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PRESENTATIONS

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1978 PIPA Nagoya Congress

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Opening Address

Ichiro Okano

Good morning honorable Guests, Honorary Chairman, Ladies and Gentlemen. It is my great pleasure to make the opening address on the occassion of this Ninth International Congress of PIPA to be held for 3 days starting today. I express my hearty thanks for your attendance.

It is a pleasure that we receive the 22 Gentlemen from American Group, and I heartily welcome their attendance. Seventyfour Gentlemen from Japanese Group are attending this meeting, and 8 member companies of Japan Patent Association have sent their representatives to this meeting as observers. We are very grateful that this meeting is held with the attendance of 104 Ladies and Gentlemen. I sincerely hope that this meeting will be pleasant and fruitful.

It is a pleasure to present you with a set of sugarspoon and butterknife in memory of this meeting. They are colored-porcelained with Nagoya Castle and Golden Dolphins which were specially ordered. I am sure that you will not find similar ones at any shop. I hope you will take them back home and use them for long.

Thank you.

Report on 1977 Activities of PIPA
Paul M. Enlow, President
American Group

It is truly an honor to greet you on behalf of the American Group here in Japan in your fine city of Nagoya. Many of your American friends that normally have attended these meetings in Japan in the past, but who could not be here today, have asked me to personally send their greetings to the Japanese Group of PIPA.

It is my purpose to review for you the more important activities of the Pacific Industrial Property Association which occurred during 1977. However, since we have such an excellent program, I shall keep my remarks very brief.

At the outset of 1977, the Japanese and American groups of PIPA held their separate annual meetings and elected the Officers which are presently serving the organization. Incidently, the present Officers were re-elected to their present positions in March of this year.

One of the highlights of the year 1977 was the 8th International Congress of PIPA which was held in Williamsburg, Va. during October 11 through the 14. Williamsburg was the colonial capital of the state of Virginia, which during the settling of America was one of Great Britain's largest and most populus colonies. It was a gathering place for leaders who helped shape the course of American Democracy.

I won't take the time to review the entire program of speeches at Williamsburg, but I would like to review a few items. The attendance at Williamsburg included over 70 representatives of the American Group and about 30 representatives of the Japanese Group.

The Honorary Chairman of the 8th International Congress was Mr. Wallace Doud, Vice President of the International Business Machines Corporation. Mr. Doud has been to Japan many times, and many of you know him personally. He is indeed a friend of PIPA and a strong supporter of purposes and objectives of our group. We also had as guest speaker Mr. Gerald Aksen, General Counsel of the American Arbitration Association, who spoke on Arbitration and Conciliation Procedures. Since our friend former Commissioner of the Patent and Trademark Office, Marshall Dann had resigned and returned to the practice of law, Assistant Commissioner for Trademarks, Bernard Meany, addressed the group.

Since the foundation of our organization at the beginning of this decade, our members have contributed greatly to the reshaping of and the dramatic changes being made in our international systems for the protection of industrial property rights. During 1977 our organization and its members continued to be a significant contributing force in orchestrating changes in our world wide property rights systems.

During this past year our representatives have been involved in international meetings in Geneva and elsewhere concerning such projects as: 1) Revision of the Paris Convention, 2) A Model Law for Developing Countries on Inventions and Know How, 3) A Model Law for Developing Countries on Trademarks, 4) Rules and procedures for implementing the European Patent Convention as well as the Patent Cooperation Treaty, and finally, 5) changes to be made in various National laws in order to conform them to these treaties and conventions. We also have been involved in adopting implementing the Trademark Treaty.

The following people have been active in attending these meetings in Geneva as observers for PIPA.

Mr. Aoki
Mr. Dave Mugford
Mr. Don Mezzapelle
Dr. Bart Kish

As member representatives of the Pacific Industrial Property Association PIPA we can truly appreciate the importance of our organization when we realize that PIPA is the only, I repeat, the only organization which has qualified to send observers to the current series of conferences being held in Geneva under the sponsorship of WIPO (World Intellectual Property Organization) which are considering proposed texts of numerous world-wide treaties which will govern Industrial Property Rights.

As I mentioned earlier one of the important activities of 1977 was the preparation of a resolution at the 8th International Congress in Williamsburg. The resolution requested that Article 5A of the proposed revision of the Paris Convention be reconsidered by the World Intellectual Property Organization. The proposed Article 5A, as you may recall, provided for the granting of exclusive compulsory licenses under patents in countries who were members of the Paris Convention.

The resolution was presented to the governmental representatives of both the U.S. and Japan who are responsible for attending the meetings at WIPO concerned with a future world conference on revising the Paris Convention. In the U.S. the resolution was presented to the State Department and you may recall that in Japan Mr. Aoki was instrumental in presenting the resolution to your Foreign Ministry.

The resolution was accepted by both our State Department and also the Japanese Foreign Ministry and subsequently these governmental representatives succeeded in joining together to present our position at the meeting of WIPO in Geneva. The effect of their actions was to keep this subject matter alive for future consideration at the diplomatic conference to be held in 1980. The action of our organization in formulating and following through with our resolutions stands as an indication to all of us that the Pacific Industrial Property Association is indeed being effective.

Finally, I would like to mention that during 1977 we published the 1977 PIPA Directory which lists the names and includes pictures of both Japanese and American representatives of PIPA.

Let me leave you with the thought that important changes in the field of industrial property rights are still being made and that during the coming year our organization must be alert to see that these changes strengthen the protection afforded to property rights throughout the world.

KEYNOTE ADDRESS

Akira Hirano
President, PIPA

Distinguished guests and all Association members:

It is for me an unsurpassed honor and pleasure to have this opportunity to welcome all of you and to have the opportunity to meet and know you personally on the occasion of the holding of the 9th International Congress of PIPA here in Nagoya.

I should like to express my heartfelt thanks and give a special word of welcome to Mr. D. W. Banner, who was until last year an active member of PIPA and is now Commissioner of the United States Patent and Trademark Office, for taking time from the busy schedule of his recently assumed post in order to be with us and to address us at this Congress.

The fact that for the first time since the foundation of PIPA we have present at this Congress more than 100 participants is an indication of the deep interest shown by all concerned with respect to the progress being made in the internationalization of procedures for the handling of industrial property rights. This is indeed a development in which we can all take pride. At the same time it provides the occasion to feel all the more keenly the great responsibility which PIPA has for expediting those tasks which ought to be expected of it.

As we are all well aware, an indispensable basic step in international cooperation with respect to systems of industrial property rights is the Patent Cooperation Treaty (PCT), which with justice can be called the most brilliant achievement in this field since the Paris Convention of 1883. The PCT, which was the result of unceasing efforts over many years on the part of the various national governments as well as various other organizations sharing an interest in the questions involved, was promulgated on January 24 of this year and began to be put into actual practice as of June 1. In Japan, the domestic bill providing for an amended law recognizing this country's adherence to the PCT was approved by the 84th National Diet. Following deposition of the instruments of ratification and the drawing up of the necessary governmental and ministerial ordinances, the provisions of the treaty went into practical effect in Japan beginning on October 1.

The inauguration of the PCT marks what Director-General Kumagai has called "Year One" with respect to the internationalization of patent systems, and in ways both direct and indirect it is indeed something that should be extremely welcome for all PIPA members. In this regard I wish to express my heartfelt gratitude to all those persons who have had a hand in bringing the PCT to fruition.

The European Patent Convention, which is a timely and

appropriate complement to the PCT, has also made its début. In an international society which since the end of the Second World War has still not seen an end to cold and hot wars, both large and small, today's trend of seeking unity and consensus in matters of industrial development can most surely be said to constitute a wide-ranging and powerful approach to world peace. It is a matter for regret that the so-called East-West Problem arising from ideological differences and the so-called North-South Problem arising from economic imbalances (neither of which, from the broader viewpoint of the common good, ought to be in any basically adverse relationship to the progress of industrial development) continue to give indications, some more easily apparent than others, that they can still give rise to disturbing problems which can affect the progress toward reaching the unity and consensus I have just mentioned. But we can surely say that, given conditions as they exist, we can and must proceed to seek solutions, from a standpoint of mutual understanding and a spirit of mutual compromise.

A matter calling for our immediate attention is the suggested revision of Article 5 (a) of the Paris Convention. This is a proposal, brought forward by some of the developing countries, to which we cannot give our approval. The notion that importation cannot be considered licensing and exclusive compulsory licensing should be granted in the case of failure

to work may be said to have been practically unheard of in the past. As you are aware, at last year's 8th International Congress held at Williamsburg, a resolution with respect to this problem was prepared and then presented in the form of a petition from PIPA to governmental agencies in the United States and Japan. However, at the 4th Preparatory Inter-governmental Committee convened in June of this year in Geneva, no significant progress was seen, the matter being deferred for further consideration by the 5th Committee meeting scheduled for November of this year. It is indeed a matter for sincere regret that this matter does not seem to permit an easy optimism on our part.

Also, in connection with the above question as it relates to international transfers of technology, there are tendencies, especially in the developing countries, to revise legal codes in such a way that contracts granting the use of patents come to impose difficult-to-assume burdens and responsibilities on foreign patent-holders. For PIPA, this is likewise something that cannot be overlooked. Of course, we hope very much to see the developing nations further their industrial development, provide for their economic self-sufficiency, and be able to participate on many planes in a free world market. We should not begrudge any assistance which we can give toward the attainment of these ends. But when overly harsh restrictions are applied

to industrial property rights originating in other countries, such restrictions cannot meet with approval by the latter, and since they may interfere with the technological assistance from the industrially developed nations which is needed by the developing nations, neither do they promise, in my sincere estimation, to be in the best interests of the developing countries themselves.

If we look at the process by which Japan, deficient in natural resources and now supporting a population of more than 100 million within its small territory, rose from the ruins of war and accomplished the economic reconstruction seen today, there is no room to doubt the enormous role played by technological assistance from the United States and other industrially advanced nations. And at the same time there is not, in my estimation, any room to doubt that it was Japan's consistent attitude of giving due respect to industrial property rights which played what may be called the decisive role in making it possible to obtain this technological assistance.

One of PIPA's tasks and responsibilities will be for us to direct serious attention to the above-mentioned problems in the future and to strive for their solution. It is my sincere wish that each and every one of our honored guests will also share in this effort at understanding and cooperation.

Many thanks to all of you for being such a fine and attentive audience.

ADDRESS OF THE HONORARY CHAIRMAN

Shoichi Saito
Adviser, Toyota Motor
Co., Ltd.

On behalf of the Japan Patent Association, I should like to extend a word of greeting and welcome to all our visiting guests as well as to each of our Japanese and American members.

For me it is a very great honor to have been nominated to serve as honorary chairman of the 9th International Congress of the Pacific Industrial Property Association which has opened here today. It indeed gives me a great sense of shared satisfaction to see the splendid way in which the Congress has begun, and it is a great privilege to welcome each and every one of the participants, most especially the many who have made the long trip from America.

I should like to express my deep thanks to Honor. Commissioner Donald W. Banner of the U.S. Patent and Trademark Office and to Director-General Kumagai of the Japan Patent Office, who have, in spite of their very busy schedules, made the time to join our meeting.

At the present time, which happily coincides with the coming into effect of my country's adherence to the PCT, I believe it is incumbent upon us to study further and more actively the various problems before us--particularly those

concerning the PCT--which require international cooperation, and on the basis of our study to present a frank statement of our views to the WIPO and to other governmental organizations in cases where we see the need to do so.

The present Congress can in this regard be very worthwhile indeed, and it is also a splendid opportunity for the members to foster mutual understanding and to deepen friendships. Thus it is my steadfast hope that your meetings will bring a full harvest of positive results.

Although my opening remarks have been very brief, they express my heartfelt greetings to all of you. Again, many thanks to you all for making such a fine audience.

ADDRESS TO THE 9TH INTERNATIONAL CONGRESS OF THE PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Zenji Kumagai
Director-General of the
Japan Patent Office

Mr. Chairman, Ladies and Gentlemen:

It is truly a great honor for me to have been given this opportunity to address you at this 9th International Congress of the Pacific Industrial Property Association. The fact that the Association has, since its establishment in 1970, played an important role in the field of industrial property rights in both the United States and Japan, contributing to deeper mutual understanding and to the development of systematized procedures for the handling of patent rights, is for me reason to express my heartfelt gratitude and respect.

In today's world, when the progress of internationalization is such a visible reality, I believe it is indeed of great significance that we can have occasions like today when persons from Japan and the United States whose work concerns industrial property rights meet together under the same roof to carry out a free and lively exchange of views, promote mutual understanding among themselves, and deepen personal friendships.

I should now like to use this occasion to present a brief introduction to some of the important problems which

the system of industrial property rights in Japan is currently facing, and I should hope that the brief remarks which I share with you might serve as useful points of reference for all Association members.

First of all, I should like to make mention of Japan's active and positive response to the various international trends which are currently producing an effect on systems of registering and protecting industrial property rights. As you all know, Japan has just made effective its participation in the Patent Cooperation Treaty (as of October 1) and has by this participation made a big stride in the direction of internationalization. I like to conceive of the PCT as having three main characteristics which serve, so to speak, as its three main pillars of support.

The first of these characteristics is the fact that true international cooperation in the field of industrial property rights becomes, with this treaty, a reality for the first time. For example, in a case where a Japanese applicant wishes to apply for American, German or French patent rights, in addition to Japanese, provided that the Japan Patent Office duly accepts the application the result is that the latter will act in place of the respective patent offices in America, Germany or France, and the application will be considered to have been accepted on the same day it is made. The same may be said with respect to the patent offices of the other member nations adhering to the treaty.

Through cooperation among the various member nations, provisions have been made for the simplification and standardization of the various procedures, starting with application and including the stages of examination. In spite of the fact that in Japan the number of registered inventions originating from small- and medium-sized enterprises comes to around 50% of the total, the number of their applications to foreign patent offices has up to now been only around 20% of the total. Now with the existence of the facilities provided by the new treaty, I should like to give every encouragement to these smaller firms to make more applications abroad.

The second main characteristic is that in each country's patent office the need is eliminated for employing so many examiners, as was formerly the case, and as a result, unnecessary overlapping in the examination process is avoided. For example, in the case of an application originating in Japan, examiners at the Japan Patent Office will compile an "International Search Report", which is then sent to patent offices in the other countries. Examiners in the other countries, using this as a reference, can then proceed to carry out only those examinations which remain to be carried out as a follow-up to this already prepared Search Report. Thus redundance in the examination process is avoided and more speedy examination may be expected.

The third main characteristic is cooperation with developing countries in the patent field. At present, patent systems in developing countries are not always sufficiently well-established, and examiners with wide or sufficient experience are not always available. In light of this situation, industrially advanced nations are making efforts to cooperate in various fields, such as the provision of information, the training of examiners, and the drafting of legal systems. For example, up to the present Japan has helped provide training for a total of 33 examiners from South Korea. It is my view that Japan should continue to engage in similar cooperation with Asian countries in the future.

By joining the PCT with its three "pillars of support" as outlined above, Japan's industrial property rights system has made a great advance in international cooperation. And it is for this reason that I like to call 1978 "Internationalization Year One". The PCT is truly a milestone marking the very large initial stride which has been taken in the direction of internationalization in the true sense of the word. It will surely long remain as a giant monument in the history of the world's development of an industrial property rights system.

Japan joined the Strasbourg Agreement last year and is currently making haste to reorganize its examination format, transforming it from one based on the Japanese Patent

Classification (JPC) system to one based on the International Patent Classification (IPC) system. It is planned, after completion of the new format, to adopt the IPC system in the official patent gazette by the end of 1979 at the latest.

By its adherence to the PCT and the Strasbourg Agreement, Japan has made striking progress toward the internationalization of its industrial property rights system, but the process of internationalization is not yet by any means completed. I believe that we must now think seriously about joining the Trademark Registration Treaty (TRT) as a sequel to the PCT and the IPC. In order for Japan to join the TRT, there are still many problems to be considered, such as adherence to the Nice Agreement and the matter of how much time will be necessary for examination procedures, but it is nevertheless my belief that in the field of trademarks, too, Japan should actively plan to join the TRT which promises further improvements in the internationalization process.

Now turning to domestic questions, it must be admitted that Japan, which is one of those countries having the largest number of patent-related applications, continues to have a large backlog of incompletely processed cases with the result that patents are not yet granted with sufficient dispatch and precision. However, in order to increase its capacity to handle examination procedures, Japan's Patent Office has endeavored to expand its facilities and personnel and to

improve its office work procedures by such means as encouraging more mechanization. It is my intention to act in the future so as to further push forward the expansion and improvement of office work procedures.

Among the very large number of applications being made at present, one may probably say with justification that a substantial portion have been made with insufficient preliminary investigation or reflect an excessive or unnecessary degree of protectionist zeal. In this regard, the Patent Office has since 1976 been contacting those enterprises producing the largest number of applications, urging them to limit their applications and requests for examination to cases which may be deemed reasonable and appropriate. Beginning this year, the Patent Office is extending such contacts to various sectors of industry as a whole, urging greater cooperation in carrying out guidelines aimed at promoting rationality in the submission of applications. The Patent Office is in this way both raising its own examination capabilities and furthering the movement toward more reasonableness and appropriateness on the part of applicants. I firmly believe that, as a result, it will henceforth be possible to grant patent rights with greater speed and accuracy.

Lastly, a few words with respect to patent information. We are hoping to invest still further efforts in computerized

controls for the more effective handling of the more than one million items which are added to the fund of patent data each year. In six more years, Japan's system of patent regulation will have been a full century in the making. I think it is of fundamental and very great importance that before that date we see that progress is made in the various undertakings which I have outlined above.

I have tried to give a brief exposition of some of the important problems which face Japan internationally and domestically. I end my remarks with a repeated salutation and my wish that this Congress will produce many fruitful results and conclude as a success.

I thank you all for your kind attention.

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ADDRESS BY DONALD W. BANNER
COMMISSIONER OF PATENTS AND TRADEMARKS
U.S. PATENT AND TRADEMARK OFFICE

TO THE 9th PIPA INTERNATIONAL CONGRESS
NAGOYA, JAPAN
OCTOBER 4, 1978

It is a great pleasure once more for me to visit the beautiful country of Japan. This is about my 25th visit here and I continue to be delighted with each return. I am also very honored to have been invited to address this ninth Congress of PIPA. I had the honor to address the very first Congress of PIPA, which also was held here in Japan, and I am very pleased to have this opportunity to do so once again.

At the occasion of that first Congress of PIPA, the topic of my paper was a matter of important international patent cooperation, the then very new Patent Cooperation Treaty. As we all know, that Treaty became operative here in Japan just a few days ago; and I had the pleasure of expressing my personal congratulations and good wishes on this occasion to Mr. Kumagai, Director General of the Japanese Patent Office, at his office yesterday. Now that both Japan and the United States of America are operating under the Patent Cooperation Treaty, together with other countries, the maximum advantages of that international relationship can be achieved.

It is, in my view, extremely important that the close relationship between Japan and the United States of America in international patent and trademark matters, as illustrated by the Patent Cooperation Treaty and the Trademark Registration Treaty, with the support of the Pacific Industrial Property Association, be continued. Indeed, it is probably more important now that this close cooperation exist than at any other time. One of the principal reasons for this necessity is the planned revision of the Paris Convention for the Protection of Industrial Property, for which a diplomatic conference has now been scheduled beginning on February 4, 1980 in Geneva, Switzerland. I have come to Japan from Geneva where the meetings were held last week at which that date and place were established.

As some of you know, I am the current spokesman for the Group B countries which include Japan, the United States of America, Canada, Australia and the countries of western Europe. We had a Group B meeting last week in Geneva in conjunction with the WIPO governing bodies meetings, we had a Group B meeting in Washington during the week of September 11, we shall have a Group B working group meeting in Berlin in the middle of November, and we shall also have another Group B meeting in Geneva in late November and early December in conjunction with the various Working Group and Preparatory Intergovernmental Committee meetings to consider

revision of the Paris Convention. I assume that PIPA shall have a representative at the PIC meeting beginning next month in Geneva to participate as an Observer.

I would like to recount some of the main changes being requested in the Paris Convention by the developing countries to refresh your recollection of them:

1. The establishment of a principle of "preferential treatment" for developing country nationals with respect to the length of the period of priority and with respect to fees, as well as modification of the principle of "national treatment" for developing country nationals with respect to fees.

   With regard to the notion of preferential treatment, the developing countries have proposed that the length of the priority period for the filing of both patent and trademark applications be extended by 50% for nationals from developing countries to periods of 18 months and 9 months, respectively. They further propose that all countries permit nationals of developing countries to file applications for patents or for the registration of trademarks for one-half the fees normally charged. While some argue that neither of

these proposals violate the letter of the principle of "national treatment," it is without doubt they do obvious injury to the underlying concept upon which this principle is based by giving a preferred treatment to the nationals of other countries -- requiring that a country treat foreign nationals better than its own nationals.

In addition to these two proposals, the developing countries have also proposed a literal violation of the principle of "national treatment." This proposal would authorize developing countries to charge their nationals 50% lower fees than they charge the nationals of other countries.

Most Group B countries feel that any tampering with the principle of "national treatment" -- whether a preference or a literal derogation -- would not be desirable.

Consider, for example, that if developing country nationals were entitled to preferential fee treatment, Petrobras, the Brazilian oil monopoly, would be entitled to lower patent and trademark fees in Japan and the United States than would individual inventors in these countries, no matter how lacking in funds such inventors might be. With respect to the derogation of national treatment, this would mean that Petrobras

would be entitled to pay lower patent and trademark fees in Brazil than would nationals from Japan or the United States filing in Brazil. This is simply not an equitable arrangement.

The concept of "national treatment" has been a cornerstone of the Paris Convention since its inception in 1883. If this principle is abrogated, then no principle in the Paris Convention would be sacred and no lasting reliance could be placed on any provision of the Treaty. Clearly, this would undermine the very foundation of the Paris Convention.

2. Establishment of a special right with regard to geographical names which would require countries to cancel registrations of marks containing such names and to prohibit the use of such marks by any person or company not located in that geographical location.

According to the proposal advanced by the developing countries, if a particular region in a developing country should, in the future, develop a reputation for goods of a certain quality, then a company in Japan which had been using a mark containing the name of that geographical region on similar goods for many years could be required to stop using the mark and any

registrations which it had would be subject to cancellation if there existed any possibility of someone being misled. Moreover, the fact that the marks used are translations or that an indication was given of the true origin of the goods or services such as the addition of words such as "kind," "make," "type," "imitation" or the like, would not modify the obligation of the basic proposal. In my view, this gets dangerously close to requesting a patent on a word.

The countries of Group B met in Washington during the week of September 11-15 in an effort to establish a position with respect to this proposal of the developing countries. It is clear to me that many people believe that the United States is taking an extreme position in respect to this matter. I would only say in response that the United States is a derivative society, having elements of the cultures of practically every nation on the earth. Along with these cultures came many of the names of cities and regions of the mother countries of our citizens, names which these same countries watched us adopt with pride. Having developed a pattern of trade in which these names became an integral part, we are indeed quite sensitive to this proposal in the United States.

I am not sure, however, that others do not share some of the same problems that concern us. I recently enjoyed some fine Japanese wine having the term "Chateau" in the trademark. We all know that the word "Chateau" is of French origin and one might ask whether consumers might reasonably conclude that this particular Japanese wine originates in France. Moreover, I would reiterate that the developing countries' proposal specifically states that the "fact that marks are used in translation . . . shall not modify the obligation" to refuse registration or renewal of the marks and to prohibit the use of the marks. Clearly, we must be extremely careful about how we handle this particular problem.

3. Deletion of the limitation in Article 5A of the Convention that compulsory licenses granted for insufficient working be nonexclusive in nature.

As I am sure many of you know, Article 5A deals with the sanctions for failure to work patents. The developing countries consider revision of Article 5A as perhaps the single most important aspect of the revision of the Convention. All of the changes in Article 5A being sought by the developing countries are in the direction of weakening patents as vehicles upon which

to base transfers of technology. The developing countries are demanding that the periods of time during which a patentee must establish local working or suffer the consequences of a compulsory license or forfeiture of his patent be shortened and, far more serious, that it be possible that the compulsory license be exclusive in nature.

The proposal put forward during the Preparatory Intergovernmental Committee meeting in July 1977 modifies the limitation in the existing text that compulsory licenses for insufficient working shall be nonexclusive, substituting instead a statement that such compulsory licenses shall generally be nonexclusive. In addition, the proposal goes on to state that "in special cases where exclusive licenses are necessary to ensure local working," exclusive licenses may be granted for a limited period of years. After reflecting upon this provision, the countries of Group B -- with the exception of Canada -- have concluded that authorizing exclusive compulsory licenses in the Paris Convention would be a grave mistake.

I do not believe that exclusive compulsory licenses are in the best interests of developing countries. The

protection conferred by a patent grant still offers the best framework upon which a technology transfer can occur. The owners of the technology which developing countries so desperately want and need will simply not seek patents in countries which adopt systems permitting the grant of exclusive compulsory licenses.

With the inevitable diminution of the incentive to obtain patents in developing countries which would flow from the adoption by a country of an exclusive compulsory licensing system, the overall transfer of technology to such a country will be retarded. Creating a favorable investment climate would be far more effective in encouraging technology owners to transfer technology and establish local working than would a system of exclusive compulsory licensing.

In my view, however, the most serious consequences of exclusive compulsory licensing involves trade relations between developed nations such as Japan, the United States, and the industrialized countries of western Europe. For example, in 1976, the most recent year for which statistics are available, Japanese industry obtained 4,130 patents in the United Kingdom. Under the proposal of the developing countries, every one of

those 4,130 patents which was not used in the United Kingdom within a relatively short period of time could be the subject of an exclusive compulsory license -- a license which could serve to preclude the export of the patented product from Japan to the United Kingdom.

But we are not simply talking about an exclusive licensee preventing the import of a patented product into a given country. Consider the example of a United States company owning a patent in the United Kingdom covering an automobile part which neither it nor any voluntary licensee manufactured in the United Kingdom. If the United Kingdom incorporated the proposal of the developing countries into its patent law, any person could become an exclusive compulsory licensee under this patent and prevent the United States owner from supplying the British market by imports of the patented products.

Visualize the situation, however, where the United States company's Japanese patent on this same auto part was licensed to a Japanese manufacturer who manufactured it for incorporation into Toyota automobiles. Under this fact situation, the person holding the exclusive compulsory license in the United Kingdom for this automobile part could exclude the import of Toyota

automobiles into the United Kingdom. It is perfectly obvious to me that this would create an intolerable situation. Moreover, limiting the authority to provide exclusive compulsory licenses to developing countries would not substantially alleviate the problem. One only has to think of the extent of trade between Japan and the United States, on the one hand, and Brazil, Argentina, Mexico and India, on the other.

The United States, supported by the countries of Group B, attempted to have the question of exclusive compulsory licenses rediscussed prior to the diplomatic conference. Unfortunately, diminishing the chances for success of the diplomatic conference, the developing countries chose not to further discuss this matter during the preparatory meetings. The United States Government and, I believe, the Japanese Government are convinced that this matter should have been rediscussed.

4. The other significant area of potential change in the Paris Convention involves inventors' certificates. The Socialist, or Group D, countries have asked that the Convention be revised in order that inventors' certificates might be placed on a more equal footing with patents. The major thrust of this request involves

amending Article 1 of the Convention to mention inventors' certificates as one of the legitimate forms of protection of industrial property. While the Group B countries have been willing to consider this request, they have also been rather insistent that accompanying changes be made to reflect that patents are the primary means for protecting inventions. In addition, the B Group countries also want to ensure that a reasonable degree of patent protection will generally be available across all fields of technology and that it be made clear in the Convention that inventors' certificates are not a substitute for patents.

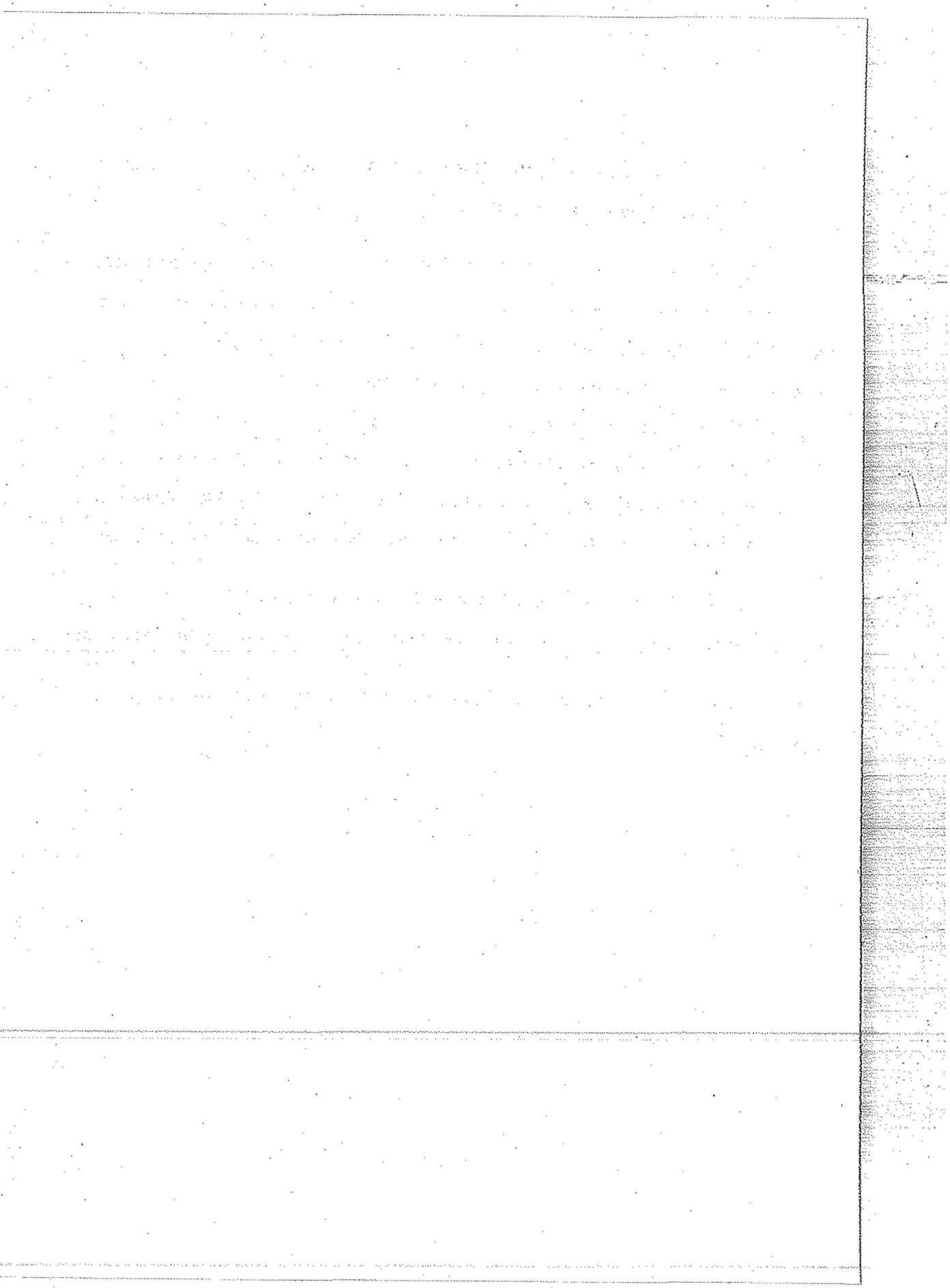
A number of draft proposals have been exchanged between the countries of Group B and Group D. A special working group established to consider this problem has held four meetings and a fifth is scheduled for late next month. At the last meeting of this Working Group on Inventors' Certificates, a proposal developed by Group B was tabled and briefly discussed, but no substantial progress toward resolving this problem was made. The Working Group then commissioned the Director General to attempt to draft yet another proposal as a basis for continuing the discussions at the scheduled Working Group meeting next month. At this time, the Director

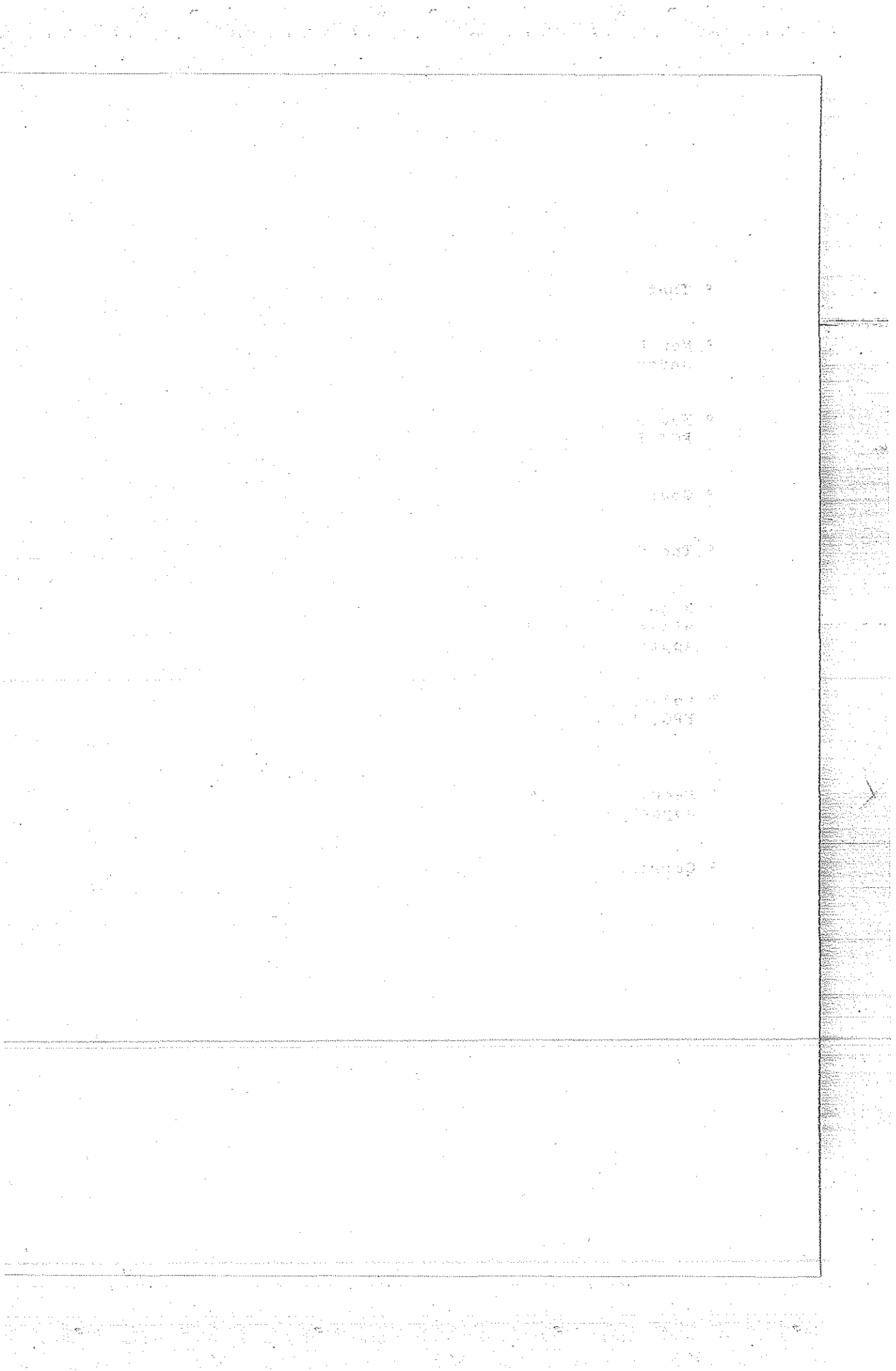
General has not brought forward a proposal. We can only await developments in this area.

All of these, and the other matters coming before the Diplomatic Conference to revise the Paris Convention, hold the possibility of materially affecting the rights and practices of companies which are members of PIPA. I urge your close attention, therefore, to these matters. I hope that PIPA will participate actively and effectively in the forthcoming discussions which shall affect the international position of patents and trademarks for generations to come.

I can assure you of my personal interest in PIPA's views which at all times shall have my closest consideration.

Thank you for this opportunity to be with you once again.





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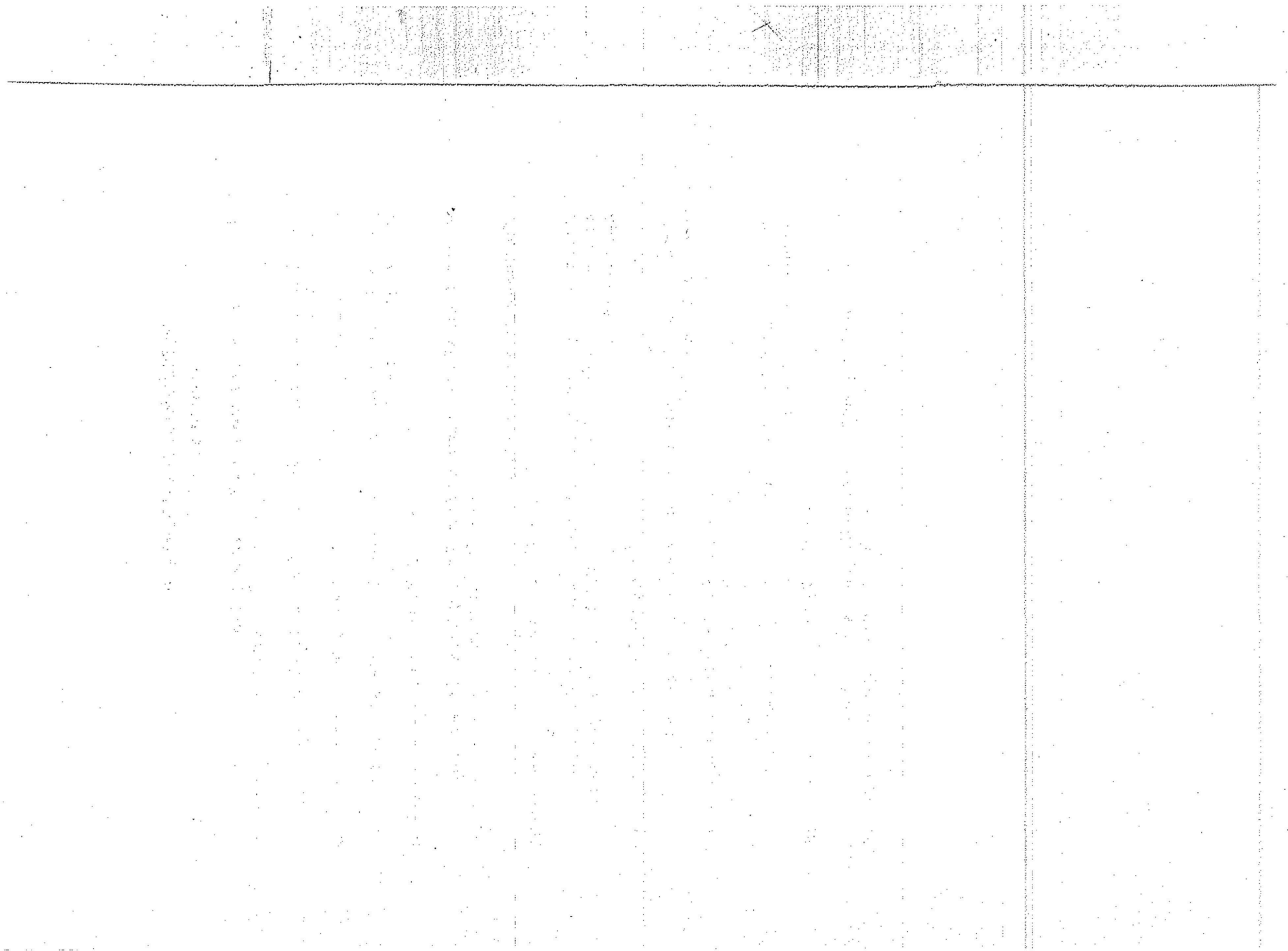
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THAT DISCRIMINATORY U.S. PATENT LAW!

(Revised Text)

PIPA NINTH INTERNATIONAL CONGRESS

October 3-6, 1978

Nagoya, Japan

Committee 1 U.S. Group

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I. Introduction

MINASAMA OHAYO GOZAIMASU

WATAKUSHI-WA, "AMERICA TOKKYO-HO-WA GAIKOKU-JIN-O SABETSU SHITEIRUKA" NI-TSUITE OHANASHI ITASHIMASU-GA, KOREGA MINASAMA-NO KANSHIN-O YOBI, OTAGAI-NO RIKAI-O FUKAMERU KOTO-GA DEKIRUYOH NOZOMIMASU.

The United States Patent Law has been decried abroad as unfair and discriminatory to foreign applicants. Let us listen by way of illustration to just three foreign commentators, one each from Japan, Germany and Great Britain:

1) "In 1973, the now internationally famous (infamous?!) Kawai...case came as somewhat of a shock to international applicants.... This case has received extensive critical commentary, both in Europe and Japan." (T. Aoyama, "The Hoechst Case - A New Kawai", 59 JPOS 263, 1977).

2) "While one couldn't help but be surprised by Hilmer I..,and taken aback by Hilmer II..., Kawai v. Metlesics... and In re McKellin were totally demoralizing and devastating to the foreign applicant...who has become a second class citizen at the hand of these decisions...". (J. Pagenberg, "McKellin", GRUR Int. 1977, 38, 40).

3) "The proposed U.S. patent revision... maintains and increases discrimination against foreigners in a way which can be criticized as economic imperialism." (J. L. Beton, "Scott Bill", CIPA July, 1974, 339, 342).

These are very critical statements, nay, very strong condemnations, indeed.

Even an occasional US author has discerned a dichotomy in treatment. See, for instance, the analysis of "The Hilmer Doctrine" in BNA's PTCJ, (No. 292), 8-26-76, C-1, 3:

> "There exists an ambivalence (an understandable one) in our patent system with respect to domestic versus foreign factors. As parties to the Paris Convention we are obligated to treat foreigners and our own nationals alike. To a considerable extent we do so. Thus, we give an applicant the benefit of his earlier foreign filing date provided the conditions of section 119 are met.
>
> We also accept as legally sufficient 'prior art,' published materials (including issued patents) that appear anywhere in the world (section 102(a) and (b). On the other hand, we distinguish sharply between foreign published materials and foreign activity not involving publication. Thus, 'public use or sale' constitutes prior art only if it occurs in the United States (section 102(a) and (b). Also, an applicant is precluded from relying upon activity occurring in a foreign country to establish his date of invention (section 104).

This kind of expression is understandably much milder.

What is the truth? Are foreign applicants really disadvantaged, and if so, to what extent? Could it be that there are areas where foreign applicants have a distinct advantage? Yes, indeed, as I will show. But nothing much, if anything at all, has been said about any advantage that foreign applicants enjoy, which in some cases represents the other side of the coin. Thus, it is time someone came to the defense of the U.S. Patent Law and tried to set the record straight.

II. Section 104

Section 104 of Title 35 of the U.S. Code, entitled "Invention made abroad", has been criticized abroad as particularly and manifestly unfair and discriminatory against foreign inventors - though not in open disagreement with the Paris Convention - and in fact as the most flagrant of the features which give U.S. inventors an unfair advantage over foreign inventors. Section 104 affects not only the determination of priority between applicants but also all cases where prior invention has to be shown over relevant art.

Section 104 stipulates that

> "In proceedings in the Patent Office and in the courts, an applicant for a patent or a patentee, may not establish a date of invention by reference to knowledge or use or other activity in a foreign country."

There is no denying that Section 104 is discriminatory which is especially evident in comparison to Canada's conflict practice. But for the sake of objectivity and completeness let's illuminate Section 104 and then see whether it cannot be neutralized or even turned into an advantage.

The law in the United States has always been as expressed in Section 104 except in the period between 1939 and 1945 when, due to the Supreme Court decision in Electric Battery Co. v. Shimadzu, 307 U.S. 5, 41 USPQ 155 (1939), foreign data could be used in ex parte prosecution and validity contests but not in interferences. This contradiction was resolved by Congress

by barring such evidence in all cases instead of permitting it in all cases.

As to the issue of discrimination itself the first point to be made is that, as was pointed out in the very first importation case, Thomas v. Reese, 1880 C.D. 12, as well as in Monaco v. Hoffman, 127 USPQ 516 (D.C.D.C. 1960), aff'd 130 USPQ 97 (C.A.D.C. 1961), the statute does not distinguish between citizens of the United States and foreign countries but between inventions made in the United States and other countries. Foreigners living in this country are not subject to Section 104 and U.S. citizens residing abroad are. There are a number of cases where non-governmental U.S. inventors made inventions abroad but the earliest invention dates they could rely on were the days they returned to the U.S. See, for example, General Talking Pictures v. American Tri-Ergon, 36 USPQ 428 (3rd Cir. 1938); Andre v. Daito, 166 USPQ 92 (Bd./Intf. 1969). According to the Thomas case the "law is absolutely impartial as between foreign and domestic applicants", but the impact of the prohibition, no doubt, falls more on foreign inventors than on domestic inventors.

By the way in the Monaco case Montecatini launched a frontal attack on Section 104. Having lost the priority contest in the Patent & Trademark Office because the junior party was able to establish reduction to practice in the United States prior to their Italian filing date, they filed a Section 146 action and took a great deal of testimony on Italy proving still earlier reduction to practice there. However, Judge Holtzoff

ruled against Montecatini while sympathizing with them. He admitted that

> "the present rule originated in the days when the only means of travel between continents was by sailing ships, and the sole means of communication was by slow mail. Conceivably, under those conditions an invention made abroad might have never become known in the United States. Today with modern means of travel and communication, information may be transmitted from Europe to the United States as rapidly as from the eastern seaboard to Honolulu and Alaska." Id. at 522.

He continued that it could be argued that with the "great increase in the volume of travel between countries, as well as the constant utilization of new means of communication", the reason for the rule no longer exists and the Presidential Commission on the Patent System, in the mid 1960's, came to the same conclusion and recommended that Section 104 be scrapped and in fact it was left out of the early patent revision bills but subsequently put back in under (perhaps misguided) pressure from industry. Query: Is Section 104 unconstitutional?

Actually, the point may be made as an aside that if there is discrimination in U.S. interference practice it is against the junior party whether he be a domestic or a foreign party. As a practical matter a foreign applicant who with an earlier foreign filing date becomes senior party can often sit back and win hands down while the domestic party unsuccessfully labors for weeks taking testimony at great expense. A case in point is Archer v. Freter et al., 166 USPQ 322 (CCPA 1970), wherein Freter et al.,

simply relied on their German priority date and did not even write briefs nor attend the hearing before the CCPA. In fact - and this is the second point to be made - to the extent that foreigners tend to file early according to the practical dictates of their first-to-file systems, they have an advantage vis-a-vis U.S. inventors apart from the possible relevance of the old saw that it is better to be senior party than first inventor.

It should also be recognized in this regard that the proscription against reliance on foreign activity is not a broad and sweeping one. It applies only to an attempt to establish an earlier invention date. Foreign evidence of course can be proffered with respect to all other issues, e.g., derivation, identity or nature of the invention and to some extent also diligence. That is quite clear from a number of decisions, e.g., Nielsen v. Cahill, 133 USPQ 563 (Bd./Intf. 1961) and cases cited therein; Rebuffat v. Crawford, 20 USPQ 321 (CCPA 1936); Wilson v. Sherts, 28 USPQ 379 (CCPA 1936); and this was my third point.

Unless one wanted to say, tongue-in-cheek of course, that nothing prevents foreign inventors from going to the U.S. to make all their important inventions in the U.S. in which case all the privileges U.S. inventors have would be theirs also, the fact remains that foreign activity cannot be resorted to to establish an earlier invention date in the manner U.S. applicants or patentees can. However, as I pointed out at last year's Eighth International Congress of PIPA in Williamsburg and four years ago in 1974 in Tokyo at an AIPPI meeting as well as elsewhere (e.g., in San Diego and Stuttgart in 1971, Toronto 1972, Mexico City

in 1973, London in 1975, spreading the gospel of importation, so to speak), there are ways and means to neutralize Section 104 in a perfectly legitimate manner, namely, by importation of a foreign invention (disclosure as well as embodiment). This is my fourth point which indicates that a foreign inventor's lot is not quite so hopeless. And as was shown by Maurice Stiefel in a lecture ("Winning an Interference for a Foreign Inventor") which he gave at the BNA 1978 Patent Law Conference at Arlington, Va. on Sept. 7, 1978, foreign inventors can by virtue of importation acts turn situations in which they would inexorably loose into situations where they can easily win, e.g. where a U.S. applicant conceived before, but reduced to practice after, a foreign applicant's priority filing but where the foreign applicant sent an invention disclosure or a conception letter to the U.S. before the U.S. applicant's conception date.

In this connection it is also of interest to note, as shown by Clevenger v. Kcoi, 190 USPQ 188 (Bd/Intf. 1974) and Scheer v. Kincl, USP 3,390,157, Intf. No. 92,644, that imported disclosures need not be studied and understood by anyone in the U.S. but can simply be filed away on their behalf to collect dust and yet can later be relied on. If these holdings were sound (which I doubt), at least I perceive a small advantage here on the part of foreign inventors inasmuch as I do not think that U.S. inventors can safely engage in such conduct.

As intimated above, Section 104 affects ont only the course and outcome of interferences but also Rule 131 practice and validity determinations and as regards Rule 131 practice and charges of inequity, In re Krank, 169 USPQ 41 (CCPA 1971)

is of interest. In this case appellants, German citizens K and M, complained that under Section 104 they were not permitted to file a Rule 131 affidavit to swear back of a S and K prior art reference. The CCPA, rejecting the unfairness argument, held that there was an alternative to a Rule 131 affidavit under such circumstances, as was shown by In re Land, 151 USPQ 621 (CCPA 1966) and particularly In re Facius, 161 USPQ 294 (CCPA 1969) to the effect that absent a statutory bar one's own invention may not be prior art against oneself. The authors of Patent Law Perspectives therefore concluded that the "edict of Facius has become a welcome mechanism for partially offsetting the too often raised complaint of national discrimination leveled against Title 35 of the U.S. Code." (1971 Dev., A. 3[8]-7).

This then was my fifth point and the next and final point is one that was made by P. J. Federico, one of the foremost scholars and authorities on U.S. patent law, who had this to say:

> "With respect to interferences involving applicants who made the invention in the United States and applicants who made their inventions outside of the United States, it would appear that the latter are at some disadvantage and that this disadvantage would be reflected in the outcome of the interferences. However, a study made of all the interferences instituted over a period of three years which involved foreign and domestic made inventions did not show any material difference, the party who made the invention in a foreign country winning the interference about as often as the party making the invention in the United States...". (P.J. Federico, "Patent Interferences in the United States", 2 IIC, No.1/1971, p. 21, 49-50).

Mr. Federico made another three-months' survey in 1970-1971 and made the same findings Idem at 55. (An update of the Federico study would be highly desirable and worthwhile.)

III. Other Sections, Such As, Sections 102, 112 and 119

A. Section 102(a) and (b)

As regards Section 102 it is not nearly as clear that a complaint of inequitable treatment can be based thereon. On the contrary, there are some very positive aspects and advantages that foreign applicants can derive from Section 102.

