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(7) Abstract: We compared and discussed the difference of the employee's invention system between Japan and the United States. We studied which system is better for the employee and whether the employee is fully compensated or not. And we discussed the best way to promote the system in both countries.

1. INTRODUCTION

1.1. The Article 35 of the Japanese Patent Law defines the rule for handling the employee's invention, particularly about who shall be entitled the right to be patented.

The first item of the article says the employer has the non-exclusive license when the employee gets the patent for the employee invention.

The same article item 3 defines the right to be given an appropriate rumuneration to the employee when there is the assignment of the right to the employer about the employee invention, and the article 35 No.4 defines the standard for evaluating the renumeration.

On the other hand, in the United States of America, the "shop right" is almost equal to the right defined in the first item of the article 35 of the Japanese Patent Law. This "shop right" is the non-exclusive and non-transferable royalty-free license.

1.2. Historical background of concept of the employee invention developed in the Japanese Patent Law is as follows:

Originally, "Patent Monopoly Act" promulgated in 1885 was the first established patent law in Japan, and it adopted the principle of the priority of the inventor. The "Patent Monopoly Act" also defined that only an inventor or an assignee could apply a Monopoly Patent. (Article 1 and Article 4 No.1)

"Patent Act" was then promulgated in 1888 after revising the improper provisions. According to this law, the phrase "right to apply patent" was rewritten into "right to obtain a patent". (Article 1)

The "Patent Law" was reborn in 1899 as the Law No.36 in order to join the Paris Convention. Since then, foreign people became to be able to have the same right. (Articles 6,14) Before that, there has no provision for the employee enventions, and the employer could have the right to apply only when the emplyer was assigned the application right or the right to be patented. Despite confused conditions to join the Paris Convention as soon as possible and to be forced to develop industries in Japan, the revised "Patent Law" had the following provisions for the "employee invention" based upon the principle of the priority of the employee for the first time. (Article 1, 10 No.1)

That is, the provisions adopted the priciple that the employee's invetion about his business belongs to the employer (Article 3 No.1), and that assignment in advance of patent was null for the employee's invetion which does not relate to his job unless there is no other contract. (Article 3 No.2)

According to this law, the employer primarily gains the patent application right, and the pataent is given to the employer, therefore the employee does not have a right to demand compensation.

In the mid-Taisyo era (about 1920), our country has developed the industries to a certain extent, and the importance of Patent has become acknowledged. The right for employees become significant as influenced by the Taisyo democracy. By the time when the Taisyo 10 year's Patent Law was born, the provisions defined that the employee's invention belongs to the employer was repealed, and the new law that the employee's invention belongs to the employee in princlple even though the invention relates to the business. (Article 14)

The purpose of this Taisyo 10 year's Patent Law (Article 14) is almost the same as that of the presently effective Showa 34 year's Patent Law established in 1959 in which privided the employee's invention.

1.3. Therefore, as a result of the historical establishment process, the conclusion for the existence of the right to obtain a patent is as follows:

The employee primitively acquires the right to be patented as soon as he completes the invention. To the contrary, the employer primitively can not possess the invention made by the employee. Based upon this fact, the presently effective Showa 34 year's Patent Law defines that the employee's invention belongs to the employee but the employer naturally gets the non-exclusive and royalty-free license. Therefore, unless there is an agreement in advance, the right for the invention and the patent belong to the emplyee and the employer gains only legal non-exclusive royalty-free license.

This means that the provisions are based upon the fundamental principle to harmonize each benefit after assignment in equal consideration of degree of contrbution to the society and to industrial development without consideration of power balance between the employer and the employee.

Further detailed explanation of the provisions is as follows.

2. GENERALS

2.1. The definition of "employee's invention"

2.1.1. What is the "employee's invention"?

The Patent Law defines the meaning of the "employee's invention" as follows:

"An employer, a legal entity or a state or local public entity (hereinafter referred to as the "employer etc.") shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or a local public official (hereinafter referred to as the "employee etc.") has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer etc. and an act or acts resulting in the invention were part of the present or past duties of the employee etc. performed on behalf of the employer etc. (hereinafter referred to as an "employee's invention") or where a successor in title to the right to obtain a patent for an employee's invention has obtained a patent therefor."

Therefore, the requirements for the employee's invention are the following three items:

1. The invention is made by the employee.
2. The invention belongs to the scope of the business.
3. The acts for making the invention belongs to the past or the present business.

2.1.2. What is the "employee"?

The majority opinion is that if the person substantially receives a payment from thae employer even though he or she is an advisor, a non-regular staff or a part-timer he or she is understood as an employee, and that a transferred emplyee is also understood as the employee of whom the company pays the wage.

However, we substantally should notice not only the emplyement relationship but also consider the content of the business and the commanding system. Then, we should judge the "employee" stated in the Patent Law.

2.1.3. Waht is the "extent of the business"?

The interpretations for the "extent of the business" of the employer are: ① within the scope of the articles of the corporation; ② within the present extent of the business; ③ including the extent of the business to be expanded in the future.

The majority opinion is ① within the scope of the articles of the corporation. And, besides the actually running

business items, it is understood to be included the "incidental business".

But it is a problem how much extent is included in this "incidental business". As long as the main business requires the "incidental business", it is commonly admitted as broadly as possible whatsoever directly or indirectly related. Therefore, R & D business for resolving a techncal problem is naturally the "incidental business" in manufacturing industries. Further, it is considered appropriate that the extent of state's business is limited within the official duties of the organization to which the public sevice personnel belongs, because including every public affair seems to be too wide and not reasonable.

2.1.4. What is the "acts resulting in the invention"?

It includes not only the "acts resulting in the invention" which are ordered by the employer in order to resolve a substantial problem in his business but also all the acts to complete the entire invention. Then, there is no relation with the intention to invent, but an invention as the result of carrying out the business is an employee's invention.

But, the invention ia a technical concept, so that said "acts" are speculating acts and mental activities. And, as long as the "acts" require an accompanying acts, they also include physical activities. The "acts" mentioned above mainly refer to everything which was done while working hours.

2.1.5. What is the "present or past business duties"?

The employee's business duties includes not only the present one but also the past ones. The old Taisyo 10 year's Law referred to the present business duties, but today's Law was revised to include the past business duties. The principal reason for this revision is as follows: To eliminate the past business duties referring to the employee's invention is unjustified if considered the degree of employer's contribution to this kind of invention. And this reason is based upon the report by the council, i.e., "The invented subject matter which was born from the experience through his job must be included in the employee's invention". However, there arised a new problem about how to deal with the invention after retirement which belongs to the past business duties. There is no clear provision in the Article 35 of the Patent Law, however, according to the interpretation of the literal meaning, it is understood as follows: The past business duties mean that there is still an employment contract between the employer and the employee, and that the past business duties are eliminated when the contract was expired. However, if there is no right for the employer, it seems to lack equity in case of that the inventor has retried just before the completion of the invention, or knowledge and experience have so much contributed to the completion of the invention. So that, it is desirable to make a reasonable contract without conflicting the Article 35 of the Patent Law.

2.2. LEGAL STATUS OF EMPLOYEE'S INVENTION

2.2.1. According to the concept of the employment contract in the Civil Law, it is said that all the result from the labor belong to the employer as long as a certain amount of reward is paid.

But how to deal with the invention made by the employer during his employment term has a different situation. The idea that the right to be patented belongs to the inventor by the Patent Law is so old as in the French Revolution age. Even though the invention was born as the result of the labor during the employment contract term, it must be separately discussed whether the nature of the labor is a generally expected labor or not. And if so, i.e., the labor is for the invention which was expected by the employment contract, it is better to consider what kind of configuration for transferring the right to the employer is desirable. This consideration is well in compliance with the spirit of respecting and promoting inventions.

Therefore, the employee's invention system according to the patent law is established under such a historical devePopmentLmentioned above as the right of invention primitively belongs to the inventor.

2.2.2. The presently effective Patent Law in Japan was based upon the report by the Council. The right to be patented must be primitively belonged to the employee as the old law (Taisho 10 year's law) provided (inventor priority principle), but it

is admitted that the assignment of the right and the license is given to the company under a certain condition. This fact could prove that the law costitutes relatively modern and progressive legislative system.

2.3. RIGHT OBTAINED BY EMPLOYER

Article 35 (2) of the Patent Law says, "In the case of an invention made by an employee etc. which is not an empoyee's invention, any contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent or the patent right shall pass to the employer etc. or that he shall have an exclusive license on such invention, shall be null and void. Accodingly, An employer etc. shall have a non-exclusive license on the patent right concerned, where an assignee of the right to be patented from the employer etc. or the like is patented. (Article 35 No.1) Therefore, as it is a general concept that the employer etc. has contributed to a certain extent of the invention, it is too severe and out of equity principle to be given no right at all to the employer etc. This license naturally generates as a direct effect of the law provision and need not any other additional measure. Being one kind of legal license, this has the same effect as the general license.

2.4. TRANSFER LIMITATION OF ASIGNMENT IN ADVANCE

For the employee's invention, any contractual provision etc. are effective that the right to be patented or the patent right can be assigned to the employer etc. But, for such a non-employee's invention as a business invention or a free invention, the same contractual provision etc. are not effective even if the employer made such a cotract with the employee. (Article 35 No.2)

The reason for limiting the range of the assignment in advance is as follows. These days, the social and economic power balance between the employer and the employee is uncetain. If the principle of free contract remains untouched, there arises a problem that the weak employee could have to make a disadvantageous contract. Accordingly, it is understood to be protected the weak position of the employee.

2.5. AMOUNT OF REMUNERATION

The Article 35(3) says, "The employee etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee's invention to pass to the employer etc. or has given the employer etc. an exclusive right to such invention in accordance with the contract, service regulations or other stipulations." An admittance to pass the employee's invention in advance to the employer is based upon the concept to take a consideration of contributory degree of the employer. But this assignment can not be without remuneration.

This rule applies not only the assignment in advance but also the case which the right was passed to the employer by the contracts etc after the completion of the invention.

There is no rule about the assignment of the invention for non-employee's invention. This is because the assignment of the invention for non-employee's invention is entirely free, and it is natural to receive an appropriate remuneration.

2.6. REASONABLE REMUNERATION STANDARD

The Article 35 item 4 of the Patent Law defines the standard for deciding the amount of remuneration to be paid to to the employee when the right to be patented is assigned to the employer for the employee's invention.

The right to demand to be paid reasonable remuneration generates when the right to apply and to be patented is assigned and when the exclusive right is set. And then, there arises a problem of the evaluation of the patent right and the royalty. After decided the price, the reasonable remuneration is decided by substracting "the degree of how much the employer contributed to the invention" from the the price.

Therefore, according to the standpoint from the employee in Japan, the employee has less freedom for the assingnment of the right based upon the law and less opportunity to demand the reasonable and legal remuneration. In these circumstaces, there is more or less doubt about whether the remuneration as the right to demand for compensation is reasonable or not, and

the Court ultimataly has the right to judge whether the decided price is proper or not.

2.7. "SHOP RIGHT"

2.7.1. BACKGROUND

In the United States of America, there is no rule just referred to the Article 35 of Japanese Patent Law mentioned above. However, there is a similar system like this, i.e., "shop right".

Shop right is not a statute like the Japanese one, but a case law by which substantial matter is decided for the content and the extent to be applied. As viewed from the historical background, the system is quite different from that of Japan which is established as "business duty's invention" by the Taisyo 10 year's law. In the United States, there was a duty in the early days that all the patent obtained by the employee must be assigned to the employer. However, together with the so called inventor priority principle as written in the Article 1, Section 8, Item 8 of the Constitution, i.e., "patent shall be granted to the true and first inventor", many precedents have been accumulated by compiling many law suits which were contested whether the duty was right or not. Then the content, applicable range and conditions became clear gradually, and various judgements become possible for handling the employee's invention by the case law.

Please refer to the table 1 (page 17) about the comaparison of the employee's invention and the shop right for easy understading.

2.7.2. CONCEPT AND CONSITENSY

The main point of this shop right system is that the employee must assign the non-exclusive license for his invention to the employer if the actual activity for the invention and/or reduction to practice of the invention requires the facilities, accomodations, working hours and property of the employer. But, according to the Constitution, even if there is an employment contract, the right to file the application is not allowed to assign from the employee to the employer.

Therefore, the shop right system is a little different from the Article 35 of our patent law in the following 2 points. The first point is that "the non-exclusive lincense is a royalty-free license", and "the substantial empoyer's contribution to the invention is clear". And the second point is the right for application.

Further, the analysis of the consistensy, i.e., the relationship between the employee and the employer is as follows:

The requirement for the employee is the consent of non-exclusive and royalty-free license of the patent right to the employer when the employee invented something within his business duties.

Besides, from the employer's perspective, not only the explicit consent by the contract or assignment but also an implicit consent are sufficient for the consitency of the shop right, and therefore a written consent by the employer is not absolutely necessary.

On the other hand, the requirement for the employer is a substantial contribution for the inventing activity by the employee.

Once these relationships between the both parties mentioned above are established, the shop right is applied. Then, a strict employment relationship between the employee and the employer is not necessarily required, so that a co-owner or a partner management could have the shop right.

2.7.3. FUNDAMENTAL CONCEPT

It is well said that the concept of the shop right is based upon both the equity principle of balance between the employee and the employer and an estoppel conception.

The principle of equity is considered for both the employee and the employer so as to balance the weight between the employer's contrbution to the employee's invention and the right obtained by both employer and employee. And, about the estoppel conception, employee can not demand the compensation of the invention and deny the employer's contribution as long as the employee uses the employer's property while working hours for his invention.

As mentioned above, the shop right gives maximum merit to each employer or employee as well as it requires the mutual contribution toward promoting inventions.

With respect to the public interests like industrial developments which is an object of our Japanese patent sytem, maximum effort is paid for making many inventions. Accordingly, the shop right system has a common fundamental principle equal to the Article 35 of our Patent Law because the role for the employer and the employee to contribute to the invention is equally considered.

2.7.4. APPLICABLE LIMITATION

Being decided case by case, the limit for the range of the shop right is not necessarily clear. However, many case laws have shown a general standard.

First, the range in the technical meanning is within the employer's business or on the extended line of his business, so that shop right is not applied for the invention which deviates from his business.

second, about the working hours, there has been a difference between the process and mechanical inventions in the past, but now it is effective whatever the inventions for the patent term.

Only the employer has the transfer of right, so that the shop rihgt cannot be tranferred except when the entire business is transferred. Therefore, the shop right diminishes as the company perishes.

THE DIFFERENCE OF HANDLING PROCEDURE OF EMPLOYEE'S INVENTION BETWEEN THE UNITED STATES & JAPAN

No	NOMENCLATURE		JAPAN	THE UNITED STATES	○×
1	The law applied		Article §35 of patent law (employee's invention)	Case Law (Shop Right)	○
2	Fundamental concept		1. A person who is an employee owns the patent right to subject matter which he or she invents even though the invention may be conceived or reduced to practice during the course of employment. 2. To harmonize each benefit after assignment in equal consideration of degree of contribution to the society and to industrial development.		×
3	Right owned by the employer		Non-exclusive license	Shop right Non-exclusive Royalty-free Non-transferable	○
4	Requirements for employee's invention	Definition of employee	Employee, Executive, Consultant, etc.,	Employee, Co-owner,	○
		Extent of employer's business			○
		Extent of employee's job	Job related to the invention		○
		Reduction to practice	Reduction to practice within employee's duty	Degree of contribution to the invention by employer,	○
		Invention outside his job	No provision for license		○
		License by the inventor	No provision (automatically transferred)	Written license or implicit license is required	○
5	owner of patent		Employee	Employee	○
6	Right received by employee		The employee shall receive remuneration when set non-exclusive license		○
7	Remuneration		The remuneration is decided in accordance with the profit and contribution		○
8	Retired employee		Case by case	Case law	○
9	Assignment in advance		Right must be passed to the employer (Article §35-2)		○
10	Examples of remuneration				○

3. POINTS OF ARGUMENT

3.1. EMPOYEE'S INVENTION

3.1.1. EXTENT OF THE EMMPLOYEE'S INVENTION

As mentioned above, Japan has the same system as the U.S. about the fact that employer has the non-exclusive license and that it balances both benefits between the employer and the employee in equal consideration of degree of the contribution to the reduction to practice of the invention where the so-called employee's invention is made.

However, the Japanese employer can get the non-exclusive license only when the so-called employee's invention is made but not for the so-called business invention (within the employer's business but beyond the employee's job). On the other hand, there is no distinction between these employee's invention and the business invention in the U.S., so that the American employer could have the non-exclusive license not only for the employee's invention but also for this business invention. According to the case law, it is understood that the contribution to the completion of the invention is enough for the definition of the employee's invention and that it does not matter whether the invention relates to his job or not.

And, the assignment in advance of the busness invention is not allowed by the Japanese Patent Law in Japan, but it seems free to make a same private contract as that of the employee's invention. This diffrence may be caused from the

difference of the industrial policy between the United States and Japan.

Unfortunately in Japan, being very few case in which whether the invention is within his job or not, there is less problem in reality.

3.1.2. inventors

According to the Article 35 of the Patent Law, the inventor, i.e. the subject person who makes an invetion, refers to not only the employee but also a juridical person or an executive.

Therefore, when an executive made an invention besides his own business, this invention becomes an so-called employee's invention whatever business he belongs to. To the contrary, when a general employee made the so-called business invention which has no relation to his job, this invention is not included within the employee's invention. This fact is against the equity principle.

Later, we will show some case laws which ruled exactly the fact.

3.1.3. COMPLETION TIME OF THE INVENTION

Recently, we had a case in which the existence of the employer's non-eclusive license is sought for the retired employee's invention.

Having been completed while he was working for the company and applied after he retired, the invention must be the employee's invention and the employer should have the non-exclusive license regardless the time of the application. But, as there is a diffculty for proving the completion time of the invention, it is not beneficial for the employer to decide the relationship of the right between both sides with reference to the application time (i.e., there is no non-exclusive license to the company for which the employee has worked). This fact is also against the concept of the Patent Law.

Therefore, the benefit for both the employer and the employee should be equally balanced in consideration with the completion time of the invention for the application after retirement. In the law suit of affirmation of right etc., the employer has the burden of perfect proof.

And, it is also considered that the employer must have the duty to set another non-exclusive license for a cetain period or for an application of a certain technology by a contract of the retirement in order to avoid such a law suit as mentioned above.

Let's introduce a law case about this completion time of the invention later.

3.2. REMUNERATION SYSTEM

3.2.1. REASONABLE REMUNERATION

As the invention is an intelectual property and has an economic value, the inventor naturally has a right to be remunerated in case of that the right to be patented is assigned from the inventor to the employer. In Japan, the Article 35 No.3 explicitly has the provisoin of this fact.

And, the provision simply says the amount should be "reasonable" and decided in consideration with both the profit which the company gets through the reduction of the practice of the invention and the contribution by the company in the process to the completion of the invention. (Article 35 No.4)

However, there still remains a problem that it is not easy to judge how much profit the company gets through the invention and how much extent the company contributes to the invention.

Having the case in which the reasonable remuneration was sought, we will introduce it later. [case law 4]

3.2.2. REMUNERATION TIMING

In the case of that the inventor has the right to be remunerated, there arises a problem whether he could continue to demand after his retirement or not.

The Article 35 rules the right of the employee who is still working for a company. if he retires, he is no more an employee. Then, there is a doubt whether he could gain the

remuneration after his retirement or not. Should he have taken the remuneration while he has been working?

However, there remains another question that the protection of the invention and the inventor is still not enough because such a dealing of the invention is beneficial only for the company but not profitable for the inventor.

Let's study next case law which shows a resolution of this problem. [case law 4]

3.2.3. REMUNERATION METHOD

There is a problem whether the remuneration must be paid from the employer assigned the right to be patented to the employee collectively or by installment. The patent law has no provision about this point, so that there have been frequent disputes.

Generally speaking, as the value of the invention is not necessaily fixed at the time of application in Japan, the resonable remuneration is not completely paid at that time. And then, most of the companies will pay the remuneration by the installment after the evaluation through a predetermined company's own standard afterward.

As this way of payment can decide the price in proportional to the value of the invention, it seems reasonable for the company.

To the contrary, there is a dissent from the inventor that he wants the remuneration as soon as the right to be patented is assigned to the employer. So, different expectation comes to arise between the employer and the inventor.

As we have a good example of the case law in which the conflict for both benefits was justly resolved, please see the relevant pages later.

4. DETAILED DISCUSSION

4. 1. CASE STUDY FOR THE EXTENT OF THE DUTY

This case is about whether the invention made in the working hours was within the extent of his duty or not, i.e., whether the invention was included in the extent of his duty if he was an engineering executive.

CASE 1: APPEAL FOR DAMAGE TRIAL

-Tokyo High Court - Showa 38 (Ne) No. 2043

Ruled on Feb. 28, '67-

SUMMARY: Indictment of the plaintiff was dismissed as there was no reason for admittance. The plaintiff was the engineering executive in the defendant's company. The indictment was that the utility patent right of the plaintiff was infringed by the defendant.

1. Factual statement

plaintiff	defendant
Was an engineering executive as a manager executive director from Dec. '46 to May'53 in the defendant's company. (The right was assigned from the original owner of the utility patent because of his death.)	A company who produces and sells lime nitrogen.
(1) Completed the invention and filed Mar. '51. (Registered by individual name but not assigned to the company=followed the custom of this company)	
	(2) Defended as the following items were required for the license. ① the invention was made as the duty. ② the invention was related to the extent of the business. ③ the reduction to practice belonged to his duty.
(3) Insisted that as there was no order from the defendant, the condition that the "reduction to practice" belonged to his duty.	

2. Arguments

Whether the reduction to practice belonged to the plaintiff's duty or not wherein the plaintiff was the engineering executive of the defendant.

3. Judgement

The invention which was made by the person who was an engineering executive as a managing or executive director should be the deed itself which belonged to his duty whatever there is no order nor instruction to make an invention. Therefore, the defendant has a license for this utility patent.

(Reason)

① It goes without saying that if there is an order or instruction to make an actual invention the subject matter could be his duty itself. But, the plaintiff's argument that only when there has been such an order or instruction the matter should be included in his duty might be a narrower understanding.

② It is a correct understanding that the plaintiff who was in the highest rank in the engineering section should contribute to the company by developing and inventing an improved nitrizing furnace which was inevitable for the factory which produces lime nitrogen whatsoever he directly works for the operation or manages the works related to the invention.

4. Others

This case was appealed but the judgement of the lower court was sustained as justifiable. The reason for sustaining was as follows.

"As an executive officer who was at the highest position of the engineering section in the company is qualified to have the actual duty to do his best for improving the production engineering based upon his position and for increasing its efficiency, the action belongs to the duty for the company's executive after the completion of the invention about its engineering. (The Supreme Court Decision: December 13, 1968)

CASE 2: NAME TRANSFER DEMAND CASE FOR UTILITY PATENT

-Tokyo High Court, Syowa 42 (Ne) No.804

Ruled: May 6, 1969-

SUMMARY: An executive, the defendant made an utility patent, and sued that the name was transferred to the plaintif, the company, but dismissed as there is no reason.

1. factual statement

Plaintiff	Defendant
In 1953, establshed as a cmpany to sell enameled chemical instruments and bath tabs.	
	In 1956, joined the plaintiff company as a geneal manager of chemical instruments section. (selling bath tabs) In 1957, became a general manager of R & D group. (Worked for market research and sales planning.) In 1958, promoted to an executive and R & D director.
	(1) While working period, made an utility device, filed a utility patent application and registered.
(2) Paid the filing and	

regisration fees. (3) Argued that there has been an implicit contract to transfer the registred name from the defendant to the plaintiff. (4) Argued that the utility patent belongs to the employee's invention by the defendant.	

2. Arguments

Whether the defendant's registered utility patent by the executive belongs to the extent of the plaintiff's business or not.

3. Decision

The executive had a duty of market research, sales planning and consultant for subsidiaries. Even if studied the same thing as the selling products and obtained the utility patent after succession of completing the new idea, this invention does not belong to the extent of the inventor's job because his job was the market research and sales planning. Therefore, his utility patent was not based upon the so-called "employee's invention".

(reason)

1. There is no reason for admitting the fact that there was an implicit contract to transfer the name to be registered from the defendant to the plaintiff.
2. In the holding company of the plaintiff, emplyee's inventions were registered by the individual name. And after his resignation from the company, there has been no fact that the registered name has been transferred to the company name.
3. The company asked a patent attorney who has been working for long from the beginning to file and register the patents. And the plaintiff had the burden of paying the maintenance fee of the rights, so that the plaintiff's company made a rule to have the non-exclusive license for the utility patent, but this fact can not be based upon the for transferring right.
4. As a result, it is presumed that the utility patent was registered by the name of the defendant and that the defendant has not received any remuneration until now.

4. 2. CASE STUDY ON THE INVENTION AFTER RETIREMENT

4. 2. 1. THE INVENTION AFTER RETIREMENT IN JAPAN

As the invention is a highly advanced creation of technical ideas, even the inventor can hardly prove the exact completion time of his invention. For example, in case that the inventor has concealed his invention during his working period and declared that he made an invention after his retirement, this invention must be essentially dealt with as an employee's invention. However, the employer must have the burden of proof, so that it is very difficult.

We studied what is the proper management system of the employee's invention in the company by reviewing the following recent case in Japan. This case was about whether the invention made by the defendant was the employee's invention or not. And in this case, the inventor insisted that he completed the invention after his retirement, not during his working period.

CASE 3: The case to decide the presence
of "the right to be patented"

—Osaka District Court·Syowa 50 (Wa) No.1948
Decided on May 18, 1979—

The defendant alleged that the invention was made after he had retired from the plaintiff's company, i.e., the employer. The defendant had been working for the plaintiff's company. And, the decision is that the invention was admitted as an employee's invention and that the right to be patented had been transferred to the company in accordance with the company's rule ("The invention and the research related to the company's business must be put on record and reported to the company. In this case, the company has the right.").

1. Factual statement

The defendant (Mr. Yamaoka) of this case had been working for the plaintiff's company (Moriyama Manufacturing Co. Ltd.) as an engineer. His personal history is as follows:

Joined the company for the first time	January 6, 1967	as a Designer
Resigned	July 31, 1967	
Joined again the same company	January 26, 1969	as a Deputy Generaltor Manager of Mita factory
	September 1972	design manager in the head office
	March 22, 1975	design general manager in the head office
	June 20, 1976	resigned

The defendant made a patent application about the "continuous mixer" as the name of his own individual name on July 1, 1976 after his second resignation from the plaintiff's company.

plaintiff;		defendant;	
		Jan.'69	(1) First time joined the company.
Mar.'70	(2) Started R & D of continuous mixer as a company's project.		
Dec.'71	(3) Orally ordered the defendant to develop a new continuous mixer. He was the leader in the engineering section.		
		early '73	(4) Had been working for R & D as a leader.
		Oct.'73	(5) Started manufacturing prototype.
			(6) Explained the prototype at the company's general conference.
			(7) Visited the assembly line, managed production control and concentrated his energy on various experiments.
		Feb.'74	(8) Completed the prototype.
	(9) Spent more than ¥20m for manufacturing the prototype. provided many technical magazines and etc. for his R & D.		
		Jun.'74	(10) Resigned.
		Jul.'74	(11) filed an application about the continuous mixer as the name of his own individual name.

plaintiff's arguments	defendant's arguments
It is clear that this invention falls within the scope of plaintiff's business and the defendant's acts resulting in the invention were part of his duties. Since such acts were mainly mental activities like meditation, it is difficult to recognize that the invention was an employee's invention. However, this case is sufficient enough for such a recognition. Therefore, this invention is an employee 'sinvention, and the plaintiff has the right to obtain a patent according to the company's regulation.	·The idea of this invention had been in the head of the defendant before he joined the company. As soon as he resigned the company, the idea was realized into a model and the invention was completed on June 27, 1974. ·He didn't develop the test model directly, and he was merely a draftman and manager. ·The test model was different from the element of the invention. Therefore, this invention was not an emploee's invention, and the plaintiff didn't have the right to be patented.

2. Argument

Whether the invention in this case is an employee's invention or not.

3. Decisions

① It is not agreeable by the rule of experience that the content like this invention could be realized and completed in a short time as one week, and that the specification and the drawings were made in only 3 days thereafter.

② The test model was the same as the subject matter of the invention, and the difference of the elements does not effect to judge whether it is the employee's invention or not.

③ It is admitted that the defendant had the duty to improve the continuous mixer, and that this invention was one of his duties, and both the starting and completion times had bee presumed to be within his second working period. And, it is presumed that the place where the invention was made had been in the plaintiff's company on the basis of utilizing the reference documents.

Therefore, the plaintiff' argument that this invention is an employee's invention can be admitted. And the right to be patented was admitted to be transferred from the defendant to the plaintiff after the completion of his invention during his working period according to the company's regulation.

4. Study

This case was a little advantageous for the plaintiff because the defendant filed the application only in 11 days after his resignation. What happens if he filed one year later his resignation? As there has been no such a case in Japan, it is unknown.

There is much possibilities for the defendant to win. The reasons are that there was no decisive evidence that the invention was made during his working time, and that the invention was presumed to be an employee's invention in consideration of the defendant's position in the company in addition to the fact that he made an application only 11 days after his resignation.

Although it does not seem such a case frequently happens in the future, the company (the employer) should execute proper R & D management, for example, make it an employee's duty to keep a research diary and check it, so that the company (the employer) could hold objective evidences to prove inventions were made during the employee's working time.

4.2.2. INVENTION AFTER RESIGNATION IN THE U.S.

In the United states, there is no explicit law about the employee's invention like the Japanese one. Therefore, regarding the shopright, it is individually decided by the employment contract. Even if a resigned employee filed after his resignation an application for the invention which had been made during his employment term and which was the same employee's invention as in Japan, i.e., if his employment contract includes an assignment of the right to be patented, a patent based on such a patent application should be obtained by the employer. So that he can not be freed from the contract, (Wege v. Safe-Cabinet Co., 249 F. 696, 6th Cir.1918) which looks like the same as in Japan. (In this case, the

defendant had contracted to work for 5 years as a foreman, but he retired 2 years later for the reasons of his own and then he filed the patent application as soon as he resigned the company.)

However, there is a little difference for the procedure of dealing with the employee's invention from the Japanese one. In Japan, the contract to assign the right to be patented or to give the non-exclusive license to the employer is considered as inappropriate to apply for the invention after the empolyee's resignation in accordance with the principle of the Article 35 item 2 which prohibits the assignment in advance for non-employee's inventions. On the other hand, in the United States the contract to assign every invention after resignation is invalid (Guth v. Minesota Mining & Mfg. Co.,72 F.2d 385, 7th Cir.1934), but, if such a contract includes a limitation of periods, it can be considered as valid. (National Cash Register v. Remington Arm Co.,151 N.E. 144, 24 N.Y. 99 Sup. Ct.1926) And, even having no provision for the term, with reasonable limitation in the content, assignment of the invention after the resignation can be considered as valid. That is, as long as the invention is at least an improvement for the property owned by the employer, the contract to assign the right forever after termination of the employment relationship is considered as effective. (Hulse v. Bonsack Mach. Co.,65 F. 864, 4th Cir. 1895)

In consideration of these case laws, a provision, called as a pursuit provision defining how to deal with the

employee's invention is regarded as effective only for the cases which satisfies a certain condition in the employment contracts. As mentioned above, this procedure is a little different from the Japanese one.

4. 3. CASE STUDY FOR REMUNERATION

CASE 4: A DEMAND CASE FOR UNPAID REMUNERATION OF EMPLOYEE'S INVENTION

-Tokyo District Court·Showa 56 (Wa) No.7986
Decided on Sept. 28 '83-

The plaintiff [inventor] demanded the remuneration corresponding to actual merits for his employee's invention depended upon the company's rule. It was decided that the demand was admitted and the defendant should have to pay ¥8,420,000 as the reasonable remuneration to the plaintiff.

1. Factual statement

plaintiff	defendant
Was an executive director;	A company which manufactures and sells concrete products such as concrete pole, & etc.
(1) A group leader of R & D group of PC pile in the company.	(1) In 1962, started R & D of PC pile. (2) In 1963, established a company's rule of the employee's invention.
(3) Assigned his own 3 inventions and another invention co-owned by him and third party who was not included in this case to the defendant's company.	(4) Were filed these 4 application by the plaintiff and then granted for patent. (5) Licensed their patents to the other 10 companies and earned ¥240 million as the remuneration on the pretext of "technical advisory fee".
(6) In 1977, resigned from the defendant's company by taking his responsibility. (7) In 1979, demanded to be paid remuneration for the employee's invention based on the company's rule against the defendant	

O The content of the company's rule

- There is a provision that employee's inventions by the executives and employees must be assigned.
- The executives and employees can request to be paid the remuneration even if they lost their status or died.

O 1973's circulating document for the executives [defendant's company]

Not to pay the remuneration of the registered patent to the executive.

2. Argument for the price

① Is it understandable that the actual remuneration was included in the high reward paid to the plaintiff, i.e. the executive?

② How to decide the amount and the calculation method of the remuneration if paid?

3. Decision

The plaintiff's argument was admitted and it was decided to pay ¥8.42m as the actual remuneration.

(reason)

① The company's rule of the employee's invention, on the basis of the purpose of the Patent Law, Article 35 Items 3, 4 clearly depicts that the actual remuneration besides his payment for his labor must be paid to the executives and employees who made the employee's invention. And, the plaintiff had been invited to the defendant's company under the condition of being a leader executive of the engineering section. Based upon the two reasons mentioned above, it was not admitted that the second highest payment paid to him as an executive in his company is not regarded as he received the reasonable remuneration for the employee's invention ruled by the Patent Law, Article 35, Item 3.

② Calculation method of the actual remuneration

[Plaintiff's allegation]

(a) Income by license= "The profit earned by the company"

(b) Ratio of the actual remuneration to the income by the license
→5% in consideration of each invention's importance and the degree of contribution by the employer to the invention.

(c) Contribution rate of each invention to the actual remuneration	Contribution rate to the invention of the plaintiff	
·3 inventions of the plaintiff →10/21	10/21	total
·One invention by the plaintiff and another co-inventor →10/21	10/21×1/2=5/21	→15/21
·One individual invention made by inventor B who was not included in this case. → 1/21	0	

The actual remuneration to be paid to the plaintiff =¥240m×0.05×15/21=¥8.59m

[Calculation method by the Court]

The actual remuneration to be paid to the plaintiff =¥240m×0.05×0.7=¥8.42m

(income by license ↓, rate of remuneration ↓, contribution rate by plaintiff ↑)

(reason)

It is admitted that the contribution rate of the plaintiff's invention to the invention by the other 2 co-inventors A & B is at least 70%, and there is no evidence reversing this judgment.

4. Comments

According to this decision, the defendant's income by the royalty is "the profit to be received by the employer" for the calculation of the actual remuneration. And it adopted 5% of the income as the reasonable remuneration to be paid to the inventor. It's rather remarkable judgment as one of the calculation method of the actual remuneration.

CASE 5: CONFIRMATION DEMAND CASE FOR CO-OWNED PATENT RIGHT

-Osaka District Court: Syowa 59 (Wa) No.5209

Ruled: April 26, 1984-

This is an example case law for admitting the "reasonable remuneration" by installment for the employee's invention.

(Patent Law #35-3)

1. Factual statements

Plaintiff	Defendant
An employee of the defendant's company;	A company which manufactures and sells camera;
(1) 3 assigned employee's inventions to the defendants.	
	(2) Filed these 3 inventions to Japan and the U.S. for patent application.
(3) Got =2,000 as the application remuneration for each.	
	(4) Was patented for the inventions No.1 & 2 in the U.S., but the inventions No.1-3 are still being examined in Japan.
(5) Sued for confirmation to have the patent right in place of "reasonable remuneration" for the	

plaintiff's inventions Nos. 1-3. (Patent Law Article 35, Item 3)	

*The defendant's company regulation for dealing with the employee's invention.

(1) Remuneration at the application time.

indiscriminately: =2,000/one case

(2) Remuneration at the time granted.

decided with the consideration of the content and the actual merits, but not exceeds =100,000.

(3) Remuneration for maintaining the right. (Remuneration for actual profits)

paid when got income like royalty and etd., but upper limit is =500,000/one case.

2. <u>Arguments</u>

1. Do they correspond to the "reasonable remuneration", which are decided as equally =2,000 for application remuneration and as less than =100,000 for patent remuneration?
2. The company's regulation has the provision that the remuneration will be paid only in accordance with the income amount of royalties but lacks the evaluation for the actual profit earned by the company when the company itself uses the invention. In this case, could this remuneration be a "reasonable remuneration"?

3. <u>Judgement</u>

The palintiff's demand was dismissed.

(reason)

1. It is not concluded that the amount of remunerations for application, patenting and maintenance provided in the comapny's rule, i.e., the regulation for handling the employee's invention, is not regarded as the "reasonable remuneration" according to the Patent Law #35-3. Comparing with the "Remuneration rule for the public serevice personnel" (=3,000/one case plus =3000/one invention), in the case of the defendant's company, even though the remuneration for registration includes the remuneration for using the invention by the company itself, the amount can not be said extremely unreasonable.
2. As these inventions Nos.1-3 are not still registered, the time to remunerate other than the application remuneration according to the procedural rule for the emplloyee's invention has not come yet. During the period for not exercising the right, it is difficult to calculate the exact amouunt of the remuneration, so that it is admitted to pay by installment.
3. Therefore, there is no reason for the plaintiff's demand based upon the fact that all the remuneration should be paid at once. Further, although there is no provision in the defendant's company rule for the remuneration to resigned employees, it is reasonably understood that the resigned employee does not lose the right in accordance with the defendant's rule.

4. Comments

This judgement seems to be reasonable because as the reasons which admitted the payment by installment it points out a difficulty to calculate the profit before using the invention and not a disadvantage for the employee who receives the remuneration by installment.

5. PREDICTABLE PROBLEMS TO BE DISCUSSED

5.1. REMUNERATION FOR DISPATCHED EMPOLOYEES

In the near future, there will arise problems of how to deal with the invention made by the employee dispatched from a Japanese company to a U.S. one or vise versa, and how much to be remunerated for them. This is because technogy transfers between both countries will become more and more prosperous. Although this problem relates to the invention made by co-inventors, we will discuss this matter by emphasizing the system and remuneration amount of the employee's invention. First, let's study the following four patterns as shown in the table below.

	IN JAPAN		IN THE U.S.	
	A Japanese is dispatched to an American company	An American is dispatched to a Japanese company	An American is dispatched to a Japanese company	A Japanse is dispatched to an American company
PROBLEMS	Is remuneration decided by contract or Japanse remuneration system?	Will he agree with remuneration system accoding to Japanese patent law?	Which system is applied?	Unsatisfied with contract or shop right He demands remuneration besides.
RESOLUTIONS	To make a company's rule in accordance with Japanese law in dependency on teritorialty principle.	Is there any other way to persuade?	A contract system is better for both sides.	Is he required to be accustomed to the contract system.

(An actual example)

The main office is in Japan. The company has a subsidiary in L.A. Many Japanese employees are dispatched to work with Americans employed there. A Japanese and an American employees made an invention and applied it to the Japanese Patent Office. Shall this American employee be remunerated at the appliction time according to the company's rule?

5.2. Does the remuneration refer to the claim?

The Article 35 item 3 of the Japanese Patent Law says, "---shall have the right to a reasonable remuneration ---with respect to an employee's invention---." This "employee's invention" means an "invention" related to the "job". Please see p.4, the definition of "employee's invention". In this case, there is no problem if the invention is patented. But, the remuneration at the application time is actually paid without exaclty setting the claim, so that the remuneration can not be equal to the claim.

Therefore, we will discuss the following items:

a. Can there be a "remuneration" exactly corresponding to a "invention"?

b. How much is the extent which is not included in the claim?

c. What is the extent for the dependent claims filed by the multiple claim system?

d. Does the "remuneration" refer to only the sbject matter?

e. How to refer to the method claims?

5.3. Is "know-how" remunerated? And how much?

We found one case in Japan that the remuneration must be paid for the technology which has been kept secret as a know-how of the company. (This case is not introdued here because of the space.)

Actually, the situation is that only the remuneration at the application time is paid but not for the unwritten case. What is the best way to compensate the "know-how" or the "trade secret"?

5.4. How to compensate the invention of which foreign application is first patented?

[case law 5] shows an example that the U.S. application had already been patented while the Japanese one was still examining. According to the articles of the company, a provision says the remuneration must be paid as soon as "the application is settled." Therefore, the remuneration for application is paid for the domestic application. But further, as the invention has already been patented, the remuneration for registration must be also paid, mustn't?

Is there any company rules that decides this remuneration for registration in the U.S., too?

If yes, how do you deal with such an invention? And how do you set the amount of the remuneration?

Furthermore, if this invention is applied for more than two countries, do you have a system to be paid later?

5.5. The different way of thinking about the assignment in advance between the U.S. and Japan.

The Japanese Patent Law, Article 35, item 2 defines that the assignment of the right to be patented in advance is admitted only for the employee's invention, but is there any idea like this in the United States?

And, does this mean that there is only procedual difference between the U.S. and Japan?

5.6. To make it clear the difference of way of thinking about the standard for the remuneration between the U.S. and Japan

According to the article 35 item 4 of the Patent Law in Japan, there is a concept that the remuneration is decided in consideration of the amount of gained profit and the "degree of contribution by the employer". Do you have the same idea as this "degree of contribution by the employer"?

We have not found such a case law, but as the inventor make use of the facilities and accomodations of the company, we presume that the remuneration is considered to a certain extent.

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2:1-2A

(1) Title: **Management of Employee Inventions**

(2) Date: October 1990

(3) Source
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3) Committee : 1

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(5) Keyword(s): employee's invention, compensation, shop right, fiduciary duty

(6) Statutory Provision(s):

(7) Abstract

Since most U.S. patents are issued to employed inventors, the nature of the employer-employee relationship is important. In general, a person is an employee if he or she receives a salary or wages. There are three categories of employee inventions which can be termed specific inventions, shop right inventions and free inventions. In the absence of an express contract, the employer owns a specific invention, the employee owns a shop right invention subject to an employee's shop right, and the employee owns a free invention. These common law rights of employees and employers to inventions can be modified by contract. Such contracts are generally held by courts to be valid. No special compensation is required in the United States for assignment of inventions to employers. The results of a survey of 115 U.S. companies conducted by the author and reported herein shows that about one-half of the surveyed companies have some form of special compensation system for employee inventions. Such systems can lead to increased invention disclosure and cooperation of inventors in the patenting process. It is submitted, however, that increased invention disclosure and cooperation can be achieved via other managerial means. The correlation between special employee compensation systems and creativity is difficult to ascertain. The results of the survey indicate that the presence or absence of such a system is correlated with industry category but not with company size. It is submitted that the correlation with industry category may be due to competitive forces.

MANAGEMENT OF EMPLOYEE INVENTIONS

A. Introduction

Much concern exists in the United States that America's world technological leadership role has been waning. It has been alleged that America's innovation has decreased in recent years.[1] Statistics demonstrate that the percentage of U.S. patents issued to domestic entities has noticeably fallen from the years 1975 (64.7%) to 1984 (57.1%).[2] In addition, the top four companies receiving the largest number of U.S. patents in 1989 were Japanese corporations.[3]

The vast majority of U.S. patents are issued to employed inventors[4], thus it can be concluded that the nature of the employer-employee relationship is critical to patent procurement. Special employee monetary compensation systems are one way some U.S. companies use to improve their patent production. It would appear to be desirable to have information on how extensively such systems are used and if anything can be concluded regarding their success. This discussion will consider some basic employer-employee issues and report the results of a recent survey of U.S. companies conducted by the author to gather information on special compensation systems for employee inventions.

B. Who is an Employee?

Generally, a person is an employee of an organization if he or she receives a salary or wages from that organization.[5] However, whether a particular person is an "employee" rather than an "agent" or "independent contractor" can be a subject for controversy.[6] The terms are often defined by state statutes and whether one is an employee will depend on the facts and circumstances in close cases.[7] When one makes an invention, whether that person is an employee typically will be critical as to whether the alleged employer has rights to the invention. Thus, when a court establishes an independent contractor status of the inventor, the alleged employer has no

rights to the invention.[8] It should be noted, however, that a strict employer-employee relationship is not necessarily required for the "employer" to obtain rights to the invention (see section C.4., *infra*, "Fiduciary Duty"). Once an employer-employee relationship has been established, many factors will be taken into account to determine what rights each party has to the invention.

C. Rights to an Invention in the Absence of an Express Contract

The leading case in the area of rights to an invention in the absence of an express agreement is the Supreme Court case of United States v. Dubilier Corp.[9] Dubilier reviews the common law regarding the rights of employers and employees in employee inventions and elucidates three categories of inventions and rights thereof. These three categories will be termed "specific inventions", "shop right inventions" and "free inventions".

1. Specific Inventions

Specific inventions arise when an employer hires an employee to invent a specific thing or solve a specific problem. In these situations the employer, for all practical purposes, owns the invention. In Dubilier the Supreme Court held

> "One employed to make an invention, who succeeds, during the term of service, in accomplishing that task, is bound to assign to his employer any patent obtained. His invention is the precise subject of the contract of employment. A term of the agreement necessarily is that what he is paid to produce belongs to his paymaster."[10]

Thus, an employee inventing a specific invention has a contractual (implied) and equitable duty to assign the patent to the invention to the employer. When an employee acquires title to an invention by operation of common law, the employer obtains equitable title to the invention, allowing the employer to enforce the employee's implied contractual obligation to assign the patent and thus obtain legal title. The common

law rule of employers effectively owning specific inventions has been consistently followed by the courts.[11] Many courts, however, have distinguished between employees hired to invent and those hired to improve an already-conceived idea. Even in these situations courts have held that the employer holds the right to the invention,[12] especially in situations where the improvement is not a separate patentable invention.[13]

2. Shop Right Inventions

A shop right invention arises where an employee makes an invention using the resources of the employer, but the employer did not specifically hire the employee to make the specific invention.[14] A shop right invention is also sometimes termed a "general invention" since the employee may have been hired to use his creativity generally.[15] A shop right is an employer's royalty-free, nonexclusive, and non-transferable license to use the employee's invention.[16] The presence or absence of a shop right will depend on the particular facts or circumstances surrounding the invention; however, it is clear that the employer-employee relationship alone will not give rise to a shop right.[17] The employer must establish under equitable principles that an implied contract exists for the shop right. Factors that will help an employer establish the existence of a shop right include the use by the employee of the employer's facilities, time, trade secrets, other employees, or materials.[18] The shop right does not extend to areas outside the scope of the employer's normal range of business.[19]

3. Free Inventions

The third category of rights in an employee's invention can be termed "free inventions".[20] A free invention is owned by the employee. The clearest example of a free invention is where an employee on his

own time using his own resources makes an invention outside the scope of his employer's business.

4. Fiduciary Duty

Employees who have such a close relationship to their employers that they can be considered the employer's "alter ego" represent what can be considered an exception to the shop right invention rule.[21] Such persons are not even necessarily "employees"; for example, officers, partners or directors may have a duty to assign their invention to the company. In such instances, the employer or company owns the invention rather than a shop right. The key to this analysis depends upon a fiduciary duty owed to the company.[22] An employee who normally is not considered the employer's alter ego but has a fiduciary duty to the employer may be obligated to assign his invention to the employer.[23]

The above discussion indicates that in the absence of an express contract, courts have generally endeavored to allocate rights to employees' inventions in an equitable manner. Therefore, at the two extremes (clear examples of specific inventions and clear examples of free inventions) common law is unambiguous. In between these two extremes, however, ambiguity does frequently arise as to what respective rights to the invention the employee and employer own. As a result, employers and employees frequently enter into express agreements in an effort to remove ambiguity.

D. Rights to an Invention with an Express Contract

Express agreements between employers and employees to allocate rights to an employee's invention are generally enforceable and supersede common law.[24] Only five states have legislation which governs employee inventions.[25]

State law controls the validity and interpretation of express invention assignment contracts.[26]

The overwhelming majority of modern day U.S. corporations requires some form of invention assignment agreement as a condition of employment. Although these standardized agreements are typically adhesion contracts, courts are reluctant to declare them invalid or unenforceable.[27] Employment contracts that assign patents are almost always found to have adequate consideration, to wit, the employee's continued employment.[28] Also, such contracts have generally survived attacks based on being against public policy.[29] Provisions in employee agreements which cover inventions conceived even before employment have also been held valid.[30] Similarly, provisions in employee agreements which cover inventions made after termination of employment have also been held valid;[31] however, if the length of the "trailer" clause is too stringent or too long it may be unreasonable and violate public policy.[32] One of the few successful avenues of attack by an employee inventor attempting to invalidate an employee assignment agreement is in Roberts v. Sears Roebuck & Co.[33] where the employee alleged that Sears fraudulently obtained the agreement.

E. Special Compensation Systems for Employee Inventions in U.S. Companies

As alluded to above, no extra or special compensation is required in the United States for the assignment of inventions to employers. This is in contrast with other countries, most notably West Germany and Japan, where compensation for assignment of employee inventions to employers is mandated by law. In the past, several bills have been introduced in the U.S. Congress which would have required employers to compensate employees for their inventions made at work.[35] These bills met stiff resistance by U.S. industry and were never passed into law. Thus, if employers wish to offer special compensation or incentives for employee inventions, at the present time, it is largely within the employer's discretion.

