in advance. ~~It~~ THIS is the first time that Japanese laws have intervened in the Japanese Franchise System, which is of great significance.

As laws relating to THE Franchise System, we can point out the Trademark Law, ~~and~~ the Unfair Competition Law and the Anti-Trust Law, ~~besides a~~ APART FROM THE commercial promotion law for the medium and small trader.

WHILE Both the Trademark Law and the Unfair Competition Law have something to do with Franchise System, ~~but~~ the Anti-Trust Law is PARTICULARLY thought to be very closely related to THE Franchise System.

In Japan, there ~~is~~ HAVE BEEN only a few cases ~~that~~ OF franchises infringing ON ~~with~~ the Anti-Trust Laws, and the Japanese Fair Trade Committee is also ~~[illegible]~~ INVESTIGATING THE Franchise System AS A TASK ~~and makes it~~

FOR THE future ~~task~~

Whether or not ~~what~~ PARTICULAR cases infringe with the Anti-Trust Law IS ~~should be~~ decided ON THE case-by-case BASIS SO THAT it is difficult to discuss this as ~~the~~ A general matter, ~~unless any substantial~~ WITHOUT DISCUSSING AN ACTUAL case ~~is discussed~~.

The Anti-Trust Law prohibits ~~such an act that is~~ (ACTS WHICH ARE) in danger of preventing ~~the~~ fair competition ~~and~~ The Japanese Fair Trade Committee designate ~~as the unfair trade among~~ the following essential items AS UNFAIR TRADE.

1) To deal with a competitor (a fellow trader) in an unfair and discriminate manner.

2) To transact with others with unbalanced value to value.

3) To ~~deal with under the condition of binding unfairly~~ CONDUCT BUSINESS WHICH WOULD BIND the competitor's enterprise activity UNFAIRLY

4) To deal with a competitor by making use of his own position in transaction.

Therefore, the franchise agreement stipulated above HAS the possibility of infringing ~~with~~ ON the Anti-Trust Law, ~~and~~ A LAW we should be careful ~~of~~ not to infringe ~~with The Anti-Monopoly Law~~ ON

Either way, in future, laws concerning franchise will be enacted one after another in Japan.

Comm.#1, U.S.

COMMON LAW AND STATE TRADEMARKS IN THE UNITED STATES

Clarence R. Patty, Jr.

The principal subject of this paper was suggested by the Japanese Group, who asked if the American Group might present a discussion as to "Eintragungsgrundsatz" (appropriation de la marque par le depot) and "Benutzungsprinzip" (appropriation de la marque par l'usage) in U.S.A. [appropriation of marks by registration and appropriation of marks by usage in U.S.A.]. The discussion of State Trademarks was prompted at the suggestion of the American Group who felt that our Japanese friends might have at least a philosophical interest in that subject.

There is an old saying--and I must confess that I have no notion as to where it originated--that goes something like this "all generalizations have an element of untruth, including, probably, even this one." Having thus cautioned you, I will begin with the generalization that all substantive rights in trademarks in the United States are acquired by usage; then, somewhere further down the line, I will refer to two situations which, in my view, represent the most notable exceptions to this generalization.

It is not a purpose of this paper, indeed the available time would not permit it, to trace the development of United States Trademark Law which, like practically all of United States jurisprudence, was developed by the courts as "common law" long before any trademark statutes were adopted by our Congress. If you are interested in that history, I think I can do no better than refer you to an article entitled "TRADEMARKS - THEIR EARLY HISTORY", by Benjamin G. Paster, published in THE TRADEMARK REPORTER, Volume 59, Number 8, August, 1969. I believe that reprints of this article are available, in at least limited quantities, from The United States Trademark Association, 6 East 45th Street, New York, New York 10017.

Suffice it to say that, as developed at common law, the courts recognized a property right in the existence of a relationship between a mark applied to goods and the source of origin of those goods. Once recognizing the existence of such a property right, it was the very nature of "common law" to protect that property right. Thus, without benefit of any statutes on the subject, early courts first in England and later in the United States, applied common law principles to enjoin

and otherwise punish those who would trade upon the reputation established by the first user of a trademark.

One of the first things that should be understood in comparing the rights of trademark owners under the United States "first user" philosophy with those of owners in "first registrant" jurisdictions is that under the former philosophy, a trademark owner need not even take advantage of such registration procedures as may be available to him in order to have the courts recognize his ownership of a mark and grant relief for infringement thereof. Indeed, he may even rely upon his unregistered ownership to preclude registration of the same or a confusingly similar mark by a subsequent user who may attempt such registration. In contrast, since registration is a prerequisite to ownership in "first registrant" jurisdictions, the trademark owner must usually look to the statute in determining the full body of his rights and remedies in relation to his trademark.

Since the first user of a trademark in the United States owns his mark under our common law heritage, and may have relief against infringers thereof, whether or not he registers the mark, one may wonder why we need trademark registration legislation such as the Lanham Act. One may also question why, even after the enactment of such legislation, one should go to the trouble and expense of registering a trademark in view of the fact that, as a prerequisite to registration, he must prove, at least prima facie, that he already owns the trademark as a result of actual use thereof.

A study of the Act, however, will reveal that whereas it may only confirm or codify, rather than actually bestow substantive rights, it offers the trademark owner definite procedural benefits not available to him at common law. For example, Section 7(b) of the Lanham Act provides that a certificate of registration on the principal register establishes prima facie "the validity of the registration, registrant's ownership of the mark, and of registrant's exclusive right to use the mark in commerce in connection with the goods or services specified in the certificate, subject to any conditions and limitations stated therein" (15 U.S.C. 1057h).

I should perhaps explain at this point that the term "commerce" as used in the just-quoted passage means all commerce which may lawfully be regulated by

Congress under our Constitution. This includes business transactions between persons in different states and between persons in any state and any foreign country or United States territory.

At common law the owner (and by definition first user) of a trademark might not prevail against a subsequent user unless he could show that the subsequent user had actual knowledge of the claimed owner's first use. This might occur, for instance, where the first user had an established market only in, say, the New England States, and the subsequent user was found to be operating in the Southwestern region of the country. But Section 32(1) of the Lanham Act provides that "any person who shall, without the consent of the registrant--use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale--of any goods--which use is likely to cause confusion--shall be liable in a civil action by the registrant--." (15 U.S.C. 1114(1)). Thus, a Lanham Act registration serves as "constructive notice" of the registrant's prima facie ownership of the registered mark, making actual notice immaterial insofar as the right of action against a subsequent user is concerned.

Another procedural advantage, somewhat related to the preceding, is that by registering his mark under the Lanham Act, the trademark owner assures himself of the option to decide whether to pursue an infringer in the federal courts under jurisdiction conferred by the Lanham Act, or to rely upon action in an appropriate state court under either his common law trademark rights or a state trademark statute. Absent a Lanham Act registration, the trademark owner would be restricted to a state court action unless there were diversity of citizenship (i.e. unless the trademark owner and the infringer are residents of different states) and the trademark owner could, in good faith allege that the matter in controversy had a value in excess of $10,000.

I do not intend to enumerate all of the procedural benefits which the Lanham Act provides to United States trademark owners. Rather, by enumerating some of the more important and obvious procedural provisions of the Act, I wish merely to demonstrate that while the common law served us well in establishing our trademark philosophy, enlightened legislation has certainly improved the ability of trademark owners to protect their proprietary interests against encroachment by infringers and other late-comers.

I will turn now briefly to the exceptions to the generalization with which I opened this discussion. That is, I will mention two instances in which, in my opinion at least, substantive rights for United States trademark owners are created by registration rather than by first use. Others who have made a much more intensive study of the Lanham Act than I can boast of may point to other instances, or may even take issue with my view that registration grants substantive rights in the instances which I will cite.

First, I should like to refer to Section 44(d) of the Lanham Act (15 U.S.C. 1126(d)), the relevant portion of which I have included in this paper, but which I shall not present orally.

> "An application for registration of a mark under sections 1, 2, 3, 4, or 23 of this Act filed by a person described in paragraph (b) of this section who has previously duly filed an application for registration of the same mark in one of the countries described in paragraph (b) shall be accorded the same force and effect as would be accorded to the same application if filed in the United States on the same date on which the application was first filed in such foreign country: Provided, That--
>
> (1) the application in the United States is filed within 6 months from the date on which the application was first filed in the foreign country;
>
> (2) the application conforms as nearly as practicable to the requirements of this Act, but use in commerce need not be alleged;
>
> (3) the rights acquired by third parties before the date of the filing of the first application in the foreign country shall in no way be affected by a registration obtained on an application filed under this subsection (d);
>
> (4) nothing in this subsection (d) shall entitle the owner of a registration granted under this section to sue for acts committed prior to the date on which his mark was registered in this country unless the registration is based on use in commerce."

The effect of the above provision is to permit a foreign applicant whose country of origin is a party to certain international conventions to which the United States is also a party, and who bases his application for a United States registration on an application first filed in such country of origin within a preceding six-month period, to obtain a United States registration even though he

makes no claim to actual use of the trademark in the United States. Having thus obtained a registration, the registrant is then in a position to enforce that registration against one who first uses that mark or a confusingly similar mark in the United States after the date of registration but before any actual use by the registrant. This clearly is a right which could not exist at common law, and thus is acquired solely by registration.

The other area in which it appears to me that the Lanham Act has bestowed substantive rights resulting from registration is in relation to Section 7(b) to which I have referred earlier. Although, as mentioned before, our common law recognizes that the first user has the exclusive right to use his trademark, that exclusive right, at common law, might extend only within a limited geographical area and/or to those who had actual knowledge of the prior use. It seems to me that by according the certificate of registration the effect of prima facie evidence of registrant's exclusive right to use the mark in commerce, Section 7(b) of the Lanham Act endows the registrant with substantive rights (i.e. prima facie exclusive ownership) throughout areas of the United States in which he might not enjoy such rights under common law. Note, however, that this latter substantive right, while it results directly from registration, is indirectly dependent upon the registrant's actual first use, since the right to registration in the first place is dependent upon a showing of actual use.

I will say just a few words about State Trademark Statutes. I believe you have all been given a copy of the so-called MODEL STATE TRADEMARK BILL which, as you will note from its cover sheet was initially prepared and has been subsequently amended by The United States Trademark Association. At the present time, the trademark statutes of thirty-eight states incorporate the substance of this Model Bill. The other twelve states also have trademark statutes, though they differ somewhat from the Model Bill.

With rare exceptions the State Trademark Statutes require the applicant for registration to indicate the date of first use in the particular state. Thus, state-recognized substantive trademark rights of its citizens, just as those entitled to registration and the Lanham Act, are acquired by use rather than by registration. State registrations thus serve, generally, as a means for recording and serving as prima facie evidence of an already-existing ownership.

The effect of state trademark registration varies from one jurisdiction to another, and there is some doubt whether, in some cases, state registrations offer any advantages at all over mere reliance upon common law rights. An excellent discussion of this subject is to be found in a paper entitled THE EFFECT OF STATE TRADEMARK REGISTRATION, by Milton B. Seasonwine, which was published in THE TRADEMARK REPORTER, Volume 61, Number 6, November - December, 1971. As in the case of another publication that I mentioned earlier, I believe that reprints of this article are available, in limited quantities, from The United States Trademark Association.

One thing I think I may say without fear of contradiction is that state trademark registrations, even if one should obtain a registration in each state, is no substitute for a Lanham Act registration. A principal reason for this is that a certificate of state registration does not generally serve as prima facie evidence of exclusive right to use the registered mark even throughout the entire territory of the state by which the certificate is granted. Thus, in many states, the owner of a state registration will find himself in no better position with respect to subsequent users who had no actual knowledge of his prior use than he would be in had he relied solely upon his common law rights. In contrast, as pointed out earlier, a Lanham Act registration serves as constructive notice of the first user-owner's exclusive right and is effective against subsequent users everywhere within the area in which Congress may regulate commerce.

Perhaps the most compelling single reason for seeking a state trademark registration arises in the case of a trademark owner who uses his mark only within the boundaries of a single state. Since trade within a single state is not "commerce" as heretofore defined, a Lanham Act registration is not available, and thus a state registration may be looked upon as worthwhile for whatever procedural advantages it may offer.

While State Trademark Statutes may in general offer little benefit to owners of Lanham Act registrations, some of them have a desirable feature which has not yet found its way into Lanham Act revisions. This is the so-called "antidilution" provision, for an example of which I refer you to Section 12 of the MODEL STATE TRADEMARK BILL. In essence, such a provision enables the owner of a registration in a

jurisdiction where such provision exists to enjoin actions which detract from the distinctive quality of his registered trademark or otherwise injure his business reputation associated therewith. It is not necessary for him to prove that such actions involve actual use of the same or a similar mark on competitive products or otherwise meet the tests of infringement.

Thus, a trademark owner who had both a Lanham Act registration and a state trademark registration might find it advantageous to take action in a state court based upon his state registration rather than invoking his Lanham Act registration if there is some doubt aa to whether the defendant's objectionable acts are clearly clasaifiable aa infringement as that term may be interpreted in that particular atate.

Any discussion of United States trademark laws must necessarily include a discussion of registration statutes, and this discussion has been no exception. However, it is abundantly clear that the basic feature of these laws existed prior to the statutes. Thus, the philosophy of acquisition of trademark rights by usage rather than by mere registration is deeply engrained in our tradition. So deeply engrained, in fact, that the reluctance to change that philosophy is the principal objection being sounded against United States adherence to the recently signed Trademark Registration Treaty about which Mr. De Simone spoke yesterday. You will recall that the Treaty would permit a mark to remain on our register and not subject to cancellation for nonuse for three years from its priority date without even an allegation of actual uae anywhere in the world. The mere thought of even this token concession to the theory of acquisition of marks by registration without use is frightening to many. I am among them.

By now you will have observed that this has not been a scholarly treatise or one based upon extensive legal research with documentation for each thought expressed. It was not intended to be. Rather, it was my thought that the time available could best be used by touching upon only the more prominent features of the "first user" trademark philosophy of the United States and its several states and the relationship between that philosophy and our trademark statutes. Hopefully, there may have been a few in the audience who knew even less about the subject than I, so that in spite of the lack of entertainment value, some one of you may have heard something that you did not know before.

REVISION OF U.S. PATENT LAW

Comm#1, U.S.

JOHN R. SHIPMAN

THE UNITED STATES HAS FOR SOME TIME RECOGNIZED THE DESIRABILITY OF REVISING ITS PATENT LAW. REVISION HAS BEEN PROPOSED NEARLY EVERY YEAR FOR MANY YEARS BUT AGREEMENT COULD NEVER BE REACHED ON EXACTLY HOW TO REVISE IT. IN PAST MEETINGS OF THIS ASSOCIATION, WE DISCUSSED THE "McCLELLAN BILL" TO REVISE THE PATENT LAW -- A "BILL" IN THE UNITED STATES IS A PROPOSED LAW PLACED BEFORE OUR CONGRESS FOR CONSIDERATION. THE McCLELLAN BILL WAS DISCUSSED AND DEBATED AT LENGTH BUT NEVER GOT TO A VOTE BECAUSE EVEN THE GOVERNMENT COULD NOT REACH AGREEMENT BETWEEN ITS OWN AGENCIES ON SUCH THINGS AS RIGHTS TO LICENSE PATENTS WITHOUT VIOLATION OF THE ANTI-TRUST LAWS. IN PLACE OF THE McCLELLAN BILL, CONSIDERATION HAS BEEN GIVEN LATELY TO A "HART BILL" INTRODUCED LAST MARCH. NOW, JUST LAST THURSDAY, PRESIDENT NIXON SUBMITTED, AT LONG LAST, A NEW GOVERNMENT SPONSORED BILL PREPARED JOINTLY BY THE JUSTICE AND COMMERCE DEPARTMENTS. IT WAS INTRODUCED ON MONDAY BY SENATOR SCOTT. IN MY OPINION THE CLIMATE IS NOW RIGHT FOR ACTION AND IT IS MY FORECAST THAT WE WILL HAVE A NEW PATENT LAW BEFORE THE END OF 1974. FOR THE BENEFIT OF MY AMERICAN FRIENDS, I HASTEN TC ADMIT I AM NOT ALWAYS CORRECT IN MY FORECASTS -- I REMEMBER A TIME BACK IN 1956 -- WELL NO MATTER!

IT IS MY INTENTION TODAY -- FIRST, TO REVIEW BRIEFLY THE HIGHLIGHTS OF THE HART BILL, — SECOND, TO COMMENT ON PUBLIC CONGRESSIONAL HEARINGS HELD ABOUT TWO WEEKS AGO ON CERTAIN ASPECTS OF PATENT LAW -- THIRD, TO ADVISE YOU AS TO WHAT I KNOW OF THE NEW GOVERNMENT BILL AND -- FOURTH, VENTURE A GUESS AS TO WHAT MAY BE EXPECTED IN A NEW LAW.

THE HART BILL INTRODUCED LAST MARCH INCLUDED THE FOLLOWING SIGNIFICANT PROPOSALS FOR CHANGE OVER PRESENT LAW.

1. THE PATENT OFFICE WOULD NO LONGER BE PART OF THE DEPARTMENT OF COMMERCE BUT WOULD BE AN INDEPENDENT AGENCY. THIS IS OF INTEREST PRIMARILY TO AMERICANS AND IS PART OF WHAT WE CALL THE "POLITICAL IN-FIGHTING" TO EXERCISE CONTROL.

2. A NEW PUBLIC COUNSEL POSITION WOULD BE CREATED HAVING RESPONSIBILITY TO INTERVENE AND PARTICIPATE IN ANY PATENT OFFICE PROCEEDING, IF DEEMED IN THE PUBLIC INTEREST TO DO SO.

3. A COMMITTEE WOULD BE APPOINTED BY THE PRESIDENT TO EVALUATE ON A CONTINUING BASIS THE EFFECTIVENESS OF THE PATENT SYSTEM.

4. PRIMARY EXAMINERS WOULD BE GIVEN THE POWER TO SUBPOENA EVIDENCE AND INFORMATION TO ASSIST IN THE DETERMINATION OF PATENTABILITY BEFORE GRANT OF A PATENT.

5. MAINTENANCE FEES OR ANNUITIES WOULD BE IMPOSED AFTER 4 YEARS STARTING AT NO LESS THAN $1000 PER YEAR AND INCREASING ANNUALLY AT 25%.

6. THE DATE OF INVENTION AND OF REDUCTION TO PRACTICE FOR EACH CLAIM MUST BE INDICATED IN THE SPECIFICATION WHICH MUST ALSO INCLUDE ALL KNOW-HOW FOR COMMERCIALLY PRACTICING THE INVENTION.

7. ALL KNOWN PRIOR ART MUST BE DISCLOSED WITH THE APPLICATION BY WAY OF A PATENTABILITY BRIEF.

8. APPLICATIONS WOULD BE PUBLISHED PRIOR TO EXAMINATION PERMITTING THIRD PARTIES TO INTERVENE IN THE EXAMINATION (ADVERSARY PROCEEDINGS).

9. DEFERRED EXAMINATION IS PERMISSIBLE UP TO 5 YEARS WITH THE LIFE OF THE PATENT BEING 12 YEARS FROM FILING PLUS THE TIME PERIOD OF DEFERMENT.

10. IN ADDITION TO SALARY AN EMPLOYEE INVENTOR IS TO BE PAID A MINIMUM OF 2% OF PROFIT OR SAVINGS TO EMPLOYER.

I REMIND YOU THAT THIS IS THE HART BILL AND SOME ITEMS ARE ON THE EXTREME SIDE. BUT INSTEAD OF DISCUSSING THEM, I THINK IT MORE FRUITFUL TO REVIEW POINTS MADE AT THE PUBLIC HEARINGS AND THEN REVIEW THE NEW GOVERNMENT SPONSORED BILL WHICH WILL PROBABLY RECEIVE PRECEDENCE OVER HART.

THE PUBLIC HEARINGS WERE LIMITED TO ONLY FIVE ASPECTS OF PROPOSED PATENT LAW REVISION. TESTIMONY AND COMMENTS WERE GIVEN BY U.S. INDUSTRY ASSOCIATIONS SUCH AS NAM, PATENT LAW AND BAR ASSOCIATIONS, PRIVATE INDIVIDUALS AND PATENT OFFICE EMPLOYEES. WIDELY DIFFERENT POINTS OF VIEW WERE APPARENT -- BUT HERE ARE SOME IMPRESSIONS.

1. ON ADVERSARY PROCEEDINGS, MOST SEEMED TO FAVOR SOME FORM OF THIRD PARTY PARTICIPATION BUT WITH VARIOUS LIMITATIONS.

2. MOST SEEMED TO OPPOSE THE IDEA OF A PUBLIC COUNSEL ON THE GROUNDS THAT MANY OF THE USEFUL FUNCTIONS OF SUCH A POSITION COULD BE EFFECTED BY BETTER ADMINISTRATION.

3. DEFERRED EXAMINATION WAS STRONGLY OPPOSED.

4. MODEST MAINTENANCE FEES SEEMED ACCEPTABLE BUT NOTHING AS GREAT AS IN THE HART BILL.

5. THERE WAS BROAD SUPPORT FOR ELEVATING THE LEVEL OF THE PATENT OFFICE IN THE GOVERNMENTAL STRUCTURE BUT THERE WERE DIFFERENCES IN THE BEST WAY.

LET US LOOK NOW AT THE NEW GOVERNMENT SPONSORED BILL. IT WAS JUST SENT TO CONGRESS AT THE END OF LAST WEEK. IT IS WELL OVER 200 TYPEWRITTEN PAGES AND I HAVE ONLY READ THROUGH IT ONCE HURRIEDLY. THEREFORE WHAT I WILL SAY IS BASED ONLY ON QUICK IMPRESSIONS AND NOT ON ANY CAREFUL STUDY. THE BILL PROVIDES:

1. THE PATENT OFFICE REMAINS PART OF THE DEPARTMENT OF COMMERCE BUT SHALL FUNCTION INDEPENDENTLY THEREOF IN EXERCISING ITS ADJUDICATORY FUNCTIONS.

2. AN ADDITIONAL OFFICER OF THE PATENT OFFICE SHALL BE APPOINTED TO A) PARTICIPATE IN ANY PROCEEDING WHEN REQUESTED BY EXAMINER OR BOARD OF EXAMINERS-IN-CHIEF AND IT IS APPROPRIATE IN THE PUBLIC INTEREST; B) DEFEND APPEALS IN THE OFFICE; C) HAVE THE RIGHTS OF A PARTY INCLUDING TAKING TESTIMONY AND DEPOSITIONS; D) BRIEFING ON ARGUING APPEALS TO COURT.

3. ANY PARTY TO A PROCEEDING BEFORE THE EXAMINERS-IN-CHIEF MAY, OR AN EXAMINER-IN-CHIEF HIMSELF MAY, HAVE A SUBPOENA OR DISCOVERY ORDERS ISSUED FOR TESTIMONY, EVIDENCE, DEPOSITIONS, OR OTHER INFORMATION AGAINST THE APPLICANT OR ANY PERSON WHETHER OR NOT A PARTY.

4. UPON APPLICATION FROM THE OTHER OFFICER "PUBLIC COUNSEL" A SUBPOENA OR ORDER WILL BE ISSUED TO ANY PERSON TO APPEAR BEFORE THE OFFICE TO TESTIFY OR PRODUCE DOCUMENTS OR TO FILE REPORTS OR ANSWERS TO SPECIFIC QUESTIONS.

5. MAINTENANCE FEES OF $1000 AFTER 10TH YEAR ANNIVERSARY OF FILING AND $2500 AFTER 15TH YEAR MUST BE PAID UNLESS PATENTEE FILES A SUFFICIENT STATEMENT THAT INVENTION IS BEING COMMERCIALIZED OR DILIGENT EFFORTS BEING MADE TO COMMERCIALIZE IT.

6. A DESCRIPTION OF THE INVENTION ANYWHERE IN THE WORLD IN OTHER THAN TANGIBLE (TYPEWRITTEN-FILM-PRINTED) FORM SHALL BE A BAR TO A PATENT IF ACCESSIBLE TO U.S. PUBLIC, TO SKILLED PERSONS IN THE U.S., OR TO APPLICANT. NONPUBLIC, COMMERCIAL USE BY THIRD PARTY IS NOT A BAR BUT BY APPLICANT IS A BAR. IF NOT COMMERCIAL USE, CONCEALED ACTIVITY MAY STILL BE A BAR BECAUSE OF

SUPPRESSION OF THE INVENTION. THE DECISION OF IN RE HILMER IS OVERRULED SO THAT A PATENT APPLICATION FIRST FILED, BEFORE THE INVENTION WAS MADE BY AN APPLICANT, SHALL BE A BAR.

7. AN APPLICATION MAY BE FILED BY INVENTOR OR ASSIGNEE.

8. SPECIFICATION MUST CONTAIN A DESCRIPTION OF WHAT IS KNOWN BY THE INVENTOR, ANY PERSON TO WHOM HE IS UNDER OBLIGATION TO ASSIGN, AND THE APPLICANT AS TO MANNER OF MAKING AND USING THE INVENTION. FURTHER, AFTER ALLOWANCE THIS INFORMATION MUST BE UPDATED.

9. CLAIMS MUST BE DEPENDENT OR MULTIPLE DEPENDENT FORMS CONTAINING A RECITATION OF THE OLD, FOLLOWED BY "WHEREIN THE IMPROVEMENT COMPRISES" AND RECITING THE INVENTIVE ELEMENTS AND RELATIONSHIPS.

10. IN ADDITION TO INVENTORS, ASSIGNEES AND APPLICANTS, THE ATTORNEYS AND AGENTS HAVE A STRONGLY EXPRESSED DUTY OF CANDOR AND GOOD FAITH TO MAKE REASONABLE INQUIRY FOR INFORMATION WHICH MIGHT AFFECT THE PATENT OFFICE DECISION OR BE NECESSARY TO AVOID MISLEADING THE OFFICE.

SUCH INFORMATION AS PRIOR ART OR INFORMATION MORE PERTINENT THAN CITED BY THE EXAMINER; INFORMATION RELATING TO SALE OR NONLABORATORY USE MORE THAN 1 YEAR PRIOR TO FILING WHETHER BELIEVED TO BE A BAR OR NOT; INFORMATION TENDING TO CONTRADICT ANY REPRESENTATION MADE TO THE OFFICE. APPLICANT FILE OATH WITH FILING AND STATEMENT AFTER ALLOWANCE. ALL PAPERS SIGNED BY ATTORNEY DEEMED AN AFFIRMATION OF COMPLIANCE.

11. AN APPLICANT MAY REQUEST PUBLICATION OF APPLICATION AT ANY TIME. ON PUBLICATION MAY DECLARE ABANDONED. SUCH PUBLISHED APPLICATION MAY BE USED IN PRIORITY CONTEST EVEN THOUGH ABANDONED.

12. A MEMORANDUM OF PATENTABILITY MUST BE FILED WITH APPLICATION CITING PRIOR ART AND REASONS FOR ALLOWANCE OVER CITED ART.

13. EXAMINER MAY REQUIRE EMPIRICAL DATA SUPPORT FOR ANY STATEMENT OF FACT.

14. APPEALS TO BOARD CONSIDER PATENTABILITY DE NOVO AND MAY REJECT CLAIM PREVIOUSLY ALLOWED. PRIMARY SUBMITS LEGAL OPINION. PUBLIC COUNSEL SUBMITS BRIEFS AND ORAL ARGUMENT.

15. AFTER ALLOWANCE APPLICATION IS PUBLISHED, THEN ANY THIRD PARTY MAY

A) SUBMIT ART AND STATEMENT OF ITS RELEVANCE TO THE APPLICATION, WHEREUPON A DIFFERENT EXAMINER WILL REVIEW WITH THIRD PARTY NOT PARTICIPATING AND HIS IDENTITY A SECRET; OR

B) FILE AN OPPOSITION AND PARTICIPATE IN FILING BRIEFS, ORAL ARGUMENTS, TAKING DEPOSITIONS, DISCOVERY AND PRESENT TESTIMONY AND CROSS-EXAMINE WITNESSES WHERE OTHER THAN TANGIBLE EVIDENCE IS RELIED UPON.

16. IF INVOLVED IN A PRIORITY OF INVENTION PROCEEDING, THE TERM OF A PATENT EXTENDED BY TIME OF PROCEEDING.

17. TERM OF PATENT -- 20 YEARS FROM FILING

18. MAY HAVE PATENT ISSUE ON ALLOWED CLAIMS WHEN BEING EXAMINED BY TWO EXAMINERS AND ONE FINISHES FIRST OR WHEN THERE IS A PRIORITY PROCEEDING NOT INVOLVING THOSE CLAIMS OR WHEN APPEALING DISALLOWED CLAIMS IF APPLICANT OPENING HIS APPLICATION TO OPPOSITION PROCEEDINGS, A SUPPLEMENTAL CERTIFICATE WILL BE ISSUED LATER.

19. DISPUTES ON VALIDITY AND INFRINGEMENT MAY BE ARBITRATED BUT FILE MADE PUBLIC WITH PROTECTION FOR TRADE SECRETS.

20. PRODUCTS MANUFACTURED ABROAD BY A U.S. PATENTED PROCESS WILL BE AN INFRINGEMENT WHEN IMPORTED INTO U.S. ON AN EXCLUSIVE MARKETING ARRANGEMENT.

21. REASONABLE ROYALTIES MAY BE COLLECTED DURING OPPOSITION PROCEEDING AND UPON ACTUAL NOTICE TO USER OF INVENTION.

22. ASSIGNER MAY ASSERT INVALIDITY IF RESCINDS ASSIGNMENT AND REPAYS ASSIGNEE. LICENSE IS LIABLE FOR ROYALTY PRIOR TO ASSERTION OF INVALIDITY.

23. THIS LAW NOT TO BE CONSTRUED TO PREEMPT STATE LAW OF TRADE SECRETS.

-- GUESS A LAW SIMILAR TO THIS WILL PASS BY END OF 1974. --

-- COMMENTS ON EFFECT ON CORPORATE PATENT DEPARTMENTS. --

October 1, 1973

1973 PIPA San Francisco Congress

Committee Presentations

〔Committee 2〕

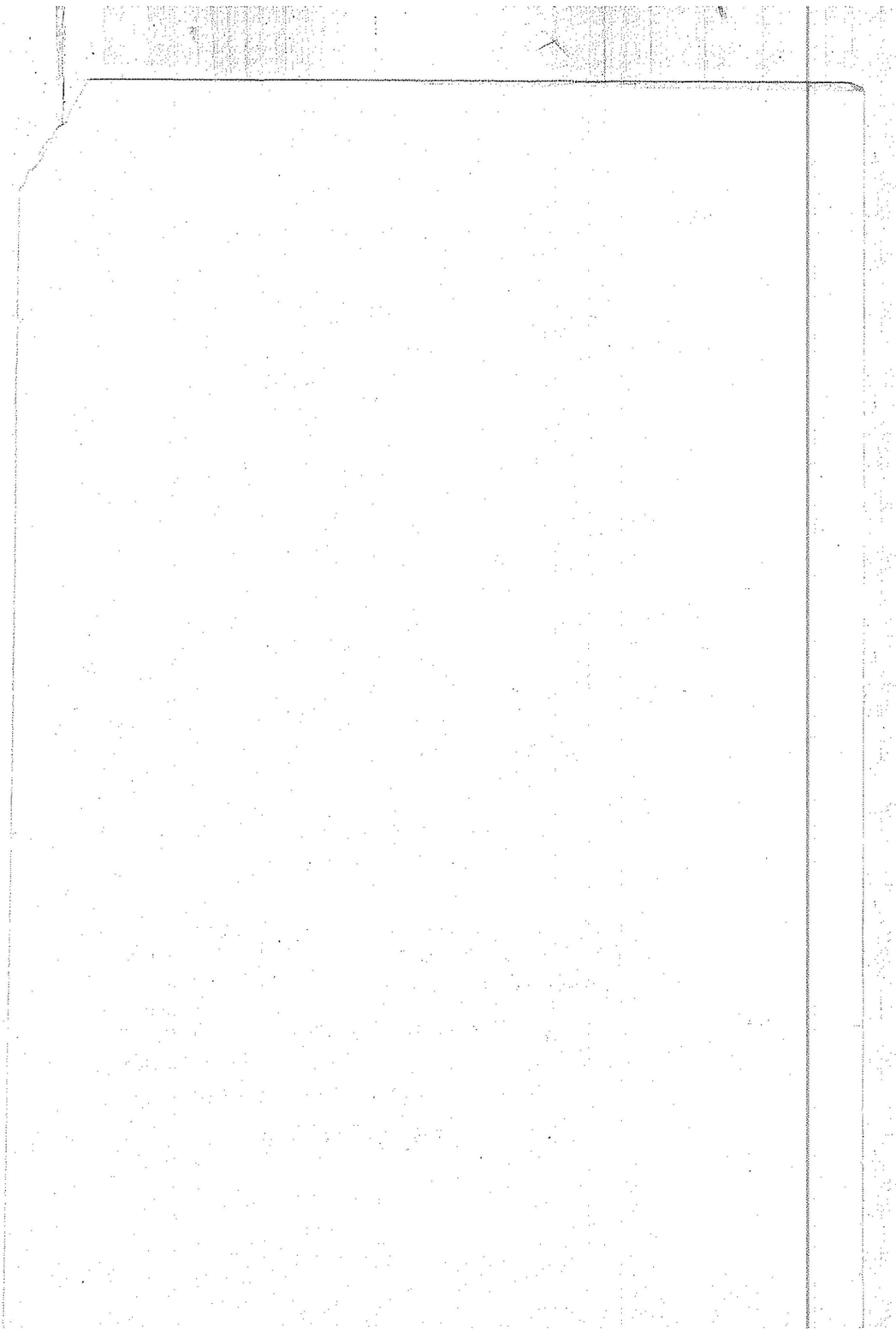
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October 3, 1973
Japanese Group, Committee #2
Chairman: Koichi YOKOYA

MAY LICENSEE OF KNOW-HOW USE IT AFTER TERMINATION OF AGREEMENT?