As seen from the above quote from BNA's PTCJ in the introductory chapter, Section 102 has a favorable impact on foreign applicants in that activities like public knowledge, public use or sale of the invention do not raise any bars to obtaining valid U.S. patents. P. J. Federico put it this way:

> "As the law stands, the general proposition can be stated that activities in a foreign country (other than printed publications and patents) neither help nor hurt any person who is seeking a United States patent or who has obtained a United States patent. This rule has two impacts on foreign applicants for United States patents. One impact is favorable to their interests since activities like public knowledge, and public use of the invention by themselves, or by others, cannot defeat their right to a United States patent;... on the other hand the impact is unfavorable in that their activities abroad cannot aid them in obtaining a United States patent." (P.J. Federico, "Patent Interferences in the United States, 2 IIC, No. 1/1971, p. 21, 49.)

Foreign inventors, thus, can obtain patents where U.S. inventors no longer could (i.e. after grace period ran out) and, in fact, would be able to obtain U.S. patents in situations, which are not far-fetched at all, where they no longer could obtain

home-country patents. See In re LaGrice, 133 USPQ 365 (1961), where the subject matter had been on sale in England by applicant for 5 or 6 years before his U.S. filing.

B. Section 102(g)

This section must be brought up next as a clear instance of an advantage that foreign applicants enjoy. It stipulates that a person shall be entitled to a patent unless "before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed or concealed it..." Since the CCPA decision of In re Bass, 177 USPQ 178 (1973), the patent bar sorely appreciates that this section not only is the basis for interference proceedings but also serves as a patent-defeating provision and has an insidious impact on corporate and institutional research. However, the Bass rule simply does not affect inventions made abroad and foreign inventors can get patents on minor improvements where domestic inventors cannot. This point about foreign inventors being advantaged by the Bass rule is, of course, based on the fact that Section 102(g) refers specifically to an "invention... made in this country by another". In other words, only an invention made in this country can be considered as of anticipatory relevance under Section 102(g) to somebody else's invention. This is perfectly consistent with Section 104 which also precludes reliance on foreign inventions, that is, inventions made abroad.

Because of this specific "in this country" limitation in Section 102(g), no one would ever be able to defend or defeat patentability or validity by reference to an earlier invention made abroad. Thus, unlike with respect to U.S. inventions, an invention made abroad can have relevance in the U.S. only by way of publication, patenting abroad or filing in the U.S. with or without priority.

Therefore, it would also be completely immaterial, unlike in the U.S., if members of a reserach team made related inventions abroad at different times, some of which were not patented and some of which were made the subject of U.S. applications. In the U.S. even those inventions by coworkers that were not covered by applications may be valid prior art under Section 102(g) with respect to the later inventions which are covered by patent applications.

C. Section 112

This section is not discriminatory per se like Section 104. Section 112 applies across the board to U.S. as well as foreign applicants. It is said to be inequitable in practice, however, by virtue of its stringent enablement and best-mode disclosure requirements, the latter of which constitutes probably the greatest departure from other patent systems.

Section 112 would be unfair to foreign applicants and in practice more difficult to them inasmuch as U.S. standards are imposed on them in their own countries, i.e., their own national applications have to be written, not as they might otherwise be written under applicable local principles and

rules, but as though they were U.S. applications ab initio. This follows from the fact that Section 112 is intertwined with Section 119 by virtue of such decision as, e.g., Kawai v. Metlesics, 178 USPQ 158 (CCPA 1973), which held that a foreign patent application must contain a disclosure of an invention adequate to satisfy the requirements of the first paragraph of Section 112 if a later filed United States application claiming that invention is to be accorded the benefit of the filing date of the foreign application as allowed by Section 119.

U.S. treatment of foreigners in this area is supposed to violate the Paris Convention. See Wegner and Pagenberg, "Paris Convention: A Unique American Viewpoint Denying 'The Same Effect' to the Foreign Filing", 5 IIC, No. 4/1974, 361, which covers this whole problem area very thoroughly. Cf. Schwaab and Altenburg, "Disclosure Requirements for a U.S. Patent Application", Communications of the German Patent Attorneys, January 1975, p. 1.

Here I am somewhat on the defensive and at a loss to point to advantages for foreigners. The only advise here is that foreign applicants will have to learn, if they haven't already, to live with this practice until legislation changes it for which however there does not seem to be an immediate prospect. Foreign inventors who do file corresponding applications in the U.S. are a knowledgeable and sophisticated breed, as are their foreign and U.S. patent advisors and counsels, who no doubt can cope with these intensified disclosure requirements. (Query: Was the 1977 Tokyo High Court decision in Hoechst v. Director of the Patent Office sort of retaliatory? T. Aoyama who was quoted in the Introduction intimated as much himself.)

In this connection it should be pointed out that there is a particular hue and cry abroad also about the so-called Hilmer Doctrine as developed by the CCPA in Hilmer I (149 USPQ 480, 1966), Hilmer II (165 USPQ 255, 1970) and In re McKellin (188 USPQ 428, 1976). This doctrine permits domestic applicants who lose(!) an interference with a foreign applicant to obtain coverage for closely related and obvious subject matter, the foreign applicant's disclosure being effective as a reference as of its U.S., not foreign, filing date. This doctrine supposedly opens up new opportunities for a domestic party who loses an interference involving an application or patent of foreign origin. This problem area is difficult and intricate but has been thoroughly explored and discussed, in the above-mentioned BNA analysis and GRUR Int. 1977 and 5 IIC 1974 articles. Suffice it to point out here that any problem that arises here pertains of course only to non-common subject matter and arises only if and when a foreign applicant wins, yes wins, an interference with a domestic applicant.

I am not sure it is objective to get excited about a situation where the foreign applicant prevailed in the interference and obtained the coverage on the common subject matter which he sought. So what if the U.S. applicant can eke out claims on any residual peripheral subject matter that he had disclosed in his application. Besides as I discussed in "Patent Practice Interference", Course Handbook Series No. 91, Practicing Law Institute, New York, 1978, p. 169, the U.S. applicant will have a rough time in the Patent & Trademark Office (PTO) when he tries to obtain any such residual coverage. "(T)he PTO will fight a

good fight before granting such claims. They will try to distinguish and construe narrowly any of the cases (one) might rely on." (Ibidem).

IV. Some Additional Miscellaneous Points

A. The matter of inventorship designation and inventorship correction might also be brought up in this connection. As a general rule foreign applicants file U.S. applications based on foreign priority applications with identical inventorship. Following this practice, they often either get invalid U.S. patents if they put on too many coinventors or create problems for themselves in the priority countries if they put on too few inventors, which may be particularly true in Japan. If the foreign priority application is filed in the names of only those individuals who are true coinventors under the strict U.S. rules, foreign applicants have a legitimate complaint, on the one hand. Why should strict U.S. standards based on a U.S. peculiarity have to be followed in countries like Japan, Germany, Switzerland? Besides, since it is very difficult for U.S. practitioners to sort out inventorship when several coworkers contributed to an invention, it would be next to impossible for foreign practitioners to do this in their own countries.

On the other hand, however, you may recall that at the Seventh International Congress of PIPA at Hakone two years ago I gave a talk on how to live with inventorship discrepancies between foreign priority applications and subsequent corresponding U.S. applications. I pointed out that this wasn't bad and that, if

challenged by the PTO, discrepant inventorship could be faced up to, explained away and thus taken care of. Another and perhaps easier but less satisfactory alternative is to convert inventorship in the foreign application or patent. Apparently this is readily accomplished, see Schmitt et al v. Babcock et al, 153 USPQ 719 (CCPA 1967), and this is why Mr. W. A. Modance, ex-Chairman of the Board of Interferences, thinks that in this area foreigners have an advantage and U.S. residents are disadvantaged. At a "Modern Interference Practice Panel", held in Cincinnati, September 25, 1975, he put it this way:

> "In the United States you can change the inventors in a patent application by indicating that you had used diligence and have justification for wanting the change. You have to present the facts. (In affidavits.) But if you base your application on a foreign priority application and it has two inventors, you can take one out by stroke of the pen. The foreign Patent Office will often accept that and the United States Patent Office including the CCPA, will say it's perfectly alright. Never mind that it should be treated like a U.S. application, they're not going to do it."
> (Transcript of Proceedings, p. 3).

A further possible advantage on the part of foreigners might emanate from the recent startling D.C. Court of Appeals decision, Stoddard & Co. v. Dann, 195 USPQ 97 (1977), which involved foreign applications/patents and which permitted conversion from one sole inventor to another sole inventor under circumstances which as a practical matter will probably redound more to the benefit of foreign inventors than U.S. inventors for it is difficult to see how U.S. inventors and

patent practitioners could rely on ignorance of the language and the law and get away with it as ingenuously as the foreign party was able to do in the Stoddard case.

B. Foreign inventors unlike domestic inventors do not only not encounter problems with use or sale or knowledge abroad, no matter how extensive or how long, nor with coworkers' prior closely related work, as pointed out above, but also they do not run into forfeiture problems. As you may know, it has been held, by at least two courts in Levinson v. Nordskog, 163 USPQ 52 (D.C.C.D. Cal. 1969), and Advanced Hydraulics Inc. v. Otis Elevator Co., 186 USPQ 1 (7th Cir. 1975) - which saw no need to resort to any statutory provision for doing so - that an inventor forfeited his right to a valid patent if he waited 5 1/2 or 6 years, respectively after reducing his invention to practice before he filed. Again, this forfeiture pitfall obviously need not concern and does not apply to foreign inventors.

Conclusion

When all this is taken into account objectively and dispassionately, foreign inventors need not despair for their lot is not as bad as it has been made out to be. I do not know exactly how this tips the scales but I surmise it is about "even Steven".

Goseicho Arigato Gozaimashita!

Karl F. Jorda

October 4 - 6, 1978
PIPA Japanese Group
Committee 1, Group 3,
Chairman : N. Kyomoto
Speaker : S. Nakajima

New Law relating to International Application under PCT

I. Introduction

As well known to all of you, the Patent Cooperation Treaty has already come into force on January 24th, 1978, and the acceptance of international application under the Treaty has been commenced as from June 1st of this year in most of the contracting states. As the results of much effort payed by the people concerned in Japan especially those in Japanese Patent Office, the implementation of PCT was affirmed at the Japanese Diet on March 31, 1978, the instrument of ratification was deposited at WIPO on July 1st and the Treaty has come into force also in Japan just from this week.

Law revisions for implementing PCT in Japan were compiled up in a single independent new law, (hereinafter designates it as "International Application Law"

or sometimes more simply as "the Law") which passed the Diet on April 17 of this year and was promulgated on April 26 as Law No. 30/1978. As reported in the PCT Gazette No.1, the Japanese Patent Office (hereinafter designates as "JPO") was already appointed to be both of an International Searching Authority and an International Preliminary Examining Authority under the Treaty.

The new law consists of two parts; firstly, Sections 1 to 21 which prescribe the procedures between JPO and international applicants at the international stage, and secondly, Supplmentary Sections 3 to 7 which prescribe the procedures at the national stage in Japan as a designated state. Since the Sections 1 to 21 are substantially the same as the counterparts in the Treaty covering international application, international search and international preliminary examination, we would like to introduce simply the purport and the specific points thereof. Then, we would like to explain in detail the contents of the Supplmentary Sections, especially those of Supplmentary Sections 3 to 7 which modify the existing Patent Law, Utility Model Law, Design Law, etc. which regulate the treatment of the internatinal application at the national stage.

This is contrary to the modification of the U.S.

Code 35 for the same purpose, wherein a new "Part IV" prescibing PCT procedures in the United States was added with some other partial amendments in the related Sections.

II. Procedures at the International Stage

1) International Application(1)

It was confirmed that JPO acts as the Receiving Office for any Japanese or any resident in Japan.(2) Requirements for filing, suggestion of amendment, consideration as withdrawal as the effect of failure in procedure, and acknowledgement of international filing date were prescribed within the frame-work of Articles 4, 11 and 14 of the Treaty.(3)

Among them, it is noted that a possibility of filing international application in a foreign language before JPO is set forth, provided the Regulation of the Enforcement of the Law will be amended to permit it in future.(4) This provision aims to prepare for the situation where JPO will act as a Receiving Office, as an International Searching Authority and as International Preliminary Examining Authority on behalf of the developing countries in the Southeast Asia, as the Japanese

governmental representative proposed at the 1st Session of PCT Assembly. It is understood that, in such situation, we Japanese, will also be able to file international application in a foreign language before JPO.

Following to Article 11 of the Treaty, the Law stated that JPO shall accord as the international filing date the date of receipt of the international application, while in the case of the normal national application under the existing Patent Law, the mailing date of the application is deemed to be the actual filing date as before.(5) Thus, to accord the filing date, two different systems shall stand side by side after this October in JPO.

2) International Search(6)

Drafting of international search report by an examiner, treatment of international application lacking unity of invention, request for the copy of references are prescribed in accordance with Articles 16, 17 and 20 of the Treaty.(7)

3) International Preliminary Examination(8)

Procedures of international preliminary examination before JPO, notice of the examiners opinion, response by the applicant, amendment of description

and claims, international preliminary examination report, treatment of defect in the procedures, request for the copy of references are prescribed in the frameworks of Articles 31, 33, 34 and 35 of the Treaty.(9)

4) Miscelaneous(10)

Among the common matters prescribed further in the Law,(11) such as representative, fees, consignments to the relating Regulations or the date of effectuation, it is noteworthy that attorneys at law and patent attorneys are given exclusivity to act as the proxy of the international application before JPO.(12) Beside, the Director General of JPO is permitted to limit provisionally the number of request for international preliminary examination.(13)

III. Procedures at the National Stage (Modification of the Japanese Patent Law)

Supplmentary Section 3 of the International Application Law is a large section which covers all modifications of the Japanese Patent Law. Main part of said modifications is an addition of a new Chapter 9 having fourteen new Sections(14) which prescribe how

the international application designating Japan shall proceed at the national stage in Japan. We would like to explain this new chapter somewhat minutely in the following sentences.

1) Transitional Procedures from the International to the National Stage

(a) Legal Status of the International Application

In conformity with Article 11 of the Treaty, it is confirmed in the Patent Law that the international application designating Japan shall be regarded as the national patent application in Japan actually filed at its international filing date.(15) At the same time, it is clarified that, in the case of international application filed in a foreign language, the examination shall be based on the translations of the description, the figures and the claims of said international application submitted to JPO normally within the 20 months period from the priority date.(16) This treatment apparently based upon the understanding adopted as the "Note on Article 46" of the Treaty at the diplomatic conference held in Washington in 1970. The international application filed in a foreign language is called as "Foreign Language Patent Application" in the

modified Patent Law.(15)

(b) Submission of translation

In the case of an international application filed in a foreign language, the translation should be submitted normally within 20 months period from the priority date, or if no establishment of international search report has been declared, within 2 months from the date of the notification sent to the applicant. The moment when these terms expire are called as "Basic Time" inclusively in the modified Japanese Patent Law. Although this provision is the counterpart of Article 22 of the Treaty, it is further stated additionally that the translation submitted to JPO may be substituted by an entirely new set of the translation until the Basic Time in so far as a request for earlier examination has not been made. Thus, you may have chances to correct miss-translations as many times as you like until the Basic Time. It is also stated that the failure to submit translation is deemed as withdrawal of the international applicati on as far as with regard to Japan.(17)

Article 39(1) of the Treaty prescribes that if the international preliminary examination was requested

within 19 months from the priority date, the term date for furnishing translation may be prolonged. However, in Japan, the term for furnishing translation was not prolonged, since Japan has made the reservation under Article 64(2)(a) of the Treaty, which means that Japan shall not be bound by the provision of Article 39(1) of the Treaty. The countries who made this reservation are only Sweden and Japan. The reason of the reservation is to minimize inequality caused by the delay of laying open of the translation as compared to the cases where international preliminary examination were not requested or the cases of ordinary national application.

(c) Special Paper for Identification and National Fee

Applicant of international application should furnish until the Basic Time in normal case a special paper describing bibliographical matters for identification, such as name and address of the inventors in every case, name of the representative in the case of the application by legal person, etc., thereby showing the applicant's intention to proceed the application to the national stage. JPO may force the applicant to complete this requirement and the failure to satisfy the require-

ment may be deemed as withdrawal of the international application with regard to Japan. Procedures for payment and the effect of non-payment of the national fee were stipulated in the same manner as the above case.(18) In the meantime, the national fee was fixed as ¥5,400 per each application.(19)

In the case of the international application filed in Japanese the above procedures are required until 5 months later from the Basic Time if the interntional preliminary examination was requested. On the other hand, in the case of Foreign Language Patent Application, however, the procedures should be done at the same time as furnishing of the translation, regardless of whether the international preliminary examination was requested.

In new Chapter 9 of the modified Patent Law, a confusing terminology was employed. Namely, the word of "specification" is used in the meaning of"description" under Article 5 of the Treaty in the new chapter, while the same word has been used in the meaning which includes claims, description and explanation of figures in the other Chapters of the same Patent Law. We are a little bit afraid of that such confusing terminology will cause sometimes misunderstanding in communication.

(d) Amendment of International Application

In the case of the amendment of claims which is allowed once at the international stage under Article 19 of the Treaty was made, a copy of the amendment and the translation thereof should be furnished to JPO until the Basic Time. If the copy of said amendment had not been sent to JPO from the International Bureau until the Basic Time, the applicant should furnish it to JPO. The translation of said amendment should be furnished by the applicant by himself to the JPO. The amendment come into effective when any one of the above documents reached JPO.(21) The above amendment by applicant is the exception to the general rule under Japanese Patent Law under which a shorter period is applied to regular national application.

The amendments of description, claims and figures allowed under Article 34 of the Treaty is treated in the same manner as that of Article 19 of the Treaty except that the term for furnishing the copy of the amendment and the translation thereof is 25 months from the priority date.(21) Incidentally, with regard to the international application which includes Japan among the designated countries but was received in the United States, amendment under Article 34 of the Treaty will

not happen since the United States reserved Chapter 2 of the Treaty.

2) The Procedures at the National Stage

(a) Amendment of Foreign Language Patent Application

After transition to the national stage, the applicant of the international application is given the same chance to amend description, claims and figures as the case of the regular Japanese Patent Application, provided that all necessary documents for the transition into national stage were submitted to JPO, the national fee was payed, and the Basic Time has passed.(22)

However, as to the basis for legitimately allowable amendment, there is a difference between the international applications filed in Japanese and in a foreign language, respectively. Namely, in the case of an international application filed in Japanese, the applicant may amend in so far as the amended scope is regarded within the scope of disclosure at its international filing date. On the other hand, in the case of a Foreign Language Patent Application, the amendment shall not go beyond the scope disclosed commonly in both of the international application in its original

language and the translation thereof submitted to JPO, though in practice the amendment shall be allowed as far as it appears within the scope disclosed in the translation.

In the case of normal Japanese patent application, if it was found that the amendment made after the filing is addition of new matter or change of gist in the course of the examination, the amendment shall be refused. In such case, if the applicant files a new Patent application as to the amended scope immediately after the refusal of the amendment, the new application is deemed to be filed at the date of the amendment.(23) However, the above benefit of backdating shall not be applied to the international application.

If it was found after the patent has been granted that the addition of new matter or change of gist amendment had been made before the decision to publish the application, the filing date of the patent application is deemed to be postdated in the case of normal Japanese patent application,(24) while such postdating penalty shall not be applied in the case of international application.

In the case of international application, conversion of application, such as an application for a patent of addition into an independent application, reversal

thereof, an application for an utility model registration or a design registration into an application for a patent, or reversal thereof may only be allowed after fulfilling of all the required procedures for transition into the national stage including the payment of the national fee.(25)

(b) Self designation

Under the U. S. Patent Law, the addition of new matter may be allowed by filing continuation-in-part application at any time while the application is pending and the applicant is entitled to the benefit of the earlier filing date of the first application.(26) In England, the addition of new matter by amendement and the broadening of scope by compiling prior applications are possible within one year from the filing date of the first application, by utilizing provisional application system till June of this year and by claiming the priority of the filing date of the applicant's older British application thereafter. In several other countries in Europe, Patent Laws were revised similarly as England to establish new priority system based upon the applicant's older application in the same country.

On the contrary, under the Japanese Patent Law,

it is a principle that a patent application shall be given a single effective filing date, and the addition of new matter after the filing is refused as a rule. Besides, if the amendment made before the decision to publish the application was found as the addition of new matter after granting a patent, the applicant is penalized by postdating the whole filing date up to the date of amendment.

As you know well, the Treaty allows so-called self-designation under Article 8(2)(b), though the effect of the priority claim in each designated state shall be governed by the national law of that state. Both of U. S. and British Patent Laws were revised and clearly respect the priority claim based upon a senior patent application in respective country as effective. In this connection, it had been expected to harmonize the Japanese patent system with an international trend at this opportunity by respecting the priority claim in the form of self-desingation as effective in Japan. However, as reported by Mr. Ono of Committee 3, at the Williamsburg Congress last year, Law Revision Committee under the Industrial Property Council of Japan decided to maintain the old strict system instead of adopting such new priority system in view of minimizing the law

revision.

We would like to teach you a by-way, however, which results the same effect as the priority claim by self-designation. This may be one of the merits brought by the implementation of the Treaty. As you know, Article 8(2) of the Treaty clearly states that the effect of claiming priority in the second international application based upon the first international application designating plural states should be admitted, even though the states designated in both international applications are duplicated.

Namely, if the second international application including Japan among the designated states claimed the priority of the first international application designating only Japan (or the priority of the older Japanese national application), the effect of the priority shall not be admitted in Japan. However, if the first international application designated at least one another contracting state as well as Japan, the effect of claiming priority of the first international application shall be admitted in Japan. Thus, by designating one another contracting state excessively in the first international application, substantially the same effect as the self-designation can be realized also in Japan.(29)

Of course, it has been possible also in Japan to add new matter by utilising normal priority system under Paris Convention claiming the priorities of one or several national applications in a state other than Japan, for instance in the United States. Accordingly, though it is not the first exception against the general rule of one effective filing date for each one application under the existing Patent Law, it is the first case where the benefit of an earlier filing date in Japan is entitled legitimately in Japan.

(c) Laying Open of the International Application

In the case of the international application filed in Japanese, the international publication is regarded as such as the laying open under the Japanese Patent Law. In the case of Foreign Language Patent Application, the laying open of the translation thereof which is scheduled at the expiration of 20 months from the priority date is regarded as the laying open under the Japanese Patent Law.(30)

3) Examination of International Application

(a) Request for Examination

Under the Japanese Patent Law, it is necessary to.

make a request for examination seperately if the applicant dsire the application to be examined. In the case of international application, the request for examination is admitted only after the transition into the national stage. Thus, the examination in earlier stage on the express request of the applicant under Article 23 and 40 of the Treaty, only the latter is admitted in Japan after the application proceeded into the national stage.(31)

(b) Rejection and Invalidation on acount of Incorrect Translation

Problems due to incorrect translation which were pointed out by Mr.Ono of Committee 3 at the previous Williamsburg Congress were settled finally as follows.

It is prescribed in the modified Patent Law that, if the translation broadened or changed the scope of original disclosure, the international application shall be rejected or invalidated upon an opposition or an appeal raised by the other party. It should be noted that the rejection or the invalidation on said ground shall not be declared unless as opposition to grant was raised after the publication of the international application or an invalidation trial was raised after

granting patent thereupon, even though the examiner knew occasionally the presence of sufficient grounds in this respect.(32)

This means that discrepancy between the translation and the international application in its original language shall be checked only when an opposition to grant or an invalidation trial was raised. Several discussions in the Diet were focussed on this point,however, the government opinion was adopted finally that to maintain the equality throughout the examinations of all international applications is more important than the occasional improvement in an individual examination which might cause an intentional inequality.

It should be also noted that, if it was found that the translation broadened or changed the scope of original disclosure, whole of the application shall be rejected or invalidated. On the other hand,Article 46 of the Treaty only authorize the designated state in such case to limit the scope retroactively and declare partial nulification after the patent had been granted to the international application. With regard to this point, 35 USC was modified to the effect that a court of competent jurisdiction may retroactively limit the scope of the patent by declaring it unenforceable to the extent that it exceeds.

In Japan, though there were some opinions expecting the similar modification as the United States, a linkage system utilizing already existing trials for invalidation and for amendment was adopted finally in accordance with the recomendation of the Law Revision Committee under the Industrial Property Council. Namely, under the existing Patent Law, any patentee may demand a trial for amendment of his patent, for instance as the counter-measure against invalidation trial. In addition thereto, the modified Patent Law provided that, in the case where an trial for amendment was demanded in parallel, JPO should postpone the ruling against the demand of trial for invalidation alleging incorrect broadening translation until the issuance of the decision on the trial for amendment.(33) Thus, the concept of partial invalidation of patent has not been adopted after all in Japan.

In the case of the patent granted to an international application originated from abroad, therefore, if an invalidation trial was demanded alleging incorrect broadening translation, it is important for the patentee to check the correctness of the translation very carefully and, if it appears necessary, reduce the scope by demanding a trial for amendment before the invalidation trial is

finalized. Otherwise, the patentee will run a risk of losing whole patent right in Japan.

(c) Exclusive Effect against Younger Application

The international application shall be regarded as the normal Japanese patent application filed at its international filing date. Thus, the international application, in principle, shall have at its international filing date the same right as the normal application to exclude younger patent application of the other party as to the whole scope of the original disclosure. On the other hand, the examination shall be based upon the translation because of convenience in practice.

To compromise the practice with the principle, it is prescribed in the modified Patent Law that the matters which are only described either in the international application in its original language or in the translation thereof are regarded as not described at all in the international application.(34)

IV. Revision of Utility Model Law and Design Law

Utility Model Law and Design Law were revised in substantially the same line as that of Patent Law,(36) except that the submission of figures is essential and should be completed before the Basic Time in the case of an international application for utility model registration.(37) Laying open of the international application for utility model registration is carried out also in the same abridgment publication manner as the normal national application.(38)

V. Conclusion

The outline of the New Law relating to international application under PCT and the details of the Japanese Patent Law revision covered by the new law were introduced. The Regulations for the Enforcement of the Law will be introduced today by another member of our Committee 1, Mr. Nishiyama. We hope we could give some help in cooperation with his presentation to all PIPA members. At the same time, I hope the "PCT-Feber" will blow up among the member companies.

R E F E R E N C E S

(1) Chapter 2, International Application Law

(2) Section 2, " " "

(3) Sections 3 to 7, " " "

(4) Section 3, " " "

(5) Section 4, " " "

(6) Chapter 3, " " "

(7) Sections 8 & 9, " " "

(8) Chapter 4 & Supplmentary Sections 1 & 2,
" " "

(9) Sections 10 to 15 & Supplmentary Sections 1 & 2,
" " "

(10) Chapter 5, " " "

(11) Sections 16 to 21, " " "

(12) Section 16, " " "

(13) Supplmentary Section 2, " " "

(14) Sections 184^{ter} to 184^{16}, Modified Patent Law

(15) Section 184^{ter}, " " "

(16) Section 184^{sexies}, " " "

(17) Section 184^{quater}, " " "

(18) Section $184^{quinquies}$, " " "

(19) Section 195, Attached Table, Column 4 - 2,
" " "

(20) Section 184^{7}, Modified Patent Law

(21) Section 184^{8}, " " "

(22) Section 184^{11}, " " "

(23) Section 53, " " "

(24) Section 40, " " "

(25) Section 184^{12}, " " "

(26) Section 120, U. S. Code 35

(27) Section 365, " "

(28) Article 5, British Patent Law

(29) It is necessary to withdraw either the first or the second international application later, otherwise both applications will be rejected by Section 39 of the Japanese Patent Law because the contents of both applications are overlaped with each other.

(30) Section 184^{9}, Modified Patent Law

(31) Section 184^{13}, " " "

(32) Sections 184^{14} and 184^{15}, " " "

(33) Section 184^{15}, " " "

(34) Section 29^{bis}, " " "

(36) Supplmentary Sections 4 & 5, International Application Law

(37) Section 48^{7}, Modified Utility Model Law

(38) Section 48^{8}, " " " "

October 4-6, 1978

Committee #1 (Japanese Group)
Group 1: Hajime TAKAHASHI
(Toshiba Corporation)

Speaker: Osamu NISHIYAMA
(Toshiba Corporation)

NEW & REVISED JAPANESE PATENT RULES Relating to PCT Implementation

1. Introduction

Mr. Nakajima, Committee Chairman, has just addressed on "the Law relating to International Applications under PCT" ("the LAW"). Representing the working group, I would like to speak about results of our study which has been focussed on Governmental and Ministerial Ordinances to enforece such LAW.

On July 14, 1978, an Order named the "Law Enforcement Order relating to International Applications under PCT" ("the ORDER"), was proclaimed. The ORDER comprises four main Articles and seven additional Articles. On July 29, 1978, a Rule named the "Law Enforcement Rule relating to International Applications under PCT" ("the RULE"), was succeedingly proclaimed. Both of them came into force on October 1, 1978.

Generally speaking, "the ORDER" provides, in its main Articles, possible measures to be taken when there are insufficient proceedings in "Demand for International Preliminary Examination", and official handling fees such as for the International Application. Furthermore, it provides, in its additional Articles, official handling fees necessary such as for the Patent Office to transfer to the national stage. On

the other hand, "the RULE" provides, in its main Articles, particulars of various procedures to the Patent Office and stipulates the forms of documents to be submitted at the international stage. In its additional Articles, it provides various forms such as one to submit translations which are necessary at the time of transfer to the national stage.

I have no attempt here to have an article-by-article discussion. Rather I would like to pick up some selected matters to be of your interest, and give explanation to such matters.

I have selected the following:

1. Unity of Invention
2. International Application in Foreign Languages
3. Handling Fees

2. Unity of Invention

Reports pointing out some differences on the multiple claims in Japan to the United States have been submitted to the PIPA assembly several times. There was certain expextation that some revisions would be made to the Japanese multiple claiming system at the time the revisions and harmonization for realizing the PCT ratification.

Actually, an idea of unity of invention set forth in PCT Rule 13, was introduced for the international application at the international stage, and provisions on definition and effect of violation were clearly stated in "the ORDER" (Art. 2) and in "the RULE" (Art. 13, 43-46, 58-60 and 73). However, no

revision was made to the Patent Law and others to reflect such provisions concerning unity of invention. This means that a conventional procedure will be held at the national stage.

To renew the memory of the members here, I should summarize points of concern which are different from those under PCT.

They are as follows:

a) Independent Claim:

Let me take an example of a handling fee for an international application which includes "an independent claim for a given product" and "an independent claim for a process specially adapted for the manufacture of the said product". Such international application meets the requirement of unity of invention under "the PCT Rule 13". Therefore, no additional search fee will be required at the international stage. This understanding is commonly held in Japan and in the United States. However, if the applicants designate Japan in the above mentioned international application, the official fee for demand for examination and the patent annuities will be those for two inventions. In other words, a sort of additional handling fee will be required at the national stage.

With respect to inventions which can be duly included in one application, the provision of PCT

Rule 13.1 and that of Art. 38 of the Japanese Patent Law are not completely identical in literal context. But, one of the purposes of the statutory revision in 1976 to cope with the employment of the multiple claiming system was, as you are aware of, to achieve a coordination to PCT. We believe law enforcement here will be made on a basis that an application may include "a group of inventions so linked as to form a single general inventive concept". For only confirmation, I should draw your attention to that description of plural independent claims in a single application is not allowable under Japanese Utility Model Law.

b) Dependent Claim:

With respect to the dependent claims, PCT Rule 13.4, "Dependent Claims", provides:

"Subject to Rule 13.1, it shall be permitted to include in the same international application a reasonable number of dependent claims, claiming specific forms of the invention claimed in an independent claim, even where the features of any dependent claim could be considered as constituting in themselves an invention"

On the other hand, the present Patent Law Enforcement Rule provides in essence that the applicants should describe the dependent claims specifically with technical restriction citing the

independent claim and/or either of foregoing dependent claims, or their combination. The term, "technical restriction" is understood that it means to restrict any or all of the elements of the claim cited technically.

Now, let me take the following claims for instance.

Claim 1 "Apparatus comprising A + B + C",

Claim 2 "Apparatus according to Claim 1 wherein the B is b" (b is one of the examples of B embodied)

This case is "technically restricted" and no one will argue about it.

However, if the applicants want to include in their applications dependent Claim 3 claiming "apparatus according to Claim 1 further comprising D (i.e. A + B + C + D)", such applications may be questioned for violation of the present Patent Law Enforcement Rule. This Claim 3 is, of course, subject to PCT Rule 13.4 and is perfectly all right as a dependent claim at the international stage.

The applicants may, in fact, escape from such violation of the present Patent Law Enforcement Rule by changing Claim 3 into an independent claim from a dependent claim. This raises, however, additional fees for demand for examination and patent annuities. In anyway, this is one of the issues which draw our

attention to the further progress of practice.

3. International Application in Foreign Languages

The Japanese government sent a delegation as special observers to the Assembly of the PCT Union, First Session, which was held for the period from April 10 to April 14 this year in Geneva. It is recorded that one of members from PIPA attended this session as an observer, which you may know about.

> In accordance with the official report of the session, "the Delegation [of Japan] declared that the services of the Japanese Patent Office as an International Searching and Preliminary Examining Authority were offered, subject to it being appointed by the Assembly as such an Authority, to all nationals and residents of the countries of Asia that would be party to the PCT, on the same conditions as these services would be available to its own nationals".

To cope with such declaration of the Japanese Delegation, Article 3, Paragraph 1 of "the LAW" provides that the documents for an international application may be formed in not only Japanese language but also in the foreign languages as set forth in a Ministerial Ordinance. Actually however, no such Ordinance has been issued so far concerning the application in foreign languages. It can be said that the LAW just opened a way to foreign languages but merely stays in hinting at

future trend.

It was epoch-making that the U.S. Patent and Trademark Office made a Declaration Form in Japanese language for the Japanese applicants last year. To the contrary, in Japan, I do not see any examples where other languages than Japanese have been used as an official language. It may appear natural for international eyes that the Japanese Patent Office receives documents in foreign languages, and conducts international searches and preliminary examinations for them as an international organization. But for the Japanese Patent Office, it was a new and great step forward, which would be recorded in the Japanese history of patent. It is assumed that English will be elected as a receiving language.

People of Asian neighbours will be able to enjoy substantial benefit but you might appreciate present situation that no Asian countries are members of PCT excepting Japan. And you might also recall that only a few countries in Asia joined even the Paris Convention.

4. Handling Fee

I prepared an attached set of the schedule of handling fees for each procedure at the international stage and the national stage. I shall be happy if it shall be of your assistance.

The schedule is definite at a glance and no explanation may be necessary. But let me have a few supplementary notes on the following two points.

First, with respect to the Filing Fee of the international application of the first column, this includes two handling charges, namely the transmittal fee and search fee. The Japanese Patent Office reportedly does not attempt to include a case for refund, where an international search report is compiled in the United States. It will be interesting pending discussion, in view of practice, how to define availability to co-use "the major part" of the search report from the earlier international application.

Second, with respect to Demand for Examination of the last column, a handling fee of national procedure is shown as an example and put it in the schedule for your reference. Inevitably, it is different from the handling fees of the other columns, which were newly provided under "the LAW", "the ORDER" or "the RULE".

5. Conclusion

I have explained the items which were noted in early August. However, due to the shortage of time and our capacity for elaborate study, I am anxious whether I have fully covered all really important issues. From time to time, it may happen that various problems will be revealed by experts with their profound analysis.

For both, the Patent Offices and patent practitioners, PCT is a new experience. I look forward that practical problems will be revealed and solved through future trials.

Finally, I would like to express many thanks for your listening. Thank you very much.

(HANDLING FEES) (International Stage)

Filing International Application	Filing Fee	.....¥40,000
	¥12,000 shall be refundable upon request in case where the major part of the international search report for the earlier international application whose priority was claimed, can be co-used for.	
	International Fee*	
	Basic Fee	
	within 30 pages	.....US$ 165 (S.FR 300)
	in excess of 30 pages (per page)	.....US$ 3 (S.FR 6)
	Designation Fee (per country)	.....US$ 40 (S.FR 80)
Additional Search Fee (per invention) when "unity of invention" is not complied with.**		.....¥27,000
Copies of documents cited in the International Search Report (per page)		.....¥320
Demanding for Preliminary Examination	Preliminary Examination Fee	.....¥12,000
	Handling Fee for International Bureau*	.....US$ 50 (S.FR 96)
	plus per translation demanded	.....US$ 50 (S.FR 96)
Additional Preliminary Examination Fee (per invention) · when "unity of invention" is not complied with.**		.....¥9,000
Demand for issuance of an attested copy of Filing Documents (per page)		.....¥320
Demand for issuance of a priority document		.....¥800

HANDLING FEES (National Stage)

National Fee to enter into national stage	Patent	..... ¥5,400
	Utility Model	..... ¥4,000
Request for review under PCT. §25(2)(a)	Patent	..... ¥5,400
	Utility Model	..... ¥4,000
Demand for Examination (conventionally existing fees)***	Patent	.... ¥19,000
	(plus per invention)	..... ¥3,000
	Utility Model	.... ¥12,000

Notes: * Payable in Yen corresponding to the amount of the defined currency. (this will be announced upon agreement with Director of the Patent Office and International Bureau)

** A group of inventions set forth in Rule 13 under PCT shall be considered one invention.

*** An International Application, after payment of National Fee to enter into national stage, shall be placed in the same condition with the conventional application for which the Demand for Examination was not made. To be granted as a patent, therefore, a Demand for Examination is necessary.

COURT DECISIONS CONCERNING TO INCOMPLETE INVENTION

October 4, 1978
P I P A Nagoya Meeting
Japanese Group, Committee No.1
Group No.2
Chairman: Toshiharu Kawase
Speaker: Takami Aoyama

1. A preface:

In 1977, the Supreme Court held that the Japanese Patent Law appears to be well established that a conception itself confers no right upon an inventor unless followed by some other evidence of the completeness of an invention.

In the Tokyo High Court's decision, the invention was held patentable by delivering the opinion of that court and, with respect to the foregoing question, said that no provision is explicitly prescribed in the Patent Law to refuse any invention for a patent on the ground of incompleteness.

Our practice has customarily refused any invention for a patent on the ground of incompleteness. It is quite clear that the purpose of the statute is to encourage inventions by promoting their protection and utilization so as to eventually contribute to the progress of industry, such a customary practice that an incomplete invention is rejected has been considered reasonable.

Although the supreme court has made the decision in

adverse to the Tokyo High Court's decision, we have been somewhat confused by the fact that the court delivered an opinion adverse to customary practice with respect to the question.

Apparantly the matter questioned is considered terminated by the supreme court decision. Nevertheless, we are very much concerned with a standard of the completeness of invention rather than the debates upon the statutory provision which the ground should be based on. And the standard is not only important but also difficult subject.

We have therefore tried to study the standard, the grounds or other matter relating thereto with reference to some court decisions in the hope that this be helpful in our practice.

2. Definition of completeness and incompleteness of an invention

Apparently the statute does not specifically set forth completeness of an invention. However, in a popular sense, the completeness of an invention has been understood as a state that an idea is so reduced to embody a specific problem and means for resolving the problem are disclosed as well as the application or operation and the effects or results therefrom and that it is possible for those who skilled in the art to practice the idea in view of the technology at the time.

From the foregoing, one might infer that any invention which has not been achieved the above mentioned state is statutorily held incompleted.

3. Object to be judged

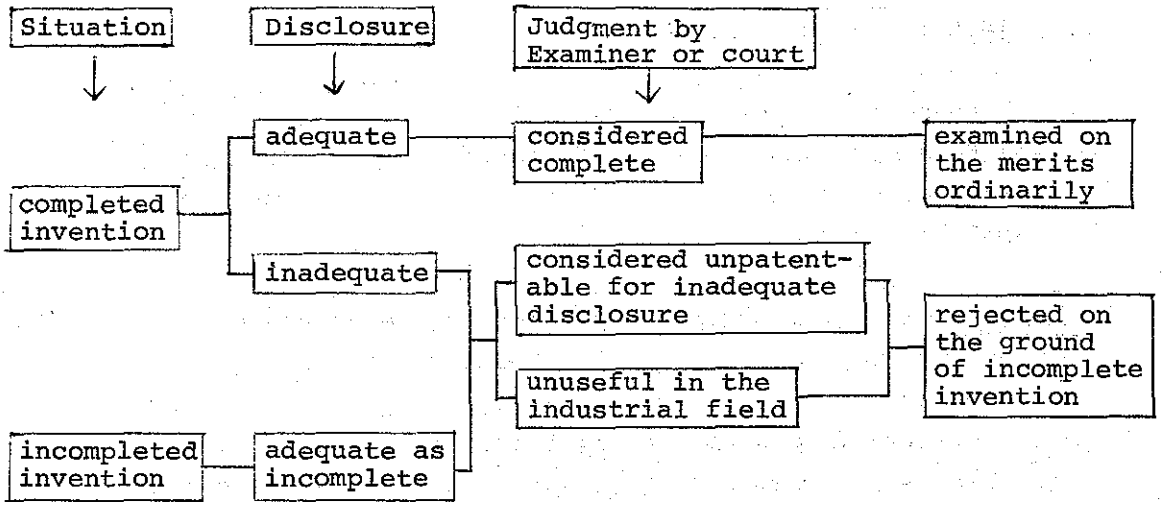
Whether an invention is completed is to be judged by the Patent Examiners and courts. The judgment is done based on a written description and accompanying drawings prepared by the applicant himself.

Accordingly, a negative decision on the ground of incompleteness may be rendered when the invention is not disclosed in the specification so adequately as to enable any person skilled in the art to which the invention relates, or with which it is most nearly connected to make and use the same, even though the invention has been actually completed.

If an invention is incomplete, the same is considered unpatentable by the Examiner on the ground of incompleteness or inadequacy of disclosure, even though the applicant subjectively believes that the invention is completed and is fully disclosed in view of the state of the art. The invention also may be considered unpatentable on the ground that the invention is not useful in the art.

Of course the applicant has the right to amend the application in response to a rejection reasoning the inadequate disclosure. If the amendment which makes the inadequate disclosure adequate includes a new matter, the amendment is not permitted. Therefore, the application can not be entitled to have the original filing date but the date when the amendment is filed or the amendment itself is rejected. In the latter case, it is quite possible that the original application may be finally rejected on the ground of incompleteness or the inadequate disclosure.

In the following, we have tried to diagramatically formulate situations presented in considering an invention with respect to whether the invention is considered incomplete.



As seen in the above diagram, it might be infered that any really completed invention may be considered to be incomplete and may be rejected as being unpatentable in our practice if the specification does not disclose the invention adequately. The reason for the rejection will be that the disclosure is not adequate or the invention is not useful.

For the convenience of understanding, we can classify all the inventions which would be considered unpatentable on the ground of incompleteness into the following three types.

(A) a completed invention but not disclosed adequately
(B) an incomplete invention but adequately disclosed as incompleted
(C) an incomplete invention and disclosed inadequately

A non-invention shall be classified in a non-statutory invention and is rejected by the Examiner on the ground that it is not qualified as "a highly advanced creation of technical ideas by which a law of nature is utilized."

4. Inventiveness

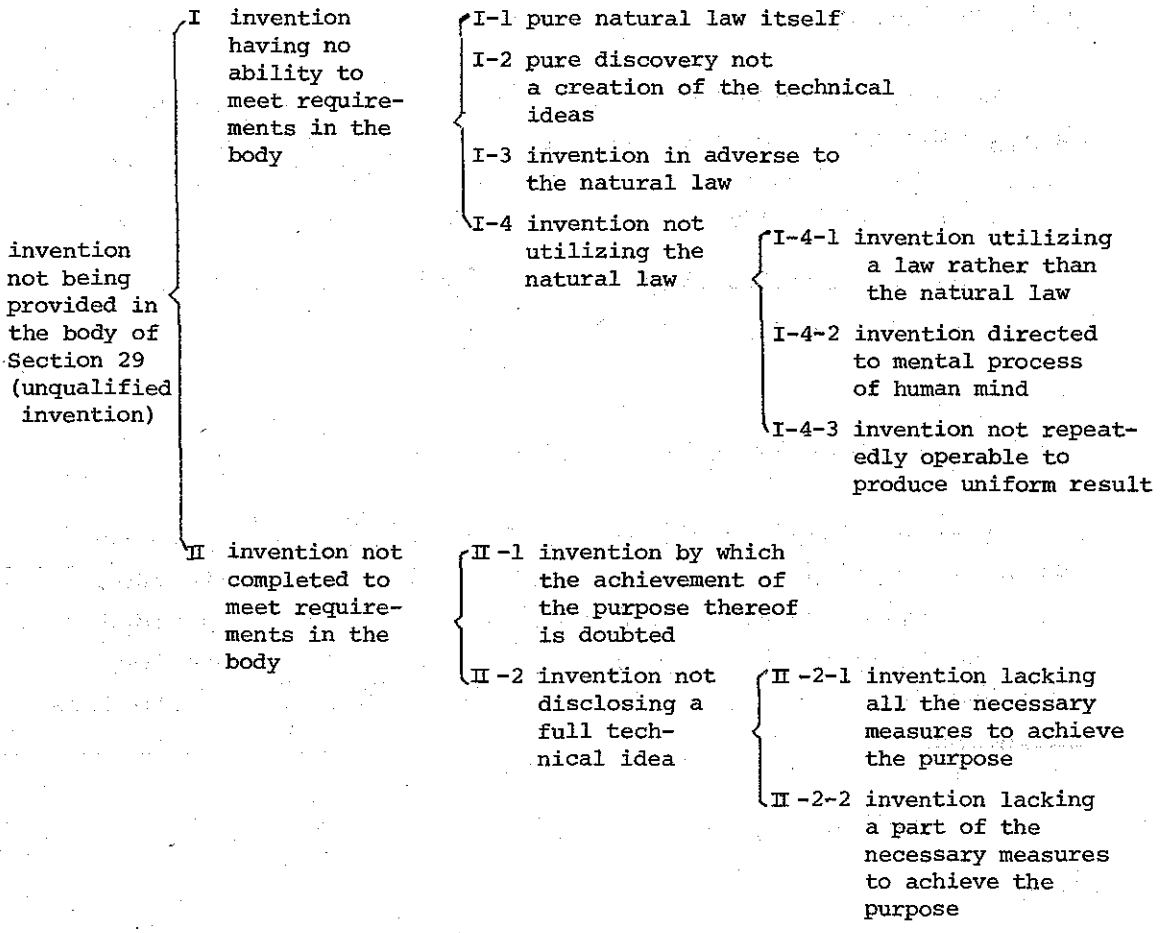
According to the quideline issued by Japanese Patent Office, all the invention including non-inventions and incomplete inventions are considered in the following two view points of inventiveness.

(1) whether the invention is one provided in the Patent Law
(2) whether the invention is industrially useful

4-1. An invention not being provided in the Law

A term "invention not provided in the Law" refers to an invention which does not meet requirements specified in the body in Section 29 of the Japanese Patent Law and is divided into one which is not such an invention provided in Section 2 of the law (non-invention) and another which is an incomplete invention.

The above is further classified as follows:



5. Ground of rejection to the incomplete inventions

As above stated, incomplete inventions should be considered unpatentable upon provisions in the Law, since there must not be any negative administrative actions not based upon statutory provisions in a law-governed nation as Japan. The supreme court made it clear that an incomplete invention should be rejected indicating in the opinion an invention which does not meet the requirements provided in Section 2 is not construed

as a useful invention within the meaning of the body of Section 29.

Formation of judgment on an application with inadequacy of disclosure is based on a corresponding provision in the Law.

The aforementioned three types (A), (B) and (C) of incompleted, or deemed incompleted, inventions may be considered unpatentable on the ground that the invention is not one outlined in Section 2 in the opinion that it is not construed as useful within the meaning of the body of Section 29. The inventions also may be considered unpatentable since they are not set forth in their specifications in such manner as to enable any person skilled in the art to which the invention pertains to make and use the same, as specified in Section 36.

Which one of these Sections is applied will be apparent from the following quoted Court Decisions but is not explicit in the Law.

6. Applicant's response to the rejection based on the incompleteness

For higher rate of success of the application, the applicant, in response to the rejection under the provision of Section 29, can beneficially allege that the invention has been completed before the application and is useful. Explaining the prior art and history of the invention will be effective in overcoming the action.

Actual completion of the invention must be supported in the specification as well as in the drawings. An additional amendment will be needed for such a support. This raises the same problems as discussed in the following with respect to the provisions in Section 36, Paragraph 4.

To the rejection under provision in Section 36, the applicant may beneficially show that the matter considered as adverse to Section 36 is well known and customary matter, so that the disclosure in the original specification is sufficient in describing the invention. It is recommended that the specification should preferably be kept not amended and the Examiner be persuaded by quoting the prior arts which show that the disclosure in a might-have-been amendment has been well known. In case where the amendment is nevertheless considered necessary, the applicant is required to avoid the new matter.

In short, in the response to the rejection under provision of Section 29, body, the completeness of invention should effectively be alleged for higher rate of success of the application, at first. If there is a fear that a rejection reasoning an inadequate disclosure is predicted, the applicant might be recommended to do every effort to show that the disclosure is adequate, as required under the provision of Section 36, paragraph 4.

7. Court decisions pertaining to the completion of invention

(1) cases considered unpatentable under provision of the body of Section 29;

A. The Tokyo High Court Decision Showa 32 (GYO KE) 52
B. The Tokyo High Court Decision Showa 49 (GYO KE) 72
C. The Tokyo High Court Decision Showa 48 (GYO KE) 91
The Supreme Court Decision Showa 49 (GYO TSU) 107

(2) cases considered unpatentable under provision of the paragraph 4 of Section 36

A. The Tokyo High Court Decision Showa 34 (GYO NA) 2
B. The Tokyo High Court Decision Showa 39 (GYO KE) 45
C. The Tokyo High Court Decision Showa 43 (GYO KE) 132

For your information, the cases which held the issued invention to be a non-invention are quoted in the following:

A. The Tokyo High Court Showa 38 (GYO NA) 5
B. The Tokyo High Court Showa 24 (GYO NA) 9
C. The Tokyo High Court Showa 26 (GYO NA) 12

8. Summary

As thus far stated, a ground on which an invention is considered unpatentable with respect to the incompleteness is specified in the body of Section 29 or in the Paragraph 4 of Section 36. Under discretion by the Examiner or Justice, one of the Sections is selected to be applied.

We are rather interested in their standard in defining the invention as an incompleteness invention. In general, we would like to safely fairly conclude that the specification must be prepared in any case so as to enable any person skilled in the art to which the invention pertains, or with which it is most nearly connected to make and use the same so that the invention is construed as completed.

For higher rate fo success of any Japanese Patent Application, it is hoped that an invention is disclosed as detail as possible to support or approve the completeness of the invention monitoring the severe rules restricting the chance of amending of the specification after applications are filed.

The Tokyo High Court Decision Showa 32 (GYO KE) 52

decided on
September 26, 1963

This invention relates to a nuclear fission pile in which the neutron is decelerated through means of the moderator and bombards the natural uranium material to have the same being in fissioned condition.

The applicant appealed to the Tokyo High Court from the adverse decision by the Patent Office, which the approved by the Court.

The Patent Office decision was that the invention was considered unpatentable since the specification did not explain the following matter.

1. Safety operation of the pile is doubted and operation in industrially available or commercially available condition is also doubted.

2. Disclosure in the specification is inadequate, any person skilled in the art is not enabled to make and use the invention.

The Court decision;

In order to operate the pile in safety and industrially available condition, locational relationship between the moderator and the natural uranium and quantity of them is essential together with the control of the pile.

However, there appears in the specification inadequate

disclosure with respect to the above mentioned matter.

In order to ensure safety of the pile, the applicant is required to sufficiently persuade any person skilled in the art by providing an adequate disclosure in the specification.