Opinions of commentators concerning the value of special employee invention compensation systems are very diverse. For example, Bowes strenuously argued in favor of such systems and used the Westinghouse Electric Corporation's special invention compensation system (as of 1973) as an example of one that works quite well.[36] In marked contrast, Tyrrell just as strenuously argued against such systems and used Bell Labs as an example of a high-powered research organization which has historically done quite well without a special invention compensation system.[37] Other than testimonials similar to those cited above, there has been little recent information available on how many U.S. companies use special employee invention compensation systems, what types they are, and whether they are of value to the company.[38] In view of limited contemporary data available, the author conducted a survey of U.S. companies to gather information on employee invention compensation systems.

1. Survey

Appendix I hereto is the survey form used. The survey form was sent to 203 leading U.S. companies, with the chemical and pharmaceutical industries being sampled most comprehensively. Of the 203 forms sent, 6 were returned as non-delivered. Of the 197 forms believed to be delivered, 115 or 58% were returned with some degree of completion. The U.S. companies that participated in the survey are listed by industry category in Appendix II. The cover letter sent with the survey forms indicated that the information provided would be considered non-confidential. Two companies of 197 claimed that the information requested is confidential and did not participate. The vast majority of the survey forms were completed by the head of the patent section for the respective companies. The survey results must be taken at face value, that is, the survey merely represents a sampling of companies and is not comprehensive. The results must be viewed with

the degree of scrutiny afforded to similar surveys, especially taking statistical error into account. Percentages were rounded off to the nearest one percent and, therefore, do not necessarily total 100% where such total would appear appropriate. Also, not every respondent answered every question, so the total number of responses varies from question to question.

a. Questions 1 and 2

The responses to Questions 1 and 2 are shown in Figures 1 and 2.

Figure 1

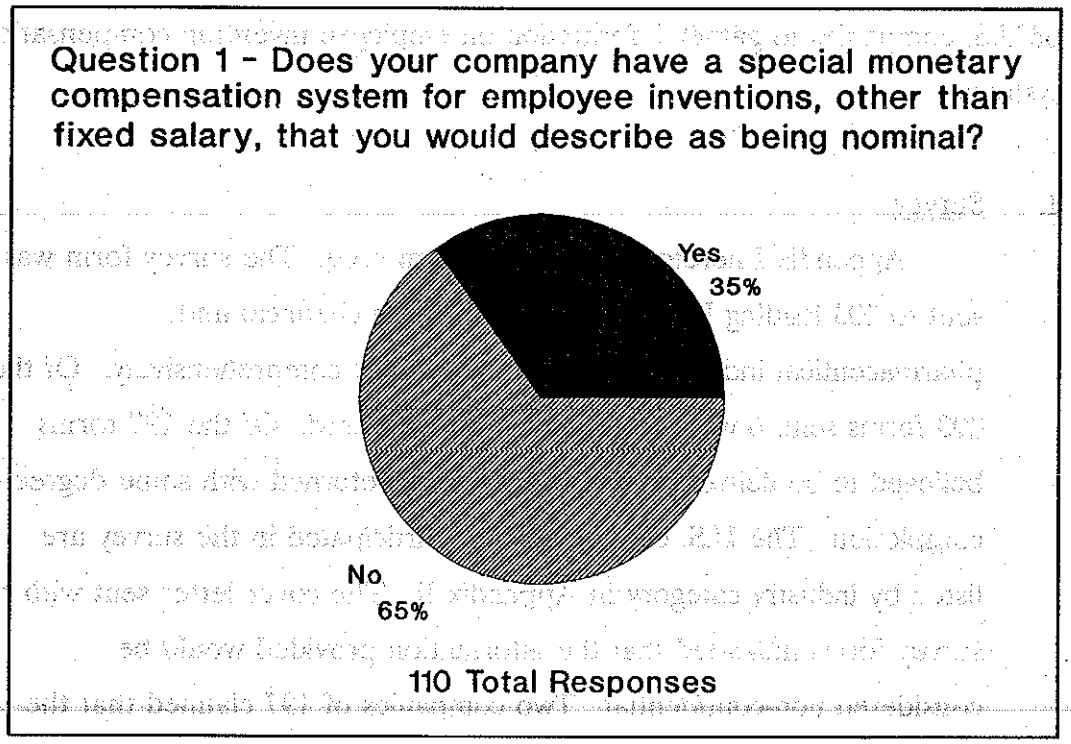
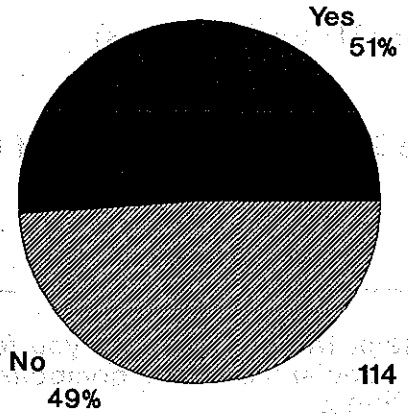


Figure 2

Question 2 - Does your company have a special monetary compensation system for employee inventions, other than fixed salary, that you would describe as being more than nominal?



NOTE:
Percentages are adjusted to include as "yes" responses all respondents who answered Question 3, regardless of whether Question 2 was actually answered "no" or left blank. This adjustment affects 11% (12) of the responses.

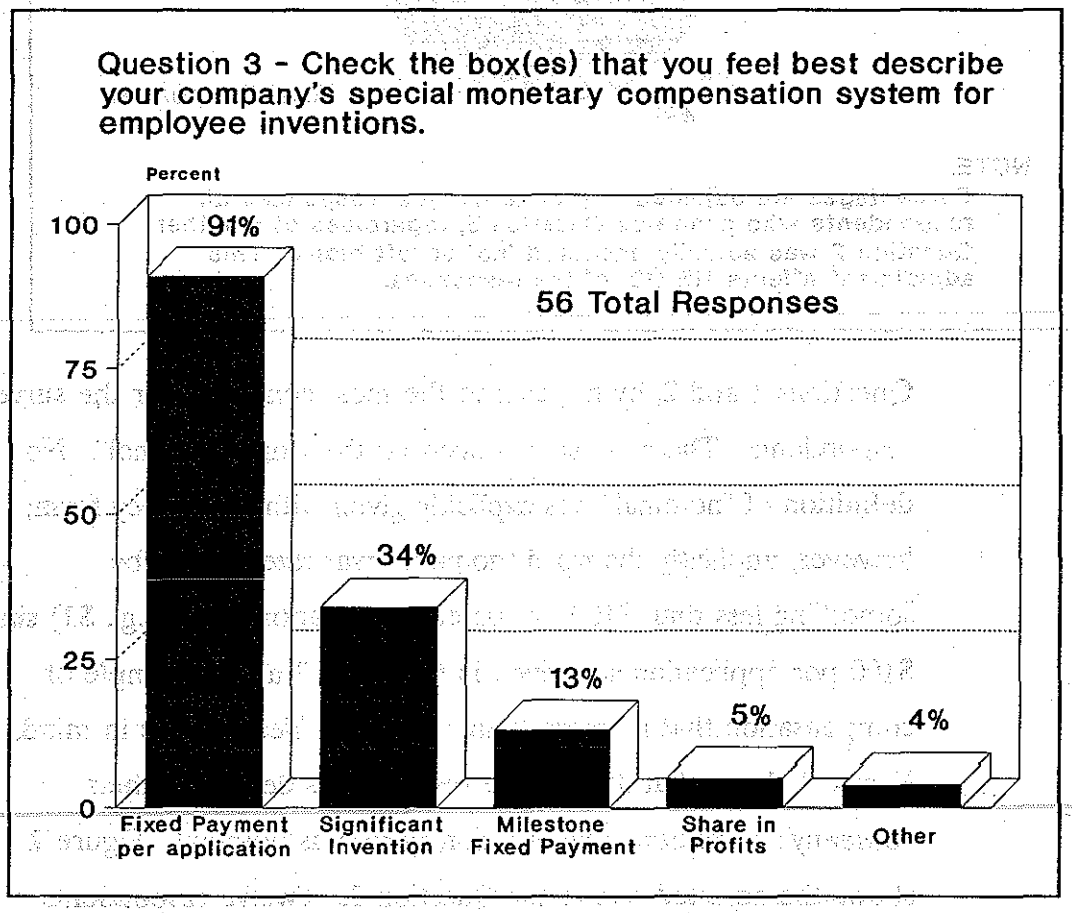
Questions 1 and 2, by far, caused the most confusion for the survey respondents. The confusion concerned the word "nominal". No definition of "nominal" was explicitly given with the survey form; however, implicitly the word "nominal" was intended to be something less than $100 per patent application filed (e.g., $1) since $100 per application was given in Question 3 as an example of compensation that is "more than nominal". Bearing this in mind, Figure 1 shows that 35% of the respondents described their company's invention compensation system as nominal. Figure 2 shows the adjusted results for Question 2. Twelve respondents answered "no" to Question 2 or left it blank, but went on to answer Question 3 with particularity or otherwise provide details of their company's invention compensation system. Thus, the 12 responses

were adjusted to be "yes". As can be seen, about one half (51%) of the participating companies have some form of monetary invention compensation for inventions. This is in line with earlier observations.[39] Not adjusting the answers to Question 2 would result in 41% (46 responses) "yes" answers and 59% (67 responses) "no" answers (113 total responses).

b. Question 3

Figure 3 contains a compilation of the results for Question 3.

Figure 3



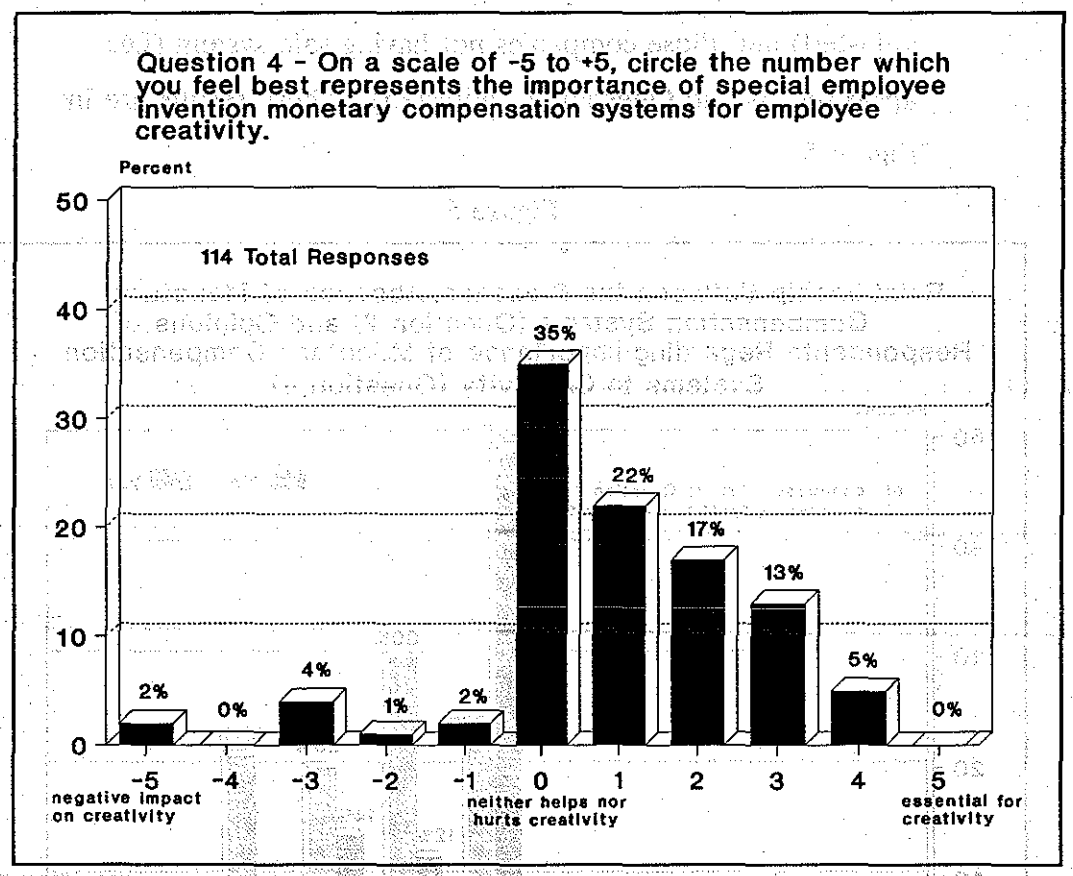
Question 3 also requested a detailed description of the compensation system; a listing of the details provided of the various

systems is in Appendix III (in random order). Most striking is that 91% of those companies with special compensation systems have a fixed payment. Also, only 5% (3 companies total) have invention compensation linked to a share of profits or income derived from the invention.

c. Question 4

In many ways this question is the most interesting. The results are in Figure 4.

Figure 4

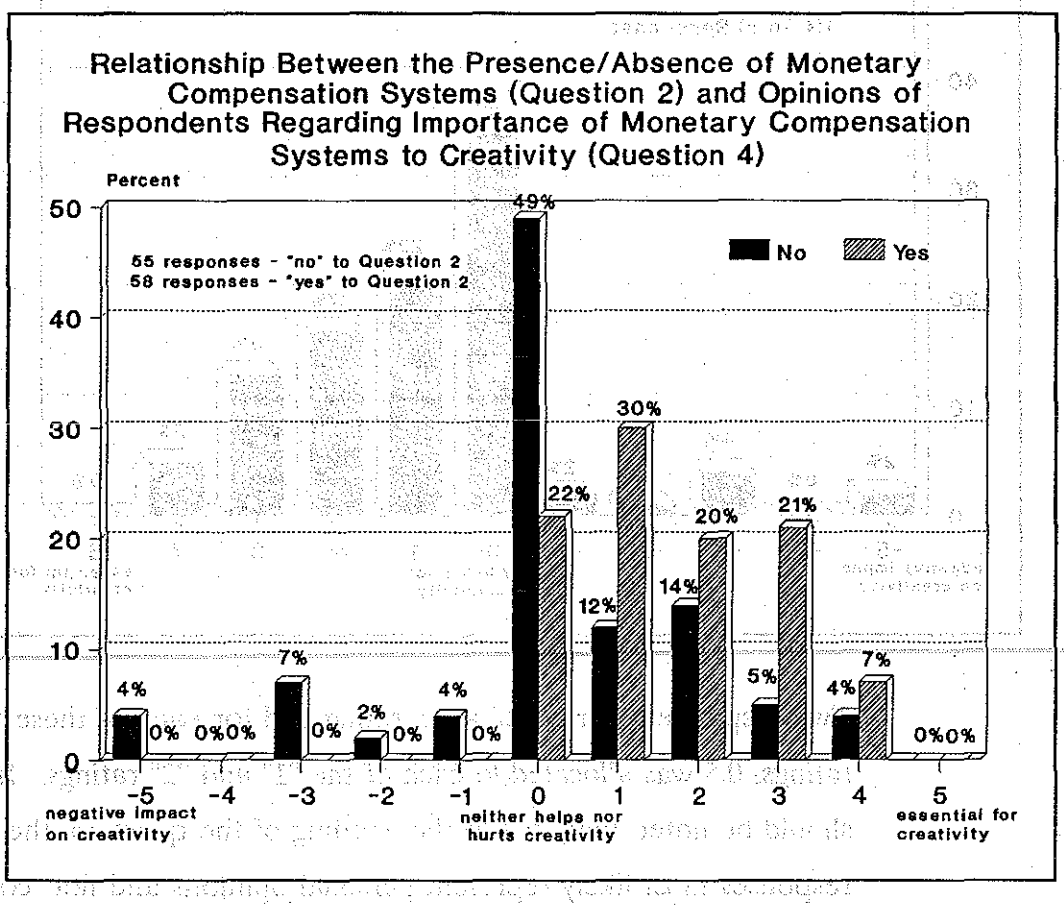


Two respondents provided a 1.5 rating and for each of these two ratings, 0.5 was allocated to each of the "1" and "2" ratings. It should be noted that, due to the wording of the question, the responses most likely represent personal opinions and not "company

opinions". Based on the varied opinions previously published,[40] something approaching a bell-shaped curve was expected. The results, however, show a strong skewing to the positive. Fifty-seven percent of the respondents (65 of 114) gave a positive rating and only 8 percent of the respondents (9 of 114) gave a negative rating.

Keeping the caveat noted above in mind about personal versus company opinions, the responses to Question 4 were separately compiled for those companies having a special invention compensation system (i.e., answered "yes" to Question 2 - adjusted) and those companies not having said system (i.e., answered "no" to Question 2 - adjusted). These results are in Figure 5.

Figure 5



The clear tendency is that those respondents working for a company with a special invention compensation system tend to believe such systems do have a correlation with increased creativity.

d. Questions 5 and 6

Financial reward, albeit important, is only one means of providing incentives. The results of Questions 5 and 6 are in Figures 6 and 7, respectively. In addition, Figure 8 shows the percentage of companies having answered yes to at least one of Questions 5 and 6.

Figure 6

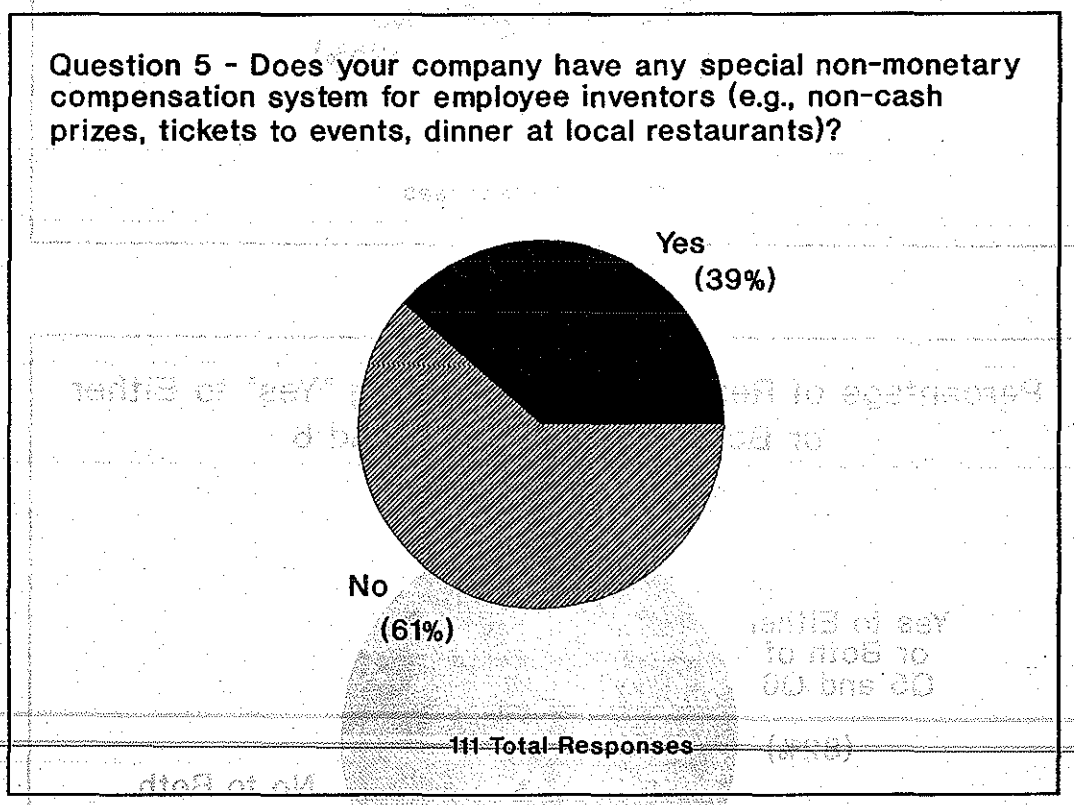


Figure 7

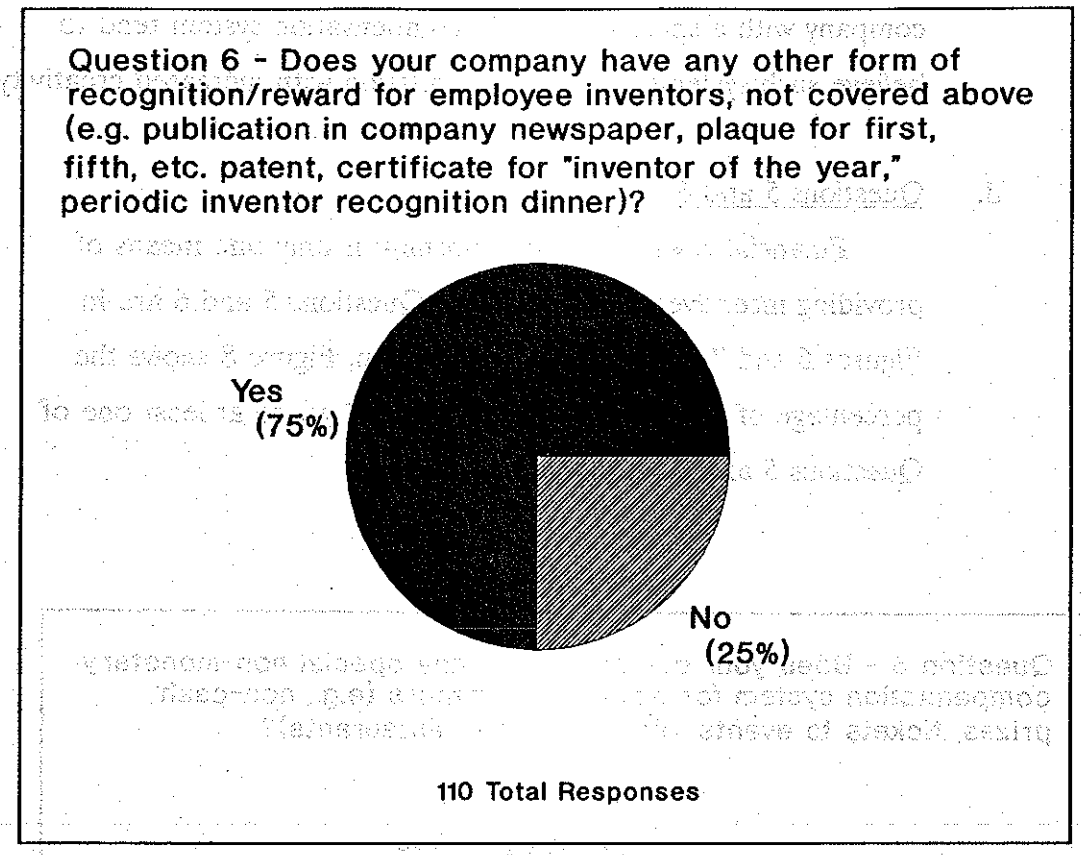
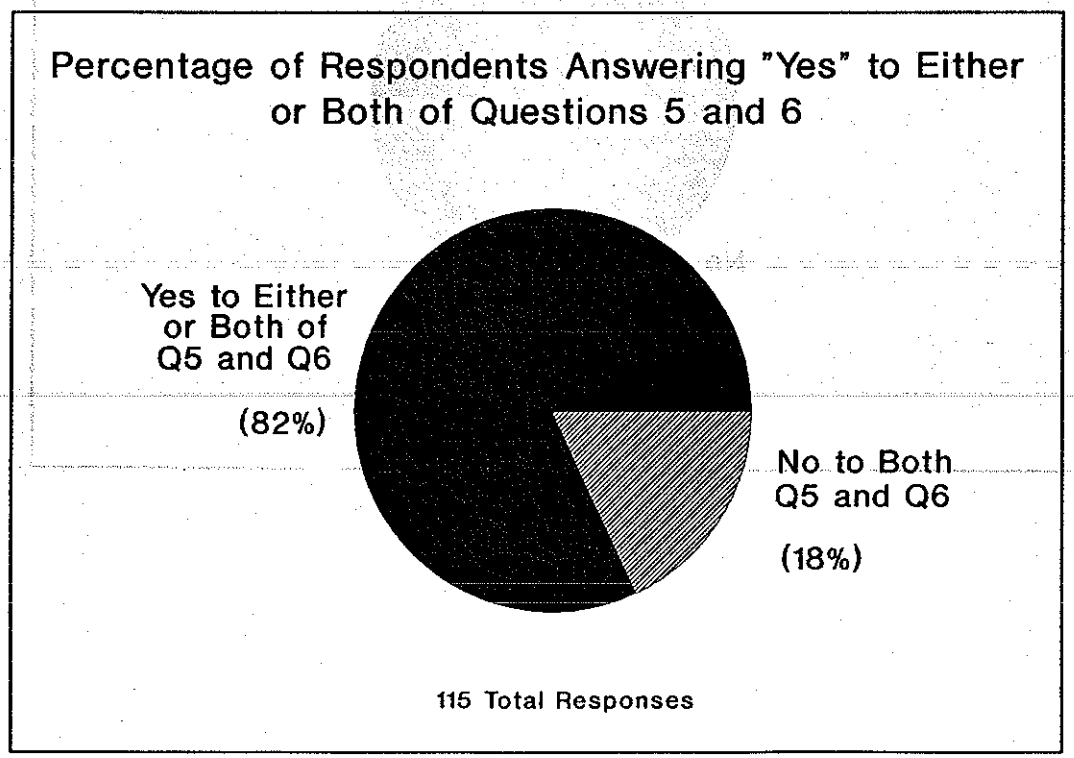


Figure 8

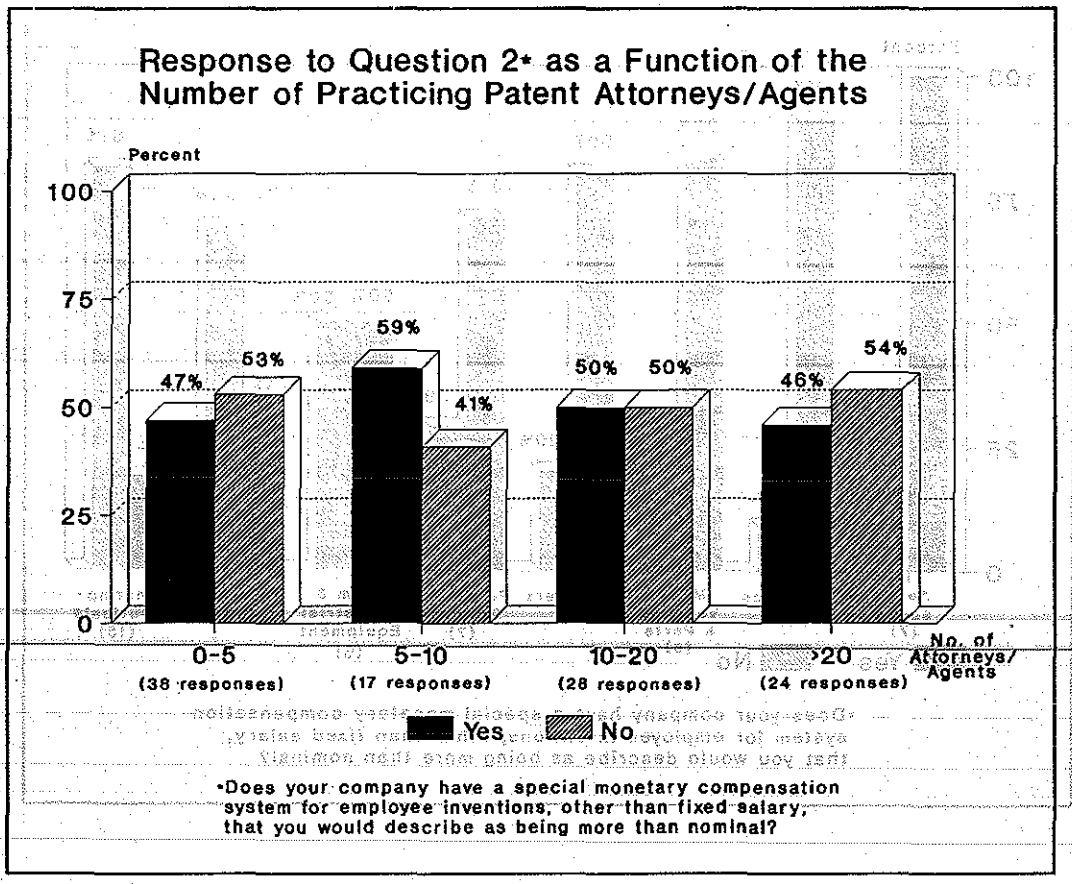


It is not surprising that the large majority of responding companies (82% - 94 total) have some form of non-monetary recognition for inventors. What is perhaps surprising is that a significant number of responding companies (18% - 21 companies) do not have such recognition.

e. Company Size

It was thought that, perhaps, the size of the company (or at least the R&D effort) might be correlated with having a special invention compensation system. Figure 9 is a breakdown of responses to Question 2 (adjusted) with the number of practicing attorneys/agents at the company.

Figure 9

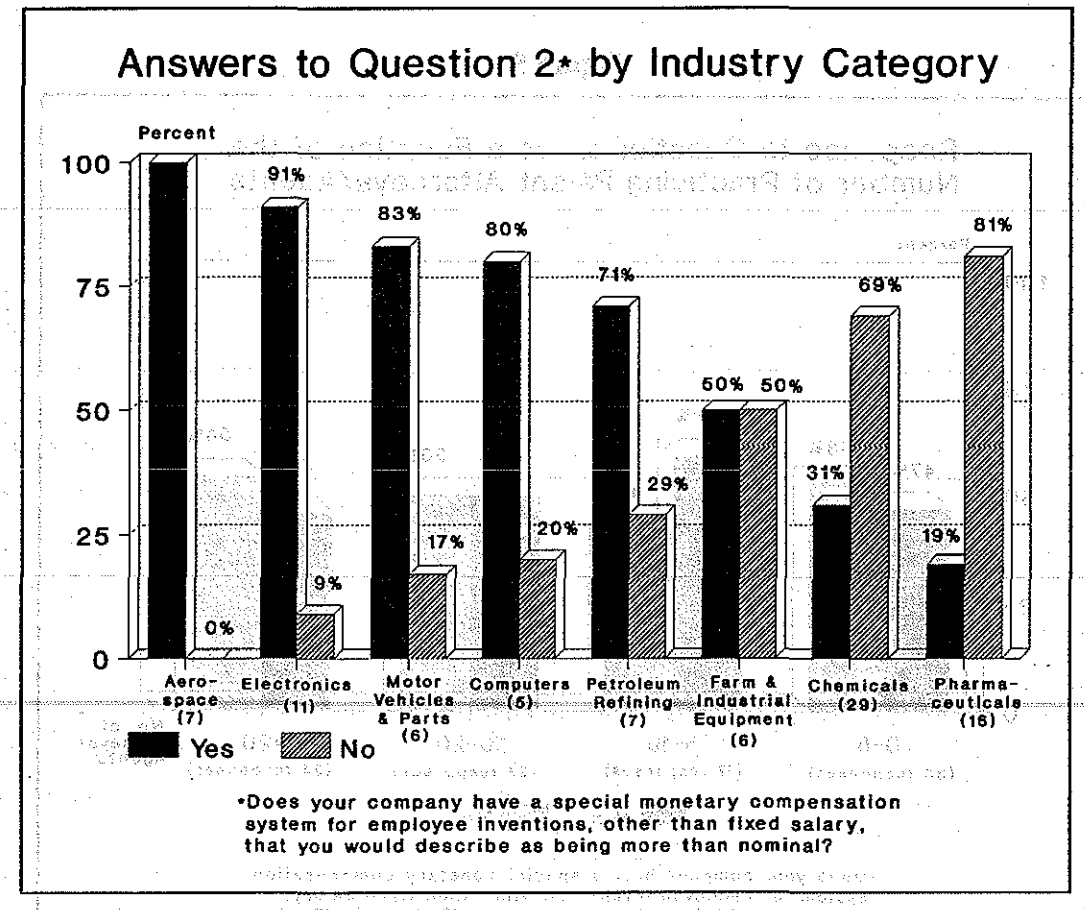


These data indicate essentially no correlation between size and the presence/absence of a special monetary invention compensation system.

f. Industry Category

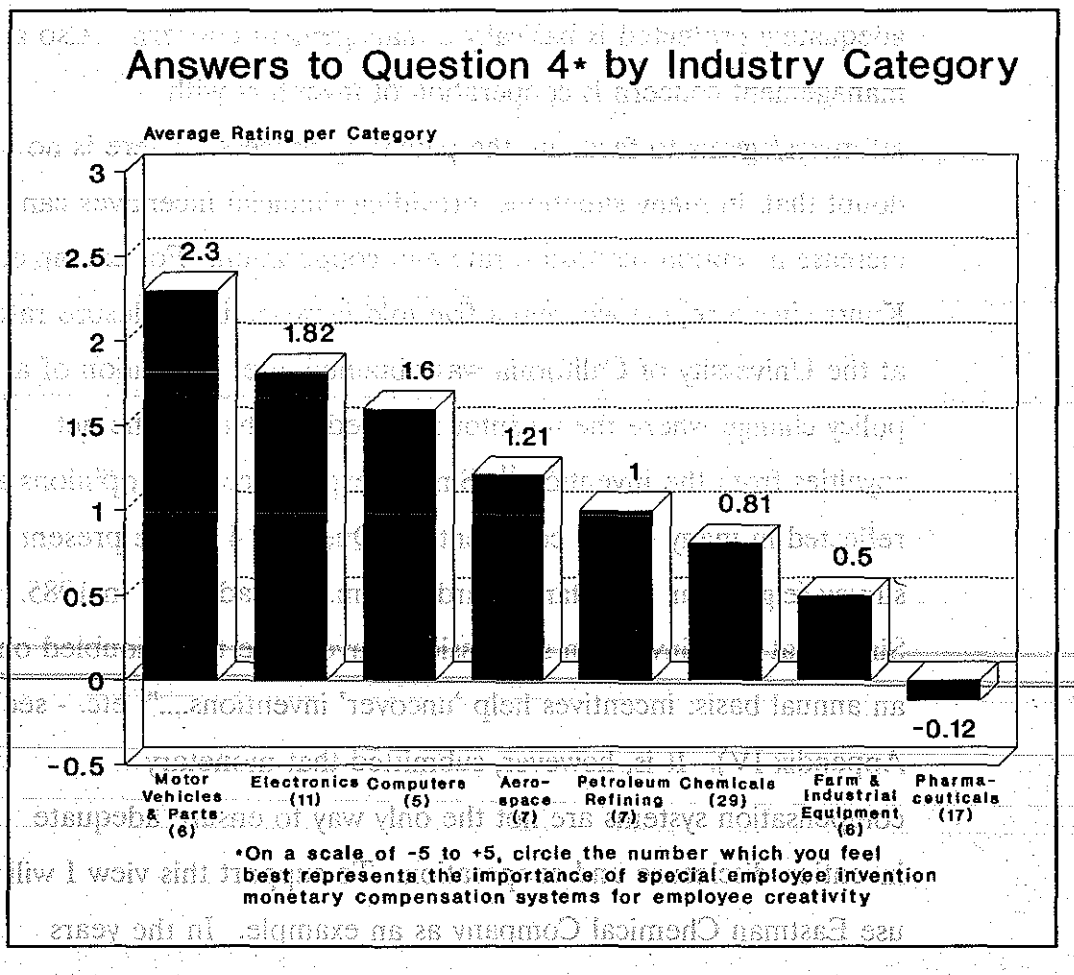
The industry categories were derived primarily from *Fortune* magazine and secondarily from the information provided with the survey. The responses to Questions 2 (adjusted) and 4 were broken down by industry category. Only those industry categories with at least 5 participants were included. The results are in Figure 10.

Figure 10



These results are most striking. There is clearly a spectrum of responses. At one extreme are Aerospace, Electronics, Computers, Motor Vehicles and Parts industries - greater than 80% of these companies have special monetary compensation systems for employee inventions. At the other extreme is the Pharmaceutical industry where only 19% of the surveyed companies have a special monetary compensation system for employee inventions. As would be predicted from Figures 5 and 10, the responses to Question 4 also vary by industry category (keeping in mind the above-noted caveat). Figure 11 breaks down the responses to Question 4 by industry category.

Figure 11



2. Value of Special Monetary Invention Compensation Systems

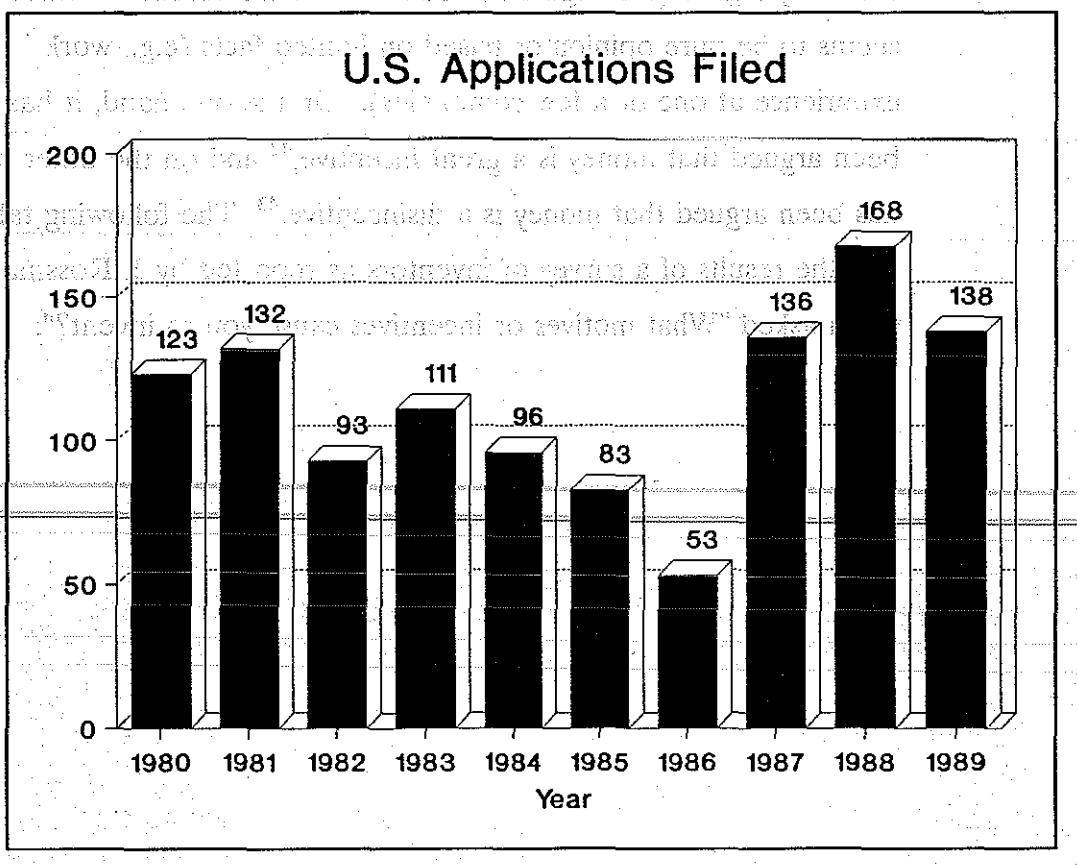
There are at least two potential benefits from use of special monetary invention compensation systems. One is increased disclosure of inventions including increased cooperation by the inventor in the patenting process. This benefit is related more to quantity than quality. The second potential benefit is increased employee creativity or innovativeness. This potential benefit is related more to quality rather than quantity. Many interesting comments were received in response to Question 4 which relate to these issues. These comments are randomly listed in Appendix IV.

a. Increased Disclosure of Inventions and Cooperation of Inventors

Ensuring that inventions are timely disclosed to the patent staff of a company so that the proprietary rights of the company are adequately protected is basically a management concern. Also a management concern is cooperation of inventors with attorneys/agents to facilitate the patenting process. There is no doubt that, in many situations, providing financial incentives can increase invention disclosure rate and cooperation. For example, Kuntz cites a report wherein a five-fold increase in disclosure rate at the University of California was obtained after institution of a policy change where the inventor received one-half of the net royalties from the invention.[41] Similar experiences and opinions are reflected in many of the comments to Question 4 of the present survey (e.g., "Our monetary award system...was adopted in 1985. Since that date invention submissions have more than doubled on an annual basis; incentives help 'uncover' inventions...."; etc. - see Appendix IV). It is, however, submitted that monetary compensation systems are not the only way to ensure adequate invention disclosure and cooperation. To support this view I will use Eastman Chemical Company as an example. In the years

1985-1986, a Quality Management Improvement Project was instituted at Eastman Chemical Company to improve the patenting process. A new patenting process was instituted which had strong management support. Keys to the new process were giving inventors ownership of the process and a strong patent staff which responded quickly to requests. A comprehensive patent training course was given to all R&D personnel. The incentives to disclose were built in to the new patent process due primarily to the strong management support which made invention disclosure an important part of an employee's performance evaluation. No special monetary compensation system for inventions was instituted, although other awards (e.g., plaques and an annual patent recognition dinner) were instituted. Figure 12 shows the numbers of U.S. applications filed by Eastman Chemical Company for the years 1980 through 1989.

Figure 12



These data show the dramatic improvement made by the new patenting process. Eastman's system is not for everyone, but it is believed that it is an alternative system to encourage invention disclosure and cooperation.

b. Increased Creativity

Unlike increased disclosures in which statistics can be cited to support a premise, hard data is difficult, if not impossible, to find to demonstrate whether or not monetary invention compensation systems are an incentive for increased creativity. As previously mentioned, the responses to Question 4 of the present survey (see Figure 4) are generally skewed to the positive with the most popular rating being 0, i.e., neither helps nor hurts creativity. It also appears that people in companies which have a special invention compensation system tend to rate the correlation with creativity higher (see Figure 5). Most of the information available seems to be pure opinion or based on limited facts (e.g., work experience at one or a few companies). On the one hand, it has been argued that money is a great incentive,[42] and on the other it has been argued that money is a disincentive.[43] The following table lists the results of a survey of inventors as reported by J. Rossman[44] when asked "What motives or incentives cause you to invent?":

FREQUENCY OF MOTIVES OR INCENTIVES
MENTIONED BY 710 INVENTORS

Love of inventing	193
Desire to improve	189
Financial gain	167
Necessity or need	118
Desire to achieve	73
Part of work	59
Prestige	27
Altruistic reasons	22
Laziness	6
No answers	33

As can be seen, financial gain is only the third most popular response. Any motivation that money may give to creativity appears to be best left to the field of psychology. It is the author's opinion that especially innovative inventors are little, if any, inspired by the prospects of attaining more money. That is, a Thomas Edison would be driven to invent regardless of whether or not he received a special payment for his efforts. If monetary compensation is at all related to creativity, it is believed that this relationship would only be present in the relatively rare instances where the stakes are high (such as sharing in the profits of the invention or the $1,000 to $175,000 awards at Texas Instruments[46]) -- not in the typical case where an employee receives $100-$500 per application (see Figure 3 and Appendix III). It should also be noted that the presence of an invention award system can possibly expose a company to increased liability -- such as where a disgruntled employee feels that the award is not fair as applied specifically to him or her.[46] Prudent and legally counselled wording for a company's written invention incentive plan appears to be in the company's best interests.

One area that might provide more definitive answers is the correlation between the presence of a special invention compensation system and recruitment/turnover. If a Thomas Edison was contemplating

employment at two companies, with all other factors balancing out except that one company offered a substantial financial reward for inventions, I think the company chosen would be obvious. Although speculation, this type of factor may help to understand why the presence or absence of special invention compensation systems seems to be correlated with industry category (see Figure 10). That is, companies are competitive with their peers to attract and retain creative inventors.

F. Conclusion

Because of the ambiguities of common law, most modern U.S. companies require some form of written agreement for the assignment of employee inventions. These agreements are generally held to be valid. Unlike some other countries, the U.S. does not have any special mandatory compensation for employee inventions. The results of a survey of 115 U.S. companies reported herein show that about one half of the surveyed companies have some form of special monetary compensation system for employee inventions. Such systems clearly can lead to increased invention disclosure and cooperation of inventors. It is submitted, however, that increased invention disclosure and cooperation can be achieved through other managerial means. The correlation with such systems and creativity is difficult to ascertain, but it is believed to be generally negligible. The presence or absence of such a system is correlated with industry category. It is submitted that this correlation may be due to competitive forces.

The author wishes to acknowledge the help of all the respondents of the companies listed in Appendix II for their time and effort in completing the survey forms.

Footnotes

[1]*See, for example,* see Parker, Reform for Rights of Employed Inventors, 57, S. Cal. L, Rev. 603 (1984).

[2]*See* Witte and Guttag, Employee Inventions, 71, J. Pat. Off. Society 467, 479 (1989).

[3]Hitachi, Ltd., Toshiba Corp., Canon K.K., and Fuji Photo Film Co., Ltd.; Compilation from Intellectual Property Owners, Inc., 1255 23rd St., N.W., Suite 850, Washington, D.C.

[4]*See Witte and Guttag, supra,* note 2, where it is reported in 1984 that 81.2% of all issued U.S. patents were assigned.

[5]*See, for example,* State ex rel. Gorczyca v. City of Minneapolis, 174 Minn. 594, 219 N.W. 924 (1928); Northwestern Nat'l. Life Ins. Co. v. Black 383 S.W. 2d 806 (Tex. Civ. App. 1964)

[6]*See, for example,* Yearwood v. United States, 55 F. Supp. 295 (D. La. 1944).

[7]*Id.*

[8]Allegheny Steel & Brass Corporation v. Elting, 141 F2d 148, 7th Cir. (1944); Howe v. Floodmaster Mfg. Corp., 45 Ill. App. 2d 203, 195 N.E. 2d 278 (1963).

[9]289 U.S. 178 (1933).

[10]*Id.*, at 187.

[11]*See, for example,* Vigitron, Inc. v. James R. Ferguson 215 USPQ 354, 120 N.H. 626; 419 A. 2d 1115 (1980).

[12]*See* City of Milwaukee v. Activated Sludge, Inc. 69 F. 2d 577, 587, 7th Cir. (1934):

"When a number of persons make an invention jointly, a valid patent can not be taken out in the name of one of them. But when a person has discovered an improved principle and employs other persons to assist him in carrying it out, and they in the course of experiments arising from that employment, make valuable discoveries ancillary to the plans and preconceived design of the employer, such suggested improvements are in general to be regarded as the property of the party who discovered the original improved principle, and may be embodied in his patent as a part of his invention."

[13]Reusch v. Fischer 49 F. 2d 818, 823, W.D. Wa. (1931):

"but if, during such employment, the attorney or other person employed makes valuable discoveries ancillary to the plan disclosed by the employer, such suggested improvements are the property of the employer and not the employee."

[14]*Dubilier, supra*, note 9, at 187-193.

[15]Id.; *see also* Gullette, State Legislation Governing Ownership Rights in Inventions Under Employee Invention Agreements, 62 J. Pat. Off. Society 732, 733 (1980); *Parker, supra*, note 1, at 606; and William P. Hovell, Note: Patent Ownership: An Employer's Rights to His Employee's Invention, 58 Notre Dame L. Rev. 863, 867-868 (1983).

[16]*Dubilier, supra*, note 9, at 187-189.

[17]AeroBolt & Screw Co. v. Iaid, 180 Cal. App. 2d 728, 736-737, 5 Cal. Rptr. 53, 125 U.S.P.Q. 545 (1960); American Stoker Co. v. Underfeed Stoker Co. 182 F 642 (W.D. Pa. 1910), affd. 188 F 314 (3rd Cir. 1911).

[18]*See Dubilier, supra*, note 9, at 188; Wommack v. Durham Pecan Company, Inc. 715 F. 2d 962 (5th Cir. 1983); and section 397 of the Restatement (Second) of Agency.

[19]Francklyn v. Guilford Packing Co. 695 F. 2d 1158, 9th Cir. (1983).

[20]*See Witte and Guttag, supra*, note 2, at 468.

[21]*See Parker, supra*, note 1, at 606; Dowse v. Federal Rubber Co., 254 F. 308 (N.D. Ill. 1918).

[22]*See, generally*, Van Slyke and Friedman, Employer's Rights to Inventions and Patents of its Officers, Directors and Employees, 18(2) AIPLA Quart. J. 127 (1990).

[23]*See Hovell, supra,* note 15, at 870-871 where he states:

"An inventor is required to assign a patent to his employer under the fiduciary-duty analysis, if the employer can show: 1) the inventor was under a fiduciary duty to his employer; 2) the inventor had an obligation to assign that type of patent; and 3) the obligation to assign the patent existed when the invention was created."

[24]Jamesbury Corp. v. Worchester Valve Co., 443 F. 2d 205, 214 (1st Cir. 1971)

[25]*See Witte and Guttag, supra*, note 2, at 468, 480. The five states are Minnesota, Washington, California, North Carolina and Illinois. Texas is reported to be considering such legislation; *see also Gullette, supra*, note 15.

[26]Combs v. Plough, Inc., 681 F. 2d 469 (6th Cir. 1982).

[27]*See, for example*, Cubic Corporation v. William B. Marty, Jr., 1 USPQ 2d 1709, 185 Cal. App. 3d 438; 229 Cal. Rptr. 828 (1986), where the court concluded that the invention agreement was an adhesion contract but was not unconscionable since the inventor was adequately compensated through the terms of his employment.

[28]Fish v. Air-O-Fan Products Co., 285 F. 2d 208 (9th Cir. 1960).

[29]Hulse v. Bonsack Mach. Co. 65 F. 864 (4th Cir. 1895).

[30]Harsco Corp. v. Zlotnicki 779 F. 2d 906 (3rd Cir. 1985).

[31]The National Cash Register Company v. Remington Arms Company 151 N.E. 144; 242 N.Y. 99 (1926).

[32]Guth v. Minnesota Mining & Mfg. Co. 72 F. 2d 385 (7th Cir. 1934).