Committee No. 2
Japanese Group of PIPA

Among many problems which we encounter with in drafting and interpreting agreements with respect to transfer of technology, I am going to discuss about whether a licensee of know-how may use it after termination of the license agreement. In case of patent license agreement, it is obvious that the licensee may not use the licensed patent after the termination of the agreement. Can the same thing be said to the know-how license agreement? The answer to that question must be seeked for after clarifying the definition of know-how and recognizing the difference between patent and know-how. If there is an express provision in the agreement as to whether the licensee may or may not use know-how after the termination of agreement, it will be binding upon the parties. Our experience, however, has showed there are many know-how license agreements which have no such express provision. In the case where no such provision is incorporated in the agreement, may the licensee use the know-how after the termination of the agreements? This is what I am going to discuss today. Even in the case where no such provision is found in the agreement, some other provisions, such as payment, secrecy or return of know-how, will occasionally give us some implication about this issue. My discussion, however, will not refer to such matters.

Firstly I must show four representative arguments by the Japanese experts each of which SUPPORTS the use of know-how by a licensee after termination of the license agreement without paying any consideration to the licensor. Each such argument will be followed by my comment on it.

1. "LICENSE OF KNOW-HOW IS IN SUBSTANCE NOTHING BUT ASSIGNMENT OF KNOW-HOW."

   Many reasons have been raised to support this argument, none of which, however, tell us the reason why we can deny the freedom

of a know-how holder to elect not to assign but license the know-how. It may well be said that it is almost impossible to cause any licensee to forget any know-how once known to him. But knowledge of know-how and the right to use it are two different things.

2. "LICENSEE OF KNOW-HOW IS DEEMED TO HAVE THE SAME POSITION WITH THE THIRD PARTIES AFTER TERMINATION OF THE LICENSE AGREEMENT AND KNOW-HOW IS NOT ENDOWED WITH ANY RIGHT TO EXCLUDE THE THIRD PARTY'S USE AS IS CONFERRED UPON PATENT."
This argument is not so pursuasive. Even after the termination of know-how license agreement, we cannot identify the licensee with the third party, because the licensee has been disclosed know-how under the agreement while the third party has not.

3. "IF USE OF KNOW-HOW BY LICENSEE AFTER TERMINATION OF AGREEMENT WERE PROHIBITED, PLANTS AND EQIPMENTS ALREADY INSTALLED FOR USE OF KNOW-HOW WOULD BE WASTED AND SUCH RESULT IS UNREASONABLE."
This argument is out of question. Even in case of patent licensing, where use of patented invention after termination of license is prohibited, plants and equipments will also be wasted. Further this argument will not show any definite solution in such situation as no special plant or equipment are required to utilize the know-how.

4. "KNOW-HOW HAS BEEN EXHAUSTED BY PAYMENT OF CONSIDERATION BY LICENSEE DURING THE LICENSE AGREEMENT."
This argument is nearly the same with the affirmative argument Item 1 above. I have no further comment than those mentioned above as to the said argument Item 1.

Secondly I must show the argument which DENIES the use of know-how by the licensee after termination of the license agreement. This argument DISTINGUISHES ASSIGNMENT OF KNOW-HOW FROM LICENSE OF IT. According to this argument, (1) IN CASE OF ASSIGNMENT OF KNOW-HOW, ALL THE RIGHTS AND INTERESTS IN AND TO THE KNOW-HOW SHALL PASS FROM THE ASSIGNOR TO THE ASSIGNEE, AND ASSIGNOR LOSES THE RIGHT TO USE

THE KNOW-HOW UPON ASSIGNMENT, and (2) IN CASE OF LICENSE OF KNOW-HOW, THE KNOW-HOW REMAINS TO BE PROPERTY OF THE LICENSOR AND THE RIGHT TO USE THE SAME SHALL BE GRANTED TO THE LICENSEE, AND THEREFORE THE LICENSEE OF THE KNOW-HOW MAY NOT USE THE SAME AFTER THE TERMINATION OF THE LICENSE AGREEMENT.
Such an argument may be applicable when we are going to explain the difference between assignment and license (or lease) of patent (or tangible goods). Know-how, however, has no such exclusive right in it as is given to patent (or tangible goods), and this argument does not clarify such difference of nature between know-how and patent (or tangible goods).

As I mentioned above, there is no reliable opinions in Japan with respect to the issue of my discussion, and I must say that no Japanese court has ever passed any decision about that.
I know, of course, the decision given in Painton VS. Bourns (309F. Supp. 271 (S.D.N.Y. 1970)) which allowed the plaintiff, a know-how licensee to use the know-how after termination of license agreement. But I think the judge depended too much on the decision given to Lear VS. Adkins (395 U.S. 653 (1969)) which laid stress on the federal patent or public policy of the United States of America. Even if the said decision of Painton VS. Bourns were correct, we could not expect a decision to the same effect to be given in Japan where no federal system is adopted.

I asked the Fair Trade Commission of Japan whether the prohibition of use of know-how after termination of license agreement constitutes the violation of the Japanese anti-monopoly laws. The Commission answered that no such prohibition will violate the anti-monopoly laws insofar as the know-how so prohibited to be used remains secret even after termination of agreement and that whether the use of know-how after termination of agreement may be allowed or not is a matter to be agreed between the parties concerned.

The issue of my discussion was debated earnestly at the meeting of Committee No. 2 of PIPA Japanese Group and all the attendants

showed their keen interests in the issue. Unfortunately, however, no pursuasive reason has been found either for or against the use of know-how by licensee after termination of agreement. But I must say that a majority of the members of the Japanese Committee No. 2 have supported the use of know-how after termination of agreement.

Pending establishment of any definite solution about this issue, we must solve it ourselves by incorporating in know-how license agreements some provisions on a case-by-case basis and in doing so must see to it that the interests of both licensor and licensee will be well balanced. The following is an example of such provisions.

"(1) After the expiration or the termination of the Agreement, the License may use any of the Technical Information supplied to it by the Licensor hereunder without any payment to the Licensor.

(2) Anything herein stipulated to the contrary notwithstanding, upon termination of this Agreement by the Licensor in case of any default of the Licensee hereunder, all the rights and license of the Licensee to use the Technical Information shall cease and the Licensee shall not use the same thereafter, provided, however, that the Licensee may use the same for the completion of the semi-finished Products on its hand at the termination and for the fulfillment of the outstanding orders for the Products received before the termination both subject to the royalty payment to the Licensor.

(3) Nothing herein contained shall be deemed to deny the rights of the Licensee to use the Technical Information, without any payment to the Licensor, in order to repair, or to manufacture any replacement parts for, the Products which have been sold to its customers and on which royalty has been paid to the Licensor."

We, all members of the Japanese Committee No. 2 are eager to hear the opinions of the corresponding Committee of U.S. Group about the issue discussed above. Thank you.

RIGHT OF LICENSEE TO USE KNOW-HOW AFTER TERMINATION OF LICENSE AGREEMENT WHEN LICENSE WAS FOR PATENT AND KNOW-HOW

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R.

General Considerations and Defini

For purposes of this discussion
used as a generic term to describe all int
that is non-statutory. The rights to stat
property are defined domestically and inte
patent, trademark and copyright laws.

New Paper

Know-how may be tangible or intangible, patentable or unpatentable, secret (trade secret) or something less than secret, i.e., subject matter, the relative appreciation of which is limited to the self-styled proprietor. In fact, know-how can only be evaluated by comparision of the state of the art before and after its disclosure.

The rights incident to the possession of know-how may be further characterized by comparison with the rights of a patentee. In the case of a patent, the term of exclusivity, the territory where exclusivity is recognized, and the precise identity of the proprietary subject matter are all well-defined. Also, the transfer of the rights under a patent by out right sale or by the granting of exclusive or non-exclusive licenses is sufficiently well-defined to enable reasonably certain predictions of legality. Know-how, however:

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[1] Licensing in Foreign and Domestic Operations, Lawrence J. Eckstrom; Vol. 1, Clark Boardman Company, Ltd., New York, New York (Revised Third Edition, 1973).

[2] Practical Patent Licensing, Albert J. Davis, Jr., ed., Vol. II, Practising Law Institute, New York, New York.

[3] Trade Secrets, Roger M. Milgrim, Mathew Bender, New York, New York (1973).

1.) Has no certain, stable legal status, and in fact the rights relative to the transfer of know-how currently appear to be undergoing a dramatic redefinition in the courts. (More anon.).

2.) Has no specific subject matter definition; nor does it have specific territorial limits.

3.) Has no definite term over which royalties may be collected. [Centrally involved in the definition of the royalty-collectable know-how term is a tension between contract law and equitable principles on the one hand and federal supremacy of patent and federal antitrust laws on the other. Thus it cannot be said with certainty today that the know-how term is purely a matter of agreement by the parties to a contract, or that the term is gauged solely by the useful (and possibly secret) life of the know-how. This is particularly true where patent and related know-how are wrapped in the same transaction.]

4.) By analogy to patent law, know-how cannot be 'infringed'. It can, however, by misappropriated; and until recently, healthy remedies founded in equity, contract law, and state unfair trade practice law were unquestionally available to the aggrieved (here, the disclosing licensor of know-how).

5.) As a practical matter, once disseminated by transfer to a second party, know-how cannot be recovered. While know-how license agreements frequently contain 'snap-back' clauses, the attempted retrieval is best likened to returning an egg to its shell. Injunctive relief to restrain

the defaulting licensee from using or disclosing the know-how being the only remedy, and, in view of recent developments in case law, this remedy may have been severely weakened.

The title query is topical, for today it is estimated that few license agreements in the domestic and foreign fields are straight patent licenses. Patent and related know-how are transferred in a unit package; albeit a divisible package in view of well-recognized antitrust proscriptions should the licensee opt for individual patents or separate know-how. In fact, the licensor's drafter will always want to include know-how to prevent a failure of consideration should the underlying patent be held invalid, thus insuring that some measure of royalty will continue for the valuable know-how consideration.

Developing Case Law

Stated another way to give a better slant on the problem, the title query might read:

> What post-termination (measured by the patent term) rights (backed-up by injunctive and damages redress) does the licensor of patents and know-how have relative to continued (but on a different schedule) know-how royalties, or to recover know-how?

Knowing that the license agreement will be viewed primarily as a patent license unless otherwise warranted[4], the answer to the above query, until recently, would be that

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[4]Rocform Corporation v. Acitelli-Standard Concrete Wall, Inc.; 143 USPQ 405.

the terms of the license contract control.[5] [Of course, this answer is bottomed on the provision that the license contract was not 'a bald attempt to exact the same terms and conditions for the period after the patents had expired as they do for the monopoly period',[6] and provided that other anti-competitive patent misuse practices are absent.[7,8]]

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[5]See for example, 178 F. Supp. 655, the famous Listerine case, wherein the court upheld a 'know-how' license agreement made in 1881 for royalty payments based the continued manufacture and sale of Listerine even though the secret know-how (the formula for Listerine) had fallen into the public domain through no fault of the licensor on his assigns. The court held at page 666:

> One who acquires a trade secret or secret formula takes its subject to the risk that there be a disclosure. The inventor makes no representation that the secret is non-discoverable. All the inventor does is convey the knowledge of the formula or process which is unknown to the purchaser and which is so far as both parties then know is unknown to any one else. The terms upon which they contract with reference to this subject matter are purely up to them and are governed by what the contract they enter into provides. [Emphasis supplied.]

[6]Brulotte, et al. v. Thys Company; 143 USPQ 264.

[7]Scott Papper Co. v. Marcalus Co.; 67 USPQ 193, 196.

> * * * any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws.

[8]Automatic Radio Co. v. Hazeltine; 85 USPQ 378.

Thus, if the license agreement is silent, the licensor retains no post-termination rights to the know-how. This is the usual result, for even though the license may contain a clause for the return by the licensee of all tangible know-how on termination, the know-how royalty is usually calculated as a single, initial payment, or as installment payments on a sum certain.

It is when the license either 1.) provides for post-termination know-how royalties (or any post-termination superior right in the licensor), or 2.) irrespective of term, the license provides for royalties on know-how which has fallen into the public domain, that problems are encountered because the license has entered into an area of upheaval in the law making prediction of legality uncertain.

The upheaval may be traced to three decisions of the Cupreme Court: Sears, Roebuck & Co. v. Stiffel Co.[9] ("Sears"); Compco Corporation v. Day-Brite Lighting, Inc.[10] ("Compco); and Lear v. Adkins[11] ("Lear"). In Sears and Compco it was held that state laws prohibiting the copying of articles not protected by valid patents or copyrights but offered for public sale were inconsistent with the federal patent and copyright laws. Sears and Compco really only set the climate for the problems here considered and are not truly apposite thereto, for the Illinois law of unfair competition invalidated in Sears and Compco conferred a monopoly against copying an article otherwise in the public domain, a monopoly good against non-contractors just as a

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[9]376 U.S. 225 (1964).

[10]376 U.S. 234 (1964).

[11]395 U.S. 653 (1969).

patent or copyright would have been. An agreement licensing know-how is an altogether different matter. It binds no one except the licensee; all others are free, as the licensee previously was, to attempt by fair means to figure out what the secret is and, if they succeed, to practice it. It was this agreement between licensor and licensee which Lear was addressed to.

The facts of Lear are interesting and pertinent to this discussion. In 1952, Adkins was hired by Lear specifically for the purpose of solving a vexing problem relating to developing a gyroscope. Adkins quickly solved the problem, and the solution was incorporated by Lear into its gyroscope production process -- much to Lear's great advantage.

At the beginning of their relationship Lear and Adkins executed an agreement which provided that Adkins' ideas, discoveries and inventions were to become the property of Adkins, which he agreed to license to Lear on a mutually satisfactory basis. In 1954, Adkins filed a patent application on his invention, and in 1955 a formal licensing agreement was executed by which Lear agreed to pay Adkins certain royalties, with the option to terminate the agreement if the Patent Office refused to issue a patent. The patent ultimately issued in 1960.

However, in 1957, Lear refused to pay further royalties, announcing that it had discovered a patent which

it believed fully anticipated Adkins' claimed invention. Convinced that Adkins could not obtain a patent, Lear continued to manufacture its gyroscopes using Adkins' idea. After his patent issued in 1960, Adkins sued Lear and secured a large judgment for accrued royalties, which judgment was affirmed by the Supreme Court of California, but reversed and remanded for further proceedings by the Supreme Court of the United States.

In reversing, the Court made two general holdings which brought patent litigation in step with the rest of the law and were not, despite much outcry from self-styled oracles of the patent bar, surprising or unfortunate, and one specific holding derived solely from a factual interpretation of the Lear-Adkins agreement:

1.) The Court abolished the already moribund doctrine of licensee estoppel which prevented a patent licensee from raising the defense of patent invalidity.

2.) The Court held that the licensee on challenging patent validity in the courts is relieved of the obligation to pay royalties until validity of the patent is established.

3.) The Court held, based on an interpretation of the written agreement, that Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove in a subsequent proceeding that Adkins' patent is invalid.

The general holdings 1.) and 2.) were based on a federal public policy stemming from Article I, § 8, of the Constitution and the patent laws derived therefrom; it being inconsistant with such a policy favoring the full and free use of ideas in the public domain to muzzle (licensee estoppel) and economically shackle (royalty obligation during patent validity determination) the person having the strongest incentive in showing that the patent is worthless, i.e., in returning the claimed invention to the public.

The specific holding 3.) has been strangely misconstrued or extrapolated to a general holding by commentators[12] and lower courts[13] to the effect that royalties may not be collected on trade secrets that are no longer secret. This implies that the licensee acquires royalty free post-termination know-how rights. A result clearly without sanction from Lear and in conflict with the holding of the state court which held that Lear, the licensee, had no post-termination rights of use.[14]

If, however, the upheaval is to be traced to any specific part of the Lear opinion, it would have to be the remarks relative to Adkins' rights prior to issuance of the

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[12] 58 A.B.A.J. 45 (1972)... The Court [Lear] held that at least with respect to an invention disclosed in an invalid patent, a contract calling for royalties to be paid after issuance of the patent could no longer be enforced under the theory that these royalties were in consideration for the initial confidential disclosure of a then secret invention. That is to say, royalties may not be collected on trade secrets that are no longer secret.

[13] Choisser Research Corp. v. Electronic Vision Corp. 173 U.S.P.Q. 234, 237 (1972). In upholding the terms of a licensing agreement involving only trade secrets and ordering payment of royalties, the court made this extrapolation from Lear: If it is unreasonable to extend the life of a patent beyond 17 years, it would be unreasonable to require payment for a trade secret beyond its useful life. Kewanee Oil Co. v. Bicron Corp. 1780 U.S.P.Q. 3 (1973). Painton & Company, Ltd. v. Bourns, Inc. 164 U.S.P.Q. 595; reversed 169 U.S.P.Q. 528 (1971).

[14] Adkins v. Lear, Inc. 64 Cal. Rptr. 545, 558.

1960 patent, wherein the Court invited the state courts to 'fully focus' and reconsider the theoretical basis of their decisions enforcing the contractual rights of owners of unpatented inventions:

> Adkins' claim to contractual royalties accruing before the 1960 patent issued is, however, a much more difficult one, since it squarely raises the question whether, and to what extent, the States may protect the owners of unpatented inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties. The California Supreme Court did not address itself to this issue with precision, for it believed that the venerable doctrine of estoppel provided a sufficient answer to all of Lear's claims based upon federal patent law. Thus, we do not know whether the Supreme Court would have awarded Adkins recovery even on his pre-patent royalties if it had recognized that previously established estoppel doctrine could no longer be properly invoked with regard to royalties accruing during the 17-year patent period. Our decision today will, of course, require the state courts to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and it is impossible to predict the extent to which this re-evaluation may revolutionize the law of any particular State in this regard. Consequently, we have concluded, after much consideration, that even though an important question of federal law underlines this phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas. Given the difficulty and importance of this task, it should be undertaken only after the state courts have, after fully focused inquiry, determined the extent to which they will respect the contractual rights of such inventors in the future. Indeed, on remand, the California courts may well reconcile the competing demands of patent and contract law in a way which would not warrant further review in this Court.

and to Justice Black's dissent in part wherein he, with Chief Justice Warren and Justice Douglas concurring, gives his opinion as to the proper result of the invited 'fully focused' reconsideration of state trade secret laws:

> I still entertain the belief I expressed for the Court in Stiffel and Compco that no State has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws. 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 payment 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.

One of the first state courts to accept the invitation was Painton & Co., Ltd. v. Bourns, Inc. (see footnote 13, supra) wherein a license agreement for the transfer of know-how from a U.S. company to a British company was denied enforcement:

> ... 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 have the ideas disclosed to the public.

On appeal to the Second Circuit Court of Appeals, Judge Friendly severely 'undercut' the opinion of the district court and reversed in an opinion which will be discussed below.

A second state court accepting the invitation reached an opposite result. In reversing the district court, the Sixth Circuit Court of Appeals in Kewanee Oil Company v. Bicron Corporation, et al. (see footnote 13, supra) held:

> ... state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year. By such use the inventor has forfeited his right to a patent but by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States. The state trade secret law has no limitations of time and, therefore, is in direct conflict with the Patent Laws, which have as a purpose the objective of obtaining public disclosure after a limited period of time.
>
> We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits, Servo Corp. of America v. General Electric Co., 337 F.2d 716, 143 USPQ 85 (4th Cir. 1964), cert. den. 383 U.S. 934, 148 USPQ 772 (1966), rehearing denied 384 U.S.914 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304, 168 USPA 71 (9th Cir. 1970), cert. den. 402 U.S. 945, 169 USPQ 528 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163, 162 USPQ 321 (5th Cir. 169); Painton & Co. v. Bourns, Inc., 442 F.2d 216, 169 USPQ 528 (2nd Cir. 1971), but our analysis of the relationship between the Patent Laws of the United States and the Trade Secret Laws of the State of Ohio, as applied in this case, forces us to the conclusion that the field of protection afforded to this plaintiff by that Trade Secret Law has been preempted by the Patent Laws of the United States. We, therefore, hold that the Trade Secret Laws of the State of Ohio may not afford to the plaintiff in this case protection which the plaintiff could not obtain under the Patent Laws.

In the Kewanee Oil case, the defendant corporation was founded by former employees of the plaintiff on trade secrets relating to the growth of sodium iodide thallium-activated scintillation crystals, which secrets were stolen from the plaintiff. But for the 'black' influence of Lear, plaintiff most assuredly would have prevailed in its plea for a permanent injunction restraining the defendant from disclosing and/or using the trade secrets, for the facts of Kewanee present a classical misappropriation of trade secret case. Plaintiff has filed a petition for writ of certiorari in the Supreme Court.

Thus, Kewanee stands for the abolition in the Sixth Circuit of state trade secret law relative to the protection of subject matter which is, per se, patentable. For purposes herein considered, the decision requires that a current licensee of patentable know-how acquire free use of the know-how, irrespective of termination date. Future license agreements involving patentable, but unpatented, know-how are unenforceable. The court's decision does not affect the licensing of unpatentable know-how.

The second circuit case of Painton & Co., v. Bourns has been previously mentioned. Judge Friendly's opinion in Painton is well reasoned and harmonizes state trade secret law with the true meaning of Lear. Thus today the sixth and second circuits are in direct opposition relative to state trade secret laws.

The facts of Painton are interesting and quite relevant here because involved was an agreement relative to a British patent and related know-how. Painton, the licensee, was a British manufacturer of potentiometers under

a license agreement with Bourns, the licensor. The contract had a set termination date of October 24, 1968 but was silent as to post-termination rights of the licensee except that it did contain a clause by which the licensee would continue to pay certain royalties on a limited number of unpatented potentiometers for a period of four years beyond the expiration date.

Under the contract the licensee received know-how (drawings and engineering assistance) from the licensor. The licensee has the right to secure a British patent in the licensor's name and one such patent was secured covering a few models of the potentiometers. The licensee had the right to operate under this British patent free of any patent infringement claims for the term of the contract. In consideration the licensee was obligated to pay specified royalties.

Shortly before the contract termination date, the licensor informed the licensee that it was not going to renew the contract and that it expected the licensee to discontinue manufacturing the various potentiometers which were not exempt from the four year extension clause and to return all tangible know-how relative to those non-exempted potentiometers.

The licensee, however, contended, based on its interpretation of the contract, that it had the right to continue to use the licensed know-how after termination of the contract and after its payment of royalties due on the exempted potentiometers to be manufactured under the four year clause, all free from any trade secrets and patent claims.

Despite the extremely complex nature of the contractual relationships of the parties, the district judge granted a motion for summary judgment fully supporting the position of the plaintiff licensee. The district judge based her opinion both on a matter of contract interpretation and her interpretation of Lear:

> Federal patent policy, the Court has held, will not allow trade secret claims against a party who has expressly contracted for them where there has been no patent application, 309 F. Supp. at page 276, note 12.

In reversing the lower Court on the trade secret issue and remanding for trial on the issue of contract interpretation relative to the respective post-termination rights of the parties, Judge Friendly held, respectively:

> We therefore do not find, either in general considerations of public policy or in emanations from the federal patent law, a sufficient basis for declining to enforce even the royalty provisions of trade secret agreements at least with respect to cases where no patent application has been filed. Whatever the impact of Lear may be with respect to agreements governing inventions for which patent applications have been filed, we find no suggestion in the opinion that the Court intended to cast out the long standing principle that an inventor who choses to exploit his invention by private arangements is entirely free to do so, though in so doing he may thereby forfeit his right to a patent. Although the Court stated that "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent" it did not say or suggest that federal law requires that all ideas must be put in general circulation. Indeed, as the Court observed on another occasion, the inventor "may keep his invention secret and reap its fruits indefinitely".
>
> * * *
>
> The validity of agreements for the sale or license of trade secrets has been upheld for generations in too many cases to warrant extended citation. [Citations omitted].

* * *

> In thousands of contracts businessmen have divulged such secrets to competitors, dealing at arms' length and well able to protect themselves, on the faith that mutually acceptable provisions for payment, for the preservation of confidentiality, and for the return of secret information on termination or default will be enforced by the Courts.

* * *

> The effect of termination of the agreement upon [the licensee's] continued right to retain drawings and use information that had been supplied thereunder is a most difficult question of contract interpretation. Neither the contract nor the numerous affidavits, depositions and exhibits speak to us with the clarity they did to the district judge.
>
> [The licensor] stresses the contract's references to the grant of a license. It states, with seeming correctness, that all rights granted by a license generally cease upon its expiration, citing particularly [citation of California decision deleted].

Thus, Judge Friendly's opinion stands for the continued vitality of trade secret laws in harmony Lear. Most important, the decision recognizes and reaffirms the right of parties to a contract to bargin at arms' length to arrive at mutually agreeable terms relative to the transfer of know-how.

Antitrust Perspective of the Problem

Writers in the antitrust field believe that the "Lear" problem is made unnecessarily difficult by trying to fashion some notion of a federal public policy on patents and related matters. They believe that contracts relating to the transfer of patent and know-how rights can be drafted with a higher predictability of validity and enforceability

if the transfer is viewed from an antitrust perspective.[15]

The question to ask relative to the transfer of know-how is: whether the terms defining the respective rights of the licensor and the licensee constitute an unreasonable restraint of trade amounting to a violation of § 1 of the Sherman Act. These guidelines may be offered:

1.) If Lear is considered to be addressed to the proposition of whether it constitutes an unreasonable restraint of trade to collect royalties on a previously secret invention once it has been disclosed to the public, and if, as many commentators and lower courts believe, such a royalty provision amounts to an unreasonable restraint of trade then such provisions in a contract are to be avoided. However, if secret know-how which subsequently loses its secret nature is regarded as a bargained for "head start" consideration from the licensor to the licensee then for the mutual convenience of the parties a royalty payment schedule based on a sum certain could be established which would continue even if the know-how constituting the head start became publically known.

2.) A potentially perpetual royalty arrangement with no definite cut off date approaches an unreasonable restraint.

3.) The safest royalty schedule, for any know-how situation, is one providing for a single initial lump sum.

4.) In any license agreement involving know-how, the courts will probably employ for an antitrust issue a "rule of reason" approach on a "case by case" basis.

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[15] An Antitrust Decision : Lear v. Adkins; 58ABAJ45; The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy, 80 Harvard Law Review 1432 (1967); Know-How Licensing and The Antitrust Laws, 46 JPOS 338 (1964); What Every Practioner Should Know about Patent and Antitrust Problems in Licensing Patents and Know-How, 15 PTCJ:A-3 (February 18, 1971) (An excerpt of a speech deliever by Richard Stern, Chief of the Antitrust's Divisions Patent Section, given before the Chicago Bar Association

Conclusions

The foregoing has sketched the development of the current tension between contract law, equity and state trade secret laws on the one hand and federal supremacy of patent and federal antitrust laws on the other. This tension, which gives rise to the instant dilemma respecting the relative post-termination rights to know-how of the parties to an agreement licensing patents and know-how, may be traced to the landmark decision of Lear v. Adkins and its diametric progeny, Kewanee and Painton. Kewanee in the sixth circuit stands for the abolition of trade secret recourse for "patentable but unpatented" know-how. Painton in the second circuit harmonizes and provides for the continued recourse to trade secret protection in view of Lear, and reaffirms the notion that parties bargaining at arm's length may transfer know-how according to mutually agreeable terms which are not otherwise inconsistent with express patent and antitrust laws.

The following conclusions are reached in order of decreasing certainity:

1.) In any license agreement for patents and know-how, the licensee has an inherent advantage in obtaining free use of know-how after termination. Likened to returning an egg to its broken shell, know-how once disclosed cannot be recaptured.

2.) If the license agreement is silent as to post-termination rights to know-how, the licensee keeps the know-how. However, in the licensor's favor, there is a great body of case law showing the courts willingness to consider all

credible evidence offered to prove the intention of the parties.

3.) In a case where the previously secret know-how falls into the public domain, the most conservative view, in view of the current upheaval, is that the licensee's royalty obligation ceases. This result, however, is not required by Lear. In a case where the equities are with the licensor and the license agreement is unambiguous, a contrary result respecting the licensee's obligation for continued royalty payments after loss of secrecy would not be inconsistent with Lear.

4.) In a license unambiguously reserving a superior post-termination right to "patentable" secret know-how in the licensor, most courts, save those in the sixth circuit, would follow Painton and the entire body of pre-Lear trade secret case law and uphold the licensor's superior right.

5.) In a license unambiguously reserving a superior post-termination right to "unpatentable" secret know-how, the same result as given in 4.) would be reached except that the sixth circuit would join consistent with Kewanee.

6.) Finally a pure prediction: Painton represents the better view and will ultimately prevail. Thus, assuming compliance with antitrust and express patent laws, parties will be permitted to contract for transfer of patents and know-how on terms consistent with mutual advantage; conflicts will be settled on a case-by-case basis following Painton and Lear.



COMPULSORY LICENSING OF PATENTS IN JAPAN

- LEGISLATIVE AND PRACTICAL ASPECTS

October 3, 1973
Japanese Group, Committee #2
Chairman: Koichi YOKOYA
Reporter: Takashi AOKI

1. Introduction

It is a well-established theory in Japan that patent right has two phases in its effect, positive and negative; the positive one is that the patentee himself exclusively possesses the right to exploit his patented invention (Art. 68 of the Patent Law), and the negative is that third parties are prevented from working the invention (no corresponding Article).[1)]

These effect of patent right is subject to restriction from various causes. Licensing of the patent is one of them. License is a right obtainable by third party from the patentee to exploit the invention covered by the patent as his business, and the right is provided for in the Japanese Patent Law.

Seeing from the cause for which licensing occurred, license can be classified into two kinds; one is based on the will of a patentee[2)] and the other not based on it.

Note 1) In the United States, patent granted is a right to execlude others from making, using or selling the invention throughout the United States. The phrase "to exclude others" is the heart of the matter. The patent does not give the inventor the right to practice the invention himself.

Note 2) Art. 77 ① Art. 78 ①

And the latter kind can be further classified into two types; a statutory license and a compulsory license.
The statutory license is a non-exclusive license automatically becoming effective as provided by law independently of the patentee's will and without any particular administrative additional action needed, typical examples of which are "a non-exclusive license on the ground of prior use"[3] "a non-exclusive license of an employer when his employee becomes a owner of the patent on an employee's invention"[4] and others.

On the other hand, the compulsory license is a non-exclusive license available by an arbitration decision of the Director-General of the Patent Office or the competent minister when under certain statutory conditions a third party concerned proposed for a license on a patent to its patentee and negotiations between both parties have ended in failure. Strictly speaking, therefore, a compulsory license is called a "license through arbitration" or more briefly an "arbitration license" according to the present Patent Law. That is, since one of the objects of the patent system is the exploitation of published inventions, a compulsory license was designed on that premise in order to exploit a patented invention by establishing a non-exclusive license on a certain patent available by force to a third party through the intervention of the administrative power if the case comes under certain statutory conditions.

Note 3) Art. 79

Note 4) Art. 35

The compulsory license is mentioned as follows, but all the points connected with the procedure in the Patent Office are left out as time is limited.

2. Types of Compulsory Licensing Provisions

1) On grounds of nonuse or inadequate use by the patentee
2) To facilitate use of improvement or dependent patents
3) In case working is specially needed for national defense, public health or other public interest
4) Patents in certain groups or owned by certain patentees

The coresponding provisions covering the items 1), 2) and 3) above are stipulated in the Japanese Patent Law but there is no such provision connected with the item 4) above therein.

3. Compulsory Licensing on Grounds of Nonuse or Inadequate Use by the Patentee

The most common type of law the world over is that which provides for compulsory licensing when an invention patented is not used or worked in the country within a certain period of time or when the invented goods is mainly manufactured abroad and imported into the country. The Japanese Patent Law also provides for this kind of provision in its Article 83 based upon Paris Convention for the Protection

of Industrial Property, Article 5 which reads as follows:

> (Arbitration decision on establishment of a non-exclusive license in the case of non-working)
> ARTICLE 83. When a patented invention has not been adequately exploited continuously for three years or more in Japan, a person who intends to exploit the patented invention may request the patentee or the exclusive licensee to hold consultation on the grant of a non-exclusive license thereon. However, this provision shall not apply when a period of four years has not elapsed from the date of filing of the application in respect of said patented invention.
>
> 2. When no agreement has been reached or it is impossible to hold consultations under the preceding paragraph, a person who intends to exploit the patented invention may make a request of the Director-General of the Patent Office for an arbitration decision.

It is understood from the above provision that it is prerequisite for obtaining the compulsory licensing that nonuse or inadequate use shall continue for more that three years during the effective period of the patent right (and four years after patent application). The meaning of the "inadequate use" could be controversial because of no preceding case decision; However, the expert's opinion prevailing in Japan indicates as typical examples of the "inadequate use" cases that a) an invented material is manufactured abroad and all imported into Japan and b) manufacture is not big enough to satisfy domestic demands.