Failure of such disclosure will justify lack of completion of the invention.

The Tokyo High Court Decision

Showa 49 (GYO KE) 72
decided on
November 30, 1977

This invention relates to a float through which is inserted a course rope for separating the courses through which the swimmers swim in a water pool in a swimming game. The float has a recessed portion in its external face to damp waves of the water surface in the pool so that obstruction to the swimmers can be elliminated.

Plaintiff's argument;

In order to elliminate any obstruction to the swimmers waves of more than 10 cm length must be damped. For such purpose, about 10 cm length recessed portion must be provided in the external face of the float. No disclosure is found in the specification for specifying the length, width and depth of the recessed portion in the float face. By merely providing non-calculatedly sized recess in the external face of the float, the desired result is not considered to be obtained.

Defendant's argument;

The calculation of dimension of the recess is a matter of ordinary skill and is not needed in the specification.

The Court decision;

No dimension of the recess is found in the specification. Further, no function of the recess is explained with respect to the result of the invention. In order to damp the waves of more than 10 cm length, the length of the recess must be also of about more than 10 cm length. Difficulty exists in providing a 10 cm length recess in the external face of the float. In view of the fact that for elliminating the wave obstruction to the swimmer, provision to damp a wave of more than 10 cm length is needed, this invention is considered not to be able to obtain the desired result and lacking completion. Thus the court arrived at the conclusion the invention lacks completion and is unpatentable.

The Tokyo High Court Decision

Showa 48 (GYO KE) 91
decided on
September 18, 1974

The applicant appealed to the Tokyo High Court from the Patent Office adverse decision.

The Plaintiff's argument;

Apparently Section 49 specifies various situations in which a patent must be refused. However, the provision must not be positively applied. The Patent Office, defendant, incorrectly applied the Section 49, since the application is considered positive, with respect to incompletion of the invention. The incompletion must be considered under the provision of Section 36 rather than the Section 29.

The late filed amendment is sufficient to describe completion of the invention.

Defendant, Patent Office's argument;

The late filed amendment is considered new matter.

The original specification is inadequately prepared with respect to completion of the invention.

The Court decision;

No provision is explicit in the Law for specifying the completion of an invention.

In view of the principle underlying the policy of our law which esteems personal right, the Patent Office adverse decision is considered invalid since it is based on ambiguous provisions.

The Supreme Court Decision — Showa 49 (GYO TSU) 107
decided on
October 13, 1977

The plaintiff appealed to the Supreme Court from the adverse Decision by the Tokyo High Court Showa 48 (GYO KE) No. 91, above mentioned.

The Tokyo High Court Decision was revocated by the Supreme Court.

Supreme Court decision;

Section 2 provides generic definition of an invention which is able to attain the intended object uniformly by using or making thereof by those skilled in the art and an invention which is not so disclosed does not correspond to one specified in Section 2.

Section 49 specifies situations in which any inventions, inclusive of the invention under Section 2, are to be refused a patent if they are wanting in inventiveness.

The prior Court Decision is considered incorrect in applying the above Sections so that reconsideration is required by the Court for reviewing whether the invention was completed before the application.

The Tokyo High Court Decision Showa 34 (GYO NA) 2
decided on
May 29, 1962

The applicant, plaintiff, appealed to the court from the Patent Office adverse decision.

The Patent Office Decision was approved by the court.

This invention relates to a wave filter for frequency modulation telecommunication system. The function of the filter is that the attenuation curve has catenary character, a steep portion at is peripheral portion proportional to the frequency and a straight line portion in the pass band.

The plaintiff's argument;

Any filter of this type is practicable by those who skilled in the art by means of the desired properties such as attenuation property and face property. The specification adequately discloses the desired properties apparently. The applicant presented a showing which illustrates a practical embodiment of the invention prepared by a person who skilled and has three years experience in the art. The applicant alleged that the invention was described so adequately in the specification as to enable any person skilled in the art to which the invention pertains and the invention is completed prior to the application.

The Court decision;

In the specification, in what circuit the filter is applied is not described. Such lack of description is not acceptable by those skilled in the art in practicing the filter in an actual circuit.

The showing presented by the person having three years experience exhibits nothing more than a probability of practicing the filter.

Thus the court arrived at the conclusion that the invention lacks completion in view of the description in the specification.

The Tokyo High Court Decision

Showa 39 (GYO KE) 45
decided on
July 22, 1965

This invention relates to a process for producing a colloid solution in which (1) a starting material is a coagulated sol and hydrogen ion; (2) the method is to add the hidrogen ion to the coagulated sol; and (3) the product is a colloid solution.

The applicant allegation is that by the coagulated sol are meant sol formed of metal compound dispersed through means of a strong electolite dispersion medium, and by adding to such coagulated sol the hydrogen ion, the desired dispersion is attained.

The Court decision

In view of the fact that the priciple appearing in the plaintiff's allegation is not accepted by experts in the various literary society. The principle is not considered acceptable by those skilled in the art. No showing in adverse to the fact has not yet been presented.

If the invention was actually practicable, any evidence such as experimented data gained in actual test should have been presented during the processing course in the four years Patent Office pending period. In view of failure of such presentation and the disclosure which is inadequate, the invention is not considered completed.

The Tokyo High Court Decision Showa 48 (GYO KE) 132
decided on
Jan. 27, 1977

The invention relates to a process for producing vinyl acetate; a Japanese patent application was filed on March 26, 1962 claming priority of foreign filing date in Republic of Germany on March 25, 1961 and was refused patent on April 20, 1965. The applicant appealed to Board of Patent Appeal in the Patent Office and also was finally rejected patent.

The applicant appealed to the Tokyo High Court from the Patent Office adverse Decision and the invention was also refused patent.

The Court decision

The process comprises reacting ethylene and acetic acid in the presence of a palladium salt at a temperature ranging from 0 to 250°C characterized in that the reaction is carried out in the presence of molecular oxygen, or oxygen-containing gas and a Redox system comprising a metal salt capable of reversibly changing its valance under the reaction conditions.

In the specification of German application, there is found no description of quantitative relationships of the reactants and the catalyst are disclosed. Apparently, in the Japanese specification is presented four Examples giving the proportions of the reactants and the catalyst ingredients are disclosed. However, this is not identified in the German specification. The two specifications in Germany and Japan are not in accord with each other. Accordingly, the applicant cannot be entitled to the priority of the German filing date. Further, the invention disclosed in the German application is considered lacking completio

While on the other hand the invention is considered identical with the prior art disclosed in the quoted Japanese Patent Application. Therefore the invention is to be refused patent.

THE BEST MODE DOCTRINE

PIPA NINTH INTERNATIONAL CONGRESS

October 3-6, 1978

Nagoya, Japan

Committee 1 U.S. Group

Karl F. Jorda

Corporate Patent Counsel

CIBA-GEIGY Corporation

Ardsley, New York

A. Introduction

MINASAMA OHAYO GOZAIMASU.
WATAKUSHI-GA IMAKARA OHANASHI ITASHIMASU "BEST MODE DOCTRINE"-GA AMERICA TOKKYO-HO-NO YOHKYUHSURU KOTOGARA-O YORI RIKAISHITE ITADAKU-TAMENI, META AMERICA TOKKYO-O SHUTOKU-SURU UENI MINASAMA-NO OYAKUNI-TATSU KOTO-) NOZOMIMASU.

One of the requirements of the United States patent laws for obtaining a valid patent is that the specification set forth the best mode or manner contemplated by the inventor of carrying out the invention. This "best-mode" requirement, in addition to the "enablement" requirement, is specifically stipulated in the first paragraph of 35 United States Code, Section 112 which reads as follows:

> "The specification shall contain a a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention." (Emphasis added).

The underlying policy and purpose of this requirement was aptly stated by Judge Rich in In re Nelson et al, 126 USPQ 242, 253 (CCPA, 1960):

> "The basic purpose of the requirement that the specification contain a written description of the invention is to put those skilled in the art in possession of sufficient knowledge 'to enable' them to practice the invention. One cannot read the wording of section 112 without appreciating that strong language has been used for the purpose of compelling complete disclosure. There always exists, on the

> part of some people, a selfish desire to obtain patent protection without making a full disclosure, which the law, in the public interest, must guard against. Hence section 112 calls for description in 'full, clear, concise, and exact terms' and the 'best mode' requirement does not permit an inventor to disclose only what he knows to be his second-best embodiment, retaining the best for himself."

This judicial dictum, by now turned into holy writ, so to speak, was reconfirmed by Judge Rich in In re Gay, 135 USPQ 311, 315 (CCPA, 1962).

> "Manifestly, the sole purpose of this... requirement is to restrain inventors from applying for patents while at the same time concealing from the public preferred embodiments of their inventions which they have in fact conceived."

The best-mode requirement thus prevents the simultaneous enjoyment of both patent and trade secrecy protection for a single invention.

B. Infringement and Validity Litigation

While the best-mode requirement has been in the Patent Code for over a hundred years, there was not a single case prior to 1965 in which a patent was actually held invalid for failure to disclose the best mode. However, non-disclosure of the best mode has recently become an increasingly popular ground with courts for invalidating patents and it seems the courts are making up lost time by broadening the best mode rule and applying it with a vengeance.

Dugald S. McDougall of the Chicago Bar has recently barred the patent profession into best-mode consciousness by

talks with such catchy titles as "The Courts are Telling us: 'Your Client's Best Mode Must Be Disclosed'" (21st Annual Conference on "More Developments in Intellectual Property Law" at the John Marshall Law School, Chicago, February 1977 - subsequently published at 59 JPOS 321, 1977) and "The Best Mode Requirement - A Sleeping Giant Begins To Stir" (BNA's 1978 Patent Law Conference on ''11 Critical Areas of US Patent Law", Arlington, Va. Sept. 1978. (Copy attached with BNA's kind permission.)

With respect to infringement and validity decisions involving best-mode pitfalls, there has been a flood of court cases since the beginning of 1977 after a mere trickle of decisions in the years 1965 to 1976.

Invalidity holdings started in 1965, as stated above, with the Flick-Reedy decision of the Seventh Circuit Court of Appeals, Flick-Reedy Corp. v. Hydro-Line Mfg. Co., 146 USPQ 694 (7th Cir. 1965), cert. den. 383 U.S. 958 (1966). In this case the invention related to a sealing arrangement for preventing the escape of pressure fluid from hydraulic cylinders, and an essential element of the invention was a machined surface which was formed with a "special tool", but the patent contained no disclosure or other description of that "special tool". The inventor had contemplated using the tool at the time the patent application was filed. When asked on the witness stand what the tool was, however, he balked, explaining to the court that his company had "elected to try to keep secret" the information concerning the "special tool". The lessons to be learned from

this case are that 1) a failure to disclose the best mode can indeed be fatal for a patent even if 2) the failure pertained to a feature not within the claims, i.e., had nothing to do with the preferred embodiments.

In the next case, Engelhard Industries Inc. v. Sel-Rex Corp., 149 USPQ 607 (D.N.J, 1966), aff'd 155 USPQ 244 (3rd Cir. 1967), the examples in the specification describing an electrodepositing method did not disclose the best mode. Lesson: Having examples is not enough.

Indiana General Corp. v. Krystinel Corp. in the Second Circuit followed in 1970 (161 USPQ 82, S.D. N.Y. 1969; aff'd 164 USPQ 321, 2nd Cir. 1970). Here the preferred commercial ferrite compositions were described in terms of broad ranges but without giving a "specific recipe". Lesson: best mode must be tagged or red-flagged somehow.

In 1973 Dale Electronics Inc. v. R.C.L. Electronics, 180 USPQ 225 (1st Cir. 1973), was handed down. A Beryllium oxide composition which worked particularly well in the specific invention, i.e., electrical resistors, and which was well-known to the patentee when the patent was applied for was likewise not disclosed. On appeal, Dale's major argument that the non-disclosure was not intentional, was roundly rejected Lesson: even an unintentional failure can be fatal. Incidentally, in this case reissue attempts by the patentee later failed, In re Hay, 189 USPQ 790 (CCPA, 1976), cert. den. 192 USPQ 64 (1976).

A 1976 best-mode case is CBS Inc. v. Zenith Radio Corp., 185 USPQ 662 (N.D. Ill. 1975), mod. 192 USPQ 68 (7th Cir. 1976).

In this case a patent on a color picture tube was upheld even though it disclosed nothing concerning the fabrication of the curved phosphor screen and didn't teach that the shadow mask itself should be used as the "negative" in forming the necessary photographic image on the faceplate, the use of the mask in that way being an essential step in the only method of screen making by "photographic means" known to CBS.

A contemporaneous 1976 case in which a best mode attack also failed is ITT Corp. v. Raychem Corp., 191 USPQ 1 (1st Cir. 1976). The court, distinguishing both Flick-Reedy and Dale Electronics, held that the non-disclosure of "Compound X" which was employed in the preparation of the claimed insulated wire did not render the patent invalid because the invention claimed was the wire itself and not a manufacturing process and the use of "Compound X" did not affect the properties of the claimed wire (but merely reduced manufacturing cost by speeding up the extension operation). Mr. McDougald does not think much about the Raychem case:

> "There is no doubt in my mind that the First Circuit would have gone the other way in Raychem had the claimed invention been the manufacturing process, as opposed to the wire itself. On the other hand, I have some difficulty in distinguishing Raychem from Flick-Reedy wherein the "special tool," like "Compound X" was but an aid in manufacturing the claimed invention rather than an ingredient of it, as in Dale. Personally, I think Raychem was wrongly decided." (Att't. pp. 305-306).

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He feels that the Dale Electronics is the leading case and the Raychem case is being ignored.

Speaking of cases where a best-mode attack failed, but which are of questionable authority, Benger Laboratories Ltd. v. R. K. Laros Co., 135 USPQ 11 (E.D. Pa. 1962), aff'd 137 USPQ 693 (3rd Cir. 1963), cert. den 139 USPQ 566 (1963) might also be mentioned. In this case, there being an active in-house dispute between the plaintiff's manufacturer and the inventor as to which of two methods of practicing the invention was preferred, which was not settled until two years after the patent application was filed, the court held that, in view of the doubt in the inventor's mind as to which mode was the better mode, the disclosure of one mode was sufficient to satisfy the best-mode disclosure requirement.

Note, however, that Dale Carlson ("The Best Mode Disclosure Requirement in Patent Practice", 60 JPOS 171, 1978 at 194) believes that

> "... this case cannot be relied upon with any degree of assurance today. In view of the trend toward the increasing assertion of disclosure requirements at the validity stage, good practice would require the disclosure of both methods. Extending this reasoning, the applicant should disclose in detail elements of the invention that are considered to be "more desirable", "more preferred", or "most advantageous". If there is any doubt as to the significance of any particular element, disclosure should be made."

"From the foregoing review of the best-mode decisions during the decade following the Flick-Reedy decision in 1965," Mr. McDougald concluded, "it is clear that the courts, quite

suddenly, have elevated the best-mode provision of §112 to a status comparable in importance to the "enabling" language of the same statute." (Att't., p. 307).

This brings us to 1977 and a whole rash of recent cases, striking down patents "left and right" (the hyperbole will drive home the seriousness of the matter):

Union Carbide Corp. v. Borg-Warner Corp. et al., 193 USPQ 1 (6th Cir. 1977), in which a special extruder and a valve in a process for making foam plastic articles by injection molding were not disclosed; (Note that in this case, unlike in prior cases, the Court of Appeals sustained the District Court solely on the best mode issue and note further that here like in Flick-Reedy the best-mode features were outside of the scope of the claims and the plaintiff as a matter of fact had considered the valve feature a separate invention and had obtained a separate patent on it.)

Reynolds Metals Co. v. Acorn Building Components, Inc. 192 USPQ 737 (6th Cir. 1977), in which an epoxy resin which was the best insulating material for making an insulated frame construction was not divulged;

Thyssen Plastic Anger KG v. Induplas Inc., 195 USPQ 534 (D.C. Puerto Rico, 1977), in which a second or additional gear arrangement which was required for the successful operation of a process for producing a certain plastic tube was not disclosed; (Note that in this last case, the Court summarily invalidated the patent in issue.)

Trans-World Display Corp. v. Mechtronics Corp., 195 USPQ 588 (D.C. S.D. N.Y. 1977), in which a sawtooth and detent used to give partition stability - an extremely important feature of the claimed dispenser - was not described;

Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc. 197 USPQ 230 (D.C. C.D. Calif. 1977), in which a necessary barrier web was not disclosed. (The best-mode concept is not employed in terms but in effect).

C. The PTO and CCPA Posture

In ex parte prosecution, there has not been a great amount of activity with regard to the best mode requirement. The primary reason for this is that the requirement is very subjective: it requires the "best mode contemplated by the inventor of carrying out his invention." Thus evaluation of the satisfaction of the best mode requirement requires evidence of what he contemplated at the time of filing his application, and such evidence rarely finds its way into normal ex parte prosecution before the PTO and appeal before the CCPA.

There has thus been an understandable paucity of CCPA cases where a best-mode issue surfaced. Apart from the earlier-mentioned Nelson et al and Gay cases, more recent cases are: In re Boon, 169 USPQ 231 (1971), In re Brebner, 173 USPQ 169 (1972) and In re Glass, 181 USPQ 31 (1974). These cases, however, are not significant enough in the context of this paper to even go into.

Since the PTO is not well equipped to determine what may have been in each applicant's mind at the time the application was filed, it has been considered impractical for the PTO to rule on whether or not the mode described is the "best" mode. M.P.E.P. §608.01(h) states as follows:

> "The best mode contemplated by the inventor of carrying out his invention must be set forth in the description. The Office practice is to accept an operative example as sufficient to meet this requirement.... See 35 U.S.C. 112 and 37 CFR1.71(b)."

In mechanical and electrical cases, the requirement for an operative example is easily met, once having identified each of the elements in the drawing of the invention, by reciting how these elements function and interact as the invention operates. In chemical cases, while it is not an absolute statutory requirement, the "data necessary for the preparation and use of at least one example" is called for by the above-quoted M.P.E.P. provision and should be presented, notwithstanding the very recent Board of Appeals holding in Ex parte Krenzer, PTCJ 393, A-8, 8-31-78, that a working example was not needed to illustrate the best mode. Cf. In re Honn, 150 USPQ 652 (CCPA 1966).

According to an address by Commissioner Banner at the above-mentioned BNA program, the PTO will soon require an allegation in the oath or declaration that the inventor is aware of his duty to disclose the best mode contemplated by him and that he in fact has disclosed that best mode. This was recommended

by Dale Carlson, supra at 197, and would constitute a simpler solution than that suggested by Gerald Bjorge in his "Editorial Epilogue" to the McDougall JPOS article, supra, i.e., interrogatories, questionaires, or other inquiries by the Examiner in his first office action (59 JPOS 336, 338, 1977).

In interference proceedings, the issue of best mode has not been raised or raisable in the past, since the best-mode issue was considered to be a question of patentability, which was not considered ancillary to priority. Thomoson v. Dunn, 77 USPQ 99, (CCPA, 1948). See also Mahan v. Doumani, 142 USPQ 19 (CCPA, 1964). Naturally, the Board of Interferences has towed the line; see Traver v. Jones, 172 USPQ 566 (1971) and Lowenstein v. Terasawa, 177 USPQ 84 (1972). However, the court recently ruled, as was predictable, that the best-mode requirement is ancillary and overruled all previous cases to the contrary. See Weil v. Fritz et al, 196 USPQ 600 (CCPA, 1978).

D. Best Mode and Sections 119 and 120

It goes without saying that the best mode contemplated by the inventor must be disclosed as of the date of filing and it is also clear that if the best-mode requirement is satisfied at the time of the initial filing, there is no duty to update the best-mode disclosure and disclose a subsequently-developed superior mode (by way of a continuation-in-part, of course, because of the proscription against new matter). Even if a continuation case is filed, it has been held that there is no duty to disclose a later-devised best mode. See Sylcab Steel & Wire Corp. v. Imoco-Gateway Corp., 173 USPQ 22 (D.C. N.D. Ill. 1973).

However, I submit it wouldn't be advisable to rely on this case too much. It would be better practice in such a case to file a Cip rather than pure continuation case. Mr. McDougall strongly recommended during the question period at the BNA meeting, supra, that while there was no need to file a Cip solely to include a new best mode, any new best mode must be put in if the case is refiled for other purposes, even if it was going to be a pure continuation only, because it in fact is a new application.

A closely analogous issue arises with respect to foreign applicants who rely on Convention priority. Since Section 119 provides that the application "shall have the same effect as the same application would have if filed in this country on the date" of foreign filing, one might analogize, as Mr. Honeycutt, infra, does in 1977, from the Sylgab case, supra, that the foreign applicants do not have a duty to include a new best mode when filing a corresponding US application. Note however, that Chasan et al point out in 1973 ("'Best Mode' Requirement in the United States of America", Industrial Property, 1973, p. 63) that that matter was settled to the contrary quite some time ago in the Benger Laboratories, case which involved a US patent based on British priority.

An essential corollary principle in the case of foreign priority is the fact that the foreign priority application must be judged for sufficiency of disclosure by the standard of Section 112, just as if it were a US application, even though the text of Section 119 is less explicit than that of Section 120. See In re Hafner, 161 USPQ 783 (CCPA 1969) and,

in particular, Kawai et al v. Metlesics et al, 178 USPQ 158 (CCPA 1973). Though none of these and other similar cases specifically turned on a best-mode issue, manifestly the safest practice would be to disclose the best mode as then known in the foreign priority application and update the best-mode disclosure in the US application if a new best mode has been developed in the meantime.

E. Best Mode and Trade Secrets

As mentioned above at the outset, the best mode requirement impedes the enjoyment of patent and trade secret protection for a given invention at the same time. This statement is not true in a literal and absolute sense. There is always a lot of engineering data and know-how and other peripheral data that quite properly does not have to be disclosed. However, the thesis developed by Mr. Honeycutt that it is possible to have one's cake and eat it ("Preserving Know-How and Trade Secrets while Complying With Section 112", 1977 Patent Law Annual, p. 205) and supported by Roger Milgrim ("Trade Secrets or Patents: Which Road to Travel?" 1977 Summary of Proceedings, ABA-PTC Section Chicago Meeting, p. 131, 138), does not hold water. Honeycutt, in trying to strike a "proper balance... between the risk of invalidity for insufficient disclosure and the opposite risk of unnecessarily giving away ...proprietary information" errs on the side of withholding too much. He draws a distinction between the "make and use" terminology in the enablement portion of Section 112 and the phrase "carrying out"

in the best mode portion. Relying on Raychem, supra, he concludes that these phrases are not synonymous and the latter term is narrower and merely means that the most preferred embodiment of the claimed invention need by set forth. Carlson, supra at 180, disagrees and I do too. To me the term "carrying out" is broader, if anything. Its dictionary meaning is: put into execution, bring to a successful issue. Besides, Honeycutt's restrictive interpretation relies too much on a discredited case and flies in the face of several of the above-cited court decisions.

F. Conclusion

While the PTO has not examined the question as to whether the best mode has been disclosed or concealed by the applicant, that question will be closely scrutinized by the Courts in infringement or declaratory judgment actions.

To be on the safe side the rule that one should live by simply is that no matter what kind of application one intends to file, whether it be a foreign priority application, a U.S. Convention application, a continuation-in-part application or a straight continuation or divisional application, or what have you, the best mode as of the time of filing of any such application has to be disclosed - and in this regard one's duty to inquire must be kept in mind - and what's more, the best mode has to be tagged or red-flagged as best mode and the best-mode requirement had best not be construed narrowly as the preferred embodiment of the invention as claimed.

If, in fact, the best mode in a very broad sense has been concealed, even though this was not intentional, the patent issuing from such an application will be invalid. Furthermore, enforcement of that patent, knowing that it is invalid because of the failure to comply with the best-mode requirement, may be grounds for finding a violation of the antitrust laws by the patentee.

Goseicho Arigato Gozaimashita!

Karl F. Jorda

THE BEST MODE REQUIREMENT -- A SLEEPING GIANT BEGINS TO STIR

By Dugald S. McDougall*

Nearly all patent lawyers are aware, at least vaguely, that §112 of the Patent Act requires an applicant to include in his specification, in addition to an "enabling" disclosure, a description of "the best mode contemplated by the inventor of carrying out his invention." That requirement, in essentially its present form, has been in the patent law for more than a century, but only in recent years has it received anything other than passing notice from the courts of the patent bar.

Amazingly, the first case in which a patent was actually held invalid for failure to disclose the inventor's best mode was decided in 1965 (Flick-Reedy Corp. v. Hydro-Line Mfg. Co., 351 F.2d 546, 146 USPQ 694 (7th Cir. 1965), cert. den. 383 U.S. 958 (1966)). Earlier references to best mode in published opinions were mere judicial comment.

One of those earlier references which rate particular attention was Judge Rich's opinion in Application of Nelson, 280 F.2d 172, 184, 126 USPQ 242, 253 (CCPA 1960), widely quoted in later cases because Judge Rich explained the policy underlying the "best mode" provision in this strikingly apt language:

*McDougall, Hersh & Scott, Chicago, Illinois.

> "One cannot read the wording of section 112 without appreciating that strong language has been used for the purpose of compelling complete disclosure. There always exists, on the part of some people, a selfish desire to obtain patent protection without making a full disclosure, which the law, in the public interest, must guard against. Hence section 112 calls for description in 'full, clear, concise, and exact terms' and the 'best mode' requirement does not permit an inventor to disclose only what he knows to be his second-best embodiment, retaining the best for himself."

A serious effort to knock out a patent for noncompliance with the best-mode requirement occurred in Benger Laboratories, Ltd. v. R.K. Laros Co., 209 F. Supp. 639, 135 USPQ 11 (E.D. Pa. 1962), albeit without success. Judge Kirkpatrick held in that case that no violation of the rule had occurred because the patent application was filed at a time when a controversy existed between the inventor and the plaintiff's manufacturing people as to which mode was in fact the best one. Judge Kirkpatrick stated the applicable law thus (209 F. Supp. at 644, 135 USPQ at 215):

> "A patentee must disclose the best method known to him to carry out the invention. Even if there is a better method, his failure to disclose it will not invalidate his patent if he does not know of it or if he does not appreciate that it is the best method. It is enough that he act in good faith in his patent disclosure. On the other hand, if he knows at the time the application is filed, of a better method to practice the invention and knows it for the best, it would make no difference whether or not he was the discoverer of that method. The answer to the question of sufficiency of disclosure of best method must be determined in the present case as of the time that the American application was filed.

On appeal to the Third Circuit Judge Kirkpatrick's decision was affirmed 317 F.2d 455, 137 USPQ 639 (3rd Cir. 1965).

As noted, Flick-Reedy Corp. v. Hydro-Line Mfg. Co., 351 F.2d 546, 146 USPQ 694 (7th Cir. 1965), cert. den. 383 U.S. 958 (1966), was the first case in which a patent was held invalid for non-disclosure of best mode; it involved these facts:

(1) The invention of the patent related to a sealing arrangement for preventing the escape of pressure fluid from hydraulic cylinders, and an essential element of the invention was a machined surface described as having "absolute concentricity," "zero clearance," and a "metal to metal contact...between the head and the cylinder tube."

(2) The patent specification stated that that machined surface was formed with a "special tool," but the patent contained no disclosure or other description of that "special tool."

(3) The inventor testified that the "special tool" was an "aid" in achieving the required concentricity and that he had contemplated using the tool at the time the patent application was filed. When asked on the witness stand what the tool was, however, he balked, explaining to the court that his company has "elected" to try to keep secret the information concerning the "special tool." The inventor acknowledged, also,

that a person skilled in the art would not know from reading the patent specification what was meant by the term "special tool."

On that set of facts, the Seventh Circuit affirmed the District Court's judgment holding the patent invalid for noncompliance with §112, quoting from -- and adopting -- the views of Judge Rich as stated in Nelson.

The factual distinction between Flick-Reedy, on the one hand, and Benger, on the other, centers on the patentee's state of mind at the time the patent application was filed. In Benger, no violation of §112 was adjudged, because, when the application was filed, there was bona fide doubt in the inventor's mind as to which method was best. In Flick-Reedy, on the other hand, the importance of the "special tool" was well known and its non-disclosure was deliberate.

That same line of reasoning is evident in many later decisions: Whenever a court feels, on the evidence as a whole, that non-disclosure of some feature resulted from uncertainty as to which mode was really best, the patentee gets the benefit of the doubt; the patent is held invalid, however, when the court feels from the evidence that non-disclosure of the best mode was motivated by "a selfish desire" to withhold the best mode from public knowledge.

An especially instructive decision on the law of best mode is Indiana General Corp. v. Krystinel Corp., 297 F. Supp. 427, 161 USPQ 82 (S.D. N. Y. 1969), in which the patent related to ferrite compositions useful as cores for high-frequency

inductors. The patent disclosed in very broad terms the permissible range of ingredient proportions, but it did not specifically disclose the patentee's preferred compositions -- marketed under the name "Ferramic Q" -- which had magnetic properties markedly better than those of the specific compositions which were disclosed in the patentee's specification.

In holding the patent invalid for failure to disclose the inventor's best mode, Judge Tenney characterized the patentee's breach of duty in these terms (297 F. Supp. at 439, 161 USPQ at 91-92):

> "Although the preferred composition, which itself may have been an advance in the development of ferrite materials, was known prior to the effective filing date of the 1954 parent application, it was effectively obscured in both the parent application and the patent in suit. Rather than disclose its specific recipe, plaintiff merely included the elements of the preferred composition within the series of broad ranges claimed by the patent in suit, which ranges extended beyond the area representing significant technological advancement."

Judge Tenney's decision was affirmed on appeal 421 F.2d 1023, 164 USPQ 321 (2nd Cir. 1970), but the Court of Appeals made no reference in its opinion to the "best mode" point.

Indiana General illustrates the judicial distaste for patent disclosures which withhold from readers the information needed to duplicate the patentee's commercial product. In fact, that type of non-disclosure may be fatal even when the omission was inadvertent. An illustrative case of that sort is Dale Electronics, Inc. v. R.C.L. Electronics, 488 F.2d 382, 180 USPQ 225 (1st Cir. 1973), which dealt with patents on electrical resistors in which resistance wire was wound around

a ceramic core containing at least 90% by weight of beryllium oxide. (Beryllium oxide is a particularly good core material because it conducts heat well, even though it is a good electrical insulator. That property is unusual; in most cases good electrical insulators are poor conductors of heat.)

The District Court struck down the patent for non-compliance with the "best mode" requirement of §112, stating that "the plaintiff's desire to bring all types of insulating material within the scope of its patent claim without disclosing the one material that worked effectively has resulted in a description too vague for an accurate and effective disclosure of the invention."

On appeal, Dale's major argument was that "the non-disclosure of Rogers RX 600 was not intentional," but that argument was rejected with this pointed comment (488 F.2d at 389, 180 USPQ at 230):

> "We do not accept the proposition that where an inventor, as here, clearly knows a specific material that will make possible the successful reproduction of the effects claimed by his patent, but does not disclose it, speaking instead in terms of broad categories, he may nevertheless be considered as having described the best mode contemplated by him. The statutory language seems to contemplate precisely this situation... Unintentional obtuseness or obfuscation might be a reason not to penalize someone; we do not see it as a reason for granting a seventeen year monopoly."

Dale Electronics has been widely cited with approval by other courts; curiously, however, the First Circuit itself construed it narrowly in ITT Corp. v. Raychem Corp., 538 F.2d 453, 191 USPQ 1 (1st Cir. 1976), wherein the patent claimed

insulated wire in which the insulation comprised an inner layer of polyethylene and an outer layer of a plastic referred to by the Court as "Kynar." At the trial it appeared that when the patent was applied for its inventor knew about, but did not disclose, a so-called Compound X, utilized in the patentee's commercial manufacture of the patented wire. ITT, the accused infringer, contended that the non-disclosure of Compound X rendered the patent invalid under §112, but the Court held otherwise, because:

(1) The patented invention was the wire itself, no claim being made to any process of manufacturing it; and

(2) The use of Compound X did not affect the qualities of the patented wire; it merely reduced manufacturing cost by speeding up the extrusion of the Kynar layer over the primary layer.

Those two considerations, the court held, distinguished Raychem from both Flick-Reedy and Dale Electronics.

Thus, the First Circuit reads §112 as compelling full disclosure only with respect to the actual invention claimed. If something is omitted which affects the quality or performance of the product or process claimed, then §112 has been violated, but not otherwise. (There is no doubt in my mind that the First Circuit would have gone the other way in Raychem had the claimed invention been the manufacturing process, as opposed to the wire itself. On the other hand, I have some difficulty

in distinguishing Raychem from Flick-Reedy wherein the "special tool," like "Compound X" was but an aid in manufacturing the claimed invention rather than an ingredient of it, as in Dale. Personally, I think Raychem was wrongly decided.)

About the same time the Raychem decision was handed down, the Seventh Circuit dealt with a best-mode issue in CBS, Inc. v. Zenith Radio Corp., 391 F.Supp. 780, 185 USPQ 662 (N.D. Ill. 1975), modified 537 F.2d 896, 192 USPQ 68 (7th Cir. 1976), which involved a patent on a color picture tube having a tricolor dot-type phosphor screen deposited on a curved faceplate. The patent disclosed nothing concerning the fabrication of the curved phosphor screen except the statement that:

> "The phosphors on the face plate of the tube may be deposited in any one of several ways, photographic means, however, being preferred."

At the trial, it was shown that making tricolor screens on curved surfaces was not routine art, CBS having kept a research team busy for three years before it managed to fashion its first such screen. In light of that, Zenith contended that CBS' failure to disclose in its specification the method of screen manufacture which it had developed was a fatal violation of the best-mode requirement of §112.

Sad to say, neither the District Court nor the Court of Appeals made any reference to Zenith's best-mode defense based on CBS' failure to disclose its screen-making method; the defense was simply rejected without any comment, and the patent was held valid and infringed.

As scholars, we may properly ask: If the courts had considered and decided the best mode defense in CBS v. Zenith, how should they have ruled on it?

The answer depends, I believe, on whether Flick-Reedy or Raychem correctly construed §112. If Flick-Reedy correctly applied the law, then CBS' patent should have been held invalid, since access to CBS' screen-making method was just as essential an "aid" in making the patented invention as was the undisclosed "special tool" in Flick-Reedy. On the other hand, if the construction of §112 followed in Raychem is the correct one, then CBS' failure to disclose its screen-making method may have been excusable, since the method was not of itself a part of the claimed invention.

Personally, I think the Flick-Reedy interpretation of §112 is in harmony with the Congressional policy spelled out by Judge Rich in Application of Nelson, and for that reason I favor it over the Raychem interpretation which does, in many situations, allow a patentee to "disclose only what he knows to be his second-best embodiment, retaining the best for hemself."

From the foregoing review of the best-mode decisions during the decade following the Flick-Reedy decision in 1965, it is clear that the courts, quite suddenly, have elevated the best-mode provision of §112 to a status comparable in importance to the "enabling" language of the same statute. And that judicial trend received a further boost in early 1977 when the Sixth Circuit released its opinion in Union

Carbide Corp. v. Borg-Warner Corp., 550 F.2d 355, 193 USPQ 1 (6th Cir. 1977). In that case, Union Carbide's patent had been held invalid by the District Court on three distinct grounds -- anticipation, obviousness, and non-disclosure of best mode. The Court of Appeals, however, affirmed on the best-mode point in an opinion devoted entirely to that subject.

Union Carbide's claims were limited to a method for making foamed plastic articles by injection molding. The process, as disclosed in the drawing and specification, involved the use of an extruder and a valve, among other items of apparatus. The structure of the extruder was not described at all in the specification and was shown in the drawing only as a labeled box. A valve was disclosed in some detail, both in the drawing and descriptive text, but it was of a crude type which injected into each newly molded plastic part a "slug" of solid, unfoamed plastic.

The proofs of trial demonstrated (1) that not just any old extruder would work in the process, (2) that the inventor, before his application was filed, had designed, installed, and tested a special extruder, made to his specifications at great expense, (3) that the inventor, also prior to the filing of his application, had developed and proved the worth of an improved valve which didn't inject unfoamed "slugs" of plastic, and (4) that Union Carbide had sold to its licensees the information concerning both the extruder design and the improved valve design, as "know-how."

Union Carbide's claims did contain an actual recital of an extruder, but they did not refer in terms to the valve; hence, one of the two non-disclosed features was arguably a part of the claimed invention itself, and the other one was peripheral, like the "special tool" of Flick-Reedy and the "Compound X" of Raychem.

The Sixth Circuit, citing and relying on Flick-Reedy and Dale, but not even mentioning the Raychem case, held that both the extruder and the valve were embraced within the inventor's contemplated "best mode," and that his failure to disclose them rendered the patent invalid for noncompliance with §112.

The Sixth Circuit's preference for the strict standard of disclosure applied in Flick-Reedy and Dale Electronics, as opposed to the weak-kneed and permissive rule followed in Raychem, was indicated also in Reynolds Metals Co. v. Acorn Building Components Inc., 548 F.2d 155, 163, 192 USPQ 737 (6th Cir. 1977), in which a patent was held invalid for failure to include in the specification a disclosure of the inventor's preferred glass-reinforced resinous raw material, even though the claims contained no limitation to resinous material of any kind.

All in all, I think it clear that Raychem, while not overruled, runs sharply contrary to the trend of later decisions and cannot be considered a viable precedent.

A striking demonstration of the growing importance of best mode is the recent shift of position on the part of the Patent Office tribunals in their interpretation of §120 of the Patent Act. That statute, with its companion §119, gives patent applicants, in proper cases, the benefit of an earlier filing date for priority purposes if the earlier-filed patent application disclosed the disputed invention "in the manner provided by the first paragraph of section 112 of this title."*

Since the "first paragraph of section 112" contains the best-mode requirement as well as the familiar "enabling" requirement, it would appear that §120, on its face, denies an applicant the benefit of an earlier filing date if the earlier application did not disclose the applicant's best mode. When the question was first considered by the Board of Patent Interferences, however, the holding was that the best-mode requirement is "not ancillary to priority" and hence not a basis for denying to an applicant the benefit of an earlier filing date (Loewenstein v. Terasawa, 177 USPQ 84 (Bd. Pat. Intf. 1972), Traver v. Jones, 172 USPQ 566 (Bd. Pat. Intf. 1971)).

In a paper on best mode presented in early 1977, I voiced the opinion that the Loewenstein and Traver cases

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*The text of §119 is less explicit than §120 in defining the disclosure required in the earlier-filed application; it has been construed, however, to require the same sort of disclosure that §120 demands (Kawai v. Metlesics, 480 F.2d 880, 891, 178 USPQ 158 (CCPA 1973).

would be overturned "the first time a court gets a chance to pass on the question," and that one time my forecast proved to be accurate! In Weil v. Fritz et al., 572 F.2d 856, ~~193~~ 196 USPQ 600 (CCPA 1978), the Court of Customs and Patent Appeals explicitly held (p. ~~866~~ 608) "that when a §120 benefit is sought, the best mode disclosure requirement is ancillary to priority." In so holding, the court explicitly overruled the dicta to the contrary in its earlier decisions of Thompson v. Dunn, 166 F.2d 443, 447-448, 77 USPQ 49 (CCPA 1948) and Mahan v. Doumani, 333 F.2d 896, 902, 142 USPQ 19 (CCPA 1964).

In sum, the cases since 1965, when the Seventh Circuit "broke the ice" with Flick-Reedy, have demonstrated a growing awareness on the part of the courts that a deliberate non-disclosure of best mode is a serious breach of the applicant's duty of candor and fair dealing, comparable in gravity to the various forms of misconduct collectively referred to by courts and lawyers as "fraud on the Patent Office." As in other situations, courts accord great weight to the equities in deciding specific cases, so that one cannot say with certainty, in any given case, just what an applicant must disclose and what he may safely withhold. It is clear, however, that a patentee can no longer suppress the preferred form of his invention with assurance that it won't affect the validity of his patent. Judge Rich's views on best mode -- originally mere dictum in his opinion in Application of Nelson -- have now become established law.

Since the law of best mode is still in a stage of rapid growth, a lawyer advising his client must, willy-nilly, rely on foresight and inference in some important areas in which the rules of the game are still uncertain. One such gray area, likely to be the subject of much litigation, is the question whether a patent applicant must explicitly point out (i.e., label as such) the particular paragraph or examples in his specification which he deems to be descriptive of his best mode.

While no categorical answer can be made to that question at this point in time, my own view is that such a specific delineation of best mode is fairly required by §112 if the complexity of the specification as a whole is so great that the ferreting out the best mode by trial and error would impose a substantial burden on a member of the public who wishes to practice the invention with the specification as his guide.

No such burden is presented by the typical patent specification in the mechanical or electrical fields, but the burden can -- and frequently does -- assume awe-inspiring proportions in the case of chemical patents. When one adds up the possible permutations and combinations of reactants and/or ingredients disclosed in a patent specification dealing with organic chemistry, the total may be in the millions; in my view, the best-mode requirement of §112 cannot be satisfied in such a case by mere inclusion of the inventor's preferred

embodiment as a needle in such a vast haystack, without any label to help the reader find it. Judge Tenney expressed such sentiments in his Indiana General opinion, and I have no doubt that other judges will hold likewise when the question comes up.

To comply with the best-mode requirement, a patent solicitor must shoulder two separate burdens -- first, he must make appropriate inquiries to ensure that the disclosure material he has at hand does represent his client's best current thinking, and, second, he must then draft the specification with such clarity and completeness that his client's best thinking (including a full disclosure of his preferred embodiment) is fairly revealed to skilled readers. To be on the safe side, the solicitor should teach his readers how to practice the inventor's best mode by including a specific family of examples which are stated to be exemplary of the invention in its preferred form.

In winding up this paper, I think it fitting to note that recent judicial trends have made the life of a patent solicitor less carefree than it used to be. Thirty years ago, an attorney could accept a disclosure from a client, write it up in a patent application "as is," and prosecute it to allowance without concern for such things as (1) whether the specification fairly disclosed the inventor's best mode, (2) whether the examiner had been made aware of the most relevant prior art known to the applicant, and (3) whether

the information set forth in the specification was supported by, and fully consistent with, the research actually conducted by the inventor and/or his colleagues. But not so today. In the changed world of Flick-Reedy, supra, Beckman Instruments, Inc. v. Chemtronics, Inc., 428 F.2d 555, 165 USPQ 355 (5th Cir. 1970) and Monsanto v. Rohm & Haas Co., 456 F.2d 592, 172 USPQ 323 (3rd Cir. 1972), a patent solicitor must be ever aware of his fiduciary relationship to the Patent Office and the public. In performing his fiduciary duties, he must acquaint himself with all available facts concerning best mode, the prior art (both published and unpublished), and his client's laboratory records. Then, knowing that "corner-cutting" may be severely punished, the solicitor must decide which of those facts should in good conscience be disclosed to the Patent Office and the public.

A few members of our profession deplore this new state of things, remembering with nostalgia the days when patent examiners could safely be considered "fair game." I have no doubt, however, that the complainers are wrong and the judges are right. The higher standards of conduct and disclosure which the courts are now enforcing will surely, in the long run, improve the quality of patents and strengthen the patent system.

October 4, 1978

Committee No.1 (Japanese Group)
Subcommittee 1

Chairman: Hajime Takahashi
(Toshiba Corporation)

Speaker: Hiroshi Kataoka
(Nippon Shinyaku Co., Ltd.)

Requirement for a Divisional Patent Application after Examiner's Decision to Publish the Original Application - Recent Adjudications of the Tokyo High Court

1. Introduction

On the occasion of the Williamsburg Congress of the last year, Mr. Nakajima (Tanabe Seiyaku Co., Ltd., Osaka) made an introductory comment on the Japanese Examination Standard (i.e Japanese "MPEP") relating to the division of an application.

An important aspect of the Standard is the viewpoint of the Patent Office that a divisional application filed after the Examiner's decision to publish the original or parent application should be subject to restrictions similar to those regulated for amendments in Article 64 of the Japanese Patent Law. Thus, in filing a divisional application after the Examiner's decisinn for publication, it is necessary that the invention in the divisional application is already claimed in the claim or claims of the original application. Therefore, mere disclosure in the specification (or in the drawing[s]) in the original application cannot be a subject matter of invention in the divisional application.

Under such circumstances, however, Tokyo High Court has recently issued several decisions contrary to the standpoint of the Patent Office and, since such decisions have important practical meanings, I would now like to introduce you some of such decisions together with my comments.

2. Decision I (Tokyo High Court, Action for Cancellation of Trial Board Judgement, Gyo-Ke No.54 [1976], delivered June 28, 1978)

(1) The plaintiff (Phillips Petroleum Co.) filed a patent application with the Japanese Patent Office on July 19, 1961 claiming a priority on the U. S. application of July 25, 1960 and the said Japanese application was published (after examination at the Patent Office) on May 27, 1963. Nearly half a year later (i.e. on October 3, 1963), the plaintiff filed a divisional application claiming the invention which was already disclosed in the parent specification but not claimed in the claims of the parent application.

The Patent Office found that this division failed to meet the statutory requirement for division and decided that the divisional application is to be rejected. Such a decision of the Examiner was affirmed by the Trial Board of the Patent Office and the plaintiff appealed to the Tokyo High Court requesting a cancellation of the decision at the Trial Board. As a result, the Court accepted the plaintiff's request. The detailes are as follows.

(2) Summary of the reasons for this case at the Trial Board of the Patent Office is as follows:

Paragraph 2, Article 44 of the Patent Law only provides that:

> "Division of a patent application may not be made after the Examiner's decision or trial judgement has become final for the patent application."

and does not providedthat, before that time, divisinn of a patent application may be made unconditionally with respect to any invention.

As to amendment of a patent specification, an amendment expanding or changing the coverage of claim(s) within the scope of disclosure in the specification (or drawing[s]) is permissible provided that such amendment is made before publication of the application for public inspection (cf. Article 41 of the Patent Law). However, once the application is published, amendment only for the purpose given in para. 1, Article 64 of the Patent Law is allowed.

Division of a patent application should be permissible when the application includes two or more inventions or, more strictly speaking, when two or more inventions are claimed in one application. Before the application is decided to be published, however, division of a patent application is permitted even with an invention which has been disclosed but not claimed in the original application in view of the regulation of Article 41 of the Patent Law.

The application in question is a divisional application filed after publication of the parent application, so it is no longer permissible, at the filing date of this divisional application, to expand or to change the coverage of claims.

The regulation that, after publication, referring-back of the filing date is not allowed for any unclaimed invention is reasonable because amendments are permitted only for the purposes enumerated in para. 1, Article 64 of the Patent Law which ensures that the interest of any third party of good faith will not be prejudiced.

Therefore, this application cannot be regarded as a due divisional application of the original one and, hence, referring-back of the filing date is not allowed. Incidentally, comparison of the invention claimed in the divisional application with the published specification and claims of the original application (Patent Publication No. 7241/1963) shows that both inventions are just identical; therefore, the invention in the divisional application is unpatentable under the provision of para. 3, Article 29 of the Patent Law.

(3) Reasons given by the Tokyo High Court for cancellation of the trial judgement are as follows:

The only and entire provision relating to the division of an application is Paragraph 1, Article 44 of the Patent Law which reads:

"An applicant for patent may, only at the time when or within the period during which amendments may be effected with respect to the specification or drawing attached to the application, make a part of the patent application including two or more inventions into one or two or more new patent applications. (This provision is similar to Paragraph 1, Article 9 of the Patent Law of 1921)."

Aside from that, a negative time requirement is found in Paragraph 2 of the same Article which reads:

"The division of a patent application may not be made after a final ruling or a trial judgement has become final and binding."

The Patent law has no further restrictive provision relevant to the division of an application.

It being so, when the above provisions of Paragraphs 1

and 2 of Article 44 are taken into consideration, it is reasonable to conclude that the division of an application may be made at any time, subject to the time requirement prescribed in para. 2, i.e. until the final ruling or until judgement has become final and binding.

Therefore, an application can be divided at any time provided that it is done before the final decision of the Examiner or before the trial judgement becomes final and binding and there is no basis for giving different legal effects according to whether the division is made before publication or after.

Now, some applications are such that they are contrary to the doctrine of "one invention, one application" while others are such that two or more inventions claimed fail to meet the requirement for a consolidated application. Still other applications are such that the specification and/or drawing(s) disclose an invention which is not claimed. Inventors of such applications may have still expressed his intention to disclose the invention for use by the public, so it is reasonable to assume, in light of the intent of the legislature in enacting the Patent Law to grant a monopoly right in compensation for the disclosure, that he has an inherent right to demand a patent monopoly on such invention as well. It is accordingly

reasonable to conclude that Article 44 of the Patent Law was enacted to remedy such situations and that the division of an application is permissible not only as to the invention originally claimed but also as to the invention disclosed in the specification (or the drawing), this conclusion being equally applicable irrespective of whether the division is made before publication or after.

The defendant (the Patent Office) asserts that a later applicant claiming the invention described only in the body of the specification of a prior application after publication of the latter should then be prejudiced by a rejection of his later application as the result of the filing of a divisional application by the prior applicant covering the same invention. However, it is too hasty to conclude that, when an application is once published, a third party is denied the position of a prior applicant as to the invention described only in the specification. Rather, he should be advised that until a final disposal of the case, a patent right could come into being on division of the application. The point made by the defendant is not cogent enough for us to change the interpretation of Paragraph 1, Article 44 of the Patent Law.

3. Other Decisions (Tokyo High Court, Action for Cancellation of Trial Judgement No. (Gyo-ke) 83, 1973; delivered May 2, 1978

(1) The plaintiff (Shigeo Yoshida) filed a patent application on July 11, 1958 (under the Patent Law of 1921) and the Patent Office ruled on November 4, 1964 that the application should be published. On May 21, 1965 the plaintiff filed a divisional application claiming the invention which had not been claimed but described in the body of the specification of the original application.

The defendant (the Patent Office) rejected the divisional application, finding that it failed to meet the requirement for division, and the rejection ruling was upheld by the Trial Board of the Patent Office. The plaintiff appealed from this judgement, demanding a cancellation of the judgement and the court reversed the Board judgement.

(2) Gist of the Reasons used by the Trial Board

The Board adopted the same reasons as in Case 2 (2) above.

(3) The reasons for Cancellation Used by Tokyo High Court

(i) The defendant, saying that Paragraph 2, Article 53 of the old Law (the Patent Law of 1921) provides that if, after the grant of a patent, it has been found

that two or more inventions are included in a patent application, the application may be divided by the procedure of a trial judgement, alleges that since the division of an application is a procedure comparable, in principle, to the above procedure, what are meant by "two or more inventions" are the claimed inventions. However,it is beyond doubt that the division of a patent is a corrective procedure applicable to the situation in which a patent has been erroneously granted in contravention of the doctrine of one invention-one application.

In regard to a divisional application, there is no basis for the allegation that the procedure should be limited to cases involving an error. For in view of the intent of the legislature that, in cases involving an invention not claimed but disclosed in the specification or drawing, it should be considered that the inventor has expressed his intention to disclose the invention for use by the general public and that a monopoly right is granted him only in compensation for that disclosure, it is reasonable to consider that the inventor has an inherent right to demand a patent for such invention. Thus, the provision of Paragraph 1, Article 9 of the old Law (which corresponds to Paragraph 44 of the existing

Patent Law) should, therefore, be construed to provide for the applicant's right to enjoy the benefit of claiming such an invention at a later date, i.e. the invention not claimed but disclosed in the body of the specification or the drawing. It also seems natural, in view of the above legistrature's intent that the same Paragraph of the same Article permits a referring back of the application date. It follows, then, that the "two or more inventions" within the meaning of the same Paragraph of the same Article should be construed to include not only the invention claimed but also any invention disclosed only in the text or drawing accompanying the original application, irrespective of whether the division is made before publication or thereafter.