[33]573 F. 2d 976 (7th Cir. 1978), cert. denied, 439 U.S. 860 (1978); on remand, 617 F. 2d 460 (7th Cir. 1980), cert. denied, 449 U.S. 975 (1980); later proceeding, 697 F.2d 796 (7th Cir. 1983); rehearing, 723 F.2d 1324 (7th Cir. 1983); later proceeding, 846 F.2d 1360 (CAFC 1988).

[34]*See* Neumeyer, Employees' Rights in Their Inventions, A Comparison of National Laws, 44(10) J. Pat. Off. Society 674 (1962).

[35]1981 Kastenmeier bill, 1974 Hart-Owens bill, and 1969 Moss bill.

[36]Bowes, Corporate Invention Award Plans, 1(2) APLA Quart. J. 118 (1973).

[37]Tyrrell, Inventor Awards: Incentive or Impediment? 1(2) APLA Quart. J. 124 (1973).

[38]*Tyrell, supra*, note 37, at p. 125, cites a survey contemporary with 1973 of 150 companies where about one half have a special invention award system.

[39]*Id.*

[40]*See Bowes, supra*, note 36, and *Tyrrell, supra*, note 37.

[41]Kuntz, The Inventor's Incentive to Disclose in the Corporate Enterprise System, 1(2) APLA Quart. J. 85, 94 (1973).

[42]*See Kuntz, supra*, note 41, at p. 95-96, quoting Richard R. Walton from a statement in the Journal of the Patent, Trademark and Copyright Research Institute of George Washington University, Vol. 7, Conf. No. at p. 179:

"I wish to state categorically that there is no great and successful industrial innovation that has not been accompanied by a very strong profit motive. The inventor is pushed from behind the specter of want and failure, but he is pulled forward by the opportunity of large gains if successful. Actually, in speaking of motive, probably the nicest of them all is the profit motive."

[43]*See Tyrrell, supra*, note 37; *Witte and Guttag, supra*, note 2, at p. 474-475, wherein there are listed four separate negative consequences of award systems and four separate administrative problems in mandating invention compensation laws.

[44]Rossman, Industrial Creativity, the Psychology of the Inventor, University Books, New York (1964) at p. 152.

[45]West, Making it patently clear, TI recognizes key inventors through patent incentive awards, Dallasite (May 1987); Wilson, Patent incentive awards, program encourages innovation, technological leadership, Dallasite (December 1988).

[46]*See* Oscar Brandt et al. v. Lockheed Missiles and Space Company, Inc., 154 Cal. App. 3d 1124; 201 Cal. Rptr. 746 (1984); where two employees sued Lockheed for Lockheed's claimed failure reasonably to reward them for an invention, the patent rights of which they had assigned to Lockheed. Lockheed had a written Patent Plan where, inter alia, there was a discretionary special invention awards provision. In the past Lockheed had made awards up to $20,000. The two plaintiffs received a total of $2,500 for the invention at issue. The jury awarded the plaintiffs $2,357,800 in compensatory damages, and $235,780 in punitive damages. Fortunately for Lockheed, the appeals court granted Lockheed's motion for a J.N.O.V.

APPENDIX I

EMPLOYEE INVENTION COMPENSATION SYSTEM SURVEY

Please Complete by July 10, 1990

Name of Company for Which Survey is Being Completed _____

_____

Subsidiary/Division Name (if applicable) _____

_____

Industry Category (Please Check One)

- ☐ Aerospace
- ☐ Beverages
- ☐ Building Materials
- ☐ Chemicals
- ☐ Computers
- ☐ Electronics
- ☐ Food
- ☐ Forest Products
- ☐ Industrial and Farm Equipment
- ☐ Metals/Metal Products
- ☐ Motor Vehicles and Parts
- ☐ Petroleum Refining
- ☐ Pharmaceuticals/Biotechnology
- ☐ Rubber and Plastics Products
- ☐ Scientific and Photographic Equipment
- ☐ Soaps, Cosmetics
- ☐ Textiles
- ☐ Transportation Equipment
- ☐ Other _____

Number of Practicing Patent Attorneys/Agents _____

Name of Person Completing Survey _____

Title _____

Date _____

1. Does your company have a special monetary compensation system for employee inventions, other than fixed salary, that you would describe as being nominal?

   ☐ Yes

   ☐ No

2. Does your company have a special monetary compensation system for employee inventions, other than fixed salary, that you would describe as being more than nominal?

   ☐ Yes

   ☐ No

   If your answer to Question 2 is yes, please answer Question 3; otherwise, skip to Question 4.

3. Check the box(es) that you feel best describe your company's special monetary compensation system for employee inventions

   - ☐ fixed payment for every patent application filed and/or issued (e.g., $100 when filed and/or $500 when issued)
   - ☐ fixed payment received for certain "milestones" (e.g., $10,000 for 25th patent)
   - ☐ special payment for certain "significant" inventions (e.g., special payment only for inventions determined by an "invention committee"; special payment for "inventor/invention of the year")
   - ☐ share in profits or income derived from invention
   - ☐ other

   Please give a detailed description of your special monetary compensation system for employee inventions.

   _____

   _____

   _____

   _____

   _____

4. On a scale of -5 to +5 please circle the number which you personally feel best represents the importance of special employee invention monetary compensation systems for employee creativity.

-5	-4	-3	-2	-1	0	1	2	3	4	5
(significant negative impact on creativity)					(neither helps nor hurts creativity)					(essential for creativity)

Please provide any additional information you wish on monetary compensation systems and creativity.

_____

_____

_____

_____

5. Does your company have any special non-monetary compensation system for employee inventors (e.g., non-cash prizes, tickets to events, dinner at local restaurants)?

   ☐ Yes

   ☐ No

   Elaborate, if desired. _____

   _____

   _____

   _____

6. Does your company have any other form of recognition/reward for employee inventors, not covered above (e.g., publication in company newspaper, plaque for first, fifth, etc. patent, certificate for "inventor of the year", periodic inventor recognition dinner)?

   ☐ Yes

   ☐ No

   Elaborate, if desired. _____

   _____

   _____

   _____

After completing this survey, please return in the pre-addressed envelope provided or mail to:

Thomas R. Savitsky
Legal Department
Eastman Chemical Company
P. O. Box 511
Kingsport, Tennessee 37662

APPENDIX II

Companies Participating in the Employee Invention Compensation System Survey - By Industry Category*

Electronics (11)
- AMP Incorporated
- Ampex Corporation
- Cooper Industries, Inc.
- Harris Corporation
- Honeywell, Inc.
- Litton Industries, Inc.
- Motorola, Inc.
- Square D Company
- Texas Instruments
- Whirlpool Corporation
- Zenith Electronics Corporation

Computers (5)
- Bull HN Information Systems Inc.
- Data General Corporation
- Hewlett-Packard Company
- IBM Corporation
- Unisys Corporation

Petroleum Refining (7)
- Amoco Corporation
- Chevron Corporation
- Conoco, Inc.
- Exxon Production Research Company
- Phillips Petroleum Company
- Shell Oil Company
- Texaco, Inc.

Metals (1)
- Aluminum Company of America

Transportation Equipment (1)
- Brunswick Corporation

APPENDIX II (Continued)

Rubber and Plastic Products (2)
Dayco Products, Inc.
The Goodyear Tire & Rubber Company

Soaps and Cosmetics (1)
The Procter & Gamble Company

Tobacco (1)
R.J. Reynolds Tobacco Company

Textiles (1)
Milliken & Company

Chemicals (29)
Air Products and Chemicals, Inc.
AKZO America, Inc.
Ashland Chemical
Atochem North America, Inc.
B.P. America, Inc.
BASF Corporation
Cabot Corporation
CF Industries, Inc.
Dow Corning Corporation
DuPont
Eastman Chemical Company
Ferro Corporation
FMC Corporation
GAF Corporation
Hercules, Inc.
IMC Fertilizer, Inc.
Lyondell Petrochemical Company
Monsanto Company
NCH Corporation
Occidental Chemical Corporation
Olin Corporation
PPG Industries, Inc.
Rohm and Haas Company
The B.F. Goodrich Company
The Dow Chemical Company
The Sherwin-Williams Company
Union Carbide Corporation
Vista Chemical Company
W.R. Grace & Company

Motor Vehicles and Parts (6)**
- Chrysler Corporation
- Dana Corporation
- Eaton Corporation
- Ford Motor Company
- General Motors Corporation

Pharmaceuticals (Including Biotechnology) (17)
- American Home Products Corporation
- Chiron Corporation
- Eli Lilly and Company
- Genentech, Inc.
- Genetics Institute, Inc.
- Hoffman-LaRoche
- ICI Americas, Inc.
- Johnson & Johnson
- Marion Merrell Dow - Marion Labs
- Merck & Company, Inc.
- Miles, Inc.
- Pfizer, Inc.
- SmithKline Beecham
- Sterling Drug, Inc.
- Syntex Corporation
- The Upjohn Company
- Warner-Lambert Company

Aerospace (7)
- Allied Signal, Inc.
- Hazeltine Corporation
- Martin Marietta Corporation
- McDonnell Douglas
- Rockwell International Corporation
- Sundstrand Corporation
- United Technologies Corporation

Food (1)
- The Quaker Oats Company

Scientific and Photographic Equipment (4)
- Becton, Dickinson and Company
- Bell & Howell Company
- Eastman Kodak Company
- The Foxboro Company

APPENDIX II (Continued)

Metal Products (2)
Illinois Tool Works, Inc.
Masco Corporation-Masco Industries, Inc.

Industrial and Farm Equipment (6)**
Caterpillar, Inc.
Cincinnati Milacron
Deere & Company
Dresser Industries, Inc.
Ford New Holland, Inc.

Forest Products (3)
Champion International Corporation
Scott Paper Company
Weyerhaeuser Company

Building Materials (4)
Corning Incorporated
Norton Company
Owens Corning Fiberglas Corporation
USG Corporation

Other (6)
3M Company
Baxter International, Inc.
Bell Communications Research, Inc.
Carrier Corporation
Playtex
The BOC Group, Inc.

*Classification by Industry Category was derived primarily from *Fortune* magazine and secondarily from the information provided by the company respondent.

**One company in each of these categories wished to remain unidentified.

APPENDIX III

Specific Examples of Special Invention Compensation Systems of Surveyed Companies

$150 per 1st patent issued in a series.

$15 to $50 on filing an application
$25 to $150 on issuance of a patent

Ours is $275/application and $400/patent for sole inventor and if multiple inventors we split with no one getting less than $100 per award.

$50 per application
$25 each if 2 or more inventors

Each year patents issued are reviewed by a special committee on their merits. $1K-$175K per patented invention.

$75 upon filing of U.S. application
$150 upon issuance of U.S. patent
Each year a special committee selects special technical achievements to receive awards in amounts from $500 to $5,000. Whether or not a patent is involved is not a factor in selecting the items or in the amount of the award.

$100 filing
$200 issue
$50 file in 1 foreign country
$200 file in 2 foreign countries
$300 file in 3 or more foreign countries
25 patents - crystal
50 - $5,000
75 - $7,500
100 - $10,000
125 - $12,500, etc.

$150 for first application filed
$200 for each additional application filed
} U.S. applications only

Does not include continuations - does include divisionals

$250.00 award (net after taxes) to each employee inventor for every patent application filed. Inventor of the year receives 10 shares of [Company] stock.

$200 when filed
$200 when issued

$250 per inventor when filed.

Fixed payment with some departments and subsidiaries.

Have a corporate special compensation plan where significant inventions can be recognized.

$200 per inventor upon patent application filing

Employees receive $100 for each invention filed.

Payment for application filing is automatic. Additional payment may be made for the invention as part of a corporate technical awards program that is not limited to patents.

The compensation system is not company-wide, but differs from division-to-division. One of the company's research centers pays $100.00 to each named inventor upon the filing of a patent application.

$100 when filed, $100 when issued
Not more than $200 total, each time, for joint inventors

Inventions of significance can be the subject of special awards up to 100 shares of [Company] stock.

Each inventor (employee or retiree) receives:

	Award
Filing U.S. patent applications (utility)	$200.00
Issuance of U.S. patent (utility)	300.00
Issuance of U.S. design patent	150.00

A spot bonus may be paid for "significant" inventions, e.g., those resulting in significant economic return for the company.

Upon filing an original U.S. patent application, each inventor receives $250.00.

Yearly compensation for patented inventions in commercial use for life of patent.

Single inventor	$250 upon filing
	$350 upon issuance
Joint inventors	$150 ea. upon filing
	$250 ea. upon issuance
3 or more inventors	$100 ea. upon filing
	$200 ea. upon issuance

We also have a technical merit award, given out approximately once a year for outstanding technical achievement. This includes a cash payment, typically to several researchers working on the same project.

$400.00 award on filing, divided evenly between inventors with a $100.00 minimum.
$200.00 award on issuance, divided evenly between inventors with a $100.00 minimum.

$130 per inventor (less taxes) on filing application
$260 per inventor (less taxes) on issue

$1,000 on filing
$200 when issued

$500/inventor/application. Also, plaques.

Special awards are considered only on a case-by-case basis since we have an official awards policy. There is no formal procedure other than an invention being brought to the attention of an officer who then promotes the idea of a special award to an inventor.

$700 to each inventor at the time of patent application filing.

We do not have a uniform practice. One large company unit pays $500 to each inventor for the first application filed each year and $500 to each inventor for the first patent issued each year.

Invention of the year - $10,000-$25,000

Plan: 200 on filing of invention disclosure
300 on filing of patent application (U.S.)
500 on issuance of U.S. patent

Up to $3K for inventions deemed to be of special merit or the equivalent in non-monetary award.

Fixed payment for every patent application - $500 when filed - an amount I consider nominal.

$100.00 per inventor upon filing U.S. application. Special payment (amount determined by CEO) if invention is deemed of special importance by a screening committee of top management.

$250 per application filed
$500 bonus for 5th application
$1000 bonus for 10th application and for each 10th afterward
No additional payment upon issuance

$100 per inventor when application made
$100 per inventor for each issuing (including continuations and divisionals)
$500 for each 5th case applied for or issued
$10,000 in company stock for [...] Fellows (significant invention)

$100 gift certificate upon filing
$100 gift certificate upon issuance

Some divisions give awards for turning in invention disclosures, whether or not any patent application gets filed.

Fixed payments ($1,500 for first, $500 each subsequent) and credit "points" for patent applications. Fixed payments for "plateaus" of points (combinations of applications and selected publications). Special monetary awards for important technical inventions and/or patents.

It varies for those businesses that have adopted such compensation. One group awards a total of $100 upon U.S. filing (regardless of number of inventions) and a total of $200 upon issuance. Others award $50 per inventor upon first filing and $150 per inventor upon issuance. Another awards $150 per inventor upon first filing ($300 is shared if over 2) and $500 per inventor upon issuance ($1000 is shared if over 2), etc.

$250 upon filing
$500 upon patent issuance

$250/application/inventor
$750/patent/inventor
$2000 if patent used commercially/inventor
Annual...award for outstanding inventors
$10,000 + trophy + banquet with top management including spouses

$100 when filed (per inventor); $300 when issued (per inventor); payments are made for CIP's, too.

1) Up to $1500.00 per invention based upon an evaluation for "value to the company" by a review board
2) $250.00 upon issuance of patent
3) Share in royalties or profits up to max. of $100,000 per invention
4) Eligible for corp. Inventor of the Year - $2000

U.S. Applications filed (except divisionals, continuations
Sole Inventor - $100.00 Joint Inventors - $60.00 each
U.S. Patents Issued (except on divisionals, continuations)
Sole Inventor - $200.00 Joint Inventors - $120.00 each
Trade Secret Ideas: Sole Contributor - $300;
Joint Contributor - $180.00 each

$100 at time of filing (each inventor or co-inventor, subject to maximum total payments of $300)
$100 at time of grant (each inventor or co-inventor, subject to maximum total payments of $200)

$250 upon filing of patent application
$750 upon granted patent
$2000 if patented invention goes into production

- $250 on completion of acceptable disclosure;
  $250 more on filing
- $1000 - on every 4th filing
- Eligibility for Achievement Award for Excellence with potential awards of $1000 to $10000 (or more)
- Certain employees also eligible for awards under Employee Suggestion Plan (award amount related to savings)

$500 (after taxes) per inventor upon U.S. filing and issue
$1000 (after taxes) for above for 4th and each multiple of filing and issue
Varying awards that provide significant commercial value

Filing patent application: $300 one inventor, $150 two or more.
Patent issue: $1,000 one inventor, $500 two, $350 three or more.
Royalty sharing at discretion of Company.

When filing, each:
$1000 for 1 or 2 inventors;
$700 for 3 inventors;
$500 for 4 or more inventors.
$200 each upon issue.

Ten years ago [the Company] adopted an Advanced Technology Achievement Awards program. This program has been very successful. Top winners receive a $10,000 honorarium and a unique personalized glass sculpture. Other honorees receive $5,000, along with a distinctive personalized plaque.

Number of Patents	Filing Award	Grant Award
0-4	$200	$200
5-9	$300	$300
10-19	$400	$400
20+	$500	$500

There is no special monetary compensation system for patents. The corporation has compensation awards based on performance, and an invention or patent is only one of the performances which is selectively recognized. One business group does have a special compensation program based on innovation, which includes invention as one recognizable element which can contribute to the establishment of a new business. Compensation in that program is based on a percentage of net income from sales in the new business established.

1. $500 (after taxes) for each inventor at time U.S. application is filed.
2. Walnut plaque for each inventor at time U.S. patent issues.

$200 - Filed application
$400 - Patent Issued
$2000 - Invention put into production

APPENDIX IV

Comments Regarding the Relationship Between Monetary Compensation and Creativity

After 36 years of working with inventors in several companies, it is my considered opinion that there is no connection between "creativity" and money awards. Paying more money gets more invention disclosures but not more valuable inventions. If creative people are aware that they are appreciated, they will create. Such appreciation can be expressed in day-to-day attitudes of supervisors, appropriate merit increases, promotions or freedom in choices of projects.

Compensation systems based on individuals named in patents frequently give rise to controversy, promote secrecy, jealousy, etc. Any motivational benefit is likely to be short-lived and outweighed by conflict, poor communication, absence of team spirit.

My view is that monetary compensation provides an incentive to bring ideas to the attention of management. It will therefore provide a greater volume of ideas but not necessarily better ideas.

Added significant award resulted in several additional inventions shortly thereafter, also providing significant commercial advantages.

I believe the monetary compensation serves to heighten patent awareness and provides additional incentive for submission of complete disclosures as well as continuing assistance in preparation of applications for patent.

Large awards can destroy teamwork, honesty as to the contribution made, etc. I'm not a big fan of monetary compensation as a motivator. We believe in recognition, as opposed to compensation. This is Engineering's program.

I believe appropriate non-cash recognition is just as important as cash awards.

I believe individuals are, more or less, inherently creative and special monetary compensation does not materially affect this inherent creativity. On the other hand, special compensation does provide incentive to report creative results to Patent Departments.

While we believe that monetary compensation encourages creativity, we also know that the likelihood of an award encourages the inventor to disclose and document his invention to us without a lot of "bush beating".

Our monetary award system ($250, $750, & $2,000) was adopted in 1985. Since that date invention submissions have more than doubled on an annual basis.

The connection is there, but weak. Inventing is done to solve on-the-job problems.

Creative people who are put in proper positions will naturally "invent" without monetary incentives. Incentives help "uncover" inventions within a company and stimulate inventor's cooperation in the patenting process.

The value of a monetary compensation system is to encourage inventors to submit invention disclosures to the Patent Division and work with the attorneys in obtaining patents.

I believe it's the "recognition" that counts and not the amount of compensation. Most inventors seem to be motivated by recognition. Plans where the amount is too high will just cause problems.

Creates tension with support personnel.

Nominal monetary awards appear to encourage inventor participation in the patenting process. I have seen no evidence that such nominal monetary awards spur creativity.

At previous employers, I found some divisiveness created with a nominal monetary amount when working with joint inventor situations.

Most inventors would have been creative without a system. However, such systems do recognize the contribution of inventors and therefore do provide an incentive. Also, such systems encourage inventors to assist in application preparation.

Money is always important however visible. Recognition is almost more important than the money.

Does help us get cooperation and attention of inventors in application drafting and filing.

The division with the compensation policy adopted the policy to encourage submission of ideas and there was (and is) a significant increase as a result. However, long term value at this point is impossible to assess.

Unless substantial sums of money involved, plaques, recognition, etc. seem to be more important to inventors.

It may be necessary to pay compensation in countries where it is custom (e.g., Japan). We do not do so yet.

The [Company Award Plan] was established January 1, 1979. At that time, the awards were: $100.00 upon filing; $200.00 upon issuance; $100.00 upon issuance of design patent. These awards have always been given to each inventor.

[My Company] did have an inventor award system but it was discontinued in 1986-7. It was in my opinion a great incentive to submission of invention disclosure by the R&D and engineering personnel.

A "nominal" award of 10 shares of [Company] stock is given to all inventors on U.S. patent applications.

- Not affect creativity per se
- Will improve reporting of ideas/inventions
- May provide motivation to achieve job objectives with creative by-products

Innovation generally springs from job related goals and even the more liberal compensation systems are believed to stimulate reporting of inventions not the creation of them.

The downside to monetary compensation is not inhibition of creativity, but inhibition of communication and loss of energy in development of research programs.

Inventors should be rewarded with salary/bonuses and not be expected to become managers in order to achieve high incomes.

I believe that the monetary compensation system has negligible effect on creativity. It does encourage early disclosure and an increased awareness of the patent system.

Creativity/patents is one of several factors taken into account regarding a scientist's total compensation. Special rewards for patents could have a negative impact on research in areas the company traditionally protects as a trade secret.

Monetary compensation systems tend to make employees or groups more secretive and not team player. Other types of recognition can work well.

Scientific recognition and career development possibilities based on performance probably more important.

In my opinion, pre-patent compensation plans stifle researcher to researcher communications and generate more ill will and suspicion than would otherwise result.

If you compensate "inventors" (meaning those named on patents) how do you compensate other creative employees - e.g., those developing trade secrets, promotional materials, etc. - even attorneys in all disciplines - who come up with creative solutions???

When we did have payment based on disclosures, we had more disclosures but they were of lower quality.

Conflict between inventorship (legal concept) and principal contributorship can lead to unnecessary conflicts and unproductive internal politicking.

The obvious conflict is between encouraging real inventions and generating worthless paper patents just for the cash award. It can also create bitterness among researchers if someone feels they were left out.

I project the effect would be negative because it could cause decreased interaction among scientists.

After lots of thought and discussion by inventors, I believe incentives to invent must be built into "mainstream" compensation/recognition/-performance evaluation systems, and not as separate (isolated) cash award systems. For example, inventors must get "credit" from their superiors in evaluation forms, rank position, etc. Inventive abilities/skills must be valued as much as "quantity/quality" of work, interpersonal skills, communication skills, etc. (all the normal, traditional skill areas seen in most companies).

Management is now considering a proposed upgrade. $300 per inventor per filing - $300 upon issuance. 10 shares [Company] stock when 10th patent awarded. 20 shares when 20th and so on. Corporate award of $2,000-$5,000 for Innovation of the Year (individual or team). Foregoing to apply to nonpatented technical innovations also.

Unless the reward is excessive, it will not deter or prompt the inventor to do that for which he is already paid.

3:1-3

REQUIREMENT FOR JOINT INVENTORS

October 3, 1990 (21th Niigata Congress)

Japanese Group, Committee No.1

Subcommittee A1

Kiyoshi Kusama, Shimadzu, Corp.
Toshio Funahara, Teijin, Ltd.
Kunio Yamada, Denki Kagaku Kogyo, Ltd.
Katsuhiro Kondo, Toyota Motor Corp.
Sadao Sugimoto, Nihon Zeon, Ltd.
Akira Kokubun, Hitachi, Ltd.
Toshio Nakashima, Matsuda, Ltd.
Yoshitaka Sasaki, Mitsubishi Rayon Co. Ltd.
Speaker: Yahei Takase, Matsubishi Electric Corp.

Statutory Provisions : JPL §2, USC35 §116

Abstract:

Requirements for joint inventors are compared between Japan and the United States. Juridical decisions on joint inventor cases in Japan are reviewed, and a person to be entitled to a joint inventor is discussed.

1. Introduction

To be entitled to an inventor of a foreign patent application, the inventor must satisfy requirements provided by the law of the country in which foreign patent application is filed, even if the foreign patent application is filed in that country claiming priority based on a corresponding domestic patent application.

In the event of filing a patent application from Japan to the United States, for example, the inventor in Japanese patent application is qualified as inventor of the U.S. patent application as he is in the majority of cases. Under such a practice, no serious problem has occurred until today.

Likewise, in the event of filing a patent application from the United States to Japan, no special attention is necessary to be paid to the identification of inventor, either.

It is, however, a recent trend that Japanese enterprises have their laboratory and/or plant in the United States, and that U.S. enterprises have their laboratory and/or plant in

Japan. Hence, it has been increasingly a serious problem that any invention made in those overseas laboratory and/or plant must satisfy the requirements for inventors strictly in accordance with legislation of country where the invention was made. The necessity of satisfying the mentioned requirements is particularly important in the event of an invention jointly made.

In this sense, we would like to make several comparisons between Japan and the United States in the aspects of requirements for joint inventors from the viewpoints of their lesislation and juridical cases. Futher, looking back some Japanese cases on joint invention, we would like to discuss whether or not there is any difference between Japan and the United States in terms of way of evaluation and judgment in individual cases.

2. Determination of joint inventor in Japan:

It is defined under the Japanese Patent Law that invention means the creation of technical ideas by which a law of nature is utilized (Japanese Patent Law, Section 2). Therefore, only a person who has created a technical idea is qualified as inventor. In other words, any person who has not created a technical idea is not entitled to a joint inventor. According to the established common view (as is described in "Tokkyoho Gaisetsu" written by Kosaku Yoshifuji), it is generally understood that no person to whom any of the followings is applicable is entitled to joint inventor:

(1) Mere manager:

A person who merely conducts ordinary management over his subordinate research workers. More specifically, a person who merely gave an ordinary subject matter on research without proposing any specific idea or merely gave common advise or instruction in the course of making an invention.

(2) Mere assistant:

A person who merely arranges data in order or performs experiment following the instruction of the research worker.

(3) Mere supporter or trustor:

A person who merely supports the inventor or entrusts him to make an invention by furnishing funds and/or research installation with the inventor.

In addition to the aboves, following criteria (4) to (7) have been established by Japanese courts:

(4) A person who made public in a planning meeting a result of questionaire obtained from housewives is not qualified as inventor of invention (judged by Tokyo High Court on October 24, 1985).

(5) Just an idea itself is not sufficient to be an established invention, and therefore to be established as an invention it is required that the idea is materialized. In this sense, manufacturing a machine on an experimental basis in accordance with the conceived idea while studying the possibility of materialization of the idea is evaluated as one of the processes in the course of making an invention, and therefore in the event that such acts are conducted jointly by plural persons, they may be qualified as joint inventors who have created the technical idea (judged by Tokyo High Court on April 27, 1976).

(6) While T having made the invention as a result of research activities, Y was merely in charge of preparing manufacturer's drawings for the apparatus in accordance with the invention under the instruction given by T, and therefore it is concluded that T is entitled to the inventor of this invention (judged by Tokyo High Court on April 16, 1979).

(7) Since it is understood that the plantiff merely requested to manufacture an improved apparatus by which drawbacks pertinent to the prior apparatus are overcome and that the specific construction to accomplish such a request was entirely left to the discretion of the defendant company's staff, it is difficult to acknowledge that the plaintiff is entitled to inventor of the invention (judged by Tokyo High Court on August 15, 1985).

As can be seen from the mentioned juridical decisions, it seems that Japanese courts do not acknowledge as inventor any person who has merely introduced a problem to be sol-

ved, but acknowledge as inventor any person who has created means of solution to the problem.

3. Acknowledgment as joint inventors in the United States:

(1) Joint inventors are defined under 35 U.S.C. §116 as follows:

When an invention is made by two or more persons jointly, they shall apply for patent jointly and each make the required oath, except as otherwise provided in this title.

Inventors may apply for a patent jointly even though;

i) they did not physically work together or at the same time,

ii) each did not make the same type or amount of contribution; or

iii) Each did not make any contribution to the subject matter of every claim of the patent.

(2) Requirement for joint inventors are described in "PATENTS" written by Chism as follows:

Generally, a joint invention occurs when two or more persons, collaborating together, each contribute to the conception of the solution to a probrem which constitutes the invention. One does not become an inventor either by suggesting a desired and result, with no suggestion of means, or by merely following the instructions of the person or persons who conceive the solution.

The fact that each of the inventors plays a different role and that the contribution of one may not be as great as that another, does not detract from the fact that the invention is joint, if each makes some original contribution, though partial, to the solution of the problem.

4. Comparative discussion of requirements for joint inventors between Japan and the United States:

It is understood that there is no considerable discrepancy between Japan and the United States.

More specifically, following views exhibited in Japanese juridical decisions are not inconsistant with the require-

ments for joint inventors provided by 35 U.S.C. §116 and those described in "PATENT" written by Chism.

(1) A person who has merely proposed a problem to be solved without creating means of solution to the problem is not entitled to inventor.

(2) A person who has created means of solution to the problem is entitled to inventor.

Furthermore, the above-mentioned common views established in Japan that none of mere manager, mere assistant and mere supporter or truster is qualified as inventor seems to be consistent with the requirements for joint inventors in the United States.

From the viewpoint of the mentioned comparison, it is presumed that there is no considerable violation of the requirements of the other country so far as joint inventors are determined in accordance with the domestic juridical decisions and established common view, and that no serious error is committed.

It is, however, to be noted that qualification as inventor is acknowledged quite individually by case in accordance with specific finding of facts, and therefore it may be sometimes the case that the actual acknowledgment is different depending upon cases, in spite of no considerable difference in abstract way of recognition. In this sense, it may be useful to discuss whether or not there is any difference on the specific cases in the acknowledgment of joint inventor.

From the foregoing point of view, we would like to introduce hereinafter several patterns on the basis of Japanese juridical cases of which point at issue was acknowledgment of joint inventors so that we may study whether or not there is any discrepancy in the criterion of acknowledgement of joint inventor between Japan and the United States.

It will be helpful not only for Japanese enterprises but also for U.S. enterprises to understand the way of acknowledgment of joint invention in Japan.

Erroneous indication of inventors in a patent application as a result of erroneous determination of joint inventor may

be a reason for invalidation of patent in the United States, and there is a possibility of invalidation of patent also in Japan.

Since only the inventor is qualified as applicant in the United States (35 U.S.C. §102 (e)), and violation thereof results in rejection of application otherwise results in later invalidation of patent even though it is once overlooked unless the erroneous indication is corrected to true inventor (35 U.S.C. §286 and §256).

In Japan, when an invention has been made, the right to obtain payent is jointly entitled to all joint inventors. A patent application of joint invention must be filed either by all the joint inventors or by a person to whom the right to obtain patent is assigned (note that, in Japan, any person who is not an inventor may be also entitled to applicant if the right to obtain patent has been assigned from inventor to him). Any application in violation of such requirement is refused, and a patent granted in spite of containing such violation may be invalidated (Japanese Patent Law, Sections 49 and 123).

5. Outline of the cases and points to be discussed:

The cases here in after described are picked up among Japanese juridical cases in which point at issue was qualification as joint inventors. Outline of each case and points to be discussed are now shown below:

5.1 "Twin basket type container for receiving divested clothes for domestic use" case:

(1) Outline:

A person who merely made public the result of questionaire obtained from housewives at plannig meeting is not entitled to inventor. A person who was merely engaegd in making a prototype or model in accordance with the basic consruction following the instruction of the inventor is none but a mere assistant.

(2) Point to be discussed:

It may be possible for the mentioned person who made public the result of questionaire or the person who manufactured a model to be entitled to inventor. If so, what are

the requirement therefor?

In the event that an invention was made as a result of accumlation of ideas proposed by plural persons at a meeting, which person of them is entitled to inventor?

5.2 "Japanese pin ball game equipment for playing on mahjong rule" case:

(1) Outline:

Manufacture of a prototype on an experimental basis falls within a process of materializing an inventive concept or idea eventually resulting in making an invention, and therefore any person who made such a model on an experimental basis and studied the same is entitled to inventor.

(2) Point to be discussed:

From the viewpoint of this juridical dicision, it seemes that an invention has not been made until the test of the prototype result in success. In Japan, however, an invention is deemed to have been made at the time when the invention is materialized to the extent of being easily carried out by a person having ordinary skill in the art.

5.3 "Method for processing graines and apparatus thereof" case:

(1) Outline:

A person who merely prepared manufacturer's drawings following the instruction of the inventor is not entitled to inventor. Because the invention had been made before such preparation of the drawings.

(2) Point to be discussed:

One of the reasons why the court considered him not an inventor consists in that "it is not natural that a person who has less preliminary knowledge of the apparatus according to the invention can make the invention in rather short period." However, it may be sometimes possible for such a person to get necessary knowledge in short time.

5.4 "Die finish process and press for preliminary test" case:

(1) Outline:

Where a user merely proposed his desirable conditions from the standpoint of user and gave no particular instruction suggesting a specific construction, the user is not

entitled to inventor.

(2) Point to be discussed:

It may be sometimes possible that a user suggests a part of construction of an invention at the time of showing his desired conditions. In such a case, isn't the user yet entitled to inventor?

6. Detailed Discussion of the Juridical Cases:

6.1 "Twin Basket Type Container for Receiving Divested Clothes for Domestic Use" case:

Case No.176 adm.ケ of 1983, judged by Tokyo High Court on October 24, 1985:

(1) Outline of the case:

a. The defendant Company Y is an owner of patent right on an apparatus whose title is "Twin Basket Type Container for Receiving Divested Clothes for Domestic Use" (hereinafter referred to as "the inventor" (filed on October 9, 1978, registered on April 28, 1982)).

b. The plaintiff Company X demanded a trial for the invalidation of the registration by reason that (1) the true inventor of the invention were M and two others, and (2) the invention could have been easily made by a person with ordinary skill in the art, but the demand was dismissed by the trial decision.

c. As an appeal of dissatisfaction, the plaintiff filed an action against the trial decision.

d. The court did not acknowledge M and the two others as inventors, and dismissed the appeal by the plaintiff X (the court did not acknowledge that the invention could have been easily made).

(2) Summary of the invention:

a. What is claimed is (in the independent claim):

1. A twin basket type container comprising; a divestiture box 3 for receiving divested clothes which is disposed above a support base 1 with a suitable distance therebetween; support legs 2 each vertically extending upward from said support base 1 to support said diversture box 3; and a laundry basket 4 with its upper side open for

receiving clothes to be washed which is placed on the support base 1 under the divestiture box 3 in such a manner as to be freely placed on and taken out, said laundry basket 4 being provided with an opening 8 on the upper part of a side wall through which the clothes to be washed are cast in, and said laundry bascket 4 being further provided with a handle 12 in such a manner as to be freely raised up and laid down.

b. Brief Description of the Drawings:

1... support base, 2... support legs,

3... divestiture box for receiving divested clothes,

4... laundry bascket for receiving clothes to be washed,

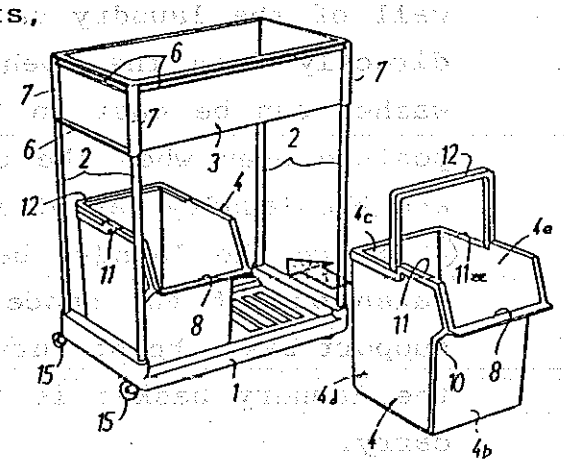
8... opening through which clothes to be washed are cast in,

9... lower side edge of the opening 8,

11... peripheral edge of the opening of the laundry basket 4,

11a...handle receiving parts,

12... handle,



c. Object of the invention:

An object of the invention is to provide a twin basket type container for receiving divested clothes in which divestiture box for receiving divested clothes and laundry basket for receiving clothes to be washed are both put in good order occupying a relatively small space. The container is capable of receiving divested clothes dividing them into the ones to be washed and the others unnecessary to be washed, and the clothes to be washed can be easily cast into the laundry basket so as

to be difficult to be seen from outside.

d. Advantages of the invention:

① Since the divesture box is disposed at a suitable height and the laundary basket is placed utilizing the space thereunder, the mentioned box and basket are both put in good order, thus the entire container occupying a relatively small space.

② Reception of dirty ones among the divested clothes separately in the laundry basket is very hygienic. Since interior part of the laundry basket is hardly seen as a result of visual interruption of the upper part of the laundry basket with the divestiture box, dirty divested clothes can be held without exposing themselves conspicuously, in other words, the appearance as a whole being improved.

③ Since an opening through which the clothes to be washed are cast in is formed on the upper part of a side wall of the laundry bascket, the clothes can be cast in directly from the open side. Thus, the clothes to be washed can be cast in the laundry bascket in a standing posture even when the space between the divestiture box and the laundry basket is small.

④ Since the laundry basket can be freely placed on and taken out of the space between the divestiture box and support base, being furthermore provided with the handle, the laundry basket is very easy to handle and handy to carry.

(3) The facts in the course of making the invention:

Item	Facts acknowledged by the court
1. Planning of new product	An object of the defendant Company Y's business is to process and market synthetic resin products. The defendant company decided to develop a new type container for receiving divested clothes.

2. Request for preparing models (April,1978)	I, general manager of the planning department of the defendant company, requested a Company S that had been engaged in designning the defendant company's goods for preparation of paper models of a new product. In the request, I showed his idea as to basic construction of the container, basic configuration of the divestiture box and laundry bascket, and the meshed side wall.
3. Research and result (early June, 1978)	M, one of the planning department staffs, was instructed to make researches on the development of new product. M did it by questionaire to housewives on their needs. Results of questionaire: (1) Plural basket type container is needed. (2) Not occupying a large space. (3) A new container comprising a laundry basket other than a divestiture box is desirable.
4. Meeting for planning new product (June, 1978)	Location of the divestiture box and laundry basket and other requirements were discussed on the basis of the medels prepared by the the Company S. M made public the results of questionaire (1) to (3). The construction according to the present invention was finally adopted by approving the proposal of I. Meetings were held several times at which I, M and N1, N2 of the Company S attended.
5. Payment in consideration of the models (July, 1978)	The defendant Company Y paid ¥150,000 to the Company S in consideration of the preparation of the models.

(4) Points at issue (concerning the acknowledgment of inventor):

For making the invention what roles are played by I, M, N1 and N2, respectively?

a. Opinion by the plaintiff:

- M, N1 and N2 are the inventors.
- M not merely reported the results of questionaire but also established by himself the basic construction of the invention comprising a divestiture box disposed on the upper stage portion and a laundry basket lower stage portion.
- I, who was treated as one of the inventors of the invnetion, merely gave an approval on the invention to be adopted and mentioned something about a part of the invention.
- The payment made by the defendant Company Y to the Company S is an evident proof that N1 and N2 are inventors.

b. Opinion by the defendant:

- I is the inventor.
- Even though M spoke of something about construction of the invention his speaking was noting but a report of the results of questionaire without any specific technological backgruond, such a speaking makes no direct or substantial contribution to the establishment of the invention.
- N1 and N2 merely gave assistance in the course of materializing the basic idea following the instruction of I. This fact was actually acknowledged by both of them.
- The payment made to the Company S is a kind of assitant fee in consideration of the assistance rendered by N1 and N2.

(5) Judgment by the court:

a. I is reasonably entitled to the inventor.

b. M merely made public the results of questionaire obtained from housewives at the planning meeting, and was not substantially involved in the technical

arrangment in the aspects of configuration, construction or combination of the divestiture container in accordance with the device. It is, therefore, obvious that M is not the inventor.

c. The Company S and the personnels N1 and N2 thereof were only engaged in the preparation of models in accordance with the basic idea proposed by I, and therefore they were none but mere assistants.

(6) Comments on the case:

It may be said that the judgment by the court is persuasive and reasonable on condition that there is no mistake in making a finding of facts. It seems, however, that there still remain following problems to be discussed. The problems are later shown in a separate rate table for the discussion.

a. It is not always definite to what extant the idea had been specifically made by the inventors in terms of basic construction of the divestiture container suggested by the inventors to the design company, basic configuration of the divestiture box and laundry basket, and mesh design for side wall. However, on the assumption that the idea proposed by the inventors is not sufficiently specific and that there is something contributive to the establishment of the invention in the report of the questionaire results made public by the researcher as wall as in his opinion expressed at the planning meeting, it may be said that M also contributed to the invention. This point is discussed at the case 2 in the table.

b. The design company studied and discussed on specific configuration, etc. of the invention in response to the request by the inventors, then prepared models of various size. It is possible that, in the course of such preparation, some idea of the design company's staff was partly incorporated in the invention. In this sense, the mentioned payment (assistant fee) to the design company might be an invention fee. This point is discussed in the cases 3 and 4 in the table.

c. It is difficult to identify the person who expressed his opinion (idea) relative to the invention at the meeting so far as no record is kept. As a matter of fact, it is often the case that an invention is made in association of proposals by plural persons. In such a case, it is very troublesome and difficult to identify who is qualified as inventor. This point is discussed in the cases 6 and 7 in the table.

(7) Discussion:

Imaginary cases in the "Laundry basket" action: who is to be qualified as inventor?

Case No.	Researcher	Proponent of requirement				Prototype manufacturer	Other requirement	Person qualified as inventor
		I	II	III	(IV)			
1	E	A	B	C		F		
2	E	E	A	A		F		
3	E	A	A	F		F		
4	E	A	B	C	F	F		
5	E	A	B	C	D	F		
6	E	A	A	?		F	?:no record and indef. B,C attend the meeting	
7	E	?	?	?		F	?:no record and indef. B,C attend the meeting	

where:

"Researcher" means a person who made public the results of questionaire showing that "a desired container should comprise not only a divestiture box but also a laundry basket."

"Prototype manufacturer" menas a person who was merely asked to manufacture prototype on an experimentally basis.

"Composing element I": The divestiture box and the laundry basket are disposed vertically in a multistage manner with a suitable distance therebetween.

"Composing element II": The divestiture box is supported by the supporting legs vertically extending upward from the

support base, and the laundry basket can be freely placed on and taken out of the space portion between the divestiture box and the support base.

"Composing element III": The laundry basket is provided with an opening on the upper part of a side wall through which clothes to be washed are cast in, and the laundry basket is further provided with a handle in such a manner as to be freely raised up and laid down.

"Composing element IV" (set forth in dependent claim): The mentioned opening through which clothes to be washed are cast in is formed on a surface inclined obliquely upward.

a. Japanese group 1st opinion:

Any person who proposed any of the above-described composing elements I, II, III and IV should be entitled to an inventor.

Any researcher who merely proposed a problem to be solved and did not propose means of solution to the problem should not to be entitled to an inventor.

Any person who merely manufactured a prototype on an experimental basis following the instruction of a person who conceived the means of solution to the problem should not be entitled to an inventor.

Since advantages of the invention are enhanced all the more by the composing element IV as set forth in dependant claim and it is sometimes the case that dependant claim may also exert an influence on the interpretation of the scope of what is claimed, the proponent of the composing element IV should be also entitled to an inventor.

Consequently, following persons should be entitled to join the inventors in the cases 1 to 5, respectively:

Case 1: A, B, C; Case 2: E, A; Case 3: A, F;

Case 4: A, B, C, F; Case 5: A, B, C, D;

b. Japanese group 2nd opinion:

It is often the case that an invention is made as a result of accumlation of ideas proposed by plural persons at a meeting. Accordingly, in the event that no record is kept with regard to the true proponent of composing elements of the invention, every person participated in the

discussion for making the invention at the meeting should be entitled to inventors. In the cases 6 and 7, every participant in the meeting, i.e., A, B and C should be entitled to the inventors.

c. Japanese group 3rd opinion:

In principle, every person who proposed any of the mentioned composing elements should be entitled to the inventor. However, in the event that any of the composing elements has been disclosed in a prior art, the proponent of the disclosed composing element should be disqualified from the inventor. For example, if it is known that the mentioned composing element I has been disclosed in any prior art literature, then B and C should be entitled to the inventors in the case 1, eliminating the proponent A of the composing element I.

d. Japanese group 4th opinion:

The foregoing 1st opinion (that any person who merely introduced a problem to be solved and proposes no spcific means of solution to the problem is not entitled to an inventor) may be certainly reasonable on condition that no creativity is found in the problem itself to be solved. But in the event that there exist any novelty and creativity in the problem itself to be solved, both proponent of the problem to be solved and proponent of the means of soltion to the problem should be entitled to inventors. In this sense, as far as any creativity is found in the problem itself of providing "a new twin basket type container which comprises not only a divestiture box but also a laundry basket", it may be reasonable that the housewives who introduced this problem to be solved are also entitled to join the joint inventors.

4:1-4A

PIPA Database Coversheet

(1) Title : Means Plus Function Claims And the Doctrine of Equivalents

(2) Date : October 1990

(3) Source
1) Source : PIPA
2) Group : American
3) Committee: 1

(4) Author(s) Gary Samuels, W.L. Gore & Associates

(5) Keyword(s) : equivalents

(6) Statutory Provision(s) : 35USC112

(7) Abstract

Means to determine not only how to approach the doctrine of equivalents procedurally in the special instance of "means plus function" claim elements but also how to determine the range to be accorded the doctrine in specific instances is discussed. An outline of the steps to be followed is given.

MEANS PLUS FUNCTION CLAIM ELEMENTS AND THE DOCTRINE OF EQUIVALENTS

by

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The recent case of Wilson Sporting Goods, Inc. vs. David Geoffrey & Associates and Dunlop Slazenger Corp., 14 USPQ 2d 1942 (Fed. Cir. 1990), is the latest in a series of cases that attempt to provide enlightment in the murky area of determining infringement through application of the doctrine of equivalents. This paper will attempt to bring the reader up to date regarding the analysis to be applied.

The starting point for any analysis is of course, 35 USC 112, 6th paragraph. This paragraph of Title 35 of the US Code specifically sanctions the use of "means plus function" language in patent claims and in addition specifies how to construe the language used. The paragraph reads:

> "An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material or acts in support thereof, and such claims shall be construed to cover the corresponding structure, material or acts described in the specification and equivalents thereof".

In any determination of infringement, the starting point is to determine whether the accused device, product or process literally infringes the claim; that is, to determine whether the language of the claim literally covers or reads on the accused product or process. Paragraph 6 tells us how to determine literal infringement with respect to "means plus function" language and tells us that in certain instances equivalent elements will be considered to be a literal infringement of the language.

It is noted that paragraph 6 says that "an element ... may be expressed", but that it is the claim that "shall be construed". Paragraph 6 does not say that the "means plus function" element shall be construed. This immediately

raises an ambiguity that the CAFC has been struggling to resolve for some time; namely, does one look to the claim as a whole or to each element of the claim in applying the doctrine of equivalents. It is unfortunate that the paragraph speaks of "elements" expressed as means, yet states that it is claims containing such elements that "shall be construed". If a court emphasizes the "claim" portion of paragraph 6, it is understandable how the court could arrive at the conclusion reached in Hughes Aircraft Co. vs. US, 219 USPQ 473 (CCPA 1983), where the court seemingly adopted an "invention as a whole" approach to the use of equivalents under either paragraph 6 or under the application of the doctrine per se. The "invention as a whole" doctrine was developed further in Texas Instruments, Inc. vs. US ITC 231 USPQ 833(Fed. Cir 1986). But the doctrine introduced an element of uncertainty and a strong modicum of guesswork into an area of law that was complex enough before, and fortunately, the "guess work" approach using the "invention as a whole" concept, did not last long because Chief Judge Markey in Perkin-Elmer Corp. vs. Westinghouse Electric Corp. 4 USPQ 2d 1321(Fed. Cir. 1987) said Hughes had not rejected the element-by-element comparison approach; but rather was only pointing out that each element should be viewed in the context of the entire claim. Thus, in Perkin-Elmer the "element" portion of paragraph 6 was emphasized. In Perkin Elmer the Court said it was

> "well settled that each element of a claim is material and essential, and that in order for a court to find infringement, the plaintiff must show the presence of every element or its substantial equivalent in the accused device".

It was apparent then that the Perkin Elmer panel and the Texas Instruments panel were in conflict. The CAFC took the opportunity to sit en banc in

Pennwalt Corp vs. Durand-Wayland, Inc. 4 USPQ 2d 1737 (Fed. Cir. 1987) to resolve the matter. In Pennwalt, the approach of the Perkin Elmer panel was maintained. Thus, while paragraph 6 may say the "claim shall be construed" it is now clear that an "element by element" analysis is the proper way to proceed. The CAFC will first look to see if the function of the "means for" clause reads on the accused structure. If so, the court will then apply the language of paragraph 6 in examining the accused structure to see if it is the same as the structure exemplified in the specification to support the stated function. If not, the court will then look to see if the accused structure is an equivalent of the structure recited in the specification. Thus the test for literal infringement of a "means plus function" claim is two-fold. First, the accused structure must perform the function recited in the claim and second it must be the identical or equivalent structure. How to determine what an equivalent structure is for literal infringment had not been developed fully at the time of the Pennwalt decision.