All international firms which possess patent rights in many foreign countries would naturally make efforts to make their worldwide operations most efficient by exclusively exploiting the technology covered by the patents. Therefore, whether

it is going to work the patented invention in a specific country or whether it manufactures all the products abroad and export them to the specific country is entirely dependent upon the "logistic" policy of the international firm who is the owner of patent rights. In case where the firms adopts such a policy as of exploiting the technology only in a specific factory and exporting thus obtained goods to all the countries of the world, the corresponding patent rights existing in the countries importing those goods are considered to be of service only for this act of exporting to be carried on exclusively for such countries. It is to be against the national policy of the importing states which are trying hard to make the patent system contribute to the development of national industries.

It is generally felt that the existence of the compulsory license system in Japan has some meaning. As you can see from the Appendix 1 attached on this paper, there has been no case as yet with the Japanese Patent Office where a compulsory license was established on an arbitration decision by the authority, while only three cases were so far filed requesting for arbitration decisions two of which were withdrawn thereafter and the last one is still pending before the Patent Office.

Such tendency as this system is not utilized so much is more or less the same in various other countries.[5] It might be sure

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Note 5) As an example, cases in the United Kingdom are shown in the Appendix 2. Statistics on compulsory licenses under special provision for food or medicine were also cited for your reference.

that the existence of this system plays some role to facilitate licensing through negotiations, though it is difficult to know the exact number of license agreements concluded through such negotiations.

There has been some movement of international cooperation with respect to the application of this provision among developed countries. For instance, Switzerland having many internationally active enterprises in it has been concerned about the compulsory licensing for a long time and positively pushing ahead the policy of concluding with other countries an agreement based on the principle of reciprocity, which provides that Switzerland shall not dispute non-working of the Swiss patents owned by nationals of the country participating in the agreement on condition that the patents owned by the Swiss nationals in said country shall escape any legal obligation for non-working. To my best knowledge, Switzerland has already concluded this kind of agreement with the U. S. A., West Germany and some other countries. Since such proposal of Switzerland would be along with the recent tendency of international division of labor, it would surely be welcomed by multi-national enterprises of advanced countries. If my survey is correct, the same kind of proposal was also made to Japan in 1967, but I believe there has been no development of negotiation between the two countries.

4. Compulsory Licensing to facilitate Use of Improvement or dependent Patents

In many countries compulsory licensing is imposed in the

case of an invention owned by one patentee, the use of which is dependent upon a right of use under an older patent owned by another; i.e., the owner of a younger patent can obtain a compulsory license from the owner of an older patent under the situation in which the former would infringe the latter's right when using his own invention if without obtaining said license from the older patent owner.

Article 72 of the Japanese Patent Law clearly prohibits the free use of a younger patented invention in case of dependence upon the right of an older patent as follows:

> (Relationship with another person's patented invention, etc.)
> ARTICLE 72. When a patented invention is to utilize another person's patented invention, registered utility model or registered design or design similar thereto under an application which was filed prior to the date of filing of the application for patent concerned, or when the patent right conflicts with another person's design right under an application for design registration which was filed prior to the date of filing of the application for patent concerned, the patentee, exclusive licensee or non-exclusive licensee shall not exploit the patented invention as his business.

Then, the Japanese Patent Law further provides for in its Article 92 the procedure for obtaining a compulsory license in such a case as follows:

> (Arbitration decision on establishment of a non-exclusive license for exploiting one's own patented invention)
> ARTICLE 92. When a patented invention falls under any of the cases as provided for in Article 72, the patentee or exclusive licensee may request another person referred to in said Article to hold consultations on the grant of a non-exclusive license for exploiting the patented invention or of a non-exclusive license on the utility model right or the design right.

2. When no agreement has been reached or it is impossible to hold consultations under the preceding paragraph, the patentee or exclusive licensee may make a request of the Director-General of the Patent Office for an arbitration decision.

3. If, in the case of the preceding paragraph, the establishment of the non-exclusive license injures unduly the interest of another person referred to in Article 72, the Director-General of the Patent Office shall not render an arbitration decision to the effect that the non-exclusive license shall be granted.

4. (Omitted)

As can be seen from the above, this compulsory license is obtainable at any time as far as the both patents, older and younger, are registered, different from the case of nonuse. The owner of the younger patent can ask for a compulsory license of the older patent, while nevertheless the owner of the older patent cannot ask for it for the use of the younger patent. It should be noted that, if it is judged that the interest of the older patent owner will be unduly harmed when the compulsory license is given to the younger patent owner, no positive decision could be made.

The amount or rate of royalty to be paid to the owner of the older patent as compensation for the licensing should be of vital importance, which shall be decided by the Director-General of the Patent Office when he makes a positive decision. (The same will be applied to compulsory license on grounds of nonuse or inadequate use.)

Although the Paris Convention does not provide for this system, the general opinion of most Japanese experts might be that this compulsory licensing system is as necessary as in

the case of compulsory licensing of patents in nonuse. As you can see from the Appendix 1, there have been so far only two cases in which requests for arbitration decision were asked both of which were withdrawn thereafter by applicants. Again, in this case, however, it might be correct to consider that the provision plays some important role in facilitating and adjusting the grant of a license between the two patent owners as might be cases with compulsory licensing for nonuse.

It might be opportune to add that if patent protection should be extended to chemical product and pharmaceutical product (medicine) per se in future which subject is now under hot and serious deliberation in Japan, such an idea is expected to become dominant that the compulsory licensing system for dependent patents should be utilized more positively in the fields of chemical and pharmaceutical industries so that it may exclude evils of monopoly due to stronger protection in this field. If such situation is brought about, the system will increase of its importance.

5. In Case Working is specially needed for national Defense, public Health or other public Interest

Some countries (such as England) have introduced provisions for compulsory licensing into their patent laws in order to prevent specific types of abuses of patent rights; e.g., specific provisions on the grant of licenses upon application with respect to food or medicine or processes for producing such

substances (cf. the second table in the Appendix 2 for the case of England). Japan has no such provisions in their Patent Law.

Another type of compulsory license is a license to the Government for the purpose of national defense, public health or any other public interest. Sometimes the temporary or permanent expropriation of patent rights by a Government for the same reasons is referred to as "compulsory license". The present Japanese law has no such provision specifically appointing the Government for authorizing to get this type of compulsory license. However, Article 93 of the Japanese Patent Law broadly covers this type of compulsory license for any third party who intends to use the patent for public interest as follows:

(Arbitration decision on establishment of non-exclusive license for public interest)
ARTICLE 93. When the exploitation of a patented invention is particularly necessary for the public interest, a person who intends to exploit the patented invention may request the patentee or the exclusive licensee to hold consultations on the grant of a non-exclusive license thereon.

2. When no agreement has been reached or it is impossible to hold consultations under the preceding paragraph, a person who intends to exploit the patented invention may make a request of the Minister of International Trade and Industry for an arbitration decision.

3. (Omitted)

It is pointed out that there has been so far no request for this type of compulsory licensing before the Minister concerned.

It is always a basic problem here; i.e., what is "public interest" in connection with patents? Answers differ from country to country. A basic difference exists between the countries with economies dominated by agriculture and those which are highly industrialized.

In this connection, reference is made to the controversy recently made by the special committee of the Foreign Investment Council in Japan seeking some countermeasures for excluding evil influences of thechnological monopoly by huge enterprices; that is, they pointed out that the meaning of the "public interest" provided for in the Article 93 above could possibly cover, in addition to "such cases where the patented invention is an important one having a direct relation to the national livelihood such as the people's life, welfare and/or construction of public facilities, etc.", also such other cases where there are fears of (a) causing mass unemployment, (b) abandoning existing heavily capitalized industrial facilities, and (c) remarkably arresting sound economic and technical development of basic industries, very important export industries and industries of the most technically developed and sophisticated fields, etc., following the collapse of enterprises or other factors and those could bring on serious ill effects on the national economy in consequence.

Besides these cases, the patented inventions which are concerned with prevention of or remedy for environmental pollution which is now imminent social problem might possibly become an object of attack in the future according to the provision of the article in question.

6. Patents in Certain Groups or owned by Certain Patentees

A Compulsory license has also been granted for entire technical group of patents or for all patents owned by a specified owner mainly under the United States Anti-Trust Law with the object of restoring competition in the field of technology. In Japan we have no such corresponding case.

7. Summary

It is quite true that any type of compulsory licensing based upon the Japanese Patent Law has been seldom used officially in the history and, from that viewpoint, it could be said that the industries have been paying rather small attention to the compulsory licensing clauses. However, the emphasis should be placed on the point that as a matter of practice these compulsory clauses, in particular, those on the ground of nonuse or inadequate use by a patentee and for a dependent patent owner have been surely playing some role to adjust and facilitate mutual negotiation between a patent owner and a third party who wants to get a license from the patent owner.

- End -

Cases filed with the Patent Office i:

No.	Applicable clause	Nationality of the patent owner	Nationality of the requesting party	Date of req permissio make consul:
1	A.21*(non use)	Japan	Japan	Aug. 27,
2	A.92(dependent)	U.K.	"	Sept. 9,
3	A.22*(dependent)	France	"	Nov. 30,
4	A.92(dependent)	U.S.A.	"	Jan. 22,
5	A.83(non use).	U.K.	"	June 13,
6	"	U.S.A.	Denmark	Oct. 6,
7	"	Switzerland	Japan	Nov. 30,
8	"	U.S.A.	"	Oct. 23,
9	"	France	"	March 22
10	"	Japan	"	July 22,
11	"	"	"	Dec. 4,
12	A.21*(non use)	"	"	Feb. 23,

Remarks * These three cases are not based upon the Pate
Utility Model Law have corresponding provisi
** Before amendment of the provisions concerned
is required to hold consultation between a pa

connection with compulsory licenses

est for n to ation**	Date permission was given to make consultation**	Date of request for arbitration decision	Result
'60	-	-	Dismissed on Oct. 6, '60 due to incomplete procedure
'61	Oct. 20, '61	May 16, '62	Withdrawn on Nov. 5, '62
'63	March 10, '64	Nov. 6, '64	Withdrawn on Feb. 17 '65 due to reconcili- ation
'64	April 3, '64	-	Arbitration not yet filed
'66	Aug. 2, '66	Dec. 26, '67	Withdrawn on Dec. 17 '70 due to reconcili- ation
'66	-	-	Request for permssio- withdrawn
'66	Feb. 20, '67	Feb. 18, '69	Pending
'67	Jan. 30, '68	-	Arbitration not yet filed
, '68	-	-	Request for permissi- withdrawn
'68	-	-	"
'68	Dec. 12, '68	May 1, '69	Withdrawn on Nov. 26, '69
'71	-	-	

nt Law but the Utility Model Law. Articles 21 and 22 of the
ns to Articles 83 and 92 of the Patent Law, respectively.
on June 1, 1971 to the present form, official permission
tent owner and a requesting party.

Appendix 2

Applications to the Comptroller for Compulsory Licences under the Patents Act 1949

1959–1968

Section 37 (General Provision)

	Pending at beginning of year	Filed during year	Allowed
1959	1	2	—
1960	2	1	—
1961	3	1	1
1962	1	3	—
1963	3	—	—
1964	1	3	—
1965	3	2	1
1966	3	3	—
1967	6	—	—
1968	5	1	—

Section 41 (Special Provision for Food or Medicine)

	Pending at beginning of year	Filed during year	Allowed
1959	—	—	—
1960	—	7	—
1961	7	3	—
1962	9	4	—
1963	6	8	3
1954	11	15	—
1965	26	—	—
1966	15	3	—
1967	12	—	—
1968	6	1	1

Source: *Patents, Designs and Trade Marks:* 86th Report of the Comptroller-General of Patents Designs and Trade Marks for the year 1968.

Field of Use License

October 3, 1973
Japanese Group, Committee #2
Chairman: Koichi YOKOYA
Reporter: Haruyuki KOIDE

I. Definition

It was due to a suggestion by the U.S. group that the subject of "Field of Use License", especially ~~relating~~ IN RELATION to Japanese practices thereof and its acceptance of and attitudes toward it of the Japanese regulatory authorities, ~~is put as a~~ WAS MADE theme TO BE PRESENTED before this Committee No. 2 of PIPA at ~~the present~~ THIS San Francisco Meeting. However, we regret to say that a general idea of the subject has not ~~prevailed~~ BEEN ACCEPTED in Japan as having a popular or clear meaning. A fixed understanding and ~~d~~cognition THE of it from the standpoint of licensing practices and the legal aspects adjacent to the Anti-monopoly Act has not been established in Japan. We are afraid that this presentation may not be ~~satisfactory~~ COMPLETELY to the U.S. group.

It is generally understood to be restrictions in some respects and within a scope, of 1) technical field for manufacture, 2) field of technical methods including a method of how to use a product and/or 3) field of sales.

The deficiency or immaturity of cognition of the legal concept or legal substance of the subject, however, does not always

mean that licensing practices in Japan are not accompanied ~~with~~ BY "field of use limitation". It may be ~~rather~~ MORE correct and proper to say that there are (INDEED) many cases where the "field of use limitation" is applied.

We ~~may be permitted~~ WOULD LIKE to refer to as one of important sources for searching for legal meanings, the provisions of the Japanese Patent Law; Article 2 paragraph 3 (defining "working" Article 68 entitled "Effect of Patent Right", Article 77 paragraph 2 entitled "Exclusive License" and Article 78 paragraph 2 entitled "Oridinary License (which corresponds to non-exclusive license). The clarification of the content and import of patent right, which composes the nucleus of licenses as well as exclusive or oridinary licenses auxiliary thereto, would elucidate the legal substance and scope of "field of use limitation".

The provision of Article 68 refers explicitly to the effect that even a patentee cannot possess the right exclusively to "work" a patented invention with respect to "the scope within which the exclusive licensee exclusively possesses the right to work the patented invention". The provisions of Article 77 paragraph 2 provides explicitly that an exclusive licensee shall, "within the scope specified in the act of creation", exclusively possess the right to work the patented invention concerned as a business. Article 78 paragraph 2 provides

that an ordinary licensee shall, within the scope specified by the provisions of Law or in the act of creation, possess the right to work the patented invention concerned as a business. The clarification of such scope provided as in the preceding provisions would elucidate the substance of "Field of use limitation".

II. Practices of "field of use limitation license"

Apart from international license agreements, ~~there are~~ no authorities or mechanisms existent in Japan, (WHICH) controll~~ing~~ all license agreements involving a Japanese corporation, or person ~~as a~~ party to it. ~~So~~ (As) far as an international license agreement is concerned, the Japanese party to it is obligated to file it with the Fair Trade Commission according to the provision of the Antimonopoly Act. Accordingly, we can obtain some information concerning license agreements in the light of the Antimonopoly Act by examining the Annual Report issued by the Fair Trade Commission ~~(part of which is attached herewith).~~ This Report suggests that we might be correct to suppose the Fair Trade Commission may not examine license agreements in the view of "field of use limitation".

Since we cannot find and have access to any literature or documents ~~handling or entitled with something like~~ (TREATING MATTERS SUCH AS) licensing

practice of and Antimonopoly problems on "field of use limitation" in Japan, what we can do is to proceed as follows: firstly we assume patent license agreements not including know how or information. Some of them may or may not limit "field of use". There may be "field of use limitation" in the case where licensors are too much interested in royalty, far more than the "field of use" on the part of licensee or in the case that field of license to be limited is more wide than specified in the patent claim.

On the other hand, in such cases as [1] a specific patent among proposed plural patents is requested to be licensed by Licensees, [2] licensing resulting from a patent infringement suit, [3] licensing of the competitive products between firms under competitive relationship, [4] the profit coming from the patented product or the product to be obtained by using patented process or method shares largely in the licensor's total profit and [5] etc., the licensor will limit "field of use" of licensees. Such licenses may well be accompanied with strict limitation of licensed scope. An agreement which does not limit explictly the scope of license (including "field of use") may possibly be, except when otherwise specified, construed in Japan to have licensed over all of the scope of the patent claim and over all of manufacture, use and sale of the patented invention. Secondly, we assume the technical assistance agreement including know-how,

information and etc. as well as patents. Such agreements may possibly include the limitation of "field of use" in some respects, as the limitation of contractual field or subject matter is essential to fixing rights and obligations of the parties. If the contractual field is of wide range, including many products or "field of use" or vague around the border line, specifying clearly and practically the import of granting, in addition to the limitation of contractual field, is required and in such case, "field of use limitation" may possibly be accompanied as a result of such specifying.

III. Point of Contact with Antimonopoly Act

The Japanese Antimonopoly Act provides in the Article 23 (see the attached full text) that the provisions of the Act shall not apply to such acts as recognized to be within the execution of rights under the Patent Law. If "field of use limitation" is within such acts, it is not liable for the violation of the Act. Here we must give attention to the non-existence of an absolute guideline dominating the said recognition. Such recognition may be established on a case by case basis, in proportion to the transfiguration of economic situation concerned and taking into account the necessities under public policies. All these are much

connected with the provision of Article 1 of the Antimonopoly Act (see the attached full text). Common opinion suggests that it is within the execution of rights under the Patent Law to license, limiting to each one or more of manufacture, use and sale and limiting term, territory and/or field of technology and sale. But we cannot find ~~out~~ any trial decision of the Fair Trade Commission or judgement of the court giving substance to such an opinion.

The problem whether or not limitation in the license Agreement, including "field of use limitation" is recognized as a violation of the Antimonopoly Act is same as the problem OF whether or not such limitation is deemed to be within 1) "Private Monopoly", 2) "Unreasonable Restraint of Trade" or 3) "Unfair Business Practices" which are all prohibited by the Act. (Refer to the full text of Article 2 paragraph 5, 6 and 7 of the Act.)

The factors composing "Unreasonable Restraint of Trade" are understood to be 1) Conjunction among entrepreneurs, 2) mutuality in restricting entrepreneurs' activities, 3) being contrary to the public interest and 4) a substantial restraint of competition in any particular field of trade. The AN act comprehending all those factors is so-called cartel and is prohibited. Concerning the ~~No. 1~~ FIRST factor above, it is said TO BE fully satisfactory IF ~~then~~ the existence of an agreement

among the entrepreneurs can be presumed even if evidence cannot be shown, as suggested in the trial decision of the Fair Trade Commission in 1955. Concerning No. 3 factor, there is two categories of opinions. One is that the public interest means an economic discipline based on ~~the~~ free competition. The other is that it means the interest common to the nation including such discipline. The Fair Trade Commission seems to support the former as suggested in the trial decision of August, 1949 and April, 1972. Concerning No. 4 factor, any particular field of trial is explained ~~to be~~ equal to the particular competitive field. That is to say, the field ~~to which~~ the restriction ~~reaches.~~ Moreover, ~~the~~ substantial restraint of competition is explained ~~to be the~~ situation where the effective function ~~for~~ competition cannot be expected. In 1955 the Fair Trade Commission announced an opinion for recognition of "Unreasonable Restraint of Trade" to the effect that sharing in up to 30% was a point to be examined.

~~On the other hand,~~ the factors composing "Unfair Business Practices" are understood to ~~be~~ 1) ~~coming~~ under any one of six (6) typical acts provided in the Article 2 paragraph 7, 2) endanger~~ing~~ fair competition and 3) be~~ing~~ as designated by the Fair Trade Commission (this is called "general designation"). The unjustness common to six (6) typical acts ~~as~~ No-1 factor is explained to mean being not approved

in the light of the generally accepted idea of the economic society. The factor of No-2 is explained to mean abstract danger, not concrete or definite danger. Concerning the factor No-3, the Fair Trade Commission designated twelve (12) typical acts and made them open to the public in September 1, 1953. The relation between such 12 acts and the said 6 acts is shown as per enclosure. The prohibition of "Unfair Business Practices" is intended to maintain fair competition in the economic society where neither "Private Monopoly" nor "Unreasonable Restraint of Trade" ~~does not exist~~ and is explained to constitute the precautionary measures against such monopoly and restraint. If the package license or multiple patent license as well as "field of use limitation license" is coercive, or IS a measure for obtaining royalties to be imposed on the products outside contractual field, it may be possibly illegal from the standpoint of such precautionary measures.

The illegality of "field of use limitation" will be examined first in the light of "unfair business practices", as it has wide conceptual scope. But in the case of patent licensing, what is within the execution of rights under the patent law and where the border line ~~exists~~ LIES are of great interest, since the exemption under the provision of Article 23 of the Antimonopoly Act ~~applied.~~ IS APPLICATION ②

The Only ~~one~~ Things we can rely on in relation to the point is "Antimonopoly Act Guidelines for International Licensing Agreement" (as per enclosure) which the Commission ~~public~~ made in May 24, 1968. The Guidelines, especially the provisions of paragraph 3, subparagraph (1) to (5), provide to the effect that the limitation of technical field and sales field is to be recognized as the acts within the execution of rights under the Patent Law. The thinking of these clauses seem to be similar to the thinking, ~~presumable~~ which can be from "General Talking Pictures Corp. V. Western Electric Co., U.S. 175 (1938), one of the leading cases in U.S.A.".

The provisions of paragraph 2 of the Guidelines apply correspondingly to know-how but paragraph 3 does not. It may possibly be correct to suppose that "field of use limitation" in relation to know-how is conducted in ~~the~~ licensing practices as much as in relation to patent license. Such practices of know-how ~~themselves~~ are not necessarily illegal per se, but it is questionable to conduct know-how which is deemed ~~to be not~~ a legal right on the same level with patents.

A Tokyo Supreme Court decision in September 5th 1966 denied the situation of legal right of know-how and accordingly denied the right to claim ~~s~~ for injunction, though it did not deny the value as a property.

Moreover, the staff personnel of the Fair Trade Commission expressed an opinion in the commentary they wrote that putting know-how into the same rank as patents is questionable. Supposing the ~~case~~ acts ~~which~~ are not prohibited or are supported by the Guidelines, in patent license or know-how license, if any combination of any acts or intentions having ~~economical~~ economical relation with the former acts, is recognized as "Unreasonable Restraint of Trade", then such combination ~~is~~ would be illegal enough to make the said acts ~~legal by~~ when are illegal in themselves, illegal.

The Guidelines ~~are relating~~ relate to "Unfair Business Practices", and not ~~relating~~ to "Unreasonable Restraint of Trade". The reason why the Guidelines do not refer to "Unreasonable Restraint of Trade" is explained that such acts as within the restraint cannot be properly classified into some range of catagories because of their complexity. "Field of use limitation" in conjunction with patent pooling or cross licensing may ~~rather~~ better be examined in the light of "Unreasonable Restraint of Trade".

Contacts through which guidance were issued	Items of Guidance / Category of industry	Restrictions on Improvement	Restrictions on competitive products	Unfair Business: Restrictions on sources of raw material & parts	Restrictions on products outlet	Restrictions on resale price
	Food		1	1		
	Textile & its products	2				
	Wood & its products					
	Paper & pulp	5				
	Publishing & printing					
	Chemical industry	14	7			2
	Oil & coal					
	Rubber & leather					
	Ceramics	1				
	Metal products	6	1			
	General machinery	30	6	2	1	1
	Precision instrument		3			1
	Electric machinery	3	5			1
	Transport machinery	3	3	1		2
	other	7	2			
101	Total	71	23	4	1	7
	%	62.8	24.8	3.5	0.9	6.2

(Note) Agreements for which administrative gu
a. Technical assistance agreements (2.
b. Import agent agreements : 13
c. Joint venture agreements : 4
d. other agreement ; 1

The number of administrative guidances

Administrative Guidance Issued in 1971

...ices			Unreasonable restraint of trade	Total	Ratio (%)
Excessive royalties	Restrictions on quality	Other restrictions			
				2	1.8
				2	1.8
				5	4.4
		1		24	21.2
				1	0.9
				7	6.2
				40	35.4
				4	3.5
				9	8.0
		1		10	8.9
				9	8.0
		2		113	
		1.8			100

...dances were issued are broken down as follows:
...cluding cross-license agreements); 33

...issued includes those issued more than twice on one agreement.

Situation of Administrative Guidance

Contents for which guidances were issued	Items of guidance / Category of industry	Unfair Business Practices: Restrictions on Improvement	Restrictions on competitive products	Restrictions on sources of raw materials & parts	Restrictions on Production Quantity	Restrictions on Resale Price	Exc Req
21	Food		3	1	1		
27	Textile & its products	2	4		4	2	
	Wood & its products						
3	Paper & pulp	3					
	Publishing & printing						
20	Chemical industry	9	9	1			
1	Oil & coal		1				
3	Rubber & leather	1				1	
1	Ceramics	1	1				
13	Metal products	8	1		1		
76	General machinery	40	27	9	1	4	
4	Precision instrument	1	2	1			
19	Electric machinery	9	6	3		1	
9	Transport machinery	4	5			4	
22	other	12	8		1		
219	total	90	67	15	8	12	
	ratio (%)	31.9	23.8	5.3	2.8	4.3	

(Note) Agreements for which administrative guidances were issued
2. Technical assistance agreements (including cross-licen
6. Trademark contracts 6 ; Joint venture o

The number of administrative guidances issued includ

(Fair Trade Commission)

Issued in 1972

...sive ...ties	Restrictions on Quality	Hindrance of parties' Support	Other Restrictions: Advertisement	Other Restrictions: Price Methods	Other Restrictions: Business Activities	Other Restrictions: Other	Unreasonable Restraint of Trade	total	Ratio (%)
		4			11	2		22	7.2
2		16			3	2		38	12.4
								3	1.1
2		2	3					26	9.2
								1	0.4
			1					3	1.1
								2	0.7
		1	1		1			13	4.6
		7		1	3			92	33.6
		1				1		6	2.1
		3			1	1		24	8.5
			4		12			29	10.3
1		1		1	1	1		26	9.2
5		25	9	2	32	7		282	(100)
8		12.4	3.2	0.7	11.3	2.5		(100)	

are broken down as follows:
agreements) 155; b. Import agent contracts 50;
agreements 5; c. Other agreements 3

those issued more than twice on one agreement.

REGULATIONS CONCERNING INTRODUCTION OF FOREIGN TECHNOLOGY AND FOREIGN INVESTMENT INTO JAPAN

PIPA Japanese Group
Committee No. 2
K. Yokoya

I'm going to make some short explanations about the new measures taken by the Japanese Government after the end of the Tokyo congress of PIPA concerning the introduction of foreign technology and also the foreign investment into Japan.

Firstly I will begin with the introduction of foreign technology. As regard the regulations on the introduction of foreign technology, the Japanese Group of PIPA made a report at the Washington congress held in May, 1971. At that time, seven technologies remained to be subject to the case-by-case screening. In June, 1972 the Government of Japan announced the time schedule for the liberalization of the said seven technologies. The time schedule is shown in the table on the first page of the papers attached. As you can find from the table, all of the seven technologies except the technology of electronic computer had been scheduled to be decontrolled on or before January, 1, 1973, and I must say that the decontrol was actually effected as scheduled.

Next I'll explain the liberalization of foreign investment into Japan. At the Tokyo congress of PIPA held in May, 1972, I made a report concerning the forth round liberalization of foreign investment implemented in August, 1971.
As you know, however, on the basis of the principle of the DECD calling for complete liberalization of foreign investment, the Government of Japan implemented a new and epoch-making liberalization of foreign investment. The new measures was announced in April, 1973, and became effective on May 1, 1973.
The new measures are outlined in the tables from the middle of the 2nd page to the last page of the said papers.

I think you will find that two major changes are included in the new measures.

1. Before the new measures was taken, 50% equity for foreign investors had been the basic principle of the Government of Japan. On or After May the first, 1973, 100% equity has been basically open to foreign investors.
   Of course, some exceptions still remain, but such exceptions will not lessen the significance of the new measurs.

2. Before the new measures was taken, foreign investments in an existing company is strictly restricted, compared with those in a newly-established company. But after May 1, 1973, the Government of Japan have treated and will treat both of them on a equal basis.

I explained to you the measures taken by the Government of Japan after the Tokyo congress of PIPA concerning the introduction of foreign technology and foreign investment into Japan.
As to the new measures, we wish all of the American members to note the following three points:

1. The measures were taken by the Government of Japan (including but not limited to MITI).
   The measures were taken by the Government fully based upon the answers by the Foreign Investment Council to the questions by MOF.

2. The Government of Japan implemented the measures by taking into consideration the requirements by the OECD.

3. The Government took into consideration the close relation between Japan and the United States in the future.

ATTACHMENT

REGULATIONS CONCERNING INTRODUCTION OF FOREIGN TECHNOLOGY AND FOREIGN INVESTMENT INTO JAPAN

PIPA Japanese Group
Committee No. 2

A. Regulation on Introduction of Foreign Technology

As regard the regulations on the introduction into Japan of foreign technology, our Japanese Group made a report at the Washington congress of PIPA held in May, 1971. Last year (June, 1972) the Japanese Government announced the partial liberalization of introduction of foreign technology, the outline of which is as follows:
Seven technologies which had been subject to the case-by-case screening will be liberalized along the following schedule:

Aircrafts		July 1, 1972
Arms		Ditto
Explosives		Ditto
Nuclear Power		Ditto
Space Exploration		Ditto
Petrochemicals	Derivatives	January 1, 1973
	The other	July 1, 1972
Electronic Computers	Hardware (Compensation of technology does not exceed US$ 100,000)	July 1, 1972
	Hardware (Compensation exceeds US$ 100,000)	July 1, 1974
	Software	

The said schedule has been actually effected and, as of October 1, 1973, all technologies except the technology concerning the hardware of electronic computer (insofar as the compensation for the technology exceeds US$ 100,000) and the software of electronic computer are liberalized.

B. Regulation Concerning Foreign Investment

At the Tokyo congress of PIPA held in May, 1972, our Japanese Group made a report concerning the forth round liberalization of foreign investment into Japan which had been implemented in August, 1971. As you know, however, on the basis of the principles of the OECD calling for complete liberalization of foreign investment, the Japanese Government announced a new and epoch-making liberalization of foreign investment in April, 1973 and the new measures became effective May 1, 1973. The outlines of the new measures are as follows:

1. Investment in a Newly-Established Company

(a) Before May 1, 1973

7 industrial lines	subject to case-by-case screening
228 industrial lines	100% equity allowed
Remainder (approx. 700 lines)	50% equity allowed

(b) On or after May 1, 1973

5 industrial lines	Restricted (Note 1)
17 industrial lines	Time limit of liberalization indicated (Note 2)
Remainder (approx. 910 lines)	100%% equity allowed

(Note 1) Five Restricted Industrial Lines

Agricultural and forestry industries		case-by-case screening
Oil industries		Ditto
Leather and leather product manufacturing industries		Ditto
Retail Business	more than 11 stores	case-by-case screening
	not more than 11 stores	50% equity allowed
Mining ind.		50% equity allowed

(Note 2) Seventeen lines will be open to 100% decontrol within a few years.

The incicated times of decontrol are as follows:

Integrated circuits	100% equity allowed on December 1, 1974
Meat products	100% on May 1, 1975
Processed tomato goods	Ditto
Feedstuffs	Ditto
Processing of pre-cooked food for distribution to restaurants etc.	Ditto
Clothing manufacturing and wholesaling	Ditto

Fello-alloys	Ditto
Pharmcenticals and agricultural chemicals	Ditto
Hydraulic equipment	Ditto
Packaging and wrapping machines	Ditto
Electronic precision instruments	Ditto
Record cutting	Ditto
Real Estate	Ditto
Computer manufacturing, marketing and leasing	50% on August 4, 1974 100% on December 1, 1975
Data processing	50% on December 1, 1974 100% on April 1, 1976
Fruit juices and fruit drinks	100% on May 1, 1976
Photo film	Ditto

2. Investment in an Existing Company

(a) Before May 1, 1973

One foreign investor		less than 10% equity allowed
All foreign investor	Restricted industrial lines	not more than 15%
	Non-Restricted industrial lines	less than 25%

(b) On or After May 1, 1973

Investment in an existing Japanese company (including stock acquisition through portfolio investment) shall receive the same treatment with the investment in an newly-established Japanese company as above mentioned.