(ii) The invention claimed in a divisional application is a distinct and independent invention with respect to the original application and, as to the former, an independent publication procedure is applied and the resultant patent right comes into being at the time when said independent publication is made. Therefore, if a third party works the invention before the publication of this divisional application, he is not charged with a patent infringement provided that he does not continue

to work it after the publication of the divisional application. And a third party who files a patent application claiming the same invention as that claimed in the divisional application after the filing date of the original application is barred from obtaining a patent but such a situation would also obtain should the divisional application be filed before the publication. Therefore, this Court cannot concur with the defendant's argument that if, in cases such as this, a divisional application be held legal and a referring back of the application date be allowed, Paragraph 5, Article 75 of the old Law and Paragraph 4, Article 11 of the Rules for Enforcement of the same Law as well as the consequent restrictions relating to amendments to the specification after publication would become completely meaningless.

(iii) The restriction that the invention after an amendment or division made in the trial procedure for amendment or division shall not be an invention amounting to a substantial change of the original claim is intended to avoid the occurence of a situation such that the conduct of a third party which has not been infringing the patent right becomes an infringement only because of the change made in the original claim by such a trial

procedure. On the other hand, in cases such as this, the divisional application brings about no change at all in the original claim, with the invention in the divisional application being claimed as a completely independent invention. And, as already mentioned, such an independent application is separately published and the patent right comes into being at the very time. Thus,the question is different in nature from that involved in the trial for amendment or division and because the working of the invention by a third party before the publication of the divisional application is not regarded as an infringement, there cannot arise the unfair result which would allegedly take place.

(iv) For the reasons so far pointed out, the term "two or more inventions" as used in Paragraph 1, Article 9 of the old Patent Law should be construed to mean not only "the claimed invention", both formally and substantively speaking, but also "the invention disclosed in the specification or drawing" and it is reasonable to consider that the above interpretation applies equally, irrespective of whether the division is made before or after publication.

As a corrolary, it must be concluded that this application satisfies the requirement for a divisional

application. Therfore, the judgement of the Trial Board based on such a false finding is in error and unlawful.

4. Conclusion

The above cases relate to the requirement for divisional applications filed after the decision to publish the original applications and, in these cases, the court invariably took a position diametrically different from that of the Patent Office in connection with the interpretation of "invention" under Article 44 of the existing Patent Law and Article 9 of the old Patent Law. The Patent Office, as it issued its Examination Standard relating to the Division of an Application, had a unified view that this "invention" should as a rule be considered to be "the claimed invention". This is in contrast to the attitude of the court, which, in those cases, interpreted the law that "the invention" is "the invention disclosed in the specification", saying "such a restrictive interpretation is unwarranted in the absence of an express provision of law".

Even recently a number of judgements denying the division of an application after the Examiner's decision for publication have still been entered by the Trial Board and, in these cases, the Board has been discussing the reasons why "the invention" under Article 44 of the Patent Law

should be construed to mean "the claimed invention". (cf., for example, Trial judgement No.9458 [issued on March 7, 1977] and Trial judgement No. 1223, No. 690 and No. 10446 [issued on June 15, 1977]). Such a position of the Patent Office is not reflected in the recent decisions of the Tokyo High Court. In any event, Patent Office appealed to the Supreme Court from the High Court decisions, so it will be necessary for us to watch the attitude of the Supreme Court toward the above position of the Patent Office.

* * *

PATENT AND TRADEMARK PROCUREMENT IN VIEW OF EPC, PCT AND TRT

By H. P. Gravino and E. H. Valance

I. Introduction

On June 1, 1978 the first patent applications became effective in the European Patent Office in Munich and under PCT the first PCT application was filed in the U.S. Patent Office in Washington, D.C.

On July 11, 1978, Donald N. Banner, U.S. Commissioner of Patents and Trademarks announced that legislation designed to implement the Trademark Registration Treaty (TRT) had been prepared by The Patent Office and a copy of the proposed legislation was published in The Official Gazette (973 TMOG 3-17, August 1, 1978). While it may be several years before the first TRT application is filed in the U.S. Patent Office, we have no doubt that the U.S. will eventually ratify TRT and amend the Lanham Act to implement TRT.

In view of these developments what is Mobil's Office of Patent Counsel doing to adapt its policy and procedures to these international filing conventions? Further, at least in the case of EPC and PCT what experience has Mobil had in procurement of patents under these new conventions? Finally, what impact have all these new developments had on the budget of Mobil's Office of Patent Counsel? and what changes, if any, are contemplated in the processing of Mobil's international patent

applications, its filing and information retrieval and docketing systems both for patents and trademarks world-wide?

II. Actual Experience of Mobil in Patent Procurement under EPC and PCT.

As of September 1, 1978 Mobil has filed 5 applications for patents in the European Patent Office. All 5 applications designate West Germany, The Netherlands and the United Kingdom. All except one have designated Belgium and France. Had Italy been a participant in the European Patent Convention at the time of filing these patent applications Mobil would have also designated Italy as well. This pattern of filing is in accord with the general pattern of filing in Europe which we have been following in recent years. Since Italy has now ratified the European Patent Convention we expect to designate Italy generally whenever a European patent application is filed.

During the year 1978 we shall probably file about 15 patent applications in the European Patent Office. As of now we are reasonably certain of filing about 12 applications. We shall make a final decision on our program for this year in mid-November when we have our final round of Patent Committee Meetings at which we consider our foreign filing program every four months during the year.

We have routinely inquired of the European Patent Office whether the subject matter of our prospective European Patent Applications would be examined if filed. We followed the procedure for the Preclassification Service set out in Volume 2 of the Official Journal of the European Patent Office. So far we have found that all applications we proposed to file in the European Patent Office would be examined. All except one application were directed to inorganic materials or their preparation. These materials were all useful as catalysts in certain hydrocarbon conversion reactions. One case dealt with a hydrocarbon purification process.

As of the present time we have filed no patent applications under the Patent Cooperation Treaty (PCT). We have not used the PCT as yet because we feel quite sure that the PCT would be more expensive than filing in the individual National Patent Offices and we saw no cost advantage or other important advantage in filing in the European Patent Office with a PCT application.

In most cases our patent attorneys are very familiar with the prior art and we see no advantage in delaying foreign filing simply to obtain a search report from the International Search Authority. Quite frequently we will have available the initial search and first action from the United States

Patent Office on the corresponding U.S. patent application the priority of which we shall claim in carrying out our plans for filing foreign patent applications in Europe and elsewhere.

A great deal of the procedural changes and resultant paper work which we have had to contend with in preparing for filing under the European Patent Convention has complicated our present docketing and control system. We felt that whatever advantages might accrue under PCT could not be justified and we did not wish to create further burdens on our already overburdened clerical and paralegal staff.

We are also aware that like all bureaucracies the officials administering the PCT system are not without their delays and occasional clerical errors and we were reluctant to subject our patent applications to still another bureaucratic process with its attendant delays, added costs and possible errors.

There is also the further consideration that - however remote - the PCT may not be used a great deal and might eventually have to be wound up for non-use. Certainly the use made of it so far must be a considerable disappointment to its architects. Therefore we did not wish to effect expensive changes in our present computerized record and information retrieval system to accommodate yet another

international convention which may well become obsolete in a very short time.

In contrast to the expected additional costs which would have to be assumed under PCT we have calculated comparative costs in some recent filings in Europe in the 5 countries most frequently designated in Europe. To give you a comparison with the initial costs under PCT if you exclude translation fees as well as agency fees, the following is a breakdown of expenses for designating 5 countries under PCT.

Basic U.S. Fee	$ 35.00
International Fee - basic	165.00
Designation Fees (5 countries)	200.00
Search Fee	300.00
Total PCT Fee	$ 700.00

The maximum refund for the search fee would be $270.00 in the U.S. Patent Office which leaves a possible minimum net PCT Fee for initial filing in 5 countries of $430.00.

III Impact of EPC vs. Conventional Route to Patents on Budget

We have compared the cost of a 26 page/1 drawing/ 1 priority claim European filing (Case I) with that of filing recently a comparable case - 28 page/no drawing/1 priority claim - in the 5 countries designated in the European area (Case II). The European filing cost included payment of both Search and Examination fees, and we have therefore, where

appropriate extrapolated Associates' charges on Case II to what they would be if corresponding payments had been made.

(a) European Case I
Total cost: $3,216
Govt. Fees included in total: $2,306

(b) National Filing, Case II
(Fees included in total given in parentheses)

Belgium : $390 ($16)

France : $1,695 ($538)

Germany : $1,470 ($325)

Gt. Britain: $446 ($268)
(applying the 1977 Act)

Holland : $1,430 ($776)

Total cost : $5,431
Fees included in Total : $1,923

It is evident that one of the primary benefits of filing under the European Patent Convention is the saving in prosecution costs. For us the professional time required for prosecution is roughly 20% or less since instead of 3 or 4 examining countries with their own prosecution requirements and possible oppositions we have a single prosecution with uniform rules and with the prosecution largely in the English language. The formal requirements are greatly reduced and clerical time in docketing, record keeping and general correspondence is correspondingly reduced. We also will have much fewer costs in connection with mailing, reproduction and remittance of fees.

In converting our present procedures to adapt our application format to the requirements of the European Patent Convention we decided to utilize automatic typewriting equipment having capacity for storage of text material on magnetic tape and video display equipment for immediate correction and amendment of such text material. We had to make sure that the copy produced by this high speed equipment would conform to the spacing requirements of the European Patent Convention. We also decided to use the A4 size paper uniformly in our foreign patent applications. Since we file in a relatively few countries (average about 9 or 10 countries designated) we can utilize automatic typewriting equipment to produce perfect original copy for filing in each designated country or in the European Patent Office as the case might be. This equipment is also extremely useful in overcoming expensive requirements for retyping often encountered in such countries as Canada and Australia. Using the Video display and amending capability of this equipment makes it very easy to rework the original material into European format and to eliminate objectionable matter in other countries such as, for example, references to foreign patents which are objectionable according to the local rules of the respective foreign patent offices.

IV Present Systems For Docketing, Annuity Payments, Management Reporting in re: Mobil's Patents and Trademarks

The present patent management information system is the product of over 10 years work and represents a vast improvement over the manual system previously used. The number of active dockets currently in the system for both foreign and domestic patents, patent applications and patent informations is of the order of 20,000 cases. The system provides a wide variety of reports which give the present status of each of these cases and enables the management of the Mobil Office of Patent Counsel to determine the current docket and responsibilities of the department as a whole and of the individual attorneys in the department. In the memory of the computer or on magnetic tape we have stored all the information necessary for a regular reminder and docketing system to assure maintenance of our patents and patent applications throughout the world. We have set up a procedure for the direct payment of patent annuities in the major foreign countries where we have a portfolio of patents and patent applications and where we have an affiliated company with a competent staff to assist us in making the necessary annuity payments directly to the respective patent offices without the necessity or expense of using an independent intermediary such as a foreign patent attorney or agent. In this way

we have been able to recover the initial cost of setting up this computerized docket and annuity system within 2 years of its completed operation in the patent area. In setting up the procedures for the direct annuity payment system we personally visited many of the patent offices where payments would have to be made and we interviewed the Mobil affiliate personnel who would be responsible for carrying out the payments on our behalf. We also visited with our foreign patent associates who continue to do work for us in the procurement of patents in the various countries where we have established this procedure. We did this both to obtain information and assistance and to preserve what goodwill we had with the foreign patent associates so that they would understand our reasons and our intentions in this regard. We found that such personal interviews and visits were extremely useful in effecting a smooth transition from our prior practice to the present procedures. We have noted no change in the good working relationship which we have had in the past with our foreign associates and we have, of course, also found that periodic visits with our foreign associates have enabled us to improve cooperation and where necessary shift work away from less efficient or less capable foreign patent attorneys to those who will better represent us in the foreign patent procurement efforts on our behalf. We are developing

a similar system for maintenance of records and docketing of actions in respect of our trademark registrations both in the United States and foreign countries. As we had done in the case of the patent record system we have initially acquired from an outside consultant the necessary software adapted to our peculiar needs and compatible with the computer equipment available to us within the Mobil organization. We are now in the process of creating a data base containing all the necessary information for the maintenance of our trademark rights throughout the world. We have approximately 8,000 dockets most of which pertain to issued trademark registrations. Unlike patents we file applications and maintain registrations for trademarks in almost every country of the world and we presently have protection in well over 120 countries for some 500 different trademarks. The largest number of our registrations are directed toward protection of our most important trademark, the word Mobil for a wide variety of goods and services. Similarly, a large number of registrations are directed to the Pegasus and Flying Horse symbol but in addition we have quite a large number of word marks many of which are based upon the word Mobil.

When we have completed our preparations for our trademark record keeping and information system, this will

operate in the same manner as our patent system. We shall be able to retrieve information concerning protection of our Mobil trademarks and determine the responsibility for actions necessary to accomplish this both for the department as a whole and for individual attorneys. Our annual review of our trademark registrations will be made easier and we will be able to control our expenditures more easily as the information connected with foreign maintenance expenses will be more readily available with less clerical time required to obtain it. As in the case of the patent system we will continually update the maintenance costs for each country and will have form letters and other documents automatically printed out upon instructions to the computer in order to effect the necessary maintenance action.

V. Conclusion

We are very optimistic that by using our improved management information procedures and our computerized system of record keeping in conjunction with such conventions as the European Patent Convention and the Trademark Registration Treaty when it comes into force in a respectable number of years we shall not only save expense but require less time and personnel to accomplish the necessary actions for procurement of patents and trademark registrations. As we have indicated above, we are already making use of the European Patent Office.

However, we foresee very little use of the Patent Cooperation Treaty.

We hope that the foregoing summary of patent and trademark procurement efforts in view of the European Patent Convention, Patent Cooperation Treaty and the Trademark Registration Treaty will be of interest to you. If you have any questions concerning any of the points discussed in this paper we shall be glad to try to answer them for you.

Thank You.

EHV:HPG/ms
9/11/78

REQUIREMENTS FOR THE RENEWAL OF

THE REGISTERED JAPANESE TRADEMARK

Committee #1
Trademark Group
S. Maeda and G. Tasaki

Requirements for the Renewal of the Registered Japanese Trademark

I. Introduction

As is generally known, according to the amendment of the Japanese Trademark Law made in 1975, it is necessary to file an explanation of the use of registered trademark or an explanation of justifiable reason regarding the non-use of registered trademark at the time of filing an application for registration of renewal of the term of a trademark right filed after June 25, 1978.

Formerly, as unused trademark right could be renewed, filing of applications for the renewal of unused registered trademarks have been increasing. But only about $\frac{1}{4}$ of the registered trademarks have been actually used. (According to the investigation of the Patent Office on 1974.)

Moreover, it is estimated that in a certain classification of goods, only one-tenth of the trademarks have been actually used.

In connection with the increase of a great number of unused registered trademarks, it became more and more difficult to examine them speedily, and furthermore, it unjustly narrows other people's freedom of choice of trademarks. This situation is unfavorable in respect of

the primary purpose of the trademark law. For the above reason, the purpose of this amendment is to readjust the unused registered trademarks by rejecting their renewal of registration with respect to the trademarks which have not been actually used within three years prior to the filing of the application for registration of renewal of the trademark rights. Therefore, in order to file the renewal of registration hereafter, the following requisites must be fulfilled besides a requisite that the registered trademark has not become a trademark falling under reasons for refusal related to the public interest.

II. The Requisites for the Renewal

1) A registered trademark should have been used within 3 years prior to the filing of an application for renewal. Namely, it is not necessary for a registered trademark to be in use at the time of the filing of an application for renewal.

2) It must have been used in Japan. An explanation of use outside Japan cannot be accepted.

3) It must have been used by the owner of the trademark right or the owner of a right of exclusive or non-exclusive use.

4) It must have been used on some item of designated goods.

Using a registered trademark not on all but only on one item of designated goods will suffice for the renewal.

However, when a trial for the cancellation of the trademark registration due to non-use is demanded as to the unused designated goods, that each item of unused designated goods would be cancelled.

5) A registered trademark must be used.

6) Exception as to associated trademarks:
The renewal will be allowed in case another registered trademark which is an associated trademark with respect to the registered trademark has been used, even if the registered trademark filed for renewal has not been used. Provided that in this case, the cases are limited to associated trademarks used on designated goods of a registered trademark of which the application for renewal is filed.

7) In case a registered trademark is not used, justifiable reasons are needed.
Considering all circumstances synthetically, it will be judged whether the reason is justifiable or not. For all practical purposes, however, the cases will be limited to the occasion that the circumstances do not allow the owner of the trademark right or the

owner of a right of use to be blamed and that the situation has been difficult to foresee.

The Trademark Law, Article 19, Item 2 and 3 prescribing the requisites of renewal registration provides as follows.

(2) The term of a trademark right may be renewed by application for registration of renewal. Provided, however, that this shall not apply:

(i) where the registered trademark has become a trademark falling under Article 4 (1) (i) to (iii), (v), (vii) or (xvi).

(ii) where neither the owner of the trademark right nor the owner of a right of exclusive use nor the owner of a right of non-exclusive use has used the registered trademark (or, if there is another registered trademark which is an associated trademark with respect to the registered trademark, the registered trademark or such other registered trademark) on any item of the designated goods in Japan within three years prior to the filing of the application for registration of renewal (or prior to the expiration of the time limit prescribed in Article 20 (2) if Article 20 (3) is applicable).

(3) Where there is a legitimate reason for the failure to use

the registered trademark on any item of the designaged goods in the case of paragraph (ii) of the proviso to the preceding subsection, the said paragraph shall not apply.

III. Explanation of Use of Registered Trademark

The application for renewal of a trademark right shall be filed within 3 to 6 months prior to the date of expiration of the term, and at the same time, an explanation of use or an explanation of justifiable reasons concerning non-use shall be filed together with the application for renewal (Article 20, Item 2 and Article 20bis).

If not filed, the filing of an application for renewal would not be received.

This reason is explained that such an explanation can be prepared at the time of an application for renewal, so a necessity to admit the later amendment is little as well as the procedures will be complicated and cannot be managed speedily in case the later amendment may be admitted.

But, it is not too much to say that the above rule is too strict for an applicant for renewal because this rule attaches importance to the request as to the management of examination.

As to the amendment after the filing of an application, the policy of the Patent Office is not to allow the substantial amendment at all. Therefore, on the occasion of making an explanation of use, careful attention must be paid, and in case there are obscure points, it is desirable to ask the Patent Office to make them clear. The contents of an explanation of use or non-use follows Form 8 or Form 9 of enforcement regulation.

In "Applying Criteria Concerning the Strengthening of the Obligation of Using Registered Trademarks" published by the Patent Office on October, 1974, and "Examination Criteria Concerning Use of Trademarks and Documents showing the Fact of Use of Trademarks" published on June, 1978, the point of mention is indicated with examples for reference.

"Use" with respect to a trademark means any of acts provided in the Trademark Law, Article 2, Item 3. But, the volume and pages of documents are limited for convenience in handling at the examination.

As for the documents showing the fact of use, they should concretely indicate the using condition of a registered trademark regarding designated goods. The said documents include photos of goods, catalogues or advertisement for goods and business papers regarding goods.

i) In case of photos of goods

Photos clearly showing goods itself and the condition that a trademark is used on the goods shall be filed. The above "photos" would be made according to the said "Criteria" of October, 1974.

ii) In case of catalogues or advertisement for goods

It is enough that trademark and goods are clearly indicated in catalogues or advertisements. It is not necessary that the trademark should be on goods directly.

As a general rule, all original catalogues and advertisements of goods should be filed. In case the above data are large enough to exceed the limitation, the photos or a clipping part of the documents clearly indicating the date of drawing up and the title of documents, etc. may be filed instead.

iii) In case of business papers concerning goods

It is necessary that a trademark and goods should be clearly indicated in these documents and that one can grasp the fact that the said documents were actually used in business.

These "documents indicating the fact of use of trademarks" are explained in the above Examination Criteria of the Patent Office published on June, 1978.

IV. Concerning Several Problems

1) Identity between a registered trademark and a trademark in actual use:

On the occasions of actual business, there are few instances where trademarks identical with registered ones are used. Instead, in many cases, they use a little modified trademarks. For this reason, the use of modified trademarks allowable from the viewpoint of a generally accepted idea in the trading society will be considered as the use of registered trademarks. The concrete examples of to what extent the use of the modification is allowable are referred in the report by Mr. Maeda and Mr. Kobayashi at the PIPA Conference last year and "Examination Criteria Concerning the consideration of Use of a Registered Trademark" published by the Patent Office on March, 1978.

In any case, when the state of trademark used is remarkably different from a trademark of an application for renewal, it is preferable that the trademark in actual use is registered as an associated trademark.

2) Re: "Use" of Trademark

Whether a registered trademark in relationship with the designated goods is applicable to the use of

trademark from the viewpoint of the Trademark Law or not must be judged from the consideration to the purport of the Trademark Law, Article 2, Item 3, the actual condition of business and advertisement as to the goods, etc..

For instance, it is evident that matches, pencils, etc. distributed for publicity are not generally considered as the use of trademark on such goods.

The followings are the judicial precedents indicating whether they are use of trademarks or not.

a) Concerning the distribution of goods such as chinawares, etc. by the organization of membership, monthly pamphlets distributed to members together with goods for services cannot be considered as goods in the Trademark Law. Therefore, the above case cannot be deemed as the use of trademark. (A decision of the Tokyo District Court on March 2, 1961)

b) A picture illustrated largely at the breast of a shirt is indicated in order to induce customers to buy goods as decorative or designing effect, and its purpose is not to display the function of a trademark, so it is not regarded as the use of trademark. (A decision of the Osaka District Court on December 24, 1976)

3) Re: Well-Known Trademarks

Up to now, it doesn't always follow that well-known trademarks have been well protected.

In case other person has applied a well-known trademark to other classification of goods, in spite of the provision in Article 4, Item 1, No. 15 (A trademark which might cause a confusion with goods relevant to the business of other person cannot be registered.), the registration of that well-known trademark was sometimes accepted, and in many cases, troubles aroused.

Therefore, well-known trademarks are often registered with other classifications of goods in order to avoid such troubles. In this case, when a well-known trademark has not been used in a classification of goods, certainly, it cannot be applied for renewal.

In a case like the above, when the well-known trademark is registered or used by the third party, it will take much time and troubles to be abated. So, it is always necessary to consider a counterplan in order to preserve it properly.

One way to do so is to utilize the System of Defensive Marks, in the Trademark Law. From what I hear, the above System and the said Article 4, Item 1, No. 15

are now under consideration in the Patent Office as to the flexible application and the clarification of criteria in order to strengthen the protection of well-known trademarks.

We are looking forward to the early study of the above. But, concerning the System of Defensive Marks, the System itself has narrow protective bounds (namely, protection only for identical marks), so it is quite difficult to cover it only by application of the Law. Therefore, we think that the Law concerning this System should be amended.

V. In Conclusion

As stated above, since documents indicating the fact of use of a registered trademark must be filed simultaneously with the filing of an application for renewal, it is much more necessary than before for a trademark right owner to grasp fully the actual condition of its use and to take note of the importance of each trademark he owns and to bear in mind the countermeasure of its proper use and the maintenance for renewal.

We cannot help but wait for the future as to how the examination of the using condition at the time of renewal will be put in practice. It is expected that the examination with flexibility might reflect the actual conditions in trading society.

CURRENT DEVELOPMENTS IN UNITED STATES TRADEMARK LAW

By:
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To be presented at:

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Nagoya, Japan

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Two years ago at Hakone, I presented a paper to this group regarding current developments in the United States trademark law.

One case, involving the trademark "Big Foot" for snow tires,[1] resulted in an award of approximately 20 million dollars as damage for wilful and deliberate trademark infringement. The award was subsequently reduced to approximately five million dollars but otherwise was not changed.[2] It is a significant award in view of the fact that the total net worth of the trademark owner was only $200,000.00, less than one twentieth of the award.

Another case reported was the "Lemon Tree" case[3] wherein the U.S. Court of Appeals for the District of Columbia permitted a foreign applicant to file a trademark registration based on a trademark registration in its own country without actual use of the mark in commerce. The U.S. Trademark Office proposed a rule change[4] to permit such applications but it has been withdrawn[5] because of protests by U.S. citizens who contend that such rule changes would put them at a disadvantage.

The Trademark Office distinguishes between "use" of a trademark and "use in commerce" of a trademark. It takes the position that section 44(d)(2) permits registration of a trademark based on a proper foreign registration, without requiring "use in commerce". The statute defines "commerce"

as used in the Trademark Act[6] as:

"---commerce which may lawfully be regulated by Congress".

Traditionally, Congress may regulate inter-state commerce in the United States, commerce between United States and other countries, etc. The Trademark Office ruling is that foreign applicants need not allege their type of use in commerce if they have registration in their own country. However, the Trademark Office insists that some use of the mark on the goods must be alleged to qualify for a United States trademark registration.

"The Lemon Tree" case did not decide this point. However, I believe that the Trademark Office is incorrect. The effect of section 44(d)(1) was to permit registrations in the United States of trademarks validly registered in other countries. It is intended to support United States treaties with other countries to permit United States citizens to register trademarks in other countries. If United States citizens are at a disadvantage, the United States trademark law should be amended to correct it. Otherwise, it is the price that the United States must pay to permit reciprocal registrations in other countries. I hope that this inequality will be corrected by legislation or a further court decision.

The other suggestion I made in 1976 was that section 43 of the United States Trademark Law was being interpreted by the courts to embrace a broad concept of unfair competition.

To give you some background, it must be understood that there is no law enacted by the U.S. Government preventing unfair competition. Many of the states have such statutes. A number of states have developed common law in this area. The problem is that many states have no law pertaining to this subject. Even the states that have such laws have not developed uniformity. What may be legal in one state, may be illegal in a second state and questionable in a third state.

With the Second Circuit Court of Appeals leading the way, the Federal Courts have seized on section 43(a) of the Lanham Act as a basis for a federal statute regulating unfair competition. As I discussed in the Monty Python case,[7] the Second Circuit held that the ABC Broadcasting Company violated section 43(a) of the Lanham Act by severely editing the Monty Python program and presenting it as a program sponsored by Monty Python. The thrust of the decision was that the changes were so severe that the work no longer was Monty Python's work, somewhat like painting a moustache on the Mona Lisa, and representing it as a painting of daVinci. The statute[8] forbids any "false description -- including words or other symbols --". The Monty Python case was the first case where the court held that silence, or failure to describe properly the origin of the goods, could be a violation of section 43(a).

At that time, I explained that the Second Circuit Court interpreted the statute much more broadly than most courts

and suggested that it would be well worth watching what other courts would do.

Since then, several cases have been decided which lead me to conclude that other circuits will also interpret the statute broadly.

The first case involved Boston Hockey vs Dallas Cap & Emblem.[9] The Boston Bruins are a professional hockey team who have adopted a particular style of the letter "B" as their emblem. The presence of the emblem on equipment (shirts, caps, etc.) indicates that the wearer is a fan of the Boston Hockey club. The Boston Hockey club licensed certain manufacturers to make and sell equipment bearing the "B" emblem. The hockey club received a royalty on the sale of this equipment.

Dalles Cap & Emblem sells pieces of cloth with sports teams' emblems embroidered thereon. The purchaser of the cloth sews it onto a plain shirt or cap, purchased separately. Dallas Cap requested a license from Boston Hockey to make and sell these emblems. Boston Hockey refused on the grounds that they had already granted exclusive licenses to other manufacturers.

Dallas Cap made and sold these emblems without permission and Boston Hockey brought suit. (Suit was brought on behalf of itself and 25 other hockey teams who also developed different emblems that Dallas Cap reproduced and sold.) The suit alleged trademark infringement and unfair competition.

The lower court rendered a judgment that permitted Dallas Cap to continue to sell the emblems providing that the packages were clearly marked that they were not sponsored by the Boston Hockey club.

The Court of Appeals reversed, holding that Boston Hockey had an absolute right to prevent others from duplicating their emblems. The problem the court had was in dealing with the issue of customer confusion. The court treated the case as one of trademark infringement. A necessary element of infringement is a finding of confusion, mistake or deception.[10]

The Boston Hockey club licensed the trademark and received a royalty based on the sales of the products containing the emblem. Their revenue was much larger than if they licensed the sale of the piece of cloth bearing the emblem. The purchasers would rather buy the piece of cloth and sew it onto the jacket or cap. It would be much cheaper to do so. The purchasers of the emblems from Dallas Cap were not confused as to the source of the emblem. They were delighted to be able to buy the emblems very cheaply, rather than having to buy an expensive, official sweatshirt (or cap or whatever).

The court resolved the question by concluding that since there was trademark infringement, there must be confusion. I have concluded that the court reached the right result for the wrong reason. I agree that the defendant should have

been restrained from continuing to reproduce plaintiff's trademark. However, instead of dealing with the case on the basis of trademark infringement, it should have treated the case as one of trademark mis-appropriation, or more accurately "trademark theft".[11]

The mis-appropriation claim will prevail where the defendant has mis-used the plaintiff's trademark, to the plaintiff's detriment. There is no need to prove consumer confusion. The course of action is similar to a suit for mis-appropriation of any type of personal property. Surely if the defendant had mis-appropriated plaintiff's ice skates, hockey sticks, jock straps, etc., plaintiff could prevail. The rule should be the same where the defendant mis-appropriates plaintiff's trademark.

Another case that upheld the right of a trademark owner to protect its mark without having to prove consumer confusion was Rolls-Royce Motors vs A. A. Fiberglass, Inc.[12] Rolls-Royce had adopted a statutette referred to as "Flying Lady" and used it as a hood ornament on its automobiles since 1911. It also used a particular configuration of its front grill since 1906.

Defendant produced and sold a package of auto parts designed to change the appearance of a Volkswagon Automobile to resemble the Rolls-Royce. The package included a grill and hood ornament virtually identical to the Rolls-Royce. Plaintiff, Rolls-Royce, sued for trademark infringement and unfair competition.

A.A. Fiberglass defended on the grounds that no one could possibly be confused into believing that a Volkswagon was a Rolls-Royce. This was undoubtedly true, especially since the Rolls-Royce grill was placed on the rear of the Volkswagon.

The court held that Rolls-Royce was entitled to prevail. It relied on section 43(a) of the Lanham Act. The court concluded that use of the plaintiff's trademark, by the defendant constituted a representation that there was an association between the plaintiff and defendant. Since this representation was false, the plaintiff had a right of recovery under section 43(a) of the Trademark Act, citing Boston Hockey vs Dallas Cap as authority.

It might be noted that courts will uphold mis-appropriation of trademarks where the marks are identical and are used on identical goods, without investigating consumer confusion. In fact, the defendant is not using the trademark in a classical trademark sense, e.g. identification of product source. Instead, the defendant has appropriated the trademark because of the commercial desireability that has been generated by the plaintiff's use. The courts will prevent encroachment upon this commercial desireability. However, if there is a difference in marks or a difference in goods, the courts will resort to traditional tests of likelihood of confusion.

Another interesting case, American Home Products vs Johnson & Johnson, Inc.[13] involved the application of section 43(a) of the Lanham Act involving misleading comparative advertising. American Home Products published a series of advertisements to the effect that its pain reliever, "Tylenol", was superior to a product marketed by the McNeil Laboratories Division of Johnson & Johnson called, "Anacin". Johnson & Johnson complained to American Home Products that the advertisements were misleading. American Home Products brought a declaratory judgment action and Johnson & Johnson counterclaimed for violation of section 43(a) of the Lanham Act.

The Second Circuit Court of Appeals found for the defendant, Johnson & Johnson. While the substance of the advertisements may have been technically correct as understood by doctors and pharmacists, nevertheless, it concluded that, as understood by members of the public, the claims of the plaintiff were misleading. Therefore, it found that defendant had a cause of action under section 43(a)[14] since the language of the advertisement tended to falsely represent the goods.

The case not only expands the scope of section 43(a), it also describes the permissible bounds of comparative advertising.

A district court case[15] in the Seventh Circuit, involved a situation where the patentee (Mirror Polishing and Plating

Company) falsely accused a competitor (Chromium Industries, Inc.) of infringing its patent. The court held that this was a violation of section 43(a) of the trademark act. Both parties were in the business of applying certain coatings and finishes to roller surfaces (referred to as FPC). Mirror Polishing Co. advised the industry that it had the only FPC surface on the market, that it owned the Patent on FPC and that Chromium Industries, Inc. infringed the patent. Mirror Polishing Co. knew full well that these statements were false. The court held that these representations would create a false impression and therefore were actionable under section 43(a) of the trademark act.

In the case of Bohsei Enterprises vs Porteous Fastener[15a] the district court in California held that importing a product into the United States, and selling it in commerce, without identifying the country of origin, was a violation under section 43(a) of the Lanham Act. The court reasoned that failure to state a material fact is a false representation as contemplated by the statute.

The other area of trademark law that I discussed at Hakone two years ago was the erosion of trademark rights. The example at that time was the FTC action wherein the administrative law judge recommended compulsory licensing of the trademark "ReaLemon" at a nominal royalty.[16] The agency concluded that the trademark owner had a disproportionate market share and sought to reduce trademark rights to promote competition. It is my understanding that the case is presently on appeal to the full Commission and no final adjudication has been made.

The latest attack by the Federal Trade Commission is on the trademark "Formica",[17] for decorative plastic laminates. The agency has concluded that the mark has become generic and should no longer be given trademark protection. The real motivation seems to be that the trademark owner is dominant in the market and the FTC is again attempting to promote competition by allowing all companies in the industry to use the mark. I do not know whether the mark has become generic or not. However, this is the type of determination that should be made in an inter-parties contest between adversaries having a real interest in the decision. It is not appropriate to have a government agency raise it independently, as a vehicle for promoting its concept of increasing competition.

Another attack on trademarks has recently arisen in the Berkey Photo vs Kodak[18] anti-trust case. The decision at the District Court level was favorable to the plaintiff, holding that Kodak had violated the anti-trust laws. One of the elements of relief requested was an order that Kodak be required to sell photographic paper without the Kodak name or trademark, if requested by the customer. The court approved the order but it was stayed pending appeal.

The courts seem to confuse the scope of trademark protection with the scope of patent protection in fashioning such relief. Unlike patents, trademarks do not prohibit the sale of an identical product by a competitor, as long

as the source is properly identified. Also the courts and administrative agencies have ignored the consumer protection built into the trademark law by requiring proper source identification.

CONCLUSION:

The good news is that section 43(a) is alive and blooming as a basis for preventing unfair competition. The bad news is that the courts and administrative agencies are attacking trademarks as a vehicle for promoting their version of increased competition and a punishment for alleged anti-trust violations.

Footnotes

1. Big O Tire Dealers Inc. vs The Goodyear Tire and Rubber Co. 189 USPQ 17 (1976)

2. 195 USPQ 417 (1977)

3. John Lecroy & Sons Inc. vs Langis Food Ltd. 177 USPQ 717

4. 962 Trade Mark Official Gazette 2-4 September 6, 1977

5. 973 Trade Mark Official Gazette 19 August 1, 1978

6. 15 USC 1127

7. Gillian vs ABC 192 USPQ 1 (CA 2 - 1976)

8. 15 U.S.C. 1125(a)

   "Any person who shall -- use in connection with any goods or services -- any false -- representation -- shall be liable to a civil action -- by any person who believes that he is likely to be damaged ---."
   (Also referred to as section 43(a) of the Lanham Act.)

9. Boston Professional Hockey Association vs Dallas Cap and Emblem Manufacturing Inc. 185 USPQ 364 (C.A.5 1975) cert. denied

10. Lanham Act section 32(1)(a)

11. See "Patches on the Trademark Law" by William J. Keating Vol. 67 The Trademark Reporter, pgs. 315 et. seq.

12. Rolls Royce Motors vs A. A. Fiberglass Inc. 193 USPQ 35

13. American Home Products, Inc. vs Johnson & Johnson et al 198 USPQ 133

14. id. supra 8

15. Patent, Trademark & Copyright Journal, published by Bureau of National Affairs, no. 374, pg. A-16

15a. Supra 15, no 369, pg. A-8

16. In re Borden Inc.; FTC Docket no. 8987 August 19, 1976

17. Reported in the Patent, Trademark & Copyright Journal no. 382 of the Bureau of National Affairs, Inc. June 8, 1978 pg. A-1

18. Berkey Photo Inc. vs Eastman Kodak Co. (presently pending in U.S. District Court for the S.D. of New York)

Committee Presentations

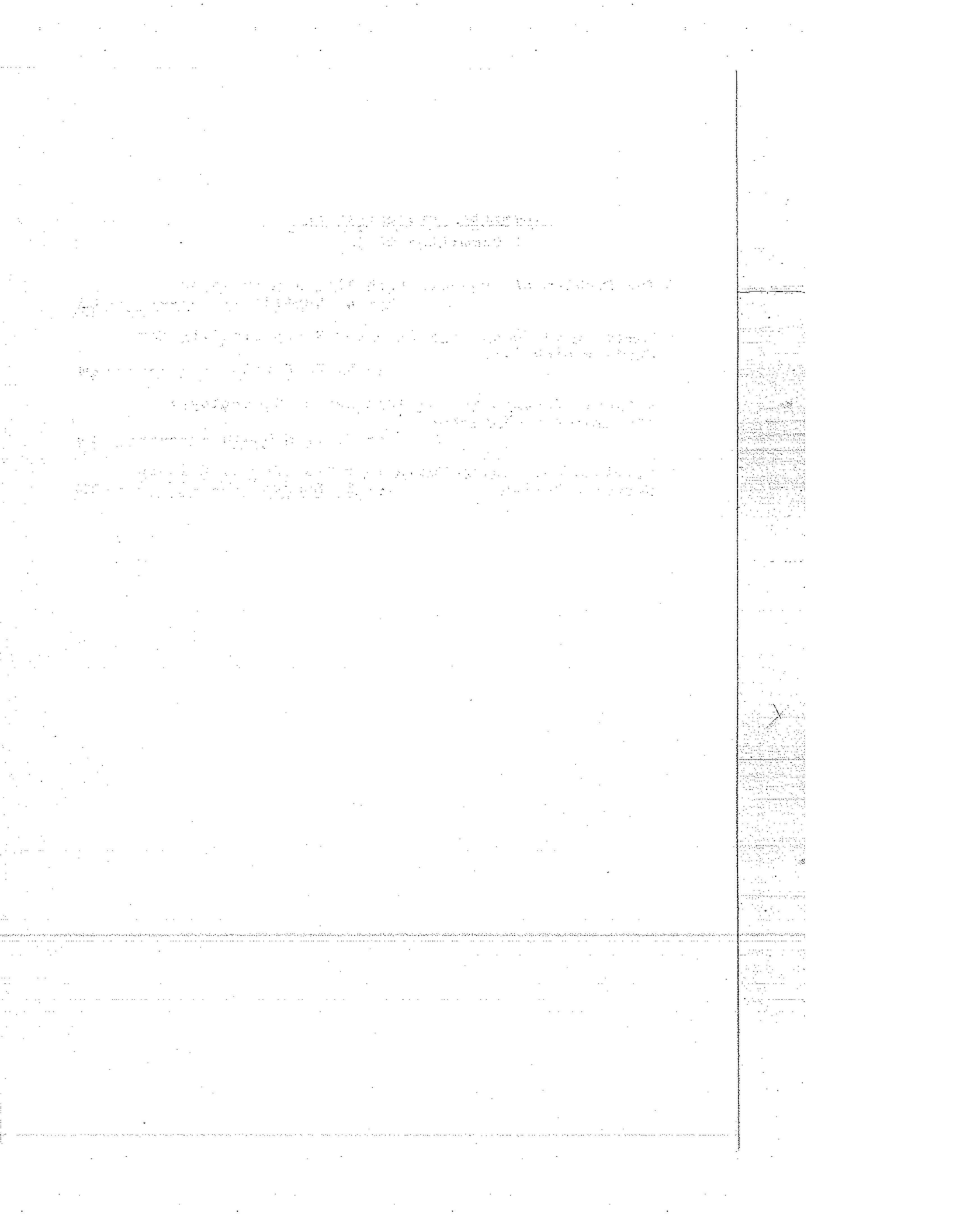
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THE PROBLEM OF PRODUCTS LIABILITY ACT IN JAPAN

by

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MITSUI PETROCHEMICAL INDUSTRIES, LTD.

Presented at the Pacific Industrial Property Association

Ninth International Congress

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Mr. Chairman and distinguished guests and members:

I am Kou Kunieda who has just had the honor of being introduced to you by the Chairman. Last year, I had the pleasure of addressing the PIPA Congress at Williamsburg on the Japanese Antimonopoly Act as Amended. Today, I will make another presentation, this time on Product Liability, the subject of Japanese Group Committee 2.

I will report on the line of thinking of the Products Liability Act in Japan, incorporating some comparative jurisprudential viewpoints. Taking this opportunity, I would like to thank sincerely the PIPA members who extended friendly assistance in the preparation of my paper, my American friends who provided data and information and my academic and judiciary friends for their valuable advice.

1. Introduction

Today, it may be said that it is only right and proper that a manufacturer shall be liable for damages if personal or physical damage is caused to a consumer by reason of defects in a product made by the manufacturer. This indeed is the problem of product liability.

It was in the early 1960s that the product liability issue was brought to the fore in Europe and the U.S. Since the start of this century there have been numerous judicial precedents. Now in the U.S. the concept of placing the responsibility for product liability on the manufacturer has taken root. In addition, there has been progress in the field of products liability insurance. As pointed out by the Task Force's final report published last year, at present there is some confusion and lack of unanimity in the interpretation of product liability and in a sense, "excesses", have been seen, and as we all know, these should now be corrected.

Similar to Japan, in West Germany there is no special legislation covering product liability. Although based on civil law, the concept of product liability

has been established in terms of judiciary law. Worthy of special mention is the enforcement of the Drugs, Cosmetics and Medical Instruments Law as amended starting January 1978. As a result, the manufacturers are now held responsible for no-fault liability.

In Japan, the question of product liability began to be appreciated in the late 1960's when several events caused public concern.

The first was a very large campaign by journalism against the so-called problem of defective cars. The second was an outbreak in western Japan of cases of death and injury involving infants caused by arsenic poisoning from dry milk containing arsenic. (Investigation by the Ministry of Health and Welfare in 1955 showed 130 babies dead and 12,131 cases of poisoning.)

The third was the birth of numerous congenitally handicapped babies caused by thalidomide. (Thalidomide babies totalled 1,200 to 1,400 according to Dr. T. Kajii's estimation.) Talking about these thalidomide cases, I recall an episode involving an American woman.

Her name was Miss Kelsey, and she was an FDA inspector concerned with the inspection of new medicines to be put on sale. An American pharmaceutical company had applied for approval to manufacture thalidomide, but she deferred approval on the ground of insufficient data on the safety of women during pregnancy. Because of this, the applicant started to prepare data on animal experiments and the like. In the meantime, births of malformed babies in West Germany were reported, and the above company withdrew its application. We cannot praise Miss Kelsey too much for her great services rendered in protecting American infants from the evils of thalidomide.

The above stands out in sharp contrast to the situation in our country where many thalidomide babies were born.

The fourth was the outbreak of SMON disease (SMON standing for Subacute Myelo Optico Neuropathy) caused by taking large dosages of the drug quinoform for intestinal disorders (11,000 SMON patients as reported in an investigation by the Ministry of Health and Welfare's SMON Investigation and Research Group in 1975).

There is the following episode concerning quinoform in the U.S. In August, 1960, the FDA limited the use of quinoform to treatment of amoebic dysentery, and recommended that other more simple drugs be used for simple diarrhéa. I have heard that the following year, quinoform was designated as a drug requiring a prescription with period of dosage and dose regulated. This contrasts with the measures taken by the Japanese Ministry of Health and Welfare. Such damage from quinoform made it necessary to amend the Drugs, Cosmetics and Medical Instruments Act, and on July 21 of this year, the Ministry announced the substance of a bill amending this Act which will be submitted to the Diet this fall.

The fifth was the so-called "Kanemi" edible oil poisoning case. When "Kanochloru 400", the trade name for chlorinated biphenyl (type of PCB), a heating medium used in the deodorization step of edible oil manufacture became mixed in the edible oil, those who consumed it suffered from PCB poisoning. (It is said that reports starting in June, 1968 have covered 13,000 persons affected by the poisoning throughout western Japan).

The foregoing incidents, aided by journalism campaigns, aroused great public interest in product liability in Japan.

2. Basic thinking on product liability

Next I would like to clarify the basic thinking on the Products Liability Act. As mentioned at the beginning, product liability refers to the responsiblity of a manufacturer for personal or physical damage caused to a person who has used or consumed a defective product manufactured and placed in the distribution process by the manufacturer.

2-1 Legal principles under the Civil Code

No special law known as the Products Liability Act exists in Japan. Therefore, the legal principles to date have all evolved through a theory of interpretation under the Civil Code. In the line of thinking of judicial precedents while predicated upon the legal principle of a tort, mitigation has been sought from the principle of impartiality of the plaintiff's burden of proof, and applying the theory of "factual presumption", the precedents have aimed substantially at the principle of no-fault liability. This also is the common opinion from a theoretical point of view.

In this way of thinking, a manufacturer who has produced a defective product and placed it in a process of distribution, is held liable for tort. Fundamentally, no manufacturer is allowed to produce and sell a defective product which in the consumer's use thereof according to its properties and application will cause marked danger to the life, health or property of another person, including the consumer. When the manufacturer who bears such a serious responsiblity has produced and sold a defective product, he must indemnify the person who has suffered any damage unless the manufacturer is free of any fault himself or has provided instructions beforehand in the use of his product and given a warning against any danger existing in the usage of the product which deviates from such instructions.

According to the general theory of tort, in this case the consumer is required to prove the fault of the manufacturer; however, regarding this point, if the existence of a defect in the product is substantiated, a line of thinking has been established which presumes the manufacturer's fault under the principle of res ipsa loquitur.

This is based on the principle of impartiality. Namely, it is most difficult for a consumer to prove that defects have been caused in a product due to the manufacturer's fault and that any damage has occurred as a result of using and consuming such defective product. This is because it is virtually impossible

for the consumer to investigate and prove matters completely within the sphere of the manufacturer's control, such as his quality control system involved in the manufacturing technology of sophisticated products and product manufacturing process. Taking this point into consideration, it is natural judging from the imbalance of power between the manufacturer and consumer.

Many theories and precedents endorse the line of thinking based on this test.

As an interpretation in terms of the Civil Code, defects mean flaws in a product structurally (flaws in its design), flaws in terms of its production (not produced according to manufacturing instructions) and defects in instructions or guidance in the use of the product concerned.

Additionally, there is a line of thinking which holds a manufacturer liable for default of an obligation.

Since a product sold follows a distribution process from manufacturer - wholesaler - retailer - consumer, there is a line of thinking that places liability on the manufacturer by following the above process in reverse.

According to this thinking, a consumer who has suffered damage is not required to prove that defects were caused in a product because of the manufacturer's fault and that he sustained damage based on the defects in the product. He is able merely to substantiate that damage was caused by the defects in the product purchased by him and pursue the manufacturer's no-fault liability.

However, there is the following problem with such thinking. Namely, if in the course of the above-mentioned product's flow, contractual relations have ceased along the way by reason of invalidity of a contract, the manufacturer cannot be called to account for his liability.

Also, when an escape clause is stipulated in the contract exempting the manufacturer from liability for any product defect, unless this stipulation is

unreasonable as being contrary to public order and morals, etc., it means the manufacturer will receive immunity to that extent. Therefore, this line of thinking is not endorsed by people generally who regard it as being unsuitable for consumer remedy.

Next, there are the following points at issue with the legal principles of product liability. First, should a manufacturer's negligence in respect of defects be a requisite for product liability?

As a general consideration in terms of tort law, it is valid to acknowledge this requisite and infer the manufacturer's negligence from the product defects. However, as is seen in much merchandise including pharmaceuticals and packaged food where the consumer has no opportunity at all to inspect the product safety, the manufacturer's no-fault liability should be recognized from the standpoint of protecting the consumer's trust placed in the manufacturer.

Second, the person assuming product liability is the manufacturer of the defective product and its sellers (wholesalers, retailers).

The manufacturer of component parts used in a product must be responsible to the consumer for any defect in the component parts.

Third, in order for a manufacturer's liability to be recognized, it is necessary for the product involved to have passed into the hands of the consumer in the same condition it was when it left the manufacturer without any changes made to it at the wholesaler's and retailer's levels. (Restatement (Second) of Torts, Section 402 A. (1) (a)).

Fourth, the claimant to product liability is not merely the buyer of the defective product. Claimants include all persons who can reasonably be foreseen to be exposed to danger when the defective product is used according to directions. (Main principales (Article 3) of Tentative Draft of Products Liability Act to be covered later is a provision with the same object).

Fifth, cases where a manufacturer receives immunity from product liability are the following:

1) When a consumer has ventured to use or consume a product knowing that it is in a defective condition. (Same gist as contributory negligence. Restatement of Torts (Second) Section 402 A., Comment: n).

2) When a consumer has suffered damage because of his ignoring the precautions in use specified by the manufacturer to the consumer.

3) When a consumer has suffered damage by reason of his using a product for a purpose differing from its intended use.

4) When there is an escape clause. Please refer to the comparative table covering main principles of Tentative Draft of Products Liability Act to be taken up later.

Sixth, when a manufacturer has claimed performance of his product through advertisements, etc. but the performance is actually lacking, the extent that the level of performance publicly stated by the manufacturer is not reached is deemed to be a defect so as to protect the consumer who had relied on the manufacturer's advertisements.

2-2 Legal principles of case law

I shall next discuss the theory of product liability centering on negligence, causal sequence and liability, and based on tort evolved in a recent court finding that recognized the product liability of a certain food manufacturer.

(1) Negligence: A food manufacturer is charged with the responsibilities of securing a high level of safety which allows no defect at all in any food he produces, and of avoiding the occurrence of any dangerous result.

In the event harm should be inflicted upon a person because of a defective condition which occurred or existed in a food product prior to its shipment,

that alone would in fact strongly assume the food manufacturer's negligence. If the manufacturer should try to disprove his negligence, he will be required to prove that he was unable to foresee the existence of the defective condition despite intensive and strict precautions on his part.

However, the court found the food manufacturer negligent on the ground that although a catalogue provided by a food-related producer was inadequate, the danger of a defective condition could have been well foreseen if the catalogue were read carefully, and that the food manufacturer, who should have taken steps to prevent the heating medium, a toxic synthetic chemical substance, from becoming mixed in with the food product, failed to do so.

(2) Causal sequence: The victim needs to substantiate the causal relationship between injury and defective condition and must therefore prove he consumed the defective food product. In the subject case, the court found a reasonable causal relationship to exist between the food manufacturer's negligence and the injury inasmuch as investigation, studies and expert opinion resulted in the clarification of the cause of the defective condition, and it was evident that the toxic substance became mixed in with the food product, the victim bought this product in a defective condition, consumed it and suffered injury.

(3) Liability: Based on his own negligence, the food manufacturer must bear the responsibility for tort and pay damages to the plaintiff (victim) as stipulated in Article 709 of the Civil Code. (Note: This Article 709 stipulates that any one who has infringed another person's right intentionally or due to negligence, shall be obligated to pay for damages arising therefrom).

As described above, the court has charged the subject food manufacturer with severe responsibility similar to strict liability for negligence.