If the foregoing analysis results in a conclusion that there is no equivalent structure, then there is no literal infringement. The next step in the procedure is to determine whether there is infringment under the doctrine of equivalents per se. Here the usual test applies. Namely, whether the accused device performs substantially the same function in substantially the same way to obtain the same result[1].

1. It is pointed out that there are significant differences in the criteria used for determining "equivalents" under section 112, 6th paragraph and under the doctrine per se. One difference is that the former emphasizes equivalent structure; the latter does not. Another difference is that the former focuses on claim "elements" and the other focuses on how the device performs. Thus there may indeed be a two-tier approach to the determination (see Linck "The Doctrine of Equivalents: A Two-Tier Analytical Approach", Selected Legal Papers, AIPLA Volume VI, No. 1, pp. 19-56), but a discussion of the matter is beyond the scope of this paper.

This brings us to the Wilson Sporting Goods case, where the CAFC has now provided insight on how to determine whether the prior art places limitations on the extent to which the doctrine of equivalents is applied. In Wilson Sporting Goods, a CAFC panel of Markey, Rich, and Cowen focused on how wide or how broadly the doctrine may be applied. The panel said even if the accused product performs substantially the same overall function or works in substantially the same way to obtain substantially the same overall result, there can be no infringement if the asserted scope of equivalency of what is literally claimed would encompass the prior art. Judge Rich, speaking for the panel, said the doctrine of equivalents does not exist to give a patentee something which he could not lawfully have obtained from the PTO. Thus the "prior art always limits what an inventor could have claimed, and therefore it must also limit the range of permissible equivalents of a claim".

How this particular CAFC panel would determine when the prior art limits the range of equivalents provides an interesting insight into the creativity of Federal Circuit judges. Judge Rich stated that it may be helpful to "conceptualize the limitation on the scope of equivalents by visualizing a hypothetical patent claim sufficient in scope to literally cover the accused product" (page 1948). The question then becomes: is this hypothetical claim patentable over the prior art? If not, the doctrine of equivalents cannot be used to cover the accused product. Procedurally, it is apparent that the burden is on the patentee in this matter; however a finding that the doctrine does not cover the accused device does not in any way undermine the validity of the actual patent claims.

The court used this approach in Wilson to find that the actual claim could not be accorded a range of equivalents that encompassed the accused product because to do so would have made the hypothetical claim obvious.

CONCLUSION

We now have means to determine not only how to approach the doctrine of equivalents procedurally in the special instance of "means plus function" claim elements, but also how to determine the range to be accorded the doctrine in specific instances.

An outline of the procedural sequence of steps to be followed in making the determination is set forth following:

STEPWISE OUTLINE FOR DETERMINING INFRINGEMENT WHEN "MEANS PLUS FUNCTION" CLAIM ELEMENTS ARE PRESENT

Step I: DETERMINE IF THERE IS LITERAL INFRINGEMENT

a. Look to see if the function of the accused structure meets the function recited in the "means for" element; if so,

b. Look to see if the accused structure is the same as the structure set forth in the patent.

If both a) and b) are met, there is literal infringement.

If not then:

a. Repeat a, above. If it is met, then

b. Look to see if the accused structure is an equivalent of the structure set forth in the patent.

If so, there is literal infringment under section 112, 8th paragraph.

If not, there is no literal infringement, and we proceed to step II.

Step II: DETERMINE IF THERE IS INFRINGEMENT THROUGH APPLICATION OF THE DOCTRINE OF EQUIVALENTS

a. Determine whether the accused structure performs substantially the same function

b. Determine whether the accused structure performs that function in substantially the same way

c. Determine whether the accused structure obtains the same result.

If a, b, and c are met, there may be infringement. To determine whether there is, proceed to step III.

Step III: DETERMINE IF THERE ARE ANY LIMITATIONS ON THE RANGE OF THE DOCTRINE OF EQUIVALENTS

a. Examine the File Wrapper to determine if there is an estoppel applicable (This determination, of course, is not a subject of this paper).

b. Conceptualize a hypothetical claim that literally covers the accused structure, and determine whether that hypothetical claim is patentable over the prior art.

If there is no estoppel and if the hypothetical claim is patentable, then there is infringement.

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b. Conceptualize a hypothetical claim that literally covers the accused structure, and determine whether that hypothetical claim is patentable over the prior art.

If there is no estoppel and if the hypothetical claim is patentable, then there is infringement.

(1) Title: Rational Interpretation of Novelty
- What is Publicly Known in File Wrapper? -

(2) Date: 10/90 (21th, Niigata)

(3) Source:
1) Source: PIPA
2) Group: Japan
3) Committee: 1

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(5) Keywords: Novelty, file wrapper, amendment, publicly known, public knowledge, public inspection

(6) Statutory provisions: JPL29, JPL29 bis 2, JPL186

(7) Abstract:

A study has been made as to whether documents in a file wrapper relating to an application on an invention are "publicly known" or not, as the term is used in Article 29, Paragraph 1, Item (1) of the Patent Law.

There are two theories in this regard: One regards public accessibility to the documents in question as sufficient for their being "publicly known," and in this case, it is unnecessary for anyone to have actually known their contents (hereinafter "Theory A"). The other requires actual public access to the documents in question ("Theory B").

We have discussed both theories, considering on the precedent, and proposed a suggestion as to the future interpretation of the statutory requirement.

1. Introduction

The purpose of the Patent Law is to encourage inventions by promoting their protection and utilization so as to contribute to the development of industries. (Article 1 of the Patent Law) If patent right were granted for those inventions which lack novelty, after they have been opened to the public and have become common property of the public, it would instead put industries in confusion and discourage their development. Thus, the Patent Law provides the patent right in return for a new invention. Novelty of an invention is an important requirement for patentability.

What constitutes novelty, as a requirement for patentability, must objectively be defined. Since it is very difficult to do so, the Patent Law defines what "non-novel" inventions are, and regard all the other inventions to be "novel" by a legal fiction. The "non-novel inventions" are enumerated in Article 29, Paragraph 1, Items (1) through (3) of the Patent Law: Item (1) defines those inventions publicly known; Item (2) those inventions publicly worked; and Item (3) those inventions described in a printed publication. (See Article 3 of this paper in detail.)

The term, "publicly" means "being on an open basis," i.e., beyond the scope of confidentiality. Application of the provisions of this Article involves problems, however. For example, with respect to the requirement that an invention not be "publicly known," a problem exists with respect to the treatment of documents contained in a file wrapper for a patent application, which are open for public inspection, but where no member of the public has actually inspected the file. There are two theories. One treats these documents as being publicly known; the other as not publicly known.

In the future, moreover, harmonization with other patent systems abroad and paperless application procedure for patents in Japan, which permits inspection of a file wrapper on an on-line basis, would present additional issues, from a different viewpoint, as to whether any such information is "publicly known."

2. Problem Areas

The novelty problem regarding such documents in a file wrapper probably relates to the question of when, and subject to what conditions, an invention described in documents submitted to the Patent Office, in the form of an amendment, argument, statement, drawing or the like, after an application for a patent has been filed, becomes "publicly known."

Documents in a file wrapper may be classified into two different groups, depending on when they are submitted: The first includes a specification attached to a patent

application and those other documents submitted within fifteen months from the date of the application. The second consists of those documents submitted after fifteen months.

The documents in the first group are laid open and distributed as a printed publication after eighteen months from the date of application. Thereupon, they become the distributed publication, as provided for in Article 29, Paragraph 1, Item (3) of the Patent Law, leaving no problem whatsoever in this regard.

The documents in the second group present the problem. With respect to such documents in a file wrapper submitted after fifteen months from the date of the application, there is no argument that they are open to the public after the application is laid open.

They are, however, not documents published by way of printing and do not come under the publication referred to in Article 29, Paragraph 1 of the Patent Law. Nor, are they distributed. As a result, Article 29, Paragraph 1, Item (3) of the Patent Law does not apply. The definition of working in the Patent Law provides no room for applying the "publicly worked" terminology in Article 29, Paragraph 1, Item (2).

We will, therefore, have to discuss the matter, focusing on application of the "publicly known" terminology in Article 29, Paragraph 1, Item (1). In this text, we will also discuss approaches to this problem under the Japanese Design Law, U.S. patent law, and European patent law.

We take up this particular problem here because there are two theories in regard to interpretation of the "publicly known" terminology under Article 29, Paragraph 1, Item (1). Trial decisions as well as judicial decisions are swaying between "Theory A" in which public accessibility to a particular invention will suffice and "Theory B" which requires an invention to have actually been known to an unspecified person.

In connection with "Theory B," there is a question of evidence as to the basis on which a particular invention should be judged to have been actually known. Depending on which theory is adopted and what evidence and counterevidence

may be considered, inventions disclosed in documents in file wrappers have been either patented or rejected, having a substantial impact on the practice.

3. "Publicly Known" Terminology under Article 29, Paragraph 1, Item (1) of the Patent Law

> ARTICLE 29, PARAGRAPH 1, OF THE PATENT LAW:
> Any person who has made an invention usable for an industrial purpose shall be entitled to a patent in respect thereof, unless such invention:
> (1) Was publicly known in Japan prior to filing of the application for patent;
> (2) Was publicly worked in Japan prior to filing of the application for patent; or
> (3) Was described in any publication distributed in Japan or any foreign country prior to filing of the application for patent.

(1) Theories:

As previously mentioned, there are two theories, A and B, with respect to interpretation of the "publicly known" terminology in item (1) above:

"Theory A": Public accessibility will suffice.

As held by Mon-ya[1], Mitsuishi[2], Hara[3], Yoshihara[4].

"Theory B": Public accessibility is not enough. An invention is required to have actually been publicly known.

As held by Oda[5], Yoshifuji[6], Toyosaki[7], Nakagawa[8], Nakayama[9], Takeda[10].

"Theory A" is based on the arguments that items (1), (2) and (3) of Paragraph 1 of Article 29 of the Patent Law must be interpreted on a uniform basis. It has been established under judicial precedents that accessibility will suffice with respect to items (2) and (3). There is no reason why, differing from items (2) and (3), accessibility is insufficient only for item (1).

Although item (1) overlaps items (2) and (3), items (2) and (3) are illustrative provisions of item (1), and there is no necessity for avoiding redundancy of provisions.

Otherwise, for consistent contextual interpretation of the above paragraph, item (1) must be interpreted as referring to the state in which an invention has actually been known, and items (2) and (3) as referring to the state in which an invention is accessible, thus eliminating the requirement that an invention is actually known.

"Theory B," on the other hand, rests on the theory that, should the 'publicly known' terminology under Article 29, Paragraph 1, Item (1) be interpreted as referring to the state in which an invention is publicly accessible, item (1) will contain the entire scope of items (2) and (3) as the result of contextual interpretation of the Article, defeating the purpose for which items (2) and (3) are provided.

Yoshifuji[11] stated, for example, "There certainly is Theory A in which the 'known' terminology in item (1) may be taken as meaning accessibility as well. I think, in that way, the purpose for which items (2) and (3) also are specifically provided will become meaningless. This is my starting point for interpretation of items (1), (2) and (3)."

"With regard to the 'publicly worked' terminology, even an expression reading 'a publicly worked invention which was likely to be publicly known' was taken up in the course of legislation, to make clear the requirement of 'working in a publicly accessible state.' The 'publicly known' terminology in item (1) is based on the understanding that the invention must not only be publicly accessible but it must actually be known."

"Item (2) does not go as far as item (1) above. My understanding is that item (2) is intended to cover manufacturing, use or sale in a state publicly accessible and that, in this way, both provisions will have their respective specific meanings. In the course of legislation, the term 'in a state publicly accessible' was deleted, apparently because it was redundant and unnecessary."

(2) Trial Decisions and Judicial Decisions:

(i) "Theory A" (#1 through #6):

Under the current law which has been in effect since 1960, there are only two cases which have been decided under "Theory A" (#1 and #2 below) while, under the former law which was in effect before 1960, all cases appear to have been decided under "Theory A" (#3 through #6).

#1 Trial Decision 1983-23889 (August 19, 1986):

> The amendments of the specification and drawings for the prior application had been filed before the later application was filed, and they disclosed the invention of the later application. They were opened for public inspection by way of microfilm after the prior application was laid open. This is why the technical matter described in the amendments should properly be considered to be a publicly known invention against the later application.

#2 1972 (Gyo Ke) 124 (Tokyo High Court; January 20, 1976)

> The cited reference relates to a design registered on November 13, 1962. The design gazette covering it had not yet been issued by February 20, 1963 when the utility model in issue was applied for. There is no argument between the parties involved as to the fact that it was not until August 7, 1963 that the gazette covering it was issued.
>
> Now, once a design right has been registered, anybody is entitled to apply to the Director General of the Patent Office for certification and, inspection, ...
>
> In addition, it is clear from Article 73 of the Design Law that, after a design right is registered, officers of the Patent Office are relieved of a confidentiality obligation in respect thereof. ...

> It follows, therefore, that it is not impossible at all for a third party to find out the registered design number. Accordingly, it is not impossible for a third party to obtain access to the design register, and the design register is open for inspection to any unspecified persons. ...
> Inasmuch as the design register is accessible for inspection, and it is made open, it will be reasonable to conclude that the cited reference was publicly known at the time of the application of the utility model in issue for registration.

In this case, it was argued whether a registered design, the design gazette of which has not yet been issued, is publicly known. The judgment granted was to the effect that the registered design was then accessible by unspecified persons and would fall under the "publicly known" terminology in Article 3, Paragraph 1, Item (1) of the Utility Model Law.

The following four cases #3 through #6 relate to the interpretation of Article 3, Item (1) of the former Utility Model Law, in which "Theory A" is followed.

> ARTICLE 3 OF THE FORMER UTILITY MODEL LAW (Law No. 97 of 1921, as amended):
> For the purpose of this law, a new utility model shall refer to a utility model which shall not fall under either of the following:
> (1) Any utility model publicly known or publicly worked in this country prior to application for registration, or any similar thereto; and
> (2) Any utility model set forth, to such extent as to permit it to be worked easily, in a publication distributed in this country prior to application for registration, or any similar thereto.

#3 1942 (O) 675 (Supreme Court; November 24, 1942)

A device may be judged to be publicly known when it is placed in a status accessible to many and unspecified persons.

#4 1944 (O) 704 (Tokyo High Court; July 12, 1948)

The term "publicly known" does not necessarily require recognition by many and unspecified persons but does require that a device is placed at least in such a status as would permit many and unspecified persons to get access to it.

#5 1958 (Gyo Na) 26 (Tokyo High Court; December 6, 1962)

The terms "publicly known" and "publicly worked" should be interpreted as meaning that a device is placed in a status accessible to the general public, regardless of whether or not in fact known to them, and that it is worked in such a status, respectively.

#6 1961 (Gyo Na) 16 (Tokyo High Court; February 2, 1963)

Plaintiff asserts that the argument was not then publicly known. It is evident, nevertheless, from Evidence Ko No. 1 and also from all the arguments made herein, that the said argument was filed at the time of application of the utility model in issue initially in the form of a patent application. Thus, it is evident that the said argument has been accessible to the public for inspection at the Patent Office since the application was laid open for public inspection in respect of the utility model. It will be perfectly in order, therefore, to regard the said argument as being publicly known.

(ii) "Theory B" (#7 through #10):

#7 Trial Decision 1983-20682 (January 7, 1985)

> Now we will examine whether the invention described in the said argument was a publicly known invention or not. In view of the fact that Article 29, Paragraph 1, Item (3) of the Patent Law provides for distributed publication, apart from Item (1) of the same, the invention "publicly known" as referred to in Item (1) of the same should properly be interpreted as requiring not only "a status publicly accessible" but a status "publicly known" exactly as spelled out in the text of the law provision.
> Application documents and accessories thereto (in which the argument is included) in respect of an application laid open are made accessible not for mere inspection but for inspection by the public specifically under the law (Article 186 of Patent Law). It will, therefore, be reasonable to interpret that the said application documents and accessories so made accessible were in a status equivalent to the status "publicly known," regardless of whether they were actually inspected. The Court hereby finds that the said argument was "publicly known" prior to filing of the patent application for the invention in issue.

The above precedent evidently follows "Theory B" for interpretation of Item (1) and illustrates the interpretation in which documents furnished for inspection by the public under the statutory provisions are regarded by fiction as being actually known to the public, regardless of whether they were actually inspected. As a result, it reaches the same conclusion as under "Theory A."

#8 1982 (Gyo Na) 273 (Tokyo High Court; March 27, 1985)

> The patent application in issue was changed from an application for utility model. It includes those composing elements added by an amendment after the basic application was laid open and is considered to change the gist of the basic application. The trial decision in which retroaction of the application date was rejected is in order. The composition of the invention in issue, which includes the composing elements added subsequently, was such that the specification and drawings of the basic utility model, incorporating the said amendment, were furnished for inspection by the public after the application was laid open, and the invention in issue was made publicly known prior to the filing of its application, unless refuted successfully. Accordingly, the trial decision in which Article 29, Paragraph 1, Item (1) was applied is valid.

In this precedent case, because of a patent application made available to the public for inspection (i.e., the state in which it was publicly accessible), Item (1) was not simply applied but was applied on the assumption that the invention in issue would have actually been known provided no evidence to the contrary was presented. Thus, it follows "Theory B" as far as interpretation is concerned.

#9 Trial Decision 1982-5216 (November 15, 1985)

> The amended specification and drawings for the application numbered 1976-127502, which were submitted as Evidence Ko No. 2, were not laid open by way of the official gazette prior to the application in issue. In addition, an investigation made by virtue of our authority has revealed, prior to filing of the application in issue, no fact of the original text of the said Evidence Ko No. 2 having been inspected nor

of any copy thereof having been issued. Based on the above, the Evidence Ko No. 2 does not fall under a publication distributed prior to filing of the application in issue. Nor is it indicative that, prior to filing of the application in issue, the invention described therein had publicly been known or worked.

#10 Trial Decision 1986-19127 (July 19, 1987):

The application for the cited invention was laid open on June 29, 1977 and made available to the public for inspection on and after that day pursuant to the provision of Article 186, Item (1) of the Patent Law. The above cited invention described in the amendment dated July 25, 1980 is considered to have been made publicly accessible prior to November 22, 1980, which is the date of this application.
According to the date stamp placed on the back of the file wrapper of the cited invention, the first application made for inspection of the file wrapper was dated October 13, 1981. Prior to November 22, 1980 which is the date of this patent application, as far as we can ascertain from facts on hand, no application for inspection of the file wrapper was made. There is no evidence of the cited invention having been actually known to unspecified or many persons who were general third parties.
It follows that, prior to this application, the cited invention was publicly accessible but was not actually known publicly.
The cited invention, therefore, cannot be regarded as having publicly been known within Japan prior to this application.

Both #9 and #10 follow "Theory B" and require that the invention be known actually rather than on a presumption or fiction.

(3) A Study of the Design Law:

ARTICLE 3 PARAGRAPH 1 OF THE DESIGN LAW:
Any person who has created a design usable for an industrial purpose shall be entitled to a design registration in respect thereof, unless such design:

(1) Was publicly known in Japan or a foreign country prior to filing of an application for design registration
(2) Was described in any publication distributed in Japan or a foreign country prior to filing of an application for design registration; or
(3) Is similar to any of the designs provided for in Item (1) or (2).

Article 3, Paragraph 1, Item (1) of the Design Law contains words, "publicly known," in the same manner as in Article 29, Paragraph 1, Item (1) of the Patent Law. Therefore, an interpretation of the Design Law will be helpful. All of the following judicial decisions (#11 through #13) follow "Theory B:"

#11 1970 (Wa) No. 11422 (Tokyo District Court; September 17, 1973)

The fact that the said patent specification has been made available for inspection by the public at the place referred to by the Defendant does not necessarily mean that a design very similar to the design in issue described in the said patent specification has fallen under such "a design publicly known in a foreign country" as is provided for in Article 3, Paragraph 1, Item (1) of the Design Law. The Defendant asserts that a document is "publicly known" if it is publicly accessible to the public for inspection. If the "publicly known" terminology is so

interpreted in the case of the document asserted by the Defendant, the provision of Article 3, Paragraph 1, Item (2) of the Design Law becomes meaningless because "any publication distributed in Japan or a foreign country," as set forth in item (2), is always accessible to the public for inspection.
As long as item (1) is interpreted as in the foregoing, there is no reason why item (2) must be provided separately from and in addition to item (1). Thus, the "publicly known" terminology under item (1) should properly be interpreted to require not only public accessibility, but also the literature to be publicly known.
If, as far as evidence is concerned, it is proven that a design has become publicly accessible, it would be reasonably possible to assume, unless satisfactorily disproved to the contrary, that it would have reasonably been publicly known. Yet, it is a question of evidence and not a question of interpretation in respect of the "publicly known" terminology.

In the grounds of decision quoted above, "the said patent specification" and "the place referred to by the Defendant" refer to "the Belgian patent specification (original text)" and "Belgian Commercial and Industrial Property Bureau Library," respectively.
The above decision in its interpretation follows "Theory B" but holds that, unless successfully proven to the contrary, a design publicly accessible for inspection may be assumed to have publicly been known.

#12 1977 (Gyo Ke) No. 71 (Tokyo High Court; April 23, 1979)

In view of the meaning of Article 3, Paragraph 1 of the Design Law in which item (2) thereof provides for

distributed publication separately from item (1) thereof, the term "design ... publicly ... known" in item (1) is so interpreted as to require not only that the particular design be accessible to many or unspecified persons who are general third parties, but to be actually known to them exactly as spelled out in the statutory provision. ...
It is evident that any created design will not be actually known, because of its registration, to general third parties immediately. In this particular case, it is found that, in respect of registration of the cited design, no person had applied for inspection of the relative documents for a period between the issuance of the official design gazette and registration thereof. In addition, there is no evidence sufficient for this Court to find that this particular design had actually been known to many or unspecified persons who were general third parties.
Consequently, it is not in order to hold that the quoted design had publicly been known prior to the application for the design in issue.

#13 1978 (Gyo Ke) Nos. 27 and 28 (Tokyo High Court; May 30, 1979)

A "publicly known design" requires not only that a particular design be accessible to many or unspecified persons who are general third parties, but to be actually known. A registration of a created design does not make that particular design actually known immediately to general third parties. (Refer to 1977 (Gyo Ke) No. 71 Case decided on April 23, 1979.)

The judicial decision quoted within parentheses is that discussed in #12 above.

(4) Manual of Japanese Patent Examining Procedure:
There is no provision dealing directly with the issue of Article 29, Paragraph 1, Item (1) of the Patent Law. Nevertheless, the two sections quoted below will be helpful:

#14 42.03A of the Manual of Patent Examining Procedure:
Meaning of "Publicly Worked Invention" under Article 29, Paragraph 1, Item (2) of the Patent Law:

The terminology "a publicly worked invention" refers to an invention worked (for a definition of working, refer to Article 2, Paragraph 3 of the Patent Law) in such a status in which particulars of the said invention are publicly known or are likely to be publicly known.
Explanation:
An invention worked which has publicly and factually been known because of the working comes under the "invention ... publicly ... known" under Article 29, Paragraph 1, Item (1) of the Patent Law. Thus, it is not necessary to examine whether such invention has been publicly worked with respect to the "publicly known invention."
This provision is construed, therefore, as providing for an invention publicly worked when the fact that it has publicly been known because of such working is not present.
The term "working" is defined in Article 2, Paragraph 3 of the Patent Law. Assuming, therefore, that there is no problem in regard to it, the question after all will be whether the invention was worked "publicly" or not.
The term "publicly," relates to a non-confidential status whatsoever in which an invention is worked. Any

> working of an invention, involving any confidential portion in its key points, is not worked "publicly." (Omitted hereafter.)

Any invention worked with any fact publicly known thereby is explained as coming under an "invention ... publicly ... known." To interpret it conversely, an "invention ... publicly ... known" under Article 29, Paragraph 1, Item (1) of the Patent Law relates to "a case in which a publicly known fact is present," viz., "Theory B" 10. This Manual does not seem, however, to support "Theory B" positively.

#15 42.05A of the Manual of Japanese Patent Examining Procedure:
Receipt of an Original Text for Academic Society Journals and Public Knowledge thereof.

> In such a case, particulars of the original text, if simply supported by no more than the date of receipt thereof, will not be considered to have publicly been known.
> Explanation:
> Receipt of an original text by an academic society for its journal does not necessarily mean that particulars of the same are immediately made accessible to unspecified persons. It is, therefore, proper to consider that particulars of the same have not yet become publicly known.

The above explains that the original text, by simply being received by an academic society for its journal, does not become "accessible to unspecified persons" and therefore does not become "publicly known." Expressed otherwise, once made "accessible to unspecified persons," it becomes "publicly known," viz. following "Theory A."

No question is raised, however, as to whether the receptionist at the Academic Society is under a confidentiality obligation. If he or she is not under such obligation, particulars of the original text will be accessible to unspecified persons. The purport of the above section which flatly rules out 'simply received cases,' including question suggested above, seems to be closer to "Theory B."

(5) Examination Standards:

There is no provision applicable to Article 29, Paragraph 1, Item (1) of the Patent Law. The following provisions of the Design Law will be of help:

#16 3-2000 of Examination Standards of Design:

> III. "Publicly known design" under Article 3, Paragraph 1, Item (1) of the Design Law:
>
> A design which has become accessible to many and unspecified persons will be treated as having become publicly known.
>
> A registered design will be treated as having been publicly known as from the date of registration of creation thereof.

Even when the design gazette containing a registered design is not yet issued, the registered design is in a status publicly accessible and, regardless of whether it is actually known, is treated as coming under Article 3, Paragraph 1, Item (1). It, therefore, follows "Theory A."

#17 Consultations with and Clarifications by the Patent Office, Compiled by Patent Attorneys' Association of Japan:

42D-01 When Registered Design Becomes Publicly Known under Article 3, Paragraph 1, Item (1) of the Design Law (Consulted and Clarified on November 7, 1979):

Matter Consulted on and Clarified:
The Examination Standards of Designs state, in respect of publicly known designs under Article 3, Paragraph 1, Item (1) of the Law,
"A design which has become accessible to many and unspecified persons will be treated as having been publicly known. A registered design will be treated as having been publicly known as from the date of registration of creation thereof"
According to a recent decision of the Tokyo High Court (Case of annulling a trial decision on final rejection of an application for registration of design, identified as 1977 (Gyo Ke) No. 71 of Tokyo High Court, and decided on April 23, 1979), a registered design was made a publicly known design on the basis of the date the design gazette covering it was issued, rather than the date of registration of creation thereof. Kindly clarify whether you plan to revise the Examination Standards.
Answer:
As far as the Patent Office is concerned, the above decision is a question of application of the law provisions as to under what Article it must be rejected. In the future, it will be rejected under the "prior application" provision of Article 9, rather than Article 3, Paragraph 1, Item (1) of the Law.
Also, as far as this particular case is concerned, it was because of the question of an applicable provision of the law that the Patent Office did not appeal.
For the moment, we are not planning to revise the Examination Standards. Practice of the Patent Office has, nevertheless, been in accordance with the decision since then.

The above decision (Tokyo High Court 1977 (Gyo Ke) No. 71) was considered above in §3 (3) #12 of this paper in support of "Theory B." The answer says, in essence, that

the Examination Standards made out on the basis of "Theory A" will not be revised but, as far as the practice of the Patent Office is concerned, the rejection will be on the basis of the prior application provision rather than the "publicly known" provision. This answer does not go as far as to say the Patent Office will change its position from "Theory A" to "Theory B."

4. Discussion

(1) Precedent Decisions under Current Laws:

Decisions under the current laws (Patent Law and Utility Model Law) are summarized in chronological order in the table attached hereto, representing two cases in support of "Theory A" and four in support of "Theory B." The four "Theory B" based cases include a case leading by a legal fiction to the same conclusion as under "Theory A" and another case leading by assumption to the same conclusion as under "Theory A." While "Theory B" has been prevalent in trial and court decisions, a trial decision, No. 1983-23889, was recently rendered in support of "Theory A." Thus the earlier cases do not seem to have an effect as controlling precedent.

(2) "Theory B" Based on Fiction (Trial Decision 1983-20682):

(i) This case is worth studying from the lawmaking point of view. It probably goes too far, however, to make a fictitious approach like this, rejecting investigation of facts, when there is no specific provision which permits such a constructive interpretation. After all, it will be an unreasonable interpretation under the present law.

(ii) It would be unnatural to treat only the file wrapper differently, although it is furnished for inspection by the public by virtue of law.

(iii) Since it leads to the same conclusion as under "Theory A," it would be easier to understand and

also eliminate the unnatural exceptional treatment of the file wrapper to give a clear-cut conclusion on an "Theory A" basis.

(3) "Theory B" Based on Assumption (1982 (Gyo Na) 273):

(i) In this case, the "publicly accessible" invention is assumed to have been "actually known" on the condition that there is no specific rebuttal evidence available, rather than being directly assumed to have been "publicly known."

(ii) It would be more reasonable and help in understanding if some standards or examples of the rebuttal evidence available are considered. According to a certain theory, the "specific rebuttal evidence" would include the following:

a. Loss of a file wrapper in fire;

b. Closing of the Patent Office due to war;

c. Closing of the Patent Office for moving; and

d. Unavailability of documents for public inspection immediately after submission thereof.

Items under a through d above probably negate not only the "actual knowledge" but "public accessibility" as well. If so, the invention in question would not be "publicly known," both under "Theory B" and "Theory A" as well. Thus, it would be too harsh and meaningless to require such an extreme interpretation. From this point of view, we would rather suggest, as more reasonable examples, the following realistic "specific rebuttal evidence:"

e. Lack of inspection date on the reverse side of a file wrapper; and

f. Lack of an application for inspection.

There is, in fact, a precedent trial decision (Trial Decision 1986-19127) in which it was found, as specific rebuttal evidence, that the file wrapper in issue had not been subjected to

inspection prior to the new application, and thus "public knowledge" was denied.

(4) Processing of Additional Documents:

(i) Additional documents filed after the application are processed in the following manner: Application Division (Acceptance is verified by datestamp) -> Computer Record Division (Data input) -> Formality Examination Division (Formality examination) -> Application Division (File them in the wrapper).

(ii) Number of Days Required: It normally takes about 2 months to clear all the steps outlined in (i) above.

(iii) The date on which documents are placed in the file wrapper is not recorded.

(iv) The definite number of days required after submission of documents until they are placed in the file wrapper is not available and the date on which they are placed in the file wrapper is not recorded. This means the definite date on which additional documents submitted would be available for inspection is not available. As a result, even when "Theory A" is adopted, another problem still exists.

(5) Inspection of Documents in the File Wrapper:

(i) Application for inspection is submitted to: File wrapper section of Application Division of the Patent Office.

(ii) Number of days required before documents in file wrapper are made available for inspection:

a. 0.5 to 1 day if not laid open (in which event the applicant inspects by himself) or the application is in the course of publication procedure;

b. 3 days if kept in the International Industrial Property Right Documentation Center;

c. Not less than a week
if in the Examination Department, Formality Examination Division, Registration Division, or the like;

d. Not less than 10 days
if in the Trial Department;

e. The application for inspection will be rejected if in the custody of examiner or judge;

f. The application for inspection will be rejected if in the course of being processed (transfer, dispatch, printing, etc.).

(In the event of e or f, reapplication will have to be made in 2-3 months.)

(iii) Return of file wrapper:

The file wrapper is available for inspection for one day only, absolutely not for two or more days. When the file wrapper is returned by an applicant, the person in charge of file wrappers at the Patent Office places the application for inspection in it and stamps the date of inspection on the reverse side of the file wrapper. If an applicant desires to continue inspecting the same file wrapper on the subsequent day, he must submit an application for inspection again on the subsequent day. In this manner, the inspection dates recorded on the reverse side of the file wrapper show exactly when its contents were actually inspected.

(6) Comparison Between Public Knowledge of Original Texts Received in Libraries and of Documents in File Wrappers:

Documents contained in a file wrapper are original text and are not distributable. A thesis for a degree is likewise the original text and is not distributable. Thus, the lack of distributability is common to both. The trial decision 1981-19802 (Trial decision on November 5, 1985) has denied the distributability and publishability of a thesis

for a degree received in a library of the Helsinki University.

Our investigation of some of libraries in this country (National Diet Library, Kanagawa Prefectural Liabrary, and Kawasaki Library of Kanagawa Prefecture) reveals that the date on which a thesis for a degree is received is recorded but the date on which it is made available for inspection is not always identified. It is, therefore, rather impracticable under "Theory A" to determine whether, as of a given date, the original text was publicly accessible, as is the case of the documents in a file wrapper.

On the reverse side of a file wrapper, a date stamp is placed to evidence inspection of documents contained therein. In contrast, the inspection of the original documents received by a library is not always recorded and maintained. Therefore, it will be difficult to prove that such original documents were "factually and publicly known." The documents may be said to have been "factually and publicly known," if the person who read them gets a reproduction copy made of them and proves the date of it. In this event, the reproduction copy is a publication under Article 29, Paragraph 1 of the Patent Law, resulting in loss of novelty under item (3) thereof as well as item (1) thereof (Refer to Tokyo High Court decision 1984 (Gyo Na) 211 (Decided on October 23, 1985)).

(7) Future of On-Line Inspection:

According to the paperless system being developed by the Japanese Patent Office, on-line inspection will be ready for use in 1993. Recommendations by the Advisory Council on Industrial Property dated February 28, 1990 read, in part, as follows:

> Under the paperless system, matters relating to respective steps of procedure, and decisions and other dispositions, of patent applications will be recorded in a file. The patent application will be processed on the basis of the records so filed.
> In this connection, matters recorded in the files will be made available for public inspection through visual display terminals etc. and documents setting forth the recorded matters will be issued, to make the work process at the Patent Office known to the public.

The date of data input to the database is considered to be the date on which additional documents are made available for inspection. If "Theory A" is adopted, therefore, this date must be made clear. If "Theory B" is adopted, it is preferable that records be maintained as to whether there has been any access to specific data.

(8) Handling under the U.S. Patent Law:

According to the U.S. Code of Federal Regulations, once a patent is granted, the specification, drawings and all related documents thereof will be furnished for public inspection (37 CFR 1.11).

It has clearly been established under judicial court decisions that those documents furnished for public inspection come under "printed publication" in Section 102 of the U.S. Patent Act providing for novelty (as in 210 USPQ 790, 228 USPQ 453).

Information set forth in documents in a file wrapper furnished for inspection is, therefore, considered to have been made publicly known on and after the issue date of the patent, by granting of a patent, regardless of whether an inspection has actually been made.

In the meantime, Section 102(e) of the U.S. Patent Act provides that all matter described in an issued U.S. patent is fully effective as a reference as of the filing date of the application, and not the issue date of the patent.

Since patent applications other than reissue applications are maintained in secrecy until the patent issues (35 U.S.C. 122 and 37 C.F.R 1.14), by definition it is impossible for any member of the public to have access or knowledge of such an application until issuance. However, despite the lack of public knowledge, the text of the original secret application is considered to be effective prior art as of its filing date, provided that a U.S. patent later issues containing the same disclosure.

Section 102(e) applies only to the contents of the issued patent, and not the contents of the file wrapper, *e.g.*, amendments and arguments, or any matter cancelled from the issued patent. As pointed out above, the contents of the file wrapper are effective prior art only as of the issue date of the patent.

(9) Handling under European Patent Law:

According to Section 128 (4) of the European Patent Law, the patent application documents are available for inspection after the European patent application is laid open.

Under a decision of the Technical Board of Appeal (T381/87), a patent application, once made accessible to the public, was found to have become "capable of being usable by the public." The decision states that, in order to be "capable of being usable by the public," it is not necessary for a patent application to have been actually inspected.

After an application is laid open, therefore, information set forth in documents in a file wrapper is considered to be judged to become publicly known as of the date on which the application is laid open for inspection, regardless of whether it has actually been inspected.

5. Summary:

(1) Just as "Theory B" is prevalent in the recent trial and judicial decisions, "Theory B" would probably be reasonable under the current law. There is a problem, however, with respect to the exception for documents

contained in file wrapper, that are "publicly known by fiction."

(2) It would probably be reasonable to assume under "Theory B" that documents in a file wrapper are "publicly known" on and after the date they are laid open and become available for inspection, unless there is a "specific rebuttal evidence."

(3) Measures will have to be taken to eliminate conflict in interpretation of the statutory provisions. If the law is to be revised, it will be desirable, in view of the intention of the publication system as well as for harmonization with other patent systems abroad, to follow the European Patent Law with respect to judgment of public knowledge.

In other words, an invention is "actually known" in many different ways, with difficulty in proving it in many cases. The "publicly accessible status" or "public accessibility" can be proved without difficulty if the date on which application documents are placed in a file wrapper can specifically be determined.

If the date on which application documents are placed in a file wrapper is recorded, the room for arguments will be much reduced. From this point of view also, it will be advisable to follow the European Patent Law provision.

The above objective may also be achieved by adding a specific provision to the Examination Standards and/or the Manual of Patent Examining Procedure to that effect.

(4) Regardless of which Theory, A or B, is followed, it would be useful for the Patent Office to record the date on which documents submitted are placed in a file wrapper. It will remove one of the issues because it makes it easier to prove whether given information has become publicly accessible.

In the event of on-line inspection becoming available in Japan in the future, it will be useful, by the same token, to record the input date of additional documents in the database (or the date on which given information is made publicly accessible) and any requests for access to that information stored in the database.

(5) With respect to rejection, objection, invalidation, etc. under "Theory A," it is effective to submit rebuttal evidence that given information was "not actually known," and to contest on the basis of "Theory B."

(6) According to "Theory B," an amendment which is submitted after an application has been laid open and which could possibly include new matter such as additional examples, additional drawings or so would not necessarily prevent a subsequent application from being patented. A new application filed with such new matter included, concurrently with submitting an amendment, will constitute a prior application under Article 29 bis 2 of the Patent Law, preventing any subsequent application from being patented.

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TRIAL- AND JUDICIAL-DECISIONS UNDER CURRENT LAWS

	Date	Case No.	Item contested of public knowledge-ability	Theory followed	No. of days required after submission of amendment or argument until filing of new application	Comments
#2	1/20/76	'72 (Gyo Ke) 124	Registered design pending issuance of design gazette	A	3 mos. & 7 days (from date of design registration until new application)	Utility Model Law
#7	1/7/85	Trial decision '83-20682	Argument	B	8 mos. and 23 days	Publicly known by fiction with same conclusion as under "Theory A"
#8	3/27/85	'77 (Gyo Na) 273	Amendment	B	7 mos. and 2 days	Assumed to be publicly known, with same conclusion as under "Theory A"
#9	11/5/85	Trial decision '82-5216	Amendment	B	20 days	
#1	8/19/86	Trial decision '83-23889	Amendment	A	6 mos. and 10 days	
#10	7/19/87	Trial decision '86-19127	Amendment	B	3 mos. and 28 days	

TRIAL- AND JUDICIAL-REVIEWING NEWER CHEMICAL CASES

	Date	Case No.	Item concerned of public availability	Theory followed	No. of days required after submission of documents to complete until filing of new application	Comments
41	[illegible]	[illegible] (Civ. No) [illegible]	Regulated dosing, medical insurance in design guards	B	2 mon. & 7 days (from date of design application does not apply/action)	Quality Model law
42	[illegible]	Trial decision [illegible]	Adequate	E	7 mon. and 23 days	Probably known by fiction with case consultation as under "Theory A"
43	[illegible]	[illegible] (Civ No) [illegible]	Amendment	B	1 mon. and 2 days	Assumed to be publicity known with case consultation as under "Theory E"
44	[illegible]	Trial decision [illegible]	Amendment	E	30 days	
45	[illegible]	Trial decision [illegible]	Amendment	A	8 mon. and 10 days	
46	[illegible]	Trial decision [illegible]	Amendment	E	2 mon. and 14 days	

6:2-1 A

PIPA Database Coversheet

(1) Title : Protecting Trade Secrets Between Corporations

(2) Date : October 1990

(3) Source
1) Source : PIPA
2) Group : American
3) Committee: 2

(4) Author(s) : W. Keith Turner; Chevron Corporation
James W. Ambrosius; Chevron Corporation

(5) Keyword(s) : Trade Secrets; Confidentiality Agreements

(6) Statutory Provision(s) :

(7) Abstract

In the United States, trade secrets are a product of state law. A well drafted confidentiality agreement is the best way to insure that proprietary information disclosed in the course of business will remain protectable as a trade secret.

PROTECTING TRADE SECRETS BETWEEN CORPORATIONS

by W. Keith Turner and James W. Ambrosius

Unlike the laws relating to patents, there is no single body of law in the United States covering trade secrets that the practitioner can refer to in order to determine the rights of a trade secret owner. In the United States trade secrets are subject to the laws of the individual states. Therefore not only may the statutory provisions relating to trade secrets vary between states, but the judicial interpretation of similarly worded statutes may potentially vary from one state to the next.

The law of trade secrets in most states is based on one of two sources of law which are similar but not identical. The older source of law is based upon the common law of torts and has been summarized in the Restatement of Torts put out by the American Law Institute. More recently the Uniform Trade Secrets Act has been proposed by the National Conference of Commissioners on Uniform State Laws. The Uniform Trade Secrets Act has been enacted in a number of states and as such is becoming increasingly important as a source of trade secret law in the United States. However, not all of the states that have passed the Uniform Trade Secrets Act have enacted the same version, and minor statutory differences may exist even between states that have enacted the Uniform Trade Secrets Act.

One of the most important criticisms of the Uniform Trade Secrets Act as it was originally proposed in 1979 was a provision which unintentionally implied that the act pre-empted contractual liability for trade secret misappropriation. As a result the American Bar Association recommended in 1981 that the Act be amended to make it clear that its provisions do not displace remedies based upon a theory of breach of contract.

Under the Uniform Trade Secrets Act information may be considered a trade secret if it satisfies the following criteria:

1. The information must be secret. Although absolute secrecy is not required, the information cannot be generally known to others.

2. The information must derive at least potential economic value due to its secret status.

3. The information must not be readily ascertainable by proper means by others.

4. Reasonable efforts to protect the information must be made.

It should be noted that this definition of a trade secret is somewhat broader than the definition in the Restatement of Torts which requires that there must be commercial use of the trade

secret by its owner. Thus unsuccessful research projects that are not commercially viable are probably not within the definition of a trade secret under the Restatement of Torts definition but would fall within the definition used in the Uniform Trade Secrets Act.

This difference in definitions of a trade secret under the Uniform Trade Secrets Act and under the Restatement of Torts could present a problem for a corporation wishing to disclose proprietary research and development information to another party under a written secrecy agreement. Generally, a confidentiality agreement between companies cannot protect information that is not a trade secret. Therefore, it may be desirable to put a choice of laws provision in a confidentiality agreement stipulating that the laws of a state will apply which has passed the Uniform Trade Secrets Act.

Virtually all States will protect trade secrets from unauthorized use or disclosure by those who stand in a confidential relationship with the owner of the secrets. The instrument commonly used to create a confidential relationship and thus protect trade secrets is the confidentiality agreement, sometimes called a secrecy or non-disclosure agreement.

In their simplest form confidentiality agreements are agreements relating to non-use and non-disclosure of trade secrets. There

are risks which each party accepts as a part of its business needs whenever a confidentiality agreement is used. The risks should not be overlooked and the agreement should be drafted to minimize those risks whenever possible.

DEFINE THE FIELD OF THE COMMITMENT:

Many confidentiality agreements impose rights and obligations on the parties without specifically defining the Trade Secret which the parties have intended to protect. For example, a typical agreement may recite that the recipient acknowledges that it will receive and protect, as valuable confidential information, information relating to a process identified by its commercial name. Although easy to draft, both the disclosing party, and certainly the recipient party, should be wary of such an agreement.

From the disclosing party's point of view, a general description appears to provide broad scope and protection since nearly all of the information which falls into the hands of the recipient will be covered. Moreover, there is less risk that information which the disclosing party intended to cover will be inadvertently omitted from the scope of the agreement.

To the disclosing party, the lack of definition clearly increases the risk that the recipient party will not recognize the information which is intended to be protected and will inadvertently disclose confidential information. The recipient party is most likely to satisfy the confidentiality obligations with respect to information which is specifically defined as the subject matter of the agreement. In most situations the right to secure damages for an inadvertent disclosure is secondary to minimizing the risk of disclosure. There may even be some risk that the confidentiality obligations cannot be enforced if the subject matter is so indefinite as to be unenforceably vague.

To the recipient party, the risks which arise from agreements which only generally define the subject matter which is to be protected are equally important. For companies undertaking their own research effort, the foremost risk is that information will be received under the agreement which is unexpectedly similar to or even the same as information likely to result from the recipient's own research. Thus, the recipient risks contaminating its own research efforts by taking on an obligation to protect information which is within the scope of its own developing technology.

Thus, most companies when disclosing or receiving trade secrets like to enter into agreements which specifically define the subject matter of the agreement. A specific agreement simply

defines, in words, the subject matter of the agreement. However, there are occasions when the subject matter is not amenable to written description. In that situation it may be advantageous to require that information which comprises the trade secret be marked as "confidential". Limiting the recipient's obligations to marked information removes nearly all doubt about what is covered. But, marking requires a written disclosure and does not provide the recipient party with advance notice of the nature of the trade secret. Since most disclosures take place over a period of time through a series of discussions between representatives of the companies, it is often not practical to require marking, or if marking is required, it impedes the disclosure process. A further shortcoming of required marking is that it implies to the individuals involved that anything marked confidential, is confidential. Under State trade secret laws marking is not enough to create a trade secret and, in fact, if carelessly used can destroy trade secret protection by overreaching.

NON-USE AND NON-DISCLOSURE RESTRICTIONS:

Confidentiality agreements are intended to protect trade secrets by limiting the recipient's right to disclose the trade secret to third parties. In addition, since most recipients will also be in a position to benefit from the use of the trade secret, the typical confidentiality agreement will contain restrictions on

the right of the recipient to use the information. The right to disclose should be tailored to be consistent with the right to use. For example, if the confidentiality agreement limits the recipient party's use of the trade secret to an evaluation of the feasibility of commercializing a process embodying the trade secret, it may be necessary for the recipient to disclose the trade secret to third parties involved in the technical or economic evaluation. It would be consistent with the use limitation to permit a disclosure to the recipient's parent corporation or to consultants or contractors involved in a feasibility study. Thus, the limitations on disclosure should provide for disclosures under appropriate conditions which are consistent with the uses permitted under the agreement.

Occasionally confidentiality agreements simply state that the recipient will "treat information received under the agreement as confidential". Thus, relying on the recipient to apply a standard of care to use and disclosure which is reasonable under the circumstances and consistent with the recipient's normal trade practices respecting confidential information.

ACKNOWLEDGMENTS:

As previously discussed, in order to be afforded protection the trade secret must, among other things, be secret and have at

least potential economic value. Thus, a common issue in cases involving trade secrets is whether or not the information in question satisfies the criteria of a protectable trade secret.

Accordingly, it is common practice to include in confidentiality agreements an acknowledgment from the recipient that the information to be received is confidential and that unauthorized disclosure would result in irreparable injury to the disclosing party. Both of these acknowledgments should be carefully considered by the recipient party. First, an acknowledgment that the information is confidential, although not binding, is tantamount to an admission that the information in question is secret and therefore protectable. Thus, the acknowledgment of confidentiality is likely to estop the recipient from later asserting that the information is not afforded protection as a trade secret.

Second, in most cases of trade secret misappropriation, the trade secret owner will seek injunction against disclosure. To obtain an injunction the owner must establish that irreparable harm will result from the disclosure. Although irreparable harm is frequently presumed, in certain instances, for example in technology which is the subject of an existing licensing program by the owner, monetary damages may be a fair measure of injury. Thus, although the acknowledgment of irreparable harm is not binding, it may estop the recipient from contesting the adequacy of monetary damages.

In any event, the recipient party should carefully consider whether or not it is in a position to acknowledge that the subject matter of the confidentiality agreement is secret and valuable. In most instances the recipient does not know the truth of either of these assertions until the information is disclosed.

DURATION OF THE COMMITMENTS AND EXCEPTIONS TO CONFIDENTIALITY:

Two critical issues which are commonly identified between parties to a confidentiality agreement are: (a) the duration of the restrictions imposed in the agreement and (b) the information which is to be excepted from those restrictions. What is frequently overlooked is the relationship between these two issues. Both issues relate to a single concern, that is, when will the trade secrets which are the subject matter of the agreement lose their trade secret status and their value?

If the parties can agree on a duration or effective life for the trade secret then it is appropriate to recite that duration as a term of years. Similarly, if the parties agree that the occurrence of certain events will end the effective life of the trade secrets then those events should be specified in terms of exceptions to confidentiality. If the parties agree on both, then both should be specified. In nearly all instances, the

questions and debates which arise around these issues are not so much involved in accepting that trade secrets have a finite life as in agreeing on the duration of that life.

The argument put forward by the disclosing party is that the life of a trade secret should not be measured in years because trade secrets may outlast even the most optimistic speculation; rather, the life of a trade secret should be measured by its relationship to technical progress in the relevant industry. In other words, so long as the recipient party, as a result of the receipt of the trade secret from the disclosing party, is enjoying the benefits of the confidentiality agreement it should be willing to abide by the covenants of non-use and non-disclosure. Thus, the appropriate duration for the confidentiality obligations is measured by events related to technical progress in the relevant industry, the so called "exceptions to confidentiality".