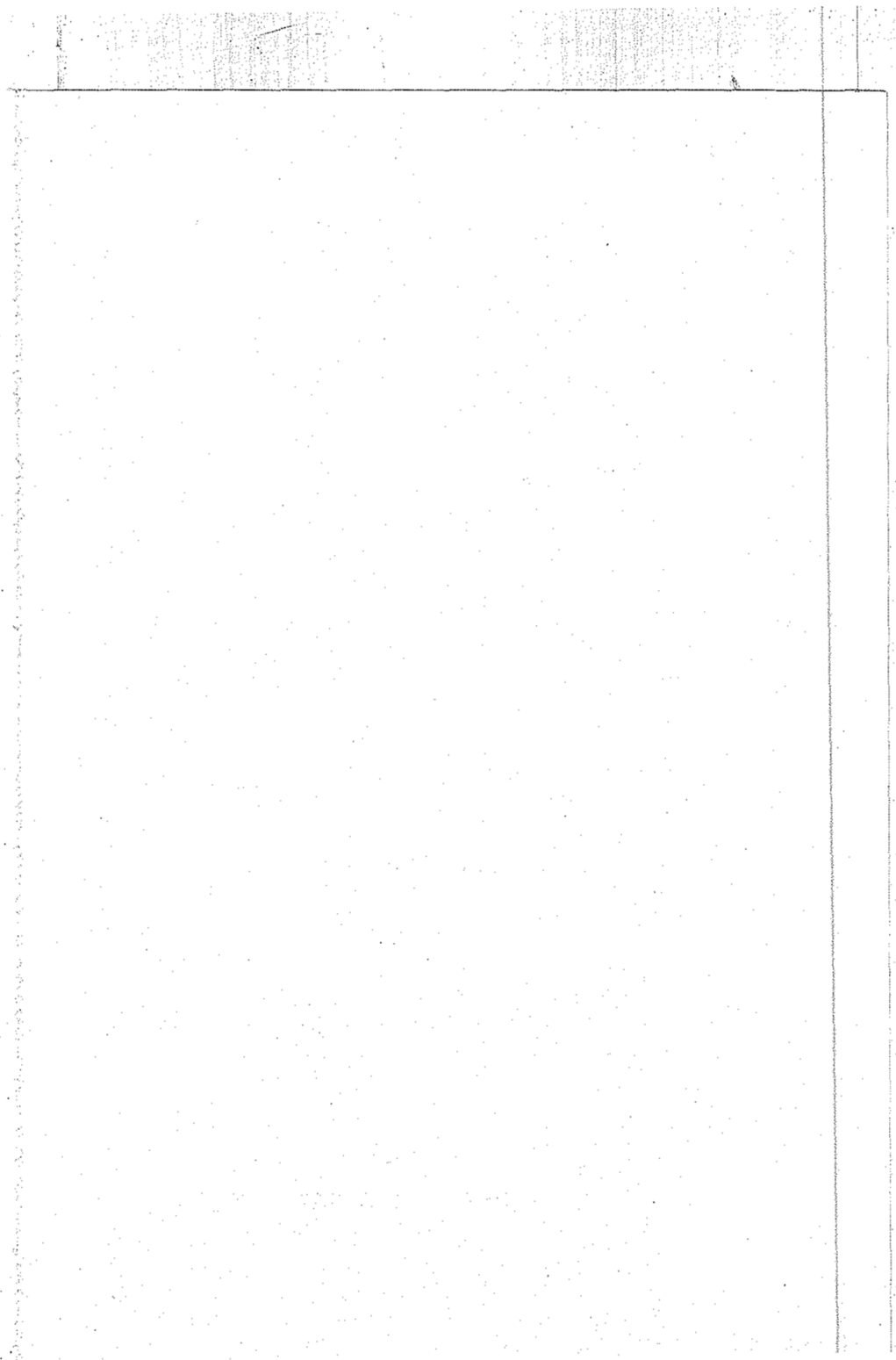
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Committee Presentations

〔Committee 3〕

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--- S. Tokuda



THE TRADEMARK REGISTRATION TREATY

Comm'r 3, U.S.
A. R. DeSimone

On June 12 of this year a historic new treaty for the international registration of trademarks was adopted by 46 member countries of the Paris Union at a Diplomatic Conference in Vienna. This trademark registration treaty or TRT as it has come to be called was then signed by 8 of the countries, namely the United States of America, the United Kingdom, Federal Republic of Germany, Italy, Hungary, Portugal, Monaco and San Marino. I say a "historic" new treaty because it is the first such treaty since the Arrangement of Madrid which came into being in 1892 some 80 years ago. While the new treaty is termed the Trademark Registration Treaty I would point out that it also encompasses certification marks, collective marks and service marks.

Since the Arrangement of Madrid is still in existence, one might well ask - why another trademark treaty? To answer this question it is necessary to consider some of the basic provisions of the Madrid Arrangement. The most significant of these is the provision that an applicant, under Madrid, must first acquire a national registration in his home country. This registration is then deposited at Geneva where

it becomes, in effect, an application for registration in each of the designated countries of the Arrangement. Each country then processes it in accordance with its own national law. If it meets the requirements of the national law it is granted the effect of a national registration as of the international registration date. The Madrid Arrangement also provides that for a period of five years the international registration is dependent upon the home country registration. Consequently, if the home country registration is cancelled, or otherwise rendered invalid during this period, the international registration becomes invalid in all of the countries of the Arrangement. In the deliberations on TRT this was described as the "Central Attack" or "Extraterritorial Effect" concept.

The Nice revision of the Madrid Arrangement also introduced the "State Designation" concept. This permits a member state to elect a provision which requires an applicant to designate that state specifically as one to which the international registration is to be extended, and to pay an extra fee for such registration.

The Madrid Arrangement presently has 21 members, mostly continental European countries including some iron curtain countries, some North

African countries and Vietnam. However, a number of important countries, among them the United States, the United Kingdom, Japan, Russia, Australia and South Africa have never joined the Madrid Arrangement. One of the principal reasons why the United States never joined was the requirement of a prior home registration. As you know, we have an extensive ex parte and inter partes examination procedure so that an American trademark owner may have to wait several months, or even years, before he has a home country registration to deposit at Geneva. In fact if his domestic application does not survive the examination procedure, he will never have a home country registration and would therefore be precluded from applying for an international registration even though his mark may be registrable in many countries abroad. Another reason for not adhering to Madrid was the concern that such adherence would lead to a proliferation of foreign trademark applications in this country. There is also the problem posed by the difference in the trademark law of the United States and that of the other countries of the world with respect to use of a mark. Under the common law in the United States trademark rights are predicated upon use of the mark in commerce and application for registration of a mark on the Federal Register can only

take place after such use has occurred. In the other countries of the world a trademark right may be claimed and an application for registration may be filed based upon an intention to use the mark.

After the Nice revision of the Madrid Arrangement and in view of the increasing growth in foreign trade, the United States Government began to explore once again the possibility of United States adherence to the Madrid Arrangement or some modification of it. Discussions with professional and industry groups made it clear that the Arrangement was still not acceptable but there was a general consensus approving, in principle, the creation of a trademark treaty to which the United States might adhere. Largely at the instigation of our government officials, WIPO, in 1971, convened a Committee of Experts consisting principally of government delegations from the member countries of the Paris Union. A number of representatives from the private sector were also invited and participated in the deliberations. The Committee of Experts held a number of meetings at Geneva from February 1971 to May 1972. Out of these came three successive drafts of a treaty, the third of which was the one considered at the Diplomatic Conference which has now come forth with a treaty.

This treaty resembles the Madrid Arrangement in some particulars but it departs from Madrid in several important respects. The most significant and substantive departure, as you might expect, is the provision for direct filing of an international application with WIPO at Geneva without the necessity of a prior home country application or registration. As I have pointed out, this was a sine qua non for United States consideration of a treaty to which we might adhere. Unless the priority of an earlier application is claimed, the date of the filing of the international application at Geneva, becomes the international registration date. The applicant must designate the states to which the international registration is to extend. This designation may range from all the states, to some of the states or even to only one of them. If he wishes, the applicant may even designate only his own state. He may designate additional states after the application has been filed, or at any time during the existence of his international registration. This is defined in the treaty as "Later Designation". The registration is granted for 10 years with renewals for like terms. The languages of the treaty are French and English. This may pose some problems for our Japanese friends, and I believe they may have some

comments to make about this at this meeting. There is an international filing fee which goes to WIPO and a state fee for each designated state. The state fee cannot exceed that state's national filing fee. However, there can be a separate state fee for each class designated.

The international application will be published promptly by WIPO in the international official gazette and will be promptly notified to each designated state. I would emphasize here that like the Madrid Arrangement this is a filing treaty. The international registration will be treated in each designated state as if it were a national application with the priority date being the international registration date. It will undergo the same processing as a national application. If the application is refused, or if there is the possibility of refusal by reason of ex parte objections or the filing of an opposition, this refusal or notice of possible refusal must be notified by the national office to WIPO within 15 months of the international publication date. Otherwise the international registration will become effective in that country at that time and will be deemed to have been registered in the country as of the international registration date.

I have said that an international registration will be processed

in each state in accordance with national law. However, there is in the treaty one important limitation on this, a provision which supercedes national law. In the United States, as I have mentioned, trademark rights are acquired by use and a trademark must be in use in interstate or foreign commerce before an application for federal registration may be filed. The United States is virtually the only country in the world which requires such use prior to filing. Thus United States owners can file applications directly in foreign countries without use and without a home country registration but the converse is not true. No foreign country was prepared to enter into an international trademark treaty with us on these terms so if there was to be a treaty, it was clear we would have to make some concession with respect to the user requirement. The United States agreed, therefore, to the proposal that international applications could be filed and would be granted registration effect without a requirement of prior use. However, the United States did insist upon some very important safeguards.

First-national law may provide that the moratorium on use will exist for only three years from the international registration date, after which the registration will be subject to cancellation for non-use.

Second - National law may provide that no action for infringement can be brought until continuing use of the mark has commenced, and damages cannot be recovered except for the period after such use has commenced.

Third - National law may provide for the filing of affidavits of use after the original moratorium period has expired and periodically thereafter.

The recognition of trademark registration rights based upon intent to use is a long step towards harmonization of our trademark law with the trademark law of other countries. However, we have already taken important long steps in this direction.

First - in order to meet our Treaty obligations under the Paris Union we included a provision in the Lanham Act, Section 44, which requires the granting of domestic trademark registrations to foreign registrants filing here under the Paris Convention, even though they have never used their trademark in the United States.

Second - with our Intent to Use Bill--which was proposed in recognition of the problem of establishing early use of a trademark in our complex business society. Today it may be several months or even years between the concept of a marketable product and the actual placing

of the product on the market. This has led many companies to resort to the practice of "token" use. Now it is well recognized that a token use may be acceptable if it is followed in timely fashion by the other steps necessary to actually put the product on the market. However the progression of these steps to marketing may take several months or even a few years. The question then is whether this is so much more preferable than a bona fide expression of intent to use the trademark in question for that product?

What we shall be doing then, under the Treaty, is permitting an international registrant to reserve for a limited period of time, namely 3 years, the right to use a particular mark after which the registration will become vulnerable to cancellation for non-use.

The consensus of opinion now is that if such a right is to be given to an international registrant, the same right should be given to a domestic applicant filing under national law. This will require a substantive change in the Lanham Act to provide for national applications based upon "Intent to Use", and this

raises an important question --namely the constitutionality of such legislation. However, we should remember that the doctrine that trademark rights must be predicated upon actual "use in commerce" was promulgated by a Supreme Court in a case decided in 1879 --- almost 100 years ago. Since then there has been substantial liberalization of the concept of matters which may be regulated by Congress under the commerce clause, of the Constitution, and there is a strong feeling among many trademark lawyers that today trademark applications based upon intent to use might well fall into this category.

In the original discussions concerning the earlier drafts of the treaty an important issue was that of the "Central Attack" concept . Many of the Madrid countries expressed the view that they could not accept a treaty without a central attack provision. However without the home country registration concept, insurmountable difficulties were encountered in seeking to devise an equitable and workable central attack provision, and the concept was

dropped from the treaty.

Near the close of the deliberations at Vienna, Brazil introduced an entirely new proposal on behalf of the developing nations. This was debated and was ultimately adopted in modified form. It provides that developing nations which are members of, or which accede to the Paris Union, may take advantage of the provisions of TRT for a limited time, without having to grant reciprocal benefits to the other members of the treaty.

As I have mentioned, 8 states have already signed the treaty but no state has yet ratified it. The treaty will come into force 6 months after 5 states have deposited their instruments of ratification or accession.

So far American business is divided in its attitudes toward the treaty. Clearly the treaty has its greatest appeal among those trademark owners who file trademark applications extensively abroad. Some advantages of the treaty are the simplicity of filing one application instead of a multitude of applications,

the simplicity of renewing registrations which will have a single renewal date; some savings in government fees and attorney fees; the ability to record assignments, changes of name and limitations of goods, or services by filing a single international document, with the same effect as if it was recorded in the National Registers (although it should be noted that any state may refuse the effects of recordal of an assignment or require additional evidence according to its national law); and of course, the possibility of filing for registration in the United States based upon intent to use.

The principal disadvantage usually referred to is the argument of proliferation of marks. Opponents of TRT point out that there will be a deluge of foreign applications filed here without the requirement of use of the mark in this country. With the treaty there will undoubtedly be more marks filed here than at present -- after all one of the purposes of the treaty is to facilitate the filing of trademark applications. However, we

should not lose sight of the fact that there are important safe-guards against proliferation. We have a strict ex parte and inter partes examination system. Fees will be fairly high. Also, the invulnerability of the registration is of relatively short duration, 3 years, so that excessive filings become expensive. Finally, the registrant's rights during the period of non-use are severely limited since he cannot sue for infringement.

Another difficulty is that the "use" concept is well entrenched in our law and many people tend to resist any change which might lead to the granting of trademark rights based upon bona fide intention to use rather than upon use.

Whether the senate will ratify this treaty will depend therefore upon the support proponents can muster, and this will depend upon their ability to persuade everyone that the treaty is in the best interests of all trademark owners. Meanwhile, the patent office and many professional groups have begun to consider what changes will be required in the Lanham Act if TRT is to become a reality in the United States.

Remarks prepared for delivery by Anthony R. DeSimone
before the Pacific Industrial Property Association (PIPA)
at the Fairmount Hotel, San Francisco, California,
October 1, 1973.

October 1, 1973.

Circumstances of Japan's Non-Signature to the TRT

A Report by the Third Committee of the
Patent and Trademark Treaties and Convensions
of the Japanese Group of the PIPA

S. Tokuda

As you know, the Trademark Registration Treaty, which has a historically significant meaning, was signed and concluded at the Vienna Diplomatic Conference held this May. However, although among the eight signatory powers is the U.S., one member of the PIPA, to our regret, Japan, the other member of the PIPA, did not signed the treaty. The Japanese Group of the PIPA considers that it might be meaningful to explain here at this conference the circumstances and our opinions concerning Japan's non-signature to the treaty.

This treaty was concluded after quite a short-period proceeding; only three professional conferences had been called until the treaty was signed in May 1973 since the proposal of its first draft in April 1971. Although opinions might be varied as to whether various matters had been fully discussed other than the major ones centered around the point of "Central Attack", there would be no doubt that this treaty is significant and useful for attaining the ideal of the international unification of Industrial Property. It is, of course, believed that the government and the public are recognizing the important value of the treaty. It is not for a theoretical reason but for a practical reason that Japan did not sign the treaty.

The reason for Japan's non-signature to the treaty is quite simple. The principal reason therefor seems to he that it would be absolutely impossible at the present stage for the Japanese Patent Office to fulfil the requirement of disposing a trademark application within fifteen months as regulated under the TRT in view of the great backlog of pending trademark applications amounting to 400,000 cases at the Patent Office which would require three or four years for all of them to be finished to be examined. The Patent Office seems to take the position toward the TRT that the Patent Office is by no means indifferent to the TRT and has expressed its opinions at various TRT conferences, assuming that Japan would join the TRT in the future, and therefore that it never refused but postponed its adherence to the TRT for the time being. It would be a pressing need for the Patent Office to expedite the disposition of the backlog of pending trademark applications at the present stage.

That such backlog problem would probably result in Japan's non-signature to the treaty had already been foreseen by the Government as well as private enterprises before the group of Japanese representatives left Japan to attend the Vienna Diplomatic Conference held this May.

Basically speaking, the TRT seems to be by no means inconsistent with the present Japanese Trademark Law, but some adjustment would be necessary with respect to the difference between the Japanese classification of goods and the international classification of goods, the problem whether service marks should be included into trademarks, the alternation of the application system from one application for one class of goods to one application for multiple classes of goods, the retroactivity of the effectuation of trademark rights to their filing dates (In Japan, trademark rights arises from their registrations granted after their publications.), the method of publication in Japan on TRT international applications, the examination period of fifteen months and so forth. These matters must be further examined by the Government as well as the public. Although there would not be caused so basic problems as to be fatal for Japan's adherence to the treaty, due processes and considerations should be taken to accomplish such revisions of the Japanese Trademark Law and its passing the Diet.

Major private enterprises in Japan take the attitude toward the TRT of recognizing it to have a historically significant meaning for the attainment of the international unification of Industrial Property, few being of the opinion positively denying it. The Japan Patent Association, which is a typical industrial property organization composed of Japanese major enterprises and having a close relationship with the Japanese Group of the PIPA, established a special committee, when the first draft of the TRT was proposed, to study the draft, and reported to and exchanged opinions with the Patent Office thereon.

The Patent Office recently started the earnest study of the concrete measures for the reduction of the backlog of trademark applications which is an actual obstacle to be cleared urgently. Our Japanese Group would spare no efforts to solve the backlog prolbem and expect that good results would be achieved therefrom in the near future, hoping that Japan would be able to join the TRT as soon as possible.

Japan's adherence to the treaty would cause an increase of international trademark applications. The situation would largely depend upon such factors as the rationalization in trademark administration due to the increase of signatory powers and the reduction in application expenses. Further, it is anticipated that since enterprises having existing well-known trademarks would have already registered them in the world, they would make use of such international application system, which is simple in procedures, for new Trademarks.

Next, the present status of Japan concerning the PCT will be touched upon briefly. At present, the problems including the adoption of the multi-claiming system, which is a prerequisite for the ratification of the PCT, and the introduction of the system for patents on chemical and medical materials in order to harmonize with the systems in major advanced countries are being studied from the standpoints of the relationship with the backlog of pending patent applications, the policy for industries, the influence upon the public, and so on at a sub-committee of the Industrial Property Council composed of the intellectuals within and outside the Patent Office. Meanwhile, the collection of the minimum documents such as examination materials and patent materials have been started at the Japanese Patent Office to meet the requirements for an international examination country of the PCT. It is anticipated at the present stage that the ratification of the PCT would be around 1977. The representatives of the PIPA are going to attend the Tokyo Diplomatic Conference of the PCT to be held at Tokyo next October as observers.

It is added here that the report on the TRT as stated above will be reported at the Third Committee of the Patent and Trademark Treaties and Convensions of the Japanese Group of the PIPA, making contact with the Trademark Sub-Committee of The Committee of the Patent and Trademark Procurement Law and Practice.

Finally, our Japanese Group would like to pay our respects to the U.S. for its having signed the TRT.

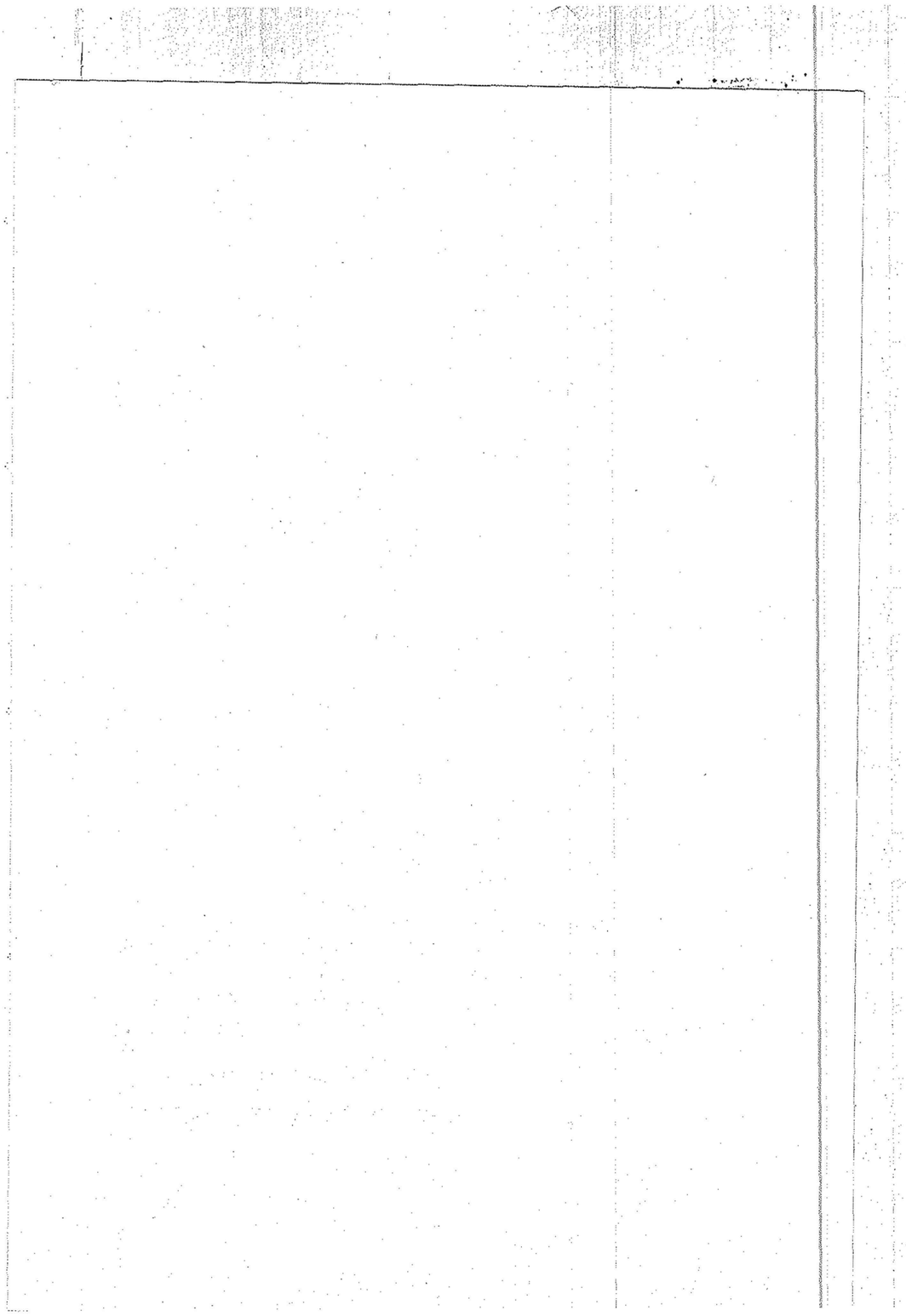
1973 PIPA San Francisco Congress

Committee Presentations

〔Committee 4〕

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Oct. 1973

Introduction - Pauline Newman
Committee 4 U.S.

Good afternoon, ladies and gentlemen -

It is a pleasure and honor for me to serve as your chairman for Committee 4. This committee was formed as an independent committee only this year, because of the strong interest that is developing in PIPA serving to facilitate the settlement of disputes in the fields of patents, trademarks, and knowhow, in the event that such disputes might arise between Japanese and American companies. In fact, the reason for the strong interest in such an activity on the part of PIPA, seems to be the recognition that such disputes are often based on misunderstandings, and that it might be helpful to have an informal procedure whereby such misunderstandings might be clarified, without resort to either the formal procedures of litigation or even the formal procedures of arbitration.

The Japanese Group this spring initiated a survey of its members to determine the frequency and general nature of the disputes that may have arisen in the field of industrial property. When the American group heard about this, and received a copy of the questionnaire used in Japan, a survey of the American members was conducted using the identical questionnaire.

Mr. ~~Teshima, of Eraba Mfg. Co., is taking Mr. Saotome's place~~ Kanzaki as chairman of the Japanese Group for Committee 4. They have analyzed the Japanese interest in conciliation procedures, and they have also studied alternative procedures available to Japanese and American companies. Mr. ~~Teshima~~ Kanzaki will report on their conclusions. We shall then present a corresponding report on behalf of the American Group.

We have also been working together on a draft of possible Rules for such conciliation. The preparation of these rules is still in a preliminary stage. The working draft that we have distributed this afternoon requires more analysis and more thinking. We propose to go through this draft, and to explain the present thinking of the Japanese and the American committees. The Board of Governors has not yet debated the question of whether PIPA should actually embark on such an activity. We in the Japanese and American committees, and the Board of Governors, request your comments on the substance of the draft, and principally on the question whether PIPA should go forward in this direction. We shall open the floor for discussion of this subject later this afternoon.

To start our program, to report on behalf of the Japanese Committee 4, may I introduce the chairman Mr. Kanzaki ~~Teshima~~.

Oct 1973

Report - Committee 4
American Group

Thank you Mr. KAWAKI.

We shall benefit from this useful information in the course of our deliberations this afternoon.

The questionnaires submitted to the American Group did not produce nearly as complete a return. There were 21 full responses to the questionnaire. The following analysis is thus based on 21 companies. Perhaps it is reasonable to assume that the companies that did not respond have not had serious problems in this area. In any case, a review of the returns actually received is quite instructive, and remarkably similar in result to that which has just been reported on behalf of the Japanese group.

Of the 21 companies that replied, about 80% reported that there had been disputes related to industrial property matters. Of these, about 75% said that the subject of their disputes was related to patents, and 40% stated that they had been involved in disputes relating to knowhow and technical information. There was reference made in several cases to trademarks, over and above routine trademark opposition procedures. Several of our respondents stated that they have fairly large numbers of trademark oppositions and patent oppositions, but these were not included in the information provided in response to the questionnaire.

The answers to the questions on the subject matter of disputes are also interesting. Almost all of the respondents had disputes in the fields of patent validity and patent infringement. 50% of these stated that the issue was validity or interpretation of industrial property rights, and 60% stated that infringement was an issue. There is clearly some overlap here. Three respondents stated that antitrust issues were involved.

Almost half of the respondents stated that they had been involved in disputes on the scope of a contract. 15% of the respondents stated that contract disputes related to the royalty and payment terms; 10% stated that the licensed territory was disputed. Other areas of dispute related to secrecy obligations, the duration of the agreement, and other problems of interpretation of the contract.

The disputes were settled in various ways. 25% of the respondents resorted to litigation. 15% were settled by adjudication under Article 71 of the Japanese Patent Law. There were no settlements reported by our respondents through the use of conciliation under the Japanese law for conciliation of civil affairs. Two disputes were settled by existing arbitration organizations, specifically the

International Chamber of Commerce and the American Arbitration Association. Two respondents had settled their disputes through conciliation by a third party, one having used the conciliation procedures of the International Chamber of Commerce.

An interesting aspect of these returns is that 85% of all their disputes were settled by negotiation between the parties and in only one case was it reported that this successful negotiation occurred after litigation was begun. It also appears as if most of the Japanese companies involved in the disputes reported by the American companies are not members of PIPA.

Our analysis of these returns -- accepting that they were not complete returns -- is as follows:
Patent infringement is the major cause of dispute, and contract interpretation is the second cause of dispute. Patent validity appears to be tied to infringement. There were an especially large number of settlements by negotiation. There was less settlement by arbitration and formal conciliation than by litigation; it is assumed that in all of these cases negotiation between the parties had been tried and had failed.

I think that it is important for us to think about whether those cases which actually went to litigation might have been settled amicably if PIPA were to provide a new forum for conciliation. We should also consider whether some of the disputes which were finally settled by negotiation directly between the parties, might have been settled sooner or more amicably or more fairly if PIPA were to provide a new mechanism for the parties to discuss their differences.

The view has been expressed quite forcefully that there is no need for another structure to help people to get together and talk out their disagreements. However, some of our members believe, from their past experience, that certain disputes might never have become serious, and might never have ended in court, if there were available to the parties a procedure of the very sort that is here proposed. They suggest that it might be very much easier for the parties to open discussion with the aid of a conciliator, if they could work through PIPA and would know that they could choose an industrial property expert as their conciliator, rather than subject themselves to the conciliation rules of either the International Chamber of Commerce or the Japan America Arbitration Association.

I think that we are all reluctant to organize a new formal structure unless there is a need for it and an adequate interest in using it.

We decided in Committee 4 to help resolve this question, within our committee and in PIPA, by first trying to get an idea of the sort of rules which might govern a conciliation role administered by PIPA. We thought that the preparation and study of possible ways of organizing such a function for PIPA might help us, each of us, to guess whether there is a need for such an organization. What you have in front of you is our first working draft. Let me tell you some of the philosophy that went into this draft.

The basic principle behind conciliation, as opposed to arbitration, is that conciliation is not binding upon the parties. If the parties do not eventually enter into a contractual arrangement and a voluntary settlement, with the help of the conciliator, there is no way for a court to enforce a conciliator's decision.

We therefore tried to provide certain simple and straightforward rules for initiating conciliation, and certain rather stringent time limits -- which time limits can be extended if the parties wish -- for completing conciliation.

The purpose here is to prevent a party that is not really interested in serious conciliation, from delaying the other party from pursuing its legal remedies.

Thus, either party can advise PIPA that it has a problem and wishes to conciliate if the other party is willing. PIPA will have to have an administrative officer to handle such requests immediately. This administrative officer, whom we have called the Staff Director, is required promptly to ascertain whether the other party is interested in conciliation and move rapidly to assist in the selection of a conciliator. PIPA would maintain a list of industrial property experts who might be willing to serve as conciliators in various fields. It is proposed that this list of experts include nationals of Japan, United States, and other countries. It is also mentioned that the parties can select any conciliator who is not on this list.

Thereafter, the PIPA executive officer has the responsibility of bringing the parties and the conciliator together as rapidly as possible. We have purposely omitted all mention of the need for documentation and the presentation of positions and of objections to positions. We feel that since conciliation is optional, there is no way to force a party to make complete disclosures during the conciliation procedu

This is of course a weakness of conciliation, and would limit its general applicability. Nevertheless, if there is a dispute that both parties are in good faith interested in settling, they would naturally bring forth all pertinent documentation.

It is proposed in these rules that a relatively short time period be set for the completion of the entire conciliation procedure. The parties can of course extend this time by mutual agreement. However, if one of the parties is not proceeding diligently to comply with the conciliation time schedule, the other party should have an opportunity to pursue his other remedies. We are interested in your thoughts as to what an appropriate time schedule might be.

Since conciliation is completely voluntary, we assume that there are many cases in which agreement will not be reached. To encourage open discussion and offers of compromise, it appears essential that no information produced during conciliation, and no offers of compromise, should be held against a party in subsequent litigation. Therefore, we have provided for this, and have also provided that there be no record kept of the conciliation discussions.

The draft before you incorporates many of the sorts of provisions which prevail in the conciliation rules for other organizations. We have in several areas tried to simplify these rules and to reduce the formalities. We think this can be accomplished because of the narrow scope of the type of disputes which would be covered by these rules, and because the participating companies might be limited to PIPA members. Or at least one of the participants should be a PIPA member. This particular aspect is under study because of possible antitrust implications. In fact, the antitrust status of the entire arrangement requires much more attention. If the concensus of the Japanese and American Groups is that such a structure should be formed, we have much more work to do in this area.

We should like now, in the time that's left, to hear your comments on the situation thus far. Then, we must decide what action to take on the Resolution offered by the Japanese group. May I therefore open the floor to discussion of any aspect of this proposed procedure.

Report by PIPA, Japanese Group, Committee IV

Shozo Saotome
Chairman
C. Kanzaki

I. Present State of International Dispute on Industrial Intangible Property towards the Members of the Japanese Group of PIPA:

In order to evaluate whether a conciliation system, which is being studied by a group led by the Committee IV of the U.S.A. and Japanese Groups, be installed in PIPA, a Questionnaire, as per Attachment-I, has been passed on to each member of the Japanese Group, whereagainst 57 out of 68 member companies have submitted their returns. The results of their answers are summarized in Attachment-II for the readers' review, and some analytical work has been exercised as demonstrated hereinafter. The figures of Attachment-II represent the number of members who affirmatively replied having had dispute that was itemized in the Questionnaire's column. The percentages referred to hereunder are the ratio of those, who experienced each of the aforementioned disputes, as against the total of 40 corporates whose reply was in the affirmative.

1. Varieties of Dispute experienced

(1) Those who had dispute in connection with patents and other industrial property rights and know-how and technical information, are 97.5% and 30% respectively of the total. Proportion of these two being involved in dispute is high.

(2) It is the unexpected result that there is fairly many cases of involving goodwill, sales agency right and the like, namely trade secrets.

2. Particulars of Dispute

(1) Case of disputing over the effectiveness, definition of scope and infringement of industrial property rights is extremely large in its number, and corporates as much as 60% and 75% of the total were involved in these kinds of dispute.

(2) Also many cases related to disputes in connection with Anti-Trust Laws.

(3) Cases of dispute over the interpretation of the provisions contained in contracts/ agreements have much ramifications, and 28 cases out of the total 35, which were affirmative in these items, were centered on payment

terms, license territory provisions, improvement or grant-back clauses and secrecy stipulations.

3. Procedure for Settlement

(1) The number replied having experience applied (for relief through legal procedures of proceedings, (injunctions,) compromise before the court) totalled 37, and on the other hand the number replied having carried out a mutual amicable settlement was 28.
In short, the fact that about a half of the total corporates have exercised this kind of settlement will be known by these figures.

(2) Cases of arbitration are very few and it was only 2, besides no case of conciliation through the Japanese Law for Conciliation of Civil Affairs.

4. The Other Party of Dispute

(1) The number of answers contended that the other party was U.S. firms was as many as 38.

(2) The number replied affirmative except those disputed with U.S. firms was 23, and all of their disputes were with Western European firms. So far no report having dispute with the parties in developing countries was made.

5. Trends by Industrial Divisions

As far as this survey concerns, no specific trends by industrial fields was observed. Incidentally, an average number of dispute per company was 3.9 cases.

The most apparent feature detectable from the above survey, the majority of dispute settlement are centered one-sidedly on either of legal proceedings and mutual amicable settlement, while almost in no case arbitration or conciliation was availed. Settlement by legal proceedings and mutual amicable settlement in themselves are contrasting ways of settlement, so the necessity of conciliation as an intermediary settlement way in between the above two is recognized. As it has frequently been pointed out, a legal suit has not only to be kept always open to the public, but also it does not permit anything other than yes or no, and moreover it costs much time and money. Although consequently an amicable settlement between the two parties concerned would be most preferable, until finally find out a solution which would be acceptable to both sides, many a case requires a time-consuming process of futile contentions and arguments.