The point that attracted interest in this finding was the judgment on the responsibility of the food-related producer manufacturing and selling to the said food manufacturer, a synthetic chemical substance, Kanekloru 400 (having as

its main ingredient biphenyl tetrachloride out of PCB, a chlorine compound of biphenyl which is a derivative of aromatic hydrocarbons), used as a heating medium in the production process (deodorizing process) of the food product (edible rice-bran oil). The court passed the following judgment:

(1) Because the subject food-related producer was in a position to fully recognize the toxicity of Kanekloru, the heating medium, from the outcome of research in and outside Japan, he should not have sold it to the food manufacturer in question as a heating medium for use in the food industry.

(2) As long as the food-related producer is selling the heating medium, at least he is obligated to make known to the subject food manufacturer, the consumer, for the purpose of securing the safeness of the food product, the toxicity of Kanekloru, its corrosiveness to metals (Note: hydrogen chloride generated by overheating of Kanekloru was formed into hydrochloric acid by water, and this acid corroded holes in the stainless steel hose line inside a heat exchanger through which Kanekloru became mixed in with edible oil), methods of preventing Kanekloru from mixing in with the food product and of detecting it when mixed in with such product.

(3) Nevertheless, negligence was involved in not providing ample information on toxicity and so forth.

(4) Such negligence caused the food manufacturer to handle the toxic substance Kanekloru without concern, made him unmindful of his care and obligation to secure high safety for his food product and caused the subject incident. The food-related producer must pay for injury caused by the edible oil poisoning case as the joint tortfeasor with the food manufacturer.

Note: In the judgment passed by the Fukuoka District Court on October 5, 1977 concerning the same case against the same defendant, the conclusion made was that although the liability of the said food-related producer is based on negligence independent of the food manufacturer's, this liability is for damage within the same scope so that both parties should assume joint and

several liability under separate causes of action but need not be deemed as having committed a joint tort.

3. Comparative jurisprudential considerations of the main principles of Tentative Draft of Products Liability Act

In 1975, a group of scholars led by Dr. Sakae Wagatsuma published the main principles of a Tentative Draft of a Products Liability Act, referring to European and American precedents, legislation and theories of interpretation (Refer to the attached Tentative Draft).

In the preparation of the Draft, the U.S. case law which decides negligence liability, Uniform Commercial Code; Sections 2-313 to 318: Warranty and its official comment, and the American Law Institute's Restatement (Second) of Torts (1965); Strict Liability in Tort and its official comment were provided to the group for reference. Among the other reference materials, especially the Federal Consumers Products Liability Act published in the Harvard Journal on Legislation (Vol. 7, 568, 1970), even though there is little prospect of enactment as a uniform act, was drafted by the members of the Harvard Law School exchanging views with the National Commission on Product Safety. It is a compilation of American judicial precedents which I feel should be rated highly.

Our country's Tentative Draft is also a compilation of theories and precedents of Japan, and it was prepared with the intention of seeking consumer remedy by providing legislative clarification on the points at issue of theory of interpretation within the framework of the Civil Code.

I will next discuss the comparison that I have made of the main principles of the Japanese Tentative Draft and the Harvard draft with respect to some points at issue in terms of legal principles of product liability, so please refer to the comparative table.

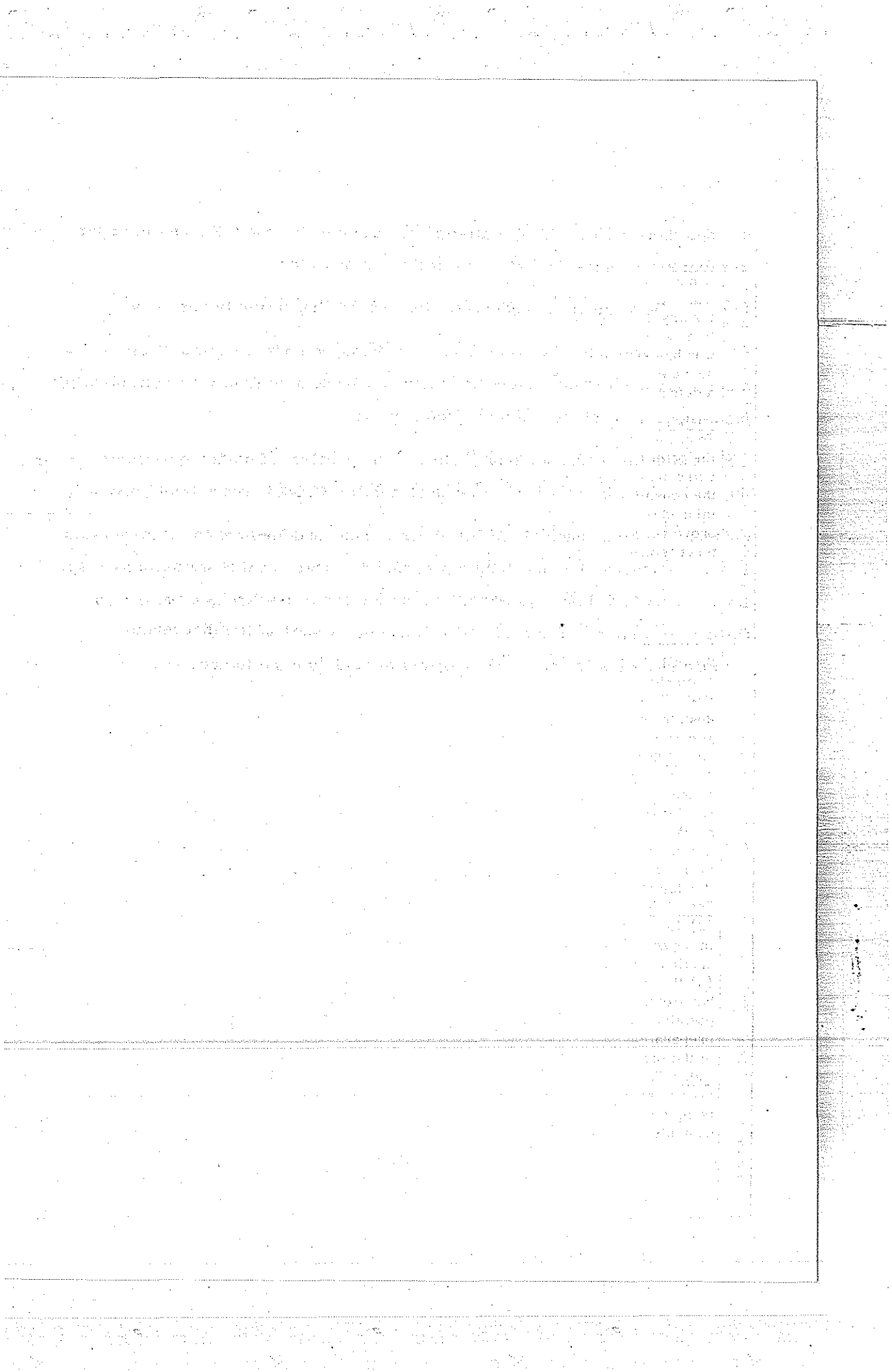
Besides these items, the Tentative Draft provides for the following in order to secure the compensation funds of the compensator.

(1) The Government to undertake product liability security business.

(2) The Government to compensate for damages up to a certain limited amount for any person unable to receive compensation from Products Liability Insurance, guarantees and money on deposit.

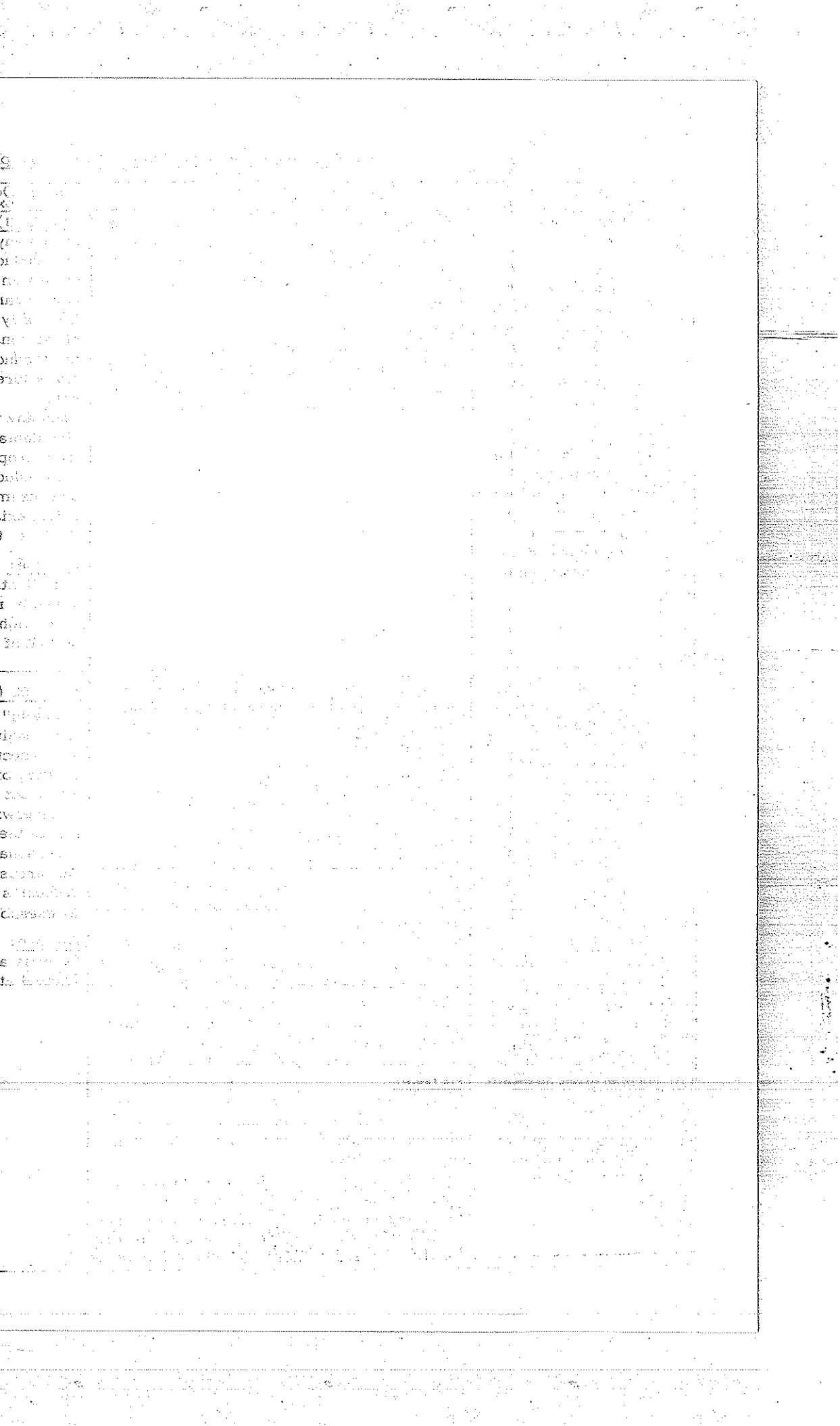
Concerning the insurance plan, there is the problem of higher premiums in the U.S. which is far ahead in product liability (Task Force: final report.).

Further, in the amendment of the Foods, Drugs and Medical Instruments Law in West Germany, I understand a proposal was made at the original bill stage for security based on a government fund for compensation money, but an insurance system was introduced through the wishes of the insurance companies. This is one of the subjects of study for the future.



ility Act

	Manufacturer's Liability	al Relation	Claimant
Product Liability Research Society - Main Principles of Tentative Draft of Products Liability Act (1975)	No-fault liability specified Art. 3: A manufacturer i bound to compens for any damage d to a natural pers who has suffered damage by reaso a defect in a prod Purpose: To assist in reso the point that it is extremely difficu the consumer, th injured party, to prove the manufa turer's negligenc	In case any defect n a product, and e same damage as ch could be expected from such defect ulted, such damage presumed to have used by the defect roduct. pose is to lighten red party's burden . (Note 5 attached) manufacturer to immunity, when any use exists which g about the same he must show that nage is attributable er cause and that the the subject product cause such damage.	A natural person who has had his life endangered, body harmed or property damaged by a defect in the product (Art. 3) Purpose: A consumer can be a claimant regardless of whether there is a contractual relationship between the parties involved or not. The claimant has been limited to a natural person to prevent any enterprise from shifting a business loss to product liability.
Harvard Law School - Federal Consumers Products Liability Act (Private Draft) (1970)	Strict liability (N 1 attached) is spe fied. (Note: See Restatement (2nd Torts; Sec. 402A Sec. 103 (1) A manufacturer o consumer produc a defective condit shall be liable for damage to a cons proximately caus the defective cond Sec. 103 (2) (a) (2) The rule state in paragraph (1) applies even thou (a) the manufactu has exercised all possible care in t preparation and s of the product; Note: Strict liabi may be regarded being the same as no-fault liability.	ing causal relation, (3) stipulates anufacturer shall able for damage tely caused by an ing negligent act d party that is lent, conscious and onably foreseeable. e no other pro- on causal relation.	A consumer subject to protection means any natural person, including a bystander, who uses, consumes, or is affected by use of a consumer product. (Sec. 102 (4)) (Note 6 attached) Purpose: It may be said that Sec. 102 (4) referred to above is a step forward compared to the Restatement of Torts which does not specify any bystander, limits the persons subject to protection to consumers, users and their families, employees and guests, and does not have any stipulation on third parties who are completely independent of the consumers, etc.



Attached Notes

(1) Strict liability was recognized for the first time in the California Supreme Court, Greenman v. Yuba Power Products, Inc. (1962)

(2) The California Supreme Court decided to the effect that in the application of strict liability, no matter what kind of special agreement is made contractually covering immunity, it is irrelevant to such application: Vandermark v. Ford Motor Company (1964)

(3) In the application of insured liability pursuant to the Uniform Commercial Code, an escape clause is generally valid; however, it must not be contrary to public order and morals and the Code obligates that expressions conform to a given form and be clear. A representative precedent to the effect that any escape clause running counter to public order and morals is null and void: Henningsen v. Bloomfield Motors, Inc. (1960)

(4) Even though time has passed to some extent subsequent to occurrence of damage, when any defect already existed from the time of purchase of the product and the consumer had made a complaint about it, the existence of the defect is presumed by circumstantial evidence. Precedent of the New York Court of Appeals: Guagliardo v. Ford Motor Company (1950)

(5) Recent precedents of our country have all been based on the same purpose as the main principles of the Tentative Draft. Without going too deep into causal relation as a "scientific" problem, factual presumptions have been made adopting a method of epidemiological or statistical evidence. Hereafter, it is believed that products liability trials, by recognizing causal relation liberally as is the case with trials for environmental pollution and errors in medical treatment, will aim at remedy without imposing any heavy burden of proof on the plaintiff, the injured party, and that based on this objective, the trend

will continue toward relaxed burden of proof.

(6) Subsequent to publication of Restatement (2nd) of Torts, the precedents have tended to include accidental third parties as the object of protection. Precedent of the California Supreme Court which, in respect of the driver of the opposite car that had collided with a defective car, recognized holding the manufacturer of the defective car liable for damages: Elmore v. American Motors Co. (1969)

4. Relation between product liability and license agreement

Next I would like to comment on product liability and license agreement. To begin with, the object of a license agreement as the express or implied understanding between the licensor and licensee is technology without any defect. For this reason, in many instances license agreements have stipulated in them provisions concerning guarantee of performance or quality, and it can be said that the licensor's main obligation has been completed when facilities and products are turned out which surpass the guaranteed values or levels agreed upon by both the licensor and licensee.

The problem here is the meaning of "technology without any defect" which becomes the express or implied understanding between the licensor and licensee. The "without any defect" referred to here must be a subjective one. The reason why it is defined expressly as subjective is because judgment unavoidably must be formed from the knowledge and understanding of both parties at the time of execution of the license agreement.

The problem occurs when a "hidden defect" exists which is not included in clauses covering the guaranteed values or levels established by both parties. Specifically, in case of a defect in the product made by using the subject technology (in many instances the defect is a structural (design) one) and which has caused damage to a consumer thereof, who should he claim damages from? Naturally, the licensee would have to bear product liability from his position as the manufacturer. What about the situation between the licensor and licensee? If the hidden defect is obviously what caused the damage, it will be possible for the licensee to claim indemnity from the licensor. As far as judgment from a logical sequence is concerned, when a consumer has suffered damage because of a defective product within the flow of licensor ⟶ (grant of technology) ⟶ licensee (manufacturer) ⟶ (production and sales) ⟶ wholesaler, retailer (sales) ⟶ consumer, the idea of pursuing liability through tracing the reverse flow can be considered to conform with the principle of impartiality.

Furthermore, if the license agreement should contain an escape clause, and any claim for damages from the licensee to the licensor is limited, the licensee can only make such claim outside of the scope of the escape clause. However, depending on the substance and extent of the hidden defect, for example, if the technology is such that only defective product will be made regardless of who practices the technology, then the escape clause is considered as being contrary to public order and morals, and invalid, in which case it would be possible for the licensee to claim damages from the licensor.

As the next question, can a consumer call the licensor to account for product liability? Yes. A licensor is required to hold himself directly responsible to a consumer for product liability in the event the licensor exercises control over a licensee concerning the licensee's practice of technology in terms of the license agreement.

The first instance of the foregoing is in acquiring the use of a trademark, when a licensee is normally required contractually to carry out manufacture and sale in accordance with the licensor's instructions. In this case, the licensor must naturally hold himself responsible for product liability.

The second instance is, in the case of a know-how license or a patent license, the licensor likewise is required to hold himself responsible for product liability where the licensor exercises control over the licensee contractually concerning the respective methods of practising the above.

In considering that the product liability system originated and developed in the U.S., and when the position of the manufacturer -- charged with his responsibility in today's industrial society and symbolized as an owner of a highly-advanced technology, enormous capital and facilities -- and that of the consumer who buys and uses the products made by the manufacturer are compared, the consumer is obliged to purchase the product trusting the manufacturer fully since all he can do is rely on what the manufacturer has advertised or what is indicated on the product, and he has no means to ascertain its safety.

When the imbalance in the strengths of both parties is considered, in case there is a defect in a product and the consumer has suffered totally unexpected physical or property damage despite his having used the product in a normal way, it is fair and positive to make the manufacturer compensate for such damage.

On the other hand, in thinking about the matter from the viewpoint of consumer remedy, if the manufacturer, that is, licensee, who caused damage to the consumer is made to compensate for the same, it is necessary and sufficient in terms of remedy, and not necessary to include the licensor in the chain of liability further as a joint and several liability under separate causes of action or joint tortfeasor. This is rather common opinion as a line of thinking in our country under the Civil Code centered on agreements.

5. Conclusion - Future trends

In the midst of my preparation of this manuscript, our Ministry of Health and Welfare published a draft amendment of the Drugs, Cosmetics and Medical Instruments Act (refer to the attached draft) which is planned to be submitted to the ordinary session of the Diet this fall.

Also, in the thick of public attention, the Tokyo District Court passed judgment at the first trial on the SMON disease lawsuit. It was a decision in favor of the plaintiffs and which recognized the liability of the pharmaceutical companies.

I, who must study and bring together the subject of Products Liability Law, am confused when thinking that tomorrow a trial might start somewhere, and that the day after tomorrow, at another court elsewhere, a case might be decided in favor of the plaintiff and the manufacturer involved held responsible for no-fault liability.

Before independent legislation such as a "Products Liability Law" as drafted in the main principles comes into existence in our country, it conceivably will extend to a revision of the Civil Code, and considerably more time will be required to obtain the concurrence of numerous people.

However, it is not hard to imagine that in changed form, as is the case with the draft amendment of the Drugs, Cosmetics and Medical Instruments Act, the principle of no-fault liability will be introduced in the respective product area with respect to product liability.

Further, as a specific issue, procedures for consumer remedy, for example, class action, will be studied.

From our standpoint as a manufacturer, it will be necessary for us to pay attention to the future direction of legislation and trend of precedents. At the same time, as pointed out in the Task Force's final report, efforts will need to be made to promote development of PL preventive techniques and to complement them so as to eliminate any defect in new technology of the highest technical level developed through technical innovations.

I would like to study very carefully how the problems indicated in the Task Force's final report will be resolved hereafter in the U.S., the country where the Products Liability Act is most advanced.

I wish to solicit the continued and kind assistance of everyone here and to thank you most sincerely for listening patiently and attentively for so long to my presentation in poor English. Thank you very much.

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Attached Materials

1. Products Liability Research Society:
   Tentative Draft of main principles of Products Liability Act (1975)
2. Harvard Journal on Legislation:
   A Federal Consumer Products Liability Act (1970) (Provisions only)
3. Ministry of Health and Welfare:
   Essentials of the Drugs, Cosmetics and Medical Instruments Act as Amended (1978)
4. The American Law Institute:
   Restatement (Second) of Torts (1965)

Drafted by Products Liability Research Society

Main Principles of Tentative Draft – Products Liability Act

Chapter 1 General Provisions

Article 1 – Purpose

The purpose of this Act is to establish liability for damages caused by defects in a product, and by taking measures to insure the fulfillment of the liability, aim at protecting the consumer.

Article 2 – Definitions

(1) In this Act, "Product" means all articles placed in the distribution process regardless of whether they are finished articles or not or natural products or not.

Note: It is conceivable that natural products, where they are sold without any processing thereof, may be excluded.

(2) In this Act, "Manufacturer" means a person corresponding to any one of the following:

1. A person who manufactures a product.

Note: A processor to the extent of his processing, a manufacturer of raw materials to the extent covered by the raw materials and a manufacturer of parts to that portion of the parts, shall be treated similarly to a manufacturer of a finished product or a main body.

2. A person who affixes a trademark, other marks or trade name or a name to indicate his own self on Product and distributes it.

3. A person who imports Product.

(3) In this Act, "Defect" means a flaw in Product which causes an unreasonable hazard to the life, body or property of the consumer in Product's normally foreseeable use.

Note: In judging whether Defect exists or not, indications and warnings concerning Product will be considered.

Chapter 2 Liability for Damages

Article 3 - No-fault Liability

Manufacturer is bound to repair any damage done to a natural person who has suffered a loss of his life, injury to his body or damage to his property by reason of Defect in Product.

Article 4 - Joint and Several Liability

When there are several persons liable for damages arising from the same Defect in the same Product, each person shall be jointly and severally liable for the total amount of damages.

Article 5 - Presumption of Existence of Defect

(1) In the event damage has occurred through use of Product even though it was properly used, it shall be presumed that Product had a Defect when such damage is of such nature that it should normally not occur through proper use of Product.

(2) Defect in Product which had existed at the time of occurrence of damage shall, during a reasonable period of use of Product, be presumed to have already existed at the time it left Manufacturer's hands.

Article 6 - Presumption of Causal Relation

In case Defect exists in Product, and when the same damage as that which could be expected to occur from such Defect has resulted, such damage shall be presumed to have been caused by Defect in Product.

Article 7 - Special Provisions on Set-off of Negligence

When there has been a gross negligence on the part of an injured party or when the injured party has used Product knowing of the existence of Defect, a court may take this into consideration in establishing liability for damages and the amount thereof.

Article 8 - Limitations under Special Agreement

Any special agreement which limits the right to claim damages stated in Article 3 shall be null and void in respect of damage resulting from harm to life or body.

Article 9 - Extinctive Prescription

The right to claim damages in this Act shall lapse by prescription when the injured party or his legal representative shall not have exercised the right during the three-year period following his becoming aware of the damage and the person who caused the damage. The same shall apply when twenty years have passed following occurrence of damage.

Note: It is conceivable that ten years may be established as extinctive prescription in accordance with positive credit infringement.

(1) The provisions of this Chapter shall be applied correspondingly to any person other than those stated in Article 2 (2) 1. to 3. and who falls under any one of the following:

1. Distributors of and persons in the business of leasing Product. Provided, however, that they shall be excluded in case it is shown that they did not cause Defect in Product and that they could not be expected to have known about Defect judging from the form of product, their sales facilities, scale, etc.

2. Forwarding agents and warehousemen who caused Defect in Product.

3. Persons in the repair business who caused Defect in Product or pretermitted Defect that should have been inspected.

(2) The provisions of Articles 3, 4 and 5 of this Chapter shall be applied correspondingly in case the persons stated in the preceding paragraph should make a claim for indemnity to Manufacturer by reason of their indemnifying the injured party for damages arising from an existing Defect. This right to claim indemnity shall lapse by prescription when ten years have lapsed from the time of indemnification of damages.

Article 11 - Application of Civil Code

In addition to the provisions of this Chapter, the provisions of the Civil Code shall apply to liability for damages under this Act.

Chapter 3 Measures for Indemnification and Security Business

Article 12 - Compulsion of Indemnification Measures

Among the Manufacturers of Product stipulated by a government ordinance, those persons stipulated by a government ordinance shall not place any Product in the distribution process unless they have taken measures to indemnify for damages to life or body resulting from Defect in Product involved in their manufacture (hereinafter referred to as "Indemnification Measures").

Article 13 - Kinds of Indemnification Measures

Indemnification Measures shall be a products liability insurance contract, products liability surety contract or deposit money, and the substance and amount thereof shall be established by a government ordinance.

Article 14 - Security Business for Products Liability Indemnification

(1) The Government will conduct a security business for products liability indemnification (hereinafter referred to as "Security Business").

(2) Insurance companies and surety companies shall, pursuant to stipulations of a government ordinance, pay to the Government amounts to be stipulated by a government ordinance as an assessment for Security Business for Product damage. The same shall apply to any Manufacturer who has deposited money as Indemnification Measures.

(3) The Government shall, in case manufacturer who is required to take Indemnification Measures has come to assume the liability stated in Article 3 hereof and the injured party is unable to receive indemnification under Indemnification Measures, compensate the injured party for damages suffered within the limits of an amount to be established by government ordinance.

(4) In case the Government has compensated for the injured party's damages under Security Business by reason of Manufacturer not having taken Indemnification Measures, the Government shall make a claim for indemnity to Manufacturer within the limits of the compensatory amount. Provided, however, that the Government's right to claim indemnity shall yield to the injured party's right to claim damages.

(5) The Government shall, pursuant to stipulations to be established by a government ordinance, be able to entrust a part of the affairs of Security Business to an insurance company and surety company.

Additional Remarks

In order to accomplish the purpose of this Act, it is desired that in the aspect of legal remedial procedures, also, new systems be established adapted to the peculiarities of damage caused by defects in a product and that the existing systems be improved. Especially, introduction of such systems as listed below should be considered.

1. A system to cause evidentiary methods held by the other party or a third party to be submitted to court compulsorily.

2. A system for the remedy of petty damages.

3. A system for specific persons such as those in class action representing the interests of many injured persons to seek remedy.

4. A system for a defendant to bring a third party in a suit.

August 28, 1975

The members of the Products Liability Research Society were Sakae Wagatsuma, Kazuo Yomiya, Eiichi Hoshino, Akio Takeuchi, Takeshi Kawai, Morio Takeshita and Akio Morishima initially, but were joined later by Satoshi Ueki and Masanobu Kato.

FEDERAL CONSUMERS PRODUCTS

LIABILITY ACT

1970

HARVARD JOURNAL

on

LEGISLATION

TITLE I

Section 101. Title
Section 102. Definitions
Section 103. Strict Liability
Section 104. Burden of Proof; Existence of Defect
Section 105. Defenses
Section 106. Seller Liability for Non-disclosure
Section 107. Effect on Other Rights of Recovery
Section 108. Compliance with Safety Codes, Standards, or Regulations

TITLE II

Section 201. Jurisdiction
Section 202. Service of Process
Section 203. Limitation of Actions
Section 204. Aggregation of Claims in Class Actions
Section 205. Trial by Jury
Section 206. Survival of Action; Wrongful Death
Section 207. Removal

TITLE I

Section 101: Title

This act may be cited as the Federal Consumer Products Liability Act.

Section 102: Definitions

(1) As used in this act, "consumer product" means any product intended for or customarily used for personal, family, or household purposes.

(2) "Manufacturer" means any person engaged in the business, in or affecting interstate commerce, of manufacturing, producing, assembling, or otherwise materially contributing to the production of a consumer product or its component parts.

(3) "Defects" or "defective condition" means any aspect, characteristic, or design of a product (inherent or otherwise) which makes the product unreasonably dangerous for the product's reasonably foreseeable use.

(4) "Consumer" means any natural person, including a bystander, who uses, consumes, or is affected by use of a consumer product.

(5) "Damage" includes physical or emotional injury, property damage, and other economic loss.

Section 103: Strict Liability

(1) A manufacturer of any consumer product in a defective condition shall be liable for damage to a consumer proximately caused by the defective condition.

(2) The rule stated in paragraph (1) applies even though:

(a) the manufacturer has exercised all possible care in preparation and sale of the product;

(b) the consumer has neither bought the product from nor entered into any contractual relationship with the manufacturer;

(c) the consumer has misused the product in a manner reasonably foreseeable within the general usage of the product;

(d) the consumer has failed to inspect the product, to discover the defect, to guard against the possibility of a defect in the product, or has otherwise contributed to the injury, except as provided in section 105.

Section 104: Burden of Proof; Existence of Defect

(1) A defect shown to have existed in a consumer product at the time of injury, to the extent that the defendant cannot prove otherwise, shall be deemed to have existed in the product when it left the control of the manufacturer.

(2) A malfunction of the product shall be presumptive evidence of a defect.

Section 105: Defenses

(1) A manufacturer shall not be liable under section 103 if the consumer:

(a) knew or reasonably should have known of the defect, and

(b) knew or reasonably should have known the magnitude of

the risk and the potential for harm presented by the defect, and

(c) could reasonably have avoided the damage caused by the defect.

In determining questions of knowledge, the effect of a warning shall not be taken into account in the case of a product reasonably anticipated to be used primarily by children.

(2) A manufacturer shall not be held liable under section 103 if the damage was caused by a misuse of the product which could not be reasonably foreseen by the manufacturer.

(3) A manufacturer of a defective product shall not be liable for damage proximately caused by an intervening negligent act of a third party that is independent, conscious, and not reasonably foreseeable.

Section 106: Seller Liability for Non-disclosure

A seller, lessor, or distributor of a defective consumer product shall be liable under this act to the same extent as a manucacturer upon failure to reveal the name and business adress of product's manufacturer within ten (10) days after receiving a written request in good faith for such information from the injured party or his agent.

Section 107: Effect on Other Rights of Recovery

Nothing in this act shall limit, annul, or preempt in any way any rights of recovery, either in tort or in warranty, at common or statutory law, provided that the defenses of res judicata and collateral estoppel shall be preserved.

Section 108: Compliance with Safety Codes, Standards, or Regulations

(1) Compliance with any federal, state, or local safety code, standard, or regulation shall not be a defense to an action brought under this act.

(2) Failure to comply with any federal, state, or local safety code, standard, or regulation shall be presumptive evidence that the product is defective within the definition of section 102(3).

TITLE II

Section 201: Jurisdiction

The district courts of the United States shall have jurisdiction of actions brought under this act. Such jurisdiction shall be concurrent with that of the courts of the several states, except that the courts of the United States shall have jurisdiction only where the matter in controversy exceeds the sum or value of $3,000, exclusive of interest or costs.

Section 202: Service of Process

All process in actions brought under this act in the courts of the United States may be served in the district in which the defendant resides or wherever he may be found; or, if the defendant resides or may be found in a foreign country, service

shall be according to the provisions of the Federal Rules of Civil Procedure, as from time to time amended.

Section 203: Limitation of Actions

(a) No action shall be maintained under this act unless commenced within three years from the date the claim accrues.

(b) For purposes of subsection (a), an action shall be deemed to commence on the date on which a complaint is filed with the court.

(c) For purposes of subsection (a), a claim accrues on the date injury or damage occurs, or, in cases where injury or damage is not obvious or apparent, on the date when the consumer should reasonably be aware of such injury or damage.

Section 204: Aggregation of Claims in Class Actions

Parties bringing a class action in the courts of the United States under this act may aggregate their claims in order to attain the matter in controversy exceeding $3,000, exclusive of interest or costs, required under section 201 of this act.

Section 205: Trial by Jury

All actions arising under this act in the courts of the United States shall be triable by jury.

Section 206: Survival of Actions; Wrongful Death

(a) Any right of action given by this act to a person suffering injury shall survive to his or her personal representative, for the benefit of the surviving widow or husband and children of the deceased, and, if none, then of the parents of the deceased; and, if none, then of the next of kin dependent on the deceased; and, if none, then of the next of kin dependent on the deceased, but in such cases there shall be only one recovery for the same injury.

(b) Where the death of the deceased is caused by a defective consumer product, the surviving widow or husband and children of the deceased, and, if none, then the next of kind dependent on the deceased, shall be entitled to maintain an action under this act and recover damages. In every such action, the jury may give such damages as they deem fair and just for the death and loss thus occasioned. Every such action shall be commenced within two years after the death of the deceased person.

(c) There shall be no limitation of the amount of recovery allowable under this act.

Section 207: Removal

[Amendment to 28 U.S.C. § 1445, (1964). Add: Section 1445(d).]

A civil action in any state court against a manufacturer, distributor, seller, or lessor of consumer products, arising under section 103 of Title I of this act, may not be removed to any district court of the United States unless the matter in controversy exceeds $10,000, exclusive of interest and costs.

July, 1978

Essentials of Drugs, Cosmetics, and Medical Instruments Act as Amended

1. Matters concerned with pharmaceuticals

(1) Regarding approval for manufacture or importation of pharmaceuticals:

a. To clarify the criteria for approval.

b. To clarify the data and information to be asked for at the time of approval.

c. To require approval also for Japanese Pharmacopoeia medicines in principle.

(2) To reexamine any new medicine six years subsequent to its approval.

(3) To establish a provision covering reevaluation of pharmaceuticals.

(4) To establish provisions on criteria for manufacture and quality control of pharmaceuticals.

(5) To establish provisions concerning collection, communication and reporting of information and the like to be conducted by the pharmaceutical manufacturers and others on adverse reactions of pharmaceuticals.

(6) To regulate the notification of plans for requesting tests concerning requests for clinical demonstrations for the purpose of obtaining approval for manufacture or importation of pharmaceuticals.

(7) To require indications of the final term of effectiveness of pharmaceuticals (excluding those pharmaceuticals designated by the Minister of Health and Welfare) on their containers, and

contraindications and adverse reactions in documents attached to pharmaceuticals.

(8) To strengthen the functions of supervisors of pharmacies and general sales business.

2. Matters concerned with health care products, cosmetics and medical appliances

(1) Regarding approval for manufacture or importation of health care products:

a. To clarify the criteria for approval.

b. To clarify the data and information to be asked for at the time of approval.

(2) To establish provisions concerning collection and reporting of information to be conducted by the manufacturers on safety of health care products.

(3) In addition to requiring indications of precautions for use and handling on containers and the like for health care products, to require the indication of the final term of effectiveness (use) of health care products designated by the Minister of Health and Welfare.

(4) To require the indication of the ingredients of certain cosmetics and health care products.

(5) To regulate similarly to pharmaceuticals, requests for clinical demonstrations of medical appliances.

3. Other matters

(1) To enable emergency measures including temporary suspension of sales to be ordered in the event serious harm to health is suspected on account of adverse reactions of pharmaceuticals.

(2) To establish provisions for revocation of approval for manufacture or importation of pharmaceuticals.

(3) To prohibit misrepresented or extravagant advertisements concerning the safety of pharmaceuticals.

(4) To specify that recovery may be ordered of inferior pharmaceuticals.

(5) To levy approval fees for pharmaceuticals.

Prepared by Pharmaceutical and Supply Bureau
Ministry of Health and Welfare

RESTATEMENT (SECOND) OF TORTS

As Adopted and Promulgated

BY

THE AMERICAN LAW INSTITUTE

1965

TOPIC 5. STRICT LIABILITY

§ 402 A. Special Liability of Seller of Product for Physical Harm to User of Consumer

(1) One who sells any product in a defective condition unreasonably dangerous to the user or consumer or to his property is subject to liability for physical harm thereby caused to the ultimate user or consumer, or to his property, if

(a) the seller is engaged in the business of selling such a product, and

(b) it is expected to and does reach the user or consumer without substantial change in the condition in which it is sold.

(2) The rule stated in Subsection (1) applies although

(a) the seller has exercised all possible care in the preparation and sale of his product, and

(b) the user or consumer has not bought the product from or entered into any contractual relation with the seller.

See Reporter's Notes.

Caveat:

The Institute expresses no opinion as to whether the rules stated in this Section may not apply

(1) to harm to persons other than users or consumers;

(2) to the seller of a product expected to be proceesed or otherwise substantially changed before it reaches the user or consumer; or

(3) to the seller of a component part of a product to be assembled.

Comment:

a. This Section states a special rule applicable to sellers of products. The rule is one of strict liability, making the seller subject to liability to the user or consumer even though he has exercised all possible care in the preparation and sale of the product. The Section is inserted in the Chapter dealing with the negligence liability of suppliers of chattels, for convenience of reference and comparison with other Sections dealing with negligence. The rule stated here is not exclusive, and does not preclude liability based upon the alternative ground of negligence of the seller, where such negligence can be proved.

b. History. Since the early days of the common law those engaged in the business of selling food intended for human consumption have been held to a high degree of responsibility for their products. As long ago as 1266 there were enacted special criminal statutes imposing penalties upon victualers, vintners, brewers, butchers, cooks, and other persons who supplied "corrupt" food and drink. In the earlier part of this century this ancient attitude was reflected in a series of decisions in which the courts of a number of states sought to find some method of holding the seller of food liable to the ultimate consumer even though there was

no showing of negligence on the part of the seller. These decisions represented a departure from, and an exception to, the general rule that a supplier of chattels was not liable to third persons in the absence of negligence or privity of contract. In the beginning, these decisions displayed considerable ingenuity in evolving more or less fictitious theories of liability to fit the case. The various devices included an agency of the intermediate dealer or another to purchase for the consumer, or to sell for the seller; a theoretical assignment of the seller's warranty to the intermediate dealer; a third party beneficiary contract; and an implied representation that the food was fit for consumption because it was placed on the market, as well as numerous others. In later years the courts have become more or less agreed upon the theory of a "warranty" from the seller to the consumer, either "running with the goods" by analogy to a covenant running with the land, or made directly to the consumer. Other decisions have indicated that the basis is merely one of strict liability in tort, which is not dependent upon either contract or negligence.

Recent decisions, since 1950, have extended this special rule of strict liability beyond the seller of food for human consumption. The first extension was into the closely analogous cases of other products intended for intimate bodily use, where, for example, as in the case of cosmetics, the application to the body of the consumer is external rather than internal. Beginning in 1958 with a Michigan case involving cinder building blocks, a number of recent decisions have discarded any limitation to intimate association with the body, and have extended the rule of strict liability to cover the sale of any product which, if it should prove to be defective, may be expected to cause physical harm to the consumer or his property.

c. On whatever theory, the justification for the strict liability has been said to be that the seller, by marketing his product for use and consumption, has undertaken and assumed a special responsibility toward any member of the consuming public who may be injured by it; that the public has the right to and does expect, in the case of products which it needs and for which it is forced to rely upon the seller, that reputable sellers will stand behind their goods; that public policy demands that the burden of accidental injuries caused by products intended for consumption be placed upon those who market them, and be treated as a cost of production against which liability insurance can be obtained; and that the consumer of such products is entitled to the maximum of protection at the hands of someone, and the proper persons to afford it are those who market the products.

d. The rule stated in this Section is not limited to the sale of food for human consumption, or other products for intimate bodily use, although it will obviously include them. It extends to any product sold in the condition, or substantially the same condition, in which it is expected to reach the ultimate user or consumer. Thus the rule stated applies to an automobile, a tire, an airplane, a grinding wheel, a

water heater, a gas stove, a power tool, a riveting machine, a chair, and an insecticide. It applies also to products which, if they are defective, may be expected to and do cause only "physical harm" in the form of damage to the user's land or chattels, as in the case of animal food or a herbicide.

e. Normally the rule stated in this Section will be applied to articles which already have undergone some processing before sale, since there is today little in the way of consumer products which will reach the consumer without such processing. The rule is not, however, so limited, and the supplier of poisonous mushrooms which are neither cooked, canned, packaged, nor otherwise treated is subject to the liability here stated.

f. Business of selling. The rule stated in this Section applies to any person engaged in the business of selling products for use or consumption. It therefore applies to any manufacturer of such a product, to any wholesale or retail dealer or distributor, and to the operator of a restaurant. It is not necessary that the seller be engaged solely in the business of selling such products. Thus the rule applies to the owner of a motion picture theatre who sells popcorn or ice cream, either for consumption on the premises or in packages to be taken home.

The rule does not, however, apply to the occasional seller of food or other such products who is not engaged in that activity as a part of his business. Thus it does not apply to the housewife who, on one occasion, sells to her neighbor a jar of jam or a pound of sugar. Nor does it apply to the owner of an automobile who, on one occasion, sells it to his neighbor, or even sells it to a dealer in used cars, and this even though he is fully aware that the dealer plans to resell it. The basis for the rule is the ancient one of the special responsibility for the safety of the public undertaken by one who enters into the business of supplying human beings with products which may endanger the safety of their persons and property, and the forced reliance upon that undertaking on the part of those who purchase such goods. This basis is lacking in the case of the ordinary individual who makes the isolated sale, and he is not liable to a third person, or even to his buyer, in the absence of his negligence. An analogy may be found in the provision of the Uniform Sales Act, §15, which limits the implied warranty of merchantable quality to sellers who deal in such goods; and in the similar limitation of the Uniform Commercial Code, §2-314, to a seller who is a merchant. This Section is also not intended to apply to sales of the stock of merchants out of the usual course of business, such as execution sales, bankruptey sales, bulk sales, and the like.

g. Defective condition. The rule stated in this Section applies only where the product is, at the time it leaves the seller's hands, in a condition not contemplated by the ultimate consumer, which will be unreasonably dangerous to him. The seller is not liable when he delivers the product in a safe condition, and subsequent mishandling or other causes make it harmful by the time it is consumed. The burden of proof that the product was in a defective condetion at the time that

it left the hands of the particular seller is upon the injured plaintiff; and unless evidence can be produced which will support the conclusion that it was then defective, the burden is not sustained.

Safe condition at the time of delivery by the seller will, however, include proper packaging, necessary sterilization, and other precautions required to permit the product to remain safe for a normal length of time when handled in a normal manner.

h. A product is not in a defective condition when it is safe for normal handling and consumption. If the injury results from abnormal handling, as where a bottled beverage is knocked against a radiator to remove the cap, or from abnormal preparation for use, as where too much salt is added to food, or from abnormal consumption, as where a child eats too much candy and is made ill, the seller is not liable. Where, however, he has reason to anticipate that danger may result from a particular use, as where a drug is sold which is safe only in limited doses, he may be required to give adequate warning of the danger (see Comment j), and a product sold without such warning is in a defective condition.

The defective condition may arise not only from harmful ingredients, not characteristic of the product itself either as to presence or quantity, but also from foreign objects contained in the product, from decay or deterioration before sale, or from the way in which the product is prepared or packed. No reason is apparent for distinguishing between the product itself and the container in which it is supplied; and the two are purchased by the user or consumer as an integrated whole. Where the container is itself dangerous, the product is sole in a defective condition. Thus a carbonated beverage in a bottle which is so weak, or cracked, or jagged at the edges, or bottled under such excessive pressure that it may explode or otherwise cause harm to the person who handles it, is in a defective and dangerous condition. The container can not logically be separated from the contents when the two are sold as a unit, and the liability stated in this Section arises not only when the consumer drinks the beverage and is poisoned by it, but also when he is injured by the bottle while he is handling it preparatory to consumption.

i. Unreasonably dangerous. The rule stated in this Section applies only where the defective condition of the product makes it unreasonably dangerous to the user or consumer. Many products cannot possibly be made entirely safe for all consumption, and any food or drug necessarily involves some risk of harm, if only from over-consumption. Ordinary sugar is a deadly poison to diabetics, and castor oil found use under Mussolini as an instrument of torture. That is not what is meant by "unreasonably dangerous" in this Section. The article sold must be dangerous to an extent beyond that which would be contemplated by the ordinary consumer who purchases it, with the ordinary knowledge common to the community as to its characteristics. Good whiskey is not unreasonably dangerous merely because it will make some people drunk, and is

especially dangerous to alcoholics; but bad whiskey, containing a dangerous amount of fusel oil, is unreasonably dangerous. Good tobacco is not unreasonably dangerous merely because the effects of smoking may be harmful; but tobacco containing something like marijuana may be unreasonably dangerous. Good butter is not unreasonably dangerous merely because, if such be the case, it deposits cholesterol in the arteries and leads to heart attacks; but bad butter, contaminated with poisonous fish oil, is unreasonably dangerous.

j. Directions or warning. In order to prevent the product from being unreasonably dangerous, the seller may be required to give directions or warning, on the container, as to its use. The seller may reasonably assume that those with common allergies, as for example to eggs or strawberries, will be aware of them, and he is not required to warn against them. Where, however, the product contains an ingredient to which a substantial number of the population are allergic, and the ingredient is one whose danger is not generally known, or if known is one which the consumer would reasonably not expect to find in the product, the seller is required to give warning against it, if he has knowledge, or by the application of reasonable, developed human skill and foresight should have knowledge, of the presence of the ingredient and the danger. Likewise in the case of poisonous drugs, or those unduly dangerous for other reasons, warning as to use may be required.

But a seller is not required to warn with respect to products, or ingredients in them, which are only dangerous, or potentially so, when consumed in excessive quantity, or over a long period of time, when the danger, or potentiality of danger, is generally known and recognized. Again the dangers of alcoholic beverages are an example, as are also those of foods containing such substances as saturated fats, which may over a period of time have a deleterious effect upon the human heart.

Where warning is given, the seller may reasonably assume that it will be read and heeded; and a product bearing such a warning, which is safe for use if it is followed, is not in defective condition, nor is it unreasonably dangerous.

k. Unavoidably unsafe products. There are some products which, in the present state of human knowledge, are quite incapable of being made safe for their intended and ordinary use. These are especially common in the field of drugs. An outstanding example is the vaccine for the Pasteur treatment of rabies, which not uncommonly leads to very serious and damaging consequences when it is injected. Since the disease itself invariably leads to a dreadful death, both the marketing and the use of the vaccine are fully justified, notwithstanding the unavoidable high degree of risk which they involve. Such a product, properly prepared, and accompanied by proper directions and warning, is not defective, nor is it unreasonably dangerous. The same is true of many other drugs, vaccines, and the like, many of which for this very reason cannot legally be sold except to physicians, of under the prescription of a physician. It is also true in particular of many new or experimental drugs as to which, because of lack

of time and opportunity for sufficient medical experience, there can be no assurance of safety, or perhaps even of purity of ingredients, but such experience as there is justifies the marketing and use of the drug notwithstanding a medically recognizable risk. The seller of such products, again with the qualification that they are properly prepared and marketed, and proper warning is given, where the situation calls for it, is not to be held to strict liability for unfortunate consequences attending their use, merely because he has undertaken to supply the public with an apparently useful and desirable product, attended with a known but apparently reasonable risk.

l. User or consumer. In order for the rule stated in this Section to apply, it is not necessary that the ultimate user or consumer have acquired the product directly from the seller, although the rule applies equally if he does so. He may have acquired it through one or more intermediate dealers. It is not even necessary that the consumer have purchased the product at all. He may be a member of the family of the final purchaser, or his employee, or a guest at his table, or a mere donee from the purchaser. The liability stated is one in tort, and does not require any contractual relation, or privity of contract, between the plaintiff and the defendant.

"Consumers" include not only those who in fact consume the product, but also those who prepare it for consumption; and the housewife who contracts tularemia while cooking rabbits for her husband is included within the rule stated in this Section, as is also the husband who is opening a bottle of beer for his wife to drink. Consumption includes all ultimate uses for which the product is intended, and the customer in a beauty shop to whose hair a permanent wave solution is applied by the shop is a consumer. "User" includes those who are passively enjoying the benefit of the product, as in the case of passengers in automobiles or airplanes, as well as those who are utilizing it for the purpose of doing work upon it, as in the case of an employee of the ultimate buyer who is making repairs upon the automobile which he has purchased.

Illustration:

1. A manufactures and packs a can of beans, which he sells to B, a wholesaler. B sells the beans to C, a jobber, who resells it to D, a retail grocer. E buys the can of beans from D, and gives it to F. F serves the beans at lunch to G, his guest. While eating the beans, G breaks a tooth, on a pebble of the size, shape, and color of a bean, which no reasonable inspection could possibly have discovered. There is satisfactory evidence that the pebble was in the can of beans when it was opened. Although there is no negligence on the part of A, B, C, or D, each of them is subject to liability to G. On the other hand E and F, who have not sold the beans, are not liable to G in the absence of some negligence on their part.

m. "Warranty." The liability stated in this Section does not rest upon negligence. It is strict liability, similar in its nature to that covered by Chapters 20 and 21. The basis of liability is purely one of tort.

A number of courts, seeking a theoretical basis for the liability, have resorted to a "warranty," either running with the goods sold, by analogy to covenants running with the land, or made directly to the consumer without contract. In some instances this theory has proved to be an unfortunate one. Although warranty was in its origin a matter of tort liability, and it is generally agreed that a tort action will still lie for its breach, it has become so identified in practice with a contract of sale between the plaintiff and the defendant that the warranty theory has become something of an obstacle to the recognition of the strict liability where there is no such contract. There is nothing in this Section which would prevent any court from treating the rule stated as a matter of "warranty" to the user or consumer. But if this is done, it should be recognized and understood that the "warranty" is a very different kind of warranty from those usually found in the sale of goods, and that it is not subject to the various contract rules which have grown up to surround such sales.

The rule stated in this Section does not require any reliance on the part of the consumer upon the reputation, skill, or judgment of the seller who is to be held liable, nor any representation or undertaking on the part of that seller. The seller is strictly liable although, as is frequently the case, the consumer does not even know who he is at the time of consumption. The rule stated in this Section is not governed by the provisions of the Uniform Sales Act, or those of the Uniform Commercial Code, as to warranties; and it is not affected by limitations on the scope and content of warranties, or by limitation to "buyer" and "seller" in those statutes. Nor is the consumer required to give notice to the seller of his injury within a reasonable time after it occurs, as is provided by the Uniform Act. The consumer's cause of action does not depend upon the validity of his contract with the person from whom he acquires the product, and it is not affected by any disclaimer or other agreement, whether it be between the seller and his immediate buyer, or attached to and accompanying the product into the consumer's hands. In short, "warranty" must be given a new and different meaning if it is used in connection with this Section. It is much simpler to regard the liability here stated as merely one of strict liability in tort.

n. Contributory negligence. Since the liability with which this Section deals is not based upon negligence of the seller, but is strict liability, the rule applied to strict liability cases (see § 524) applies. Contributory negligence of the plaintiff is not a defense when such negligence consists merely in a failure to discover the defect in the product, or to guard against the possibility of its existence. On the other hand the form of contributory negligence which consists in voluntarily and unreasonably proceeding to encounter a known danger, and commonly passes under the name of assumption of risk, is a defense under this Section as in other cases of strict liability. If the user or consumer discovers the defect and is aware of the danger, and nevertheless

proceeds unreasonably to make use of the product and is injured by it, he is barred from recovery.