There are three commonly accepted exceptions to confidentiality:

- The trade secret was already known to the recipient as a result of the recipients own work to develop technology.

- The trade secret was already or later becomes known to the recipient as the result of a nonconfidential disclosure from another party.

The trade secret becomes generally available to the public, for example by publication.

Each of these three exceptions attempts to define the valuable life of the trade secret in terms relating to the time during which the recipient is likely to enjoy the benefits of having received trade secret by relating the trade secret to technical progress and availability of information in the industry.

The argument put forward by the recipient party is that the life of the trade secret should not exceed the reasonable period over which the recipient can administer the restrictions on use and disclosure. Although this argument may appear to disregard the interest of the disclosing party in favor of administrative convenience, if it is possible to agree on a reasonable life expectancy for the trade secret, specifying a term of years has the advantage of clarity. In order to agree on the reasonable life of the trade secret the information must be capable of very specific definition and should be amenable to marking. Thus, the likelihood that the parties can agree on a reasonable term is frequently dependent upon the specificity with which the information can be identified.

However, when the trade secret is not easily defined and is less amenable to a life defined by a term of years, the recipient may be concerned with the difficulty of maintaining confidentiality

7 : 2 - 2

(1) Title: **Protection of Trade Secret in Japan - Introduction of the Amendment of the Japanese Unfair Competition Prevention Act in 1990 -**

(2) Date : 10/90 (21st, Niigata)

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1) Source: PIPA
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(5) Keywords: Trade secret, proprietary information, Unfair Competition Prevention Act, right for injunction

(6) Statutory Provisions: Unfair competition prevention act, Articles 1, 1 bis, 2, 3 bis

(7) Abstract: Reflecting the remarkable advance in technology innovation and increased importance of information in the economic society in recent years, trade secret such as technical and marketing know-how in economic activities is gaining importance and there is an urgent need to protect them from unfair act of competition.

Deliberations by the representatives of academia, law, industry, and labor, etc. at the Industrial Structure Council, an advisory organ for the Japanese Ministry of International Trade and Industry, have been held since October, 1989, and a report, "A desirable form of remedial system against acts of unfir competition involving proprietary information", was submitted in March, 1990. Based on the proposal, an amendment to Unfair Competition Prevention Act was proposed. The bill was passed and promulgated in June, 1990 by the Diet.

The paper introduces the history leading to the amendment of the Act and its content, and discusses future protection of trade secret in Japan.

over a long period of time. New employees may not recognize that the information comprising the trade secret was derived from the disclosing party, and as time passes the line between publicly available information and the trade secret may become blurred. The probability of an inadvertent disclosure increases. In this instance, the parties may be able to come to agreement that although the life of the trade secret can not be confined to a term of years, that after a reasonable time the remedy for inadvertent use or disclosure is limited to reasonable efforts on the part of the recipient to avoid further damaging the disclosing party.

It should be clear that the provisions of a confidentiality agreement relating to the life of the trade secret and consequently the period of the restrictions on use and disclosure, require each party to balance the value of the trade secret against the risks of accepting long term obligations to the disclosing party.

1. Introduction

As a result of vigorous investments in technology development and economy's accelerated shift to service industry, the technical or marketing know-how which is kept confidential, i.e. trade secret, is increasing its importance in economic activities along with intellectual product which is the object of protection by patent, etc. For example, in a case of technology transfer, it is the general practice today to grant a know-how license with or without a patent license. On the other hand, employment mobilization accompanying changes in the industrial structure has intensified apprehensions for problems involving trade secret.

Against such background, a bill to partially amend the Unfair Competition Prevention Act was presented to the Diet in May, 1990, passed as drafted, and promulgated on June 29 (enforcement to take place within a year from the promulgation as determined by the cabinet order). The amendment, in sum, set unfair act concerning trade secret as unfair act of competition, and recognizes the demand for injunction against such an unfair act of competition.

2. History Leading to Amendment of Unfair Competition Prevention Act

2.1. Examination of legal relief system concerning trade secret in Japan

Examination of the captioned matter has a long history; it started from the time when the enactment of an unfair competition prevention act was deliberated corresponding to Brussels Amendment (1900, protection against unfair acts of competition) of the Paris Convention for Protection of Industrial Property Rights (1883). Since the 1911 bill for unfair competition prevention act was prepared based on its counterpart law in Germany, it already contained provisions for protecting trade secret. After examinations and discussions, an act satisfying the minimum requirements was enacted in order to join the Hague Amendment (1925) of the Paris Convention, thus shelving the trade secret protection provision. As shown above, the requirement for

enacting the act to protect trade secret has been seen for a long time.

2.2 Relation with GATT, etc.

Protection of proprietary information is included in TRIPS negotiation of GATT Urugay Round which was started in 1986. Such a trend to seek international harmonization resulted in accelerating the current amendment to the Unfair Competition Prevention Act.

2.3 Establishment of a council

From around 1960 when deregulation of technology transfers from abroad became available, the issue of trade secret protection was taken up once again by the legal circle. In addition to Japan Patent Association's proposal for know-how protection by amending Unfair Competition Prevention Act, Japan Federation of Bar Associations submitted to the Minister of International Trade and Industry an opinion entitled "Summary of Amendments to Unfair Competition Prevention Act" in May, 1989.

In view of such situtation, deliberations particularly on civil reliefs from unfair competitions over proprietary information were started by the Proprietary Information Committee of Industrial Structure Council. In view of the objects of deliberations, the Committee was constituted by experts of academia, the Ministry of Justice, the Supreme Court, Japan Federation of Bar Associations, Japanese Trade Union Confederation (JTUC-RENGO) and industry.

2.4 Inquiries to concerned organizations

In drafting the report "A desirable form of remedial system against acts of unfair competition involving proprietary information", the Council asked for the opinions of concerned organizations (about 150) including KEIDANREN-Federation of Economic Organizations, Japan Federation of Bar Associations, JTUC-RENGO, Japan Patent Association, trade associations, American Chamber of Commerce in Japan (ACCJ), European Business Council (EBC) and others in the middle of January this year, and careful and thorough deliberations were made based on them.

"proprietary information" to cease or prevent such act by amending the Act.

4. Outline of Unfair Competition Prevention Act as Amended

The present amendment deems an unfair act concerning trade secret as an unfair act of competition under the Act, and recognizes the right to demand injunction as a means of civil relief from it. (Refer to [Attachment 1] for the content of the amendment.)

4.1 Criteria of the object of trade secret

"Trade secret" is technical and/or marketing know-how controlled by an enterprise as a secret such as manufacturing technology, design drawings, customer lists, etc. "Trade secret" must meet the following criteria;

1) that it is kept in secrecy,
2) that it is technical and/or trade information useful for business activities such as the methods of production, marketing, etc., and
3) that it is not publicly known.

4.2 "Unfair Act" as an object of injunction

An unfair act of acquisition, use or disclosure of "trade secret" which meets the above criteria by any one of the following means may be made an object of injunction as an "unfair act":

1) An act of acquiring a trade secret by an unfair means such as theft, fraud, duress or other unfair means; an act of subsequently manufacturing a product using the trade secret or disclosing the same to a third party. (The Amended Act, Article 1-(3)(i)).
2) An act of using a trade secret disclosed by the original holder for unfair competition or disclosing the same to a third party for obtaining unfair profit, etc. (Amended Act, Article 1-(3)(iv)).
3) An act of acquiring, using and disclosing said trade secret with the knowledge of existence of an unfair act such as above 1) and 2), etc. (including cases where a

lack of knowledge is considered as gross negligence) (Amended Act, Article 1-(3)(ii), (3)(iii), (3)(v) and (3)(vi)). Provided, however, to stabilize business transactions, when a party who acquires trade secret without the knowledge of existence of an unfair act (and without gross negligence) commits an act of using and disclosing said trade secret within the scope approved by the original agreement, etc., said party shall not be a subject for demand for an injunction. (Amended Act, Article 2-(1)(v)).

Concrete situations where unfair acts concerning trade secret may happen shall be discussed in the next chapter.

4.3 Term for exercising the right, the holder of the right to demand, etc.

The term during which the right to demand an injunction may be exercised is 3 years from the time when the party performing an unfair act becomes known. When an unfair act of using trade secret has continued for 10 years, the right to demand an injunction shall cease.

The person who can demand an injunction is "a person whose business interests may be injured". In the case where a causal relation between an unfair act involving trade secret and possible damage to business interest is recognized, a licensee who has acquired trade secret under an agreement may also demand an injunction.

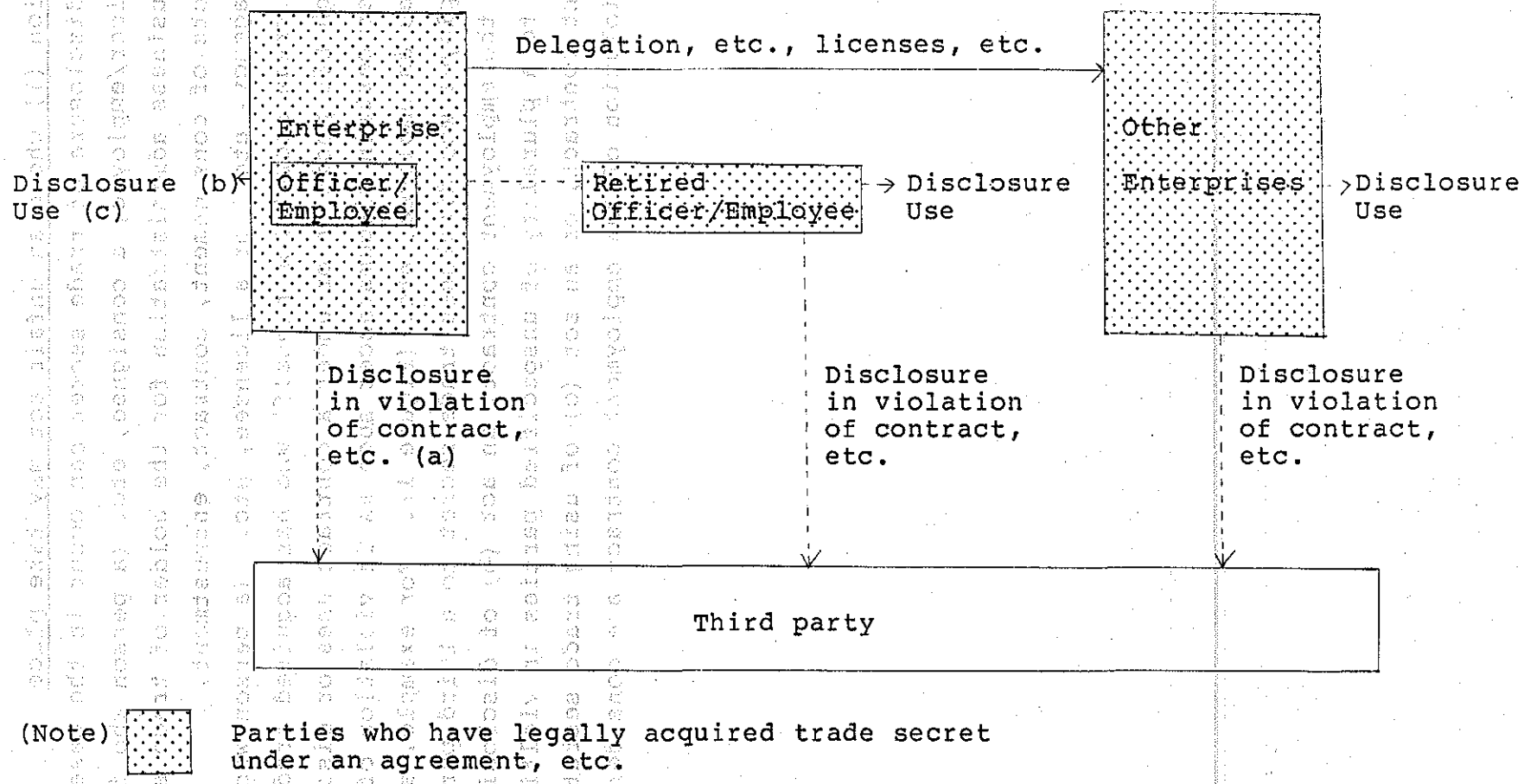
5. Types of Unfair Acts

Since trade secret does not have the absolute exclusivity as patent, it should be a relative right under which injunctions, etc. may be demanded against a certain unfair act by considering subjective illegality. Because of the nature of trade secret, there is naturally no system of publication, and an unfair act is recognized by considering subjective criteria in view of the ~~security~~ stability of transactions. The types of unfair acts concerning trade secret and the subjective criteria for recognizing them to be such are discussed.

5.1.1 Situation (1) where an unfair act may take place

Unfair disclosure of trade secret can occur in the cases where an officer/employee, a consignee, etc. (a person who is engaged in business administration for the holder of trade secret under contracts of consignment, contract, entrustment, delegation, agency, etc.) or a licensee, etc. (a person who uses the holder's trade secret for himself) who has acquired trade secret through his position or under a contract uses or discloses the same under certain circumstances such as in violation of his obligations as an employee, etc. (Figure 1). For example, an act (a) of an employee who discloses trade secret to a third party in violation of the employment contract, an act (b) of disclosing trade secret to a plurality of unspecified parties in violtion of the employment contract, or an act (c) of using trade secret for himself in violation of the employment contract are considered to be included.

Figure 1: Situation (1) Where an Unfair Act May Take Place



5.1.2 Conventional relief for situation (1)

When an officer/employee during his office/employment or a consignee under a contract discloses trade secret through his position, and if confidentiality obligation is imposed on him under a contract, injunction under the contract law may be taken against the acts of disclosure (a), (b) and the act of use (c) in Figure 1.

A retired officer/employee or a consignee after expiration of the contract is deemed to have acquired trade secret through his position, and confidentiality obligation surviving retirement or contract should preferably be imposed by the contract. If such contract does exist, an injunction under the contract law is available.

In case of a licensee, etc., if trade secret is used or disclosed in violation of the contractual obligations, damages may be demanded under the contract.

5.1.3 Relief under Amended Unfair Competition Prevention Law

Irrespective of whether or not there is a contract for disclosure or limited use of trade secret, the act of use/disclosure of trade secret shown by the holder for such purposes as to gain unfair profit was made object for injunction, etc. Consequently, of these types, highly malicious acts of use or disclosure of trade secret in violation of confidentiality obligations are made objects of injunction in certain circumstances even in the cases where a compulsory execution under the contract law is interpreted as not available.

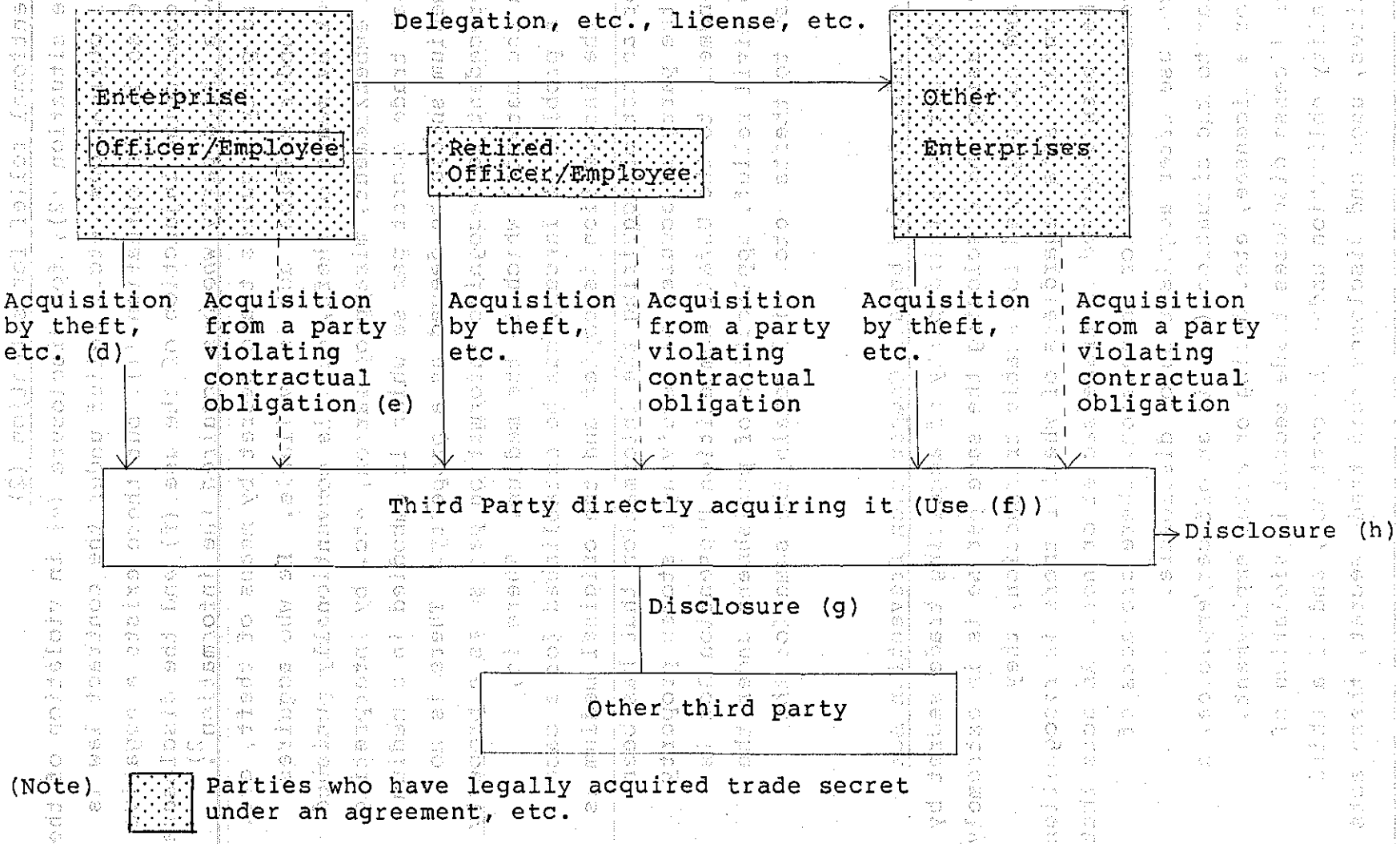
The subjective criteria for recognizing an unfair act and the relief under the Amended Law shall be as follows.

Subjective criteria	Relief
To use or disclose trade secret shown by the holder for the purpose of doing unfair competition or other act of making unfair profit or inflicting injury upon the holder. (Amended Act, Articles 1-(3)(iv))	1) Injuction of use (c) or disclosure (a) and (b) of the trade secret 2) With the injunction, to demand cessation of or preventive measures for unfair acts such as disuse/abandonment of an article comprising an unfair act related to trade secret (including media embodying the trade secret), goods produced by an unfair act, or facilities used in an unfair act, etc. or (hereinafter referred to as "other necessary means") 3) Claim for damages 4) Measure to restore reputation

5.2.1 Situation (2) where an unfair act may take place

This is a case where trade secret is acquired from its legitimate holder under certain conditions such as illegal acquisition, etc., used and disclosed. (Figure 2). Included are, for example, such acts as (d) acquiring trade secret from an enterprise by theft, fraud, duress or other unfair means (hereinafter referred to as "theft, etc."), (e) after acquiring a trade secret from an employee during his employment in violation of the contract, with knowledge of the circumstances, (f) an act of using the same, (g) an act of disclosing the same to a third party, or (h) an act of disclosing it to a plurality of unspecified parties.

Figure 2: Situation (2) Where an Unfair Act May Take Place



5.2.2 Conventional relief for situation (2)

In the situation (2), for disclosure (e) in violation of the contractual obligations, etc., relief under the contract law is conceivable as in the situation (1), but there exists a negative judgement concerning injunction of the use (f) and the disclosure (h), (g) by a third party who has acquired the information[2]. When a third party acquires trade secret by means of theft, etc. (d), relief under criminal act is available. He who acquires trade secret by means of theft, etc. is conventionally punished for theft, embezzlement, misappropriation, etc. by interpreting the law that trade secret per se which is embodied in a medium plus the medium should be deemed as a property. There is no judicial precedent to recognize information per se as a property apart from the material which is the medium. There is, therefore, a problem if larceny can be established for a case where only the information is copied and the original medium is left[1]. For an act of acquiring the information that has been divulged, the party is accused of receiving a stolen property. As the amendment to the Unfair Competition Prevention Act is limited to civil relief, application of punishment under the criminal law to thefts, etc. will remain the same for the present.

5.2.3 Relief under Amended Unfair Competition Prevention Act

Since the act by a third party of acquiring trade secret by theft, etc., using and disclosing the same per se is in extremely bad faith and not required for stable transaction, they constitute unfair acts regardless of whether there is recognition that what has been acquired is trade secret or not. As acts that are to become the object for injunction, there are acts of acquisition, use after acquisition or disclosure.

Similar to the situation (1), if an officer/employee, a consignee or a licensee, etc. during or after employment, contract or license discloses trade secret in violation of confidentiality obligation under the contract, and if a third party acquires, uses and discloses said trade secret, these acts

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1), 2) See Attachment 2

by the third party would also constitute an unfair act when certain conditions are satisfied. The conditions are considered sufficiently met if the actual offender knows or is in a position to know that the disclosing party is violating an obligation which is equivalent to an unfair act. Positive intent such as aiming at unfair competition, seeking own or third party's interests or inflicting damages to a third party is not required.

Provided, however, an act of a party who has acquired trade secret in good faith through business transaction is permissible within a certain scope.

The above discussion is summarized.

Subjective Criteria	Relief
1) (When trade secret is acquired by means of theft, etc., used and disclosed (Article 1-(3)(i))	1) Injuction of acts (d), (e) to acquire trade secret, an act (f) to use or acts (g), (h) to disclose
2) When trade secret is acquired, used and disclosed with the knowledge that it is an unfair act of disclosure (an act of disclosing trade secret shown by the holder for the purpose of doing unfair competiton, making unfair profit, inflicting injury upon the holder, or an act of disclosing trade secret in breach of legal obligation to maintain secrecy, or not knowing it in gross negligence. (Article 1-(3)(v), (3)(vi))	2) Other necessary measures 3) Claim for damages 4) Measure to restore reputation

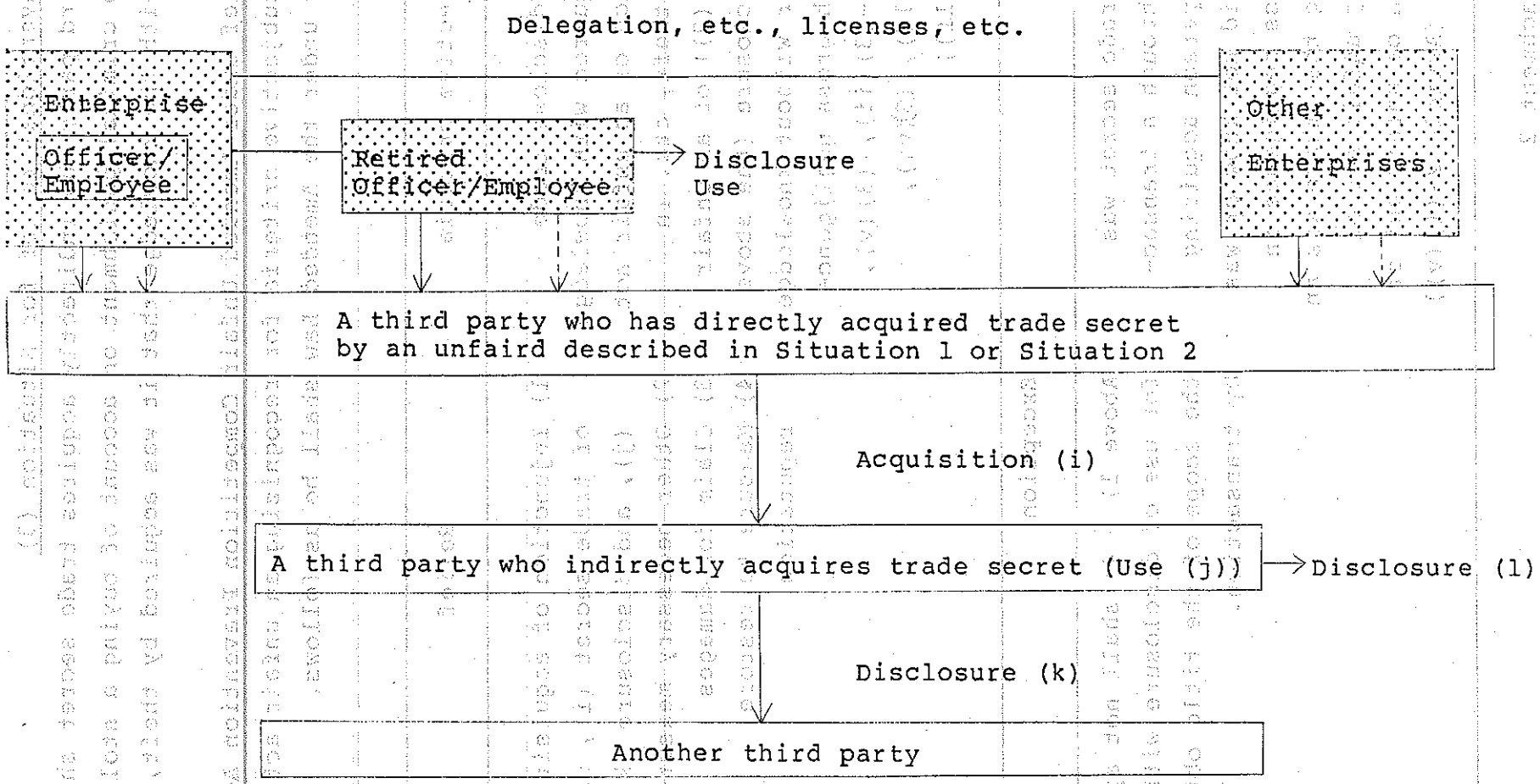
Exception	Exception
When the trade secret was acquired through a transaction, the person acquiring the same did not know or was not in gross negligence in not knowing that it was involved in an unfair act of disclosure. (Article 2-(1)(v))	Above 1) - 4) shall not apply for use or disclosure within the scope of the title obtained by a transaction.

5.3.1. Situation (3) where an unfair act may take place

This is a case where trade secret is acquired or disclosed from a third party who has directly acquired the trade secret by an unfair act described in the situation 1 or situation 2 under certain conditions such as knowledge of the presence of an unfair act, etc., and used or disclosed (Figure 3).

Included are, for example, an act of acquiring (i) trade secret, using (j) the same, and subsequently disclosing (k) it to another third party, or disclosing (l) it to a plurality of unspecified parties with the knowledge that it was acquired by theft, etc.

Figure 3: Situation (3) Where an Unfair Act Concerning Trade Secret May Take Place



(Note) Parties who have legally acquired trade secret under an agreement, etc.

5.3.2. Conventional relief for Situation (3)

A third party who indirectly acquires trade secret shall be subject to criminal punishment on account of buying a stolen property with the knowledge that it was acquired by theft, etc.[3].

5.3.3 Relief under Amended Unfair Competition Prevention Act

The subjective criteria for recognizing an unfair act and the relief under the Amended Law shall be as follows.

Subjective criteria	Relief
To use or disclose trade secret acquired with knowledge of existence of an unfair act [(such as theft, etc. in situation (2)) or an unfair act of disclosure (the above table)], or without knowledge but through gross negligence (Article 1-(3)(ii), (3)(v), (latter half), (3)(vi), (latter half))	1) Injunction of acquisition of trade secret (i), use (j), and disclosure (k)(1) 2) Other necessary measures 3) Claim for damages 4) Measure to restore reputation
Exception	Exception
When the trade secret was acquired through a transaction, the person acquiring the same did not know or was not in gross negligence in not knowing that there was an intervening unfair act of acquisition or unfair act of disclosure (Article 2-(1)(v))	Above 1) - 4) shall not apply for use or disclosure within the scope of the title obtained by transaction.

3) See Attachment 2

6. Disputable points of the relief system concerning protection of trade secret

6.1 Handling of an ill willed party after the fact

For handling a party who acquired trade secret without ill-will or gross negligence, but later became ill-willed (hereinafter referred to as "the ill-willed party after the fact"), it is necessary to compare the profit of the holder of trade secret and that of the ill-willed party after the fact.

For the ill-willed party after the fact, use and disclosure were recognized within the scope of rights acquired under a contract, etc. at the time said trade secret was acquired in good faith and without grosss negligence.

The balance between protection of the right holder and stability of transaction is given consideration under the system to protect other intangible properties in Japan. For example, the law concerning circuitry arrangement for integrated circuit (Article 24) provides that for a party who was in good faith at the time a copied chip was delievered, the act of assignment, etc. shall be regarded as not infringing even if the party later became ill-willed so as not to interfere with smooth distribution of chips. The Copyright Law (Article 113) provides that if a party is good-willed in acquiring a program prepared by an act of infringement, the use of the program shall not be regarded as infringement of copyright even if the party later became ill-willed.

6.2 Problems in litigation procedure

In Japan, trials are conducted publicly, entailing publication of litigation records. This process poses a problem in handling trade secret which requires confidentiality. The problem is that by resorting to legal procedure, the trade secret which is entitled to protection by meeting the criteria of "not publicly known" is likely to fall into public domain. Article 82 of the Japanese Constitution provides that (i) trials shall be conducted and judgement declared publicly, and (ii) where a court unanimously determines publicity to be dangerous to public order or morals, a trail may be conducted privately, excepting trials of political offenses, offenses involving the press or cases

wherein the rights of people as guaranteed in Chapter III of Constitution are in question. The principle of public trial is a legal demand of high degree in Japan. It is difficult to conduct a private trial even concerning a trade secret by adopting, for instance, the interpretation that publication of its content is against the public moral and good order.

Publication of litigation records is not held to be made under the Constitution, but publication is expected as a rule currently. There is no system corresponding to the protective order of the U.S. Therefore, the plaintiff should take care in preparing the demand, etc. so as to protect the confidential information.

6.3 Question of validity of reverse-engineering

Unfair acquisition, use and disclosure of trade secret are made the object of injunction by the present Amendment.

Considering the case of reverse-engineering of software, reverse-engineering a software product obtained by a fair means in the market is not at all an unfair act. Since the purport of the Act is to protect interests arising from keeping information confidential, inability to maintain confidentiality as a result of placing the software product on the market is attributable to self. Protection beyond this point will certainly impair the stability of transaction.

In this connection, a commissioner on Uniform State Laws concerning the Uniform Trade Secret Acts states in the Commissioner's Comment of Section 1(1) defines "Improper means" as follows.

"A complete catalogue of improper means is not possible, but Section 1(1) includes a partial listing. Proper means includes the following; the second (2) which -

is discovery by [reverse-engineering], that is, by starting with the known product and working backward to find the method by which it was developed. The acquisition of the known product must of course, also be by a fair and honest means, such as purchase of the item on the open market for reverse-engineering to be lawful. "Thus engineering per se is a lawful act. If there is an agreement, etc. between

parties concerning reverse-engineering, responsibility for failure to perform obligation should naturally be assumed unless the agreement is contrary to the public order and good morals. If there is a copyright problem, it is another question. There seems to be no benefit in newly regulating reverse-engineering from a viewpoint of protecting trade secret.

6.4 Relationship with freedom of choice of occupation

Disputes often take place between an enterprise and an officer/employee. In considering the post retirement confidentiality obligation of a trade secret obtained during employment, it is essential that sufficient consideration be paid to the freedom of choice of jobs. If the practice of prohibiting work for a competitor for a prescribed period of time after retirement becomes popularized, a worker will be deprived of the freedom of choice of jobs. Restraining work for competitors may also lead to illegal monopoly. Appropriateness of a special agreement to prevent competition shall be judged comprehensively in view of the content of trade secret owned by an employer, work duties performed by an officer/employee during employment, presence/absence of an agreement, validity of the agreement, etc. Restraining work for a competitor for 2 years was recognized as valid by the judgement in re Foseco Japan[4] which held the special agreement with an employee engaged in R&D.

6.5 Practical measures taken by enterprises

Japanese enterprises generally concentrate on protecting their own trade secrets, and the future course should be directed toward non-infringement of third party trade secrets.

- Measures for protecting own trade secrets
  1) To conclude an employment agreement including a provision for "prohibiting divulgence of secrets" at the time of employment.
  2) To interview the employee at the time of his retirement to ascertain the confidential information he handled

4) See Attachment 2

3) To conclude an employment agreement including a provision that "all trade secrets generated during employment revert to the company".

4) To classify confidential information into several ranks according to the degree of confidentiality, establish, and enforce rules for handling each rank of information.

5) To thoroughly educate employees regarding confidential information by using posters and leaflets.

- Measures to avoid infringing third party

1) To exclude access by a party who has acquired a competitor's method under confidentiality obligation from a project related to such method.

2) To prevent access by an employee in charge of other R&D projects to confidential information received from a third party under an agreement.

3) To conclude an agreement with a new employee not to use or disclose trade secrets of his previous employer.

4) To keep records of all R&D efforts. In particular, to keep work records of reverse-engineering of trade secret.

5) To avoid purchasing information from dubious sources.

6) To investigate the use of competitors' trade secrets with respect to all the projects which may cause repercussion from competitors.

To what extent should above items be carried out in practice in Japan must await for accumulation of cases in the course of operation of the Law.

Reference: Japan Patent Association Reference Data No. 171 "Survey Report on Management of Software/Intellectual Property in Europe and the U.S.", April, 1990

7. Legal Protection of Trade Secrets in Various Countries

The present amendment to the Act now provides more advanced legal protection of trade secret in Japan. Further advance is expected by operation and interpretation of the act. In various countries (particularly in Europe and America), systems for protection under their unique legal systems have been developed.

In the United States, trade secret has been protected by common law since 19th century, and "Uniform Trade Secret Act" enacted in 1979 is currently adopted in about 30 states which defines trade secrets and criteria for unfair acts. Trade secret has been protected by common law in the United Kingdom, mainly by an unfair competition prevention law in West Germany, and by development of judicial precedents concerning torts under the Civil Code in France.

The criteria for entitling a relief from infringement of trade secret vary by countries reflecting the difference of legal systems. To determine the diffrences in degree of protection needs to be made by examining the cases to be accumulated in future.

Systems of protection of trade secrets in various countries are shown in [Attachment 3].

[Attachment 1]

Amended Part of the Unfair Competition Prevention Act

Article 1-(3) (The right to claim cessation of unfair act related to trade secret.)

An entrepreneur who holds a production method, marketing method or other technical or trade information useful for business activities which is kept in secrecy and not publicly known (hereinafter referred to as "trade secret") (hereinafter referred to as the "holder"), when he finds a person who is doing or going to do any act that falls under any one of the following items (hereinafter referred to as an "unfair act relating to trade secret"), and where his business interest is likely to be harmed by such unfair act relating to trade secret, may claim cessation or prevention of such unfair act related to trade secret:

(i) An act of acquiring trade secret by theft, fraud, duress or other unfair means (hereinafter referred to as an "unfair act of acquiring trade secret) or an act of using or disclosing such acquired trade secret (including showing it to a specific person while maintaining the secrecy);

(ii) An act of acquiring trade secret with the knowledge that there is an intervening unfair act of acquisition involving such trade secret or not knowing it in gross negligence or an act of using or disclosing such acquired trade secret;

(iii) An act of using or disclosing trade secret after its acquisition with the knowledge that there is an intervening unfair act of acquisition involving such trade secret or not knowing it in gross negligence;

(iv) An act of using trade secret shown by the holder for the purpose of doing unfair competition or other act of making unfair profit or inflicting injury upon the holder or an act of disclosing it for such purpose;

(v) An act of acquiring trade secret with the knowledge that it constitutes an unfair act of disclosure of trade secret (meaning an act of disclosure referred to in the preceding

item or an act of disclosing trade secret in breach of a legal obligation to maintain secrecy; the same applies in subsequent provisions) or there is an intervening unfair act of disclosing trade secret or not knowing it in gross negligence or an act of using or disclosing such acquired trade secret;

(vi) An act of using or disclosing trade secret, after its acquisition, with the knowledge that it constitutes an unfair act of disclosing trade secret or there is an intervening unfair act of disclosing trade secret or not knowing it in gross negligence.

Article 1-(4) (The right to claim measures necessary to cease the unfair act related to trade secret.)

The holder, when he makes a claim under the provisions of the preceding paragraph, may also claim the destruction of the things that constituted unfair act involving trade secret (including the medium that embody the trade secret), the products of unfair act involving trade secret or equipments used for the unfair act involving trade secret or other measures necessary for the suspension or prevention of unfair act relating to trade secret.

Article 1 bis-(3) (Liability of a person committing the unfair act related to trade secret.)

A person who has intentionally or negligently inflicted an injury to the business interest of another by an unfair act involving trade secret shall be liable for damages; provided, however, that this shal not apply to injuries caused by an act of using the trade secret after the termination of the right to claim cessation or prevention of an act of using trade secret referred to in each item of paragraph (3) of the preceding Article under Article 3 bis.

Article 1 bis-(4) (Measures necessary for restoring goodwill related to the unfair act involving trade secret.)

Against a person who has injured the business goodwill of another by an act which falls under item (i) or (ii) of paragraph (1) of the preceding Article of paragraph (2) of the same Article or by an unfair act involving trade secret, or a person who has done an act which falls under item (vi), paragraph (1) of the same Article, the court, upon a claim being filed by the injured person, may order to take measures necessary for restoring his business goodwill in lieu of or together with damages.

Article 2-(1)(v) (Exceptional rule concerning innocent person)

The provision of Article 1, paragraph (3), paragraph (4) and Article 1 bis, paragraph (3), paragraph (4) shall be inapplicable to an act of using trade secret or an act of disclosing it by a person who acquired the trade secret through a transaction, under the title he obtained by such transaction, provided that acquired the said trade secret not knowing or not in gross negligence in not knowing that it was involved in an unfair act of disclosure or there was an intervening unfair act of acquisition or unfair act of disclosure.

Article 3 bis (Extinctive prescription of the right to claim cessation of the unfair act involving trade secret)

A right to claim cessation or prevention, under the provision of Article 1, paragraph (3) of an act of using trade secret referred to in either one of the items of the said paragraph shall cease to exist by presription if it is not exercised by the holder whose interest in business is likely to be harmed if the actor continues such act within three years from the time when such fact and the actor have become known to him. The same shall apply when ten years have passed from the commencement of an act of using trade secret referred to in either one of the items through of the said paragraph if the actor continues such act.

(Others)

(1) The amount of penalty is to be raised.

(2) Other requirement provisions are to be improved.

(Executive Date)

(1) This Act shall become effective from the date fixed by a cabinet order within one year from the date of its promulgation.

(2) Required transitional measures will be provided.

English translation according to T. Doi; PATENT & LICENSING, June, 1990

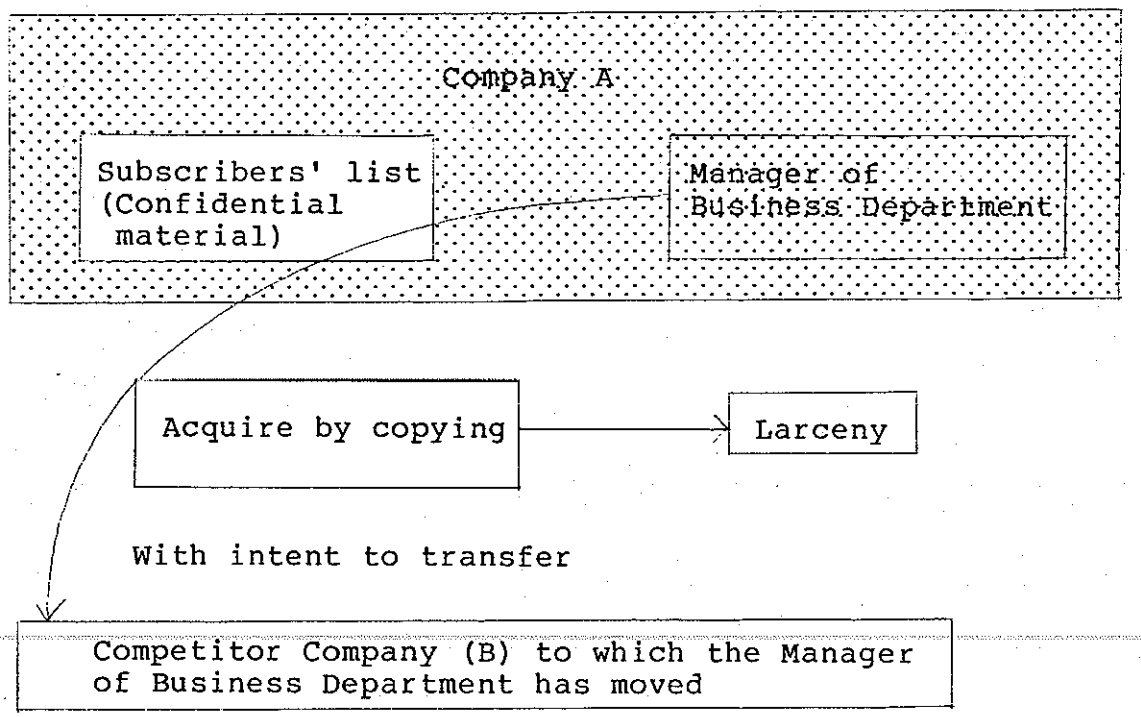
[Attachment 2]

1) Case of Construction Survey Weekly (Tokyo District Court Case No. Sho 54Kei(wa)3598; Decision dated February 14, 1980)

Outline of the case

A manager of the business department of a company (A) publishing Construction Survey Weekly took out the subscribers' list which was in the custody of another employee with an intention of transferring it to another company (B), a competitor of (A), for which he planned to work, prepared a copy of the list at a nearby copy-service shop, and returned the original.

Figure 3: Analysis of the Case



- Judgement

The act of "larceny" was found, and the illegal act was established.

There was an intent to return the original after use, and it was actually returned. However, larceny was found for the defendant who illegally took the original from possession of the owner, even though temporarily. (8 month imprisonment with forced labor, with suspension for 2 years)

- Possibility of new relief under the amended Act

The subscribers' list was regarded as a confidential material, and disclosure, loaning to outsiders, and taking it outside the company were strictly prohibited, and it was kept in a locked drawer in General Affairs Department by an employee in charge at the closing time of the company, thus meeting the criteria for proprietary information.

Use of a subscribers' list and disclosure to a third party under certain subjective criteria are considered to warrant an injunction or claim for damages. Larceny is found depending on whether the material was taken out of the custody of the company, even temporarily. The present reply postulates that this judgement is significant in that an injunction of use at the new company is possible even if earceny is not found.

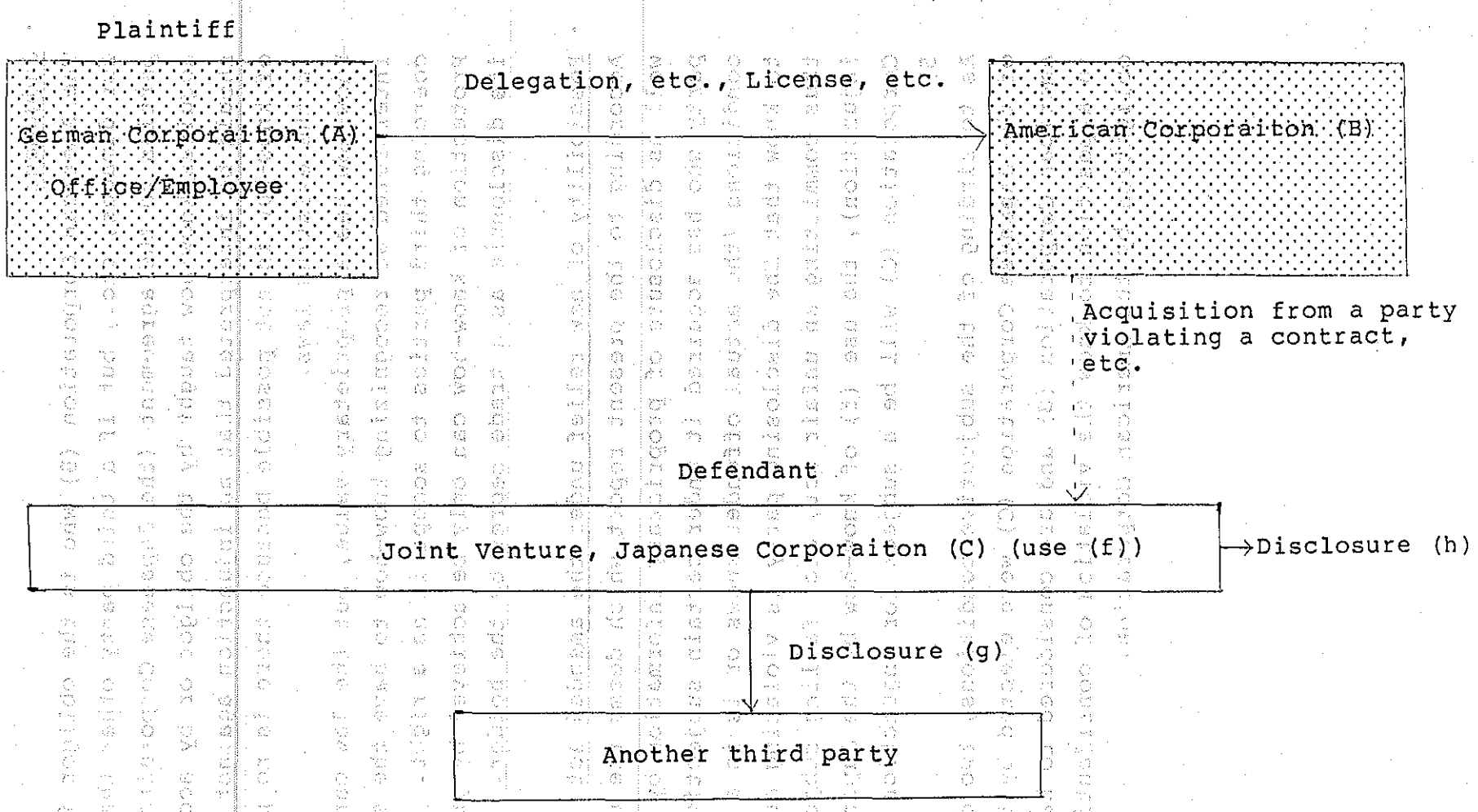
2) Case of Waukeshiya (Tokyo High Court Case No. Sho 42(ra)381; Decision dated September 5, 1966)

- Outline of the case

Whereas a German Corporation (A) granted a license to an American Corporation (B) (Waukeshiya) for know-how for a manufacturing method of a bearing device for ship's propeller shaft designating the United States and Canada as territories, the American Corporation (B) established a joint venture in the form of a Japanese Corporation (C) (Chuetsu Waukeshiya) with a Japanese corporation and manufactured under the licensed know-how.

The American Corporation (B) disclosed know-how to the Japanese Corporation (C) violating the confidentiality obligation under the contract.

The German Corporaiton (A) filed an application for provisional injunction of manufacture and sale by the Japanese Corporation (C), but the application was rejected. They then filed an appeal with the Tokyo High Court against the ruling which rejected the application for provisional disposition.


Plaintiff
German Corporaiton (A)
Office/Employee
Delegation, etc., License, etc.
American Corporaiton (B)
Acquisition from a party violating a contract, etc.
Defendant
Joint Venture, Japanese Corporaiton (C) (use (f))
Disclosure (h)
Disclosure (g)
Another third party

- Judgement

The American Corporation (B) who is the obligor is liable for damages, etc., but if a third party other than the parties to the agreement (the Japanese Corporaiton (C)) acquires know-how taught by the obligor or by accident, it should be interpreted that an injunction against the use of know-how is not possible because there is no provision in the existing laws.

Know-how has a proprietary value, but the law cannot be interpreted as recognizing know-how to have the effect of coercing third parties to accept it as a right.

Protection of know-how can only be achieved by preventing its disclosure as a trade secret by the holder.

- Possibility of new relief under the amended Act

According to the present report which deems the use as well as disclosure of proprietary information by a third party who has acquired it under certain subjective conditions (the actual offender knows or is in a position to know that the disclosing party is violating obligations thus committing an unfair act, etc. falling subject to an injunction), the use (f) of know-how by the Japanese Corporation (C) will be a subject for injunction (Section 5).

As to finding of the subjective conditions, two directors of the Japanese Corporation (C) were elected by the American Corporation (B) and are considered to have been in a position to know the violation of confidentiality obligation by the American Corporation.