One of the probable reasons for almost not resorting to the existing arbitration system and the conciliation

system under the Civil Procedure Code would be that once an arbitration is accepted, even it is of no objective adequacy, no relief is available, and that the dispute on an industrial property matter is quite different from a dispute over trade and of an unusually special nature, and that the experts who are capable of giving an appropriate decision are so scarce in their number. It is therefore expected by all the concerned that some new organization of conciliation, equipped with experts on the industrial intangible property, should meet the requirement for a practical and speedies settlement which was not satisfied by the existing ones.

Furthermore, from this survey, an extreme closeness between U.S.A. and Japan is observed in their industrial and economic relations. We believe, in drawing up PIPA Conciliation rules, first of all, settlement of disputes between the member states of PIPA, in particular, between U.S.A. and Japan, should be held as the most principal purpose.

II. Relations with existing Similar Organizations:

A report on the arbitration regulations was already made at the Tokyo General Meeting last year.

Japan has two standing organizations for arbitrations;

one being arbitration system of the International Chamber of Commerce and another being the Japan Commercial Arbitration Association. Both organizations, however, have little experience in arbitrating dispute over an industrial intangible property, and, for conciliation, the one based on the Japanese Law for Conciliation of Civil Affairs and the one by the International Chamber of Commerce. The former will be performed, upon application by the parties involved in the dispute, and by conciliation committees consist of judges, appointees by the court and those who were agreed upon by both parties, and it is held behind the closed door. For the latter, its Headquarter in Paris is provided with a panel of conciliation committees, and from this panel three conciliation committees will be appointed, who will take charge of the case, at each time a party involved in a dispute applies for conciliation. The main feature of this conciliation is that the nationals residing in Paris who are elected by each National Committee of the International Chamber of Commerce are registered in the panel of conciliators, and that it necessitates a guarantee money to be deposited with the Chamber by the party concerned, corresponding to the amount under dispute in advance to the commencement of the conciliation proceedings.

Such similar organizations do not confine their purposes only to settlement of disputes over the industrial intangible property. In order to upvalue PIPA's conciliation system, these systems, so mentioned before, have to be equipped with a function which the existing organizations do not possess -- namely, the function by which it can draw out an answer most appropriate for the settlement of dispute by experts who are completely fluent in the field of industrial intangible property. For this end, conciliators are to be limited to experts and it requires to be equipped with a complete line-up of the most possibly appropriate conciliators.

III. Future Schedule:

In order to firmly acknowledge hereafter to bring PIPA's Conciliation System into existence, we, the member of the Committee IV of the Japanese Group, hereby propose the following resolution based upon PIPA's Supplementary Regulations, Article 5, Paragraph C, which is governing resolutions within PIPA:

"Hereafter the Board of Governors and the Committee IV of both group will continue diligent discussions to bring the plan of PIPA Conciliation system to its perfection along the lines of general ideas deliberated upon by this general meeting."

We expect the future schedule as follows.
At the time when these discussions are finalized successfully, the perfected draft shall receive an approval corresponding to the general resolution to be made public as per PIPA By-Law Article 5, Paragraph A. Once such an approval is secured, PIPA's Conciliation Rule will be effectuated, and the conciliators shall be elected in accordance with the defined procedure. When the election of conciliators are finalized, the fact that the Conciliation System has been initiated, particulars of the Rules and the member of conciliators, together with other related details, will be outwardly announced in the name of PIPA.
If at this General Meeting a consensus on the above is obtained, we wish to add that PIPA's Conciliation System be initiated with the least delay, if possible within the next few years.

Thank you very much.

Attachment I

I. Have you experience in dispute (or are you in dispute) with a foreign company, concerning the following industrial intangible properties, after World War II? Please put a mark on the number of your case.

1. Kinds of Objects
   - (1) Patents or other industrial property rights or applications thereof
   - (2) Know-how, technical information
   - (3) Software for computer
   - (4) Good will, selling agency, customers' list and other trade secret
   - (5) Others

2. The contents of dispute
   - (1) Validity or interpretation of industrial property rights.
   - (2) Infringement of industrial property rights (including the case with trial hearing or judgement for invalidation)
   - (3) Conflict with Anti-Trust Laws (Anti-Monopoly Acts or Anti-Cartel Acts)
   - (4) Laws of prohibition of unfair competition

(5) The scope of contract

(6) The sum of royalty and the terms of payment

(7) Licensed territory under a license agreement

(8) The conditions of scope, ownership and grant back of improvements

(9) Duration of agreement, duration of payment

(10) Exceptions and expiration of secrecy obligation

(11) Treatment of know-how after the duration of secrecy obligation (License, Licensing to the third party)

(12) Other problems of interpretation of a contract

3. Means of settling dispute

(1) Litigation

(2) Provisional decision

(3) Reconciliation by trial

(4) Adjudication under the Japanese Patent Law, Article 71

(5) Conciliation under the Law for Conciliation of Civil Affairs

(6) Arbitration by standing arbitration organization (Please enter the name of arbitration organisation.)

(7) Conciliation by the third party other than No.(5)

(8) Arbitration by the third party other than No.(6)

(9) Settlement by negotiation between the parties

(10) Others

4. Opponent of dispute

(1) Company of U.S.A. participating PIPA

(2) Company of U.S.A. not participating PIPA

(3) Others (Please enter the nations concretely)

5. Number of disputes occured after 1945

II. If you have any opinions or proposals on such a mediation system, please enter below.

Attachment III

	Metal & Machine Co.	Electric Machine Co.	Chemical Co.	Trading Co.	Total	Percentage to the number of companies having experience in dispute (%)
Number of companies making an answer	11	20	24	2	57	
Number of companies having no experience in dispute among all answerers	(3)	(7)	(6)	(1)	(17)	
1. Kinds of Objects						
(1) Patents or other industrial property rights or applications thereof	8	12	18	1	39	97.5 %
(2) Know-how, technical information	5	2	4	1	12	30 %
(3) Software for computer	0	0	0	0	0	
(4) Good will, selling agency, customers' list and other trade secret	0	2	2	1	5	12.5 %
(5) Others	2	1	0	0	3	7.5 %
2. The contents of dispute						
(1) Validity or interpretation of industrial property rights	5	8	10	1	24	60 %
(2) Infringement of industrial property rights (including the case with trial hearing or judgement for invalidation)	7	11	11	1	30	75 %
~~(3) Conflict with Anti-Trust Laws (Anti-Monopoly Acts or Anti-~~						

(3)	Conflict with Anti-Trust Laws (Anti-Monopoly Acts or Anti-Cartel Acts)	3	3	1	1	8	20 %
(4)	Laws of prohibition of unfair competition	2	1	1	1	5	12.5%
(5)	The scope of contract	2	3	1	1	7	17.5 %
(6)	The sum of royalty and the terms of payment	2	2	0	1	5	12.5%
(7)	Licensed territory under a license agreement	2	3	0	1	6	15 %
(8)	The conditions of scope, ownership and grant back of improvements	1	1	2	0	4	10 %
(9)	Duration of agreement, duration of payment	1	0	1	1	3	7.5%
(10)	Exceptions and expiration of secrecy obligation	0	0	1	0	1	2.5%
(11)	Treatment of know-how after the duration of secrecy obligation (License, Licensing to the third party)	0	0	2	0	2	5.0%
(12)	Other problems of interpretation of a contract	3	1	3	0	7	17.5%

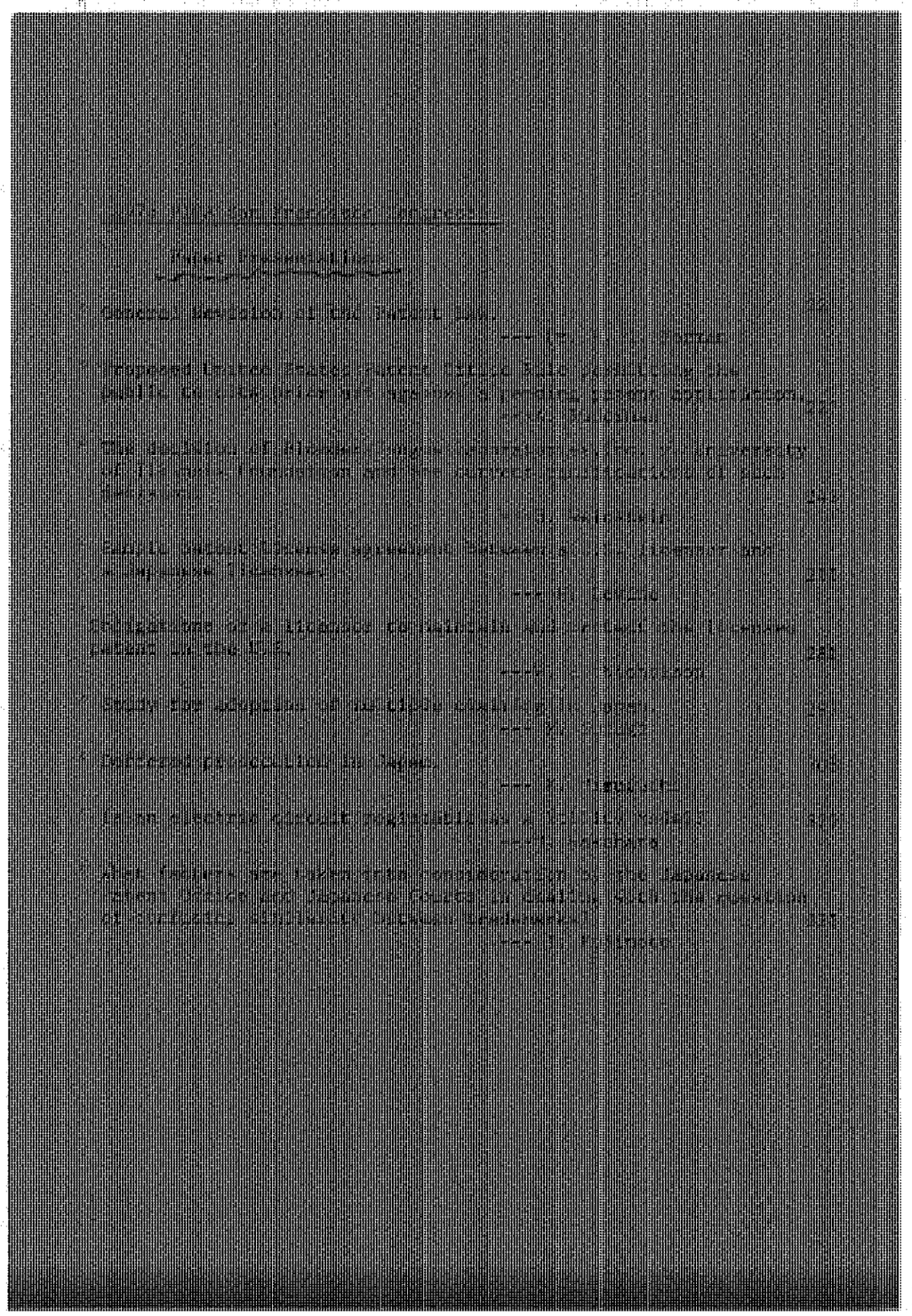
3. Means of settling dispute

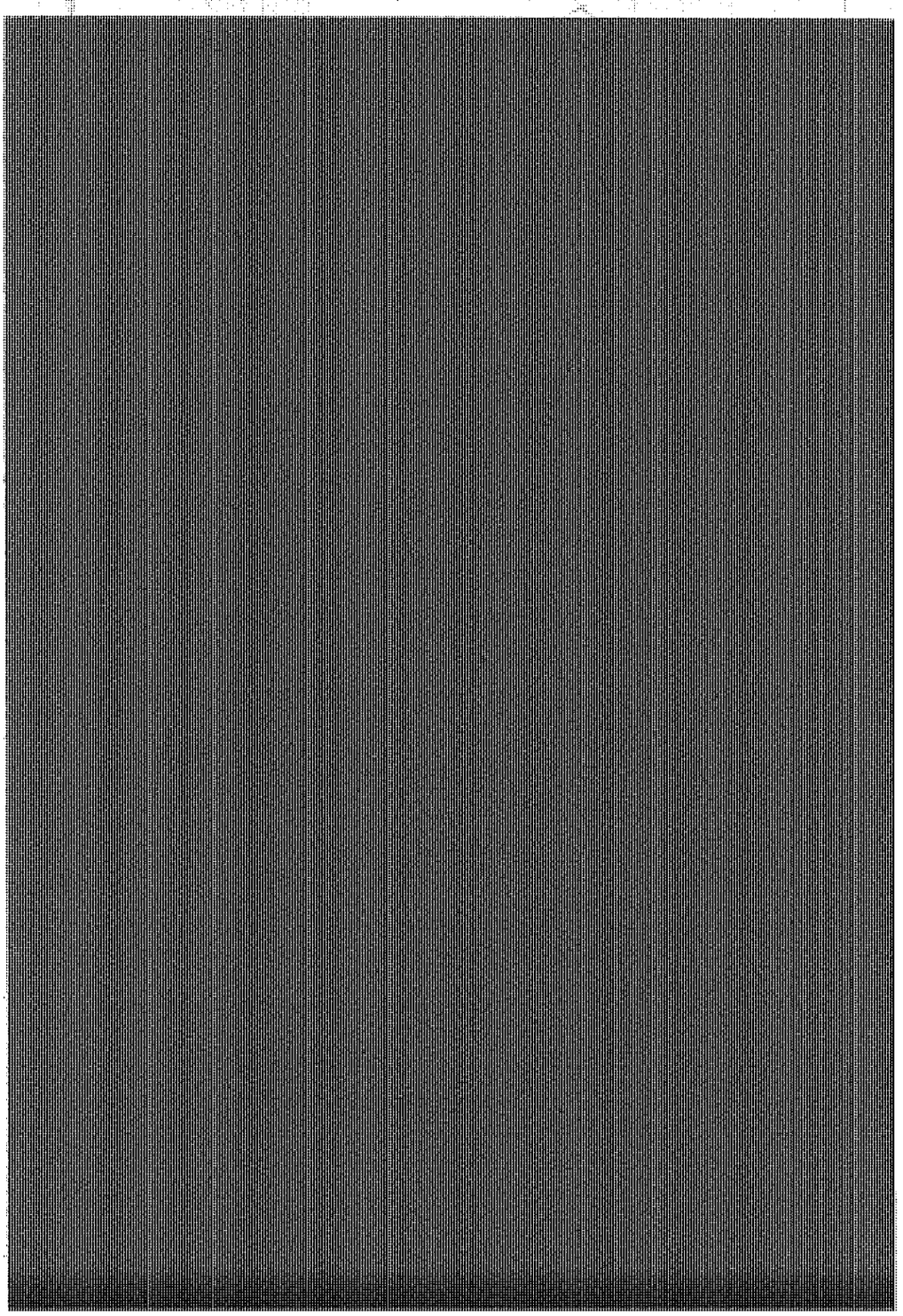
(1)	Litigation	4	10	9	1	24	60 %
(2)	Provisional decision .	1	2	3	0	6	15 %
(3)	Reconciliation by trial	0	4	2	1	7	17.5%
(4)	Adjudication under the Japanese Patent Law, Article 71	0	0	0	1	1	2.5%
(5)	Conciliation under the Law for Conciliation of Civil Affairs	0	0	0	0	0	
(6)	Arbitration by standing arbitration organization	1	0	1	0	2	5 %
(7)	Conciliation by the third party other than No. (5)	0	0	0	0	0	
(8)	Arbitration by the third party other than No. (6)	0	0	0	0	0	
(9)	Settlement by negotiation between the parties	6	9	14	1	30	70 %
(10)	Others	2	1	4	0	7	17.5%

4. Opponent of dispute

(1)	Company of U.S.A. participating PIPA	4	7	7	1	19	47.5%
(2)	Company of U.S.A. not participating PIPA	5	7	6	1	19	47.5%
(3)	Others	5	6	13	1	25	62.5%

England	2	1	2	-	5	12.5 %
Germany	2	2	3	-	7	17.5 %
France	1	1	-	-	2	5 %
Holland	-	2	-	-	2	5 %
Italy	-	1	2	-	3	7.5 %
Switzerland	-	-	1	-	1	2.5 %
Unknown	-	1	1	-	2	5 %





STATEMENT OF
DR. HOWARD I. FORMAN
REPRESENTING THE
NATIONAL ASSOCIATION OF MANUFACTURERS
ON
GENERAL REVISION OF THE PATENT LAW
BEFORE THE
SUBCOMMITTEE ON PATENTS, TRADEMARKS, &
COPYRIGHTS OF THE SENATE
JUDICIARY COMMITTEE

September 14, 1973

The National Association of Manufacturers appreciates the opportunity to express these views on the proposed critical patent law revision matters being considered in this current hearing. It makes these comments as a voluntary association of business concerns of varying sizes and commercial activities, and located in every state. Participants in the NAM membership are companies and individuals fostering and investing in the scientific and technological endeavors that have enabled this Nation to earn the reputation as a leader in providing the climate for creativity which has enabled the development of some of the most important products and processes utilized today.

But the present gives rise to the future and perhaps more than ever before in the history of our nation, we must stimulate and encourage invention and innovation to meet national and international needs. We need better productivity from inventions to improve the standard of living for everyone, and to hold down inflation. We look to practical discoveries and inventions for competing internationally in order to improve our balance of trade and

avoid further devaluation of the dollar in the world marketplace. Moreover, we need better products and processes to overcome our national problems relating to health, transportation, housing, energy, and the environment.

Essential to the achievement of these needs is unquestionably a strengthened patent system that will provide the incentives necessary to encourage investment of time and imagination, energy and money to bring to the marketplace an increasing catalogue of exciting inventions. Most important to note - such incentives are needed alike by independent inventors, and company research teams of all sizes as well as other invention-oriented organizations such as universities.

It bears pointing out that a Constitutional provision relating to the patent system provides: "The Congress shall have power...to promote the progress of....useful arts, by securing for limited times to...inventors the exclusive right to their respective...discoveries." Thus, our comments on proposed changes in existing patent statutes being presently considered are assuredly made in the light of what we believe would be their very special effect on promoting the progress of the useful arts in the United States.

Modification of Patent Examination Proceedings to Provide Public Adversary Hearings

We view with optimism the prospect of improvement to the administrative procedures in the Patent Office which will enhance the validity of issued patents. Specifically, we support public involvement in calling attention to the Patent Office of "prior art". However, we are not in favor of attempting to attain this objective by the adversary procedures set forth in the current S.1321 (Sec. 135). Rather, we believe that the objectives so sought would be better served by the procedures set forth in Sections 191 and 192 of S.643 (Committee Print) considered by the 92nd Congress. In this connection,

c should be noted that those procedures set forth in S.643 originated from the 1966 Report of the President's Commission on the Patent System. This report contained a number of proposed changes in the U.S. Patent System that were devised after more than a year of deliberations. Further, the final provisions of S.643 were arrived at only after extensive hearings by patent committees of the 90th, 91st and 92nd Congresses and as a result had received broad-based support from the patent profession.

To summarize the essential differences between the two legislative proposals: Under S.643, as considered, procedures are established whereby 3rd parties would call Patent Office attention to prior art that would affect the validity of issued or issuing patents. If the Patent Office decides that the cited prior art has merit, then the prosecution of these cases would be reopened to consider such prior art. Under S.1321, public adversary hearings would allow for proceedings that might well be harassing to the applicant (since the 3rd party would as a matter of right have the opportunity to engage the patentee in a long and costly proceeding). There is no basis to predict that this easily abused form of procedure would enable the Patent Office to reach more satisfactory conclusions than the approach of S.643.

The President's Commission on the Patent System fully considered other forms of adversary proceedings and rejected them in favor of the approach set forth in in S.643. Perhaps the most serious objection to an inter-party adversary proceedings, such as is provided in Section 135 of S.1321, is the high cost which would be imposed on an applicant or patentee as a defendant in the process. Certainly the cost of obtaining a patent is already high enough without placing this additional burden on inventors. Thus, essentially the same beneficial results could be obtained by the procedures set forth in Section 191 and 192 of S. 643 at substantially lower cost.

Experience with inter-party adversary procedures in Germany, Holland and England are reported to demonstrate clearly the high cost in money and time that are involved in such proceedings. Such an approach is especially burdensome and prohibitive from the standpoint of independent inventors and small companies. Even in the case of larger organizations, the cost becomes prohibitive under this particular system because many companies (based on European experience) apparently tend to oppose automatically their competitors' patents in process of issuance whether or not there is any genuine basis for doing so.

Further, with regard to Section 135 of S.1321, it is suggested that it would be administratively more efficient, in any event, to issue the patent first and then have such patent subject to examination or reexamination. In this way, millions of dollars in additional printing costs, not to mention the additional cost of maintenance and searching of the files of such documents, could be saved by the public and/or patentees and with essentially the same results from a substantive standpoint.

Also, it is recommended that the Commissioner of Patents be given the flexibility of determining who in the Patent Office would have the responsibility of handling the examination or re-examination under this proposed Section. Thus, the Commissioner should not be restricted to having Primary Examiners handle this responsibility since it might be better to have someone else involved in the proceedings who would not have participated in the original decision to grant the patent. Again, it would be best to leave this decision as an administrative matter for the Commissioner.

It is suggested, moreover, that other ways to utilize the expertise of the Patent Office in adversary proceedings relating to patents should be explored. Thus, perhaps in patent situations that would normally be litigated in court, it might be worthwhile to consider referring the matter of the validity of the particular patents involved, at the option of one or both parties, to the Patent Office for a decision or opinion on validity based on the evidence before the Court.

Finally, it should be noted that next month the Patent Office will be holding administrative hearings on what has been called "Voluntary Protest" proceeding, a form of adversary procedure similar to that encompassed by Section 191 in S.643 of the last Congress. Assuming that this voluntary adversary proceeding is adopted, we can expect that the next year or two will witness the development of a considerable amount of actual experiences that will be invaluable in determining just what kind of adversary proceeding should be made mandatory through legislation. Accordingly, it is suggested that prudence dictates deferment of legislative action in this area until this kind of experience, which appears to be imminently available, is considered and appropriately evaluated.

Creation of the Office of Public Counsel

We are opposed to the present proposal to create an Office of Public Counsel in the Patent Office. Further, while we are not in favor of studying new proposals endlessly, we believe that before any such proposal should be considered for enactment into law, a detailed study of the staffing and day-to-day operations of the Office should first be carried out and made available to the public for detailed comment. In addition, such a study should consider alternative ways to accomplish the intended purpose of this proposal to determine whether the amount of money involved might be better spent in another way to achieve this same purpose.

As a basic observation, it would appear that the functions of the proposed Public Counsel are mostly all now available to the Government. For example, the Government through the Justice Department now has the power under certain circumstances to go into Court to sue to cancel a patent. Furthermore, any agency of the Government would be in a position to participate in the proceedings of Section 135 of S.1321 or Sections 191 and 192 of S.643 (92nd Congress) without need of any Public Counsel as proposed. Also, at the present time the Primary Examiner at his option has the right

to be present and argue his side of the case before the Board of Appeals. In addition, a member of the Office of the Solicitor handles the case for the Patent Office in all appeals from the Patent Office to the District Courts, Courts of Appeals and Court of Customs and Patent Appeals.

Moreover, from an administrative standpoint, the proposal would appear to create various problems. For example, the Commissioner of Patents is presently responsible for assuring that high quality patents issue. In accordance with the new proposal, there would then be two people, the Commissioner and the created Assistant Commissioner for Appeal, Litigation and Public Counsel - both having this same responsibility. In addition, at the working level the Primary Examiner is responsible for assuring that high quality patents issue. Again, in the case of this new proposal, there would then be two people, the Primary Examiner and a representative of the Office of Public Counsel sharing this same responsibility at the working level. Furthermore, it would appear that the representative of the Office of Public Counsel would necessarily be much less experienced in a given field of technology than the Primary Examiner.

One of the major keys for improving quality of issued patents is to provide a system under which the Examiner receives more information pertinent to validity than is now currently available to him. In this connection, it is not persuasive that the proposal for a Public Counsel will have any significant positive effect on the examination of the more than 100,000 applications filed and the more than 70,000 patents issued each year. Thus, it would appear that the money involved might be better spent in improving the search systems used by the Examiners and expanding the Patent Office's present program for quality study, audit and control, or in the public citation of prior art and the re-examination of patent procedures of S.643 of the 92nd Congress as previously set forth herein.

PROPOSED UNITED STATES PATENT OFFICE RULE PERMITTING THE PUBLIC TO CITE PRIOR ART AGAINST A PENDING PATENT APPLICATION

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PROPOSED UNITED STATES PATENT OFFICE RULE PERMITTING THE PUBLIC TO CITE PRIOR ART AGAINST A PENDING PATENT APPLICATION

On May 15, 1973 the Commissioner of Patents proposed a change to the Rules of Patent Practice which would let patent applicants voluntarily open their applications to public inspection after allowance of the application but prior to issuance of a patent. The following is a discussion of the salient points of this proposal and some prior proposals to incorporate a pre-issuance publication into the United States patent laws. An attempt is also made to relate the failures of the prior proposals to the contract theory of the patent grant.

The present philosophical foundation of the United States Patent system is that the grant of a patent is a contract between the patentee and the government. A patent applicant receives from the government the right to exclude all others from making, using and selling its claimed invention in consideration for a full disclosure of the invention to the public. Thus, the quid pro quo for the patent grant is disclosure to the public. This rationale is responsible for the statutory provision[1] requiring the maintenance of a United States patent application in a confidential condition during its pendency in the Patent Office. Thus, even if an applicant abandoned his filed application without receiving a patent, the application file is not thereafter opened for public inspection[2]. The applicant may still have the protection afforded under the Trade Secret Laws. However, once a patent issues, not only is the dis-

closure of the patent available to benefit the public, but the patent file is open for all the public to inspect[3]. Since the claims of a patent define the invention[4] it is only when an application is allowed that the applicant is assured of the scope of his protection. Any publication of his application prior to this time will disclose his technical contribution to the public without the applicant obtaining any contractural benefit.

Recently, the United States patent system and in particular the patent examining procedure has come under increasing attack. Because of the large number of patents invalidated by the courts over prior art not cited by the Examiner during the pendency of the application[5] and because of the many questionable patents being issued the presumption of validity[6] of a patent issued in the usual course by the Patent Office has been eroded to an almost meaningless state.[7] The fact that United States patent practice is an ex parte system creates a built-in hazard that all the necessary prior art is not likely to be available to the Examiner.[8] It has periodically been suggested[9] that the United States Patent Law be changed to incorporate a procedure wherein the patent application would be published subsequent to Examination but prior to issuing as a patent so that it may be opposed by the citation of art by interested parties. To date each such attempt to change the law has met with failure. The contractural conception of the patent grant has no doubt been a contributing factor in these defeats, for

if an application is published for citation of art and opposition, the applicant is thereby forced to disclose his invention before his scope of protection is assured.

Opposition proceedings in the Patent Office are known in the United States in connection with Trademark cases[10]. When an application to register a trademark on the Principal Register is found allowable by the Examiner, the mark is published in the Official Gazette.[11] Within thirty days after the publication, any person having the necessary standing may file a Notice of Opposition and be heard.[12] Any grounds upon which registrations could be refused or held invalid is granted and can be raised in an opposition.

Many countries, including Japan, Germany and England, have such proceedings in the Patent Office in connection with patent cases. The opposition serves to supplement and check the examination system and is generally regarded as part of the examination system.[13] The existence of opposition procedure in those countries which have examination systems of granting patents is a recognition of the fact that ex parte examination cannot be complete and perfect, and the interested public is given an opportunity to participate in the prevention of the issuance of invalid patents.[14] The procedures in these oppositions resembles the procedure in oppositions in trademark cases in the United States. After the examination and allowance of the application, a notice is published in the official patent journal of the country and the application is opened to public inspection. Members of the public may thereafter, within a specified time, oppose

the grant of the patent. Generally, the grounds upon which an application can be opposed are the same as the grounds upon which the patent can be refused or invalidated.[15]

As mentioned above, proposals for the publication before issuance and for oppositions to the grant of a patent in the United States are not new. In 1935 the Science Advisory Board published a report[16] which as a means to "positively increase the presumption of validity....."[17] recommended "that, when an application is ready for allowance, it be published in the Official Gazette, and the submission of pertinent facts by interested parties invited."[18] It recommended, however, that the facts should be limited to printed publications and that arguements and affidavits should be rigidly excluded. The report specifically stated that "the procedure in the Patent Office should be maintained strictly ex parte."[19] No action apparently was taken on this recommendation.[20]

In 1939 the Patent Law Revision Committee of the American Bar Association's Section of Patent, Trademark and Copyright Law considered the question of opposition proceedings to strengthen the presumption of validity of an issued patent, and the Section thereafter went on record as "opposed to the principle of patent oppositions."[21] In the following year the Patent Law Revision Committee considered a proposal to publish applications before issuance and also a proposal for opposition proceedings. Both were disapproved on the grounds that they would increase the expense and complication of Patent Office procedure.[22] In 1962 that committee

again considered oppositions and the Section of Patent, Trademark and Copyrights passed a resolution stating that they "opposed in principle inter-parties opposition proceedings with respect to applications for United States Patents."[23] However, in 1963 the Section defeated a resolution which would have placed the American Bar Association on record as being opposed in principle to publication of a patent application after allowance and before issuance for the purpose of enabling the Patent Office to receive prior art from the public in its determination.[24]

These proposals have continued to the present time. In 1966 the President's Commission on the Patent System[25] issued its report[26] including a number of recommendations proposed for improving the patent system. Recommendation No. VII of the report[27] proposed the publication of pending applications within 18 to 24 months after its earliest effective filing date or promptly after allowance, whichever comes first, and also recommended that an applicant could request earlier publication of his pending application. Moreover, Recommendation No. XI[28] provided that the Patent Office should consider prior art cited by the public against a published application during a period of at least 6 months after the publication and that if the Patent Office determined that a claim should not be allowed the applicant would be notified and given an opportunity ex parte to rebut the determination and to narrow the scope of the claim. The procedure proposed was an ex parte one which was believed not to greatly add to the cost of

prosecuting an application. The identity of a party citing references was to be maintained in confidence.

Pursuant to the recommendations of the President's Commission, companion bills S.1042 and H.R.5924 were introduced into the 90th Congress, First Session, on February 21, 1967. Section 123 of S.1042 was based on Recommendation VII and provided that applications should be published not less than 18 or more than 24 months from the earliest effective date claimed. In discussing this section the Patent Law Revision Committee of the American Bar Association, Section of Patent, Trademarks and Copyrights stated, "the modified procedure would deprive the inventor of his right to keep his invention secret until such time as he knew the scope of the patent grant to him, thereby depriving him of a substantial property right without any quid pro quo. Further, the dual publication (primary publication of the application and final publication of the patent) would be expensive and confusing since it would often be necessary to obtain and examine two documents relating to the same patent."[29] Section 136 of S.1042 substantially implemented Recommendation No. XI by providing any person could notify the Commissioner of any prior publications which would have bearing on the patentability of a published application and the Commissioner was given the authority to cause the application to be examined or reexamined in light of the new references. It further provided that if the pertinence of the publication was explained in writing and received within a fixed period of time after publication of

the application after allowance then such citations were to be considered by the Patent Office. The identity of any person submitting such citations was to be kept in confidence. Again, the Patent Law Revision Committee believed that "the applicant should not be put in a position of being forced to disclose his invention before he is assured of the scope of his protection."[30] These bills expired with the Johnson administration.

During the First Session of the 92nd Congress, Senator McClellan introduced a bill on February 8, 1971, designated S.643, which included among its provisions that of Section 123, which would have allowed the Commissioner to establish regulations for publishing pending applications at the request of an applicant. Moreover, in Section 191 a reexamination after issuance of the patent was provided for to allow any person within 6 months of the issuance to notify the Commissioner of any publications of patents which would have bearing on the patentability of any claim in the issued patent and the Commissioner was given the authority to reexamine such patents and allow the patentee to amend or present new claims. The identity of any person making the notification was to be kept in confidence. Also, in Section 192 a modified opposition proceeding was provided for in which a person could protest the issuance of a pending application based on the public use or sale of the invention claimed in such application more than one year before the filing in the United States and if such person made a prima facie showing an inter-parties opposition proceeding

was to be created. Once more the Patent Law Revision Committee of the ABA went on record as being opposed to such inter-parties oppositions,[31] but it appears that no disapproval was entered to the voluntary publication provided in Section 123.

Most recently in 1973 during the First Session of the 93rd Congress, Senator Hart introduced a bill designated as S.1321 which provides for a major revamping of the present patent system. Section 122 of this bill makes it mandatory that the Commissioner publish all applications for public inspection and copying prior to the date of first examination. Any party may then notify the Commissioner of any patents or publication or any other evidence which would have a bearing on the patentability of any claim in the application. If such art is applied against the application the applicant may present amended or new claims for examination or reexamination. Moreover, the party making the notification may participate as a party in the examination or reexamination proceedings unless he elects not to be identified, in which case the Patent Office will maintain his identity as confidential. Section 137 provides that any party can participate or intervene in any proceeding at any time or initiate or intervene in any appeal. Section 191 of this bill also provides for deferred examination unless the applicant requests immediate examination, while Section 192 provides that any party may request examination of a deferred application. This bill proposes a major change in the present contractural basis of the United States patent laws.