Comment on Caveat:

o. Injuries to non-users and non-consumers. Thus far the courts, in applying the rule stated in this Section, have not gone beyond allowing recovery to users and consumers, as those terms are defined in Comment l. Casual bystanders, and others who may come in contact with the product, as in the case of employees of the retailer, or a passer-by injured by an exploding bottle, or a pedestrian hit by an automobile, have been denied recovery. There may be no essential reason why such plaintiffs should not be brought within the scope of the protection afforded, other than that they do not have the same reasons for expecting such protection as the consumer who buys a marketed product; but the social pressure which has been largely responsible for the development of the rule stated has been a consumers' pressure, and there is nit the same demand for the protection of casual strangers. The Institute expresses neither approval nor disapproval of expansion of the rule to permit recovery by such persons.

p. Futher processing or substantial change. Thus far the decisions applying the rule stated have not gone beyond products which are sold in the condition, or in substantially the same condition, in which they are expected to reach the hands of the ultimate user or consumer. In the absence of decisions providing a clue to the rules which are likely to develop, the Institute has refrained from taking any position as to the possible liability of the seller where the product is expected to, and does, undergo further processing or other substantial change after it leaves his hands and before it reaches those of the ultimate user or consumer.

It seems reasonably clear that the mere fact that the product is to undergo processing, or other substantial change, will not in all cases relieve the seller of liability under the rule stated in this Section. If, for example, raw coffee beans are sold to a buyer who roasts and packs them for sale to the ultimate consumer, it cannot be supposed that the seller will be relieved of all liability when the raw beans are contaminated with arsenic, or some other poison. Likewise the seller of an automobile with a defective steering gear which breaks and injures the driver, can scarcely expect to be relieved of the responsibility by reason of the fact that the car is sold to a dealer who is expected to "service" it, adjust the brakes, mount and inflate the tires, and the like, before it is ready for use. On the other hand, the manufacturer of pigiron, which is capable of a wide variety of uses, is not so likely to be held to strict liability when it turns out to be unsuitable for the child's tricycle into which it is finally made by a remote buyer. The question is essentially one of whether the responsibility for discovery and prevention of the dangerous defect is shifted to the intermediate party who is to make the changes.

No doubt there will be some situations, and some defects, as to which the responsibility will be shifted, and others in which it will not. The existing decisions as yet throw no light upon the questions, and the Institute therefore expresses neither approval nor disapproval of the seller's strict liability in such a case.

q. Component parts. The same problem arises in cases of the sale of a component part of a product to be assembled by another, as for example a tire to be placed on a new automobile, a brake cylinder for the same purpose, or an instrument for the panel of an airplane. Again the question arises, whether the responsibility is not shifted to the assembler. It is no doubt to be expected that where there is no change in the component part itself, but it is merely incorporated into something larger, the strict liability will be found to carry through to the ultimate user or consumer. But in the absence of a sufficient number of decisions on the matter to justify a conclusion, the Institute expresses no opinion on the matter.

402 B. Misrepresentation by Seller of Chattels to Consumer

One engaged in the business of selling chattels who, by advertising, labels, or otherwise, makes to the pablic a misrepresentation of a material fact concerning the character or quality of a chattel sold by him is subject to liability for physical harm to a consumer of the cattel caused by justifiable reliance upon the misrepresentation, even though

(a) it is not made fraudulently or negligently, and

(b) the consumer has not bought the chattel from or entered into any contractual relation eith the seller.

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COMMENTS ON

TECHNOLOGY LICENSOR RESPONSIBILITY

FOR PRODUCT LIABILITY

BY

W. R. Norris

Presented at the Pacific Industrial Property Association
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TECHNOLOGY LICENSOR RESPONSIBILITY FOR PRODUCT LIABILITY

MR. CHAIRMAN, MEMBERS AND GUESTS, I AM BOTH FLATTERED AND HONORED THAT KUNIEDA SAN SHOULD HAVE ASKED FOR MY COMMENTS ON HIS THOROUGHLY RESEARCH PAPER TRACING THE DEVELOPMENT OF JAPAN'S PRODUCT LIABILITY PROPOSALS. I FIND THE SECTION OF HIS PAPER DEALING WITH A TECHNOLOGY LICENSOR'S POTENTIAL RESPONSIBILITIES, FIRST TO HIS LICENSEE AND SECONDARILY TO THE LICENSEE'S CUSTOMERS, TO BE A HIGHLY FASCINATING SUBJECT. MY COMMENTS WILL FOCUS ON SOME U.S. AND INTERNATIONAL PARALLELS TO KUNIEDA SAN'S OBSERVATIONS ON THIS SUBJECT.

WITHIN THE UNITED STATES, INJURED PARTIES SOMETIMES INCLUDE AMONG DEFENDANTS, FROM WHOM THEY SEEK REDRESS, A PARTY WHOSE RELATIONSHIP TO THE FACTUAL SITUATION SURROUNDING THE TORT WAS THAT OF A TECHNOLOGY SUPPLIER. IT IS IMPLICIT IN THESE CASES THAT ONE WHO TEACHES ANOTHER A NEW TECHNOLOGY HAS A DUTY TO TEACH HIM SAFE PRACTICES. WHETHER THE COURT WILL APPLY TRADITIONAL NEGLIGENCE OR STRICT LIABILITY DOCTRINE WILL DEPEND IN LARGE MEASURE ON THE INTRINSIC DANGER OF THE TECHNOLOGY AND THE RELATIVE COMPETENCE OF THE PARTIES. WHEN, FOR EXAMPLE, THE INJURED CLAIMANT IS A CONSUMER, THE TREND IS TOWARD APPLYING STRICT LIABILITY AS A MEANS OF REDUCING

THE CLAIMANT'S BURDEN OF PROOF. IN THIS WAY THE COURT FACILITATES THE CLAIMANT'S PROSPECTS OF SUCCESS AND BALANCES THE SOCIAL INTERESTS BY SPREADING THE COSTS OF THE RISK OVER A LARGER POPULATION. (I ASSUME THIS IS SIMILAR TO THE PRINCIPLE OF "IMPARTIALITY" MENTIONED BY KUNIEDA SAN.)

CLAIMANTS MAY ALSO BE EMPLOYEES OF A TECHNOLOGY LICENSEE WHO UNDER WORKMAN COMPENSATION LAWS IN THE U.S.A. ARE LIMITED IN THE REMEDIES AVAILABLE FROM THEIR OWN EMPLOYER AND THUS WILL SEEK OTHER "DEEP POCKET" DEFENDANTS TO WHOM SOME CONNECTION MAY BE TRACED, SUCH AS EQUIPMENT, COMPONENT AND/OR TECHNOLOGY SUPPLIERS TO THEIR EMPLOYER. CUSTOMERS OF THE TECHNOLOGY LICENSEE WILL NORMALLY SEEK TO RECOVER THEIR DAMAGES DIRECTLY FROM THE LICENSEE, AS THE MANUFACTURER OF THE GOODS, HOWEVER, THEY MAY ALSO TRY TO RECOVER FROM THE TECHNOLOGY SUPPLIER, IF COLLECTABILTY OF THE LICENSEE IS IN QUESTION. THE LICENSEE'S INSURANCE COMPANY ALSO HAS AN ECONOMIC INTEREST IN RECOVERING FROM CONTRIBUTORS UP THE CHAIN OF EVENTS LEADING TO THE TORT UNDER ITS SUBROGATED RIGHTS OF THE CLAIMANT. IN THE INTERNATIONAL CONTEXT, THE LICENSEE'S CUSTOMER MAY WISH TO SEEK COMPENSATION FOR HIS INJURIES FROM THE LICENSOR RATHER THAN THE LOCAL LICENSEE-MANUFACTURER DUE TO GREATER PROCEDURAL AND REMEDY POSSIBILITIES AVAILABLE IN THE LICENSOR'S HOME JURISDICTION.

WHEN WE CONSIDER INTERNATIONAL TECHNOLOGY LICENSING TRANSACTIONS, A WIDE RANGE OF LEGAL QUESTIONS BEARING ON THE CHOICE OF APPLICABLE PROCEDURAL AND SUBSTANTIVE LAWS BRING INTO PLAY COMPLEX ISSUES OF CONFLICTS OF LAWS. PROCEDURALLY, FEDERAL AND STATE COURTS OF THE UNITED STATES READILY ASSUME JURISDICTION OF A FOREIGN LICENSOR UNDER STATE LONG-ARM STATUTES.[1]

"CONSTITUTIONAL" REQUIREMENTS OF "DUE PROCESS" UNDER THE LONG-ARM STATUTES ARE SATISFIED WHEN THE TORT HAS BEEN COMMITTED WITHIN THE JURISDICTION OR THE LICENSOR IS "DOING BUSINESS" WITHIN THE COURT'S JURISDICTION, E.G., THE MAKING OR PERFORMING OF A CONTRACT. FOR AUTHORITY, SEE PENNOYER V. NEFF, 95 US 714 (1877) AND INTERNATIONAL SHOE V. WASHINGTON, 326 US 310 (1945). THE LATTER CASE ANNOUNCED A HIGHLY

[1] Although State statutes vary greatly, the point is illustrated by The Uniform Interstate & International Procedure Act, which provides in §1.03 that "(a) A court may exercise personal jurisdiction over a person, who acts directly or by an agent, as to a [cause of action] [claim for relief] arising from the person's (1) transacting any business in this state; (2) contracting to supply services or things in this state; (3) causing tortious injury by an act or ommission in this state; (4) Causing tortious injury in this state by an act or omission outside this state if he regularly does or solicits business, or engages in any other persistent course of conduct, or derives substantial revenue from goods used or consumed or services rendered, in this state; [or] (5) having an interest in, using, or possessing real property in this state [; or (6) contracting to insure any person, property, or risk located within this state at the time of contracting]. (b) When jurisdiction over a person is based solely upon this section, only a [cause of action] [claim for relief] arising from acts enumerated in this section may be asserted against him."

SUBJECTIVE RULE THAT TO BE SUBJECT TO A STATE'S JURISDICTION, THE DEFENDANT NEED ONLY HAVE "CERTAIN MINIMUM CONTACTS WITH (THE FORUM) SUCH THAT THE MAINTENANCE OF THE SUIT DOES NOT OFFEND TRADITIONAL NOTIONS OF FAIR PLAY AND SUBSTANTIAL JUSTICE". THE U.S. SUPREME COURT HAS ALSO HELD "THAT THERE BE SOME ACT BY WHICH THE DEFENDANT PURPOSEFULLY AVAILS (HIMSELF) OF THE PRIVILEGE OF CONDUCTING ACTIVITIES WITHIN THE FORUM STATE, THUS INVOKING THE BENEFITS AND PROTECTIONS OF ITS LAWS." HANSON V. DENCKLA, 357 US 235 (1957).

WHETHER A U.S. COURT WILL ENTERTAIN JURISDICTION WHERE BOTH THE LICENSED MANUFACTURING AND THE THIRD PARTY CLAIMANTS INJURY OCCURRED OUTSIDE THE UNITED STATES IS UNCERTAIN. THE ANSWER WILL DEPEND UPON THE CONFLICT OF LAWS RULE OF THE COURT AND OF COURSE THE DEFENDANT'S SUBSTANTIVE LEGAL RESPONSIBILITY. IN THE UNITED STATES, CONFLICT OF LAW RULES FOR THESE MATTERS ARE GOVERNED BY STATE LAW AND THUS VARY ACROSS THE COUNTRY.

ON THE QUESTION OF THE LICENSOR'S LIABILITY EXPOSURE IN INTERNATIONAL TRANSACTIONS, THERE APPEARS TO BE A DISTINCT TREND IN DEVELOPING LAW TOWARD INCREASING THE LICENSOR'S SUBSTANTIVE RESPONSIBILITY.

FOR INSTANCE, THERE IS THE ONGOING NEGOTIATION OF UNCTAD'S CODE OF CONDUCT ON TRANSFER OF TECHNOLOGY WHICH INCLUDES A "GUARANTEE" SECTION. ALTHOUGH I SUSPECT THAT EXPERTS DRAFTING THIS SECTION OF THE GUIDELINE CODE HAVE IN MIND RELATIONS BETWEEN THE LICENSOR AND LICENSEE, TO BE DETERMINED BY CONTRACT LAW RATHER THAN TORT LAW, THERE IS A POSSIBILITY AS TORT LAW DEVELOPS THAT CUSTOMERS OF THE LICENSE-MANUFACTURER WILL DERIVE SUBSTANTIVE LEGAL POSITION FROM GUARANTEES OF THE TECHNOLOGY'S SUITABILITY FOR THE INTENDED PURPOSE EVEN THOUGH THEY DO NOT HAVE CONTRACTUAL PRIVITY WITH THE LICENSOR.[2] IN THE UNITED STATES, FOR INSTANCE, RECOVERY HAS BEEN GRANTED ON STRICT LIABILITY THEORY WHEN LACK OF PRIVITY WOULD HAVE DENIED RECOVERY FOR BREACH OF WARRANTY. WIPO PROPOSALS, MOREOVER, WOULD ABROGATE THE RIGHT OF THE LICENSOR TO PROTECT ITSELF FROM THIRD PARTY LIABILITY BY INDEMNIFICATION.[3]

[2] From "Group B" proposal for Chapter IV Responsibilities of Sources and Recipient Enterprises, 1978: "Article 4.2 The technology transfer agreement should contain mutually acceptable contractural obligations, including those relating to payments, and where in accordance with fair and reasonable commercial practice, should normally provide for the following items taking into account the specific circumstances of the individual case: ... (iv) the technology supplier's guarantee that the technology meets the description contained in the technology transfer agreement; (v) the technology suppliers' guarantee that the technology, if properly used as specifically set forth in the agreement, is suitable for such use;"

[3] WIPO's Draft Model Law: Know-How, Examination and Registration of Contracts, Inventors Certificates, and Innovations, January 31, 1978; Section 303: Restrictive Terms For the purpose of this Part, any term in a contract shall constitute a restrictive term if its effect is: ... (xv) to exempt the transferor from any liability resulting from any defect inherent in the technology to which the contract relates or to restrict such liability;"

UP TO THIS POINT, I HAVE REFERRED TO INDUSTRIAL PROPERTY LICENSING WITHOUT DISCRIMINATING AS TO POSSIBLE VARIATION IN THE SUBSTANTIVE LAW WITH RESPECT TO LICENSING TRADEMARKS, PATENTS, AND/OR KNOWHOW.

WITH REGARD TO TRADEMARK LICENSES, THERE ARE TWO FOUNDATIONS FOR LICENSOR RESPONSIBILITY TO THE LICENSEE- MANUFACTURER'S CUSTOMER. THESE ARE THE OBLIGATION OF THE LICENSOR TO CONTROL THE LICENSEE'S QUALITY AND THE PUBLIC'S RELIANCE ON EXISTENCE OF THIS CONTROL.

THE U.S. TRADEMARK LICENSOR'S HEAVY RESPONSIBILITY IS EXEMPLIFIED BY CITY OF HARTFORD V. ASSOCIATION CONSTRUCTION COMPANY 34 CONNECTICUT SUP. 204, 384A 2D 390 (SUPERIOR COURT, 1978) WHICH HELD THAT A FRANCHISOR OF A TRADEMARKED PRODUCT IS A GUARANTOR OF THE PRODUCT'S QUALITY AND CAN BE HELD STRICTLY LIABLE ON A TORT THEORY FOR DAMAGE CAUSED BY A DEFECT IN THAT PRODUCT. IN THIS CASE THE PRODUCT WAS A ROOFING MATERIAL APPLIED TO THE CITY'S SCHOOL BY A TRADEMARK LICENSEE. THE COURT FOUND, AS A COROLLARY TO THE RIGHT TO LICENSE A TRADEMARK, THE LICENSOR'S AFFIRMATIVE OBLIGATION TO THE PUBLIC TO EXERCISE CONTROL OVER HIS LICENSEES. OTHERWISE, UNDER THE LANHAM ACT THE LICENSING OF THE TRADEMARK TO AN UNRELATED COMPANY MIGHT CONSTITUTE AN ABANDONMENT OF THE MARK. THE LICENSOR HAD ATTEMPTED TO DEFEND ON THE BASIS THAT ITS

LICENSEE HAD ALTERED THE PRODUCT BUT THE EFFECT OF THE LICENSOR'S POSITION AS GUARANTOR PREVENTED APPLICATION OF THIS DEFENSE. THE COURT STATED "ONE WHO PUTS OUT AS HIS OWN PRODUCT A CHATTLE MANUFACTURED BY ANOTHER IS SUBJECT TO THE SAME LIABILITY AS THOUGH HE WERE ITS MANUFACTURER."

AN EARLY DRAFT OF THE EEC COMMISSION'S PROPOSED LEGISLATION ON CONSUMER PROTECTION WOULD LIKEWISE PLACE HEAVY RESPONSIBILITY ON A TRADEMARK LICENSOR IN DEFINING AS A "PRODUCER" ANY PERSON WHO "PLACES HIS NAME, TRADEMARK OR OTHER DISTINGUISHING FEATURE ON THE PRODUCT AND THUS GIVES THE IMPRESSION OF BEING THE ACTUAL MANUFACTURER".[4]

ON THE QUESTION OF WHETHER A SIMPLE PATENT LICENSE CARRIES WITH IT WARRANTIES TO A MANUFACTURING LICENSEE SUCH THAT A PRODUCT LIABILITY CLAIMANT MAY REACH BACK UP THE CHAIN TO THE LICENSOR, I KNOW OF NO U.S. PRECEDENT.

INTERNATIONALLY, WE HAVE SEEN RECENT DEVELOPMENTS IN MEXICO'S PATENT LAW OBLIGATING THE HOLDER OF A CERTIFICATE OF INVENTION TO SUPPLY TECHNOLOGY NECESSARY FOR PRACTICE OF THE INVENTION[5]

[4] Article 2, EEC Products Liability Proposal, as reported at ¶9891 CCH, 1976.

[5] Mexican Law on Inventions and Trademarks, February 10, 1976: "Article 73. The owner of the certificate of invention must furnish in every case the information necessary for the exploitation of his invention. Noncompliance with this obligation shall result in the cancellation of the certificate and of the corresponding registration at the National Registry of Transfer of Technology."

AND ARGENTINA'S RECENT AGREEMENT REGISTRATION LAW WHICH REQUIRES THAT LICENSE AGREEMENTS CONTAIN A RECITAL THAT THE LICENSOR IS FAMILIAR WITH ARGENTINE LAW. THE PROVISIONS OF THAT LAW THUS BECOME INCORPORATED INTO THE LICENSE BY REFERENCE WHEREBY THE LICENSOR GUARANTEES THE "TECHNICAL ENDS" OF THE TECHNOLOGY;[6] I HAVE HEARD THAT YUGOSLAVIA HAS RECENTLY BEGUN REQUIRING "GUARANTEES". I BELIEVE SOME OF THE EASTERN EUROPEAN SOCIALIST COUNTRIES MAY ALSO HAVE PROVISIONS MANDATING LICENSOR RESPONSIBILITIES FOR EFFECTIVENESS AND SUITABILITY OF THE TECHNOLOGY. WHILE THESE PROVISIONS ARE FOR THE MOST PART INTENDED TO MODERATE LICENSOR-LICENSEE RELATIONS, THE LICENSEE'S CUSTOMERS MAY DERIVE SUBSTANTIVE LEGAL POSITION UNDER THE SHELTER THEY PROVIDE THE LICENSEE.

[6] Argentine Transfer of Technology Law No. 21.617, August 16, 1977: PRIOR EXAMINATION AND MANDATORY CLAUSES, "Article 7 The legal acts, which, in accordance with the preceding articles, are subject to non-automatic registration in accordance with the provisions of this law, shall be subject to prior examination by the Authority of Application.

In order that the act may be approved, it must contain, at least the following clauses: ...(d) In those acts whereby technology is transferred, determination of the technical ends aimed at by the receiver through said transfer. (e) Declaration by the supplier of the technology stating that he knows the contents of this law."

"IMPLIED CLAUSES, Article 8 Every act submitted to the provisions of this law will be subject to the following provisions, whether they are or not included in said act, except when the Authority of Application on issuing its approval expressly and with good reason resolves to the contrary: (a) The supplier guarantees that the technology to be transferred enables the receiver, upon its acquisition, to obtain the technical ends he aims at, to the extent described in the legal act in accordance with item d) of the preceding article."

SOME WRITERS ON LICENSING PRACTICE IN CIVIL LAW COUNTRIES HAVE ALSO POINTED TO THE POSSIBILITY OF WARRANTIES IMPLIED AT LAW PLACING UPON THE LICENSOR RESPONSIBILITY FOR EFFECTIVENESS AND SUITABILITY OF THE TECHNOLOGY FOR THE LICENSEE'S PURPOSE.[7] WE MAY AGAIN ASK WHETHER A DOWNSTREAM CUSTOMER OF THE LICENSEE MAY FIND IN THESE WARRANTIES A DERIVATIVE OR REFERENCE BASIS FOR ACTION AGAINST THE LICENSOR.

AN INTERESTING QUESTION ARISES WHEN THE LICENSOR AND LICENSEE HAVE DEALT, AS BETWEEN THEMSELVES, WITH THE QUESTION OF THE WARRANTIES IN THE LICENSE AGREEMENT. PRODUCT LIABILITY LEGISLATION PROPOSALS ALONG THE LINES OF THAT CONTEMPLATED BY THE HARVARD GROUP MENTIONED IN KUNIEDA SAN'S PAPER, WHEREBY ANYONE BECOMES A "MANUFACTUER" FOR THE PURPOSES OF THE ACT WHO "MATERIALLY CONTRIBUTES TO THE PRODUCTION OF A CONSUMER PRODUCT", WOULD IN ANY EVENT PLACE THE PRODUCT LIABILITY ON THE LICENSOR AND LICENSEE JOINTLY AND SEVERALLY. IF SUCH PRINCIPLES SHOULD CONTROL, IT COULD MAKE SENSE TO INCLUDE AN INDEMNITY CLAUSE EVEN THOUGH WARRANTIES ARE SPECIFICALLY DISCLAIMED.

[7] Pollzien, International Licensing Agreements, Boffs-Merrill, N.Y., 1965 and Wise, Trade Secrets and Know-How Throughout the World, Clark Boardman Co., Ltd., N.Y., 1974.

IN SUMMARY, THE RESPONSIBILITY OF THE TECHNOLOGY LICENSOR IS A CHANGING AREA OF LAW. TRADEMARK AND KNOW-HOW LICENSING RENDER LICENSORS, WHETHER THEY BE DOMESTIC OR FOREIGN, AMENABLE TO LIABILITY CLAIMS CONNECTED WITH THE PRODUCTS MADE BY THEIR LICENSEES. THE SITUATION WITH RESPECT TO PATENT LICENSORS IS NOT CRYSTALIZED BUT DEVELOPING LAW IS PLACING AN EVER INCREASING BURDEN ON TECHNOLOGY SUPPLIERS FOR PERFORMANCE. DISCUSSIONS ON INTERNAITONAL GUIDELINES FOR GUARANTIES MAY BE SPAWNING NATIONAL LEGISLATION. CLEARLY, PATENT LICENSORS SHOULD KEEP A WARY EYE TO FUTURE DEVELOPMENTS.

STRATEGIES TO DEAL WITH THE INCREASING LIABILITY EXPOSURE OF LICENSORS WILL OBVIOUSLY VARY ACCORDING TO THE RELATIVE STRENGTHS OF THE LICENSOR AND LICENSEE BARGAINING POSITIONS. FOR MAXIMUM PROTECTION THE LICENSOR WILL SEEK INDEMNITY FROM ITS LICENSEE. LICENSEES IN TURN WILL WANT TO PLACE FULL RESPONSIBILITY ON THE LICENSOR. THE BOTTOMLINE QUESTION IS WHETHER TECHNOLOGY LICENSING WILL COME TO HAVE SUCH RISKS THAT TECHNOLOGY FLOWS WILL BE HINDERED. HOPEFULLY, THIS WILL NOT OCCUR BUT AS I SEE IT, SUCCESS WILL DEPEND UPON EFFORTS OF LICENSORS AND LICENSEES TO WORK COOPERATIVELY TO ACHIEVE FULL AND EFFECTIVE TECHNOLOGY TRANSFERS WITH A REASONABLE DIVISION OF LIABILITY RESPONSIBILITY. THE PARTIES

SHOULD ALSO BE AIDED BY RESTRAINT ON THE PART OF LEGISLATORS AND COURTS TO PREVENT THE ABUSE OF LIABILITY DOCTRINES WHILE AT THE SAME TIME FAIRLY PROVIDING CLAIMANTS COMPENSATION FOR THEIR INJURIES.

W. R. NORRIS
10/3/78

PROPOSED CHANGES IN THE TRANSFER OF TECHNOLOGY: THE IMPACT ON KNOW-HOW

by William T. McClain*

Industrial property rights, by protecting innovations and commercial trademarks, encourage the development of new technologies and businesses and thus contribute to technical progress. Such rights are regarded by businessmen in the developed countries as being of great importance in commercializing their products, and the preservation of industrial property rights is considered vital to the well-being of private enterprise.

Many are acquainted with recent decisions of courts and governmental bodies, proposals of intergovernmental international organizations, and regulatory proposals which would have the effect of eroding industrial property rights, but which are put forth in the name of promoting competition and protecting the consumers. Intergovernmental international organizations seek to encourage the transfer of technology from developed countries to developing countries, but they often give priority to promoting the acquisition of technology rather than protecting industrial property rights. Governmental bodies of some industrialized countries, in speaking for consumer groups, accuse industrial property rights of conflicting with consumer rights by restricting competition. Various nations and regional trade groups have instituted procedures which restrict the scope of the rights of owners of patents, know-how, and trademarks, on the basis that these rights hinder the free circulation of goods and stifle competition. Such actions are largely political in nature and stem from the concerns for the general responsibilities business has to the consumer.

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Technology transfer plays a major role in the technical and economic advancement of businesses and nations, particularly in developing countries. Technology transfer is typically carried out pursuant to a license agreement which is based on the transferor's property rights in his technology, for example, patents, trademarks, utility models, copyrights, and rights in know-how. The technology may be unpatented, or it may be patented in a limited number of countries. The know-how may be transferred in the forms of drawings, specifications and manuals; by educating and training personnel of the licensee; by purchase of machinery or complete installations; by providing individuals having expertise in the technology being transferred, etc. In the transfer of secret know-how, it is essential that the proprietary nature of the technology be maintained by appropriate secrecy obligations. If the conditions under which the know-how is to be transferred are not satisfactory to the proprietor of the technology and his ownership thereof is not adequately protected, he will be unwilling to make the technology available to the licensee. For example, in addition to the remuneration, the licensor is usually concerned with the term of the secrecy commitment, the manner of use by the licensee, the territory in which the technology may be used, and the effect of the licensee's operations upon the licensor's market. If the licensor is not satisfied concerning such conditions, he probably will not be willing to transfer the technology.

Currently, the United Nations Conference on Trade and Development (UNCTAD) is discussing an international code of conduct on the transfer of technology. The World Intellectual Property Organization (WIPO), through the WIPO permanent committee for development cooperation related

to industrial property, is drafting a revised Model Law for Developing Countries on Inventions and Know-how. Also, the European Economic Community (EEC) Commission has prepared a draft EEC Regulation which would grant a "group exemption" from Article 85(1) Rome Treaty for certain license agreements. These are largely concerned with statutory rights such as patents and trademarks, and relatively little concern has been shown for the protection of know-how (including trade secrets). The following comments are mainly directed to the impact of the foregoing on the protection of know-how, since others have previously commented on the patent aspects.

WIPO MODEL LAW

The proposed WIPO Model Law has six parts dealing with patents, know-how, registration of contracts, inventor's certificates, innovations, and transfer of technology patents. Part II: Know-how and Part III: Examination and Registration of Contracts contain provisions which have been strongly objected to by the proprietors of technology because of the virtual destruction of property rights in secret know-how.

Broadly, Section 203(1) of Part II states the supplier and the recipient may use the know-how, communicate it to others, and disclose it to the public, subject to Section 203(2), which relieves the recipient of his secrecy obligations if the know-how becomes available to the public anywhere in the world.

Section 203(4) states that the know-how recipient cannot be contractually bound to preserve the confidentiality of the know-how for more than five years. Such intrusions on private property rights

would certainly reduce the incentives for the technology owner to transfer technology. This would probably have the effect of reducing the amount of the technology to be transferred and increase the cost of the technology to the licensee. If the licensor cannot adequately protect his know-how, he will likely be willing to transfer less. If the licensor is required to transfer technology on the above basis, he will seek a greater compensation to offset the loss of valuable property.

Section 203(3) provides that a know-how recipient may be entitled to repayment of royalties already paid if the know-how becomes publicly available. It would seem more equitable that the recipient should be required to pay for the benefits received from the use of the know-how during the time it was secret and even in some cases after it becomes publicly available. The proposed practice is not supported by the know-how law of any of the developing countries.

Other objections to Section 203(3) are that paragraph (ii) might well be construed to prevent field of use limitations on the know-how, even though such limitations accord with generally accepted practices, and possibly this section may relieve the know-how recipient of his secrecy obligations where various individual pieces of the know-how package are known to the public. As to the latter, it is often true that the value of the know-how package lies in knowing which pieces of the public knowledge are most effectively used in combination.

The American Bar Association, Section of Patent, Trademark, and Copyright Laws, adopted a resolution at its 1978 Annual Meeting opposing Section 203 of WIPO Model Law.

Section 204 provides that the recipient of the know-how may be entitled to institute a court proceeding to recover damages which may

be in addition to the recovery of past royalties. Such dual recovery does not seem justified.

Section 303 of Part III of the WIPO Model Law deals with restrictive terms of license agreements which must be registered and approved by the Patent Office. The Section defines as non-permissible restrictions in patent and know-how licenses many licensing practices which are generally accepted today by the developed countries.

Paragraph (xvi) of Section 303 prohibits restrictions on the use by the licensee, after the expiration of his contractual obligations, of the technology acquired pursuant to a contract. This Section ignores trade secret rights and does not take into account customary practices in licensing know-how. Paragraph (xii) prohibits restriction on the use by the recipient of any technology other than the technology to which the contract relates. Such a provision appears to be too sweeping, since a licensor should be able to prevent any acts by the licensee which might prejudice the confidentiality of the licensed know-how or which might have detrimental effects on the results normally obtained from use of the licensed technology. Paragraph (xvii) of Section 303 would make the duration of a contract dependent on its economic function, and further implies that the term of a license agreement which includes know-how shall be limited to the duration of a patent. While this may be acceptable under a bare patent license, it certainly should not apply to an arrangement where valuable know-how is the principal subject of the agreement. Paragraphs (iii), (iv), and (v) prohibit restrictions on the source of materials, but do not allow for the typical situation where material specifications which are trade secrets of the licensor cannot be revealed to alternate sources without prejudice to the rights of the

licensor. Obviously such a requirement may make the licensor reluctant to transfer his technology.

It has been noted that the WIPO Model Law discussions have been conducted between the WIPO representatives, a large group of governmental representatives from the developing countries (mainly Patent Office representatives) and only four industry representatives from the developed countries. The discussions have been very political in nature, and the industry experts from the developed countries have had a disproportionately small voice in the WIPO drafts. The United States of America representatives have prepared comments on the proposed model law stating that Part II is not acceptable and would likely stifle the transfer of technology, and that Part III will likely prejudice the UNCTAD negotiations. A meeting is expected in early 1979 to consider further modifications of the present draft, at which time it is hoped that the voices of the industry experts from the developed countries will be heard.

UNCTAD - CODE OF CONDUCT FOR THE TRANSFER OF TECHNOLOGY

The UNCTAD Intergovernmental Experts Group on the Code of Conduct for the Transfer of Technology held its sixth and final session this summer to prepare a draft code of conduct for consideration by a United Nations Negotiating Conference scheduled for October-November, 1978.

There still remains the issue of whether the UNCTAD Code of Conduct shall be obligatory, as proposed by the Group of 77, or whether

it shall be voluntary, as proposed by the developed countries. The undeveloped countries are proposing to establish a new system at the governmental level, while the developed countries seek to find mechanisms to respond to the problems of the undeveloped countries without creating major disturbances in the established technology transfer process.

The Group of 77 seeks to unbundle technology from the traditional foreign investment package and at the same time minimize the property rights in technology. Their general goal appears to be to obtain the best technology at the minimum cost, without regard to legitimate needs of the developers of the technology.

The developed countries, on the other hand, are concerned about the negative impact of exporting industrial technologies, e.g., the loss of valuable private property and the loss of comparative advantages in manufacturing and marketing. The developed countries feel there must be adequate protection for industrial property rights, including know-how, and that the remuneration must reflect the risks and costs involved in creating new technology. Also, there is concern that the proposed new arrangements for the transfer of technology may lead to conflicts with established commercial practices and patterns of law.

It is proposed to include in the Code of Conduct on Technology Transfer a list of practices in patent, trademark and know-how licensing which should either be banned or controlled. A list of restrictive business practices has been proposed which include, inter alia, restrictions after the expiration of the contract, payments after the expiration of industrial property rights, challenge of the validity of industrial property rights, acquisition of competing technology, restrictions on research, export restrictions, tying arrange-

ments, field of use limitations, limitations on capacity, duration of arrangements, etc. It is also proposed to include in the technology transfer code a section of "guarantees" which includes provisions intended to insure that the technology transferred meets the description contained in the technology transfer agreement, that the safety and environmental requirements of the law in the recipient country be met, that the transferred know-how will be capable of achieving a predetermined result, that third party rights will not be infringed, etc.

Obviously many of the items referred to above are of great importance to licensors of technology, to suppliers of equipment and to parent companies having foreign subsidiaries. Regarding the parent/subsidiary relationship, many practices widely used today by enterprises headquartered in developed countries would be prohibited. Many of the practices sought to be prohibited are accepted as being permissible under the law of developed countries, and it is believed better to proceed cautiously when applying principles of trade regulation law to untraditional areas better regulated directly by more suitable legal mechanisms.

An American Bar Association Task Force on The UNCTAD Transfer of Technology - Restrictive Business Practice Code has studied the relevant law of the United States and the EEC in connection with the application of competition regulations to parent-subsidiary relations. They urge that the proposed code not be extended to parent-subsidiary arrangements which typically involve know-how of the parent company.

In the United States it is generally considered that the ordinary operations of a parent and subsidiary are not likely to run into

antitrust difficulties. The Report of the Attorney General's National Committee to Study the Antitrust Laws (1955) concluded that the use of subsidiaries is generally induced by normal, prudent business considerations and that no social objective would be obtained were subsidiaries enjoined from agreeing not to compete with each other or with their parent. The views of the Attorney General's report were recently reaffirmed by the Antitrust Division of the United States Department of Justice in its Antitrust Guide for International Operations (1977) offering advisory opinions on the antitrust implications of several hypothetical international business arrangements.

The objective of the proposed code is to protect the interest of a small technology recipient in a developing country from over-reaching by a licensor of technology from a developed country by placing limits on restrictions and exchange conditions that could be attached to the technology transfer. Such protection is not appropriate in the case of a subsidiary of a licensor nor is it particularly advantageous to the recipient country since worldwide business considerations affect the parent's financing and technical development of the subsidiary.

In the United States certain types of agreements are considered as illegal per se under Section 1 of the Sherman Act, including agreements among competitors to fix prices and to allocate territories or customers. Tie-ins and restrictions on resale are also presumed to be anticompetitive. Many other restraints, however, are tested by a factual inquiry as to whether they will have a significant adverse effect on competition, the justification for the restraint and whether the objective could be achieved in a substantially less anticompetitive way. This is the so-called "rule of reason". Terms of a license

agreement are considered permissible, even though there is some restriction on competition, if the restriction is clearly ancillary to some legitimate purpose, is appropriately limited in scope and duration and does not significantly harm the public interests.

Regarding a hypothetical know-how license, associated with a joint venture between a United States manufacturer and a Japanese company to manufacture in Japan a product using know-how licensed from the U.S. parent, the United States Department of Justice in its Antitrust Guide for International Operations indicated it could be permissible to restrict the Japanese parent and the joint venture company from exporting the product to the U.S. parent's established market areas, e.g., the United States. This, of course, is limited to products made with the know-how furnished by the U.S. parent. In the context of the hypothetical case this export restriction could be considered to be a reasonable ancillary restraint if the know-how being transferred is of substantial value, and the territorial limitation is of no greater scope and duration than is necessary to accomplish the parties' legitimate business objectives, for example, to protect the licensor rather than other licensees. The duration of the limitation on exports should be no greater than the time required to reverse engineer the product. This "rule of reason" approach is considered preferable to the absolute prohibitions of the proposed UNCTAD Code of Conduct which do not provide the flexibility for the licensor and licensee to negotiate and arrange a suitable business arrangement for a particular product and set of circumstances.

EEC DRAFT REGULATION

The EEC Commission has recently completed a third preliminary draft of a proposed regulation covering bilateral agreements involving the assignment or use of industrial property rights which would grant a bloc exemption under Article 85(1) of the Rome Treaty for certain patent licensing agreements. In the March, 1978 issue of Les Nouvelles (Volume XIII, No. 1), Messrs. Wise and Seyler, in an article entitled "Secrets, Know-how Under Seige" pointed out that the EEC Commission is pursuing policies with respect to trade secrets and know-how which would stifle the transfer of technology and which are in conflict with the domestic laws of the United States, Japan, EEC Member States, and other developed countries. Of particular concern are the EEC Commission policies concerning:

1. Post-termination restrictions on the use of unpatented technology.
2. Limitations on the field of use of licensed technology.
3. Payment of royalties for the use of licensed technology over the contract term notwithstanding that the licensed technology may fall into the public domain during the contract term due to an act of a third party.
4. Licensee's obligation not to challenge the validity of licensed trade secrets.

The most recent EEC Draft Regulation, while modified substantially from the previous drafts, contains provisions which are still considered detrimental to the protection of know-how. The Regulation is directed to agreements dealing with patented inventions and treats with know-how matters in an ancillary manner.

Article 1, paragraph 1 of the Draft Regulation, exempts (1) certain exclusive manufacturing, use and sales licenses, (2) limitations on the source of materials indispensable to the practice of the licensed invention, (3) minimum royalty or minimum quantity requirements and (4) most favored licensee clauses. Paragraph 2 of Article 1 states that exclusive sales rights shall be exempted only if certain requirements are met, e.g., maximum annual turnover of either of the parties not greater than 100 million u.a., the exclusivity is limited to the duration of the most recent existing patent, freedom of the licensed products to move throughout the EEC, and the manufacture of licensed products by the licensee.

Article 2, paragraph 1, permits restricting the license to an agreed-upon field of application within the patent claims. By implication, restrictions on the use of know-how in fields outside the scope of the patent claims would not be exempted.

Article 2, paragraph 5, sanctions an obligation requiring a licensee not to divulge secret know-how of the licensor, and such obligation may continue after the expiration of the agreement.

Article 3 provides that the exemptions of Article 1 shall not apply if the agreement contains one or more of fourteen prohibited provisions. Paragraph 1 of Article 3 prohibits an obligation on the part of the licensee to refrain from challenging the validity of the licensed patent or other exclusive rights of the licensor. Presumably this prohibits a challenge by the licensee of the validity of licensed trade secrets, although there is a question as to whether trade secrets would be considered an exclusive right. In the United States such a no-challenge clause in respect of patents is unenforceable

in view of the U.S. Supreme Court's decision in Lear, Inc. v. Adkins, 395 U.S. 653, although the laws of the other developed countries permit such a clause. However, it does not appear that such a prohibition in respect of know-how and trade secrets is supported by the domestic law of any of the industrialized countries, including EEC Member States.

Paragraph 2 of Article 3 would prohibit the licensing agreement having a duration beyond the expiration of the most recent patent existing at the time the agreement is entered into. Again, such prohibition would seem to apply to an agreement involving valuable trade secrets which would still be secret after the expiration of any patents. It would seem only equitable that the licensee could have post-term obligations in respect of the use and disclosure of secret information which has not fallen into the public domain.

Paragraph 3 of Article 3 prohibits any restrictions on either party against competing with the other in respect of research and development, manufacture, use or sale. This appears to be a sweeping prohibition affecting the use of know-how which would prevent limitations on exports rights, field of use and other similar limitations which are normal in licensing practices.

Paragraph 4 of Article 3 deals with the obligation of the licensee to pay royalties and would prohibit such an obligation in the event of the invalidity of the licensed patent, the expiration of the last licensed patent or after the licensed know-how has entered the public domain (except in the case of some default on the part of the licensee). However, this provision recognizes that there can be an appropriate reduction in royalties where the licensing agreement continues in respect of patents that remain valid or of know-how that has not entered into the public domain.

The Commission's position that royalties cannot be collected on technology which becomes public knowledge through no act of the licensor is not supported by the domestic law of most of the developed countries, although as the authors of the above-mentioned article point out, there may be some support for this position in the German law. Regarding the U.S. law on the point, the 2nd Circuit decision in Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc., 280 F.2d. 197 (2d. Cir. 1960), has generally been regarded as controlling. In this decision the Court held that the licensee was obligated to continue paying royalty for the Listerine formula even though the formula later became known to the public through no fault of the licensee. Recently, however, the U.S. Supreme Court agreed to review the 8th Circuit's decision in Aronson v. Quick Point Pencil Co., 196 USPQ 281, wherein the 8th Circuit held that Quick Point is no longer obliged to pay royalties for the manufacture and sale of a keyholder, the design of which was originally a trade secret. Aronson filed a patent application which was eventually abandoned and the license agreement provided for a reduction in royalty if no patent issued within five years. The rationale of the Court's decision was that enforcement of the contract would undermine the strong federal policy favoring the full and free use of ideas in the public domain.

Interestingly, the Government has filed an amicus brief stating that the Court's ruling is incorrect and should be reversed. In the brief the Solicitor General stated that license provisions of the kind involved in this case promote federal patent and competition policies by permitting inventors to exploit their inventions commercially even if such inventions turn out to be unpatentable. The Solicitor General further stated that a trade secret license providing for royalty payments

after denial of a patent application does not conflict with the federal policy encouraging disclosure of new inventions.

Paragraph 8 of Article 3 prohibits restrictions on either of the parties concerning the use of products manufactured under the license for applications going beyond the patent claims. Of course, the scope of the licensed know-how may be greater than the scope of the patent claims and, as applied to trade secrets, this provision does not find general support in the domestic laws of most countries.

Paragraph 10 of Article 3 prohibits restricting the licensee from the post-agreement use of licensed trade secrets but provides the licensor can require royalty payments for a period of not more than three years after the expiration of the agreement. Such a provision regarding post-termination use restrictions appears to conflict with the laws of the Member States of the EEC, as well as the laws of the United States and Japan. It has been reported that the Japanese Fair Trade Commission has approved post-term restrictions on the licensee's use of secret know-how. It should be noted that the laws of a number of developing countries prohibit post-agreement use restrictions; although some such countries which formerly prohibited the same have recently changed their law in this respect.

Also prohibited by paragraph 11 of Article 3 are restrictions on the licensee against using licensed secret know-how except for specific purposes. This provision, however, recognizes that the licensor may require payments at an appropriately higher rate where know-how is used for other purposes. Such recognition of a royalty differential for different uses is apparently intended to mitigate restrictions on field of use licensing. However there again appears to be no support in

the domestic laws of the EEC Member States, in United States, or Japanese law for prohibition of field of use restrictions in know-how license agreements. U.S. courts have considered restrictions on the application of secret know-how as being a permissible ancillary restriction and that limitations on the use of the secret know-how does not impose an additional restraint on trade and commerce in the products made by the use of the know-how. It has been stated that the Japanese Fair Trade Commission has not objected to a clause restricting the licensee's use of secret know-how to specific fields of application, and apparently the Fair Trade Commission's Guidelines for International Licensing Agreements of May 24, 1968, states that such a provision is permissible.

CONCLUSION

At the present time there are pressures being exerted on the existing system which, if effective, would severely undermine industrial property rights in a way which would lessen the incentives to develop new technologies and products and restrict the interchange of technology throughout the world. This is particularly true regarding know-how which is often the most sought after element of a licensing package and which is often considered most valuable by the developer of a technology. It has previously been urged that the EEC Commission carefully reconsider its policies relating to trade secret and know-how licenses in light of established principles of law, their economic and political implications, and other likely effects within and outside the EEC. These efforts to persuade the EEC Commission should continue, since the less developed

countries certainly will point to the EEC regulation as a precedent in connection with the UNCTAD negotiations and the WIPO Model Law discussions.

Subject: "Problems concerning Technology Transfer to Eastern European Nations"

By : Sadao Suziki

Japanese Group Committee No. 2
Sub-Committee 2

Chairman : Kazuo Takayanagi

Vice-Chairman : Iwao Shimada

1. Introduction

In pecent years, technology transfer by advanced free nations (Western nations) to East-European nations have been on an increasing trend. This probably owes much to the fact that demand for technologies which are not available within East-European nations have increased, as a result of betterment of their industrial and social level, and that East-European nations have recognized the efficiency of introducing technologies of Western nations as a means of continual technological improvement required for uplifting their economic and industrial level.

Looking it from the Western side, they appear not so enthusiastic in exporting made-up products discouraged by the policy of East-European nations preferring producer's goods to consumer's goods and the policy of saving their foreign exchange reserves, so their interest have to center upon plant exports which will accompany transfers of technologies proposed. In transfer of technologies to East-European nations, one will encounter in fact many characteristic problems accruing from the political, economic and social structures of East-European nations other than those which are common in similar cases with Western nations. As study was made on problematic points in writing an agreement on technical transfer with East-European nations from the viewpoint of who are actually engaged in such business of technical transfers.

In actual cases of technical transfers, the terms and conditions of a technical transfer agreement appear to vary depending on the receiving country, receiving industry, and a degee of necessity for the technology involved on the part of the recipient. By singling out plant export as an example, which seems to be the most common type of technical transfer to the communist countries, our report is hereunder made upon carefully considering the major points in writing an agreement, with an emphasis on a "counter trade", which is a peculiar point common to all East-European countries.

2. General

(1) Difficulty in ascertaining Realizability of Receiving Party's Plan:

When a technical transferee is in a Western nation, we are able to ascertain the realizability of the plan by inquiring on the plant construction plan, raw material avaiability, product sales plan etc., prior to negotiating the specific terms of the agreement. With East-European nations however, any satisfactory answer is scarcely available. This is because, in communist countries, any project is a national project and its particulars are atrictly kept confidential as a national secret, and, in addition, discretion of any responsible person is broken into pieces, which makes nobody know its entire picture, but only a few fairly nigh ranking officials.

Let me take an actual case for instance. We were asked by three Eastern European nations neighbouring each other at the same time for a technical transfer to construct a gigantic plant for the same product in each country. We knew there was little possibility to materialize all of them at one time, and we, who were supposed to give the technology, wanted to choose the most probable one to give our assistance. We had, however, no means to obtain information for our decision and were actually forced to make efforts in vain. Further in communist countries, projects plan, in most cases, are made many years ahead under their planned economy system. We should be fully aware of that the project would be possibly cancelled any time upon their subsequent review of the original plan.

(2) Receiving Party :

Receiving party under an agreement is in many cases, a governmental organization. In almost all East-Eurpoean countries, their setups and system are so complicated, subdivided and changing that we should always be alert as to who has the authority and discretion at the point of time, and we should execute the agreement with the really competent person or persons. It is not unusual, for example, that the party at the other end may change at each stage, namely at the initial stage, the negotiation stage, and the execution stage. In addition, it is also not unusual that no discretional authority for

international agreements was given to a public corporation or factory, etc. which actually operates the plant or the work under the transferred technology. There was in fact a paradoxical case wherein a governmental organization which actually signed the agreement had no discretion and power to represent the executing party and to bear the rights and obligations under the agreement.

Therefore, even though provision for secrecy obligation and penalty for a breach was provided in the agreement, we had no actual control over a leak of secret information from a factory level. On this point, we have no counterstep effective enough at present except to rely on the good-will of the receiving party.

(3) Secrecy Agreement :

Technologies for transfer often involve confidential information, so called "know-how", while there is no good way to protect the proprietary value of know-how other than by keeping it secret. It becomes necessary, therefore, to have a secrecy agreement between the parties, in order to keep the proprietary value of the disclosed know-how.

Generally East-European nations are believed to be adamant in signing a secrecy agreement, but this is not necessarily true and they would agree to sign if our request be made reasonably

and logically. The experience of our members proves that without exception they all agreed to sign a secrecy agreement, so that it will not be necessary to give it up from the beginning. The particuars of the secrecy agreements signed by them were almost identical to those usually signed with parties in Western nations, but there was no clue to ascertain whether they were virtually complied with or not.

(4) Warranty (Capacity, Quality, etc.)

In supplying production equipment along with the plant exports, it is naturally required, irrespective of geographical differences, to attach a warranty to the performance and quality of each equipment, the respective production capacities, production yield of the entire plant, and the quality of manufactured products. Other than the above, however, as a peculiarity of those communist nations, a warranty has to be attached to the delivery time of each equipment and information, the quantity and quality of waste gas and waste water and the unit consumption of steam, electricity, etc. If warranted values have not been met satisfactorily, penalties are imposed in the communist areas in accordance with the degree of deviation, and in case of an excess deviation beyond certain limits, provisions sometimes strictly regulate that the supplier should take back the entire plant. As such the provision for warranty is one of the most

serious points in the technological transfer business with East-European nations, not to say the least the price and counter-trade.

Basic concept on the warranty seems to vary much depending on the industry involved, e. g. chemicals, machinery, electronics, etc., but I like to pick up a few points to our attention. One of them is, conditions upon which warranty is based shall be very carefully examined and specified in negotiating with East-European nations. Such items as quality of water or skillfulness of operators that are not very critical in western nations become very serious in Eastern European nations. The general technical level and other conditions in East-European nations are often far behind what we expect. In a case we experienced, the power supply (fluctuation in voltage) and the water supply (lesser purity of water) were in an extremely poor condition whereby the warranty values were not attained, and to perform warranty, we had no way but to supply additional equipment which were not relevant to the main system. In another case, such parts as are popularly available in the Western markets were not available domestically, so that almost all of such parts had to be imported from Japan in order to meet the warranty values, whereby burdening us with unexpected and unrecoverable expenditure.

(5) Warranty on Patent :

It is natural that suppliers of the plant facilities warrant their equipment as being free from patent infringement. However, with respect to the scope of the patent warranty on products manufactured by the supplied plant, the policy of technical supplier differs to a great extent from each other by industries. It is quite rare to warrant any products manufactured by the supplied technology in cases of electronics and machinery industries in free nations, but, in communist countries, requirements are very strong in such industries. We believe we should try best to handle them on an equal basis to free nations, without yielding to their requests. In case where the products from the plant infringes patent existing in the receiving country as well as the case where receiving country has a plan to export products manufactured under the technology transferred to the country where competitive patent exist, we should explain the possible necessity of licenses and should assist in getting licenses or in any other respects, and should explain them that the manufacturer shall hear the expenses for such licenses. Actually we have seen cases that receiving parties were convinced of.

(6) Exchange of Inprovements :

If offerring of technical improvements is bilateral, it must be welcomed as it should be benefitial to both parties,

but, when the receiving party is one of the East-European nations, there is presumably no possibility in having any improvement disclosed, because of their national secrecy protection. Even though the agreement provides a bilateral exchange of improvements, it will result in a one-way supply from us, so it is advisable to make the effective period for exchange as much shorter as possible.

3. Counter-Trade

(1) General :

All the points I have commented on so far more or less depend on payment terms, and if the payment terms involve a substantial merit, these would be a room for their ready concession. Actually, however, in almost all cases, they request a counter-trade at the time of payment, which is the most characteristic point in the final settlement of the bill with East-European nations. Counter-trade has been carried out so far with a great frequency, but the recently growing overpayment by East-European nations to Western nations in trade is compelling them to put stricter requirements before Western nations for this counter-trade. The counter-trade which presses the other party to buy unwanted goods will interfere a sound and fair trade relation and eventually it will result to the detriment of both parties. Nevertheless, it seems that the counter-trade

will certainly occupy a greater proportion as heretofore.