3) Case of Toyo Rayon Industrial Spy
Judgement of the court of the first instance (Kobe District Court Decision dated March 27, 1971)

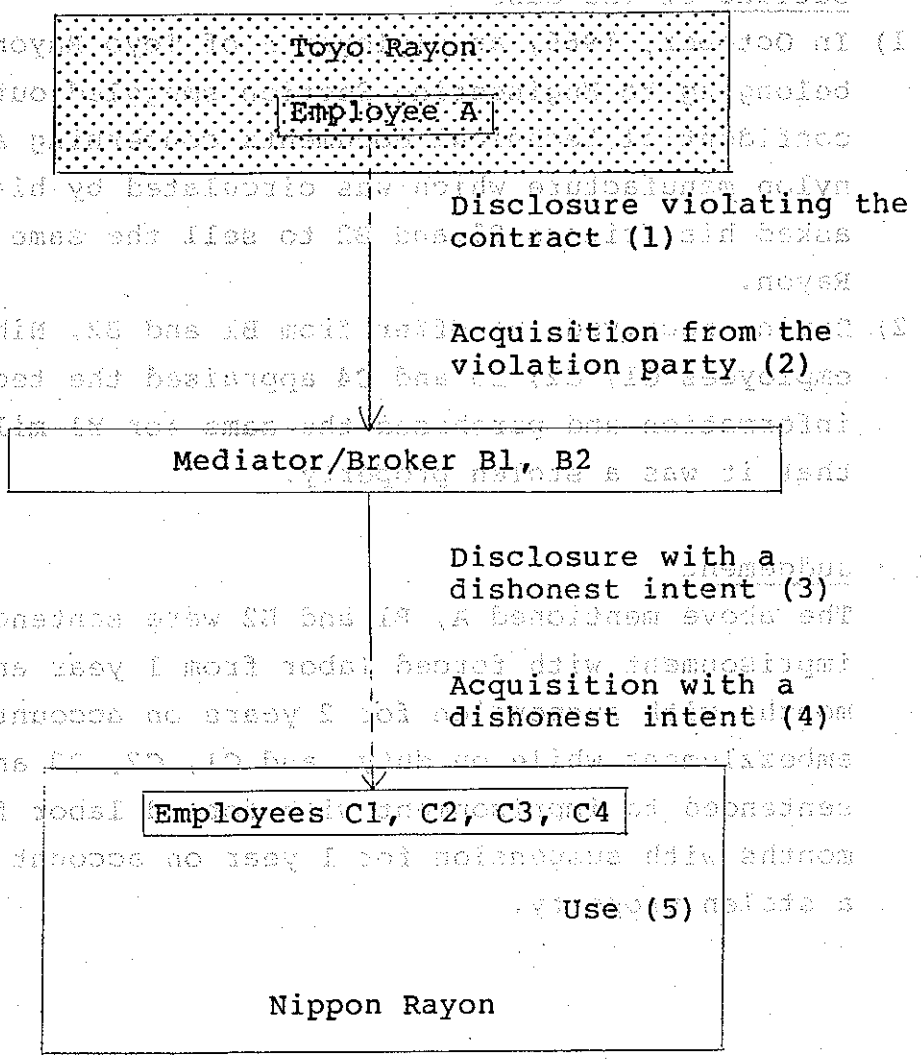
- Outline of the Case

1) In October, 1966, an employee A of Toyo Rayon Aichi Plant belonging to Engineering Section smuggled out a confidential technical documents concerning a method for nylon manufacture which was circulated by his supervisor, asked his friends B1 and B2 to sell the same to Nippon Rayon.
2) Having received the offer from B1 and B2, Nihon Rayon's employees C1, C2, C3 and C4 appraised the technical information and purchased the same for ¥1 million knowing that it was a stolen property.

- Judgement

The above mentioned A, B1 and B2 were sentenced to imprisonment with forced labor from 1 year and 6 - 8 months with suspension for 2 years on account of embezzlement while on duty, and C1, C2, C3 and C4 were sentenced to imprisonment with forced labor for 8 - 6 months with suspension for 1 year on account of purchasing a stolen property.

Toyo Rayon Industrial Spy Case



- Possibility of new relief under the amended Act

Since the technical information which was the object of transaction in the present case had a high economic value as well as confidentiality, and was appropriately controlled as a confidential material by Toyo Rayon, all the criteria of proprietary information subscribed by the report were satisfied.

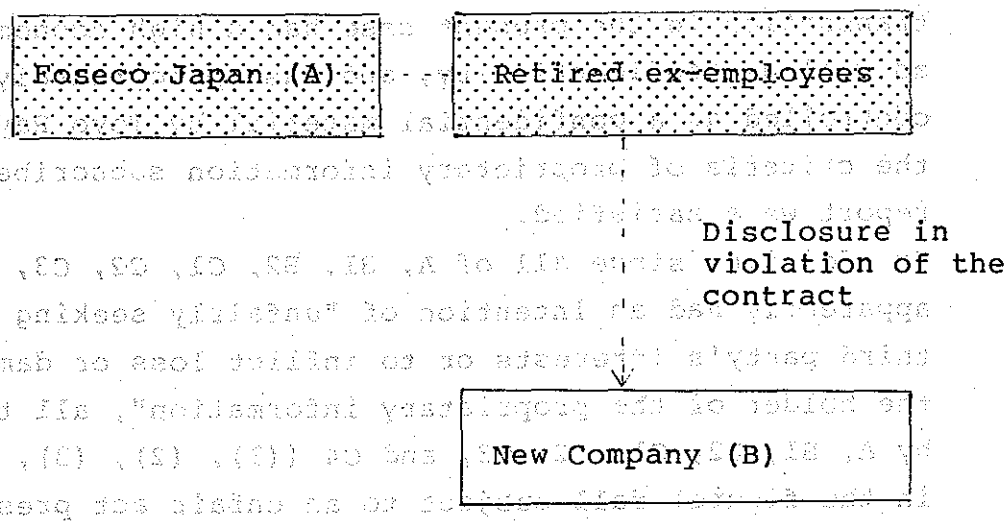
In addition, since all of A, B1, B2, C1, C2, C3, and C4 apparently had an intention of "unfairly seeking own or third party's interests or to inflict loss or damage to the holder of the proprietary information", all the acts by A, B1, B2, C1, C2, C3, and C4 ((1), (2), (3), (4), (5) in the figure) fall subject to an unfair act prescribed by the report and can be a subject for injunction. The claim for returning or destryong the documents, etc. embodying said information is considered admissible.

4) Foseco Japan Case (Nara District Court Case No. Sho 45(yo)35, Decision dated October 23, 1970)

- Outline of the case

Two ex-employees of a company (A) (Foseco Japan Limited) engaged in manufacture and sale of auxiliary materials for metal molding retired from the company (A) and established a new company (B) to engage in manufacture and sale of the same kind of products as those of the company (A). They were appointed the directors of the company (B). Thus, the company (A) filed an application for provisional disposition prohibiting unfair competition.

The present suit was filed based on the contract prohibiting work for a competitor for 2 years following retirement and the breach of confidentiality obligation, and therefore it was a case of the contract law.



* Shadowed boxes show the parties who have acquired proprietary information under contract

- Judgement

The judgement in the present case admitted the claim for suspending employment of two employees by a competitor company based on the contractual obligation prohibiting competition.

In stating the reasons, the judgement discussed the principle that "a special agreement for preventing competition to be entered at the time of employment or during employment may deprive an employee, who is in an economically weaker position, of a means of living and may threaten his existence. At the same time, the agreement restricts the freedom in choosing a job by the employee, and therefore, it is against the public policy or good morals and is apparently invalid unless there is a reasonable reason". After recognizing such principle, the judgement classified the knowledge/technique which the employee may obtain during employment into two; the one universally known in marketing of the similar business at

that time (subjective property of the employee) and the other special technology solely owned by the employer (objective property of the employer), and judged that a special agreement for obligation to avoid competition limited for a certain period of time was lawful and valid only with respect to the employee in a position to know the latter. The fact that the employee was paid a special allowance for confidentiality during employment was also given due consideration.

[Attachment 3]

1. Systems of Protecting Trade Secrets in Various Countries

1.1 United States

In the United States, protection of trade secret has been sought under the common law in various states since the 19th century. The principle of the above case law came to be prescribed in the restatement of the law of torts and have since influenced court decisions. The contents of such provisions were incorporated in the Uniform Trade Secret Act drafted by National Conference of the Commissioners on Uniform State Laws in 1979. This Uniform Trade Secret Act has been adopted by about 30 states and plays a central role for protecting trade secrets in the United States.

According to the Act, trade secret is information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

i) derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

The act of acquiring such trade secret by improper means (including theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means), disclosing and using the same will be subject for injunction for damages. These acts also include the following;

i) an act of acquisition by the party who knows or has reason to know that trade secret was acquired by improper means;

ii) an act of disclosure or use without express or implied consent by the party who used improper means in acquiring trade secret

iii) an act of use, disclosure, etc. of trade secret of another without express or implied consent by the party who knows or has reason to know that said trade secret has been

acquired by improper means or by violating the confidentiality obligation.

In addition to above reliefs under the Civil Code, there are provisions to punish theft of trade secret in the Federal and state criminal laws, thus providing protection of trade secret although they are not in a uniform form.

1.2 United Kingdom

In U.K., trade secret is protected by common law, and protection of trade secret is realized by the general theory that claim for injunction or damages are admissible against acts which constitute so called breach of confidence. The obligation that a party who has been disclosed information in confidence shall not disclose such information to a third party without the consent of the party who has disclosed the same is "confidence". An employee or retired employee as a party to an agreement, licensee or officer of a company is under such a general obligation. Even a third party shall be liable to a tort if he has acquired information by instigating a party who is under confidentiality obligation. Injunction is admitted even if there is no gross negligence on the part of a third party who did not know that information was divulged by breaching confidence, and claim for damages is also admitted if there was gross negligence or the such third party learned violation of the confidentiality obligation after the the acquisition.

However, there are no established provisions for criminal punishment for infringing trade secret in the United Kingdom.

1.3 West Germany

In West Germany, Unfair Competition Prevention Law plays the central role in protection of trade secret. As the criteria of trade secret to be protected, three conditions should be met: (1) It is not known publicly, (2) there is an intent of keeping it secret and (3) it is useful for business. In addition to the right of injunction, the claim for damages, and criminal punishments for infringement are provided.

The confidentiality obligation of an employee is limited to the period of employment, and there are generally no criminal punishments nor reliefs under the civil code for use or disclosure after retirement of confidential information the employee acquired by a fair means.

1.4 France

There is no special law for solely protecting trade secret, but efforts for preserving confidentiality are taken. For infringement of business information with economic value, the right for injunction as well as for damages is admitted under the case law for torts in the civil code.

Of secret acquired in the course of discharging occupational duties, divulging of technical know-how by an employee is punishable as an offence of transmitting the secret of manufacture under the criminal law (Article 418).

Unfair competition by a third party is punished by Article 182 of the Civil Code (the tort law).

1.5 Switzerland

The act of divulging industrial or commercial secret to a third party by an employee is punished by the criminal law. Reliefs under the civil code are also available.

Against an act of a third party to detect by himself or instigate an employee to divulge the secret, injunction and damages are admissible under Unfair Competition Prevention Law.

1.6 Model Law of the European Council

European Council constituted by European countries adopted Article 571 "the resolution concerning protection of manufacturing and marketing secrets" in 1974. This is not a treaty but a model law for member countries, and it prescribes that (1) confidentiality obligation of an employee who has developed a secret will expire after 2 years, (2) a good-willed internal accusation against a dangerous product does not constitute a crime, and (3) there are provided reliefs by injunction and damages against unfair disclosure of a secret. The emphasis is laid on criminal punishment.

8:2-4

(1) Title: Recent Issues in Software Protection

(2) Date: 10/90 (21st, Niigata)

(3) Source:

1) Source: PIPA
2) Group: Japan
3) Committee: 2

(4) Authors: Masaya Otsuka, Sony Corporation
Hajime Toyoda, Daicel Chemical Industries, Ltd.
Hajime Yamashita, Toshiba Corporation
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Yoshimichi Shishido, Mitsubishi Electric Corporation
Kiyohide Okamoto, Omron Corporation (Speaker)

(5) Keywords: Computer program, mathematical algorithm, guide line, software, patent, copyright, scope of protection, expression, idea, license

(6) Statutory provisions: JPL2, JPC2, JPC10, 35USC101, 17USC102

(7) Abstract: Discusses the scope of protection for software, especially for mathematical algorithms, under copyright and patent and its appropriateness in Japan and U.S., with reference to several cases. Essentially there is no significant difference between Japan and U.S. in protection under patents. However, protection under copyright in the U.S. is stretched beyond the expression. Expansion of the scope of protection under the present laws would be problematic in view of development of technology. If protection under copyright and patent is insufficient, new legislation should be sought.

Also discusses practical matters concerning license of software.

I. Introduction

Software can be protected under copyright and patent both in Japan and the U.S. Copyright protection extends to the <u>expression</u> of software but not to an idea contained in software. Protection of an idea is available under patent, if certain requirements for patent protection are met.

However, there is a trend to permit copyright protection an idea contained in software, in cases where patent protection is not available. This happens partly because it is difficult to clearly draw a line between the expression and the idea. Such an extension of protection beyond the limit of expression causes

some problems.

Formulae or mathematical algorithms can not be protected under either patent or copyright. It would cause a problem if protection under patent extended to equivalents of formulae or mathematical algorithms beyond the appropriate scope of protection.

This paper discusses whether protection of software is appropriate, with reference to some points on licenses of software.

II. Software Protection under Copyright

(1) Copyrightable Subject Matter

Software can be protected under copyright if:

1. it has creativity,
2. it is an expression but not an idea, and
3. it is not a programming language, a regulation, or an algorithm.

The Japanese copyright law, Article 2 (1)-1 defines a work to be protected as "a production in which thoughts or sentiments are <u>expressed in a creative way</u>". Also Article 10 (3) sets forth that "The protection granted by this Law …… <u>shall not extend to any programming language, rule or algorithm</u> used for making such works".

The U.S. Copyright Act appears to provide likewise. Section 102 (a) sets forth "Copyright protection subsists, …… in <u>original</u> works of authorship fixed in any tangible medium of expression, now known or later developed, ……". Section 102 (b) also states "<u>In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery</u>, ……"

(2) Cases in U.S. and Japan

Here, we will review some cases in U.S. and Japan which emphasize the scope of protection for software under copyright.

(2-1) Cases in U.S.

1. Whelan Associates, Inc. v. Jaslow Dental Laboratory, Inc. et al., Court of Appeals, Third Circuit, 1986.8.4, (230 USPQ 481)

In this case, the court held that copyright protection extended not only to literal elements of a program but to Structure, Sequence and Organization (SSO) of the program. This decision expanded the scope of protection to cover aspects falling within the category of idea beyond the statutory level of expression.

2. Larry Williams v. George Arndt, et al., District Court, D. Massachusetts, 1985.9.23, (227 USPQ 615)

The copyrightability of a program for a commodity exchange manual was the subject of this case. The court held that the defendant's program was a mere translation from a natural language (English) to a computer language (BASIC). Refusing a creativity defense, the court found infringement by applying copyright protection for "manual written in English" so as to include a manual which is "programmed".

3. Plains Cotton Cooperative Association of Lubbock, Texas v. Goodpasture Computer Service Inc., Court of Appeals, Fifth Circuit, 1987.1.21, (1 USPQ 2d, 1635)

The court stated that the organization and sequence of a program for a large computer and that for a personal computer are merely ideas. Therefore they should not be protectable by copyright.

4. Q-Co Industries, Inc. v. Hoffman, et al., District Court, S.D. New York, 1985.12.24, (228 USPQ 554)

The court held that although there were many similarities between two programs in Structure, Concept and Organization(SCO), these similarities had inevitably generated from a product called a prompter. The court found that although there was a fair use

of idea, there was no use of the expression. Based on this finding, the court held no infringement of copyright.

5. SAS Institute, Inc. v. S & H Computer Systems Inc., District Court, Tenn. 1985.3.6, (225 USPQ 916)

Conversion of an IBM computer program for DEC's VAX application was held as an act which constituted infringement of copyright. The court found that it was a copying of the organization of a program.

6. Pearl Systems Inc. v. Competition Electronics Inc., District Court, S.D. Florida, 1988.7.15, (8 USPQ 2d 1520)

The products of the parties incorporated software which contained slightly different subroutines. Stating that overall similarity of the subroutines could have been avoided by adopting another design in system level, the court found a substantial similarity between two products. Pearl Systems' product PST-10 was held to infringe Competition Electronics Pro Timer III for the reason that PST-10 used an "total concept and feel" of Pro Timer III.

7. Summary

Review of these U.S. cases show that interpretation of the scope of copyright protection is not uniform. While SSO or SCO of a program is determined as non-copyrightable idea in the above cases 3 and 4, SSO was handed down as copyrightable in the cases 1 and 5. In the latter cases, copyrightable subject matters no longer remain at the level of expression and extend to structure and sequence of a program, which is an idea relating to a method for expressing in the form of a program the idea contained in the program. In the above case 6, the scope of protection is expanded to the higher concept of system level, and similarity was determined at that level, irrespective of differences of subroutines in expression. In the case 2, the mode of expression was different, i.e., one is a manual and the other is a program. Nevertheless, they were considered to be similar by way of expanding copyrightable subject matters. To summarize, U.S.

courts have tended to broaden the scope of copyright protection beyond the level of fluctuations of individual cases.

(2-2) Cases in Japan

Until recently, there has been no case in which the court judged the issues directly concerning the scope of protection. Software-related cases, however, include a few cases on videogame software and a case on operating system, Microsoft, Inc. v. Shuwa Trading, Inc. In these cases, however, the main arguments were about mere reproduction. They did not include issues concerned with the scope of protection, whether to be broad or not.

In the recent System Science case, however, the Tokyo High Court entered judgment concerning the issue of the scope of protection on June 20, 1989. In this case, arguments were made as to whether a program of the debtor (defendant) amounted to an adaptation of creditor's (appellant's) program. The court indicated its judgment on the scope of legal protection for and creativity of a software program, and rejected the infringement assertion of the creditor. The court reasoned that, finding of an infringement of original programs by a later program requires that "the original program has to embrace creative parts in the combination of instructions, and that the later program has similarities to the creative parts of the original program." The court further stated that the flow of processing itself in a program amounted to an algorithm, and as provided for in Article 10 (3)-3 of the Japanese copyright law, was not copyrightable. "This flow", the court continued, "is irrelevant to the issue of creativity."

It can be learned from this judgment that the "flow of processing" is not copyrightable while the "combination of instructions" is copyrightable.

In this case, the court also stated "symbols used to express a program are extremely limited, and its structure (grammar) is very strict. If one intends to obtain a result effectively by operating a computer, the combination of instructions tends to be similar to each other inevitably. In finding an infringement of a program work, utmost care should be taken".

This case teaches that creativity should not be found in usual expressions, or the parts for which no alternative expression is available or in which all different approaches result. Although not discussed above, this limitation of copyright protection also exists in the U.S.

It is not appropriate to consider that the decision of the System Science case requires some special creativity to protect software programs by copyright. Nevertheless, it teaches that protection is available only for a program which has a certain level of creativity.

(3) Comparison of the Scope of Protection in U.S. and Japan.

With regard to creativity, case laws in Japan now require it to a certain extent as discussed above. We understand that creativity is likewise required in U.S. so that there is no substantial difference between Japan and U.S. in this respect.

The flow of processing in Japan amounts to SSO in U.S. The flow of processing is not protected under copyright in Japan while SSO is a protectable subject matter by the U.S. case law.

In the Unites States, the courts have expanded protection under copyright in some cases. However, such an expansion under current statutory provisions is not preferable for the following reasons:

1. programs are technological achievements,
2. a copyright is obtained without examination unlike patents, and
3. the period of protection is very long.

Expansion of the protection scope may restrict technological activities of third parties, resulting in hindrance to technical development. This has been identified as a problem by practitioners in U.S.

III. Software Protection under Patent

In the United States, when a computer program is considered a computer process, it is a patentable subject matter under

Section 101 of Patent Act. However, if it is considered a mathematical algorithm itself, or substantial equivalent thereof, it is not protectable under 35 USC 101.

In Japan, the fundamental interpretation is the same as in the US. The Japanese Patent Law defines in Article 2-1 that an invention is a highly advanced creation out of technological ideas utilizing the laws of nature. Thus a program-related invention is examined in view of whether it is a technical idea utilizing the laws of nature. Of course, since a mathematical algorithm itself is not considered a technical idea which utilizes the laws of nature, it is not patentable subject matter in Japan.

The following discusses the guidelines of examination for a software-related invention in the U.S. and Japan.

(1) Guideline of USPTO

On September 5, 1989, the U.S. Patent and Trademark Office published a guideline on the subject of the patentability of mathematical algorithms and computer programs. This guideline explains that mathematical algorithms per se are not patentable subject matter, but that an appropriate application is protectable. The guideline presents a two-step test for determining patentability.

The first step is to determine whether the claim directly or indirectly recites a mathematical algorithm. The second step is to determine whether the mathematical algorithm is applied in any manner to physical elements or process steps. Where a mathematical algorithm is found in the claim, and it is applied to physical elements or process steps in the second step, the claim should be patentable. On the other hand, if the mathematical algorithm is related to physical elements or process steps in the claim and if the claim substantially intends to seek protection for the mathematical algorithm, such a claim is not patentable.

A computer program can be protected by patent, as it is considered as a process performed by a computer, provided that the program is not a mathematical algorithm per se. The guideline

proposes that the two-step test is applicable to software.

In addition, the guideline states that, business operation methods or mental steps per se are not patentable subject matters. However, a method for operating computers to exercise business activity is patentable.

(2) Japanese Guideline

Japanese Patent Office published various guidelines in connection with software inventions:

Guideline for examination of an invention related to computer programs (Part 1) (12/1975)
Guideline for examination of micro computer-applied inventions (10/1982)
Draft principles for examination of inventions related to computer software (3/1988)

The Guideline of 1975 makes it clear that a program can not be a patentable invention if some parts of it, which have some regularity and are used to arrive at a given result, (i.e. a relation between cause and effect in method) are not based on the laws of nature.

According to the Guideline of 1982, when roles of software can be considered as a combination of functions and when there are individual enabling means corresponding to each function, then an invention comprising function-enabling means is patentable as an apparatus patent.

The Draft Guideline of 1988 clarifies the steps of examination as follows.

Step 1: Does it substantially utilize a computer?
(If it does not use any computer, it is not a software invention so that it may be examined following the general guideline. If it utilizes a computer, its patentability is determined through the following steps.)

Step 2: Is it a separate and independent device?
(YES …… patentable / NO …… go to step 3)

Step 3: Does software utilize a particular characteristic or structure of hardware?
(YES …… patentable / NO …… go to step 4)

Step 4: Does the "relation between cause and effect in method" rely on the law of nature?
(YES …… patentable / NO …… not patentable)

The above steps can be used as the total and only test for the patentability of software, because step 2 is associated with the Guideline of 1982 and step 4 seems to correspond to the Guideline of 1975.

In step 2, a device with functioin-enabling means may be deemed patentable if the operation of the device utilizes the laws of nature. It does not matter whether the functions follow rules of a game. For example, a patent (Pat No. 1085441; publication No Sho 56-31990, published in 1981) was granted to a game machine for Othelo game.

If an invention contains a combination of software and hardware, and does not provide any substantial separate and independent device, the answer in Step 2 will be "No". Then, the test must go to Step 3, where such an invention is examined as to whether software utilizes specific hardware resources. If it is not separable, the invention can be considered to utilize the law of nature as a whole. Then, patentability is established in Step 3.

For example, Japanese patent (Pat No. 1238118; publication No Sho 59-9935, published in 1984) was granted for a "method of calculation", in which an arithmetic procedure to find a square root is converted, step by step, to operations of counter. Although there can be proposed numerous possible formulas which provide the procedures to perform such a calculation, the inventor selected a transformed formula to reduce the number of registers and necessary steps, and, he converted the arithmetic procedure following this formula to the operation of counter. Accordingly, the method of operation can be considered as a method to use hardware resources (in this case, register) efficiently, and patentablility is to be affirmed.

For the same reason, a patent was granted for a "method to detect leap years" (Pat No. 1500902; publication No sho 63-

48351, published in 1988). This program represents, with less program steps and smaller number of apparatuses as to detect bits (i.e., means for calculation), a method to make the system simpler. It was found patentable because it utilized the particular characteristics or structures of hardware resources.

If software is not sufficiently combined with hardware, it will be rejected at Step 3. Then the test must go to Step 4, where determination is made as to whether algorithms contained in the software, i.e. the "relation between cause and effect in method", utilizes the laws of nature. The Guideline of 1975 should be applicable in this case. For example, a program for calculating the ratio of the circumference of a circle to its diameter by Monte Carlo method, is not a patentable invention, because "the relation between cause and effect in method" is based on a mathematical principle only, but not on the law of nature. But, if an inventor, who paid attention to characteristics of a rolling mill and its material to be rolled, creates a program to control the rolling mill via a computer, this program is likely to contain some "relations of cause and effect in method" utilizing the law of nature. If that is the case, this invention could be patentable.

(3) Comparison of the U.S. and Japanese Guidelines

The guideline of USPTO states that mathematical algorithms per se, as well as the laws of nature, are fundamental for science and technology, and not patentable subject matters. As to claims in which mathematical algorithms are present, they can be considered patentable only if mathematical algorithms are truly applied to physical elements or process steps.

On the other hand, the Japanese guideline does not specify any steps to check mathematical algorithm per se. Instead, if a claim is a mathematical algorithm per se, it is determined to be unpatentable at Step 4, since the "relation between cause and effect in method" fails to utilize the law of nature. If the claim is mathematical algorithms which are applied to physical elements or process steps (and for this reason, it is considered patentable in U.S. according to the two step test described

above), it will be determined to be patentable in Japan, because it will be found patentable at Step 3 or 4 above.

In summary, there are no substantial differences in Japan and U.S. regarding patentability of mathematical algorithms.

In Japan, if an applicant seeks a patent for its invention in the form of a device claim by describing each step of mathematical algorithm in the "means for function" format, the claim is likely to be determined patentable at Step 2. This is because the examiner considers it a separate and independent apparatus with function-enabling means. On the other hand, if an applicant takes the same approach in U.S., a patent will not be issued to the claims which cover all the methods or processes to enable the functions. It may be stated that patent for an apparatus claims is easier to obtain in Japan than U.S. However, if the claim description on the function is general, a patent grant would be unlikely in Japan, and claims of means for functions could be patentable in U.S., if they provide considerably concrete description on functions, and they are limited to a particular apparatus or machinery. Thus there is no substantial difference between Japan and U.S. in this point.

In the U.S. guideline, all the computer processes, excluding mathematical algorithms per se, are patentable. But in Japan, a claim described as a computer process is patentable only if the "relation between cause and effect in method" utilizes the laws of nature. Taking into account the fact that the U.S. guideline excludes methods of business or mental-steps from patentable subject matters, a fair conclusion would be that no significant differences exist between the two countries.

(4) Comparative Analysis of Representative Cases

In this section, comparative analysis is made of the patentability of an invention citing actual cases.

1. Benson Case

<in U.S.>

In this case, the U.S. Supreme Court found the invention non-patentable on the basis that all claims were mathematical processes and were not related to

physical steps and apparatus. In other words, the claims failed in meeting the second of two step test requirement, namely, requirement for application to physical elements or process steps.

<in Japan>

The corresponding Japanese Patent (Pat No. 515699; publication No Sho 42-21906, published in 1967) is drafted as apparatus claims. Its claims provide not only functional expressions but the description of hardware. They can be determined to be patentable at Step 2. However, if the claims, like the case in U.S., covered methods, Step 4 of the Japanese guideline will negate patentability for the reason that the relation between cause and effect in method fail to utilize the laws of nature.

2. Patent to Diehr

<In U.S.>

The claims describe methods of curing rubber. The claims included a formula [$\ell nV = CZ + X$] to be performed by a computer. This invention was held patentable for the reason that claims are "applied to physical elements or process steps" to meet the second step of the two step test.

<In Japan>

In Japan, this invention was already patented at the time of the publication of the Guideline of 1988 (Pat No. 1277979; publication No Sho 57-22010, published in 1982). It claims a combination of software and hardware. In view of utilization of particular characteristics of hardware resources, it is determined to be patentable at Step 3 of the guideline.

3. Patent to Carmarker

<In U.S.>

This patent relates to a mathematical algorithm in the field of linear programming (U.S.P. 4,744,028). Claims 1 and 2 of this patent describe a telephone communication

system wherein address for optimum routes is carried out by a mathematical algorithm at minimum cost. These claims meet the requirement of the second step of the two part test as described in the U.S. guideline, which provides that mathematical algorithms should be applied in any manner to physical elements or process steps. Using such terms like "physical", "technological", or "industrial", claims 15, 16 and 24 attempt to convince that they meet the application requirement of the two step test. In actuality, these claims are abstract and in essence mathematical algorithms per se. From this viewpoint, we can not find it patentable and we wonder why a patent was issued for these claims.

<In Japan>

A Japanese counterpart was filed and laid open (disclosure (kohyo) No Sho 62-50258, disclosed in 1987). But the application has not yet been examined. Prediction is that obtaining a patent will not be easy. It is likely, however, that claims 15, 16 and 24 will be judged unpatentable at Steps 3 and 4 of the draft guideline and reliance on the laws of nature would be negated to finally refuse patentability.

(5) Result of the Comparison

Since there are no significant differences between the guidelines of two countries, finding of patentability of each invention does not differ greatly. However, like in the case of Carmarker patent, some U.S. cases have enjoyed expanded criteria of patentability.

(6) Enforceability of Software Patents

Then, to what extent are software patents enforceable?

One may obtain an apparatus patent or a process patent for a computer program. In both cases, exploitation of such patent constitutes a patent infringement. However, distribution of documents describing the computer program necessary to exploit

this patent does not necessarily constitute patent infringement. Likewise, sale of general-purpose computers usable for exploiting the patented invention would not automatically be an infringement. However, contributory infringement might occur if ROM is used in which the computer program necessary for carrying out the patented invention is stored, provided that the ROM is used only for exploitation of the patent. It would not constitute an infringement, however, to reproduce the programs in hardcopy from this ROM and distribute the reproduced copy. In such a case, a patentee must rely on copyright laws for possible remedy.

IV. Conclusion

(1) Problem in Software Protection

As discussed earlier, copyright laws provide protection to the expression of computer programs. In principle, the laws do not extend copyright protection to ideas. Structure and sequence of a program are ideas relating to a method for expressing underlying ideas as a program. These conceptual ideas can be protected under patent. However, patent laws do not cover all computer programs, and even if some programs are protectable under patent, protection is not available for the written program itself. Protection is mainly directed to the method or apparatus in which the program is used.

There are some case decisions which extended copyright protection to program's structure and sequence - ideas relating to a method for expressing underlying ideas as a program. These decisions would help expand and strengthen the scope of copyright protection.

However, as mentioned earlier, computer programs are technical outcomes. Their protection under copyright comparatively lasts for a long period of time. With these in mind, it is not preferable that copyright protection be further expanded from the present statutory basis. Such expansion of protection would restrict technological activities of third parties. Certain U.S. practitioners oppose such expansion of copyright protection. We are agreeable with the US

practitioners.

To be more specific, upstream concepts such as SSO belong to the category of ideas. Protection of such concepts by copyright would make it very difficult to develop alternative products. Without protection, the same SSO could be prepared with other expressions which shall be the level of protection by copyright. Protecting SSO will restrict competitive development activities and prevent the evolution of technology. There is another factor which must be considered. Protection of expression easily becomes outdated. Time will allow a third party's entry with new expressions. However, protection of the SSO would assure exclusivity under copyright for a considerable period of time, thus resulting in retardation of technical progress.

Protection of the SSO would impose another burden on third parties who intend to make a compatible product. Now that exact scope of protection is unclear, third parties may not sweep away concern about possible infringement of others' during the course of its own development and marketing. Needless to say, such concern will retard any interest in developing compatible products.

Uncertain scope of copyright protection also adversely affects licenses. A licensee of a software copyright, who develops his own program later, might find that the scope of protection for the licensed program is larger than expected. This would present potential problems between the licensee and licensor.

(2) Opinion on the above Problems

As discussed above, various problems are caused by the expanded scope of copyright protection.

Let us assume that it is really necessary to broadly protect a program which contains an unpatentable idea (such as a method for business administration, methods of management), or to strengthen protection for computer programs by way of broadly protecting some upstream concepts including Structures and Sequences of programs and ideas concerning a method to express underlying idea in a program. Then, the current statutory

provisions are insufficient as basis for such expansion. New legislation should be sought as well as new terms for protection.

(3) Points for Licensing

As discussed earlier, U.S. courts tend to adjudicate the broader scope of copyright protection. Potential licensees of software of U.S. origin should be aware of possible expanded scope for protection, and consider the license terms in that respect.

Insufficient protection of a program by copyright and patent raises another point for which licensing practitioners must be careful. In both cases of licensing-in and licensing-out, the parties should thoroughly review the terms and conditions including, among others, confidentialities and limitation of software use, to avoid future misunderstandings and possible disadvantages.

9:2-5A

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(7) Abstract

Syntex Corporation is a pharmaceutical/ diagnostic company whose Intellectual Property Law Group is composed of Patent Law, Patent Licensing and Trade Affairs Departments. These departments are both heavily staffed and very active as a result of the nature of the industry and Syntex's strong commitment to Research.

ORGANIZATION AND OPERATION OF A PHARMACEUTICAL INTELLECTUAL PROPERTY LAW GROUP

by

Dr. Alan M. Krubiner*

I am pleased to describe to you the Intellectual Property Law Group at my company, Syntex Corporation. Our industry, the pharmaceutical industry, is particularly dependent upon intellectual property rights for its well being. As a result, it is highly intellectual property-intensive, particularly with respect to patents. I believe that Syntex Corporation is one of the most highly intellectual property oriented companies within our industry as I hope you will appreciate from my remarks.

Before I venture into a description of our intellectual property operations, I would like to give you some background about Syntex. First of all we are a health care company, not a computer or electronic company as our name and our location in Silicon Valley might suggest. We specialize in three primary businesses: human pharmaceuticals, animal health and medical diagnostics. For our fiscal 1990 year which ended this past July 31st, our net sales were approximately 1.5 billion dollars. Of that, approximately 83 percent was in the human pharmaceutical area; about 5 percent in the animal health area; and about 12 percent in the medical diagnostic area. Our research and development expenses were about 275 million dollars, which amounts to about 18 percent of our annual turnover, one of the highest in our or in any industry. You will see that this commitment to research is

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reflected in the overall size of my group, particularly our patent operations.

We have major products in a wide variety of areas. Our largest pharmaceutical products are Naprosyn** and Anaprox, which are anti-inflammatory and analgesic agents. Naprosyn is the fifth largest selling United States pharmaceutical product and is one of the largest selling pharmaceutical products worldwide. Before we developed Naprosyn, we were primarily known as a steroid company. We continue to sell a number of well-known topical steroids for inflammation. Some of the names you might recognize are Synalar and Lidex. We also were the originators of the technology which led to the development of the oral contraceptive. Our products in this field bear the Norinyl trademark. In more recent years we branched out into a host of therapeutic areas. We have recently introduced a product in the cardiovascular area, Cardene, for treatment of angina and hypertension; we have developed an anti-viral product, Cytovene, useful for treatment of cytomegalovirus in immune-compromised patients such as AIDS and transplant patients; in the obstetric/gynecological area we have introduced Synarel for the treatment of endometriosis, a painful female disorder; and we have recently introduced Toradol, a non-narcotic analgesic for management of moderate to severe pain. We are awaiting regulatory approval in the United States for Ticlid for the treatment of stroke.

** For purposes of this paper the trademarks for the Syntex products mentioned are the U.S. trademarks which often differ from the trademarks in other countries for the equivalent products.

In the animal health area we market a cattle growth promotant, Synovex, and sell an anthelmintic, Oxfendazole, in many markets.

In medical diagnostics we developed the EMIT system, a highly sensitive enzyme-based immunoassay technique. This system is used for the detection of drugs of abuse, for therapeutic drug monitoring and for detection of various infectious agents, particularly those responsible for sexually transmitted diseases.

Syntex Corporation was originally founded in Mexico after the Second World War and is now incorporated in Panama. Our stock is traded on the New York Stock Exchange. As I mentioned earlier, we were originally founded as a steroid company, primarily because of the discovery that the root of a yam growing in Mexico provided a raw material which could be efficiently converted into the previously rare steroid hormone progesterone.

Our administrative headquarters are in Palo Alto, California, near Stanford University, where we employ about 3,000 people. We are building a second campus about 20 miles from Palo Alto in San Jose, California. Worldwide we have about 10,000 employees. We have other operations in the United States in Boulder, Colorado, in Springfield, Missouri and in Des Moines, Iowa. We have major foreign subsidiaries in Canada, Mexico, England, France, Benelux, Switzerland, Spain, Scandinavia, Australia, New Zealand, Japan and Korea. We have chemical manufacturing sites in the U.S., the Bahamas, Mexico and Ireland and have a pharmaceutical manufacturing site in Puerto Rico. We have research centers in Palo Alto; outside of Toronto; in Mexico City; in Edinburgh, Scotland; in Leuville (outside Paris); and are currently building a research center in Niihari near Science City outside Tokyo.

Returning now to our intellectual property operations, Appendix I shows where my group fits within Syntex Corporation. We are part of the Legal Affairs Division which reports to the Senior Vice President and General Counsel of Syntex Corporation who, in turn, reports to the Chief Administrative Officer and Vice Chairman of the Board of Directors. Within the Legal Affairs Division you will note the Intellectual Property Law Group is one of five legal groups plus the Corporate Secretary. Our group is by far the largest of the legal groups. In addition to directing the Intellectual Property Law Group, I am also privileged to sit on the Corporate Management Committee which is composed of about 25 of the senior executives of Syntex and, as such, our group has high visibility and direct communication with upper management.

Appendix II depicts the organization of the Intellectual Property Law Group which is comprised of three separate departments, the only legal group to be so subdivided. The three departments are Patent Law, Patent Licensing and Trade Affairs. I should mention that all of our staff are centralized and located at our administrative offices in Palo Alto, California.

In Appendix III you will see the reporting relationships for the three departments I have just depicted. Reporting to me are four directors. There is a Director of U.S. Pharmaceutical Patents who is responsible for all U.S. patent activities relating to our human and veterinary pharmaceutical areas. There is a Director of International Patent Operations who is responsible for all patent activities outside of the U.S. We have found historically that the division of labor between the U.S. and foreign groups works very well for us and there is a close cooperation between these two groups. There is a

Director of Patent Licensing and Non-Pharmaceutical Patents. This director wears two hats. He is responsible for the patent licensing area and, as such, works closely with the attorneys in our U.S. and international patent sections. He is also responsible for our non-pharmaceutical patent activities. In previous years we were involved in a number of additional business areas such as ophthalmics, dental products and beauty care. In the 1980s we divested these business areas, choosing to concentrate on those businesses that we knew best: human and veterinary pharmaceuticals and medical diagnostics. Accordingly, today the non-pharmaceutical area refers only to medical diagnostics. The final Director heads the Trade Affairs Department which is responsible for a variety of areas including trademarks, copyrights, unfair competition, certain antitrust matters and various corporate procedures.

I mentioned earlier that our industry and, in particular, our company, was highly intellectual property oriented. I think you will see this from the size of our staff which I will describe below. Our U.S. pharmaceutical group is comprised of 13 professionals including 9 lawyers, 1 agent, 2 patent searchers and 1 paralegal. Our international patent operations group is comprised of 7 professionals including 2 foreign patent practitioners, 1 lawyer, 3 agents and 1 paralegal. I should mention that 4 of our international patent operations staff are also registered U.S. patent agents. Our non-pharmaceutical patent group is comprised of 3 fulltime lawyers and one halftime lawyer. Our patent licensing group includes three and one-half professionals including 2 fulltime lawyers and one halftime lawyer and one paralegal who serves as a contract administrator. Our Trade Affairs Group includes 8 professionals comprising 3 lawyers and 5 paralegals. Our total professional staff including myself is 36 persons.

In our Patent Law and Patent Licensing Departments we try to provide our professionals with a great variety of work. In general we do not have any patent filing or prosecution performed outside of the department. The only work that we routinely send out is litigation and important confirmatory opinions. All of our case preparation, filing and prosecution is done by our in-house staff. The development of new products coming out of Syntex Research is handled by a multi-disciplinary project team. Our attorneys are important members of these project teams and provide intellectual property services to the teams as needed. As such, each attorney handles a number of areas of technology corresponding to these potential products. As a potential product progresses from the initial stage of discovery, through early evaluation and product development and, ultimately, to application for and receipt of marketing approval, a variety of services from our department needs to be provided. These include filing and prosecution of patent applications both in the U.S. and around the world; counseling on a wide variety of matters such as avoidance of infringing activities; the preparation of various agreements such as confidentiality agreements, consulting agreements, research agreements and licensing agreements; and litigation, if necessary. In addition to strictly patent-related work, our attorneys participate in all technology-based projects in the Legal Affairs Division. In the past this has involved very extensive involvement in formation of joint ventures, research and development limited partnerships, and so forth.

In addition, substantial recent changes in the law and practice around the world have added to the complexity of our work. The challenges of generic competition, particularly in the U.S. with the introduction of the

Waxman-Hatch legislation in 1984, has made life both more difficult and more interesting. We now have to anticipate increased litigation as well as prepare for and obtain patent term extensions in the U.S. Additionally, patent extension procedures are now available in other countries such as Japan, Korea and France, and possibly soon in the EEC. Considerable interface is required with our marketing and regulatory groups to develop optimal strategies.

There is an overlap between the Patent Law and Patent Licensing departments. The Patent Licensing department is a specialized department that spends full time in dealing with licensing and related activities. Their members are experts in the licensing field but they cannot handle all of the licensing work alone. They work together with the lawyers in the Patent Law department on many transactions. They also help train some of our junior lawyers to impart them with the licensing skills they will need to be successful in this field in the future.

With regard to litigation, as I mentioned earlier, most litigation is handled by outside litigation counsel. However, we work closely with them to control and guide their work and often we participate in discovery and in the preparation of briefs, motions and other pleadings. We have a number of in-house attorneys who have extensive litigation experience and they have argued cases before the Board of Appeals and Interferences at the U.S.P.T.O., in Federal District Courts as well as before the Court of Appeals for the Federal Circuit. In a number of instances we have handled small litigations totally in-house.

We also have responsibility for and expertise in the trade secret area and a number of attorneys have been instrumental in working with management and with various corporate departments in the protection of our proprietary information.

The practitioners in our International Patent Operations Department are highly knowledgeable and take an active role in dealing with our local patent firms around the world. They do not automatically defer to the firms' advice and opinions, but actively participate in the drafting of responses to office actions and in assembling data necessary to overcome rejections. We also participate in all aspects of international patent work, not just filing and prosecution. We have an extensive opposition docket and are involved in infringement studies and in litigation in many countries. We have also spent a great deal of time in recent years dealing with, for example, licenses of right in the U.K. and complex patent extension proceedings in a number of countries such as Australia and South Africa.

The emphasis in our departments has always been on quality, not quantity. You will note that for the level of our turnover and our research spending we are quite heavily staffed. Our goal is to prepare and prosecute well-written cases so that we have a solid portfolio of valid and enforceable patents.

Fortunately we have a very supportive management, especially the management of our Research Division. They realize that in our industry there are two critical assets, without which success would not be possible. Those assets are our patent portfolio and our marketing registrations. Without solid patent protection in all major markets our company will not spend the

hundreds of millions of dollars necessary to develop a new pharmaceutical product. There has to be a significant period of exclusivity to ensure a payback of our research and development investment as well as generate a reasonable return on that investment.

You might be interested in some of the specifics of how we operate. We hold quarterly joint meetings with our key research executives to clarify and prioritize our invention disclosures for possible filing in the U.S., and we determine, with marketing input, the nature and extent of our foreign filings. Almost all of our foreign cases are filed in the EPO and Japan at a minimum. We have used the PCT only rarely, in emergency or unusual situations. In addition, we have meetings about three times a year to determine which of our issued patents around the world provide sufficient benefit to keep alive by continuing to pay the annual taxes. Dead wood is weeded out on a regular basis.

Both our U.S. and foreign docketing, as well as tracking of our annuities, is handled using a PatentMaster computerized system which is administered by one docket administrator. Even though our annuity payments are on this docketing system, we use it merely as a tool, choosing to directly instruct our local patent firms around the world to pay (or not to pay) annuities. As a matter of caution, we do not rely on any third party service to pay annuities for us.

Our patent and agreement files are administered by one records specialist. In addition to setting up and keeping track of these files, we are actively involved in a computerized integration of our file system with those of the other legal departments. Our records specialist also is

responsible for processing our incoming patent resources such as Derwent as well as providing patent copies and equivalents to requesters from within our department and from the outside. We employ two full time patent searchers who search manually and by using computer databases. Their searches are supplemented by searches at the U.S.P.T.O. and at the Hague.

In recent years we have extensively increased our use of word processing. We currently have a Wang VS system. All of the professionals that need a word processor have one, as do all of our support staff. In addition, we have a dedicated 7-person word processing department for the Legal Affairs Division. In this past year we introduced, in phases, a number of IBM personal computers for our professional staff. We find these are particularly useful in handling the graphics necessary for chemical structures and reaction schemes. It is anticipated that later in this calendar year we will combine these personal computers into a LAN, or local area network, to make them even more useful.

Prior to the use of word processing, we had a ratio of one support staff, or secretary, for each professional. With the introduction of word processing, this ratio changed considerably, reaching about three professionals for each secretary. At the present time we are attempting to reduce this ratio somewhat, to a target of about two to one.

In our Patent Law Department we share the problems that other pharmaceutical companies face in the U.S. with regard to recruiting and retaining new attorneys. There are fewer chemically trained patent attorneys entering the profession. There is much greater competition for those who are, particularly from many of the start-up biotechnology and related companies

and, in particular, from the growing private law firms that service these new companies.

As I mentioned earlier, our Trade Affairs Department provides a variety of services to the corporation. In the area of trademarks, the department handles the selection, prosecution, infringement and litigation activities relating to all of the company's marks. In addition, it handles negotiations and settlements, corporate identity issues, trade name protection and ownership and licensing of marks, including tax implications.

In the unfair competition area we handle such activities as trade libel, false advertising, counterfeiting, diversion of genuine product, illegal competitive acts, communication with governmental law enforcement agencies and proposed legislation.

In the copyright area, which is a relatively minor activity, we handle protection and registration of copyrights, infringement and ownership issues as well as issues concerned with photocopying.

One area that is not traditional for a trademark department is our corporate area. In this area we deal with the incorporation and dissolution of Syntex corporate entities around the world, we handle subsidiary qualification, procedures and legal compliance, and we perform periodic legal audits of all our subsidiaries on a worldwide basis.

In the area of advertising review, we deal with issues relating to trademark usage, ownership, copyrights, corporate identity, the truthfulness effect of advertising on pending conflicts, and other competitive issues.

Finally, the department has responsibility for certain areas of antitrust coordination, in particular, handling various unfair competition and antitrust

cases and dealing with competition issues, particularly in the U.S. and EEC, including settlement arrangements.

The professional staff of the Trade Affairs Department is divided into two groups, each headed by a trademark lawyer who supervises two paralegals. Each attorney and paralegal has responsibility for a particular subject matter/therapeutic area and/or class of products. The paralegal staff handle all of the day-to-day trademark registration programs involving many of the issues dealing with trademark selection and prosecution including negotiations and settlements of conflicts. One paralegal deals extensively with the corporate procedures area. The lawyers, including the Director, are primarily responsible for more complex areas and the resolution of more difficult issues.

To give you an idea of the scope of our Trade Affairs operations, in the trademark area we handle approximately 500 trademark applications per year resulting in about in about 450 registrations annually. We also handle between about 500 and 700 renewals a year and deal with approximately 500 oppositions and conflicts on an annual basis. Our current portfolio of registrations and applications is approximately 18,000.

On a departmental basis, the largest percentage of our costs relate to activities in the United States, followed by those in Canada, Japan, the key European countries, Australia, Mexico and Brazil. Our human pharmaceutical activities account for approximately two-thirds of our costs, activities in our agribusiness, diagnostic and corporate trademark areas account for approximately ten percent each, the reminder relating to other general corporate activities.

The activities requiring the largest disbursements are trademark applications and prosecution, general trademark work, maintenance and oppositions.

We have one professional at the paralegal level who is charge of all of the Trade Affairs records, office procedures and files. We have a ratio of one secretary for each two professionals and, in addition, have a Records and Accounts Specialist and a File Administrator. Each of the professionals and the support staff has a Wang VS word processing terminal.

You might be interested in some of the support services that are used by the Trade Affairs Department. Our trademark database and docket control is handled by means of a CPI computer program. The corporate information is on a corporation information database which is a program that is self-generated by the Syntex Management Information Systems group. The disbursements control program is also a self-generated one. Trademark search services are performed either by an outside vendor, Thomson & Thomson, or are handled on-line using the Compu-Mark service. In addition, we have a trademark generation program entitled "Name It" which is used in conjunction with traditional trademark generation techniques. We also employ a variety of trademark watch services around the world.

In recent years a variety of trademark and unfair competition areas have increased greatly in importance, in particular the need to be vigilant with respect to counterfeiting and the role of trade dress, especially after patent expiration.