No doubt it will be vigorously opposed by the various patent associations and industry groups.

In an apparent effort to take the "bull by the horns" and strengthen the patent system under the present statute the United States Patent Office has recently proposed[32] a change in the rules of practice "to assure that the best art and information relative to the patentability of an application for patent are brought to the Patent Office's attention."[33] These changes propose giving the applicant the opportunity to voluntarily open his application to public inspection prior to issuance of a patent. The public could then present prior art and other information to the Patent Office bearing on a question of patentability of the application prior to its issuance. The Patent Office could then consider this evidence and if in the discretion of the Commissioner the evidence is pertinent to a more complete appraisal of patentability he may reopen prosecution of the application.

Rule 291 of the present Rules of Practice[34] proclaims that the patent statutes do not provide for opposition and that protests to the grant of a patent are ordinarily merely acknowledged and filed after being referred for information only, to the Examiner in charge of the subject matter involved. The proposed rule changes provide a paragraph (a), declares that protests are not provided for as a matter of right but where a protest to the grant of a patent is filed, and identifies the application, the protest papers will be referred to the Examiner in charge of the application.

The identity of the protesting party together with the protest papers will be placed in the application file and a copy forwarded to the applicant, but the protesting party will not be permitted to inspect the application file unless authorized by the applicant. If the protesting party cannot identify the application the protest will be acknowledged in the same manner as the present practice. In paragraph (b) of the proposed new Rule the applicant may voluntarily open his application to inspection by filing a written authorization within thirty days from the mailing of the notice of allowability together with the fee of $25.00. Paragraph (c) provides that upon receipt of such an authorization the office will publish notice of that fact in the Official Gazette together with information identifying the invention and the most comprehensive claim together with a list of the references cited by the Patent Office. The public is then given up to three months to protest the grant of the patent by filing with the Commissioner and serving the applicant with publications, patents or other information which might have bearing on the patentability of the claims in the application. The protest must include a memorandum explaining the relevance of the submitted evidence. All protest papers together with the identity of the party originating the protest will be made of record in the application and if in the opinion of the Commissioner it appears that any claim may not be patentable, or that any patent granted on the application would be unenforceable, in view of the submitted evidence then the Commissioner will reopen

the prosecution. In such case the protesting party will be apprised of all further proceedings in the Patent Office insofar as they relate to the evidence he submitted, and he will be accorded the opportunity to comment thereon. If the examination is not reopened, the protesting party will be so apprised and he will not have any further recourse. Paragraph (d) provides that a formal notice of allowance will be held in abeyance until the patentability of the claimed invention is determined in light of the new evidence. A copy of the notice of allowance will also be forwarded to the protesting party.

The Patent Office believes that several benefits of this proposed procedure will result.[35] It is expected that the presumption of validity will be more meaningful where a patent is issued after consideration of evidence submitted by the public. Potential competitors of the applicant are expected to benefit because they will have the opportunity to bring information to the Patent Office which could limit the scope of protection or prevent the issuing of a patent. For competitors this is a much less expensive procedure than litigating questions of validity and scope of a patent on the same grounds after the patent has issued.

It should be noted that the proposed rule change is being made by the Commissioner under the authority granted to him by Section 6 of the Patent Act of 1952[36] which gives him the power to establish regulations "not inconsistent with law" for conducting

the proceedings of the Patent Office." Under Section 122 of the Patent Act[37], applications are required to be kept in confidence by the Patent Office unless authority is granted by the applicant to waive the confidential status of his application. Thus, the proposed rule change, since it involves a voluntary publication, is not inconsistent with the present law, and does not affect the contractural basis of the patent grant. As such, its approval is probably assured. Hearings are scheduled for October 31, 1973 for the public to present their views.[38]

Although a voluntary publication arrangement overcomes certain of the objections raised to the previous mandatory publication proposals, it raises a number of other objections. For example, a rule allowing a voluntary publication of a pending patent application for citation of art by the public raises the question as to what will occur to the presumption of validity of any patent issued on an application which is not elected to be published. Of course the question as to whether an estoppel in a later litigation on the issued patent can be raised against one citing art against the application when it is published. This question is not novel to a voluntary system, however. Other questions are sure to arise in connection with the voluntary publications; however, it does put a foot in the door for those proponents of an opposition system. As such its adoption no doubt will be closely monitored.

FOOTNOTES

1. 35 U.S.C. 122

2. 37 Code of Fed. Reg. 1.14(b), Rule 14(b) Rules of Practice in Patent Cases (1970)

3. 37 Code of Fed. Reg. 1.11, Rule 11 Rules of Practice

4. 35 U.S.C. 112

5. Bryan, Proposal For Modifying The Administrative Procedure of the Patent Office, 1 APLA Quarterly Journal 196 (Sept. 1973)

6. Will, The Patent System: One Man's View, 1 APLA Qtly. Jour. 49 (1972)

7. See, for example, Fostas, The Patent System in Distress, 53 Jour. Pat. Off. Soc. 810 (1971)

8. Graham v. John Deere Co., 383 U.S. 1 (1965). See also Clark, The Patent System Deserves Clean Hands, 1 APLA Qtly. Jour. 9 (1972)

9. Infra, pgs. 4-9

10. 15 U.S.C. 1062(a) and 1063

11. 37 Code of Fed. Reg. 2.81

12. 37 Code of Fed. Reg. 2.101

13. Oppositions and Revocation Proceeding in Patent Cases, Study of The Subcommittee on Patents, Trademarks, and Copyrights of The Committee in the Judiciary, United States Senate, 84th Congress, 2nd Session, pg. 2 (1957)

14. Ibid.

15. Ibid.

16. Report of the Committee on the Relation of the Patent System to the Stimulation of New Industries, reprinted in the Journal of the Patent Office Society, Vol.18, No. 2, February 1936, pgs. 94-109

17. Id. at 97

18. Id. at 98

19. Ibid.

20. Supra note 13, at 15

21. American Bar Association, Section of Patent, Trademark, and Copyright Law, Summary of Proceedings of Special Meeting, Washington, D.C. (1967), pg. 18

22. Ibid.

23. Id. at 19

24. Ibid.

25. Executive Order No. 11215, April 8, 1965

26. To Promote the Progress of Useful Arts, Report of The President's Commission, Washington, D.C., 1966

27. Id. at 16

28. Id. at 23

29. Supra note 21, at 15

30. Id. at 19

31. American Bar Association, 1972 Committee Reports, Section of Patent, Trademark, and Copyright Law, Reports to be presented at San Francisco meeting August 11-16, 1972, pg. 13

32. 38 Federal Reg. 14692, June 4, 1973

33. Ibid.

34. 37 Code of Fed. Reg. 1.291, Rule 291, Rules of Practice Cases (1970)

35. See note 32, supra

36. 35 U.S.C. 6

37. 35 U.S.C. 122

38. See note 32, supra

THE DECISION OF BLONDER-TONGUE LABORATORIES, INC. V. UNIVERSITY OF ILLINOIS FOUNDATION [402 U.S. 313, 169 U.S.P.Q. 513 (1971)] AND THE CURRENT RAMIFICATIONS OF SUCH DECISION.

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THE DECISION OF BLONDER-TONGUE LABORATORIES, INC. V. UNIVERSITY OF ILLINOIS FOUNDATION (402 U.S. 313, 169 U.S.P.Q. 513 (1971)) AND THE CURRENT RAMIFICATIONS OF SUCH DECISION.

BY

HAROLD WEINSTEIN

I. BLONDER-TONGUE: A NEW RULE OF LAW.

On May 3, 1971, the Supreme Court of the United States decided the case of Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation et al. (hereafter B-T), which established a new rule of law relating to collateral estoppel by overruling Triplett v. Lowell (hereafter Triplett), to thus abolish the requirement in patent cases of mutuality of estoppel.

After detailed discussions of the patent system, Triplett and its economic consequences and judicial considerations, Justice White speaking for a unanimous court in B-T held:

> "it is apparent that the uncritical acceptance of the principle of mutuality of estoppel expressed in Triplett v. Lowell is today out of place. Thus, we conclude that Triplett should be overruled to the extent it forecloses a plea of estoppel by one facing a charge of infringement of a patent that has once been declared invalid."

In so holding, the court emphasized:

> "that a plea of estoppel should not be automatically accepted by the second court upon determining the

> presence of Bernhard criteria.... Rather, the patentee-plaintiff must be permitted to demonstrate, if he can, that he did not have 'a fair opportunity procedurally, substantively and evidentially to pursue his claim the first time.'"

Whether or not a patentee had a fair first trial would be determined by the second court upon relitigating the invalid patent.

II. PUBLIC POLICY CONSIDERATIONS.

The factors of court time and business economics when coupled with public interest or policy in preventing a patentee, after an adjudication on the merits that his patent was invalid, from continuing to reap the benefits of his patent monopoly clearly tipped the scales in favor of the pronounced B-T doctrine. The purpose of the B-T and other court made doctrines is to eliminate invalid and specious patents in the public interest.

III. B-T: A CLASSIC CASE.

The judicial history of B-T is a classic case of collateral estoppel. The plaintiff brought two infringement suits; in the first, the patent was held invalid, in the second, the patent was held valid. The Supreme Court granted certiorari and asked the parties to discuss the soundness of Triplett. Subsequently, the B-T decision overruled Triplett. On remand, the court applied B-T and held the patent invalid after finding the patentee had gotten a fair trial in the action which invalidated the patent.

A look at the following recent cases will give some idea on how B-T is working re: the classic case situation.

In Aghnides v. F. W. Woolworth Company, the district court denied plaintiff's motion for a new trial on the basis of new tests and stated that the intent and purpose of B-T was to "put an end to never-ending patent litigation."

The Georgia district court in Blumcraft Of Pittsburgh v. Kawneer Company, Inc., et al., had reversed its previous holding and granted defendant's motion for summary judgment. The court applied the B-T doctrine by giving "precedential consideration" to the Tenth Circuit holding of invalidity of the patent in suit.

The Seventh Circuit in Bourns, Inc., et al. v. Allen-Bradley, limited prior judgment to the specific claims invalidated in another action. Thus, B-T was applied only to the extent of the specifically invalidated claims.

Under the B-T doctrine the relitigating court will look to whether or not in the first suit held the patent invalid as a whole or restricted its findings to specific claims.

Dow, one of the defendants in Iron Ore Co. of Canada v. Dow Chemical Co. successfully argued that:

> "the estoppel doctrine of Blonder-Tongue should be extended to cover the California court's rulings as to the scope of the claim language, as well as the invalidity of the claims."

The court in the Iron Ore case also held that the prior

district court decision was final, until such time as they are reversed, will be sufficient basis for application of estoppel rule of B-T.

In an earlier case, Monsanto Company v. Dawson Chemical Company et al., the second court held that a finding of invalidity of the patent in a prior action permitted the defendants in the present action to affirmatively plead collateral estoppel under B-T.

The Ohio district court in the case of Lucerne Products, Inc. et al. v. Cutler-Hammer, Inc., held that a prior court finding of invalidity against the patentee would also apply against a licensee of such patent since the licensee stands in privy with the patentee and can have no greater rights than that of the patentee.

In Ransburg Electro-Coating Corporation v. Spiller and Spiller, Inc., the court extended the protection of B-T to include prior court findings of noninfringement under the estoppel umbrella.

One practical effect of B-T on patentee-plaintiffs is that it makes the decision in infringement situations of who to sue and where much harder and more dangerous to the life of the patent.

However, the outlook for patentees is not wholly negative, and there are some favorable results because of responsible application of B-T by the courts. In B-T, the Supreme Court had stated that "patentees are heavily favored as a class of litigants by the patent statute" 35 U.S.C. 282.

In Woodstream Corporation v. Herter's Inc., et al., the Eighth Circuit modified the lower court by holding one of the

patents in suit valid after applying the Graham standards of patentability in light of B-T stress on the statutory presumption of patent validity.

Another case in this line was Black, Sivalls & Bryson, Inc. v. National Tank Company wherein the Tenth Circuit found a trial necessary because: the device patented was complicated; expert testimony was required; the record was inconclusive and had conflicting facts. In citing B-T, the court noted "the high degree of importance in fairly and adequately trying the issue of patent validity the first time."

IV. WHEN B-T DOES NOT APPLY.

Due process in the classic case of B-T was met by the patentee having an opportunity to show in any relitigation of the invalid patent that he did not get a full and fair first trial. This meets the basic due process requirements.

In Bontell v. Volk the court refused to extend B-T to a first litigation which held the patent valid. The court held that B-T had not relaxed the mutuality requirement as to:

> "a new infringer following an adjudication of validity. To so hold would deprive the alleged infringer of a trial. Thus, the obvious distinction is that it is not inequitable to relax mutuality in a situation in which the patentee has fired his best shot, so to speak, and has missed. On the other hand, it is grossly inequitable to bind a party to

a judgment of validity rendered in an action against some other party."

Of course, it would violate due process to bind the party to a judgment of validity in an action of which he was not a party.

In Grantham et al. v. McGraw-Edison Company et al., the court held:

"the Blonder-Tongue decision was not intended to constitute a wholesale rejection of the mutuality requirement. The holding of Blonder-Tongue was that "Triplett should be overruled to the extent it forecloses a plea of estoppel by one facing a charge of infringement of a patent that has once been declared invalid." That holding does not reach this case where there has never been a determination of the validity of the Granthams' patent."

The plaintiff-patentee in Hall et al. v. U.S. Fiber & Plastics Corporation, appealed lower court judgment of invalidity of his patent, but did not appeal finding of non-infringement. Third Circuit Court held question raised was moot between the parties, and dismissed. Court brushed off patentee's contentions that B-T could be applied against patentee in second suit, if one were brought.

V. B-T ATTORNEY FEES.

In discussing the award of attorney fees, the Supreme Court

in B-T found that under 35 U.S.C. 285, the award of reasonable attorney's fees to a prevailing party 'in exceptional cases' would not take effect until after the litigation had been completed. This meant that the money outlay required to try a lawsuit having validity issues had already occurred.

This factor undoubtedly forced many alleged infringers into accepting licenses rather than litigating.

Accordingly, B-T found that the award of attorney's fees was an inappropriate solution to the Triplett problem in that the penalty, if any, would occur after the mischief of the second action relitigating the invalid patent. Since it would not resolve the problem, B-T left the award of attorney's fees where it found it. It is doubtful if B-T considerations alone will result in the award of attorney fees of a relitigated invalid patent. So long as the relitigation of the question of validity does not become excessive, it would seem that a patentee can have more than just one bite at the apple, though B-T clearly limits invalidity considerations to one good bite.

VI. B-T, CLASS ACTIONS AND COURT PROCEDURE.

The chief impediment to bringing class actions in patent cases was removed by the holding of B-T. Prior to B-T, if the patentee brought a class action and lost, the patent would be invalid as to that whole class of defendants. Tactically, the patentee was better off litigating against the defendants one at a time, since prior to B-T, invalid decisions would, except for

comity, not prevent the patentee from continuing to bring new actions against new defendants.

B-T changed the basic considerations in that once the patent was held invalid, if the patentee chose to bring a second suit against a new defendant, the new defendant could under B-T affirmatively plead collateral estoppel, and most likely end the matter there unless the patentee could show he did not receive a full and fair trial in the invalidity action. Thus, the B-T holding placed a new interest on class actions.

B-T was a principal topic in Dale Electronics, Inc. v. R.C.L. Electronics, Inc. The district court ruled that class actions were not inconsistent with the holding of B-T.

The defendants argued that since B-T, class actions are unnecessary. They reasoned that once a separate adjudication held the patents invalid, the patentee would be estopped to relitigate against new defendants. The court countered this argument by noting that there was nothing in B-T to either prevent a class action from being brought or "that the determination that a patent is valid should not be held binding on all class defendants."

The court noted that the only issue in the class action was the validity of the patents, and that the issue of infringement would be determined in individual actions on a case by case basis.

Mobil Oil Corporation v. W. R. Grace & Company, and a companion case Filtrol Corporation et al. v. Kelleher, indicate some of the questions and complexities of multiple litigations

and other court procedures.

In the Mobil case brought for patent infringement, the Texas district court held that B-T "did not increase the significance of the plaintiff's choice of forum in patent cases," and permitted transfer of the action to the district court in Connecticut.

In the Filtrol case, Mobil Oil Corporation was again the plaintiff, who brought suit in California for infringement of the same patents in suit in the above noted Texas and Connecticut cases. The Ninth Circuit held:

> "Blonder-Tongue does not require that a district court with a justiciable controversy before it await the outcome of a pending action in another district.....
>
> "...Blonder-Tongue will apply only if the issue of validity is decided against Mobil in the Connecticut case. If the patents are held valid in that case petitioners could retry the issue in the California case. Also, if the patents are held invalid in the Connecticut case, Mobil could still attempt to show, in the California case, that it "did not have 'a fair opportunity procedurally, substantively and evidentially to pursue (its) claim the first time'" in the Connecticut case."

So holding, the Ninth Circuit affirmed the lower court's order of a separate trial on the issue of infringement, while postponing consideration of the validity question until the outcome of the Connecticut case.

VII. CONCLUSION.

The B-T case is unique in that regardless of whether one considers the Supreme Court decision to be pro-patent or anti-patent by overruling Triplett, it brought the patent law into accord with other areas of the law with respect to the doctrine of mutuality of estoppel.

In view of the already numerous cases which discuss, rely and cite B-T, it is apparent that the decision of B-T has had immense impact on the patent law, and it has also produced a ripple effect in other areas of the law.

This presentation is a summary of a paper by the same title which deals with B-T in more detail and depth, including cited cases, statutes, court rules and secondary authority. A copy of this paper is available to any member of this association upon request.

Thank you for your kind attention.

SAMPLE PATENT LICENSE AGREEMENT BETWEEN A U. S. LICENSOR AND A JAPANESE LICENSEE

AS PART OF A PRESENTATION BY:

HAROLD LEVINE
ASS'T. VICE PRESIDENT & GENERAL PATENT COUNSEL
TEXAS INSTRUMENTS INCORPORATED
DALLAS, TEXAS

FOR SPECIAL DISTRIBUTION TO ATTENDEES OF THE

1973 PACIFIC INDUSTRIAL PROPERTY ASSOCIATION (PIPA) CONGRESS

SAN FRANCISCO

OCTOBER 1-3, 1973

SAMPLE PATENT LICENSE AGREEMENT BETWEEN
A U. S. LICENSOR AND A JAPANESE LICENSEE

Presented by
HAROLD LEVINE
ASS'T. VICE PRESIDENT & GENERAL PATENT COUNSEL
TEXAS INSTRUMENTS INCORPORATED
DALLAS, TEXAS

THIS AGREEMENT is made by and between JAPAN MANUFACTURING CORPORATION, a corporation of Japan, having a place of business in _____, Japan (hereinafter referred to as "LICENSEE"), and U. S. MANUFACTURING CORPORATION, a corporation of the State of _____, having a place of business at _____, United States of America (hereinafter referred to as "LICENSOR"):

WHEREAS, LICENSOR owns and has or may have rights in various patents issued and applications for patents pending in various countries of the world as to which LICENSEE desires to acquire licenses as hereinafter provided;

WHEREAS, LICENSEE owns and has or may have rights in various patents issued and applications for patents pending in various countries of the world as to which LICENSOR desires to acquire licenses as hereinafter provided;

WHEREAS, LICENSOR and LICENSEE are engaged in continuing research, development and engineering in regard to LICENSED PRODUCTS (as hereinafter defined) and contemplate the possibility of filing applications for the patenting of inventions resulting therefrom;

NOW, THEREFORE, in consideration of the mutual covenants and premises contained herein, the parties hereto agree as follow:

ARTICLE 1

DEFINITIONS

As used in this Agreement:

Section 1. "SUBSIDIARY" of LICENSEE or LICENSOR means a corporation, company or other entity, fifty percent (50%) or more of whose outstanding shares or stock entitled to vote for the election of directors (other than any shares or stock whose voting rights are subject to restriction)is owned or controlled by LICENSEE or LICENSOR, as the case may be, directly or indirectly, now or hereafter, provided that any corporation, company or other entity which would at any time be a SUBSIDIARY by reason of the foregoing shall be considered as a SUBSIDIARY for the purpose of this Agreement only so long as fifty percent (50%) or more of its outstanding shares or stock as aforesaid, is so owned or controlled directly or indirectly, by LICENSEE or LICENSOR. "SUBSIDIARIES" of LICENSEE or LICENSOR shall mean, respectively, all corporations, companies or other entities which qualify as a "SUBSIDIARY" under the foregoing.

Section 2. "EFFECTIVE DATE" means the date of issuance by the competent authorities of the Government of Japan, pursuant to the Law Concerning Foreign Investment (Law No. 163 of 1950, as amended), of

validation, in form and substance and in a manner satisfactory to each of the parties hereto, based upon an application for validation of the conclusion of this Agreement to be filed by the parties hereto.

Section 3. "LICENSED PRODUCTS" means (INSERT DEFINITION).

Section 4. "LICENSEE PATENTS" means patents, utility models and design patents of all countries of the world, applications for which have a first effective filing date in any country prior to the date of expiration or termination of this Agreement, in respect of which LICENSEE has, as of the EFFECTIVE DATE, or may thereafter during the term of this Agreement acquire, or under which and to the extent to which and subject to the conditions under which LICENSEE may have, as of the EFFECTIVE DATE, or may thereafter during the term of this Agreement acquire, the right to grant licenses of the scope granted herein without the payment of royalties or other consideration to third persons, except for payments to a SUBSIDIARY of LICENSEE and payments to third persons for inventions made by said third persons while employed by LICENSEE or a SUBSIDIARY of LICENSEE.

Section 5. "LICENSEE PATENT APPLICATIONS" means any applications for patents, utility models, and design patents, which, when issued, will become LICENSEE PATENTS.

Section 6. "LICENSOR PATENTS" means patents, utility models, and design patents of all countries of the world, applications for which

have a first effective filing date in any country prior to the date of expiration or termination of this Agreement, in respect of which LICENSOR has, as of the EFFECTIVE DATE, or may thereafter during the term of this Agreement acquire, or under which and to the extent to which and subject to the conditions under which LICENSOR may have, as of the EFFECTIVE DATE, or may thereafter during the term of this Agreement acquire, the right to grant licenses of the scope granted herein without the payment of royalties or other consideration to third persons, except for payments to a SUBSIDIARY of LICENSOR and payments to third persons for inventions made by said third persons while employed by LICENSOR or a SUBSIDIARY of LICENSOR.

Section 7. "LICENSOR PATENT APPLICATIONS" means applications for patents, utility models, and design patents, which, when issued, will become LICENSOR PATENTS.

ARTICLE II

MUTUAL RELEASES

Section 1. LICENSEE hereby releases, acquits and forever discharges LICENSOR and all of its SUBSIDIARIES sublicensed pursuant hereto from any and all claims or liability for infringement or alleged infringement of any of the LICENSEE PATENTS and LICENSEE PATENT APPLICATIONS under which licenses are herein granted by LICENSEE, by the performance by LICENSOR or any of its SUBSIDIARIES sublicensed as aforesaid, prior

to the EFFECTIVE DATE, of acts licensed or sublicensed pursuant to this Agreement.

Section 2. LICENSOR hereby releases, acquits and forever discharges LICENSEE and all of its SUBSIDIARIES sublicensed pursuant hereto from any and all claims or liability for infringement or alleged infringement of any of the LICENSOR PATENTS and LICENSOR PATENT APPLICATIONS under which licenses are herein granted by LICENSOR, by the performance by LICENSEE or any of its SUBSIDIARIES sublicensed as aforesaid, prior to the EFFECTIVE DATE, of acts licenses or sublicensed pursuant to this Agreement.

ARTICLE III

GRANT OF LICENSE BY LICENSOR

Section 1. LICENSOR grants and agrees to grant to LICENSEE non-exclusive licenses, under LICENSOR PATENTS and LICENSOR PATENT APPLICATIONS, to make, to use, lease, sell or otherwise dispose of anywhere in the world, LICENSED PRODUCTS, subject to the payments to be made by LICENSEE pursuant to this Article III.

Section 2. For and in consideration of the release, acquittal and discharge provided for in Section 2 of Article II hereof, LICENSEE shall pay to LICENSOR, within thirty (30) days after the EFFECTIVE DATE, at the address of LICENSOR indicated in Article VIII hereof, the sum of

Yen (y)

Section 3. LICENSEE shall pay to LICENSOR, in accordance with the provisions of Article VI hereof, royalties in the amount of _____ percent (___%) of the "Net Sales Price" (to be determined pursuant to Article VI hereof) of LICENSED PRODUCTS made by LICENSEE or by any of its SUBSIDIARIES sublicensed pursuant hereto, and used, leased, sold or otherwise disposed of anywhere in the world, if, and to the extent to which, upon manufacture such LICENSED PRODUCTS include, or the manufacture of such LICENSED PRODUCTS employs, any invention claimed by any LICENSOR PATENTS in force in the country of such manufacture and at the time of such manufacture or if, and to the extent to which, such LICENSED PRODUCTS include, when used, leased, sold or otherwise disposed of, any invention claimed by any LICENSOR PATENTS in force at the time and in the country of use, lease, sale or other disposition.

Section 4. With regard to each of the LICENSOR PATENT APPLICATIONS in Japan* which are licensed hereunder, the obligation to pay royalties pursuant to Section 3 of this Article III of LICENSEE or any of its SUBSIDIARIES sublicensed pursuant to Article V hereof shall, upon the issuance of LICENSOR PATENTS thereon, in each case, become retroactively effective as of the respective publication dates of the LICENSOR PATENT APPLICATIONS in Japan or the EFFECTIVE DATE whichever occurs later.

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* Also it would be well to include other countries (such as Germany) in which the obligation to pay royalties or liability for infringement is retroactive to the publication date of the patent upon its grant.

ARTICLE IV

GRANT OF LICENSES BY LICENSEE

Section 1. LICENSEE grants and agrees to grant to LICENSOR nonexclusive royalty-free world-wide licenses, under LICENSEE PATENTS and any LICENSEE PATENT APPLICATIONS, to make, to use, to lease, to sell and to otherwise dispose of LICENSED PRODUCTS.

ARTICLE V

SUBLICENSES TO SUBSIDIARIES

Section 1. Subject to compliance with the terms and conditions of the provisions of Section 2 and Section 3 of this Article V, each party hereto shall have the right to grant to all or any of its SUBSIDIARIES sublicenses under the licenses granted to it pursuant this Agreement.

Section 2. Each party hereto shall have the right to grant sublicenses pursuant to Section 1 of this Article V only to those of its SUBSIDIARIES which, on or before the date of exercise by such party hereto of such right, enter into a written agreement with such party, and only for so long as any such SUBSIDIARY shall continue to be legally bound by such written agreement with such party, to grant to such party licenses, under all patents and applications for patents of each such SUBSIDIARY which relate to LICENSED PRODUCTS, which licenses shall grant to the other party hereto rights in and to such patents and applications for patents of such SUBSIDIARY of a nature which results in the inclusion of all such patents

and applications for patents of each such SUBSIDIARY within the definitions of LICENSOR PATENTS or LICENSOR PATENT APPLICATIONS or within the definitions of LICENSEE PATENTS or LICENSEE PATENT APPLICATIONS, as the case may be, for purposes of this Agreement.

Section 3. LICENSEE shall assume full responsibility of accounting for and shall pay to LICENSOR all royalties which may become due and payable to LICENSOR, and LICENSEE shall assume full responsibility of accounting for and shall pay to LICENSOR all payments which may become due and payable to LICENSOR by LICENSEE, pursuant to this Agreement in respect of the manufacture, use, lease, sale or other disposition of LICENSED PRODUCTS by a SUBSIDIARY sublicensed pursuant to this Article V.

ARTICLE VI

ACCOUNTING FOR ROYALTIES

Section 1. For purposes of the calculation of the royalties payable hereunder, a "use," "lease," "sale," or "other disposition" of LICENSED PRODUCTS by LICENSOR, LICENSEE or any of its SUBSIDIARIES sublicensed pursuant to Article V hereof shall be deemed to have been effected in accordance with the following:

(a) A "sale" of any LICENSED PRODUCTS shall be deemed to have been effected as of the date of actual dispatch by LICENSEE, or any of its SUBSIDIARIES sublicensed pursuant to

Article V hereof, of any of such LICENSED PRODUCTS to the purchaser thereof, or the date of dispatch by any of them of a bill or invoice to any such purchaser, whichever shall first occur.

(b) A "lease" of any LICENSED PRODUCTS shall be deemed to have been effected as of the date of actual dispatch by LICENSEE, or any of its SUBSIDIARIES sublicensed pursuant to Article V hereof, of any of such LICENSED PRODUCTS to lessee thereof, or the date of dispatch by any of them of a bill or invoice to any such lessee, whichever shall first occur.

(c) A "use" or "other disposition" of LICENSED PRODUCTS shall be deemed to have been effected as of the date upon which such use or other disposition shall first occur.

Section 2. (a) For purposes of the calculation of royalties payable hereunder by LICENSEE hereof, the term "Net Sales Price" shall mean the gross invoice values of LICENSED PRODUCTS, less returns, sales taxes, cost of insurance, cost of freight, cost of packing, or other transportation charges and quantity discounts given to customers, but only if such returns, taxes, costs, charges and discounts are

expressly stated and separately invoiced, or may be readily determined by acceptable accounting practices, provided, however, that in all cases the "Net Sales Price" employed pursuant hereto in the computation of royalties shall be a genuine and objective selling price which would be established in a customary bona fide arm's length transaction between unrelated and independent parties which have no affiliation or other interest which might affect said genuine and objective selling price.

(b) In the event LICENSED PRODUCTS are made by LICENSEE, or any of its SUBSIDIARIES sublicensed pursuant to Article V hereof and such LICENSED PRODUCTS are used or otherwise disposed of, but are not leased or sold, or if leased or sold, are leased or sold by LICENSEE, or any of its SUBSIDIARIES sublicensed as aforesaid to a SUBSIDIARY of LICENSEE or to an otherwise affiliated party at a price which is less than a genuine and objective selling price, which would be established in a customary bona fide arm's length transaction between unrelated and independent parties which have no affiliation or other interest which might affect said genuine and objective selling price, then the "Net Sales Price" figure employed in the computation of royalties shall be the prevailing "Net Sales Price" of the identical type of LICENSED PRODUCT sold or leased by LICENSEE, or any of its SUBSIDIARIES sublicensed as aforesaid, as the case may be, to independent

and unrelated third party purchasers or lessees. In the event that LICENSEE, or any of its SUBSIDIARIES sublicensed as aforesaid shall not have customarily sold or leased the identical type of LICENSED PRODUCT to independent and unrelated third party purchasers or lessees, then the "Net Sales Price" figure employed in the computation of royalties shall be the full cost of production, including all direct costs and full overhead, for the amount of such LICENSED PRODUCTS sold or leased to a SUBSIDIARY or affiliate, or used or otherwise disposed of, as aforesaid, plus either:

(i) The average mark-up over such production costs in the sale or lease of all LICENSED PRODUCTS to independent and unrelated third party purchasers or lessees; or

(ii) A flat _____ percent (____%) in addition to all direct costs and full overhead,

at the option of the party hereto making such computation.

Section 3. It is expressly understood and agreed by the parties hereto that all computations relating to determination of the amounts of royalties due and payable pursuant to this Agreement shall be made in accordance with internationally recognized and generally accepted accounting principles as reflected in the practice of certified independent public accountants of international reputation.

Section 4. All royalties to be paid by LICENSEE pursuant to Article III hereof, in respect of the licenses and sublicenses granted pursuant to this Agreement, shall be paid in respect of each calendar semi-annual period during the term of this Agreement, provided, however, that, for the period commencing with the EFFECTIVE DATE and ending on the last day of the calendar semi-annual period during which the EFFECTIVE DATE occurs and for the period commencing with the first day of the calendar semi-annual period during which the term of this Agreement shall expire or terminate pursuant to Article VII hereof, and ending on the date of such expiration or termination of the term of this Agreement as aforesaid, royalties shall be paid in respect of the period concerned in each case.

Section 5. All payments of royalties pursuant to this Agreement, by LICENSEE to LICENSOR shall be made within sixty (60) days after the last day of each full calendar semi-annual period during the term of this Agreement, or any renewal or extension thereof, or after the last day of any shorter period as provided for in this Article VI.

Section 6. On or before the date on which each royalty payment is due and payable pursuant to this Agreement, LICENSEE shall furnish LICENSOR a written statement in the English language, certified by an authorized representative of LICENSEE concerning the computation of

royalties due and payable by LICENSEE, in respect of the preceding calendar semi-annual period or portion thereof as provided for in this Article VI. Each such certified statement shall contain information in sufficient detail to permit the accuracy of each royalty payment due and payable pursuant to this Agreement, due and payable by LICENSEE, to be readily determined, and, in particular, shall set forth the following:

(a) The number and identifcation of all LICENSED PRODUCTS which have been made by LICENSEE or any of its SUBSIDIARIES sublicensed pursuant to Article V hereof and which have been used, leased, sold or otherwise disposed of during the period in respect of which such certified statement is rendered to the extent that such manufacture, use, lease, sale or other disposition constitutes an act for which royalties are payable pursuant to this Agreement.