For this counter-trade, there are a few different types; such as, "Compensation" in which the payment is made, in part or all, by means of import of products of the receiving country; "Counter Purchase" wherein a separate agreement is written simultaneously with the original technology transfer agreement, committing a purchase of the receipient country's products of a certain value for over a defined period; and "Product Buy-Back" under which the payment is made, partially or wholely, by the products manufactured by the supplied plant. There is also a switch trade in which a switcher intervenes for executing a counterpart leg of the export to East Europe.

In case of "Product Buy-Back", depending on the products involved, it may be an advisable alternative for Western nations to make use of this trade pattern, from the strategic stand point, for a secure supply of energy resources or raw materials or far a consignment manufacture. Generally, however, in case of "Compensation" or "Product Buy-Back", it constitutes an integral part of the original, so if the counter-trade obligation is not fulfilled, the problem is that the creditor would not be able to collect the bill.

(2) Precautions to be taken in Counter-Trade Business :

A. Government's Directive for Counter-Trade

For imports of certain items which fall into some designated categories in East-European nations, there is a standing directive served by the government, under which the importer is obligated to effect the payment, up to a certain percentage, by means of domestic products. At first, normally their request ranges from 50% to 100%, for the counter-trade. The above percentage defined by the government's directive differs from item to item to import, and if the item is incorporated in the first-priority import program of the receiving country, the supplier may be able to reject in the end the counter-trade proposed. In fact, however, it is very difficult to ascertain where the plant in question is ranked with what designated percentage in their first-priority list.

B. Request for Counter-Trade at Final Stage of Negotiation

In negotation of an agreement with East-European nations, normally they request an offer on a cash payment basis, but they often propose a switch to a counter-trade only after learning the cash price. This is one of their tactics in doing business, and, in fact, it is almost impossible to raise the once-offerred cash price to meet the counter-trade requirement. Some of them, after an agree-

ment is reached on the price unchanged from as offerred but with a counter-trade, and request a further reduction from such an agreed-upon price switching back the payment into a cash basis, which is known as a "double door trick".

C. Goods and Prices of Counter-Trade

It is necessary for Western exporters to keep the scope of goods for the counter-trade as wide as possible. Usually, goods for the counter-trade do not include those which could be re-sold on the Western markets, as such goods are their source for foreign currencies. Many of the products they list up are industrial products but most of them are troublemakers in their quality and aftercare-service. Even if relatively salable items are listed in numbers, they are often hard to get in the end, so that one should not get optimistic by the abundance of items on the list. It is necessary to let them attach a warranty on the availability for a proposed period of time, if any appropriate one could be found on the list.

As to the price of the goods for such a counter-trade, it is normally indicated simply as to be sold at a "competitive price", and, in many cases, such a competitive price is only applicable to a specific region in the world.

D. Penalty Provision

In a "Counter Purchase" agreement, a penalty provision is provided for any breach by the Western party. The penalty rate proposed at the early stage of negotiation is rather out of question but, through further negotiations, it generally settles down to the range of 10 to 15% of the "Counter Purchase" amount. When the East-European side insists on a high penalty rate and does not agree to reduce the rate, in many instances they assumingly have no enthusiasm to honour the counter-trade, but rather try to get a penalty from the Western party on a default of the counter-trade agreement, whereby reducing the price originally agreed upon in effect. In anticipation of such a maneuver on the East-European side, the Western party on occasions may produce a price well enough to cover such risks. On the other hand, however, when they set a penalty rate at as low as 2 - 3 %, we should be aware of that they are trying to gain a price deduction in substance on a probable voluntary default of the counter-trade agreement by the Western party.

As there was a case wherein a Western party was requested to take delivery of the goods for the counter-trade despite his payment of the default penalty on the counter-trade, it is most advisable to clearly specify in

the agreement that the Western buyer shall be released from any obligations under the counter-trade agreement upon payment of penalties. It will also be advantageous for the Western party to provide in the agreement that whenever the Eastern party fails to supply the counterpart list or to ship the goods for the counter-trade, any and all obligations of the Western party under the counter-trade agreement shall be cancelled, or that the Eastern party is obligated to pay a penalty therefor.

E. Excecution Period of Counter-Trade

In the counter-trade agreement, it is necessary for the Western party to set the excecution period of the counter-trade as long as possible, since a significatly long period of time has to be consumed before clarifying whether the resale of the counter-trade goods is possible. East-European nations will, of course, not agree to extend the execution period of the counter-trade beyond the deadline for settling the credits provided by the Western party. It is also most likely that the East-European side will reserve their repayments of credits as a counterpart of the penalty payable on a default of the counter-trade, whenever the Western parties puts off excecution of the counter-trade. We suggest, therefore, that a stipulation should be put in the agreement specifying the irrelevance

of the payment by the Eastern party for the plant imported with any default of the counter-trade execution.

4. Summary

We believe Communist countries' requests for the transfer of Western technology will be kept increasing as heretofore. For us, advanced nations' cooperation to those countries who wish to promote their economic and technical level will be a task to fulfil. Acomplishment of a certain technical transfer naturally will be followed by their further introduction of technology and product of other sorts. We think it will suit us to furnish them with any technology as far as it does no specific harm and also to make the most out of it. Technical information supply and plant construction are however, different, from a mere sale of a product, and the impact boomeranging back to the same industry to which the supplier belongs and other nations will be too substantial to disregard.

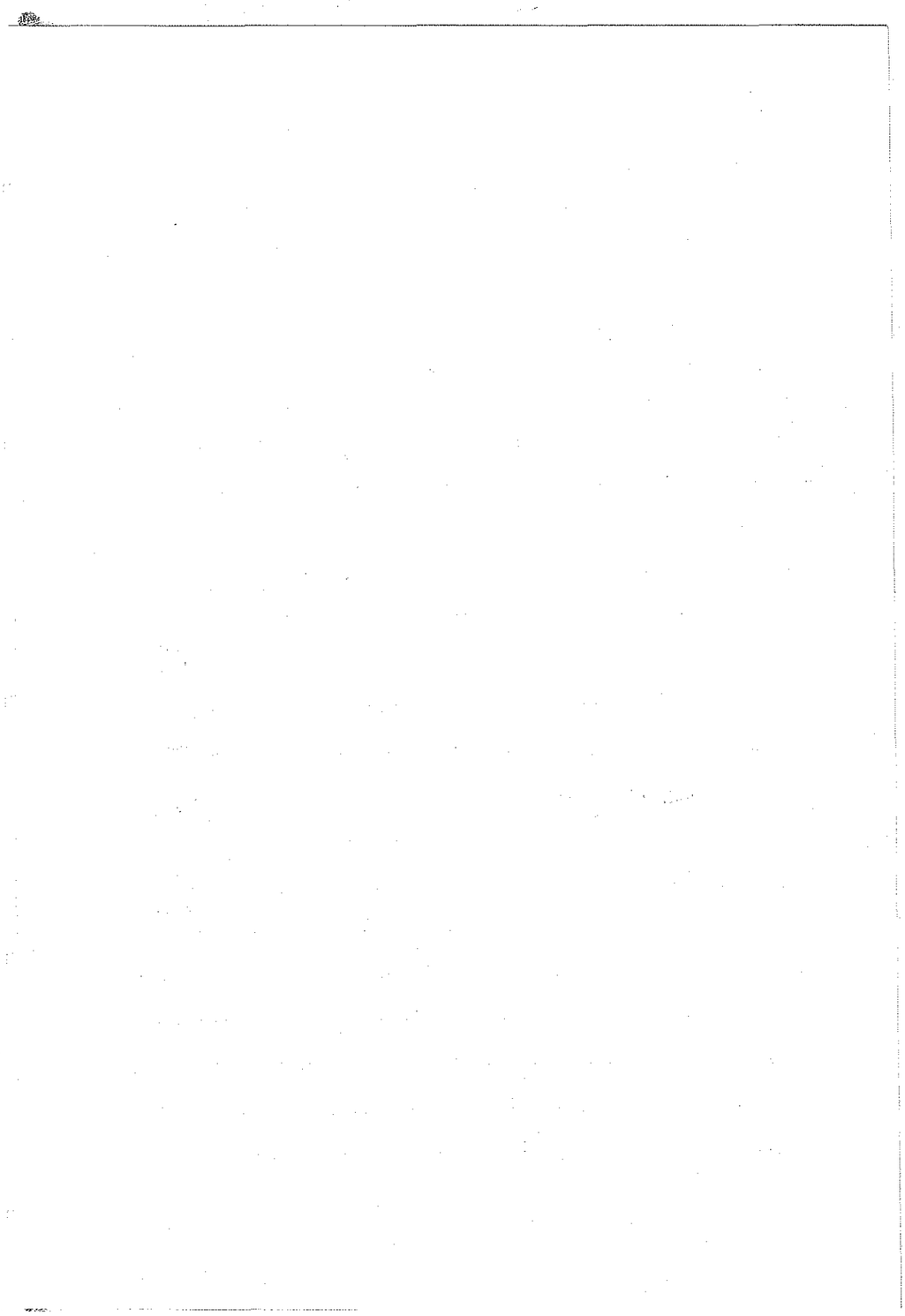
We think it necessary to fully understand the individual circumstances existing in the communist areas and each country, but we should not necessarily concede everything to them. We think it most essential to hold on to the basic policy for licensing patents and knowhows and induce their complete understanding so as to let them agree upon a reasonable conditions and countervalues on a basis globally common, and believe it will be successfully negotiable.

On the other hand, one of the reasons why East-European countries bring up such hard conditions like a counter-trade is their almost drained foreign exchange reserves, so if we could suggest them any attractive financial terms and conditions, then their requests for a counter-trade will likely to ease. This area is believed to be where we should direct our future efforts.

We expect increased instances of joint particpation by U.S. and Japanese firms in a project as it was seen in the Yakutsk natural gas field development project in the Soviet Russia as authorized in 1975, in which a number of American and Japanese industies jointly participated by making the most of their repective advantages.

This report is based on our past experience in technical transfer to East-European nations and our comments are limited to these problems and a few countermeasures thereto. I shall be more than pleased, however, if this report would be of some help to PIPA members in their technical transfer to communist areas or in future technical transfer plans under U.S.-Japan cooperation to any third countries.

Thank you very much.



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Developments in Industrial Property Laws of South East Asian Countries

N. OKABAYASHI
Y. KOYASU
Z. NAKAMURA
(Committee #3)

Some of you may recall that at the last Williamsburg Congress our Japanese group made a brief presentation on the developments in the industrial property system of the South East Asian countries. Since then, there have been further developments in the field of industrial property protection in the South East Asian countries.

In Thailand and Philippines, for example, consideration and debate are now under way for implementation of the proposed new laws. Among those proposed laws or revisions, I think, there are some which are of special concerns to PIPA members.

To begin with, in the way of background for discussions at this Congress, I should like to present a brief outline of changes of industrial property system of some countries in the South East Asia.

I. Philippines

As you may know, in the Philippines, certain portions of the patent law were amended by Presidential Decree No. 1263 dated December 14, 1977, and became effective on January 14, 1978. The amendment is to the licensing provisions of the Chapter VIII of the Patent Law.

Among others, the following are the salient features of Presidential Decree No. 1263, which should be particularly noted.

1. All voluntary license contracts as well as renewals thereof involving payment of royalty for the use of patents shall be submitted to the Technology Resource Center for prior approval and registration.
2. The royalty to be granted in all license contracts shall, whenever entered into between an alien licensor and a Filipino licensee, not exceed five per cent (5%) of the net wholesale price of the articles manufactured under the royalty agreement.
3. The licensee shall be entitled to exploit the invention during the whole duration of the patent in the entire territory of the Philippines.
4. Clauses of the following tenor contained in license contracts shall be null and void:

(a) Those which impose upon the licensee the obligation to acquire from a specific source capital goods, intermediate products, raw materials, and other technologies, or of permanently employing personnel indicated by the licensor;

(b) Those pursuant to which the licensor reserves the right to fix the sale or resale prices of the products manufactured on the basis of the license;

(c) Those that contain restrictions regarding the volume and structure of production;

(d) Those that prohibit the use of competitive technologies;

(e) Those that establish a full or partial purchase option in favor of the licensor;

(f) Those that obligate the licensee to transfer to the licensor the inventions or improvements that may be obtained through the use of the licensed technology;

(g) Those that require payment of royalties to the owners of patents for patents which are not used;

(h) Those that prohibit the licensee to export the licensed product;

5. Any person may apply to the Director for the grant of a license under a particular patent at any time after the expiration of two years from the date of the grant of the patent, under any of the following circumstances:

(a) If the patented invention is not being worked within the Philippines on a commercial scale, although capable of being so worked, without satisfactory reason;

(b) If the demand for the patented article in the Philippines is not being met to an adequate extent and on reasonable terms;

(c) If, by reason of refusal of the patentee to grant a license or licenses on reasonable terms, or by reason of the conditions attached by the patentee to licensee or to the purchase, lease or use of the patented article or working of the patented process or machine for production, the establishment of any new trade or industry in the Philippines is prevented, or the trade or industry therein is unduly restrained;

(d) If the working of the invention within the country is being prevented or hindered by the importation of the patented article; or

(e) If the patented invention or article relates to food or medicine or manufactured products or substances which can be used as food or medicine, or is necessary for public health or public safety.

6. Importation shall not constitute "working".

7. The National Economic Development Authority may, by order, provide that for certain patented products or processes, or for certain categories of such products or processes, which are declared in such order to be of vital importance to the country's defense or economy or to public health, compulsory license may be granted even before the expiration of two years from the grant of the patent. All products or substances and/or processes involved in any industrial project approved by the Board of Investments under the Investment Incentives Act shall be deemed products or substances and/or processes vital to the national defense or economy or to public health. If the product, substance, or process subject of the compulsory license is involved in an industrial project approved by the Board of Investments, the royalty payable to the patentee or patentees shall not exceed three per cent (3%) of the net wholesale price.

8. Any one who works a patented product, substance and/or process under a license granted shall be free from any liability for infringement, provided that in the case of a voluntary licensee no collusion with the licensor is proven. This is without prejudice to the right of the rightful owner of the patent to recover from the licensor whatever he may have received as royalties under the license.
9. Annual fees, application fees and the other official fees were amended and fixed. However, the Director may by rule fix higher fees for nationals from the developed countries.

Furthermore, the Philippine Government is planning to implement a bill to impose a surtax, in addition to the present sales tax due, on locally manufactured products bearing a foreign trademark.

According to the explanatory note on the proposed decree, the Government intends to impose the surtax on certain locally manufactured articles bearing a foreign trademark or tradename under a licensing and trademark agreement providing for the payment of royalties, whenever upon determination and certification of the

Minister of Industry there are similar articles or substitutes thereof bearing local trademarks in sufficient quantity and comparable quality and price. The surtax is imposed in accordance with the following schedule:

(1) 10% up to December 31, 1979;

(2) 17.5% up to December 31, 1980;

(3) 25% from January 1, 1981;

At present, for your reference, the Philippine Government imposes a sales tax of 7% on consumer goods manufactured locally which carry foreign names.

The Philippine Government remarks that the proposal is aimed to encourage the use of local trademarks or tradenames on all locally manufactured products, and that such a legislation is needed to protect local industries from competition by well-known foreign companies.

Some of foreign companies, if the Bill is implemented, may adopt local trademarks in Philippines as an alternative for their brands in pursuit of legitimate avoidance of the proposed tax imposition.

However, it will destroy property rights on publicly accepted foreign trademarks.

Besides, we are afraid that such a legislation should be an obstacle to the importation of technology involving trademarks, which is often the case in technology licensing, resulting in prevention of the desired technology transfer.

II. Taiwan -

A draft of revised patent law has recently been approved by the Ministry of Economic Affairs and is now under consideration in the Legislature. Highlights of the revision are as follows;

1. Changes the essential requirement for a patentable new invention from "having industrial value" to "being capable of industrial utilization". (Article 1)

2. Abolishes the statutory one-year novelty requirement set forth in Articles 2(3) and 96(3) which prohibits patent applications in the Republic of China for any invention or any utility model for which patent application has been filed with a foreign government for over a year, and add a new restriction that new inventions and new utility models are unpatentable if they "make use of conventional technology existing prior to the patent application and the usage is well known and obvious.

3. Changes the commencement date of patent rights granted to a patent application from "its filing date" to "the date of publication" after its approval.

4. Shortens the period for any person or interested party to institute opposition proceedings at the Patent Office against a published patent application from "six months" to "three months" from the date of publication.

5. Deletes the provisions in Article 67 that "the Patent Office may on its own initiative revoke a patent if, in the absence of proper reasons, the patented invention has not been put into practice, or has not been properly put into practice in this country after the expiration of three years from the date of the grant of the patent".

6. Stipulates that the date of publication of an approved patent application shall be the commencement date for payment of annuities.

7. Raises the fines prescribed in the Section of Penal Provisions in order to strengthen the patent protection.

Further to the proposal of the revised patent law, the Ministry of Economic Affairs is planning to draft a revision of the current trademark law and its enforcement rules.

According to the Ministry, the fast economic and business development of Taiwan in recent years has outdated many provisions of the current trademark law and rules, and the revision will be centering on:

1. Prevention of imitation of well-known trademarks and encouraging use of original ones.

2. Stipulation of a guideline for judgement of similarity of trademarks.

3. Specifying the Government's approval conditions for trademark licensing.

III. India -

Section 68 of the Indian Patents Act of 1970 provides that patent assignments and licenses must be recorded in the Patent Office within six months from the execution of the documents or the commencement of the Act. This provision has been in the Indian Act since 1970 but was only brought into force on April 1, 1978.

It will therefore now be necessary to review all existing license agreements and assignments. Future licenses and assignments will have to be recorded within six months from the date of execution. The documents will otherwise become invalid.

If timely recordal is not effected, working by a licensee can not be relied upon as proof of

commercial working in the event of an application for a compulsory license by a third party. Also, an unregistered assignment would not entitle the assignee to sue for infringement.

IV. Thailand -

The legislation is now under way for implementation of the long-awaited Patent Bill which was sponsored by the Government.

Although the text and related details are not as yet available, according to a Thai newspaper, the major requirements in the Bill are as follows:

1. A patentee must initiate working of the invention within three years. If, after a three year period, nothing is done, the Government has the right to allow others to work the invention, following a payment made to the Government for the patent.

2. The Patent Bill allows the Government to withdraw the patent from its owner if working

is not initiated within six years.

3. The term of protection of a patent is 15 years from the grant.

4. The Patent Bill imposes stiff penalty - from one to five years of imprisonment and a fine from 5000 to 50000 baht or both - on those found and charged with imitating others' inventions without legal permission.

5. The patent rights include all categories of inventions except for foodstuffs, drinks, pharmaceutical ingredients and preparations, and products that are contradicted to the good moral, health and social welfare.

6. An invention, which was described in any printed matters either in Thailand or outside Thailand prior to the patent application, is unpatentable.

According to the debate which was held for discussion over the advantages and disadvantages of a patent law to the country, majority of about 560 participants was in favor of the legislation in principle. However, there was minority who expressed

concern over flagging foreign investment in Thailand. Following are excerpts from the Pros and Cons of the implementation of the patent law in Thailand:

Pro-

It is time that Thailand has a patent law to provide protection for new designs and products since the country's industrial development has progressed significantly. The law will also promote and encourage the transfer of new technology in production, and this is necessary for the economic development of the Country. The law will encourage investment, as investors have more confidence in the manufacture of their products if they are protected by law.

Con-

(1) It is not time for the implementation of the bill as Thailand is a poor and developing country which still has to import various kinds of machines from abroad. The imitation of foreign machines will help lessen the country's trade deficit.

(2) Products concerning agricultural and military technologies should be excluded from patent protection on the ground that Thailand still needs technologies in both fields, for the development of the country.

(3) Foreigners and not Thai people will profit from the patent protection which will lead to the monopoly of various inventions.

The foregoing is a brief outline of recent changes of industrial property system of countries in the South East Asia. It should be noteworthy that there is such a country as Taiwan which is directed toward strengthening patent protection, while most developing countries are standing against that direction.

As you are well aware, when more details of the changes of laws, which we have outlined just briefly, become available, it should be studied by all of us carefully so that our own views, constructive thoughts and advice can be made available to people concerned in those countries, to be in the best interests of their countries when viewed from a long-range standpoint. And where appropriate, we should encourage our Governments to get involved.

We firmly believe that few of you would disagree that any erosion of industrial property protection, without proper protection for the creators of technology, can only reduce the incentives needed to obtain transfer of technology, and that, where technology transfer is involved, sound industrial property laws often act as an incentive to encourage the transfer.

REUBEN SPENCER
9/22/78

TRADEMARK DEVELOPMENTS - THE TRADEMARK REGISTRATION TREATY AND THE PROPOSED MODEL LAW ON TRADEMARKS

In my presentation today, I will discuss recent developments in the international trademark area, specifically the Trademark Registration Treaty and the Model Law for Developing Countries on Marks and Trade Names.

The Trademark Registration Treaty, signed at Vienna on June 12, 1973, had a total of fourteen signatory countries by the end of the open period for signature, on December 31, 1973. It will enter into force six months after five States have ratified or acceeded to it. To date, none of the Signatory States has ratified the Treaty. Four States, namely, Congo, Gabon, Togo and Upper Volta have acceeded to it so that one ratification or one more accession is required for the Treaty to enter into force.

I represented PIPA at the Third Session of the TRT Interim Advisory Committee held in Geneva during the period February 21-24, 1978. At the meeting the following countries indicated their position with respect to TRT:

NORWAY, SWEDEN AND FINLAND, which are signatory countries, indicated that final decision on ratification will depend on the positions of their respective trading partners.

PORTUGAL, also a signatory, indicated that its date of ratification would follow that of the United States and the United Kingdom.

SOVIET UNION, while it favors the TRT, will make its accession dependent on that of countries which are not parties to the Madrid Agreement and with which it has important trade relations.

UNITED KINGDOM, a signatory country, does not plan to ratify TRT in the immediate future.

FEDERAL REPUBLIC OF GERMANY AND HUNGARY - ratification will depend on ratification by countries which are not parties to the Madrid Agreement.

JAPAN agrees with the basic concept of TRT but cannot participate until the problems caused by the great number of trademark applications, which have been filed, have been solved, since the time required for examination is not compatible with the system of TRT.

SPAIN AND THE PHILLIPINES are now studying the consequences of TRT for their national systems.

UNITED STATES - In September 1975 the President submitted the Treaty to the Senate with a request for its consent to ratification on the understanding that new legislation in harmony with TRT will be adopted.

The particular problem facing the U.S. is the present requirement that only marks in actual use can be registered, whereas, under TRT, non-use of the mark during an initial period of three years, counted from the filing date, cannot result in refusal or cancellation by any State. However, any State may require that the owner declare his intention to use the mark in that State, and may further provide in its law that no action for infringement may be started until the continuing use of the mark in that State has started and that damages may relate only to the period after use has commenced.

Legislation designed to implement the TRT has been prepared by the U.S. Patent and Trademark Office. Copies of the Implementing Legislation, dated July 11, 1978, are available upon request to The Commissioner of Patents and Trademarks. The Patent and Trademark Office is planning a survey of a random sample of U.S. trademark owners who would have a direct interest in TRT and in the changes required in the U.S. Trademark Law.

The most fundamental change provided by the implementing legislation would permit the securing of a U.S. national registration based on intention to use the mark applied for, and provide for an initial period of three years during which non-use of the mark could not be a basis for refusing or cancelling such registration. However, the proposed legislation provides that infringement actions in the courts would continue to be contingent upon the commencement of use.

There is a sharp difference of opinion in the U.S. among interested parties as to the desirability of making this change. The essence of this change, in our law, is that it would move us from the strict use standard, which is held to only by the U.S., Panama and The Phillipines, to the middle position of having a use, or intention to use, system similar in principle to that of the British.

PIPA was represented by Mr. David M. Mugford at The First and Second Sessions of The Working Group on "The Model Law for Developing Countries on Marks and Trade Names", held in Geneva. The First Session took place during the period November 7-11, 1977 and The Second Session took place during the period June 12-16, 1978.

During The First Session, the first half of the new Model Law was discussed by The Working Group. This portion of the law deals basically with administrative matters relating to the trademark registration procedure. The WIPO Secretariat announced at the beginning of the Second Session that the redraft with commentaries based on the work at The First Session had not been completed. It was stated that, after due reflection, it did not make sense to prepare the redraft until the work of The Second Session was completed. Some of the sections of the second part are so intimately related to sections of the first part that the redraft should constitute the entire Model Law in its entirety.

The second half of the new Model Law deals basically with legal matters. It covers provisions dealing with infringement and legal proceedings by a licensee, assignment and transfer of applications and registrations, contractual licenses, The Office, collective marks trade names, and examination and registration of contracts. The last named provisions are of particular importance for developing countries since their purpose is to prevent restrictive terms in contracts which could be harmful to the economy of developing countries.

One agreement was reached at The Second Session after much debate and explanation by the experts from the developed countries. This agreement is fundamental to the Model Law. It is that the Model Law for Developing Countries is to be a pure registration law with no rights at all to be held by prior unregistered users. They agreed to adopt a transition period similar to that which was adopted in the Benelux Trademark Law. For a period of two to three years, and probably three years after instituting the Model Law, prior unregistered users will be encouraged to register to protect their rights. During this transition period they will be able to claim priority in a country based on their use in that country. After the transition period, the prior local user, who has not registered, has no rights in the trademark and may be sued for infringement and even enjoined by the first registrant.

It was agreed that the Secretariat would attempt to work into the redraft something akin to the "likelihood of confusion" test used in the United States both with respect to actual infringement and "imminent infringement". The latter will be redefined as an infringement which is "about to be committed" instead of one which "will occur".

Further, the redraft will make the award of damages and/or an injunction discretionary and not mandatory in each instance of infringement.

The representatives of the developing countries insisted on maintaining the right of a trademark licensee to sue infringers without the consent of the trademark owner. They also introduced a new provision to the effect that when suit was instituted by the licensee against an infringer, costs (which were not defined) could be assessed against the licensor/owner. The Director/General intervened and stated that such costs should be "reasonable and equitable".

There was a lengthy discussion and debate relating to whether it should be possible under the Model Law to assign and transfer part of the goods or services covered by an application or registration. As a result, the redraft will contain a provision permitting the assignment of something less than all of the goods covered by the application and registration.

At this point in time, something very interesting happened at the meeting. The experts from the developed countries decided that if The Working Group was determined to discuss Section 55 in general and, in particular, "Restrictive Terms", these experts would walk out of the meeting not wishing to lend their names to the production of a Model Law containing provisions which have no place in a model trademark law. It would appear that this is the first time that experts from developed countries proposed to leave a WIPO session on the basis of a total disagreement with the content of a proposed draft. Apparently, the Director/General instructed the Deputy Director/General to inform The Working Group that in view of the fact that the provisions of Section 55 are the same provisions that were in the original draft of the Model Law on Inventions and, since The Working Group on Model Law Inventions has made total revisions in the draft of that model law, it did not make sense to discuss Section 55 until after The Working Group on the Model Law on Inventions met again in an attempt to reach an agreement on their draft. This was a diplomatic way of deferring the matter and avoiding the confrontation between the International Bureau of WIPO and the experts from developed countries. It is now proposed that there be a fifth meeting of the Trademark Working Group to specifically discuss the provisions of Section 55 after the Inventions Working Group meets again on this subject.

Time does not permit a discussion of other points that were debated at the sessions. However, it would appear that the redraft of the second part and possibly the redraft of the first part will contain substantial revisions as compared with the original drafts. These redrafts will contain commentaries and will require careful study.

PLANS OF JAPANESE COMPANIES FOR THE FOREIGN FILING UNDER THE EUROPEAN PATENT CONVENTION AND/OR THE PATENT COOPERATION TREATY

--- On Results of Survey by Questionaire ---

October 6 , 1978
PIPA Nagoya Meeting
Japanese Group Committee No. 3
Kiyonori Mizumoto
Kano Yamaguchi
Kazuhisa Imai

Introduction:

The Japanese Group Committee No. 3 carried out a survey by the questionaire to sixty one (61) companies of PIPA members on the above subject during the period from late July to early August. A copy of the questionaire is attached --- Annex 2, pages 16 - 19. We would like to roughly introduce the results of the survey. The period for the survey was just after the start of EPC and before the start of PCT. Therefore we set up the main object of the survey in grasping general tendency among member companies. It seems too early to analyze the background of each item of the questionaire in detail. So we would like to report mainly the statistical results of the survey.

The questionaire took a form of multiple choice questions to get answers from many companies as possible and minimized questions in the form of descriptive answers. Questions are mostly relating to EPC which has already started and some for PCT in connection with EPC. Due to time limitation, it is difficult to explain the results of the survey in detail here. We just comment on the outline of the survey and topics concerned. With respect to the results in detail please see the attached table. (Annex 1, pages 14 and 15).

1. Items of the Survey

Main items of the survey are as follows:

1) Status-quo of use of EPC application
2) Pattern of EPC application
3) Plan to use PCT application

2. Answerers and their filing activities for foreign applications

Fifty five (55) companies out of sixty one (61) answered to the questionaire. They are, more specifically, twenty eight (28) companies in the field of chemical industries, seventeen (17) companies in the field of electric and electronic industries, and ten(10) companies in the field of mechanical industries. With respect to the filing activity for foreign patent applications in the year of 1977, fifty three (53) companies answered. The total number of inventions comes to 3,088 and the total number of countries filed comes to 10,513 in the year of

1977 (average number per company is 58 inventions and 198 countries), among which the proportion including EPC contracting states is up to 49%.

When we look into the interrelation among the industries, there is a difference in trend. Namely, the number of inventions in the field of chemical industries is not large. Instead, the number of countries filed per invention is many and its average shows six (6) countries. To the contrary, the number of inventions in the fields of electric, electronic and mechanical industries are large but that of countries filed per invention is relatively small. The number of countries filed are, in average, 3.6 per invention in the fields of electric and electronic industries and 2.6 per invention in the field of mechanical industries respectively. Meanwhile, considering as an electic and electronic groups, i.e. if taking the ratio of "total number of countries filed by the companies in the fields of electric and electronic industries" and "total number of inventions from them", the figure changes to 2.9. Except for electric and electronic group, there are few changes in their figures. The proportion of applications in the field of mechanical industries to EPC contracting states is less than that of applications in the fields of chemical, electric, and electronic industries.

On the other hand, the number of applications by each company varies largely. Looking from the point of

number of countries filed in 1977, the above fifty five (55) companies are divided into two groups bordering one hundred (100) countries, i.e. a group comprising twenty eight (28) companies who filed in less than 99 countries in total and the other group comprising twenty seven (27) who filed in more than 100 countries in total.

3. Outline of the results of the survey

As mentioned in the first part, due to the early timing of the survey, it is learned that some of the answerers were not yet familiar with EPC and PCT, and that some of their answers seemed patterned and uniformed.

The attached table on pages 14 and 15 shows the results of the survey. It is expected that if the same survey is carried out one or two years after, it may show another results through the actual practices.

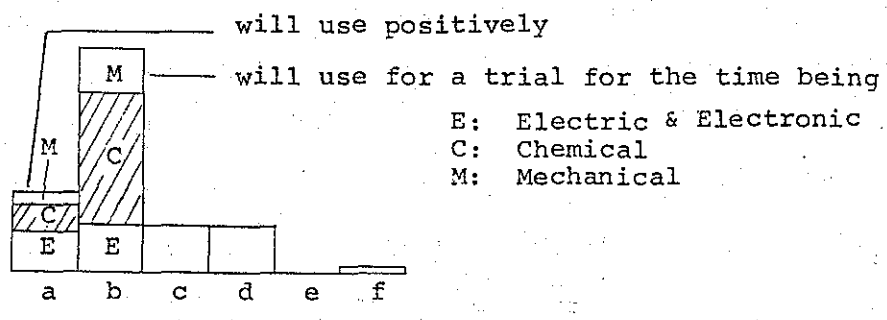
(1) Status-quo of use of EPC application (including future use)

Questions 1) and 2) Filing statistics and Plan

Nine (9) companies answered that they have already filed EPC applications and five (5) companies are now preparing EPC applications. If the above five companies are included, they account for 25% of the total answers. The companies which have not yet filed account for 75% of the total answers, but 41% of such companies are planning to file within a year. In general, companies belong to the group filed more than 100 applications in 1977 as explained above are considering more frequent and positive use of EPC applications.

Question 3) Future attitude

62% of the total companies answered that they would "use as a trial" and 28% answered to "use positively". This passive tendency is particular in the field of chemical industries. It is supposed that they are at present seeing the run of EPC application which has just started, holding down their wish to use EPC application.



Question 4) Reasons for filing EPC applications

Major answers are:

"to save filing expenditures" (74%)

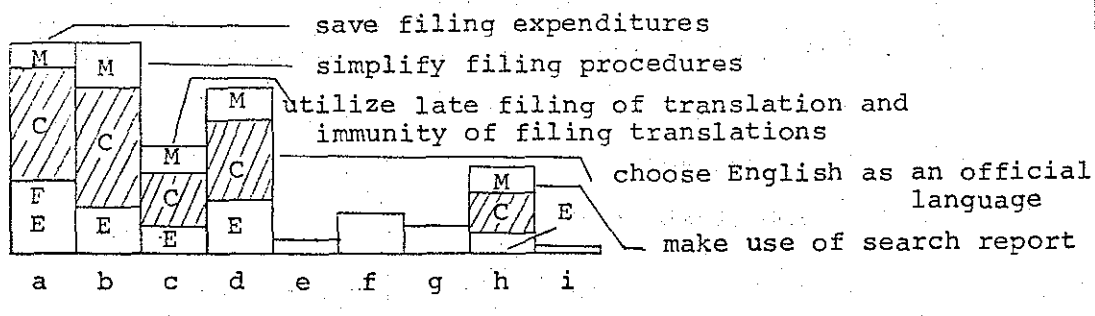
"to simplify filing procedures" (74%)

"to select English as an official language" (58%)

The nexts follow the above three:

"to utilize late filing of translation and immunity of filing translations in certain states" (37%)

"to make use of search report" (30%)



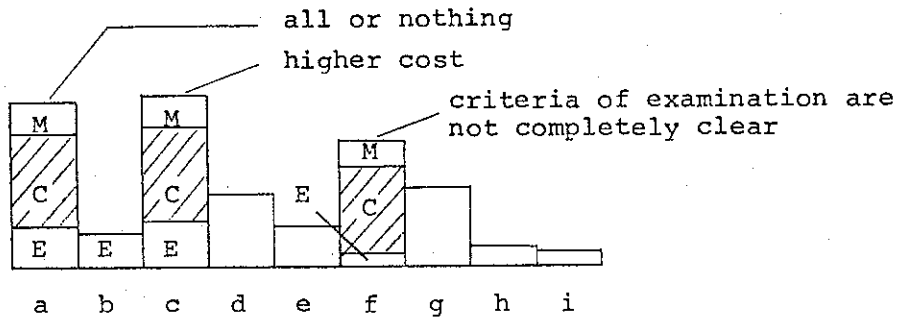
Question 5) Reasons for not filing EPC applications

The following two are dominant:

"it may result in higher costs when a small number of countries are designated" (72%)

"it may result in all or nothing" (69%)

It is noted that 65% of the companies in the field of chemical industries answered "criteria of the examination are not completely clear". It seems that in chemical field, criteria of examination give delicate influence to the applications.



Question 6) Criteria of selection of EPC route or national route

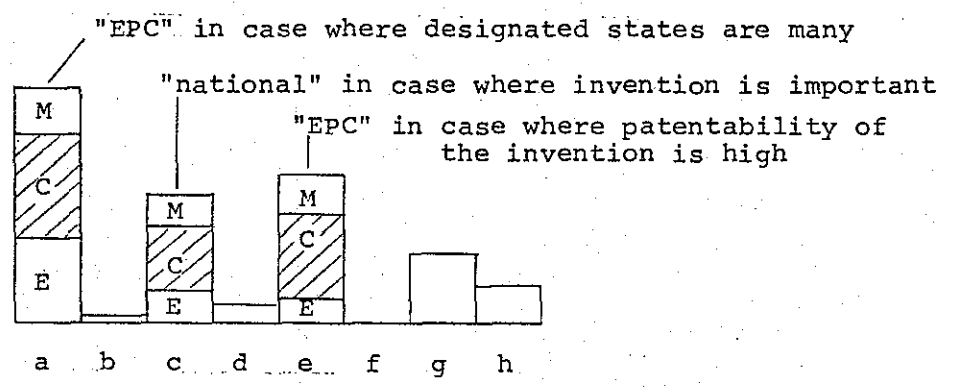
The following three are dominant:

"EPC application in case where the designated states are many" (69%)

"EPC application in case where the patentability of the invention is high" (44%)

"national application in case where the invention is important" (38%)

87% of the companies in the fields of electric and electronic industries answered that they will file "EPC application in case where the designated states are many".



(2) Pattern of use of EPC applications

Question 1) Language

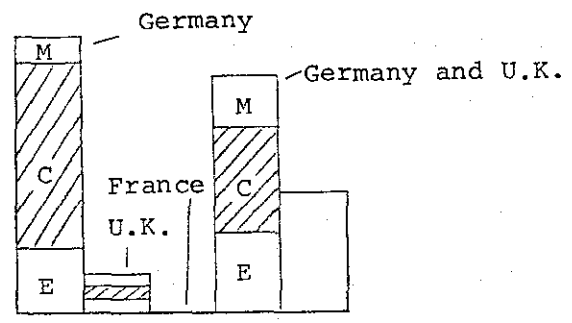
All answered "English". And only one company answered they will use both "English" and "German".

Question 2) Nationality of attorney

41% of answerers selected West German patent attorneys and 35% selected both West German and British patent attorneys. Only 6% selected British patent attorneys. In the field of chemical industries, 54% selected West German but in the fields of electric, electronic and mechanical industries, many companies selected both West German and British. So far as the companies who have already filed or are preparing EPC applications within a year are concerned, they selected both "West German" and "British". Such companies account for 52%.

To the contrary, the other companies unforeseeing EPC applications selected "West German" solely and they account for 55%. No company selected French patent attorneys.

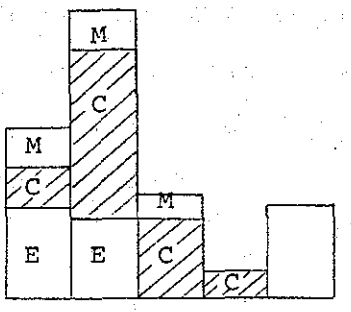
As the reasons for their selection, many companies answered that "West German Patent Law Practice should be influential over EPC" and that "it is convenient to use attorneys having their offices in West Germany". We can see from these answers that the background of inactment of the Law and a geographical advantages bring large influence.



Question 3) Number of designating states under EPC

The companies thinking it appropreate to designate more than four states account for 42%. The companies designating more than three states account for 25%, and those designating more than five states account for 15%. Two companies in the field of chemical industries answered "more than seven states". The companies in the fields of

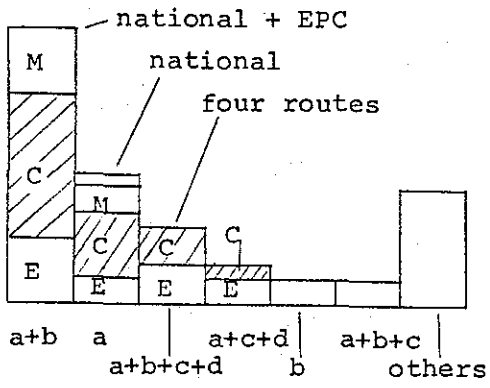
electric and electronic industries are just divided into two groups, one answered "more than four states" and the other "more than three states". But no company answered "more than five states". The companies, in the field of chemical industries, answered "more than three states" are a few, and those answered "more than five states" account for 21%. This shows that this is coming from a fact that the companies in the field of chemical engineering are filing more patent applications in the EPC contracting states than those by the companies in the fields of electric, electronic and mechanical industries.



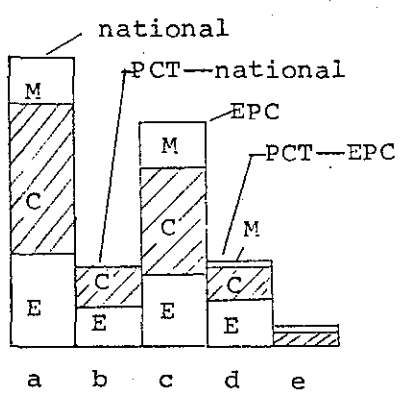
more than 3 4 5 7 others

Question 4) Patent filing route for European states

The answers of both national filing route and EPC filing route account for 40% of the all answers. The answer of "national filing route only" comes next and account for 17%.



On the other hand, looking from the filing route selected solely or in combination, 83% answered to use "national application". 64% answered to use "EPC application". With respect to EPC application, the number of answers from the group which filed the application more than 100 in 1977 is two times of that of the other group which filed less than 99. No company selected "PCT application" solely but 47% of the companies answered that they would use the PCT route in combination with other filing routes. It is noted that only one company in the field of mechanical industries selected "PCT route".



As the best reason for selecting "national application", answerers selected "skilled in the procedure". For the EPC application, they pointed out the fact of "linguistical advantage". For the EPC application under designation in PCT, which was selected by a few companies, answers of "use of search report" and "late filing of translation" were found relatively many.

(3) Use of PCT applications

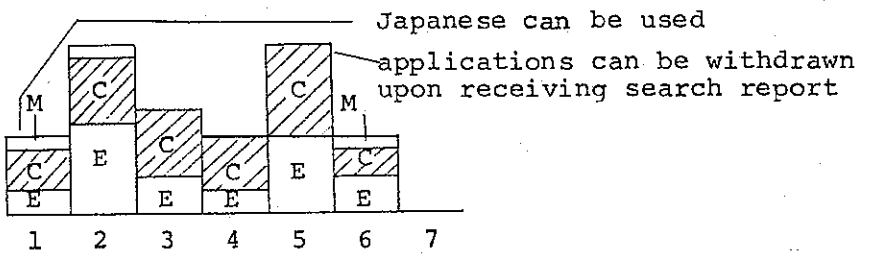
Only 31% of the companies answered "they plan to use PCT applications". Reasons for use of PCT application are to "use of search report" and to "avail filing in Japanese language". 56% answered that they "will not use except for special cases". The reasons are that "PCT applications result in higher cost" and "few cases may be withdrawn upon reviewing the search report". It is very interesting that answerers have two opposite evaluation concerning the search report. One is affirmative and the other is negative. They are balanced in the percentage so far as the survey is concerned.

Let me show you here the difference of answers in each industry. The proportion of answers "planning to use" and "will not use except for special case" is 1 to 1 in the fields of electric and electronic industries, 2 to 3 in the field of chemical industries, and 1 to 9 in the field of mechanical industries. It is clear that

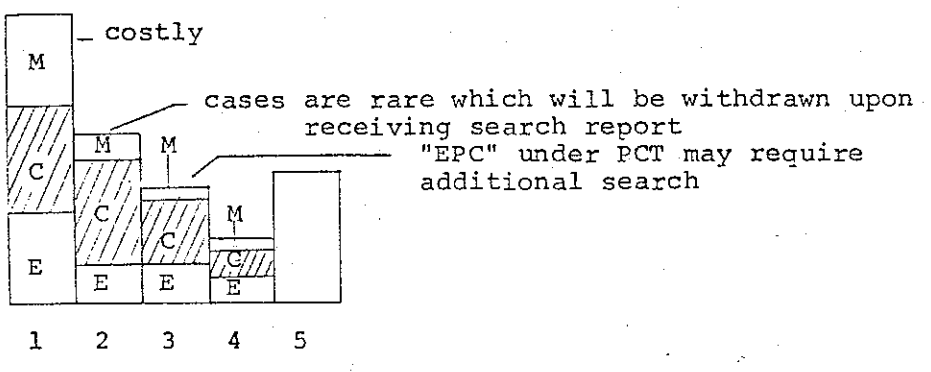
the companies in the field of mechanical industries are very pessimistic to the PCT application. Three companies among the all companies answered they "will not use PCT even in the future".

PCT has not yet been started at the time of this survey. It is assumed that PCT was still unclear to the answerers and that such unclearness made them select the answer of "not use except for special case".

Reasons for using PCT



Reasons for not using PCT except for special case



These are the outline of the survey. In addition to the above, several issues were pointed out as a request for or an uncertainity of EPC applications. They are as follows:

"unclear criterion on examination under EPC"

"discordance between EPC examination criterion and national examination criterion"

They seem to be the large reasons of hesitation to the EPC application. In addition, there is a demand to expand the fields of examination. There is also a complaint on the time limit for request for examination which became shorter than that of West Germany and Netherlands.

Finally, again we would like to mention that the survey was conducted just after the start of EPC and before the start of PCT. Many companies might not be given enough time to understand the new systems.

If the same questionaire is given to them one or two years later, results will be more definite and specific. It will be interesting to know how the attitude of companies change in the future. It would be also very interesting that the same questionaire will be applied to the U. S. companies as well as Japanese companies and results of such questionaire will be reported at the same time at the same place.

Results of the Questionaire

Annex 1

Number of answerers	Item		Total	Type of Industry			Total Number 1977	
				Electric	Chemical	Mechanical	less than 99	more than 100
55	Number of companies			17	28	10	28	27
Q1. Status-quo of use of the EPC application								
55	(1)	a	9	1	5	3	2	7
		b	5	3	2	0	2	3
		c	41	13	21	7	24	17
41	(2)	a	17	7	7	3	6	11
		b	16	4	9	3	14	2
		c	8	2	5	1	4	4
55	(3)	a	12	6	4	2	7	5
		b	34	7	20	7	11	23
		c	7	3	4	0	7	0
		d	7	3	2	2	6	1
		e	0	0	0	0	0	0
		f	1	0	1	0	1	0
43	(4)	a	32	11	17	4	12	20
		b	32	7	18	7	14	18
		c	16	4	8	4	6	10
		d	25	8	12	5	11	14
		e	2	1	1	0	1	1
		f	6	2	1	3	3	3
		g	4	1	2	1	2	2
		h	13	3	6	4	5	8
		i	1	0	1	0	1	0
36	(5)	a	25	6	14	5	11	14
		b	5	2	2	1	3	2
		c	26	7	14	5	13	13
		d	11	1	9	1	4	7
		e	6	1	5	0	3	3
		f	19	2	13	4	10	9
		q	12	1	8	3	4	8
		h	3	1	2	0	1	2
		i	3	1	2	0	3	0
52	(6)	a	36	13	16	7	16	20
		b	1	0	1	0	0	1
		c	20	5	10	5	7	13
		d	3	1	0	2	1	2
		e	23	4	13	6	10	13
		f	0	0	0	0	0	0
		g	11	3	6	2	6	5
		h	6	2	3	1	6	0

Number of answerers	Item		Total	Type of Industry			Total Number filed in 1977	
				Electric	Chemical	Mechanical	less than 99	more than 100
Q2. Pattern of use of the EPC application								
51	(1)	a	50	14	27	9	24	26
		b	1	0	0	1	1	0
		c	0	0	0	0	0	0
51	(2)	West German	21	5	14	2	12	9
		British	3	1	1	1	2	1
		French	0	0	0	0	0	0
		West German & British	18	6	8	4	6	12
		others	9	3	3	3	5	4
52	(3)	more than 3	13	7	3	3	3	10
		more than 4	22	6	13	3	13	9
		more than 5	8	0	6	2	3	5
		more than 7	2	0	2	0	1	1
		others	7	2	4	1	6	1
53	(4)-1	a	44	14	23	7	18	26
		b	12	6	6	0	3	9
		c	34	11	16	7	11	23
		d	13	7	5	1	4	9
		e	3	0	2	1	3	0
	(4)-2	a,c	21	5	11	5	7	14
		a	9	2	6	2	9	1
		a,b,c,d	6	3	3	0	0	6
		a,c,d	3	2	1	0	2	1
		others	13	4	6	3		
Q3. Use of the PCT application								
54		a	17	7	9	1	6	11
		b	30	7	14	9	17	13
		c	3	1	2	0	2	1
		d	4	1	3	0	3	1
	a	1.	6	2	3	1	3	3
		2.	13	7	5	1	4	9
		3.	8	3	5	0	3	5
		4.	6	2	4	0	0	6
		5.	13	6	7	0	4	9
		6.	6	3	2	1	3	3
		7.	0	0	0	0	0	0
	b	1.	22	7	8	7	10	12
		2.	13	3	8	2	6	7
		3.	9	3	5	1	6	3
		4.	5	2	2	1	3	2
		5.	10	3	4	3	6	4

Annex 2

QUESTIONAIRE ON EPC APPLICATIONS

[Note] Answer in writing may be filled out in underlined blanks if so required. Appropriate items of the multiple choice questions may be given with a check [✓] in the corresponding brackets.

QUESTIONS:

Your Corporate Name:

Type of Industry: [ ] Electric, [ ] Chemical, [ ] Mechanical

1. On status-quo of use of EPC application (including future use)

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

      a.[ ] yes, b.[ ] now preparing, c.[ ] no

   2) To those who answered "no" in the foregoing 1-1):

      Are you planning to file an EPC application within a year?

      a.[ ] yes, b.[ ] no, c.[ ] others (in detail:___)

   3) What is your future attitude to the EPC? (For the purpose of this questionaire, suppose there is no restriction on fields of technology which will be examined before the EPO.)

      a.[ ] will use positively
      b.[ ] will use for a trial for the time being
      c.[ ] will decide upon considering other corporations' use
      d.[ ] will not use for a while
      e.[ ] will not intend to use in the future
      f.[ ] others (in detail:_____)

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

a.[ ] to save filing expenditures
b.[ ] to simplify filing procedures
c.[ ] to utilize late filing of translation and immunity of filing translations in certain Contracting States (Germany, etc.)
d.[ ] to choose English as an official language
e.[ ] easy to obtain patents in such the Contracting State like Netherlands which has high examination standard
f.[ ] rights in examination-free states may be stabled and strengthened
g.[ ] to expect a future transfer to CPC (Community Patent Convention)
h.[ ] to make use of search reports
i.[ ] others (in detail:_____)

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

a.[ ] it may result in all or nothing (reasons for refusal found will be applicable in all the designated states)
b.[ ] it may involve complicated procedures
c.[ ] it may result in higher costs when a small number of Contracting States are designated
d.[ ] oppositions may be lodged more likely than the current national applications
e.[ ] examiners have not yet got accustomed to handling EPC applications
f.[ ] criteria of examination are not completely clear
g.[ ] it newly posed a difficulty in obtaining patents in examination-free states
h.[ ] it is required to submit translation of the priority documents
i.[ ] others (in detail:_____)

6) Which do you choose, EPC application or national application? And what is your criteria for your choice?

a.[ ] EPC application in case where the designated states are many
b.[ ] EPC application in case where the invention is important
c.[ ] national application in case where the invention is important
d.[ ] both EPC application and national application in case where the invention is important

e.[ ] EPC application in case where patentability of the invention is high
f.[ ] national application in case where patentability of the invention is high
g.[ ] even among EPC contracting states, the filing of application will be either on EPC route or on national route in view of convenience
h.[ ] others (in detail:_____)

2. Pattern of EPC application

1) Which language do you use for filing EPC applications?

a.[ ] English, b.[ ] German, c.[ ] French

2) With respect to your patent attorney for EPC applications, which nationality do you choose?