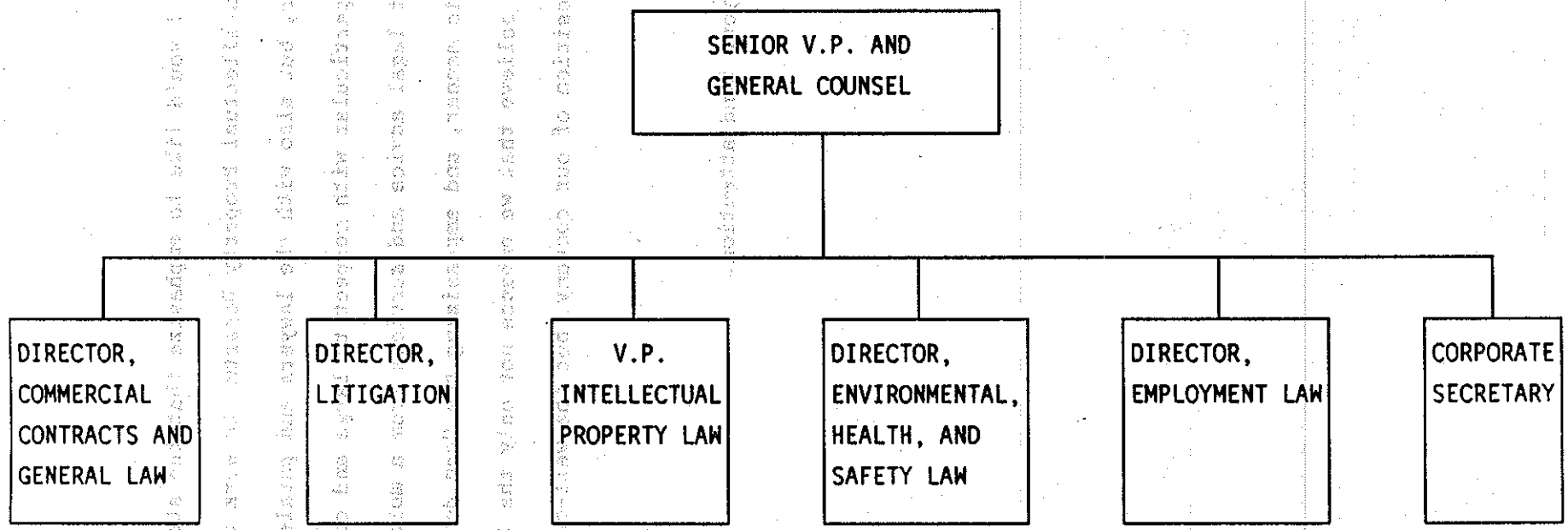
We believe that the attorneys and paralegals in our Trade Affairs Department handle a wide variety of activities going beyond that of most typical departments in our industry.

In conclusion, I would like to emphasize that the attorneys and paralegals in our Intellectual Property Departments work very closely, not only with each other, but also with the lawyers and paralegals in our other legal departments, particular with respect to large and complex transactions which require expert legal advice and services from a multiplicity of disciplines. In this manner, and emphasizing the "can do" spirit fostered by General Counsel, we believe that we enhance not only the intellectual property and overall legal position of our company, but the well-being of the company as a whole.

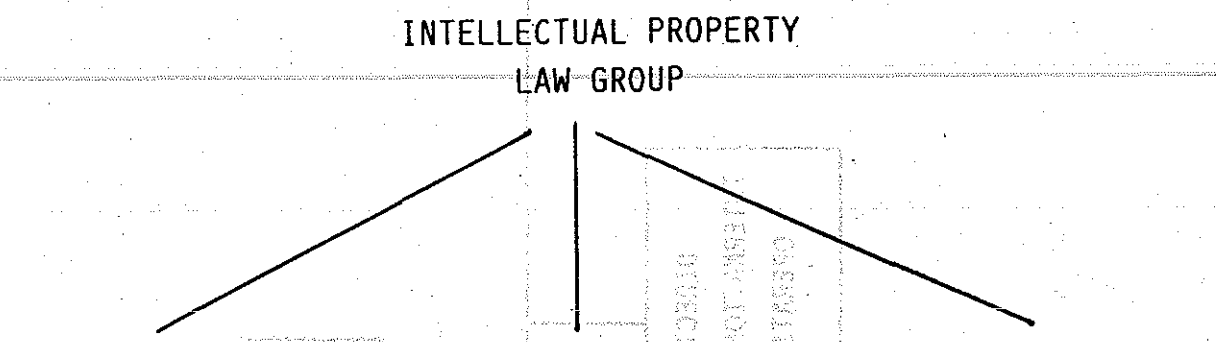
Thank you for your kind attention.

APPENDIX I

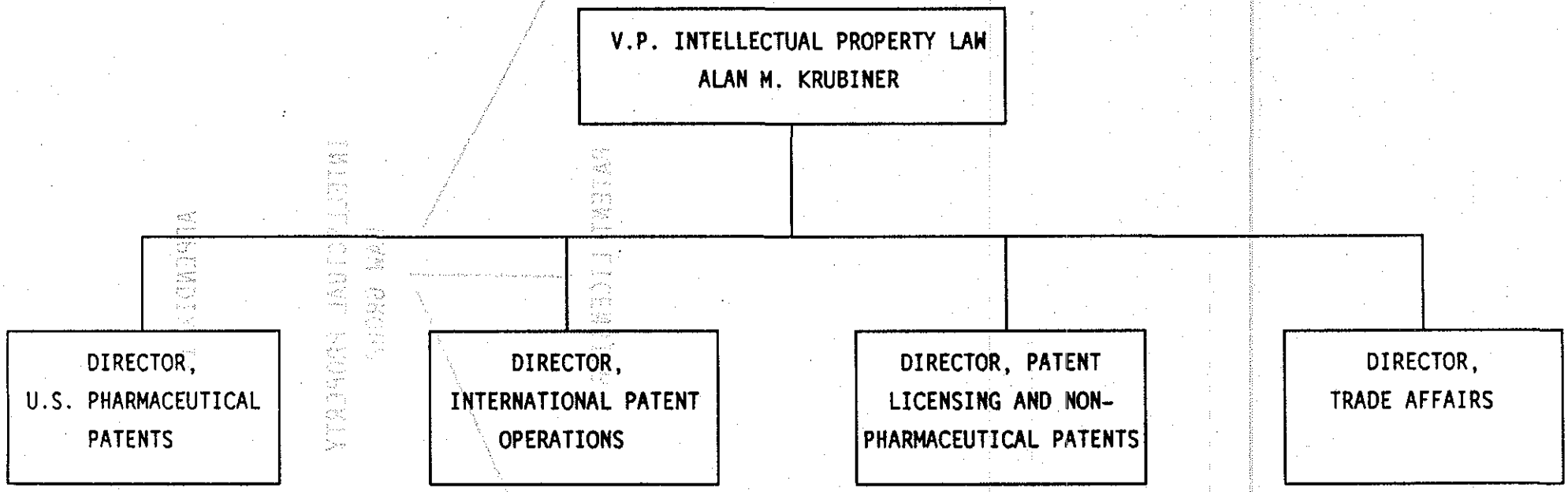
LEGAL AFFAIRS DIVISION



APPENDIX II


INTELLECTUAL PROPERTY
LAW GROUP
PATENT LAW
PATENT LICENSING
TRADE AFFAIRS

APPENDIX III



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(1) Title: General View of Intellectual Property Law (or Patent) Department in Japanese PIPA Member Companies
- Its Organization & Function -

(2) Date : 10/90 (21st, Niigata)

(3) Source:

1) Source: PIPA
2) Group : Japan
3) Committee: 2

(4) Authors:

Hiroatsu Kaneko : Teijin Ltd.
Yasuyuki Kishi : Nissan Motors Co., Ltd.
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Nobuo Sugiura : Toyota Motor Corp.
Nobuo Usuda : Ricoh Co., Ltd.

(5) Keywords: Intellectual Property Department

(6) Statutory Provisions:

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(7) Abstract: Although the role of an intellectual property department or division in a company naturally differs from country to country and from company to company, we believe that there may be many points that are common to each company. As a company would always pursue the maximum management efficiency in technological development under the free economy, it is quite natural that each company would eventually arrive at a most rational organization and function.

Despite the slight current differences among intellectual property laws of advanced countries such as Japan, the United States and European countries, which arise out of different historical, cultural and business background of each company, the world is now entering the era of "synchronization", and harmonization of legal systems is steadily advancing.

It is believed to be quite significant that Japanese and American member companies of PIPA should, at this time, deepen their recognition of each other's organization and function. This paper shows the result of a questionnaire survey to Japanese PIPA member companies on organization structure, role sharing and functional duty of their intellectual property department or division and introduces the unique features of activities for intellectual property at leading companies of Japan.

*** Introduction ***

The present theme was selected based on a proposal made by Mr. Richard H. Childress, the Chairman of the U.S. Committee No. 2, that both Japan and U.S. committees should make presentation of their patent department organization. Upon discussion by above identified five members of Japanese Committee No. 2 who were appointed to take up this topics, it was concluded that a questionnaire survey would be most appropriate to study the actual status, and highlight the features of a typical picture of practice, organization and role sharing for intellectual property work at Japanese companies to be presented.

All of the 81 member companies of PIPA Japanese Group were asked to answer the questionnaire and 75 companies responded. The breakdown thereof is shown below.

Electronics	20 companies (26.7%)
Automobile	9 companies (12%)
Machinery & metal	9 companies (12%)
Chemical & pharmaceutical	37 companies (49.3%)
Total	75 companies

* The breakdown for sales amount of these 75 companies is as follows; the annual sales of over ¥2 trillion for 9 companies, between ¥1 trillion and ¥2 trillion for 7 companies, between ¥200 billion and ¥500 billion for 26 companies, between ¥100 billion and ¥200 billion for 12 companies, less than ¥100 billion for 3 companies. Most of the leading companies in the above identified four industrial areas were covered by the survey.

* PIPA member companies account for about 15% of the total members of Japan Patent Association, and PIPA member companies are generally active in product/technology transfers with overseas countries. The breakdown for their export ratios are as follows;

export ratio 11 - 30% for 32 companies (42.6%)
31 - 50% for 12 companies (16%)
more than 50% for 4 companies (5.3%).

Thus, about two-thirds (2/3) of all the respondents are exporting on a material scale and their relations with U.S. companies are quite close.

A typical feature of a Japanese company for intellectual property management as reflected in this survey is discussed below.

1. Organization Mainly Engaged in the Intellectual Property Related Work

(1) Title of "Organization"

* The title of which principal portion is "patent" or "intellectual property right" accounts for 82%, and that comprising mainly of "legal affairs" or "general affairs" accounts for only a few.
* As for combined titles, more than 60% responded that they have "no combined title" while about 30% have the titles in which words such as "license" and "information" are combined. Only one company contains the word "legal affairs" in their title. Most companies continue to use "Patent" alone for their title, and a comparatively large number of companies combine "license" or "information".

fig.1 Title of intellectual property organization

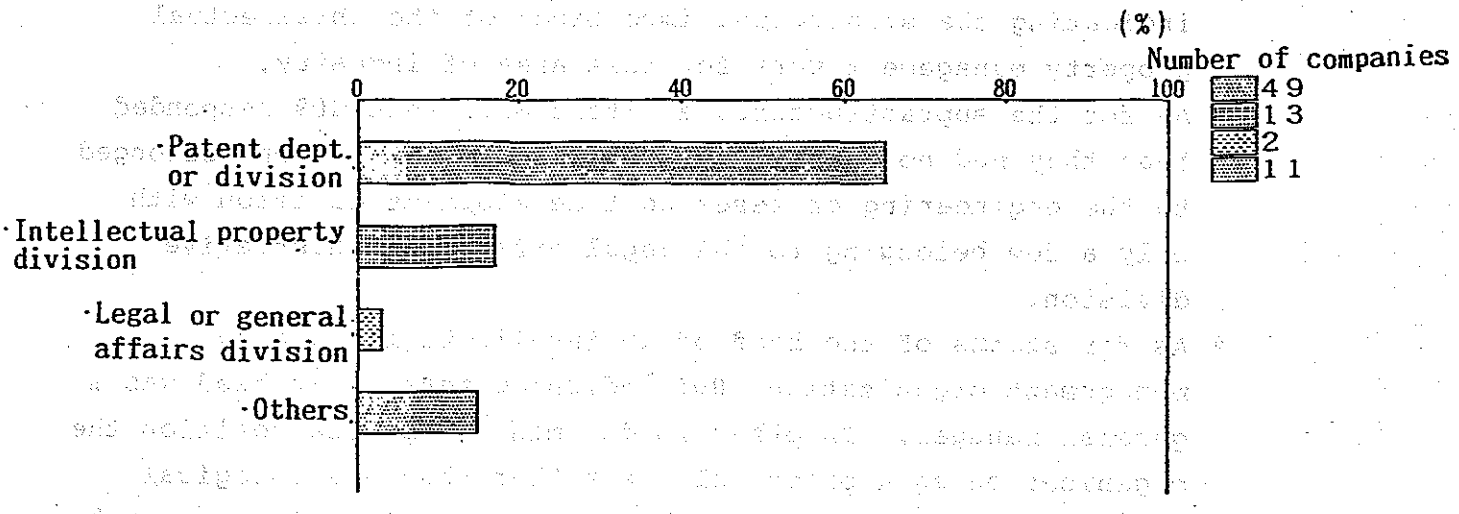
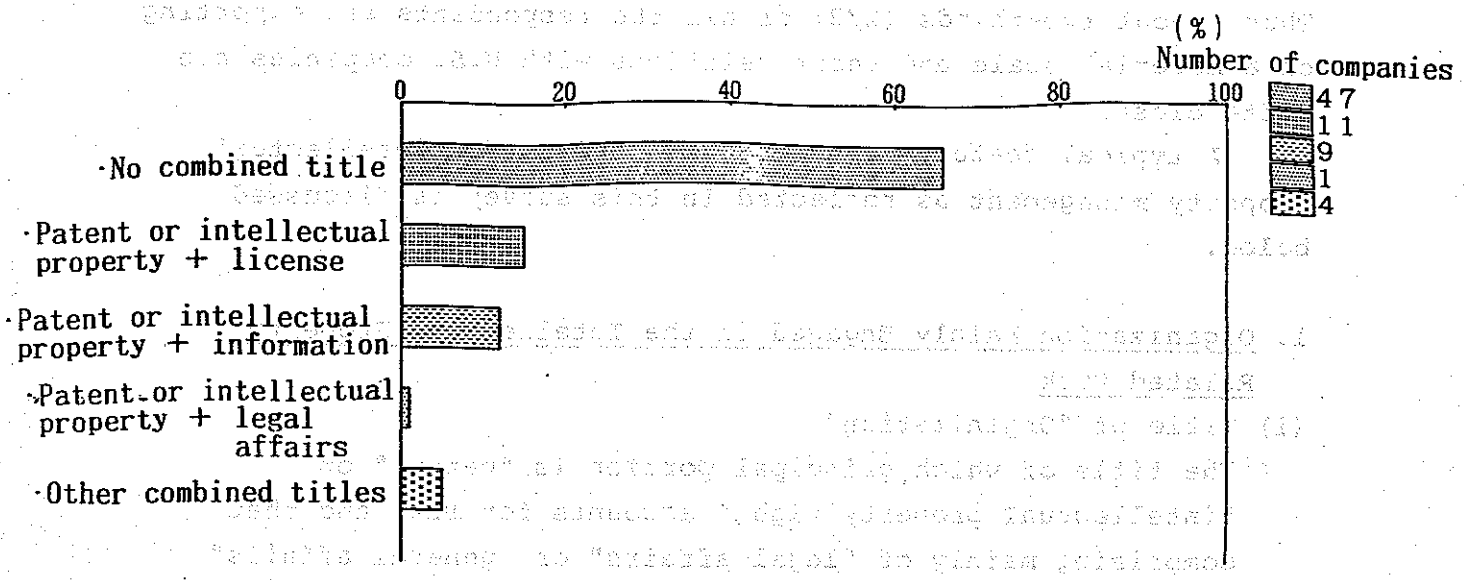


fig.2 Combined title



(2) Position of the organization inside the company

* About half of the respondents are independent departments. When "department within an intellectual property division" and "department incorproated in an intellectual property division" are included, 92% of the companies position the intellectual property management organization quite close to the top management.
  Among six companies of which their department is incorporated in a division, five were electric or electronic companies indicating the strategical importance of the intellectual property management work for this area of industry.
* As for the suprastructure, a little more than 40% responded that they had no suprastructure, followed by 40% who belonged to the engineering or research & development division with only a few belonging to the legal affairs/administrative division.
* As for status of the head of an intellectual property management organization, 80% indicated that their head was a general manager. In other words, many companies position the organization as a practical one rather than a strategical one. This shows that even though an executive officer may be supervising or controlling the department, a considerable

fig. 3 Position of organization

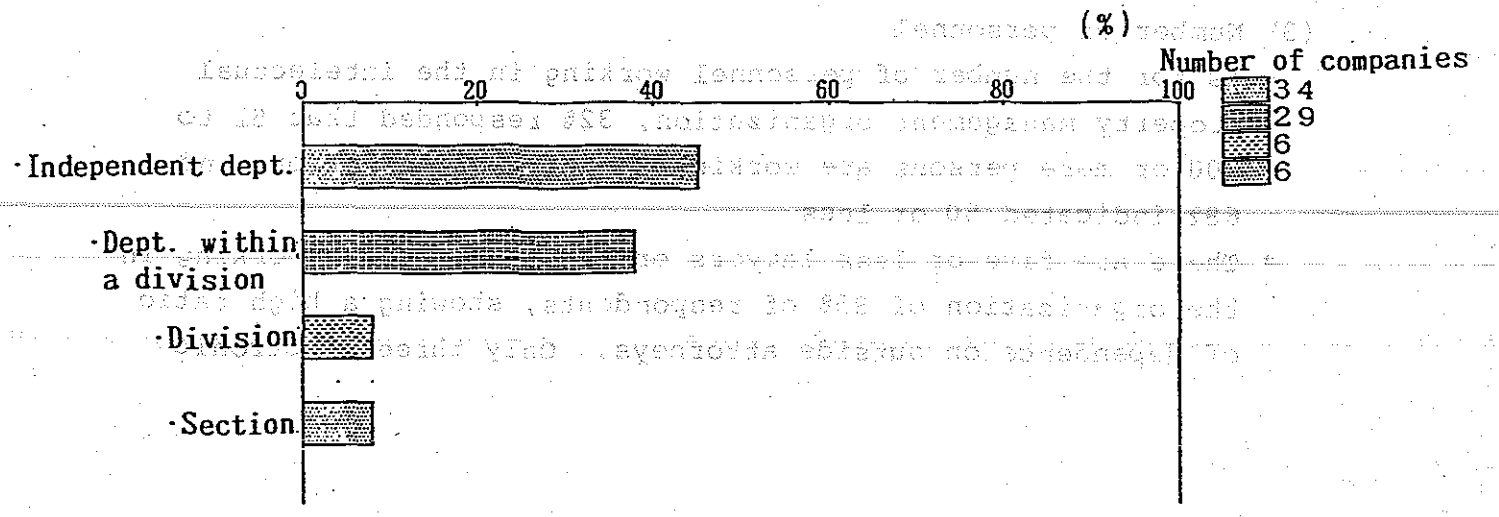
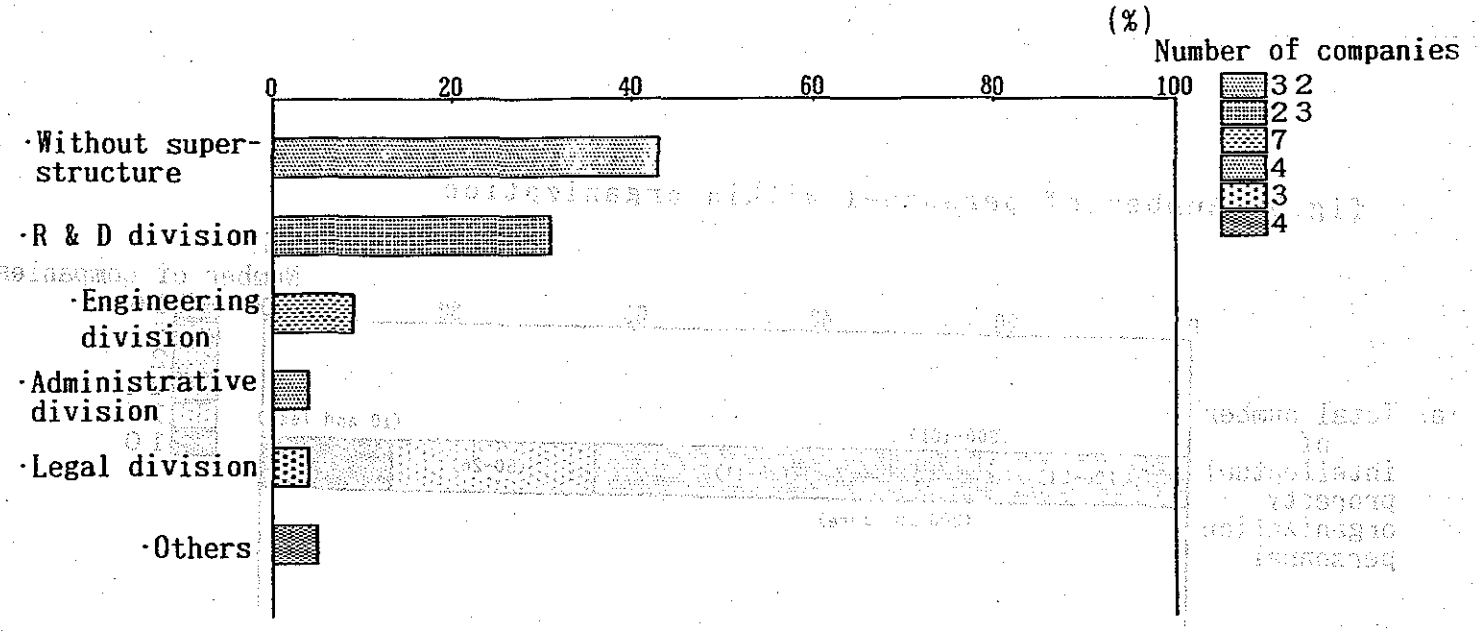


fig. 4 Superstructure of organization



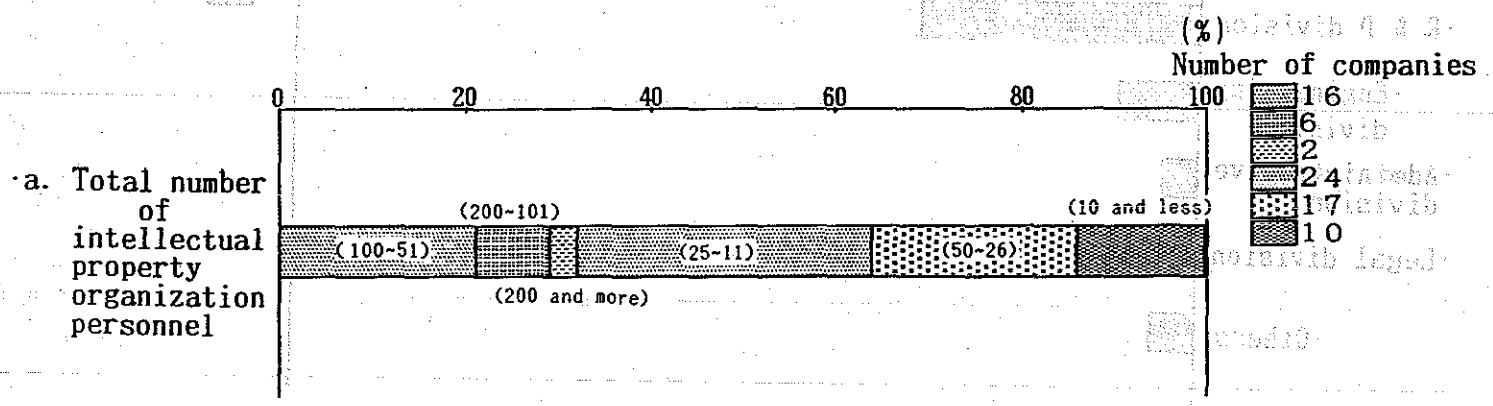
degree of authority is delegated to the department heads, thus facilitating a dynamic management.

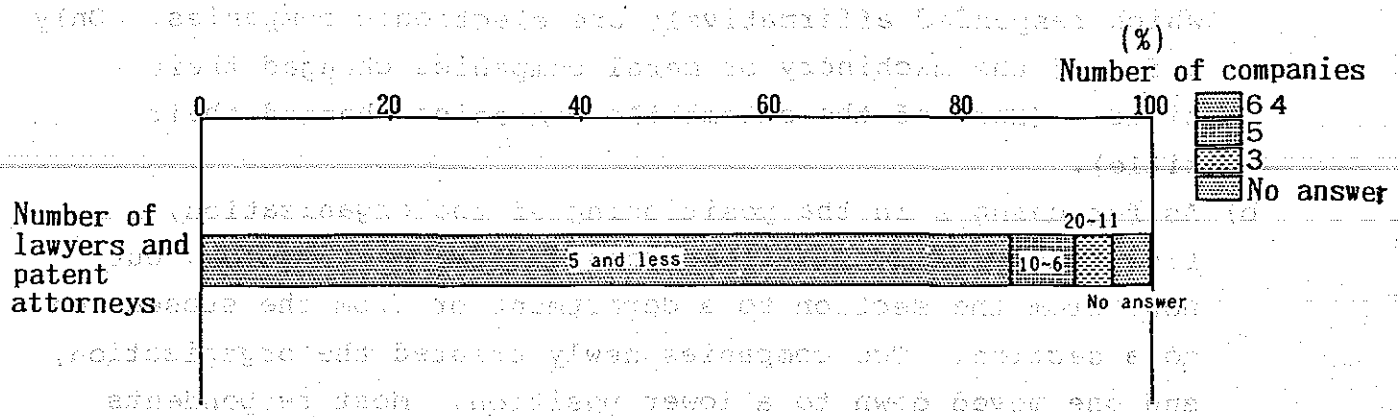
* As for job assignment, an overwhelming number or 3/4 indicated that jobs are assigned by functional duties rather than by business fields.

(3) Number of personnel

* As for the number of personnel working in the intelectual property management organization, 32% responded that 51 to 200 or more persons are working in their organization, and 68% indicated 50 or less.
* There are five or less lawyers or patent attorneys working in the organization of 85% of respondents, showing a high ratio of dependence on outside attorneys. Only three electronic

fig.5 Number of personnel within organization





companies employ 20 to 10 lawyers or patent attorneys, while all the automobile, machinery and metal companies employ less than five such personnel. Three chemical companies responded that they employ between 6 to 10 lawyers or patent attorneys, and the remaining 34 less than five.

* As for the ratio of intellectual property management personnel against total number of office workers and engineers, 50 companies or 2/3 of the respondents indicated 0.3 - 1%. Those who indicated above 1% accounted for 16%, a half of which was chemical companies. This demonstrates that the weight of an intellectual property management organization is relatively high in this industry.

(4) Changes in the organization and personnel (after 1988)

a) As for change of the department title, 30% responded "yes" and 70% "no". Only a few companies changed their title in the last 2 years. More than half or 12 companies of those which responded affirmatively are electronic companies. Only a few of the machinery or metal companies changed their title. (None of the automobile companies changed their title).

b) As for changes in the positioning of the organization, five companies upgraded the department to a division, but none from the section to a department or from the subsection to a section. Two companies newly created the organization, and one moved down to a lower position. Most respondents indicated that no changes have been made.

* As for changes in the status of the organization head, seven companies indicated promotion to a higher rank, and four to a lower rank. More than 80% of the respondents indicated that no changes were made during the past 2 years.
* As for the number of personnel working in the intellectual property management organization, five indicated an increase of 21 to 30%, 12 of 11 to 20%, and 24 of less than 10%. Thus, a little less than 70% increased their staff. (No changes for 20 companies, and a decrease for five companies).
* When broken down by the industry, more than half of the electronic companies increased their personnel by more than 11%, whereas the majority of mechanical/metal companies indicated "no change" or "decrease". Most of automobile and chemical companies indicated an increase of less than 10%.

c) Changes in the number of personnel in charge of filings

	Changes in the number of personnel (Number of companies)				
	Decrease	No change	Increase		
			10%	10-20%	More than 20%
Electronics	0	5	5	3	6
Automobile	0	3	1	4	0
Machinery/metal	2	5	1	1	0
General Chemistry	2	11	4	3	3
Pharmaceutical	0	5	0	0	1
Chemical/pharmaceutical	0	4	2	0	2
Total	4	33	13	11	12

For companies with the increased number of patent filings, the increased staff for filing is naturally to be expected. Even the companies which are limiting the number of filings may require additional work stages for pre-filing searches and internal coordinations and for selecting applications for which examination requests are to be filed.

d) Changes in the number of personnel in charge of work other than filing

The volume of intellectual property related litigations and licensing has considerably increased. This is attributable to increased frictions because of diversified businesses, advance to overseas countries or increased import volume. Organizational changes were made in order to deal with such situation and about 10% increase in the personnel was seen compared to two years ago (1988).

	Changes in the number of personnel (Number of companies)				
	Decrease	No change	Increase		
			10%	10-20%	More than 20%
Electronics	0	7	7	3	2
Automobile	0	4	0	2	2
Machinery/metal	1	6	2	0	0
General Chemistry	0	17	3	1	0
Pharmaceutical	0	6	0	0	0
Chemical/pharmaceutical	0	7	1	0	0
Total	1	47	13	6	4

When broken down by the industry, the increase of the staff for litigations and contracts at electric and automobile companies appears somewhat larger than in other industries.

(5) Resident office

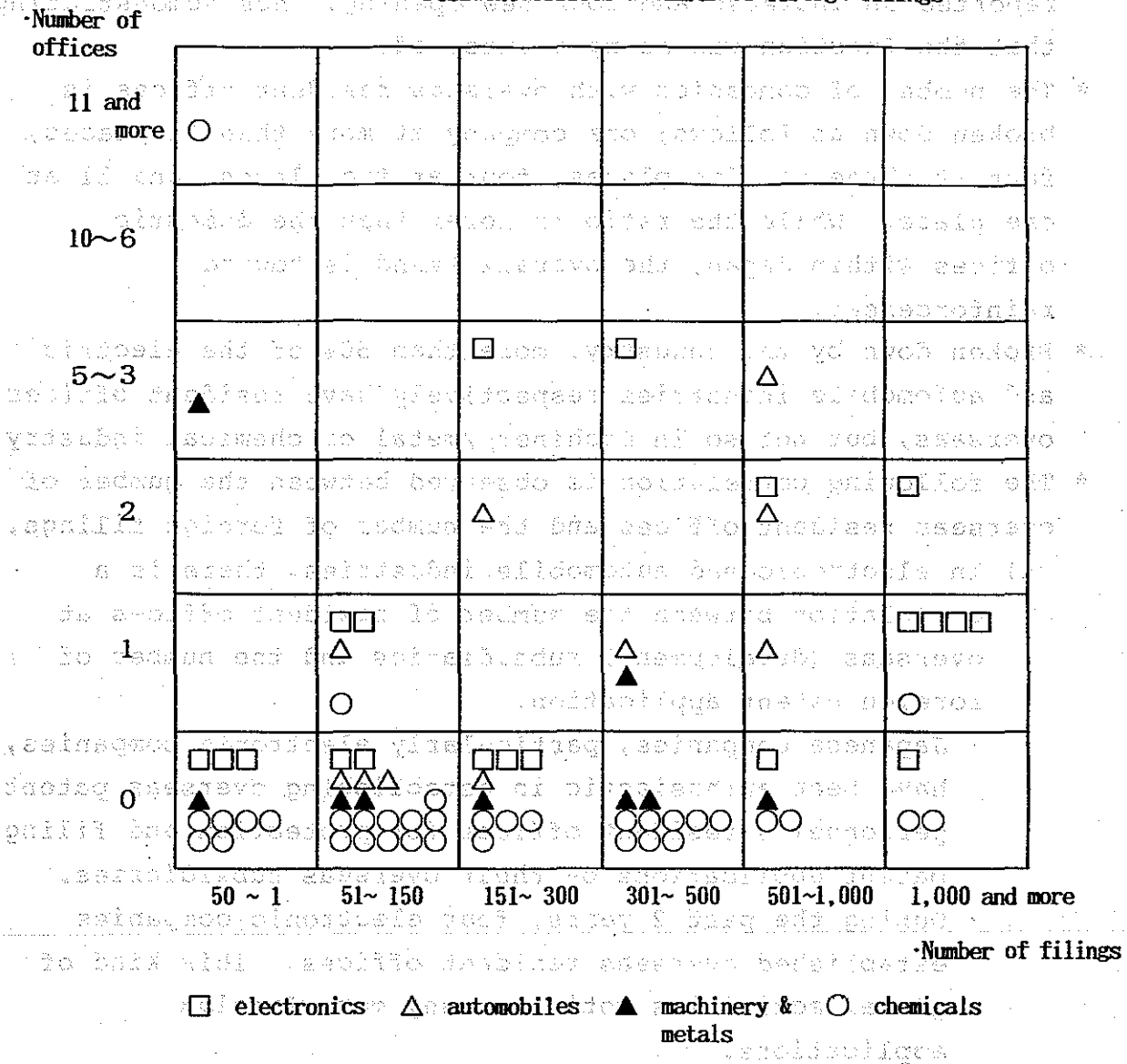
a) Domestic office

* As for changes concerning patent personnel's resident offices of intellectual property management organizations established in other sections, 10 companies responded that they increased/opened such offices, 31 indicated no changes, and 32 continued without such offices. More than 50% had such offices, and more than 80% made no changes during the past 2 years regarding such office.
* As for the number of resident offices at premises within Japan, seven companies had offices at more than 11 places, seven at from six to 10 places, 10 at three to five places, 11 at two places and 10 at more than one places. The ratios of companies without resident offices inside Japan were 25% for electric industry, 67% for automobile industry, 44% for machinery/metal, and 41% for chemical industry. The ratio of companies without resident offices was higher for automobile industry than for other industries.

b) Overseas

* For overseas patent personnel's resident offices, five reported an increase and four new opening, thus demonstrating that the function was being reinforced.
* The number of companies with overseas resident offices is broken down as follows; one company at more than 11 places, four at three to five places, four at two places, and 11 at one place. While the ratio is lower than the domestic offices within Japan, the overall trend is toward reinforcement.
* Broken down by the industry, more than 50% of the electric and automobile industries respectively have resident offices overseas, but not so in machinery/metal or chemical industry.
* The following correlation is observed between the number of overseas resident offices and the number of foreign filings.
  1) In electronic and automobile industries, there is a correlation between the number of resident offices at overseas (development) subsidiaries and the number of foreign patent application.
     - Japanese companies, particularly electronic companies, have been enthusiastic in establishing overseas patent personnel's resident offices for protection and filing patent applications by their overseas subsidiaries.
     - During the past 2 years, four electronic companies established overseas resident offices. This kind of global activities motivate many more foreign applications.
     - As for the automobile industry, four vehicle manufacturers and one parts manufacturer which are PIPA members have residents' offices in overseas countries. One of them opened its office during the past 2 years.
  2) There are two companies in the machinery/metal industry and four in the chemical industry which have the overseas residents' offices.

f i g. 6 Correlation between number of overseas resident offices & number of foreign filings



* There are very few U.S. and other foreign companies that have such offices at their Japanese subsidiaries or branches. Although it is up to each company's policy, we recommend that they look toward this direction particularly in view of harmonization.

An increasing number of Japanese companies are expected to open their resident offices in overseas countries. Such

companies are recommended to conduct their activities by respecting the local legal systems and business practices.

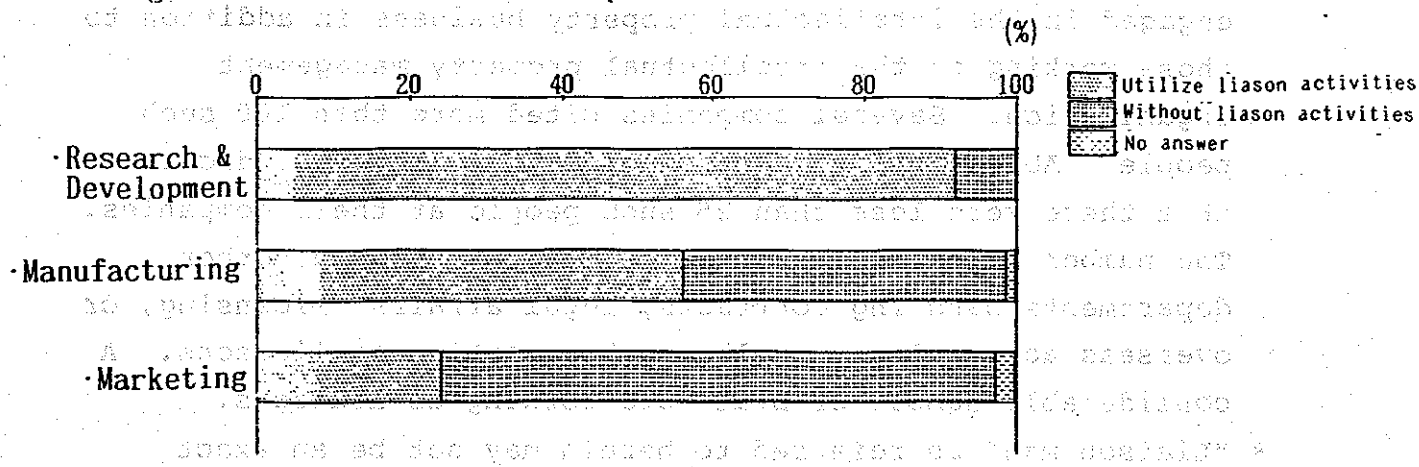
(6) Liaison activities

* About 1/8 of the respondents had more than 100 persons engaged in the intellectual property business in addition to those working at the intellectual property management organization. Several companies cited more than 100 such people. About half of the respondents, however, indicated that there were less than 25 such people at their companies. The number of personnel includes staff working at other departments handling contracts, legal affairs, licensing, or overseas activities as well as those acting as liaisons. A considerable number of staff are working as liaisons.
* "Liaison man" as referred to herein may not be an exact equivalent of those falling under the U.S. definition. Unlike the U.S. liaison persons who are "professionals with expertise in patent matters who train young engineers in the process from invention to practice", liaison men in Japanese companies are active as an interface between the intellectual property departments and R&D/product divisions, uncovering inventions, filing patent applications quickly and optimally, searching problem patents and contemplating countermeasures therefor. These active liaison activities enhance the inventors' awareness for intellectual property rights and lead to active patent filings.
* The companies maintaining a large number of personnel for intellectual property right management in addition to those at the intellectual property organization tend to file a larger number of patent applications.

As shown in the graph, liaison activities are conducted toward the R&D divisions in most of the respondent companies, the manufacturing divisions in more than half of the respondents, and the marketing divisions in about 1/4 of the respondents. While there are hardly any inter-industry differences in activities toward R&D divisions, more number of electric and mechanical companies conduct such activities toward manufacturing divisions but not the automobile

companies. Hardly any companies in automobile and mechanical industries conduct such activities toward their marketing divisions.

fig.7 Liason activities in respective divisions



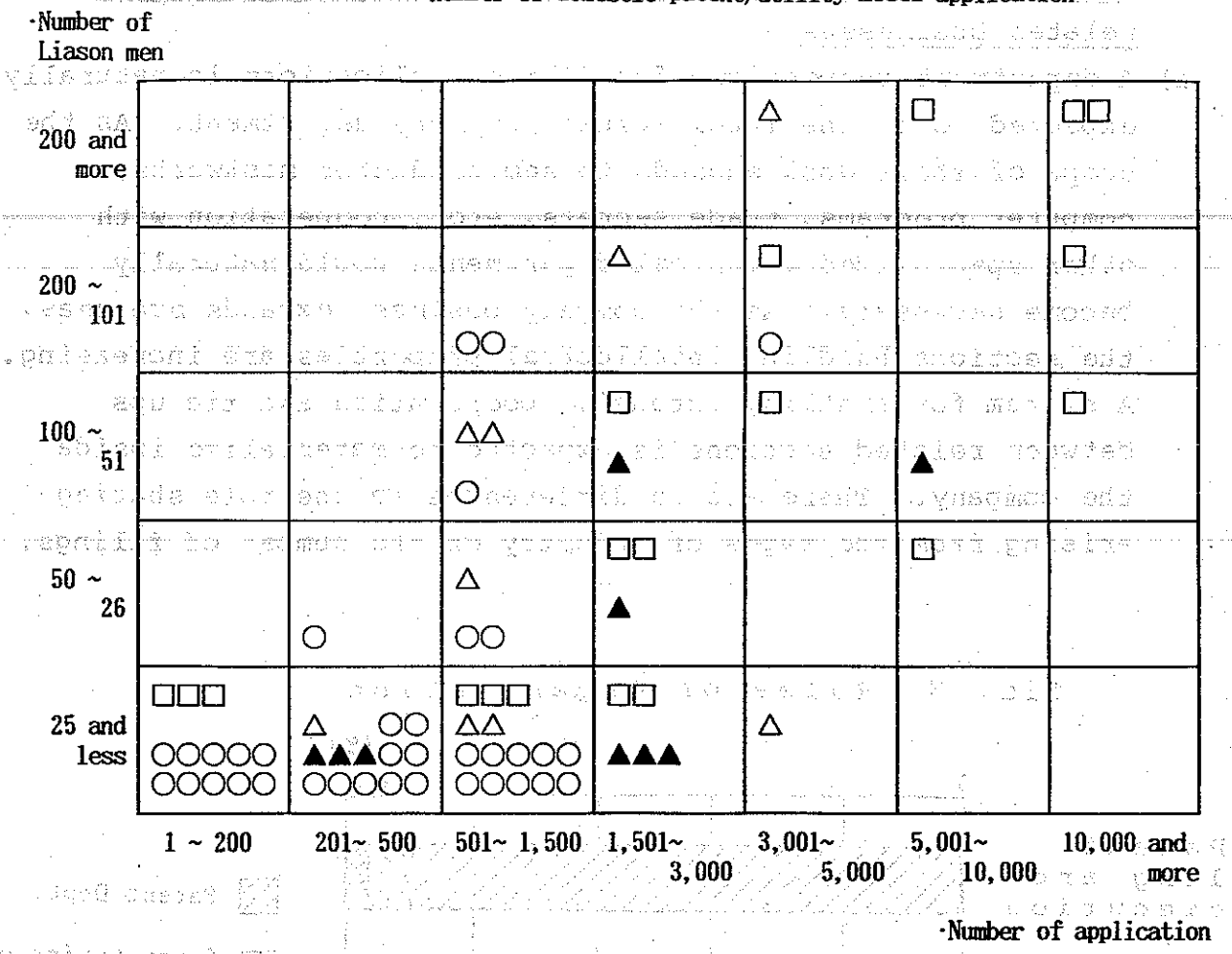
* Correlation between the number of liaison men and the number of domestic patent/utility model applications.

1) There is a clear correlation in the electronics industy. There are at least 51 to 200 liaison men in electric and electronic companies filing between 5,000 and 10,000 applications. Three of the four electronic companies with more than 200 liaison men file, without exception, from 5,000 to 10,000 applications.

2) There are comparatively large number of liaison men in the automobile industry, but the correlation is not so clear as in the case of electronics industry. Two companies with more than 200 liaison men filed between 3,000 and 5,000 applications, but one with less than 50 filed about the same number of applications.

3) In chemical industry, one company with 51 to 200 liaison men filed 3,000 to 5,000 applications, but the rest have less than 50 liaison men and filed less than 1,500 applications. Therefore, there is no positive correlation between the two factors, suggesting that the liaison man system is not so effective in chemical industry.

f i g. 8 Correlation between number of liason men and number of domestic patent/utility model application



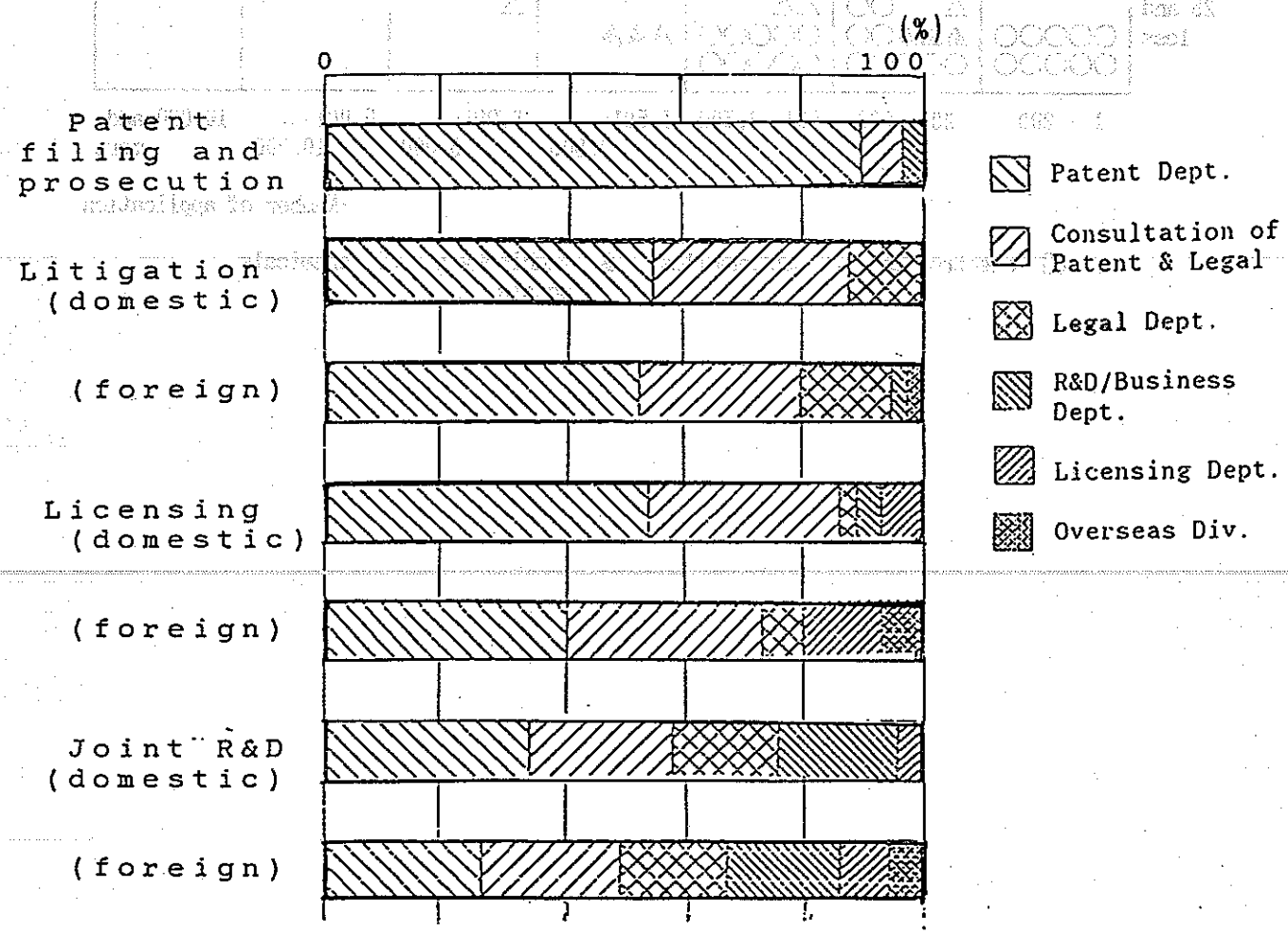
□ electronics △ automobiles ▲ machinery & metals ○ chemicals

2. Role Sharing for Intellectual Property Management in the Internal Organization

(1) Roles of the organization managing intellectual property related businesses

a) A department responsible for filing applications is naturally expected to be the intellectual property department. As the scope of their work expands to semiconductor maskworks, computer programs, trade secrets, etc., cooperation with other specialized technical departments would naturally become necessary. As the company business expands overseas, the sections handling intellectual properties are increasing. A system for enabling extensive cooperation and tie-ups between related sections is expected to materialize inside the company. There are no differences in the role sharing arising from the types of industry or the number of filings.

fig. 9 Roles of Organization



(2) Organization in charge of patents and utility models

a) Pre-filing search

Partly because of the administrative guidance, pre-filing searches are conducted by 90% of the companies. Provided, however, such searches are not necessarily conducted for inventions resulting from R&D for which prior art searches were conducted initially or for those which are filed provisionally. (About half of the companies address this matter on a case-by-case basis.)

b) Sections in charge of searches

Pre-filing searches are conducted by the filing section at 30% of the respondents, by the sections where invention report is made at 30% and jointly by these two sections at 25%.

* There seems to be no relation between the pre-filing searches and the sections-in-charge with the type of industry or the volume of filing.

c) Evaluation of the invention

Technical evaluation of the invention reported and the decision to file a domestic application for such invention are made by the section in charge-of-filing (77%), the section to which the report is made (9%), and by consultation of the two sections (8%). In this case, there is also no relation to the type of industry or the number of filings. The role sharing is substantially the same for foreign filings; the section in charge of filing (70%), the section to which the report is made (8%), consultation of the two sections (9%), and the special section/committee, etc. (8%).

* About 10% of the companies, however, have different sections for making decisions on domestic and international filings. (From the filing section to the specialized section; from the invention reporting section to the filing section). Among such companies, there are some which file a large number of foreign applications compared to their domestic applications.

d) Decision maker for filing (domestic applications)

In companies which file at least 1,501 cases a year, the authority to decide on filing rests with the department/ section head. In the companies with a less number of filings

(60%), executive officers above the department/section head, or the committee comprising of executive officers make such decisions.

	Officer/ committee	Department head/director	Section head	Others
Electronics	0	14	4	2
Automobile	1/1	3	4	0
Machinery/ metal	0/1	3	4	1
General chemistry	2/0	14	5	2
Pharmaceuticals	2/0	7	2	3
Total	5/2	41	19	8

Decision maker for filing (international applications)

	Officer/ committee	Department head/director	Section head	Others
Electronics	2/1	12	2	3
Automobile	5/1	2	0	1
Machinery/ metal	4/0	2	0	3
General chemistry	8/4	10	0	1
Pharmaceuticals	5/2	4	0	3
Total	24/8	30	2	11

* Usually decision to file requires business judgement as well as patentability judgement. The sections or persons capable of such judgement should assume the decision making responsibility. The head of the intellectual property management department/section usually makes such decisions, which appears reasonable from practical and management points of views.