(b) The "Net Sales Price" of LICENSED PRODUCTS in respect of which royalties are due and payable pursuant to this Agreement in respect of the period for which such certified statement is rendered.

(c) The amount of royalties due and payable pursuant to this Agreement in respect of the period for which such certified statement is rendered.

(d) The identity of each SUBSIDIARY or other affiliate which is either a user, lessee or vendee of LICENSED PRODUCTS or is a party to whom LICENSED PRODUCTS are disposed of by LICENSEE, or any of its SUBSIDIARIES sublicensed as aforesaid and the number, identification and "Net Sales Price" of such LICENSED PRODUCTS so used, leased, sold or otherwise disposed of to or by any such SUBSIDIARY.

Further, anything to the contrary in this Section 6 notwithstanding, each party hereto shall furnish whatever additional information LICENSOR may reasonably prescribe from time to time to enable LICENSOR to ascertain which LICENSED PRODUCTS used, leased, sold or otherwise disposed of by LICENSEE, or any of its SUBSIDIARIES sub-licensed as aforesaid, are subject hereunder to the payment of royalties pursuant to this Agreement.

Section 7. LICENSEE shall keep full, clear and accurate records with respect to LICENSED PRODUCTS for which royalties are or may be due and payable pursuant to this Agreement. LICENSOR hereto shall have the right, at its expense, through a firm of independent certified public accountants of international reputation, or through such other qualified personnel as may be acceptable to both parties hereto, to examine and audit at all reasonable times all such records and such other

records and accounts as may under internationally recognized accounting practices contain information bearing upon the amount of royalties due and payable pursuant to this Agreement. Prompt adjustment shall be made by the proper party to compensate for any errors or omissions disclosed by such examination or audit. Neither such right to examine and audit nor the right to have such adjustment made shall be affected by any statement to the contrary appearing either on checks or otherwise, unless such statement appears in a letter, signed by the party having such right and delivered to the other party, expressly waiving such right.

Section 8. All royalties and payments due and payable by LICENSEE to LICENSOR pursuant to this Agreement shall be paid to LICENSOR by remittance of United States dollars to the United States of America at the address of LICENSOR set forth in Article VIII hereof or at such other address in the United States of America as LICENSOR may from time to time designate in writing. All sums payable to LICENSOR pursuant to this Agreement, if expressed in Japanese yen currency, shall be converted at the official rate of exchange between Japanese yen and United States dollars, quoted by an authorized exchange bank in Japan, designated by LICENSOR the day of remittance of the sums in question.

Section 9. All taxes imposed as a result of the existence of this Agreement or the performance of the parties hereunder shall be borne and paid by the party required to do so by applicable law, and, if so

required by applicable law, a party hereto making payment pursuant to this Agreement shall withhold the amount of any national taxes levied on such payment by the national government of such party making payment, shall promptly effect payment to the appropriate tax authorities of such national government, of the national taxes so withheld, and shall transmit to the other party hereto official tax receipts or other evidence issued by said appropriate tax authorities sufficient to enable such other party hereto to support a claim for credit, in respect of any such taxes so withheld and paid, against income taxes which may be levied by the national government of such other party hereto.

Section 10. Only one royalty shall be due and payable pursuant to this Agreement in respect of any LICENSED PRODUCT subject to the obligation of royalty payment hereunder, irrespective of the number of LICENSOR PATENTS used and irrespective of accounting of use, lease, sale, or other disposition.

ARTICLE VII

EFFECTIVE DATE, TERM, TERMINATION AND SURVIVAL OF LICENSES

Section 1. This Agreement shall become effective as of the EFFECTIVE DATE. It is expressly understood and agreed by the parties hereto that notwithstanding the execution of this Agreement, this Agreement and all rights and duties hereunder shall remain wholly executory until

the EFFECTIVE DATE, provided, however, that nothing contained herein shall be construed so as to relieve either party hereto of the obligation to exert their best and most diligent efforts to secure, from the competent authorities of the Government of Japan, validation, in form and substance satisfactory to both of the parties hereto, of the conclusion of this Agreement. Further, in the event that such validation does not issue within the ninety (90) day period commencing with the date of filing with said competent authorities an application for validation of the conclusion hereof, either party shall have the unconditional right to terminate this Agreement forthwith by dispatch to the other party of written notice to that effect, whereupon this Agreement shall become null and void ab initio, and all rights, duties and obligations of the parties hereunder shall no longer exist.

Section 2. Except as otherwise provided for in this Article VII, this Agreement shall remain in force for a period commencing with the EFFECTIVE DATE and ending on the expiration of _____ (____) years after the EFFECTIVE DATE.

Section 3. In the event of a failure by LICENSEE to make any payment in full and in a prompt manner as elsewhere provided in this Agreement, or in the event of any other material breach of this Agreement by either party hereto, if such failure or other material breach is not corrected within forty-five (45) days after written notice complaining

thereof is given to the party who has failed to make payment as aforesaid or is otherwise in breach as aforesaid, this Agreement may be terminated forthwith by written notice to that effect from the complaining party.

Section 4. If, at any time during the term of this Agreement, any government or any agency thereof should require, directly or indirectly, alteration or modification of any term or condition of this Agreement or of the performance of the parties hereunder in a manner which is material and adverse to either party hereto, then such party may, in its sole discretion, terminate this Agreement forthwith in its entirety by giving written notice to that effect to the other party hereto. It is expressly understood and agreed by the parties hereto that in the event of such termination, the party electing to terminate this Agreement pursuant to this Section 4 will incur no liability to the other party hereto for any alleged default or breach in the performance of this Agreement arising from the exercise of the right herein provided to terminate this Agreement.

Section 5. Except as otherwise provided for elsewhere in this Agreement, licenses and sublicenses granted pursuant to this Agreement shall cease forthwith as of the date of expiration or termination of this Agreement.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 1. Expiration or termination of this Agreement pursuant to Article VII hereof shall not release either party hereto from any liability which as of the date of expiration or termination has already accrued to the party hereto, nor affect in any way the survival of any right, duty or obligation of either party hereto. LICENSEE shall account for and pay to LICENSOR any such sums of money due and payable as aforesaid within sixty (60) days following the date of expiration or termination of this Agreement, such payment to be accompanied by a certified statement of the kind to be furnished pursuant to Article VI of this Agreement.

Section 2. In the event that the relationship of a SUBSIDIARY of a party hereto changes so that such corporation, company or other entity ceases to be such a SUBSIDIARY, the sublicenses which were granted to such corporation, company or other entity under this Agreement shall automatically terminate as of the date such relationship changes, but termination of any such sublicense under this Section 2 shall not release the SUBSIDIARY whose relationship changes as aforesaid from any liability which at the date of such termination has already accrued to the other party, nor affect in any way the survival of any duty or obligation of such SUBSIDIARY to the other party hereto.

Section 3. It is recognized that LICENSOR, LICENSEE or any of their SUBSIDIARIES sublicensed pursuant to Article V hereof may have contracted or may hereafter contract with a third party who is not a party hereto, such as a national or other sovereign government, governmental agency, or inter-governmental authority, to do work financed by such party and to assign to such third party its right to grant licenses (other than licenses by either party hereto to any of its SUBSIDIARIES or by any SUBSIDIARY of a party hereto to its parent corporation or to any other SUBSIDIARY of such parent corporation) under patents for inventions arising out of such work, or that LICENSOR, LICENSEE or any of their SUBSIDIARIES sublicensed as aforesaid may now or hereafter otherwise be restrained by any such third party for whom work financed by such third party is done, from granting licenses (other than licenses by either party hereto to any of its SUBSIDIARIES or by any SUBSIDIARY of a party hereto to its parent corporation or to any other SUBSIDIARY of such parent corporation) under patents for inventions arising out of such work. The inability, for any such reason, of either of the parties hereto, or of any one of their SUBSIDIARIES sublicensed as aforesaid, to grant the licenses herein agreed to be granted shall not be considered a breach of this Agreement.

Section 4. Neither of the parties hereto nor any of their SUBSIDIARIES sublicensed pursuant to Article V hereof shall be required by anything

contained in this Agreement to file in any country an application for patent on any invention, or to secure any patent or, once having filed an application for patent or obtained a patent, to maintain the patent application or the patent in force.

Section 5. Nothing contained in this Agreement shall be construed as:

(a) a warranty or representation by any of the parties hereto as to the validity or scope of any patent; or

(b) a warranty or representation that any manufacture, use, lease, sale or other disposition of LICENSED PRODUCTS will be free from infringement of patents other than those under which and to the extent to which licenses and sublicenses are granted and in force pursuant to this Agreement; or

(c) an agreement to bring or prosecute actions or suits against third parties for infringement or conferring any right to bring or prosecute actions or suits against third parties for infringement; or

(d) conferring any right to use in advertising, publicity, or otherwise, any trademark, trade name or names, or any contraction, abbreviation or simulation thereof, of either party hereto; or

(e) conferring by implication, estoppel or otherwise, upon any party hereto licensed under this Agreement or any of its SUBSIDIARIES sublicensed pursuant to Article V hereof, any license or other right under any patent except the licenses, sublicenses and rights expressly granted under this Agreement; or

(f) an obligation to furnish any technical information or know-how.

Section 6. This Agreement and the licenses granted herein shall inure to the benefit of the parties hereto, and, insofar as is expressly provided for herein, to any SUBSIDIARIES of the parties hereto sublicensed pursuant to Article V hereof. Neither party hereto shall assign or transfer any of its rights or privileges hereunder without the prior written consent of the other party or without such authorization or approval of any competent governmental authority as then may be required, except to a successor in ownership of all or substantially all the assets of the assigning party, and which successor shall expressly assume in writing performance of all of the terms and conditions of this Agreement to be performed by the assigning party.

Section 7. This Agreement is in the English language only, which language shall be controlling in all respects, and all versions hereof in any other language shall be for accommodation only and shall not be binding upon the parties hereto. All communications, including, but not

limited to, the certified statements contemplated by Article VI hereof, and notices contemplated by Article VIII to be made or given pursuant to this Agreement shall be in the English language.

Section 8. All notices required or permitted to be given hereunder shall be in writing and shall be valid and sufficient if dispatched by registered airmail, postage prepaid, in any post office in the United States or in Japan, as the case may be, addressed as follows:

If to LICENSOR:

If to LICENSEE:

Either party may change its address by a notice given to the other party in the manner set forth above. Except as otherwise expressly provided elsewhere in this Agreement, notices given as herein provided shall be considered to have been given fourteen (14) days after the mailing thereof.

Section 9. No oral explanation or oral information by either party hereto shall alter the meaning or interpretation of this Agreement. No modification, alteration, addition or change in the terms hereof shall be binding on either party hereto unless reduced to writing and duly executed by the parties hereto.

Section 10. This Agreement and matters connected with the performance thereof shall be construed, interpreted, applied, and governed in all respects in accordance with the laws of _____ United States of America.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf by its duly authorized representative on the date below written.

("LICENSEE")

By: _____

Title: _____

Date: _____

("LICENSOR")

By: _____

Title: _____

Date: _____

OBLIGATIONS OF A LICENSOR TO MAINTAIN AND PROTECT THE LICENSED PATENT IN THE U. S.

WILLIAM H. NICHOLSON

SEPTEMBER 25, 1973

OBLIGATIONS OF A LICENSOR TO MAINTAIN AND PROTECT THE LICENSED PATENT IN THE U. S.

Licenses in General:

Licenses are contracts dealing with one type of property, intellectual property, and are interpreted and construed under the law of contracts. In this respect, licenses do not differ from other contracts. The rights to enjoy and enforce the provisions of a license are dependent upon the contractual nature of the license, rather than upon the fact that patent rights are involved.

The patent grant gives the owner the right to exclude others from the enjoyment of the patented subject matter. Accordingly, a license in total effect amounts to an understanding on the part of the patent owner not to assert his right to exclude others against the licensee, if and when the licensee practices the invention. Essentially, this is true whether the license is exclusive or nonexclusive. An exclusive license merely adds the further undertaking on the part of the licensor not to enter into a similar agreement with any other party, or to assert the right to use the patent on his own behalf.

Exclusive Licenses

The patent law specifically authorizes exclusive licenses (35 U.S.C. 261). The grant of an exclusive license

bars the licensor from practicing the invention unless he has specifically reserved the right to do so.(1) The grantor, however, may retain the right to practice the licensed subject matter. It therefore follows that the exclusive licensee may not be the only party authorized to practice the licensed invention.(2) Such a licensee is often termed a "sole licensee".

Non-Exclusive Licenses

Non-exclusive licenses are, in legal effect, agreements by the licensor not to sue the licensee for infringement of the intellectual property rights transferred.(3) The rights conveyed are generally construed as personal to the licensee.(4) There appears to be some use of the device of granting covenants not to sue in lieu of explicit licenses.

Absent express provisions to the contrary, a non-exclusive licensor may practice the invention himself and authorize others to do so for him. Non-exclusive licenses have no statutory basis and constitute merely a waiver of infringement under the licensed invention.(5)

Obligations of the Licensor to Enforce Patent in Non-Exclusive License

The licensor may freely license others, or may tolerate infringers; and, in either case, no right

of the licensee is violated.[3] A non-exclusive license to practice a patented invention gives the licensee no right to join as plaintiff in a suit against an infringer.[3] Thus, the licensor of a non-exclusive license has no obligation to the licensee to maintain and protect his patent.

Obligations of Licensor to Enforce Patent in Exclusive License

The rule of law is that in the absence of an express agreement to the contrary, a licensor is under no obligation to protect the licensee against competition from infringers.[6] It has however been successfully argued in an old case[6a] that where licensor failed to enforce his patent against several infringers the licensee may rescind the contract on grounds of failure of consideration, in that licensee did not receive the exclusive right contracted for.

The responsibility for enforcing the licensed patent rights against infringers is frequently expressed in the license agreement. One approach, which has been upheld under the antitrust laws, is to impose full responsibility on the licensor.[7] The licensor's failure to comply with a covenant to protect the licensed patent may relieve the licensee of its obligation to pay royalties.[8] It has been held that when an enforcement clause specifies that the licensor be "notified" of alleged infringements, actual notification by the licensee is necessary to satisfy the covenant.[9]

An alternative to imposing full responsibility on a licensor to enforce the licensed patent is to give the

licensee the option to sue infringers. The expense of such litigation is generally to be borne by the licensee, who is likewise entitled to all recoveries. In the usual situation, the licensor is expressly obligated to cooperate with the licensee, on penalty of being precluded from receiving royalties which accrue thereafter.(10)

Yet another approach to the problem of enforcement is to have the parties participate jointly in suits against infringers. Under such clauses, the parties will normally share expenses and recoveries in accordance with a predetermined schedule or formula. The licensor's share in the recoveries might, for example, be limited to the percentage of its contribution to expenses. The mandatory contribution to expenses could be expressed as a percentage of royalties payable by the licensee during the period of litigation. In any event, the agreement should prescribe which party, when joint participation is planned, has the right to choose counsel and control the conduct of the litigation.

A licensee under an exclusive license that is in legal effect an assignment, may be able to bring suit for infringement of the licensed patent in his own name. Independent Wireless Telegraph Co. v. Radio Corp. of Am., 269 U.S. 459 (1926); Waterman v. MacKenzie, 138 U.S. 252 (1891).

Although the Independent Wireless case is old, 1926, it contains a still valid statement of the law as follows:

> "It seems clear, then, on principle and authority, that the owner of a patent, who grants to another the exclusive right to make, use or vend the invention, which does not constitute a statutory assignment, holds the title to the patent in trust for such a licensee, to the extent that he must allow the use of his name in any action brought at the instance of the licensee in law or in equity to obtain damages for the injury to his exclusive right by an infringer or to enjoin infringement of it. Such exclusive licenses frequently contain express covenants by the patent owner and licensor to sue infringers, that expressly cast upon the former the affirmative duty of initiating and bearing the expense of the litigation. But, without such express covenants, the implied obligation of the licensor to allow the use of his name is indispensable to the enjoyment by the licensee of the monopoly which by personal contract the licensor has given. Inconvenience and possibly embarassing adjudication in respect to the validity of the licensor's patent rights, as the result of suits begun in aid of the licensee, are only the equitable and inevitable sequence of the licensor's contract, whether express or implied." 269 U.S. 459, 469.

> "The owner beyond the reach of process may be made co-plaintiff by the licensee, but not until after he has been requested to become such voluntarily. If he declines to take any part in the case, though he knows of its imminent pendency and of his obligation to join, he will be bound by the decrees which follow." 269 U.S. 459,473.

> "The presence of the owner of the patent as a party is indispensable, not only to give jurisdiction under the patent laws, but also in most cases to enable the alleged infringer

> to respond in one action to all claims of infringement for his act, and thus either to defeat all claims in one action, or by satisfying one adverse decree to bar all subsequent actions". 269 U.S. 459, 468.

It is also clear that the contractual arrangements of the patent owner and his licensee cannot determine as against third parties the locus of the power to maintain action. Thus Agrashell, Inc. v. Hammons Products Co., 352 F. 2d 443 (1965), involved a situation in which Purex Corp., the owner of the patent in controversy, had granted to Agrashell, Inc.:

(1) the sole and exclusive right and license to manufacture, use, and sell the compositions and processes described and claimed in the Licensed Patent ..."except for the right expressly reserved by Purex to make, use, and sell such compositions and to convey to purchasers thereof the right to use such processes"; and

(2) a right to sue for infringement in its own name, subject to a requirement of 15 days' notice to Purex of any proposed suit and to the right of Purex to elect to participate in the suit and to receive one half of all sums recovered.

The court found that the reservations contained in (1), above, disqualified Agrashell from being an assignee and left it at most the assignee of "an undivided part or

share". Because in such a situation joinder of the assignor is required, the court found that the fact that the agreement purported to give Agrashell the right to sue in its own name was without significance. To the same general effect is Etherington v. S.M. Hardee, 182 F. Supp. 905 (S.D. Tex., 1960).

The converse of the questions discussed above, the right of the exclusive licensee to bring suit in his own name, is that of the right of a patent owner who has granted a license to bring suit without joining his licensee as an indispensable party. The test of indispensability, stated in broad terms, appears to be whether the rights of the licensee will inevitably be affected by a decree likely to eventuate from the suit. If the answer is affirmative, indispensability is established. Under this test a person holding a general exclusive license would have to be joined, while the holder of a license (exclusive or otherwise) in a field disparate from the subject matter in suit probably would not.

The point of the foregoing is, from the standpoint of the contract draftsman, to emphasize that the right to bring and maintain suit on a patent cannot, by contract alone, be assigned arbitrarily as between a licensor and his licensee. On the contrary, overriding considerations of law and equity may frustrate an attempted contractual arrangement which overlooks the "indispensable party"

viewpoints developed above.

On the other hand, where the rights being extended to a licensee are sufficient presumptively to establish in the licensee the power to maintain suit without joinder of others, it may still prove useful at a time of controversy to have confirmed this in the licensing documents as the intention of the parties. Similarly, where, under established principles, joinder of licensor and licensee would be a normal prerequisite to suit, it may be advantageous, in order to avoid misunderstanding to indicate which of the parties has the power of initiative and to express agreement that the other party consents to being joined as co-plaintiff.

Defense of Infringement Suits

There is ordinarily no implied covenant of quiet enjoyment present in the lease or sale of patent rights.[10a] Furthermore, the possibility of the existence of a dominating patent in the hands of a third party is always present. For these reasons, licenses often include provisions governing the handling of claims arising from alleged infringement through the licensee's operation under the patent.

If the license agreement contains an express indemnity provision and the licensor fails to protect the

licensee according to its terms, the licensee may rescind the agreement.(11) Under such circumstances, the licensor will be precluded from recovering royalties, and may be liable in damages for the amount expended by the licensee as a result of the nonfeasance.(11) Under the ordinary indemnification clause, a licensor is not obliged to reimburse his licensee for sums the licensee voluntarily pays to settle an infringement suit.(12) In similar fashion, a licensor is not obligated to pay the fees and expenses of additional counsel retained by the licensee when the licensor has retained competent counsel in accordance with the license.(13)

The obligation to defend infringement suits is frequently retained by the licensee. In such a case, the license may provide that the expense of defending infringement actions shall be charged against royalties otherwise owing to the licensor.(14) Alternatively, the parties may agree to share the costs of defending infringement suits.(15) If such an arrangement is entered into, it is preferable to detail which party has the primary responsibility for conducting the defense.

It has been held that in the absence of provisions to the contrary, the licensor is entitled to receive royalties from the licensee so long as the license is in force.(16)

However, if the licensed patent is held invalid, the licensee may be relieved of the payment of further royalties under the doctrine of licensee eviction.

Governing Law

As stated at the outset, licenses are contracts and are interpreted and construed under the law of contracts.

Various alternative theories have been advanced by the courts in reference to the enforcement of agreements. One theory is that the law of the state of contracting governs.(17) The law of the place of performance may govern, or the law expressly or presumably intended by the parties to govern.(18) Under the latter theory, the parties may contract with reference to the laws of any state or country, provided it is done in good faith, and provided (generally, but not invariably) the place selected has a real or substantial connection with the transaction or subject matter of the agreement. Where the place selected does not have substantial connection with the transaction, the parties run the risk of having their choice of law provision ignored.(19)

Some courts will apply a more delicate analysis of the problem by determining whether the issue is one of contract validity, or contract performance, and apply the

appropriate rule depending upon which issue is involved.[20] A rule of increasing popularity is that especially in issues relating to contract performance, the law to be applied is that of the place which has the most significant contacts with the matter in dispute ("center of gravity" rule).[20]

In the absence of proof as to the place of execution, the place of performance, or the intent of the parties, the law of the forum may be applied.[21] It is common practice, to avoid confusion, to incorporate in the license a provision that expresses the intent of the parties with respect to the governing rule.

The general weight of authority is that contract clauses which specify the governing law are given effect since they represent the intent of the parties.[22] The forum designation is more likely to be honored when the jurisdiction has a reasonable relation to the transaction,[23] but this factor may not always be necessary.[24]

Beyond the question of which state law applies, is the more fundamental issue of whether state law applies at all, or whether federal law applies. It had been generally assumed after the landmark decision in Erie Ry. Co. v. Tompkins[25] that in both state and federal courts, state law would apply to questions involving patent contracts.[26]

However, a recent case has held that in view of the existence of a federal patent monopoly, "the licensing of patents, and the policy behind such licensing is so intertwined with federal statutes that such questions should be governed by federal law.(27)

Some may argue that this decision will encourage certainty insofar as only one body of law need be considered. However, since federal statutes speak only occasionally with respect to patent license agreements, the difficult question arises as to what is federal patent license law? Is it the law in the federal courts prior to Erie? Does it include federal decisions after Erie which purported to apply state law? What happens when various circuits disagree?

1. Cutter Laboratories, Inc., v. Lyophile-Cryochem Corp., 179 F 2d 80 (1949).

2. Ackerman v. Hook, 183 F. 2d 11 (3d Cir. 1950); Mechanical Ice Trav Corp. v. General Motors Corp., 144 F. 2d 720 (2d Cir. 1944); Sta-Fresh Prods. Inc., v Avoset, 46 F. Supp. 447 (E.D. Pa. 1942); Guardino Tank Processing Corp. v. Olsson, 89 N.Y.S. 2d 691 (Sup. Ct. 1949).

3. Western Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118 (1930).

4. Hapgood v. Hewitt, 119 U.S. 226 (1886)

5. Brown Paper Co. v. Hydroloid, Inc., 32 F. Supp. 857 affirmed 118 F. 2d 674 (1941).

6. 69 C.J.S. § 250(c) pp. 777-778
Photochart v. Del Riccio, 83 U.S.P.Q. 401 (California); Martin v. New Trinidad Lake Asphalt Co., 255 F 93 (N.J.) Contour Chair-Lounge Co. v. Laskowitz et al., 124 U.S. P.Q. 52 (Missouri). Nachod & U.S. Signal Co. v. Automatic Signal Corp., 105 F. 2d 981.

6a. Schutte & Koerting Co. v. Wheeler Condenser & Engineering Co., 295 F 158 (Pennsylvania

7. Virtue v. Creamery Package Co., 227 U.S. 8 (1913); United States v. L.D. Caulk Co., 126 F. Supp. 693, 103 U.S.P.Q. 372 (D. Del. 1954).

See also Hazeltine Research, Inc., v. Avco Mfg. Corp., 227 F. 2d 137 (7th Cir. 1955).

8. Wilfley v. New Standary Concentrator Co., 164 Fed. 421 (9th Cir. 1908).

Contra, Specialities Dev. Corp. v. C-O-Two Fire Equip Co., 207 F. 2d 753 (3d Cir. 1953).

Cf. Western Battery & Supply Co. v. Hazelett Storage Battery Co., 61 F. 2d 220, 14 U.S.P.Q. 209 (8th Cir. 1932).

9. General Motors Corp. v. Swan Carburetor Co., 88 F.2d. 876, 37 U.S.P.Q. 842 (6th Cir. 1937).

10. Penly Bros. Co. v. Hall, 84 F.2d 371, 30 U.S.P.Q. 254 (1st Cir. 1936).

10a. Wynne v. Allen, 96 S.E. 2d 422, 112 U.S.P.Q. 405 (N.C. Sup. Ct. 1957).

11. Kool Vent Metal Awning Corp. v. Bottom, 95 F. Supp. 798, 71 U.S.P.Q. 219 (E.D. Mo. 1951), affirmed 205 F.2d 209 (8th Cir. 1953); M. Nirenberg Sons, Inc. v Trubenizing Process Corp., 49 U.S.P.Q. 464 (N.Y. Sup. Ct. 1941); Gray Industries, Inc. v. Keibler Industries, Inc., ___ F. Supp. ____, 176 U.S.P.Q. 216 (N.D. Ill. 1972).

12. Simplex Phonograph Corp. v. Rudolph Wurlitzer Co., 47 U.S.P.Q. 161 (N.D. Ill. 1940).

13. Slezak v. Andrews, 21 F. Supp. 688, 81 U.S.P.Q. 124 (D. Del. 1937).

14. Caddo Rock Drill Bit Co. v. Reed, 4 F.2d 136 (S.D. Tex. 1926), affirmed 12 F.2d 207 (5th Cir. 1926).

15. Leicester & Continental Mills Co. v. Macon Knitting Co., 116 Fed. 196 (3d Cir. 1902).

16. Davis Co. v. Burnsville Hosiery Mills, Inc., 89 S.E. 2d 410, 107 U.S.P.Q. 179 (N.C. Sup. Ct. 1955).

17. Specialities Dev. Corp. v. C-O-Two Fire Equip. Co., 207 F.2d 753, 99 U.S.P.Q. 301 (3d Cir. 1953); Stentor Elec. Mfg. Co. v. Klaxon Co., 115 F.2d 268, 47 U.S.P.Q. 193 (3d Cir. 1940); Willis Bros. v. Ocean Scallops Inc., ____ F. Supp. ____, 174 U.S.P.Q. 53 (E.D.N.C. 1972).

18. Hall v. Keller, 80 F. Supp. 763 (W.D. La. 1948), mdf'd on other grounds 180 F.2d 753 (5th Cir. 1950).

19. Willis Bros. v. Ocean Scallops Inc., ____ F. Supp. ____, 176 U.S.P.Q. 53 (E.D. N.C. 1972).

20. Auten v. Auten, 308 N.Y. 155, 124 N.E. 2d 99 (Ct. App. N.Y. 1954).

21. American Type Founders, Inc.v. Lanston Monotype Mach. Co., 137 F.2d 728, 59 U.S.P.Q. 44 (3d Cir. 1943).

22. Sheerin v. Steele, 240 F. 2d 797 (6th Cir. 1957); Aluminum Co. of Am. v. Hully, 200 F.2d 257 (8th Cir. 1952).

23. Hal Roach Studios, Inc. v. Film Classics, 156 F. 2d 596 (2d Cir. 1946).

24. Duskin v. Pennsylvania Central Airlines, 167 F.2d 727, 730 (6th Cir. 1948).

25. 304 U.S. 64 (1938).

26. American Type Founders, Inc. v. Lanston Monotype Mach. Co., 137 F. 2d 728, 59 U.S.P.Q. 44 (3d Cir. 1943); Farmland Irrigation Co. v. Dopplmaier, 308 P. 2d 732, 113 U.S. P.Q. 88 (Cal. Sup. Ct. 1957).

27. Unarco Industries v. Kelley Co., 465 F.2d 1303, 175 U.S.P.Q. 199 (7th Cir. 1972).

October 2, 1973

Committee #1, Japanese Group
Chairman: Junnosuke Tsunoda
Subcommittee #1
Chairman: Masaaki Suzuki
Vice-chairman: Taiji Ebisawa

No.

STUDY FOR ADOPTION OF MULTIPLE CLAIMING IN JAPAN

1. PREFACE

Deliberations for prospective multiple claiming are now continuing in the Japanese Patent Office and Industrial Property System Deliberation Committee.

Drastic reform for patent system shall be evaded, however, minimum changes shall be introduced to harmonize with the provisions of P.C.T.

According to the opinions of the members of the Committee, up to present, they agreed to the conclusions of an interim report made by Committee for Multiple Claims System, the Patent Office, with respect to a few points, namely, character of a claim, abandonment of a claim, official fees and rejection of an application on the ground of lack of unity of invention. However, deliberations for many important points, namely, concept of one invention, unity of invention, interpretation of a claim, reform for additional patent application and trial for amendment, and terminal disclaimer are still continuing.

2. MATTERS TO WHICH MEMBERS OF THE COMMITTEE AGREED

2.1 Character of a claim

Under the current patent law, the claim is considered as just the invention, because the Japanese practice calls for defining one invention by one and single claim only. The proviso of Article 38 of the Japanese Patent Law admits, as an exception, to claim two or more inventions closely related to each other in one and the same application (consolidation of applications), however, each of such inventions should be defined by one and single claim.

Such character of a claim is considered to be changed under the prospective multiple claims system.

In the interim report, a definition with respect to the character of a claim was proposed as follows.

(A) Claim, which is mentioned in the Japanese Patent Law as "scope of demand for patent", has a character to define the matter for which protection of monopoly is sought, by nature;

(B) It is considered that the description of the claim shall not isolate from the invention disclosed in the specification, under the rule in which a patent shall be granted on an invention (Article 29); and

(C) The matter for which protection is sought should be readable by the technical features of the invention, be-

cause Article 2 provides that "an invention shall be the creation of a technical idea".

This definition was agreed.

2.2 Abandonment of a claim

In the interim report, the introduction of abandonment of a claim as a prosecution practice of the amendment of the specification was proposed. The proposal is that when an applicant or patentee files a petition for abandonment of a claim, such claim shall be deemed to have been non-existent from the beginning.

Majority of the members of the Committee agreed to this proposal, however, a few members of the Committee raised a proposal that filing an amendment for cancelling a claim and revision of the specification in relation to the cancelling of a claim should be admitted concurrently with the filing of a demand for a trial against final decision for rejection when an application was rejected as the result of the opposition (any voluntary filing of an amendment after publication of the application is limited by the provision of Article 56).

2.3 Official fees

The following proposals were made in the interim report:

(1) application fee: a fixed fee per case

(2) fee for filing a demand for examination of an application:

a fixed fee unless the number of claims exceeds a fixed number, plus an additional fee depending on the number of excess claims

(3) patent fee: a basic fee for one patent, plus an additional fee depending on the number of excess claims, such additional fee being smaller in amount than the basic fee

(4) fee for demanding a trial against final decision for rejection: a fixed fee unless the number of claims exceeds a fixed number, plus an additional fee depending on the number of excess claims

(5) fee for filing a demand for a trial for invalidation of patent: a basic fee, plus an additional fee depending on the number of claims of which the invalidation is demanded

(6) fee for filing a demand for a trial except the above: a fixed fee per case

2.4 Rejection of an application on the ground of lack of unity of invention

It was proposed in the intrim report that lack of unity of invention should be excluded from the reason of filing an objection and filing a demand for a trial for invalidation of patent.

This proposal was quite agreeable to the members of the Committee.

3. MATTERS ON WHICH DELIBERATIONS SHOULD BE CONTINUED

3.1 Concept of one invention and unity of invention

PCT requires that an international application shall relate to one invention only or to a group of inventions so linked as to form a single general inventive concept (Rule 13.1) and further provides the requirements of claims of different categories (Rule 13.2) and claims of one and the same category (Rule 13.3).

It seems that the requirements of the consolidation of invention provided in the proviso of Article 38 are admitted in the practice of PCT.

Judges and jurists are holding their position that the concept of one invention and standard of examination for identity of invention under the current patent law should be maintained under the prospective multiple claiming practice, while majority members of the Patent Attorneys Association of Japan and Japan Patent Association are holding their position that the concept of one invention should be harmonized with those of the U. S. and main European countries such as Great Britain, Holland and West Germany.

3.2 Interpretation of a claim

It was proposed in the interim report that a claim under the multiple claims system should be interpreted as follows.

(1) A claim shall be literally interpreted, however, it is admittable to extend the interpretation to the technical equivalence beyond the scope of the meaning of the words; and

(2) A claim should not be interpreted limitatively by making reference to prior arts.

It seems that this interpretation quite resembles to the interpretation in Great Britain.

Almost all the members of the Committee raised a proposal that the interpretation of a claim under Article 70 of the current patent law should not be changed under the prospective multiple claims system. They stressed the need of accumulation of the leading cases for the interpretation of claims under the prospective system.