[ ] Germany
[ ] United Kingdom
[ ] France
[ ] none, but preferably _____
[ ] others (in detail:_____)

3) What number of designated states will be favorable for your EPC application?

[ ] approximately more than _____ states
[ ] not definite
[ ] others (in detail:_____)

4) To obtain patents in Europe, which route of application do you choose? What is your reason for such choice?

Note: For the purpose of this questionaire, suppose that the Japanese application is the first application. You may choose in plural.

a.[ ] national applications
reasons [*]
b.[ ] national application under PCT
reasons [*]
c.[ ] EPC application
reasons [*]
d.[ ] EPC application under PCT
reasons [*]
e.[ ] others
reasons [*]

* Choose the number of appropriate reason from the following and fill out the corresponding bracket above.

1. simple procedure
2. skilled in the procedure
3. economical reason
4. linguistically advantageous
5. large number of designating states
6. advantageous for an urgent application
7. availability of search reports
8. enough time allowance for request for examination (possible to delay your final decision)
9. enough time allowance for submitting translations
10. feasibility of early grant of patent
11. stability of granted rights

3. On PCT

Do you plan to use PCT for foreign patent applications?

a.[ ] yes
b.[ ] generally no, excepting special cases
c.[ ] definitely no
d.[ ] others (in detail:_____)

To those who answered "yes" in the foregoing 3-1):

Please choose reasons for your answer from the following.

Reasons:
1. simplified application
2. Japanese language can be used at first
3. enough time allowance is available for submission of translation
4. applications can involve many states with simple procedures and inexpensive cost
5. applications can be withdrawn upon receiving the search report
6. advantageous for an urgent application
7. others (in detail:_____)

To those who answered "generally no, excepting special cases" in the foregoing 3-1):

Please choose reasons for your answer from the following.

Reasons:
1. economically disadvantageous (costly)
2. cases are rare which will be withdrawn upon receiving the search report
3. EPC application under PCT may require an additional search
4. USA retains various reservations on PCT so applicants may not take substantial advantage under PCT
5. others (in detail:_____)

REVISION OF THE PARIS CONVENTION

(by M. Kalikow)

Ladies and Gentlemen:

In this report, I would like to outline the matters which have been, or are being, discussed by WIPO's Preparatory Intergovernmental Committee on the Revision of the Paris Convention in preparation for the forthcoming Diplomatic Conference. For convenience in considering these matters, I have divided them into (1) general matters, (2) trademark matters, and (3) patent matters. I will also try to give you some evaluation of the status of the discussions pertaining to each matter, and the likelihood that the Paris Convention will be revised with respect thereto, as well as some observations concerning the importance of some of these revisions from the viewpoint of American industry, and concerning the difficulties which may be involved in trying to achieve a meaningful Diplomatic Conference. In discussing these matters I will be referring in most cases to the positions which have been taken by three groups of countries; namely:

1) The developing countries,
2) The developed capitalist countries referred to as the "Group B" countries, and
3) The Soviet Bloc countries, referred to as the "Group D" countries.

First, let us consider matters which apply generally to the entire Paris Convention. The more important of these are:

1) The Declaration on the Objectives of the Revision;
2) Preferential treatment without reciprocity for nationals of developing countries; and
3) Unanimity or qualified majorities for revisions approved by the Diplomatic Conference

The "Declaration on the Objectives of the Revision of the Paris Convention" was promulgated by the group of developing countries. The Declaration sets forth the general principle that industrial property rights should be used "to contribute to the establishment of a new economic order" and in particular through the industrialization of developing countries". The Declaration also states that "as far as revision of the Paris Convention is concerned..... exceptions and/or correctives to the principles of national treatment and independence of patents, and preferential treatment for developing countries should be allowed". This Declaration of Objectives caused great concern in the United States and among the developed countries that the developing countries might attempt to incorporate this Declaration as a preamble or introduction to the Paris Convention itself or that the Declaration might be used to justify certain revisions to the Paris Convention which were not desirable from a professional viewpoint, or not of general application or benefit to the member states.

Apparently, because of these concerns and objections, this Declaration has not been pressed or relied upon by the developing countries during more recent WIPO meetings, and it is doubtful if there will be an attempt by the developing countries to incorporate this Declaration as a part of the Paris Convention itself. On the other hand, there may be an attempt to use this Declaration as a "theme" or basis for the deliberations of the forthcoming Diplomatic Conference.

With respect to the question of preferential treatment without reciprocity for nationals of developing countries, two areas of such possible preferential treatment have been proposed -- one relating to an extension of the priority period and the other relating to a reduction in official fees.

Under the first proposal, the nationals of developing countries would be given more than the normal one-year priority period in which to file their inventions in other countries. This proposal has met with almost unanimous objections by all the Group B (developed) countries and Group D (Soviet Bloc) countries, on the grounds that it would be almost impossible to administer. Moreover, the need for some further extension of the priority period is presumably now somewhat satisfied by the provisions of the Patent Cooperation Treaty. Accordingly, this proposal for extension of the priority period has little chance of success.

However, the idea of preferential reduction of fees in favor of developing country nationals has gained some limited support even though it has been objected to by the Group B countries as an unwise departure from the basic principle of equal national treatment. For example, a proposal to allow any developing country to charge nationals of any other developing country only half the fees charged to nationals of developed countries was supported by the Soviet Group D countries. On the other hand, a proposal to require the developed countries to charge developing country nationals one-half the fees charged to their own nationals was objected to by both the Group B and Group D countries. Nevertheless, the Group D countries indicated that they might approve a proposal to permit such fee reduction to be agreed to by any developed country when requested to do so by a developing country. Further discussion of this subject by WIPO has now been closed, and it has been placed on the agenda of the Diplomatic Conference. In my judgment, this area of reduction of fees is one where the Group B countries may be willing to make some concessions at the Diplomatic Conference.

The problem of unanimity vs. qualified majority for any revision of the Paris Convention is much more controversial and much more important. As you know, throughout the long history of the Paris Union, any proposed amendment has heretofore not been adopted unless it was unanimously supported by the member countries. The developing countries now wish to abandon this unanimity rule and substitute a qualified majority such as two-thirds or five-sixths, or even as high as nine-tenths. This whole subject was raised quite early in the WIPO deliberations as a result of a comprehensive study by the Director General, but has not been recently discussed.

However, this question is extremely important and will undoubtedly be raised again, either at some forthcoming WIPO meetings or at the Diplomatic Conference itself. When it is, it is the viewpoint of American industry that we should do our best to oppose any change in this unanimity rule. This is because the ultimate objective of a Diplomatic Revision Conference is not merely to develop and agree upon a set of proposed amendments which are to be included in a revised text, but rather to provide a revised text which will thereafter actually be adopted and ratified by the countries of the Union that are to be affected thereby. If a proposed revision is eventually not adopted by several countries because such countries do not agree with one or more of the proposed amendments, the universality and uniformity in the application of the Paris Convention will soon be destroyed, and the issuance of the controversial revised text by the Revision Conference will have done more harm than good.

It should also be recognized that the unanimity rule protects all countries, regardless of their stages of industrial development, and regardless of whether they process over 100,000 or less that 100 patent and trademark applications each year. Obviously, a failure to ratify a revised text

by only a very few major countries such as the United States, Japan and Germany which together process a major percentage of the world's patent applications will have a very serious effect upon our international patent system, even if such revised text may be favored by a very high "qualified majority" of developing and other countries.

Let us now briefly review some of the specific trademark and patent matters which are being considered for revision.

With respect to trademarks, the more important matters relate to:

1) Article 5 C 1 pertaining to the term for requiring use of the marks;
2) Article 6 pertaining to the independence of marks;
3) Article 7 pertaining to the nature of the goods as an obstacle to registration; and
4) The conflict between a trademark and an appellation of origin (geographical name, etc.).

As you know, Article 5 C 1 now merely states that registration of a mark may be cancelled only after a "reasonable" period of non-use. The developing countries desire to have a definite short period specified. The American group would be willing to specify a period of five years. Agreement on this matter should be achievable.

With respect to independence of marks, there was some early discussion of a proposal that a mark be cancellable if the home country registration is dropped or becomes invalid. This was opposed by almost all developed countries on the grounds that trademark usage and validity must depend solely on national law. It will probably not be pressed by the developing countries.

Under the pretense of discussing the "independence of marks" Yugoslavia, at the most recent WIPO meeting, raised the question of whether the nature of the goods should be permitted to "form an obstacle to the registration of the mark" in contravention to Article 7(a). The Yugoslavian delegate argued that there was an undesirable proliferation of marks on some pharmaceutical products and that Article 7 should therefore be deleted. The Group B countries objected to any such deletion. This is obviously a serious matter and could become an important item for the agenda of the Diplomatic Conference.

However, the most difficult and controversial trademark matter is the problem of conflict between trademarks and appellations of origin. At the outset, it should be noted that this question involves not only the products of developing countries, such as Colombian or Brazilian coffee, but also the products of developed countries, such as "Swiss" cheese or"Champagne" wine. The subject is so complex that WIPO has recently drafted two completely new international agreements for the "International Protection of Appellations of Origin and Indications of Source" which are now being separately studied. The Committee for Revision of the Paris Convention has also established a working group on this subject. One of the specific tasks of this working group is to recommend whether the protection against trademark registration of Article 6 should be extended to cover the names of states. The Director General has also been asked to prepare a study on the subject. In my opinion, it is doubtful whether sufficient progress will be made in the time remaining before the Diplomatic Conference to be able to reach any meaningful consensus as to what should be done on this subject at the Conference.

Turning now to patent matters, the principal subjects which have been or are being discussed relate to:

1) Process patents - Article 5 quarter;

2) Definition of patents vs. inventors certificates - Article 1, paragraphs (1) through (4);

3) Relationships between patents and inventors certificates - Article 1, new paragraphs 5(a) through 5(e); and

4) Working requirements - Article 5A.

With respect to process patents, Article 5 quarter requires that such process patents should apply to imported products to the same extent as they apply to locally manufactured products. Some developing countries wish to delete this article, presumably in order to be able to prevent the application of process patents against imported products. This deletion has been opposed by the Group B countries. However, the matter will be placed on the agenda of the Diplomatic Conference.

With respect to the definition of patents vs. inventors' certificates, Article 1, paragraphs (1) through (4) as amended, have now generally been agreed to by both the Group B and Group D countries.* This is one of the major accomplishments of the preparatory discussions.

*According to these definitions in Article 1, paragraph 2(b):

" ...patents are titles by virtue of which their holders have, depending on the national law, either the exclusive right, for a limited period of time, to exploit the inventions patented or the right to prevent others, for a limited period of time, from the exploitation of the inventions patented, whereas inventors' certificates are

(i) titles by virtue of which their holders have the right to compensation and other rights and privileges as provided in the national law of the country having granted them and by virtue of which the right to exploit the invention belongs to the State or the exploitation of the invention by others requires the authorization of a State authority, or

(ii) titles by virtue of which the holder retains the right to exploit the inventions and to receive remuneration from others for their use of the inventions, approved by the national authority, but receives no right to exclude use of the inventions by others. "

However, the whole question of the relationship between patents and inventors' certificates is still very much unsettled. The Group B countries have drafted one set of proposals as Article 1, paragraph 5(a) through (e) while the Group D countries have a second set. The main difference between the two sets is that the Group B set makes it clear that for any field of technology in which inventors' certificates are available to their own nationals, patents must also be available to the nationals of other countries unless such other country does not grant patents in such field of technology. The Group D set would give any country the right to protect inventions in any field of technology by "either only patents or only inventors' certificates if it is required by reason of public interest or the development of the national economy".

Another important difference is that the Group B set makes it clear that all the substantive conditions and procedures for grant, for opposition, for annulment, and for term of protection must be the same for both patents and inventors' certificates before the provisions of the Convention which apply to patents can also apply equally to inventors' certificates.

At the last meeting, the Working Group on inventors' certificates requested the Director General to prepare a new proposal which would be considered as an additional text for further discussion in the Working Group. It is, of course, hoped that the proposal of the Director General will embody compromise language that is acceptable to both Groups. In this connection, however, it should be noted that if no such compromise is reached, Article 4, Section I, which gives priority rights to an applicant for an inventors' certificate only if patents are optionally also available, shall continue to govern the situation.

The subject of working requirements for patents is probably the most controversial of all the matters being discussed at these WIPO meetings. These discussions have resulted in the drafting of an extensively revised Article 5A which more specifically sets forth the various sanctions or other measures which a country may adopt to promote working of the patent. The most important substantive changes made by these revisions are:

1) That developing countries which provide for a proper system of non-voluntary (compulsory) licenses may also provide for forfeiture of the patent after a specified period of years from grant (paragraph 8(b)); and

2) That any country may "in special cases where exclusive licenses are necessary to insure local working" grant exclusive, non-voluntary licenses for a specified period of years"(paragraph 6).

The discussion on these revisions of Article 5A was completed by the Working Group some time last year and the matter was placed on the agenda of the forthcoming Diplomatic Conference.

In general, the Group B countries have indicated that except for the question of exclusive non-voluntary licenses, they would not object to most of the revisions but would argue about the number of years specified before either non-voluntary licenses or forfeiture could be invoked. However, the Group B countries, and particularly the United States, have strongly objected to paragraph 6 providing for exclusive non-voluntary licenses. It will be appreciated that the granting of such exclusive, non-voluntary licenses would be a more drastic remedy even than forfeiture, since it would also operate against the patent owner and thus constitute an expropriatcn of the patent.

This matter was raised again at the last WIPO meeting by the U.S. delegation who requested re-examination of this provision. The developing countries refused to allow the question to be reexamined at this time and the matter will be left for debate at the Diplomatic Conference.

At the present time, the next Diplomatic Conference for Revision of the Paris Convention is scheduled for late 1979 or early 1980. As you can see from the summary I have just made of the various subjects to be discussed, there are a great many points upon which agreement has not yet been reached. Moreover, on many points, the preparatory discussions have been highly unsatisfactory and sometimes even acrimonious. Because of this, there is a real possibility that any such Diplomatic Conference may not be able to resolve the many differences which still exist and the Conference will accomplish very little.

Accordingly, it may be desirable that the Diplomatic Conference be postponed as long as possible and at least until a better consensus is reached on such controversial matters as:

1) Unanimity vs. qualified majorities for revision;

2) Conflict between trademarks and appellations of origin;

3) Relationship between patents and inventors' certificates; and

4) Exclusive non-voluntary licenses as a remedy for non-working.

PIPA may also wish to make its position known on some of these controversial matters in order to help reach such a consensus.

M. Kalikow/sk
September, 1978

Some Main Topics and Recent Development

on WIPO Meetings for Revision of the Paris Convention

Takashi AOKI

October 1978

Preparatory works for the revision of the Paris Convention now have reached a very critical stage. The feeling that I strongly had when I attended the fourth Session in June this year of the Preparatory Intergovernmental Committee was such that technical level discussions could not effectively solve serious pending points between the South and North even through very patient, thorough and frank exchange of views, because almost all these matters were now apparently the political problems and a package deal as a whole could be the only possible way to settle these in really compromised manner at a political level, i.e. the Diplomatic Conference.

As a matter of fact, the fourth Session of the Committee was interrupted and postponed by so frequently held internal meetings of each of the three groups - Groups B, D and 77 as well as meetings of the Working Groups and only a few hours were spent for the plenary Committee during the formally announced one week period from June 26 to 30, 1978 without any meaningful progress. Under the situation, I felt really happy to be able to attend the Committee this time not as a delegation from PIPA but with a formal capacity of the Japanese governmental delegation so that I could attend all such meetings.

The June Committee recommended for future program that a Provisional Steering Committee of the Diplomatic Conference for the revision of the Paris Convention should already convene early in 1979 soon after the fifth Committee meeting and the

Deplomatic Conference be held late in 1979 for approximately one month - the place not discussed but probably in Romania or Kenya.

The next and fifth session of the Preparatory Intergovernmental Committee will be convened in Geneve from November 28 to December 6, 1978. Before the Committee two Working Group meetings will be convened for preparation and possible submission of their conclusion to the Committee.

One of the Working Groups is newly created one, that is, "Working Group on Conflict Between an Appellation of Origin and a Trademark" composed of 5 developing countries, 5 developed market-economy countries and 2 socialist countries. Each Group of countries will have the possibility of including one further country as a member of the Working Group if three Groups mutually agree. The United States is a member country and Japan will be a member if the addition of one country of each Group is permitted. This Working Group will meet for November 20 to 24, 1978.

Another Working Group is on Inventors' Certificates. Its fifth session will be convened from November 27 to December 1, 1978 trying, under very difficult situation, to find out some compromise based on the proposal of Group D, the proposals of Group B and the proposal that is expected to come from the Director General in this autumn.

The agenda of the fifth Committee will consist of the following items:

(1) Conflict Between an Appellation of Origin and a Trademark

(2) Inventors' Certificates

(3) Articles 4 B[proposal to make prior use exceptional] and 4 bis (5) [proposal to delete this section] of Paris Convention [Canadian proposal]

(4) Final Clauses of the Revised Act of the Paris Convention

(5) Time Limit in Article 5 C (1) of Paris Convention, provided that all three Groups agree to put on the agenda.

(6) Protection of the Olympic Symbol, provided that all three Groups agree to put on the agenda.

It is clear and apparent that the first two items are highlight of the next Committee.

Let me briefly review here the present development of some of the main items which have been or will be the subjects for discussion in the past and future in the meetings for the revision of the Paris Convention.

1) Preferental Treatment without Reciprocity

The Working Group Entrusted with Questions of Special Interest to Developing Countries discussed in its third Session in June, 1978 this item.

Drafting Group prepared already in November, 1977 a draft text which allows any developing country to charge, to nationals of developing countries, only half of the fees which it would charge to nationals of other countries.

There are two other remaining points; that is, a provision which would require that any developed country charge, to nationals of developing countries, only half of the fees that it charges to its own nationals and the question of

the possible extension of the term of priority from 12 months to 18 months under the Paris Convention for nationals of developing countries.

The attitude taken by Group B countires in June 1978 Session of the Working Group was that the first point as above described could be part of a package deal at the Diplomatic Conference though it is always quite reluctant to creat any exception from the principle of national treatment and that the two other points would not be acceptable.

The Committee agreed in its fourth Session in June, 1978 that the matter of preferential treatment without reciprocity should be placed on the agenda of the Diplomatic Conference without having any further chance to discuss it in future preparatory meeting.

2) Article 5 quater of the Paris Convention

The Working Group spent a lot of time and efforts for trying to come to some compromise on this point in its June 1978 Session but failed.

At the inception of this Session, the 77 group submitted new draft text accroding to which any member country has a right to provide in its national law that the protection of a patent relating to a manufacturing process may be extended to the product manufactured according to that process and in case of such extension, the patentee have a right specified in the national law.

This means that different from the provision of present Article 5 quater a patentee of process patent will not be guaranteed to have all the rights, with regard to the imported product, that are accorded to him with respect to products manufactured in that country and in many developing countries

a patent protecting a process of manufacture may not cover a product produced by that process in a foreign country and imported into that country.

A counterdraft was prepared and submitted by Group B countries but not accepted by 77 Group.

77 Group, then, expressed the view that Article 5 quater should be omitted from the Convention or, if it is maintained, developing countries should not be obliged to apply this Article.

Group B expressed in the Working Group meeting the view that it wished to maintain this Article as it is without any modification.

The Working Group realized that this matter has already become political problem and on technical level there is no possibility to reach any compromise.

Thus, the fourth Session of Preparatory Intergovernmental Committee agreed last June that Article 5 quater should be placed on the Diplomatic Conference Agenda and that the matter should no longer be discussed in any further preparatory meeting.

3) Article 5 A of the Paris Convention

You may recall that in the Williamsburg Congress of PIPA last October Mr. A. Anderson presented Mr. B. J. Kish's report titled "Report on the Recent Paris Union Revision and Model Law Meetings at Geneva", where he touched upon a new paragraph (6) of Article 5 A relating to the granting of exclusive non-voluntary licenses considerably in detail. Board of Governors of PIPA prepared a resolution and presented to the United States and Japanese Governments requesting actions for removal or modification of the Paragraph (6) from the adopted text.

In third Session of the Committee in November, 1977, the United States described its intention to promptly prepare a paper in which it would outline the problems which were created by the concept of an exclusive non-voluntary license. The paper distributed to Group B countries and discussed several times in the meetings of Group B countries.

In Fourth Session of the Committee in June, 1978, a proposal by the United States was submitted with the paper attached of 25 pages describing very in depth observation concerning the disadvantages of developing countries to provide for exclusive non-voluntary licenses. Group B supported the request of the United States that this issue should be rediscussed at the fifth Session of the Committee in November - December, 1978. However, both Group of 77 and Group D strongly opposed mainly from a procedural view point. The Committee had once decided that the solution worked out should be submitted to the Diplomatic Conference and thus it should not be discussed further at the preparatory stage. A reconsideration of that decision shall create a dangerous precedent.

Under the circumstances, the United States gave up to insist upon reopening discussion at preparatory stage and this issue thus postponed for the debate at the Diplomatic Conference.

4) Inventors' Certificates

Since its formation at the first Session of Preparatory Intergovernmental Committee in November 1976, Working Group on Inventors' Certificates convened four times; February, June and November in 1977 and June in 1978. Among total 13 member countries are 6 from Group D countries, 5 from Group B countries and 2 from Group of 77.

In September of 1977, Group D submitted a proposal for the amendment of Article 1 of the Paris Convention in respect of inventors' certificates and after some discussion Group B made a counterproposal in April of 1978 for amending the Paris Convention. For your information, I attached these two proposals as Annex 1 and Annex 2, respectively.

This counterproposal was under discussion in the fourth Session of the Working Group. Group D, however, disagreed with the proposal of Group B though they felt it as a new proposal that stepped forward to some extent from the previous proposal of Group B. There was no further proposal in the Working Group meeting. In order to find out some compromise, an idea was seriously discussed during said June meeting period as to whether the Director General should be asked to prepare some new proposal. The strong apprehension was described from the United States delegation that there might be some danger for Group B to be compelled to accept such compromise that should not otherwise be acceptable if we agree to invite the Director General to prepare a new compromised proposal.

The June Committee finally decided to invite the Director General to try to prepare a new proposal, which, however, will be published as a working document for the Working Group only after both Groups B and D consent to such publication, it being

understood that such consent will not mean approval of the substance of the proposal. As I mentioned before, you can immagine how difficult it is to find out the solution acceptable to both Groups B and D. It is quite probable that the work will further continue even after the fifth Working Group meeting in this November - December for making possible a successful work at the Diplomatic Conference.

In the following, I wish to refer briefly to the main points on inventors' certificates.

a) the principle of free choice between a patent and an inventor's certificate

Both Groups B and D agree to have a clause to protect inventions by the grant of patents or by the grant of patents and inventors' certificates in the same fields of technology. The Soviet Union's draft of September 1977, however, provided an exception from the above principle in case of requirement by reason of public interest and the development of the national economy.

The Group B draft provided, on the other hand, that member country may, for inventions in certain fields of technology, give its own nationals inventors' certificates only. Group D opposed this structure because of one-sided disadvantage to their own nationals.

b) effective term for a patent and an inventor's certificate

For this point the Soviet Union's draft mentioned nothing, while Group B asked the same protection term for both titles.

c) equal conditions for grant, opposition and annulment and equal time limits for such opposition and annulment

The Soviet Union suggested in the proposal of Group D

that these matters should advisably be reflected in the Resolution of the Diplomatic Conference and not directly be mentioned in the Convention itself as these questions are dealt within the national legislations.

The proposal of Group B put them in the proposed clause itself of the Paris Convention.

5) Conflict Between an Appellation of Origin and a Trademark

With regard to this question, the Director General submitted two proposals, one for an amendment to Article 10 bis (3) 3 (document PR/PIC/III/6) and the other to introduce a new Article (Article 7 ter) into the Convention, the latter proposal containing two alternatives (document PR/PIC/III/10).

In June 1978 session (Third Session) of Working Group entrusted with Question of Special Interest to Developing Countries, Group of 77 introduced a new draft proposal which are some modification of the Director General's proposal.

Group B expressed a wish, however, following the strong request of the United States, to postpone the discussion on this point until the next November meeting, because there were big varieties of the opinions even among the countries belonging to Group B about the attitude on how to treat this issue.

The representatives of the United States had a quite different opinion from the European countries and the former wanted to have some time to adjust various comments so that Group B could stand on some common basis. The proposal of Group B for the postponement naturally met a great objection by other groups. After some talks, the Working Group set up a Contact Group which examined the draft text submitted by Group of 77 but no conclusion was drawn up.

As a result of this difficulty, new Working Group was Created in the Plenary Committee meeting last June to exclusively study the problem as I already explained at the beginning, titled "Working Group on Conflict Between an Appellation of Origin and a Trademark". In order to prepare a common attitude within Group B for this Working Group meeting, the United States invited countries of Group B having a particular interest in the subject to attend a meeting in Washington, D.C. from September 11 to 15, 1978.

The followings are a brief review of each of the controversial points on this issue.

According to the proposal made by Group of 77, its draft text provided that each country undertakes to refuse or invalidate the registration or renewal and to prohibit the use of marks containing geographical indications which may mislead the public as to the origin of the goods or services (see Annex 3; PR/PIC/IV/5).

This creats a lot of questions and controversy.

a) Should marks containing geographical indications to be the subject of this protection, be limited to "known" marks in that country or even to "well known" marks?
b) Should marks be those which "mislead", "may mislead", "liable to mislead" or "is false and is in fact misleading"?
c) Should not only the registration of marks be refused but the use of marks be also prohibited?
d) Should renewal of the already registered marks be prohibited? In other words, whether should this provision act retroactively or not?

It has been felt that the opinions of the Japanese industries are rather similar to those of the United States

industrial circles on this issue. The Japan Patent Association submitted in September to the Japanese Government its written opinions which contain the following points:

a) will support the expression "well known in that country"

b) will prefer the expression "misleads" the public rather than "may mislead" or "liable to mislead"

c) "false indication" should preferably be a condition in case of prohibition of usage

d) clear provision should be kept for excluding retroactive effect of the new clause

e) In order to make distinction between the cases of existing appellation of origin which mislead the public and those appellation of origin which do not mislead the public, account has to be taken of all factual circumstances, for instance the length of use of the mark, in the same way as provided in Article 6 quinquies c(1) of the Paris Convention.

In the Group B Washington meeting some common attitude among Group B countries towards the first Working Group meeting in November should hopefully have been established the details of which however have not been known to us yet.

Annexes

Annex 1: Group D proposal for inventors' certificates (September 1977)

Annex 2: Group B counterproposal to Group D on inventors' certificates (April 1978)

Annex 3: 77 Group proposal on "conflict between an appellation origin and a trademark" (PR/PIC/IV/5)

(The Annexes follow)

Annex I

Group D Proposal on Inventors' Certificates

Article 1

5(a) Each country of the Union shall protect inventions by the grant of patents or by the grant of patents and inventors' certificates in the same fields of technology.
However, any country of the Union, which protects inventions by patents and inventors' certificates, may provide for the protection of inventions in certain fields of technology by the grant of either only patents or only inventors' certificates if it is required by reason of public interest or the development of the national economy.

(b) The provisions of this Convention which concern patents shall be equally applicable to inventors' certificates.

PROPOSAL FOR THE RESOLUTION OF THE DIPLOMATIC CONFERENCE

Where a country of the Union protects inventions by patents, inventors' certificates or utility models, the grounds for any opposition to the grant of any of these titles, the grounds for any request for the annulment of any of these titles and the time limits for presenting such opposition or request shall be the same.

Annex 2

TEXTS SUBMITTED BY THE
SPOKESMAN OF GROUP B
on Inventors' Certificates

Article 1

5 (a) Every country of the Union shall protect inventions by the grant of patents or by the grant of patents and inventors' certificates in the same fields of technology.

(b) Any country of the Union protecting inventions by the grant of patents and inventors' certificates has the right to provide that, for inventions in certain fields of technology, its own nationals may obtain inventors' certificates only.

(c) The countries of the Union granting, in certain fields of technology, only inventors' certificates to their own nationals pursuant to paragraph b are not required to grant patents for inventions in the same fields of technology to nationals of other countries of the Union which for inventions in the same fields do not grant patents.

(d) Where a country of the Union protects inventions by the grant of both patents and inventors' certificates, the substantive conditions for grant, the substantive grounds for any opposition to the grant, the substantive grounds for annulment, the time limits for presenting such opposition or requesting such annulment, and the term of the protection, shall be the same for both titles.

(e) The provisions of this Convention which concern patents shall be equally applicable to inventors certificates.

Annex 3

WIPO

PR/PIC/IV/5
ORIGINAL: French
DATE: June 28, 1978

WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

INTERNATIONAL UNION FOR THE PROTECTION OF INDUSTRIAL PROPERTY
(PARIS UNION)

PREPARATORY INTERGOVERNMENTAL COMMITTEE
ON THE REVISION OF THE PARIS CONVENTION
FOR THE PROTECTION OF INDUSTRIAL PROPERTY

Fourth Session
Geneva, June 26 to 30, 1978

CONFLICT BETWEEN AN APPELLATION OF ORIGIN AND A TRADEMARK

Proposal of the Group of Developing Countries

Article 6quinquies A(1)

"Every trademark duly registered in the country of origin shall be accepted for filing and protected as is in the countries of the Union, subject to the reservations indicated in this Article and in Article 6octies." [the rest of the paragraph remains unchanged]

Article 6octies

"Each country of the Union undertakes to refuse or invalidate, either ex officio where the legislation of the country permits or at the request of the interested person, the registration or renewal and to prohibit the use of marks containing geographical indications which may mislead the public as to the origin of the goods or services for which the marks have been filed, registered or used."

"The fact that the marks are used in translation or with an indication of the true origin or with the addition of words such as "kind," "make," "type," "imitation" or the like shall not modify the obligation laid down in the preceding paragraph."

"The provisions of Article 6quinquies C(1) shall not form an obstacle to the application of this Article."

Article 10bis(3)

"(3) The following in particular shall be prohibited: Indications, including trademarks and service marks, or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the geographical origin, the suitability for their purpose, or the quantity, of the goods or services.*"

[End of document]

* Proposal by the Director General in document PR/PIC/III/6 of September 14, 1977.

WIPO and the Model Laws

E. W. Adams, Jr. - Bell Telephone Laboratories

- The 1965 "Model Law for Developing Countries on Inventions" was drafted by BIRPI (WIPO predecessor). This was a rather simple effort to provide a basic patent law that could be adopted by a developing country desirous of having a patent system.

- The current WIPO effort is much more ambitious and was undertaken by WIPO as part of its program of assistance to Third World Nations. This effort began in 1975 and has involved the work of a so-called Committee of Experts who are stated to be acting as individuals - not as official representatives of governments.

- At the conclusion of seven meetings of this working group, the function of which has been to advise the WIPO Secretariat regarding proposed draft model laws, there has become available a draft Model Law having six parts:

  I - Patents

  II - Know-How

  III - Examination and Registration of Contracts

  IV - Inventors Certificates

  V - Innovations

  VI - Transfer of Technology Patents

- In each case the draft law articles are accompanied by draft regulations and a draft commentary outlining the rationale and approaches taken by the drafters.

- The draft "Model Law for Developing Countries on Inventions and Know-How" cannot be considered in a vacuum. It is important to recognize that the Third World Countries have raised the issue of the proper functions of the patent system and have caused the initiation of major efforts directed to:

    a) Revision of the Paris Union Convention to facilitate the transfer of technology from the developed countries.

    b) Development of a Code of Conduct which would be expected to control the conditions of technology transfer.

  The issues are highly political and matters relating to the patent systems of the world are seized upon as a convenient vehicle for approaching the fundamental goal of developing the desired "New Economic Order".

- With reference to the subject Model Law on Inventions, the general reaction of those from the market economy countries who have reviewed the current drafts is that the proposed law and the accompanying regulations will <u>not</u> accomplish the stated goals. A brief consideration of some of the principal provisions would seem to support this view.

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Part I - Patents

- The law is drafted with the underlying belief that the grant of rights (a patent) must be balanced by obligations for the grantee and that one primary obligation is that the owner must ensure working of the invention in the country.

- "Invention" is defined as -- an idea of an inventor which permits in practice the solution to a specific problem in a field of Technology.

- Certain inventions, so defined, are declared unpatentable.

- To be patentable an invention, not otherwise barred, must be new, involve an inventive step and be industrially applicable.

- Prior Art is defined as everything disclosed to be public by written disclosure anywhere in the world or in any other way within the country.

- Inventive step involves the question of whether, with regard to the relevant prior art, the invention claimed would have been obvious to a person having ordinary skill in the art.

- Inventions of certain kinds may by decree of the Council of Ministers be excluded from patentability for a period not more than 10 years.

- Inventions made by employees shall belong to the employer unless the invention has an unexpectedly high economic value in which case the inventor has a right to special remuneration.

- Details of the form and content of the patent application are those of the PCT.

- There are provisions as to examination as to form and as to substance (patentability) by the Patent Office.

- Obligations imposed upon the owner of a patent include:
  a) Disclosure of the best mode for carrying out the invention.
  b) Working of the invention within the country. Importation does not constitute working.

- Provision is made for the grant of involuntary licenses (which may be exclusive):
  a) In the event of non-working or insufficient working in the country.
  b) To the grantee of a later patent that cannot be worked without infringing an earlier patent.
  c) To the holder of the earlier patent in (b) with respect to the later patent if the license of (b) is granted.
  d) Following a hearing in the Patent Office at which both the applicant for a license and the owner may be heard.

e) For a period which is fixed at a number of years and a remuneration which is determined by the extent of projected use.

f) Subject to appeal to the appropriate Minister and thence to the courts.

- Exploitation including importation of a patented invention by the Government or by a third person on behalf of the Government where national security, nutrition, health or vital sectors if the national economy (the public interest) require may be ordered by the Minister without the consent of the inventor. There is however no appeal from the decision of the Minister.

- The term of a patent is set at a maximum of 20 years from the filing date, extensible for 5 year periods following a normal term of 10 years and only upon proof of working or a valid reason for non-working.

- Provision is made for annual maintenance fees beginning with the second year after the filing date.

- Patents of joint inventors or joint owners shall be licensed only by joint action.

- Patents and applications for patents may be licensed but if application is withdrawn, finally rejected or the patent is declared invalid, the licensee may have repayment of payments made to the extent that the owner cannot show the repayment would be inequitable under the circumstances.

Part II - Know-How

- Provides for transfer of know-how by contract.

- Know-how is technical information, data or knowledge resulting from skills or experience which are practically applicable in industry.

- Unless otherwise provided, the recipient of know-how can:
  a) Use it for any purpose.
  b) Communicate it to others.
  c) Disclose it to the public.

- If the know-how is not known to the public anywhere in the world the contract may for a period of not more than 5 years provide that the know-how is not to be disclosed to others or the public by either party.

- If disclosed without fault of the recipient, he shall be relieved of the right to make payments and as with a patent license can have repayment to the extent that the transferor cannot show inequity.

Part III - Examination and Registration of Contracts

- Contracts regarding patents and know-how are valid and enforceable only if registered following examination by the Patent Office.

- Examination shall show compliance with the typical requirements of the Code of Conduct previously mentioned.

- Departure from such requirements may be granted if the contract as a whole is acceptable in light of the economic policy of the Government.

Part IV - Inventors Certificates

- An alternative to patents which is not available if the subject matter could not be patented.

- Duration as stated in alternative provisions as unlimited or 20 years.

- Only the state can enforce for infringement. Anyone can seek invalidation.

- If invalidated, the inventor does not have to return his remuneration.

- The issue of inventors certificates in general will be determined by the Diplomatic Conference for Revision of the Paris Convention.

Part V - Innovations

- A provision for compensation of employees by employers in what would appear to be a complicated employee suggestion system.

Part VI - Transfer of Technology Patents

- Not incorporated in the present draft of the Model Law. This part may, of course, be issued later as an annex.

- A special form of protection intended to facilitate the use of inventions not patented in the country but patented in a foreign country and which meet the requirements for the grant of a regular patent within the country.

- The Transfer of Technology patent must be sought jointly by the owner of the foreign patent and a domestic party who undertakes to work the invention domestically.

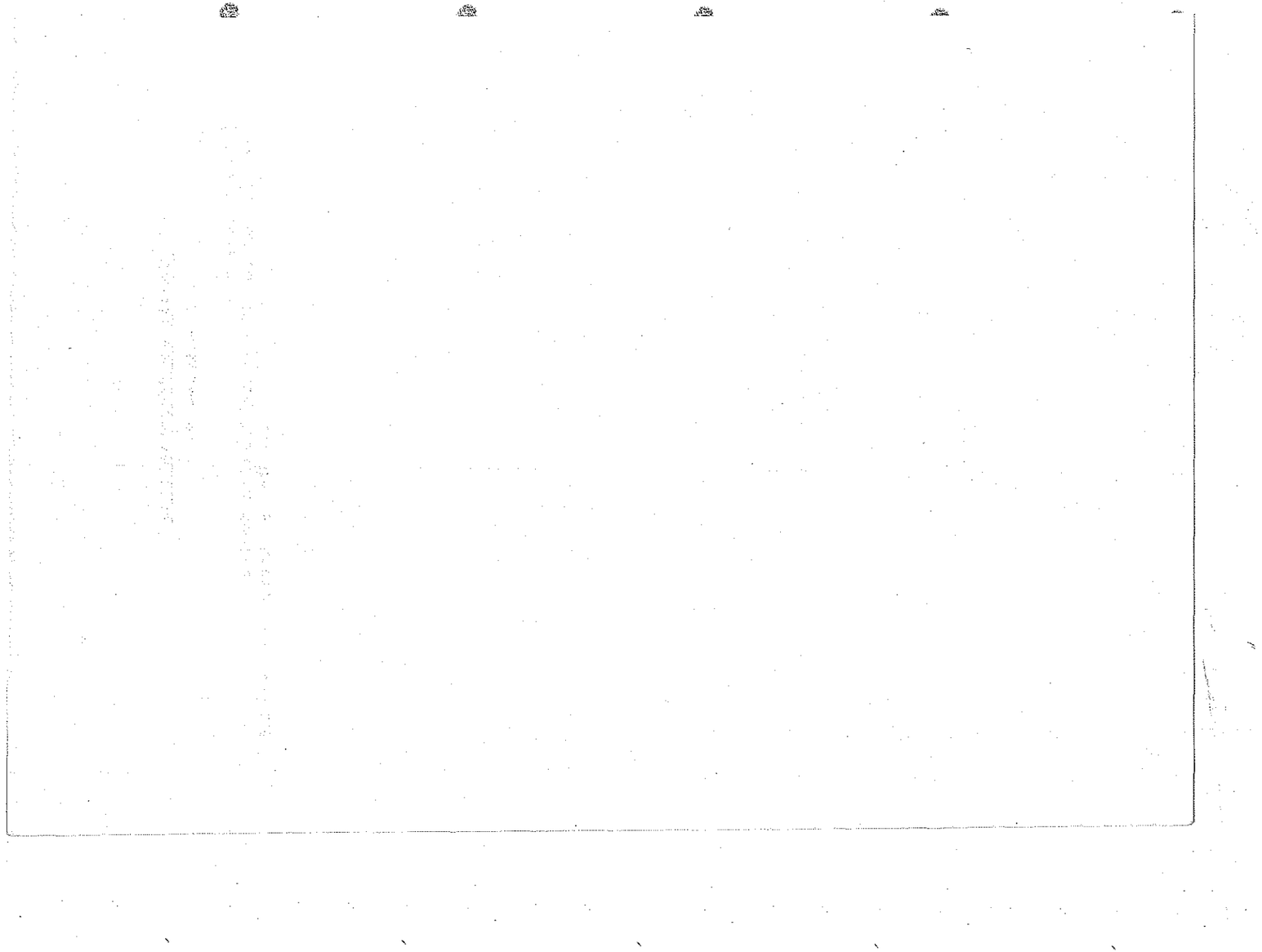
- The foreign joint owner must undertake to transmit all necessary know-how to "permit working in the best Technical manner" by the domestic party.

September 15, 1978

Committee Presentations

(Committee #4)

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FEATURES OF THE PIPA CONCILIATION SYSTEM

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I am greatly honored to have been given this opportunity to speak at an international congress of the Pacific Industrial Property Association, before all of you gathered here from many different parts of the globe. I am one of the members listed on the panel of conciliators of the PIPA Conciliation System, and in this connection I was asked by President Hirano to give a talk about conciliation. When I inquired as to whether or not the PIPA Conciliation System is currently being used in actual practice, the reply was that it has not yet been put into use even once. On hearing this, my reaction was to wonder: Why is such a fine system not being used? It seemed to me strange and rather a matter for regret. If, however, the reason it is not being used should be that there is a lack of disputes involving industrial property rights, then this is of course a very fortunate thing for which I should certainly wish to offer my congratulations.

The reason or reasons by which the PIPA Consiliation System has not been used are not yet clear to me, but in connection with the fact that the PIPA Conciliation System has several strong points not possessed by other conciliation

systems, I should like to use this occasion to be sure you are all aware of these special characteristics so that you might keep them in mind in the unhappy circumstance that a dispute requiring settlement arises. This is the reason I have chosen to title my talk today "Features of the PIPA Conciliation System."

So-called "modern" conciliation (i.e., mediation) systems are said to have been first established in certain countries of northern Europe, beginning with the system set up in Norway in 1797, some one hundred and eighty years ago. This system was based on the principle of preliminary conciliation, meaning that in civil cases a formal suit could not be initiated until after an attempt at mediation had been made by a committee of mediators. The "committee" in this case consisted of just two members. The system is said to have received popular support and to have been actively employed. Denmark also saw the early use of a conciliation system.

As a great number of you no doubt already know, conciliation systems in the United States came about as the northern European systems which I have just referred to were imported to America together with Scandinavian immigrants. I have heard that a type of conciliation system was adopted for the first time in America eighty-five years ago, in 1893, in the state of North Dakota. Afterwards such systems were set up in one or another form by courts in other states to deal with

civil cases. I was interested however, to hear Professor Whitmore Gray of the University of Michigan Law School say at an informal meeting held recently at Japan's Construction Ministry that at the present time in the United States the system of arbitration is used more frequently than the system of conciliation. And again I heard from Dr. Newman just before entering this room that in the United States arbitration seems to be preferred.

In Germany, conciliation bureaus were set up during the First World War to handle housing disputes. The system was completed in 1918, that is to say sixty years ago, with mediation bureaus which attempted to bring about conciliation and carried out simple judgement proceedings in disputes between owners and renters of buildings.

In Japan, a system of conciliation known by the now obsolete term kankai was completed in 1884, the 17th year of the Meiji era. This system was actively employed in the settlement of disputes in civil cases where there was an application for mediation from the parties involved, and mediators called kankai-gakari delivered advice concerning measures for conciliation. The system was, however, abandoned in 1890 at the time of the establishment of the Code of Civil Procedure.

After the Meiji government's kankai system was abolished, there still remained the need for a system in addition to formal lawsuit proceedings for settling civil disputes--in other

words, there still remained the need for another system whose procedures would be simpler, faster, and less expensive. Thus in 1922 (the 11th year of the Taisho era) the Conciliation Law Concerning Leasing of Land and Houses was established, after the German model, for the purpose of settling disputes involving the rental of land and buildings. Afterwards, other conciliation systems were established to cover such various fields as agricultural tenantry, commercial, and personnel disputes. These various systems were amalgamated after the Second World War into the two systems of Civil and Domestic Conciliation.

Both of these conciliation systems involve the intervention, at public courts of law, of officially appointed judges. However, we should not overlook the existence of other conciliation systems operating within certain administrative divisions of the central government or of local governments. One example is the system of the Kensetsu Koji Funso Shinsakai (Examination Boards for Construction Work Disputes) set up in 1950 in accordance with the Construction Industry Law for the purpose of finding solutions to disputes involving construction work subcontracts. The system consists of a Central Examination Board within the Construction Ministry and similar examination boards in each of Japan's 47 prefectures. As a practicing attorney, I happen to be one of the appointees presently serving on the Central Examination Board. The Board is being actively employed at present and is characterized by its efforts

to effect conciliation and arbitration in construction sub-contract disputes as well as by the fact that it makes provision for the participation, as board members, of construction work specialists.

Another example of a conciliation system within a government administrative bureau is the Environmental Dispute Coordination Commission (the Central Commission) set up in 1970 in accordance with the Kogai Funso Shoriho (Law Concerning the Settlement of Environmental Pollution Disputes) for the purpose of seeking solutions to disputes involving various cases of environmental pollution. The Central Commission is under the supervision of the Prime Minister's Office, and there are also prefectural pollution review boards which similarly seek solutions to disputes, mainly by means of arbitration and conciliation.

In contrast to the above-mentioned conciliation systems set up within law courts or administrative branches of government, the PIPA Conciliation System is characterized by the fact that it is set up wholly within a private, non-governmental organization. You of course already know about other examples of arbitration and conciliation by such non-governmental bodies for settling disputes as the Japan Commercial Arbitration Association, the International Chamber of Commerce, and the Japan Shipping Exchange, Inc. While the bringing of a lawsuit is a method for forcibly settling disputes through the public

authority deriving from a court decision carried out by a judge, arbitration is a method of settling disputes by referring them to the judgment of a fair and neutral third party chosen by the free will of the disputants. Conciliation, by contrast, is a system of settling disputes in which the parties to the dispute reach a consensus through mutual compromise and by their own free will as the result of careful consideration of all circumstances of the case. A conciliator performs the role of leading the way by which the disputants may reach such a consensus on the most suitable measures for a solution to the specific points at issue in the case in question.

In a law court, the judge determines winner(s) and loser(s) according to a strictly legal yardstick. But in the case of conciliation, the conciliators are not bound by the letter of the law and are able to give due consideration to all the circumstances of the case on the basis of a healthy exercise of common sense. In so doing, they strive to find means for a solution which will be equitable to all parties to the dispute and which will be such that the disputants can reach agreement on a settlement by their own free will. Conciliation envisions the settlement of disputes from the constructive viewpoint of seeking what sort of arrangements among the parties to the dispute should be established in the future in order to ensure the continuation of a harmonious living relationship. The new dispositions are established in the form of a

contract, albeit this is not subject to compulsory enforcement by an outside power.

I have given a simple account of various conciliation systems and of the ways in which conciliation differs from arbitration or legal procedures in a court of law. Now I shall mention the special characteristics of the PIPA Conciliation System which most notably distinguish it from law courts and from conciliation systems involving governmental administrative organs. I hope that these points will serve as a useful reference in the event that any of you might consider employing this system. I think you already know that the detailed provisions of the PIPA Conciliation System are set forth in the Rules for Conciliation and the PIPA Regulations. I shall here mention three features as follow:

(1) The first feature concerns the method for selecting the conciliators.

Since the conciliators play a most important role in the conciliation process, the method of selecting them is, in turn, extremely important. It of course goes without saying that the conciliator must be fair to all parties to a dispute. But at the same time it is necessary that the conciliator enjoy the trust of all parties. If a conciliator should lack the trust of all parties, then no matter how great an effort he or she might make, the disputants are likely not to compromise or to agree on suggestions proposed by the conciliator.

Thus the question of how to choose trusted conciliators is of vital importance. In the PIPA Conciliation System, the disputants choose the conciliators wholly of their own free will. In this way the parties to the dispute can, with greater ease than would otherwise be the case, look forward to taking part in the conciliation proceedings. In the event that the disputants cannot choose a conciliator who enjoys their trust, the conciliation proceedings there come to a close. With respect to this point, Article 4 of the PIPA Rules for Conciliation specifies as follows: "If no such conciliator is selected within forty-five (45) days after the parties have agreed to conciliation (or such longer time as mutually agreed), all proceedings under these Rules are terminated."

In other conciliation systems, in cases where the disputants themselves do not select the conciliator, it is usual that the agency in charge of the conciliation proceedings appoints a conciliator (or conciliators) by whom the procedures are then carried forward.

The method of choosing conciliators in the PIPA Conciliation System is indeed one of the most important features setting the system apart from other conciliation systems. Article 2(b) of the Rules for Conciliation states: "At the request of the parties, a conciliator for any particular dispute need not be selected from this Panel but may be any expert in intellectual property matters approved by the Board of Governors."

This provision, which aims at ensuring that the disputants can have the widest freedom in selecting trusted conciliators, merits full appreciation.

(2) The second feature concerns the time period for conciliation proceedings.

In any conciliation system, the most important objective is a speedy solution to the dispute in question. If a speedy solution cannot be effected, conciliation proceedings should be brought quickly to an end. If this should not be done, the conciliation proceedings might possibly be used by one side to the dispute--for example, by a somewhat cunning or insincere disputant--as a means for deliberately postponing the reaching of a solution, with the result that the interests of an honest and sincere party to a dispute might suffer and the faith put in the conciliation process itself could be lost. Concrete examples of this type are by no means rare. With respect to this point, Article 7(a) of the PIPA Rules for Conciliation states as follows: "If no agreement is reached within thirty (30) days after the commencement of meeting with the conciliator, conciliation under these Rules will be deemed to have failed, and the conciliator shall so notify the Secretary. This time period can be extended by common consent." In this way, in the PIPA Conciliation System, positive results may be expected without having to spend needless time and money. If and when conciliation is deemed to have failed,

either or both sides to the dispute may freely take other measures such as filing suit in a court of law.

(3) The third feature concerns steps to be taken if conciliation fails.

Conciliation proceedings, by their very nature, do not always succeed. When conciliation ends in failure, it is to be expected that a lawsuit may follow. A disputant may be apprehensive that, should a lawsuit develop, he might get into trouble if certain material released during conciliation proceedings as evidence in support of his assertions were to be used later by the other side to his disadvantage. If such apprehensions exist, it is likely that the disputants may fail to make the facts clear to the conciliators or that they may stick stubbornly to legal argumentation without undertaking mutual compromise. Regrettably it often happens that, as a result, much time is consumed in reaching a conciliation, or that cases which ought to hold the possibility for conciliation end in failure.

I think it is fair to say that in the setting up of the PIPA Rules for Conciliation the Board of Governors gave very painstaking attention to this point. Article 6(a) of the PIPA Rules for Conciliation states: "The conciliation procedure shall be private, and all documentation, the proceedings, and results shall be maintained in confidence by all participants, the conciliator, and the Secretary and other PIPA officials

and their designates." Article 6(d) states that, "Upon termination of the conciliation, in order to maintain the confidentiality of the same, the appropriate Secretary shall remove from his files all correspondence involving the participants, and immediately destroy the same." Article 7(c) further states that, "Neither statements, proposals, offers of compromise, nor any other aspect of a failed conciliation procedure shall be binding upon either party, nor may they be introduced in any subsequent proceedings."

This indeed makes for a bold and innovative system. It is probably still open to question whether by these rules one could say that the anxiety and caution on the part of disputants in connection with the possibility of a failed conciliation is dissipated completely. But it is nevertheless my belief that one could not hope for anything better by way of rules governing a conciliation system.

I have tried to give an explanation of the special features of the PIPA Conciliation System. I trust that all of you will have come to appreciate the PIPA Conciliation System as one which has superior characteristics and which should also be easy to feel at home with. I do hope that in the event a dispute concerning patent rights arises, you will remember that the PIPA Conciliation System exists and that you will give due consideration to using its machinery for the purpose of reaching a peaceful settlement. I should also

hope that those persons selected as conciliators might fully merit the trust of the parties employing them. Whenever my attention is drawn to the subject of conciliation, the Biblical phrase "Blessed are the peacemakers: for they shall be called the children of God" (Matthew 5:9) always comes to mind.

Many thanks for your kind attention.