3.3 Additional patent right system

It was proposed in the intrim report that the additional patent right system should be abolished, because there are little applicants to utilize this system.

Members of the Japan Patent Association has raised a porposal that the additional patent system should be retained so far as some of the applicants are utilizing this system, as this system has no direct relation to the multiple claims system.

3.4 Trial for amendment

It was proposed in the interim report that a trial for amendment after grant of a patent should be abolished for the reasons below.

(1) More protection is given to a patent having multiple claims with respect to one invention as compared with a patent having only one claim. Moreover, it seems that much more protection will be given to a patentee than to the third party by allowing the patentee to make an amendment of a claim resulting in reduction of the claim (scope of demand for patent), as the third party will hardly anticipate the scope of claim to which the patentee will reduce the claim.

(2) The deliberation by the judges for a trial for invalidation of patent will be accelerated if a trial for amendment will be abolished.

However, members of Japan Patent Association has raised a proposal stating that a trial for amendment should not be abolished for the reasons

that in the early stage after the multiple claims system is adopted, confusion resulting from lack of experience and other reasons will occur, and

that it seems a good policy to see, for a while, to what extent the applicants have become familiar with the multiple claiming by retaining a trial for amendment as existing.

3.5 Terminal disclaimer

In the United States, terminal disclaimer is effectively utilized to overcome rejections on double patenting.

There is no reference in the interim report to terminal disclaimer.

Members of Japan Patent Association raised a proposal that terminal disclaimer should be investigated in order to relieve the applicant from the rejection on the ground of lack of unity of invention and to make him file a divisional patent application.

October 2, 1973
Japanese Committee 1,
Sub-Committee 2,

Chairman, Y. Nakayama
(The Fujikura Cable Work

Vice Chairman, S. Kimur
(Mitsubishi Chemical In

New Paper

Deferred Prosecution in Japan

The present revised patent law in Japan has been taken into effect since January 1, 1971. The present patent law was revised providing for the coming technological innovation and the intensification of the international economic activity.

The present law is characterized by the introduction of the combination of two systems; an early public disclosure of application and a request for examination, and the result thereof has been watched from all quarters.

As more than two years has passed since the enforcement, we wish to report briefly on general conditions during this period.

The following paper intends to give an outline of said legislation, to analyze changes of applications since the enforcement and to report what we have studied on various problems.

Re Deferred Prosecution

1. Request for Examination and Relevant Situation in Japan

1.1 Difference from the Systems in Two Advanced Countries

Japan's revised law has been effectuated as from January 1, 1971 and the two main pillars of the revised law are, similar to those of Holland and Federal Republic of Germany, the systems of request for examination and the early disclosure; both are co-related so closely that both bring out a concerted effect. Accordingly Japan's system of request for examination was also newly established in combination with the system of early disclosure aiming at an acceleration of examination and cutting down the increased number of pending applications. It however somewhat differs from those in the two countries mentioned above in the following points. In Holland, it has to go through a request for novelty research (so called preliminary examination) after application before reaching the examination on the grant of patent (real examination), and in Germany the request for issue of a novelty report is optional, and channelling the

application through it, it comes to a petition for grant or either it comes directly to a petition for grant skipping the novelty report. In Japan, however, we have no such a preliminary step, but only have the complete examination system in itself. In Japan, no fee for maintenance of application is requested, while both countries referred above require it. Consequently, as far as the application is not withdrawn, the Patent Office has to comply with the request for examination, if and where the applicant or any third party requests examination -- the relevant fee has to be paid -- during the effective period of request for examination (in case of a patent 7 years and in case of a utility model application 4 years after the actual filing date to Japan). In Holland and Germany as a measure for the transitional period, they applied the revised regulations, i.e. system of petition for grant to such applications as applied under the old law. Japan only permits the request for examination only to those applied under the new law, and exempted those applications under the old law from the eligibility for this sytem of request for examination.

1.2 Present Situation of Processing Application under Old Law

Taking into account the difference between the substantive law and the procedual rules, a graph indicating how the Patent Office has been processing applications filed under the old law (number of cases processed) and accordingly how the number of those pending cases has been reduced, is shown in Fig. 1.

As you will see from the curves (a) and (c), as to the applications under the old law, the number of pending applications has gradually reduced with an increases in the number of processed applications, which shows the original purpose to restrain those pending cases is seemingly achieved. This however is only due to the fact that the Patent Office has solely worked on those applied under the old law and ~~has not yet~~ only put a few their hands on ~~the~~ applications requested for examination under the new law. Consequently, the actual curve which represents the actual number of applications being kept pending will be the one incerporating the total number of pending applications applied for under the new law

(curve (b) of Fig.-1). Guessing from these curves, the Patent Office is prospecting to put all the applications under the old law on examination by around the end of 1973 fiscal year (March, 1974) and finilize its completion of action for them by around the end of 1974 fiscal year (March, 1975).

1.3 Numbers of Application and Request for Examination after Enforcement of New Law

Fig. 2 (1), (2) and (3) attached hereto show the graph of numbers of applications and requests for examination together with the percentage of requests for examination as against the total applications in Table 1, for the respective periods of Jan. through Dec. 1971, Jan. through Dec. 1972 and Jan. through March 1973.

As will be seen from the above, at the moment the percentage of requests for examination is quite low and it implies the slated purpose of accelerating examination is likely to be attained. However, those which were requested subsequent to application are extremely small in their number (about 30%) and the majority of requests were made at the time of application, so that it is well conceivable that the subsequent requests may

gradually increase as the time goes by. Not only the cases of simultaneous requests for examination, but also the cases of those subsequent requests made before early disclosure signify the relevant entity is set for production and sales of such products in the near future. But the percentage of requests for examination, 80% in case of patent applications and 70% in case of utility model applications estimated at the start of this new regulation is now figured a little lower than the above numbers, considering the present situation of requests for examination.

1.4 Enlarged Position of Prior Application

As long as following the system of request for examination, if the request is left for the applicant's option, it will result in a further delay of examination. In the sense of avoiding such delay, therefore, a combined implementation of the system of early disclosure is necessitated (upon expiry of 18 month period after application to the first country, for patent applications all the description of application and for utility model applications the claims and drawings will

be made public. Even as to the latter also, upon submission of a request for inspection to the Patent Office, all the text of application can be reviewed). In connection with this, Japan has provided anew a stipulation as per Art. 29-2 whereby enabling the Patent Office to reject any subsequent application which has the subject matter identical with invention disclosed in the specification exhibited on the Patent Gazette. This however differes in the point where the U. S. Patent Office can reject subsequent invention as an identical invention or an invention without inventive step on the ground of its Art. 102, Para. E or Art. 103 or a combined effect of both, and only rejects any subsequent invention as far as the application has an identical contents while it does not take the inventive step into consideration.

1.5 Feature of Revised Law through Early Disclosure-1

As regards the Patent Gazette, a system of presenting information (Rules of Practice, Art. 13-2), which is the foremost feature of Japan's revised Law. Under this system an information presented by a third party reader of the Patent Gazette

may be available to help the Patent Office's examination (mainly for reasons for rejection), but the examiner is not necessarily obligated to make use of such information. Even if it is accepted by the examiner, the result of examination is not notified to tbe informant, so that it has only an effect something like a one-way traffic. A request for examination by a third party will be an important information to the applicant, since in most cases such third party is exploiting an invention having a good possibility to infringe the application and the fact that such a request was made will be notified to the applicant. In order to avoid this, it was argued that it will be sufficient just to have a presentation of the information, and stress was put on the advantage of presenting information, but in actuality upon applying for inspection of the file wrappers in the Patent Office, anyone is permitted to inspect all the information attached thereto, so in some cases it will turn out to the informant's disadvantage, as the applicant may get suspicious of the informant's exploiting the invention already laid open or the original

specifications may be amended by the applicant upon his knowing the existence of an interested informant. It may be for this reason, the number of cases where such information was presented was only about 100 during the nine month period after July, 1972.

1.6 Feature of Revised Law through Early Disclosure-2

The second feature of the revised law is the system of preferential examination. The system was established newly as Art. 48-6, and if the necessary items to be written are satisfactorily made in line with the Rules of Practice, Art. 31-3, Form 17-3, and the Director of the Patent Office recognizes it necessary, such an application will be examined in preference to other applications. However, it is requested of the applicant, as the items to be written in, to describe in details (a) the status of exploitation, (b) effects of exploitation, (c) particulars of negotiation, etc. and the decision whether such an exploitation is being made is left to the Director of the Patent Office. In addition, since a clause "when necessary" is incorporated in the article, if there is no reason for urgency is involved for instance, the preferential

examination is not applied. On one hand, however, this is a kind of administrative actions within the Patent Office, and in fact technologies pertaining to pollution control etc. are enjoying this preferential examination whereas no such preferential stipulation is made yet.

1.7 Effect of System of Request for Examination

The most probable reason why the precentage of requests for examination is as low as 30% at the moment as mentioned above will be, among others, that it may not be too late to file such a request, as the period for filing is 7 years for patents and 4 years for utility model applications in Japan which may not necessitate any haste, but on the contrary it enables a prospective applicant to evaluate the relevant invention seeing the circumstances for a certain period of time. Once the examination is requested a chance for an amendment will be extremely limited and this will also be one of the main reasons for the above (within the period set for submitting a response to the reasons for rejection and at the time of filing a trial against the decision of rejection). In applying to Japan where an idea patent is being

permitted, no one can deny the fact that there are some applications having much protective nature, for which however most probably chances of request for examination being made are very slim. As elucidated in the above, Japan's system of requesting examination has just been brought into practice, and, not only that, at the moment the Patent Office is so occupied with processing the pending applications filed under the old law. It may be correct to say that momentarily it is too early to argue the relevant effect but it has to be seen only in or after 1975.

2. Right to Demand a Compensation through Disclosure

As mentioned above, the system of requesting examination is not intended to equally put all the applications into examination but to examine only the applications requested for examination within a certain period, separating the application and the examination strictly. The system of early disclosure established with the system of requesting examination is to compulsorily make all the applications laid open without regards to the stage of examination. In order to relieve the applicant's disadvantage through the early disclosure, a certain legal protection is provided, that is the right to demand a compensation. This right will accrue only when the applicant makes a warning to a third party after the application has been laid open upon maturity of a 18 month period after the filing to the first country. Accordingly, in order to firmly secure his future implementation based upon this right, he has to give a written warning to those who have exploited the invention as business. A general warning through professional periodicals and the like is not the one referred here, but it should be a warning given directly to the party concerned by mail or otherwise.

This warning is merely a notification saying "your exploitation would become an object of compensation in the future", and it does not imply that the applicant can request a payment of compensation immediately after warning. The right to demand a compensation is only to implement once the publication of the application is made as a result of examination requested. It is, therefore, free to any third party to exploit the invention at any time between the early disclosure and the publication, namely, an exploitation before carrying out the right to demand a compensation is not forbitten. The right to demand a compensation remains valid for three years after publication, and upon expiration of this three year period the right to demand terminates its validity. In view of this, the character of the right to demand a compensation is generally interpreted as follows:

since an inventor's application will be made open after 18 months from the time of application, this will become valuable thechnical information to any third party. As a result, if the application remains open to public without any compensation, the inventor is only permitting any third party an easy access to his technical information, and not only that, he will be placed in an

extremely disadvantageous position just to watch an exploitation of his invention by a party other than himself. In this connection, it is this right to demand a compensation that protects the applicant from his disclosed invention being freely exploited by other people and that compensates the applicant for the loss out of the profit which otherwise would have been earned by him, if and when such other people would not have exploited the technology. Although exploitation by any third party is free from the time it was laid open till its publication, it is claimable retroactively after the publication of application, so it provides a containment to any other third party, as well as on the part of the inventor he will be able to make up any possible loss of advantages suffered during that period. On the other hand, on the part of the third party, if he is subject to a request for a compensation, in exploiting an invention, he has to take out an exploitation only after ascertaining whether such a right is establishable or not through an examination on the disclosed invention, or to start exploitation with a provisional contract with the inventor to the effect that he will be able to continue exploitation even after the right is firmly established in order to avoid any possible trouble.

Consequently, he has to be more deliberate in exploiting any invention. The amount of compensation is stipulated to be equal to the royalty (Art. 65-3, Para. 1). This stipulation is to prevent the amount of compensation being evaluated inadequate low on the ground that it is not a patented invention yet, but in actual cases a somewhat lower amount might be agreed upon. The payment of compensation does not also automatically signify the payer is entitled to exploit the right accrued on publication (so called a right of provisional protection) and the patent right (i.e. even in a case where the inventor receives a compensation from a manufacturer on his invented machinery being commercially produced while the application was being laid open, he is entitled to demand the suspension of production to the manufacturer, or to exercise an injunction or demand for damages to the user. Accordingly, if someone wants to exploit the above rights, he has to make a contract with the patentee to such an effect or to make a special agreement with the applicant to such an effect in advance. The new law regulates this in its Art. 65-3, Para. 3, and says that the exercise of the right to demand a compensation does not preclude the effect of the right of provisional protection based on the publication of application and

also exercising the patent right. It also clarifies that even though the right to demand a compensation is exercised, it is only against the exploitation carried out during the period the invention is being laid open, so that it does not signify all the right of provisional protection as well as the patent right has been exhausted. One must pay much caution to the fact that, if such an application should be finally rejected, though it was published, the applicant has to be subject to the absolute liability and he must repay the compensation so far he has received to the exploiter of such an disclosed invention. As previously mentioned, as of this moment (October 1, 1973), under the new law only few examinations of application have been started so far, ~~and no publication of application has been made yet,~~ so it seems there is no instance where the right to demand a compensation was exercised or a lawsuit was brought out for a compensation.

PERCENTAGE OF REQUESTS FOR EXAMINATION

Date: May 11, 1973

(PATENTS) [Table 1]-a-

1) Domestic:

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	38.7	78425	30346	21204	9130	12
72(1 - 12)	25.8	101328	26134	22052	4077	5
73(1 - 3)	21.5	29073	6238	6132	106	0

2) By foreigners:

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	24.3	27360	6653	2877	3769	7
72(1 - 12)	18.8	29072	5478	3330	2148	0
73(1 - 3)	11.9	7542	900	833	67	0

3) Total (Domestic and by Foreigners):

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	34.9	105785	36999	24081	12899	19
72(1 - 12)	24.2	130400	31612	25382	6225	5
73(1 - 3)	19.5	36615	7138	6965	173	0

(UTILITY MODELS)

1) Domestic: [Table 1]b.

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	38.5	120901	46530	33873	12648	9
72(1 - 12)	30.3	146635	44463	38960	5500	3
73(1 - 3)	25.3	38216	9675	9460	215	0

2) By Foreigners:

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	15.5	1942	301	170	131	0
72(1 - 12)	11.4	1975	225	145	78	2
73(1 - 3)	9.8	498	49	48	1	0

3) Total (Domestic and by Foreigners):

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	38.1	122843	46831	34043	12779	9
72(1 - 12)	30.0	148610	44688	39105	5578	5
73(1 - 3)	25.1	38714	9724	9508	216	0

(PATENTS & UTILITY MODELS)

1) Domestic: [Table 1]c

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	38.5	199326	76876	55077	21778	21
72(1 - 12)	28.4	247963	70597	61012	9577	8
73(1 - 3)	24.4	67289	15913	15592	321	0

2) By Foreigners:

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	23.7	29302	6954	3047	3900	7
72(1 - 12)	18.3	31047	5703	3475	2226	2
73(1 - 3)	11.8	8040	949	881	68	0

3) Total (Domestic and By foreigners):

Year	% of req. for examination	No. of applications	No. of req. for examination	Particulars		
				At the time of filing	After filing	By the third party
71(1 - 12)	36.6	228628	83830	58124	25678	28
72(1 - 12)	27.3	279010	76300	64487	11803	10
73(1 - 3)	22.4	75329	16862	16473	389	0

The status of processing applications under the old law

(Total of patents and utility models)

<1973·5·11>

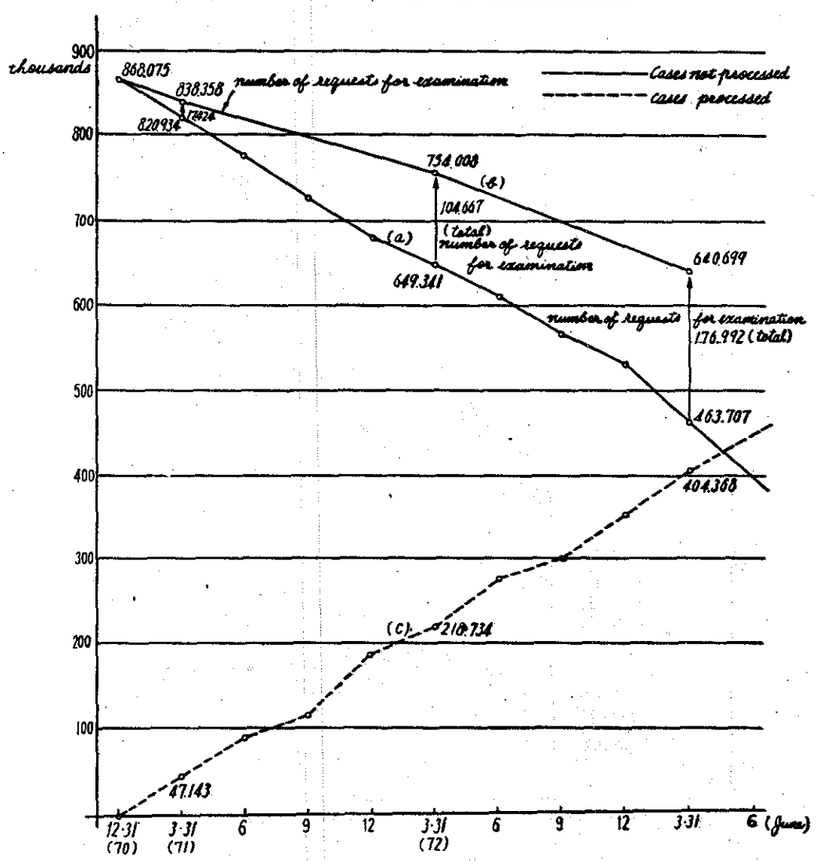


Fig - 1

Patents

Number of applications and requests for examination

(1973·5·11)

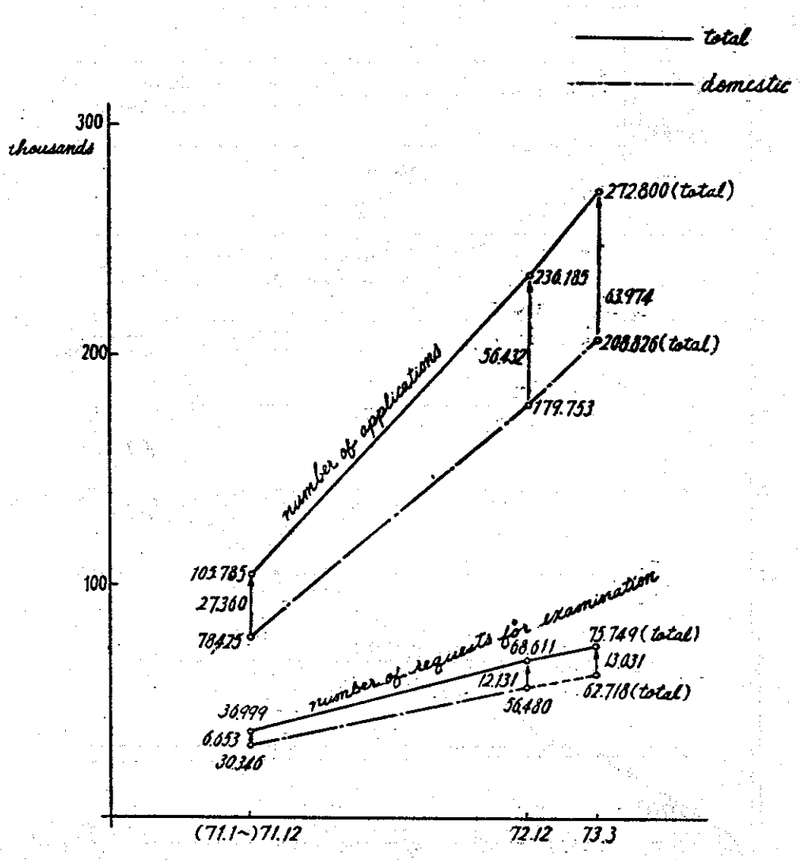


Fig. - 2(1)

Utility models

Number of applications and requests for examination

<1973-5-11>

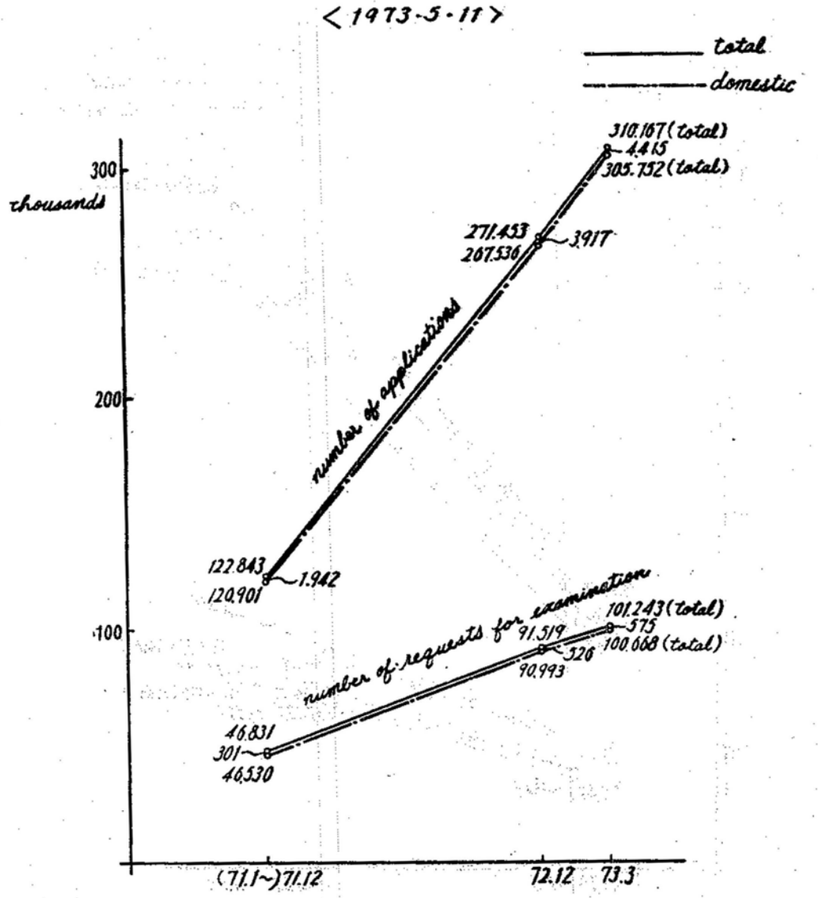


Fig - 2(2)

Patents and Utility models

Number of applications and requests for examination

〈1973·5·11〉

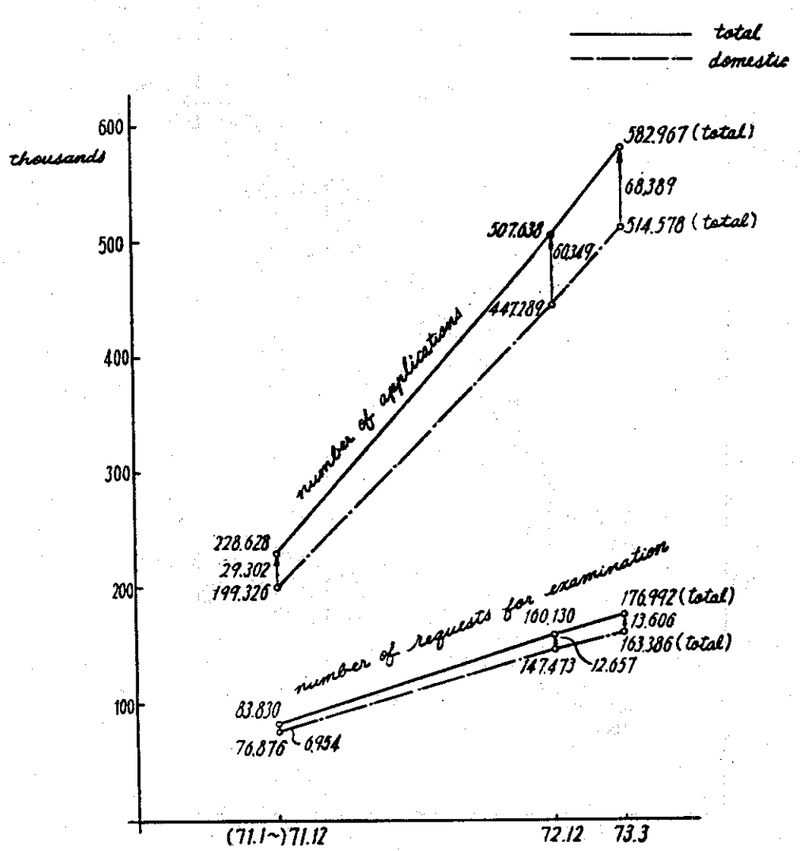


Fig — 2(3)

October 2, 1973

Japanese Group, Committee #1
Patent Committee
Sub-committee 3
Chairman: Tunewo Simada
(Takeda Chemical Industries,Ltd.)
Vice-chairman: Mitsuomi Wakahara
(Sekisui Chemical Co., Ltd.)
Reporter: Katsuo Ogawa(Hitachi, Ltd.)

IS AN ELECTRIC CIRCUIT REGISTRABLE AS A UTILITY MODEL?

Summary

The American Group has the question of whether an electric circuit is registrable as a utility model. Though it is not completely undisputed that an electric circuit meets the provision of Article 3 of the Utility Model Law, i.e. "... the shape, construction or combination of articles ...", it is in practice acknowledged to be registrable as a utility model from the point of view that it is a kind of "construction".

In Japan, a utility model system has been in force since 1905 in addition to the patent system. Article 1 of the Law of 1921 provides that "Industrial devices of useful and new types relating to the shape, construction or combinations of articles" are qualified for utility model protection and Article 3 of the Law of 1959 (existing Law) provides that "devices which can be utilized for industries, relating to the shape, construction or combination of articles" are similarly qualified.

As will be apparent from these provisions, the old and new laws are similar in that devices relating to the shape, construction or combination of articles are qualified for utility model protection.

It is not clear from the language of law, and may be controvertial, if an electric circuit which is a combination of functional elements corresponds to "the shape, construction or combination".

Actually, however, it is evident and beyond doubt that unlike the German practice and case law concerning utility models[1], electric and electronic circuits including oscillating circuits, amplifying circuits and control circuit, have been registered and protected as utility models in Japan and this practice has been in force for about five decades since the Law of 1921 became effective.

Since 1964 the Patent Office has drafted and published examination standards for patents and utility models by industry. In the Examination Standard for Electronic Circuits, the Office

has specially included a section headed "The reason why the device of an electronic circuit as such is regarded as a device relating to the construction (shape or combination) of articles" in an attempt to provide a basis for the prevailing examination practice.

Thus, the section reads, "Since electric circuit components which are constituent elements of an electronic circuit are articles occupying spaces ..... and the device of an electronic circuit as such as ..... the direct embodiment of a technical concept utilizing the laws of nature in a construction of connection of circuit components, it is naturally envisioned as an article as defined in Article 1 of the Utility Model Law"(2).

The Law of 1921 had been so drafted that a utility model shall be protected as "a device of a type" and, therefore, the weight of authority was on the so-called "type theory" which says that the essence of a utility model lies in its apparent type and many court judgements supported the view. However, after World War II, the dominant view of the courts is such that in evaluating the sameness or difference of utility models, not only the difference in construction but the difference in effect should also be taken into consideration. Thus, the so-called "device theory" which says that the essence of a utility model resides in the technical concept which gives rise to a certain effect has become predominant and the Law of 1959 proclaims that "a device which can be utilized for industries" shall be registrable as a utility model. (As aforesaid, the Law of 1921

used the terms "device of a model"). It might appear that the question of whether an electric circuit is registrable as a utility model is related with the above change in the way of thinking of the courts. Actually, however, electric circuits have been consistently registered irrespective of the change since the days when the type theory was dominant and there is not a single case in which the registrability of electric circuits has been an issue of litigation.

At early times, to adhere to the mode of claiming "a device of a type" for an electric circuit as such which, in substance, is a combination of functional elements, it was common practice to take the trouble of claiming "The construction of an electric apparatus comprising ...".

There are among them such far-fetched forms of claims as "The construction of an electric circuit .....". However, as the device theory saying that the essence of a utility model lies in a technical concept became predominant as described above, it became prevalent to use more direct expressions such as "An electric apparatus ..." and "an electric circuit...".

Irrespective of which made of expression is used for a claim, the drawing attached to the application is no more than diagrammatic views of the electric circuit and does not depict the apparatus or structure as a tangible thing. Yet, the thing which is currently accepted in practice to be an object of utility model registration is nothing but an electric circuit. These things were actually registered even under the Law of 1921 and there

is no case where the validity of this practice has been contested before the court.

Incidentally, as exceptional cases, there are devices which have been allowed claiming "A control system ....", but the real things involved are electric circuits as such.

(1) GRUR, 1965 Heft 5, pages 234 et seq.

(2) Examination Standards for Patents and Utility Models by Industry --- Electronic Circuit (Edited by the Patent Office, published by Invention Association) page 3-(4)-13-10.

October 2. 1973
Japanese Group, Committee #1
Trademark Committee,
Chairman: Junnosuke Tsunoda
(Oki Electric Ind.Co.Ltd.)
Vice Chairman: Tsutomu Fujimoto
(Tanabe Seiyaku Co.Ltd.)

What facters are taken into consideration by the Japanese Patent Office and the Japanese courts in dealing with the question of confusing similarity between trade marks ?

[I] One of the important functions of trade mark is to distinguish merchandise of the user of the trade mark from that of another person. Therefore, trademarks which may cause confusion with the merchandise respecting the business activity of another person may not obtain registration. This is the basic principle of Japanese Trade Mark Law, and it is also the basic principle of the United States or United Kingdom.

But Japanese Trade Mark Law has been adopting "the system of prior registrant ownership". Registration of a trade mark is rejected if a trade mark is identical with, or similar to, the registered trade mark of another person the application for registration of which was made prior to the date of application for registration of the trade mark in question and the goods on which it is to be used are identical with, or similar to, the designated goods respecting the registration of the trade mark of such another person. (According to the item 11 of Clause 1 of Article 4). In this case, examination is not done to the point that whether or not the actual use of the trade mark in question will really lead consumers to confuse the trade mark in question with the registered trade mark.

In the examination, three points are taken into consideration to judge whether or not two trade marks are similar. Similarity in appearance, pronunciation and meaning. If even one point is applicable, it is considered that two trade marks are similar ones. Even if there are partial difference between two trade marks, as long as they are similar in general, they are treated as similar trade marks. But in the case that distinctive part of each trade mark are not similar, it is not considered that they are similar ones. If a part of a trade mark is discriptive from the view point of relation with the goods on which the trade mark is to be used, the rest part of it is considered as a distinctive part of the trade mark.

Generally speaking, consumers choose merchandise by image he has received from advertisement of the merchandise and/or his memory about the trade mark of the merchandise which he has bought last time. Therefore, another standerd point for examination is; When a consumer sees or hears two trade marks in different time and place, whether or not he can distinguish one from another. A decision given by Fukuoka High

Court on May 6, 1954 reads as follows; Although there exist a difference in spelling between trade mark "Coca Cola" and trade mark "Cola Cola", when they are shown in different time and place, a consumer can not distinguish them phonetically and in appearance.

[II] Important provisions in Japanese Trade Mark Law for rejection of registration of a trade mark which is confusingly similar to a trade mark of another person are as follows;

(1) Item 11 of Clause 1 of Article 4. (See p. 2)

(2) Item 10 of same Article.

> Rejection of registration of a trade mark which is identical with, or similar to, a trade mark which is widely recognized among the consumers as an indication of the merchandise relating to the business activity of another person, to be used on such merchandise or similar one.

(3) Item 15 of same Article.

> Rejection of registration of a trade mark which may cause confusion with the merchandise respecting the business activity of another person

(except those enumerated in item 10 to the proceeding item inclusive).

When item 10 or 15 or applied the examination is done to the point whether or not the actual use of the trade mark in question will really lead consumers to confuse two trade marks.

Item 10 is mainly applied to the case that a widely recognized trade mark has not been registered to the goods on which it has been used yet.

Item 15 is mainly applied to the case that an application for registration of a trade mark identical with, or similar to, a well-known trade mark is filed in order to be registered to the goods which are not similar to the goods on which the well-known trade mark is being used (except the case that the well-known trade mark has been registered to such goods. In this case, item 11 shall be applied).

As the case which the above-mentioned Item 15 was applied is as follws:

Trade mark "Esso" is well-known on gasoline and the owner of the trade mark and its subsidiaries are also manu-

facturing textile, those who see textile bearing the trade mark "Esso" will confuse it with the goods manufactured or sold by the owner of the trade mark or its subsidiaries. (Cancellation of registration of the trade mark "Esso" (Goods: textile, knitting, felt and other cloth), not owned by Esso Standard Oil Co., Ltd. The decision was given by Japanese Patent Office on February 12, 1966).