Changes in the rank of decision makers for domestic applications and foreign applications

Foreign applications cost more because of the translation and other expenses. Therefore decision making to file foreign patents naturally requiresmore prudence. The decision makers were compared in respect of their ranks as below.

	Same for domestic/international applications	Change to upper rank
Electronics	15	5
Automobile	3	6
Machinery/metal	1	8
General chemistry	9	14
Pharmaceuticals	7	7

In electronics industry which files more foreign applications, only 1/4 of the respondents indicated that the decision makers are of different ranks for domestic applications and international applications. The authority usually rests with the department/section heads.

e) Cost sharing

At almost all companies (80%), the filing section bears the cost of filing. For foreign filings, the cost is borne by the filing section (77%) or the invention reporting section (15%). There are no differences depending on the type of industry or the number of filings.

(3) Organization in charge of designs

Since the materials industry file few design applications, the difference according to the industry is quite evident. (Number of applications/registrations). Most companies have never filed design applications overseas.

a) Pre-filing searches and sections in charge of searches

As the administrative guidance is not so insistent in this area, there are somewhat less number of companies which conduct pre-filing searches for design applications compared to the patent cases. The situation is unique that a special design section usually conducts searches.

b) Evaluation of design

Decision for filing domestic applications is made by the section in charge of filing (80%) or the design section (5%).

c) Decision maker for filing

Decision for filing domestic applications is made by the department head (56%), the section head (24%), or the committee consisting of executive officers or the executive officer (10%).

(4) Organization in charge of trademarks

a) Pre-filing searches and section in charge of searches

Access is available at all times to commercial data bases such as BRANDY® for trademark searches. Therefore, there is no company which does not conduct pre-filing searches.

b) Decision for filing

Registrability for domestic applications can accurately be ascertained prior to filing. At 86% of the companies, the filing section makes a decision for filing. For foreign filings, the section in charge of filing (83%) or the trademark control section (each product division; 13%) is responsible for decision making.

c) Decision maker for filing

The department head (65%), the section head (21%), the committees consisting of executive officers or the executive officer (9%) makes the decision for domestic filings. The department head (57%), the section head (9%), the committees

consisting of executive officers or the executive officers (28%) makes the decision for international filings. Comparison was made to see if the rank of the decision makers for domestic and international filings differed from that on patents, and the following result was obtained.

	Same for domestic/international applications	Change to upper rank
Electronics	15	5
Automobile	6	3
Machinery/metal	7	2
General chemistry	18	5
Pharmaceuticals	12	2

Trademarks are regarded as strategically important from the time of filing, depending on the product or service to which the trademark is attached. Although there are some companies where special sections take charge, registrability of a trademark can be determined quite accurately compared to patents or designs, and therefore the authority for decision making is often delegated. In view of the recent distribution system of products, there is hardly any distinction between domestic and foreign filings as in the case of patent and design applications.

(5) Organization to address third party patents

Organizations addressing various phases from patent searches to paying settlement moneys for disputes in regard to third party patents are discussed in this section.

(1) Patent search and screening

* In many companies, either one or both of the intellectual property and the technology development divisions are in

charge of patent searches and screenings (about 75% of the whole, and 100% for the automobile companies). At only a few companies, two divisions share responsibilities (about 25%).

* Intellectual property departments are usually in charge in pharmaceutical, electronics and chemical companies (57%, 30% and 26% in this order).

(2) Expert opinion rendering

This falls in the field of patent-related area, and the intellectual property departments are mostly in charge (about 91%).

(3) Policy making to handle the third party patent

* There are a number of companies where each product division or the intellectual property department takes charge singly (about 23% each). However, there are equally many companies who hold consultations between the intellectual property department and the technology development department or each product division or both (about 43%).

  Thus, in as much as 70% of the companies, the intellectual property department participates in decision making.

* The tendency is similar in all the industries.

(4) Decision on royalties and settlement moneys

* Each product division (singly or in consultation with the intellectual property department) decides the matter in many companies (about 52%).
* Technology development department decides the matter only in a limited number of companies (about 17%).
* The tendency is similar in all the industries.

(5) Cost bearing for royalties and settlement money

* Each product division in many companies bears the cost (about 65%). Such division bears 100% costs in the machinery industry (100%).
* In quite a few companies, the intellectual property department bears the cost; in 10 companies (about 14%) the department pays the settlement money.
* There are some companies where the technology development departments bear the costs (electronics, automobile and chemistry). This may be attributed to their responsibility for design.

(6) Cost bearing for opposition filing, etc.

This is a patent-related business and the costs are usually borne by intellectual property departments (about 80%). There are eight companies (11%) and five companies (7%) respectively where the business department or the technology department bears the costs.

The same organization usually addresses a third party patent regardless of whether it is a domestic or a foreign patent. On closer look, some companies are found to shift the responsibility from the intellectual property department to the overseas department or from the licensing department to the overseas department, but they are limited in number.

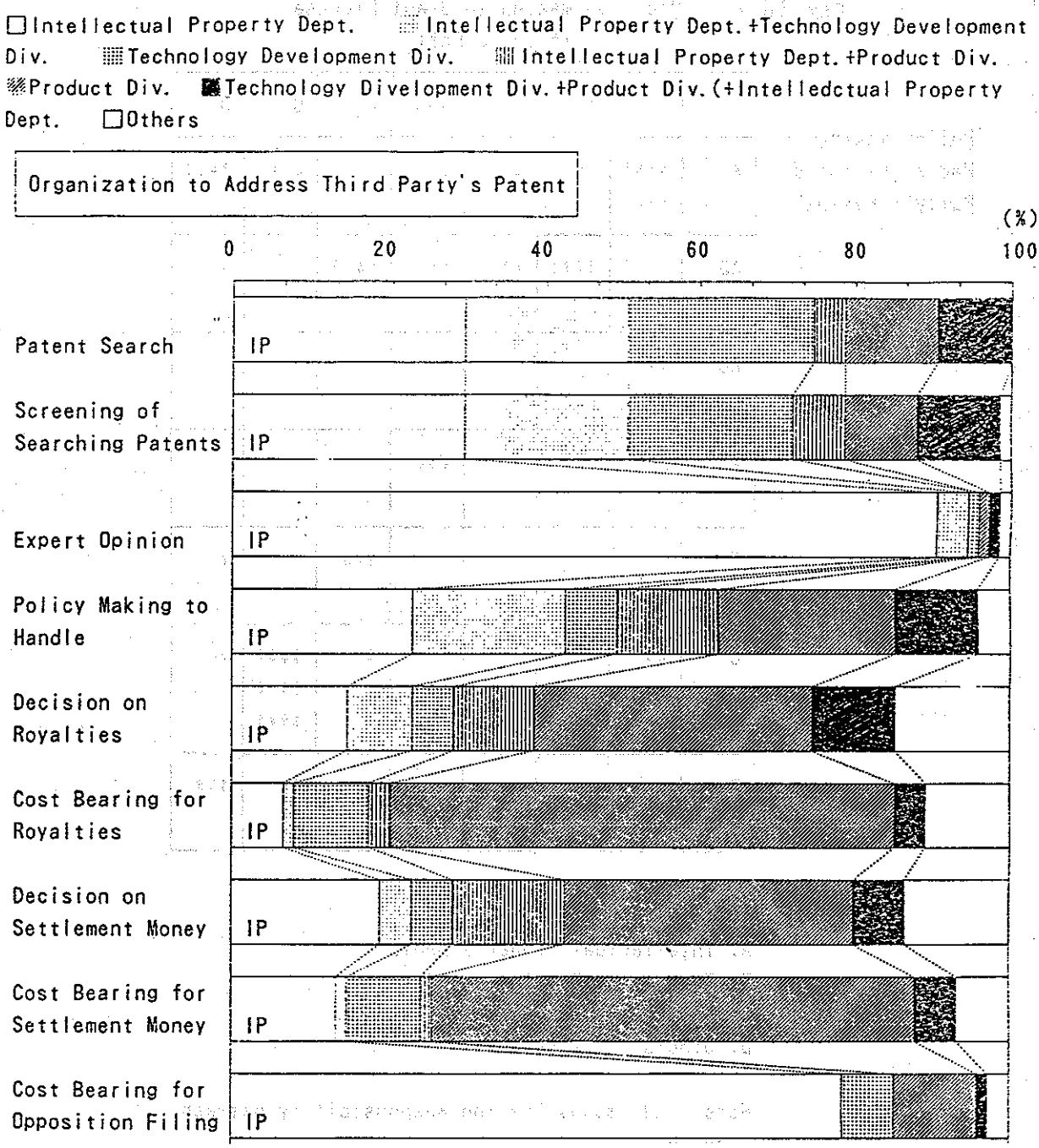


fig.10-1 Organization to Address License to Third Party

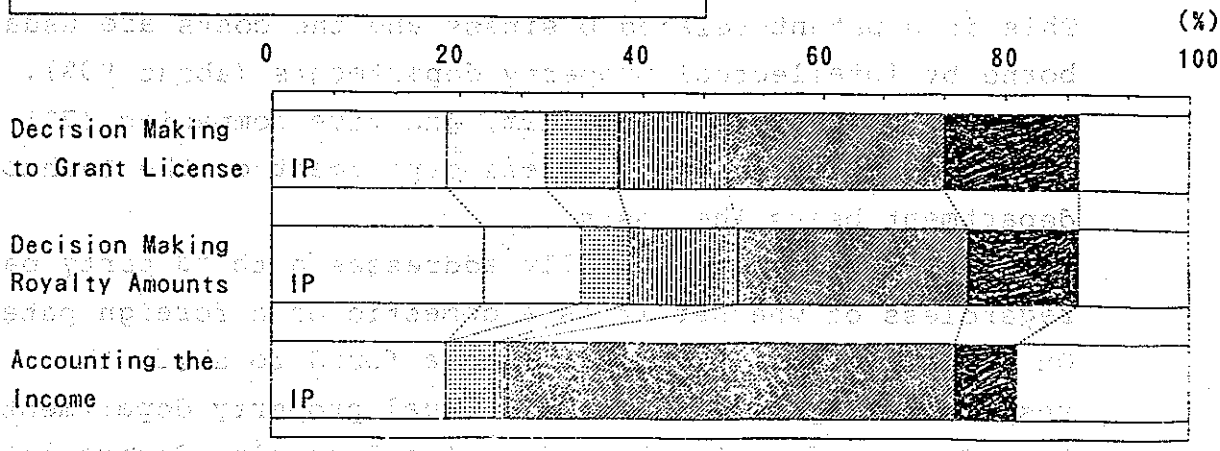


fig.10-2 "Decision Making to Grant License to Third Party"

"Policy Making to Hadle the Third Party's Patent"	A	AB	AC	ABC	B	C	D
A	**** ***		**	*		***	****
AB		**** ***	**	**	**		*
AC	***		****	*		**	
ABC	*			****			
B	*				***		*
C	**				*	**** **** ****	*
D						*	***

A: Intellectual Property Dept.
B: Technology Development Div.
C: Product Div.
D: Others (License Dept.)

Here, "AB" means Sharing Responsibility between A and B.

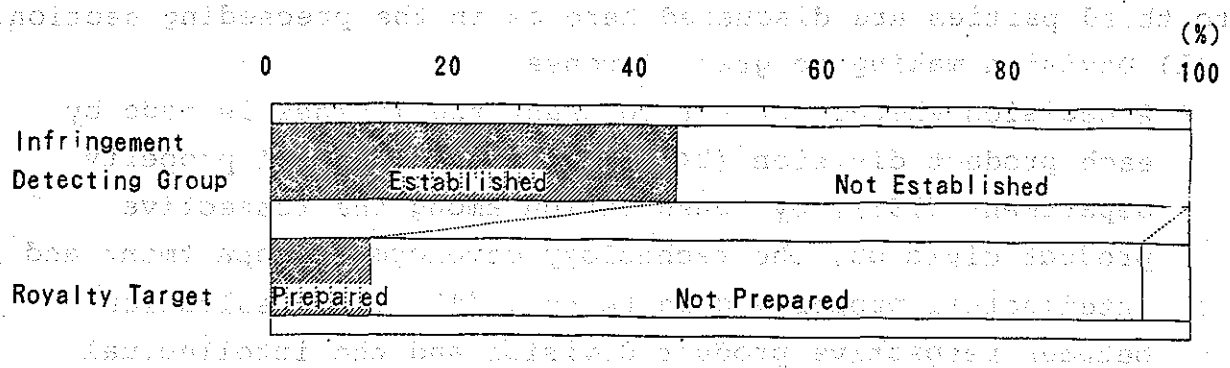
(6) Organization to address licenses to third parties

Organizations addressing various phases of granting licenses to third parties are discussed here as in the preceeding section.

(1) Decision making to grant license

* A decision whether or not to grant the license is made by each product division (24%) or the intellectual property department (19%), by consultation among the respective product division, the technology development department and intellectual property department (14%), or consultation between respective product division and the intellectual property department (12%). The differences are slight, and there is no set pattern concerning the decision making.
* Quite a number of companies indicated that decisions are made upon consultation with the intellectual property departments, those companies where the intellectual property department participates in decision making accounting for 60%.
* Distribution of departments responsible for decision is similar to distribution of those responsible for policy in addressing third party patents.
  When these distributions are compared, 39 companies (about 53%) cite the same department for these decisions. Transfer in major cases was examined; consultation was held between respective product division and the technology development department for addressing third party patents. In seven companies, the matter was transferred to the intellectual property department if it was related to "granting license to third party". In five companies, the transfer was made from the intellectual property department to consultation with respective product division, while in four companies the transfer was from the intellectual property department to the licensing department when dealing with "licensing to third party".

fig.11



(2) Decision making for royalty amounts

* The decision is made similarly as in the case of licensing, but there are slightly more number of companies where the intellectual property department primarily makes the decision.

(3) Accounting the income

* Usually each product division assumes the responsibility (about 52%). There are also cases where the licensing department, respective product division and the technology development department jointly assume the work (several companies).

(4) Infringement detecting group

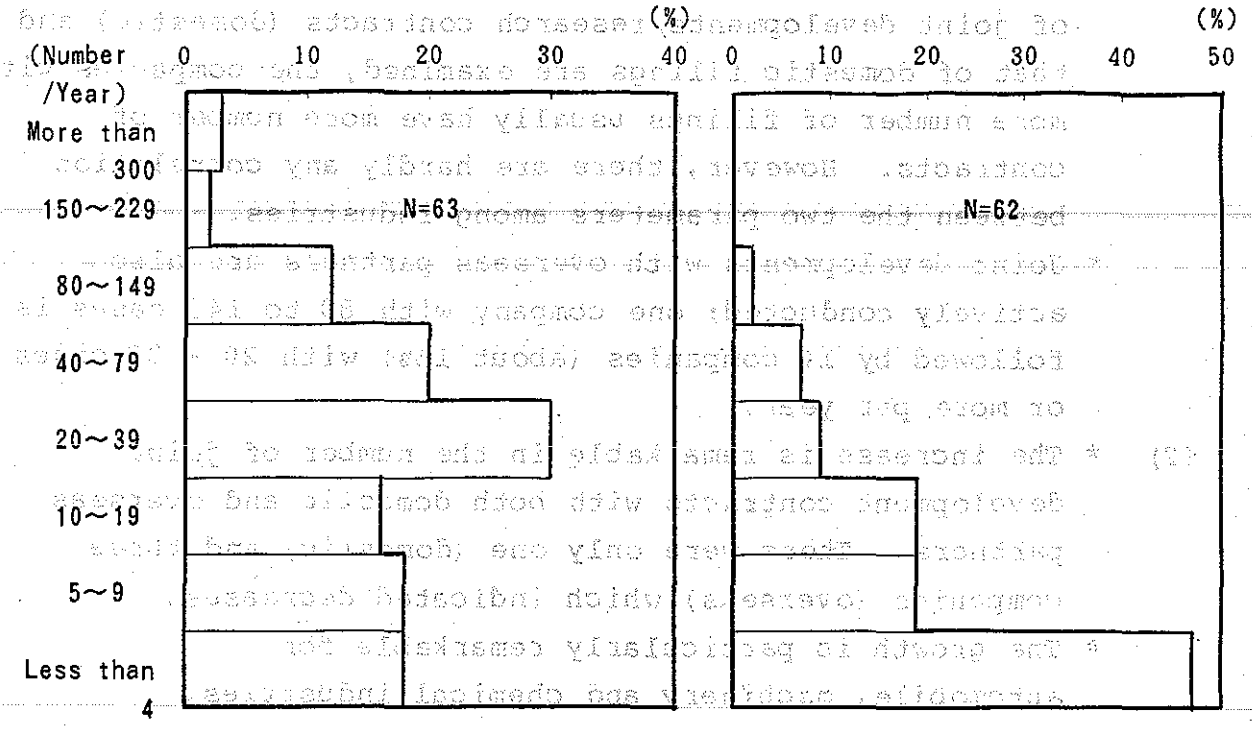
* About half of the respondents (44%) have such a group, particularly in the electronics industry (70%).

(5) Royalty target

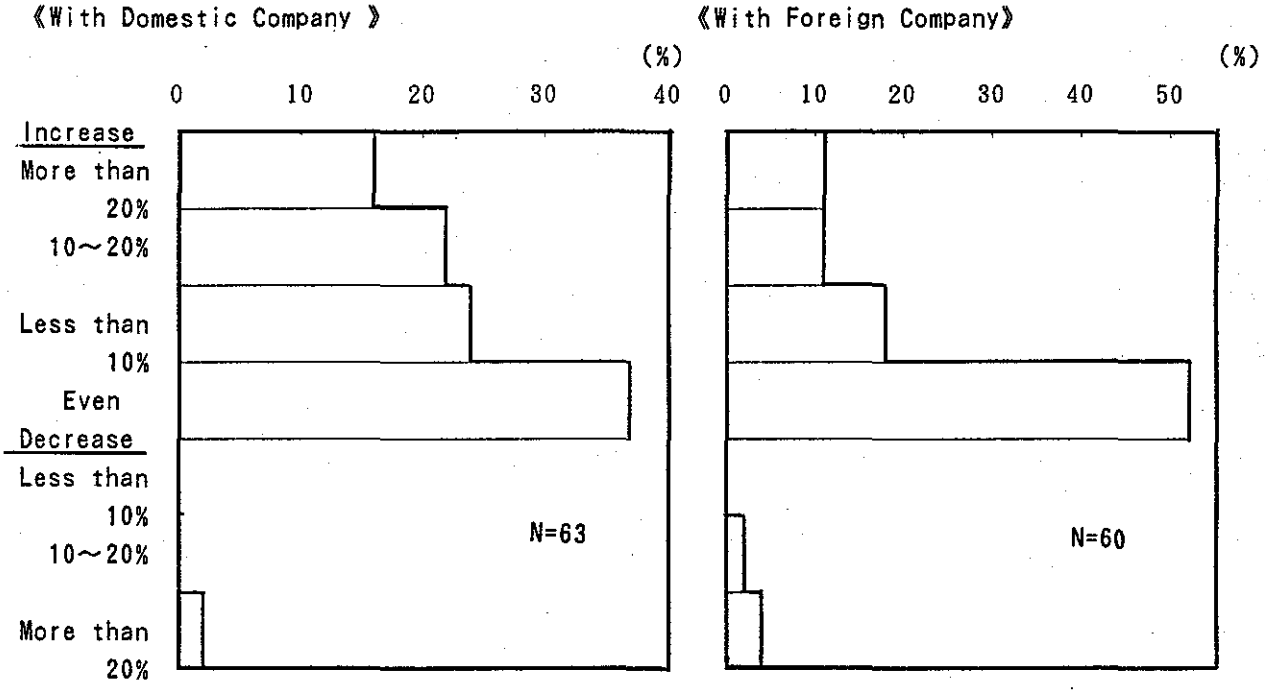
* Only a small number of companies (11%) have such a target, but more in the electronics industry (about 25%).

fig.12

The Number of Joint Development Agreement in a Company (1989)



Increase/Decrease of The Number of Joint Development Agreement in a Company (from 1987 through 1989)



Joint Development

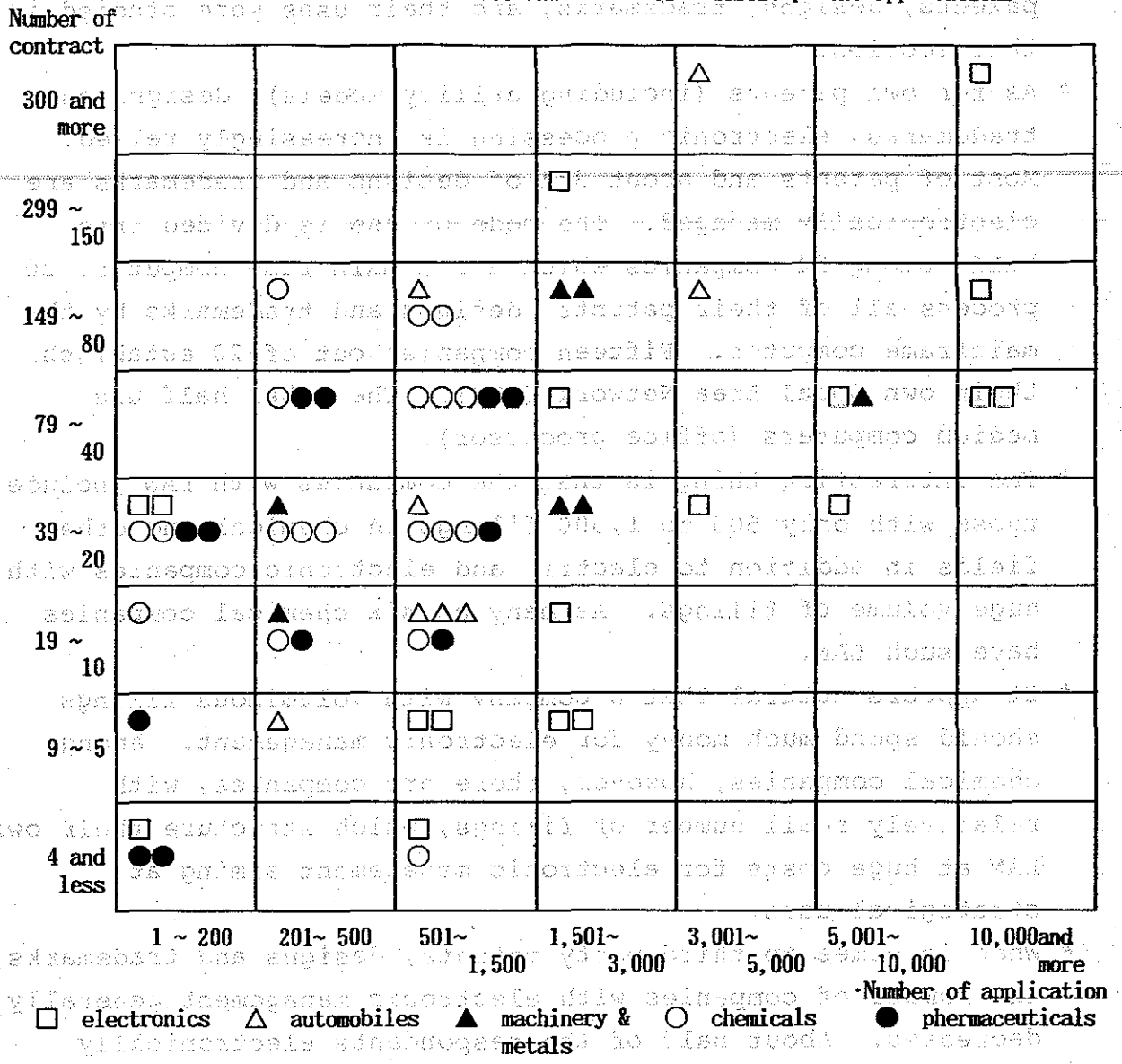
(1) * The number of joint developments for 1989 is shown. There are many cases for all industries. When the number of joint developments/research contracts (domestic) and that of domestic filings are examined, the companies with more number of filings usually have more number of contracts. However, there are hardly any correlation between the two parameters among industries.

* Joint developments with overseas partners are also actively conducted; one company with 80 to 149 cases is followed by 10 companies (about 16%) with 20 - 39 cases or more per year.

(2) * The increase is remarkable in the number of joint development contracts with both domestic and overseas partners. There were only one (domestic) and three companies (overseas) which indicated decreases.

* The growth is particularly remarkable for automobile, machinery and chemical industries.

f i g. 1 3 Correlation between number of joint development contracts and number of domestic patent applications

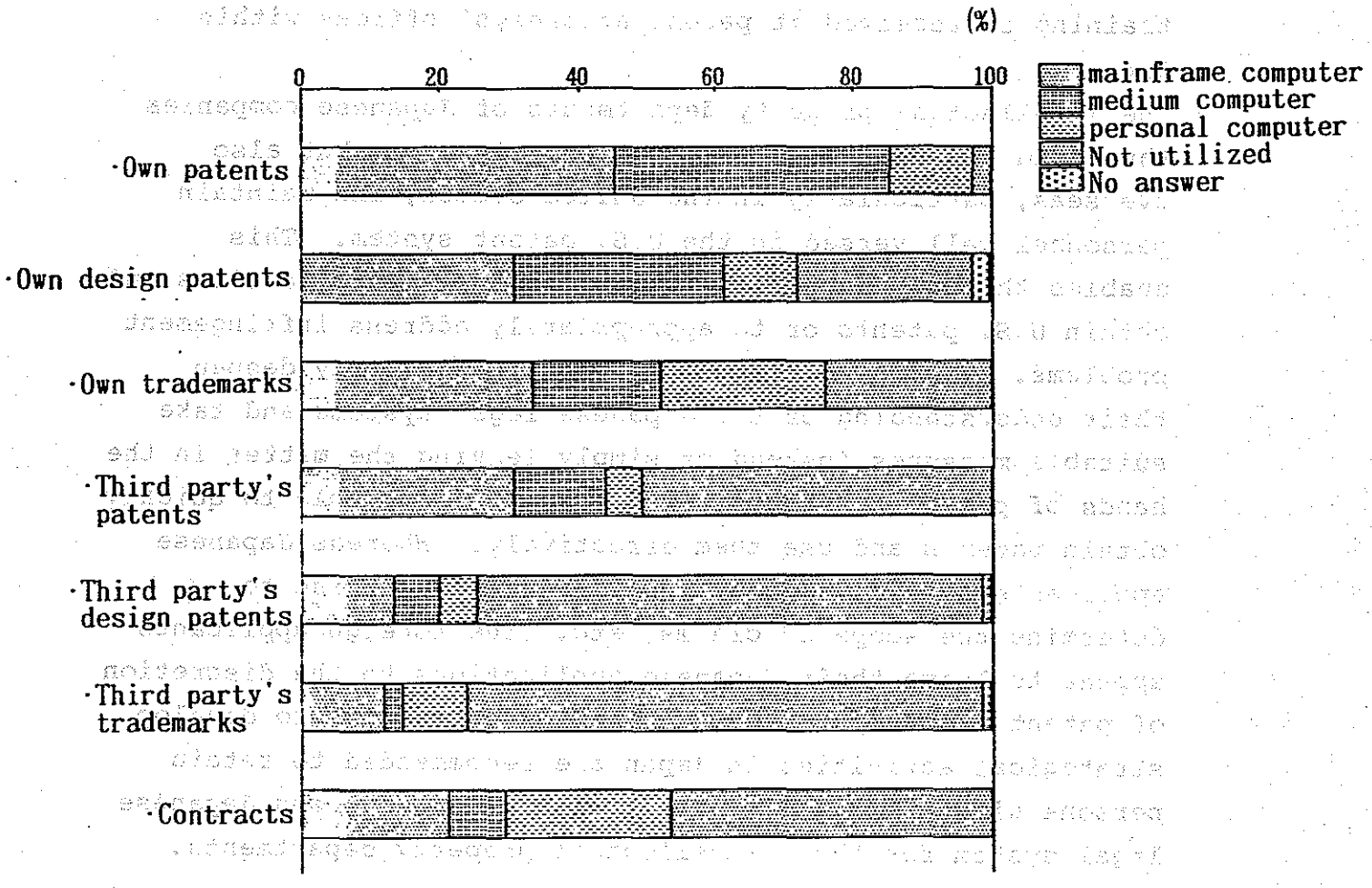


3. Electronic Management of Patent Information

* Electronic management of own patents (including utility models), designs, trademarks, contracts, and third party patents, designs, trademarks, and their uses were studied in this section.
* As for own patents (including utility models), designs and trademarks, electronic processing is increasingly relied. Most of patents and about 3/4 of designs and trademarks are electronically managed. The mode of use is divided into half; among 34 companies which use a mainframe computer, 20 process all of their patents, designs and trademarks by the mainframe computer. Fifteen companies out of 20 establish their own Local Area Network (LAN). The other half use medium computers (office processor).
* The interesting thing is that the companies with LAN include those with only 500 to 1,500 filings in chemical and other fields in addition to electric and electronic companies with huge volume of filings. As many as six chemical companies have such LAN.
* It appears natural that a company with voluminous filings should spend much money for electronic management. Among chemical companies, however, there are companies, with relatively small number of filings, which structure their own LAN at huge costs for electronic management aiming at strategical uses.
* When it comes to third party patents, designs and trademarks, the number of companies with electronic management generally decreases. About half of the respondents electronically manage third party patents, and about 70% of the electric, automobile and mechanical companies rely on electronic management of third party patents. On the contrary, 70% of chemical companies indicated that they do not use electronic management. Among 29 companies with thier own LAN and mainframe computer for their own patents, 22 companies also use the system for third party patents. For designs and trademarks, the number decreases; about 25% uses the electronic management. Even for electric companies, only 50% relies on the electronic management for third party patents.

* As can be seen from the above, a considerable number of Japanese companies manage their patents electronically, and about half of the respondents manage others' patents electronically, demonstrating that the patent strategy is effectively a part of the corporate strategy.
* As for contracts and agreements, about half of the respondents rely on electronic managements. This tendency is more pronounced in the electric and mechanical industries. About 1/5 uses mainframe computer, 1/4 personal computers (microcomputers) and 1/10 medium computers for management.

fig.14 Utilization of electronic management



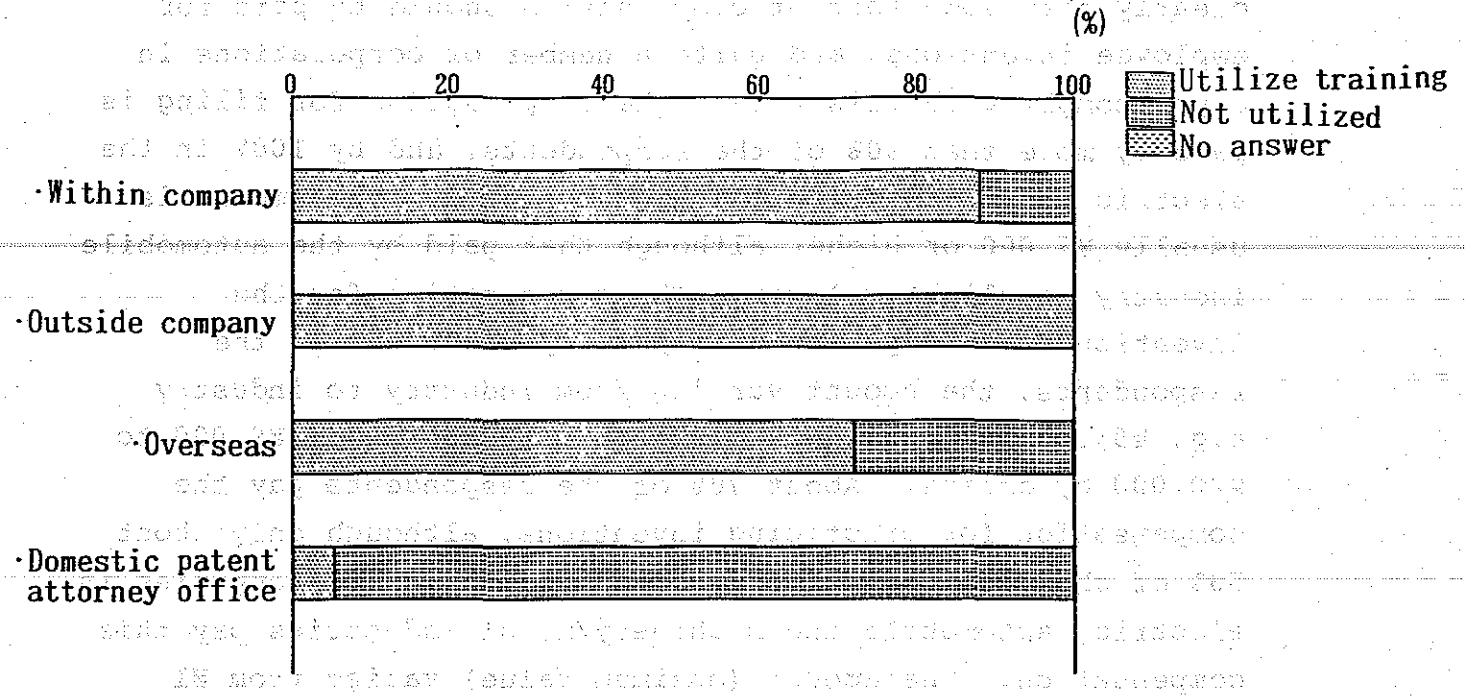
4. Incentive Activities for Inventions

(1) Training for intellectual property department personnel

* Training for intellectual property department personnel is actively conducted. About 90% of the companies indicated that inter-department trainings are given including outside trainings by Japan Patent Association and other organizations. About 3/4 hold such courses in overseas countries. All companies with many overseas subsidiaries (more than six), with large amount of sales (more than ¥1 trillion) and with large number of filings (more than 3,000 applications) give the overseas training. The companies with more volume of sales and more number of filings tend to hold overseas trainings more frequently. There are hardly any cases where training is received at patent attorneys' offices within Japan.

* The intellectual property departments of Japanese companies thus hold trainings actively not only in Japan but also overseas, particularly in the United States, and maintain personnel well versed in the U.S. patent system. This enables them to appropriately respond to official actions and obtain U.S. patents or to appropriately address infringement problems. If U.S. corporations were to similarly deepen their understanding of the Japanese legal systems and take suitable measures instead of simply leaving the matter in the hands of patent attorneys, then they would be able to quickly obtain patents and use them effectively. Whereas Japanese applicants read and review applications in English to determine the scope of claims, etc., the foreign applicants appear to leave their Japanese applications to the discretion of patent attorneys. Those companies attempting to develop strategical activities in Japan are recommended to retain persons with knowledge of the Japanese language and Japanese legal system for their intellectual property departments.

fig.15 Training programs



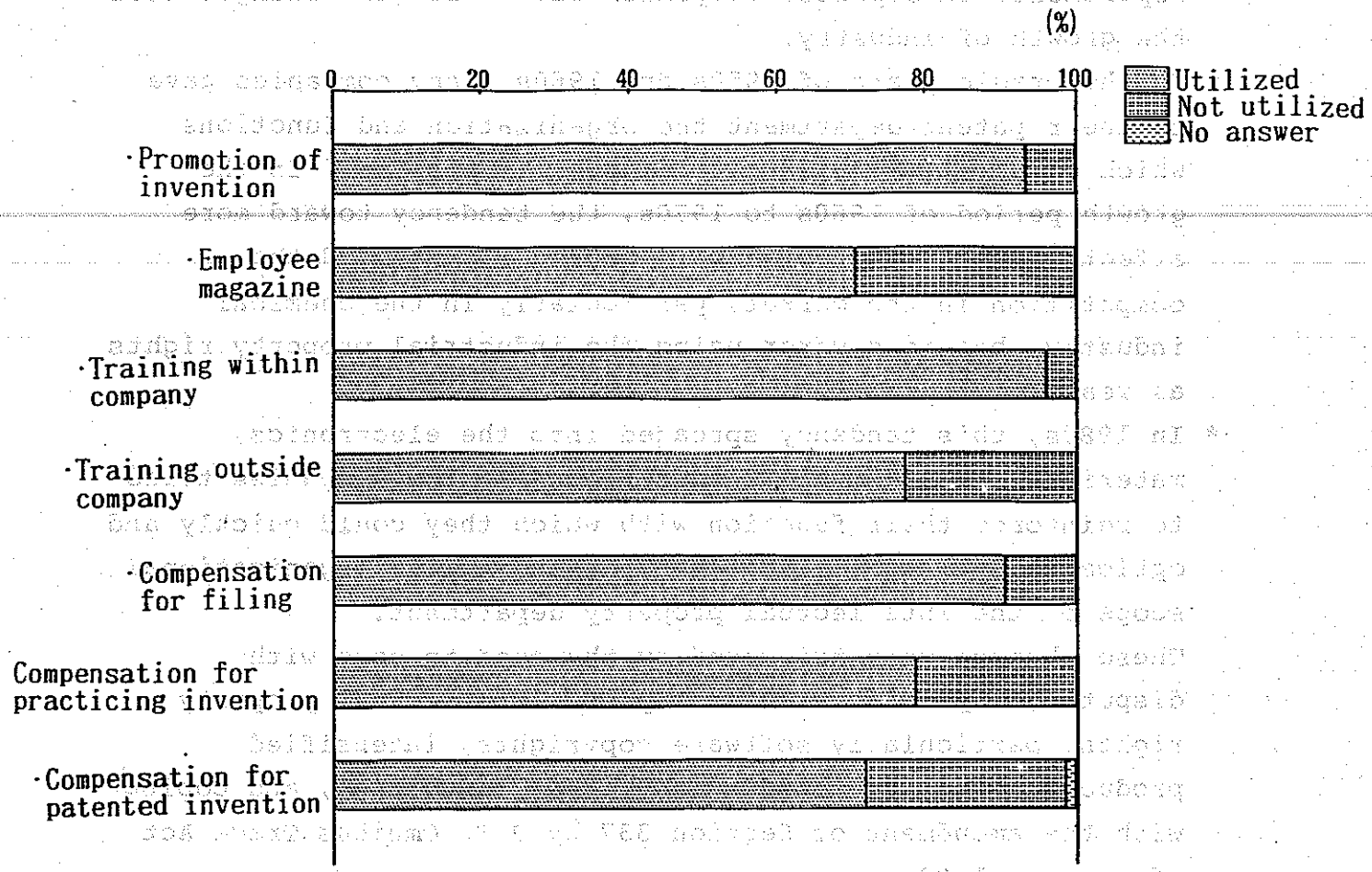
(2) Enhancing awareness of other departments within the company

* Promoting inventions for filing is extensively conducted by the above-mentioned liaison men and others to enhance the awareness of other departments within the company. Most companies hold the in-house training sponsored by their intellectual property departments, and about 3/4 respondents have their personnel receive outside trainings. For outside training, the courses offered by Japan Patent Association for its member corporations seem to be most popular because of high quality and reasonable fees. A total of almost 9,000 people from intellectual property and other departments of member companies received these courses last year. About 70% uses the house organ for this purpose, the electrical companies leading others in this respect. Chemical companies, on the other hand, appear to least use this medium.

(3) Rewards for inventions

* As for rewards for inventions, Japanese Patent Law stipulates clearly that some sort of compensation should be paid for employee inventions, and quite a number of corporations in Japan comply with this rule. The compensation for filing is paid by more than 90% of the respondents, and by 100% in the electric and automobile-related industries. The amount is usually ¥3,000 or higher although that paid by the automobile industry is slightly lower. The compensation for the invention that is patented is paid by about 80% of the respondents, the amount varying from industry to industry, e.g. ¥9,000 or lower by the electric industry and ¥9,000 to ¥20,000 by others. About 70% of the respondents pay the compensation for practicing inventions, although only about 50% of chemical companies pay such amount. Most companies in electric, automobile and machinery/metal industries pay this compensation. The amount (maximum value) varies from ¥1 million, between ¥300,000 to ¥1,000,000, and less than ¥300,000, with the number of companies equally divided among these three categories. There are no conspicuous differences in amounts among industries.
* As a result of these incentive activities for inventions in Japanese companies, not only the leading inventors but also general employees are strongly motivated to file patent applications, to obtain patents and to utilize the same, and such a climate is presumably useful for active patent filing.

fig.16 Incentive activities and methods for inventions



*** Conclusion ***

* Organization and functions of intellectual property departments in Japanese companies have undergone changes with the growth of industry.
* In the cradle years of 1950s and 1960s, many companies gave to their patent department the organization and functions which prioritized registration of their patents. In the growth period of 1960s to 1970s, the tendency toward more effective uses of their rights became intense and the competition in the market, particularly in the chemical industry, became severer using the industrial property rights as weapons.
* In 1980s, this tendency spreaded into the electronics, materials and automobile industries, and the companies tried to reinforce their function with which they could quickly and optimally deal with disputes by expanding the organizational scope of the intellectual property department.
  These changes were triggered by the need to cope with disputes, expansion of the scope of intellectual property rights, particularly software copyrights, intensified production and development in overseas countries, and coping with the amendment of Section 337 by U.S. Omnibus Trade Act of August, 1988.
* As is clear from the analysis in Section 1 (Organization to control intellectual property business), companies continue to expand and reinforce their intellectual property departments, and they may appear as still preoccupied with registration of intellectual property rights, particularly patents, since they file a far more number of applications than their counterparts in Europe and the U.S.
* The system of posting many liaison men who routinely act as an interface between R&D and product divisions is well established in Japanese companies. As discussed in Section 3, a considerable number of companies construct an exclusive computer network within the company for patent management in addition to the use of outside data bases. Measures for promoting inventions such as training for the intellectual property departments and other departments, and the system of

rewarding in the phases of filing, registration, practice, are also being carried out by many companies, thus forming an important infrastructure for active invention activities in Japanese companies.

* They arise out of the differences between the U.S. practice, where we understand a specified number of superior inventors and a few number of elitist patent personnel work in close cooperation, and the Japanese practice.
* Similar to the case of differences in production system and quality control techniques, we cannot easily decide which is more superior.
* However, there would be no difference among the leading industries of the two countries in recognition concerning the importance of intellectual properties and fair exercise of rights.
* As shown in Section 2, the companies are performing their extensive intellectual property management in a most rational manner by cooperation among various departments under the initiative of the intellectual property departments.
* Leading companies, particularly in the electronics industry, are establishing the "Division System" as the strategical importance of the business activities involving intellectual properties increases. This must be that the intellectual property section is expected to render and take appropriate judgements and actions.

It is hoped that this report will be helpful in deepening mutual understanding among Japanese and American groups of PIPA in order that unwanted frictions should be lessened.

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* They rules out of the difference between the U.S. practice, where we understand a specified number of superior inventors and a low number of skilled patent personnel work in close cooperation, and the Japanese practice.
* Similar to the case of differences in production system and quality control techniques, we cannot easily decide which is more superior.
* However, there would be no difference among the leading industries or the two countries in recognition concerning the importance of intellectual properties and fair exercise of rights.
* As shown in section 2, the companies are performing their extensive intellectual property management in a most rational manner by cooperation among various departments under the initiative of the intellectual property department.
* Leading companies, particularly in the electronics industry, are establishing the "Division system" as the strategical importance of the business activities involving intellectual properties increases. Then must be that the intellectual property section is expected to render and take appropriate judgments and actions.

It is hoped that this report will be helpful in deepening mutual understanding among Japanese and American people of PIPA in order that unwanted fallacies should be lessened.

Article 9
(formerly Article 301)

Right to a Patent

(1) [Right of Inventor] The right to a patent shall belong to the inventor. Any Contracting Party shall be free to determine the circumstances under which the right to the patent shall belong to the employer of the inventor or to a person who commissioned the work of the inventor which resulted in the invention.

[Article continues on page 67]

[Article 9, continued]

(2) [Right Where Several Inventors] Where two or more inventors independently have made the same invention, the right to a patent for that invention shall [, irrespective of the dates on which the invention was made by each of the inventors,] belong,

(i) where only one application is filed in respect of that invention, to the applicant, as long as the application is not withdrawn, abandoned or rejected, or,

(ii) where two or more applications are filed in respect of that invention, to the applicant whose application has the earliest filing date or, where priority is claimed, the earliest priority date, as long as the said application is not withdrawn, abandoned or rejected.

[End of Article]

The United States proposes that a new Section 9bis be added reading as follows:

Article 9bis

Loss of Rights

(1) Any Contracting Party shall be free to provide that the right to a patent shall be lost by the applicant where:

(i) the invention was placed on sale or secretly used by the applicant more than 12 months preceding the filing date or, where priority is claimed, the priority date of the application, even if the invention was not, by virtue of being so placed on sale or secretly used, made available to the public; or

(ii) an application for an industrial property title was filed by applicant outside the Contracting Party in violation of the national security provisions of the Contracting Party.

(2) Notwithstanding Article 11 and paragraph (1) of this Article, any Contracting Party shall be free to provide that the right to a patent shall not be lost to the applicant where the use of the claimed invention by the applicant more than 12 months preceding the filing date or, where priority is claimed, the priority date of the application, was experimental.

EXPLANATORY NOTES:

• Proposed new paragraph (1) is designed to address certain loss of rights provisions such as where the applicant has taken steps to benefit from the commercial exploitation of the invention. The provisions in paragraph (1) would affect only the applicant who commits such acts and would not affect other applicants.

• Proposed new paragraph (2) is designed to address experimental use. This paragraph would remove from the prior art the experimental use of an invention which make it available to the public. Such use might include tests or experiments to determine the operability of the invention.

Article 12 (formerly Article 203)

Disclosures Not Affecting Novelty and Inventive Step (Grace Period)

(1) [Circumstances of Disclosure Not Affecting Patentability]

Disclosure of information which otherwise would affect the patentability of an invention claimed in the application shall not affect the patentability of that invention where the information was disclosed, during the 12 months preceding the filing date or, where priority is claimed, the priority date of the application,

(i) by the inventor,

(ii) by an Office

(a) and the information was contained in another application filed by the inventor and should not have been disclosed by the Office, or

(b) and the information was contained in an application filed without the knowledge or consent of the inventor by a third party which obtained the information direct or indirectly from the inventor, [provided that the applicant who invokes the grace period shall have the burden of proof in respect of the fact that the information was obtained direct or indirectly from the inventor,]

or

(iii) by a third party which obtained the information direct or indirectly from the inventor.

[Article 12, continued]

(2) ["Inventor"] For the purposes of paragraph (1), "inventor" shall also mean any person who, at the filing date, had the right to a patent in respect of the application.

[End of Article]

Article 13
(formerly Article 202)

Prior Art Effect of Certain Applications on Novelty

(1) [Principle of "Whole Contents"] (a) Subject to subparagraph (b), the whole contents of an application ("the former application") as filed in, or with effect for, a Contracting Party shall, for the sole purpose of determining the novelty of an invention claimed in another application filed in, or with effect for, that Contracting Party (and not for determining whether that invention involves an inventive step), be considered as prior art from the filing date of the former application to the extent that the former application or the patent granted thereon is published subsequently by the authority competent for the publication of that application or patent.

[Article continues on page 81]

[Article 13(1), continued]

(b) Where the former application referred to in subparagraph (a) claims the priority of an earlier application, matter that is contained in both the former application and the earlier application shall be considered as prior art in accordance with subparagraph (a) from the priority date of the former application.

(c) For the purposes of subparagraph (a), "whole contents" of an application consists of the description and any drawings, as well as the claims, but not the abstract.

(2) [Withdrawn Applications] Notwithstanding paragraph (1), no former application that has been published despite having been withdrawn prior to its publication shall be considered as prior art.

(3) [International Applications Under the PCT] As regards international applications filed under the Patent Cooperation Treaty, any Contracting Party may prescribe that paragraph (1) shall apply only if the acts referred to in Article 22 or, where applicable, Article 39(1) of that Treaty have been performed.

[Article continues on page 83]

[Article 13, continued]

(4) [Self-Collision or Internal Priority] (a) Subject to subparagraph (b), a Contracting Party shall not apply paragraph (1) when the applicant of, or the inventor identified in, the former application, and the applicant of, or the inventor identified in, the application under examination, is one and the same person.

(b) A Contracting Party shall not be bound by subparagraph (a) if it provides for internal priority. Internal priority shall mean that any person who has duly filed an application in, or with effect for, a Contracting Party shall enjoy a right of priority for a subsequent application filed in, or with effect for, the same Contracting Party to the extent that the subsequent application claims the same invention, if that application is filed within a period of 12 months from the filing date of the earlier application, and if neither internal priority nor priority under the Paris Convention for the Protection of Industrial Property has been claimed for the earlier application. The effect of an internal priority validly claimed shall be the same as that of a priority claimed under the said Convention.

(c) Not more than one patent shall be granted on two or more applications to the extent that they claim one and the same invention.

[End of Article]

Article 15
(formerly Article 106)

Publication of Application

(1) [Requirement to Publish the Application] Subject to paragraphs (2) to (4), the Office shall, without delay after the expiration of 18 months from the filing date or, where priority is claimed, from the priority date, publish the application unless it has been withdrawn, abandoned or rejected.

(2) [Earlier Publication at Applicant's Request] If, before the expiration of the time limit referred to in paragraph (1), the applicant requests that his application be published, the Office shall, without delay after the receipt of the request, publish the application.

[Article continues on page 89]

[Article 15, continued]

(3) [Circumstances in Which Publication Is Not Required] Any Contracting Party shall be free

(i) not to publish an application for reasons of national security;

(ii) not to publish an application if, by the time the application should be published according to paragraphs (1) or (2), a patent granted on the application has been published; or

(iii) to omit from the publication any words or drawings that are contrary to morality or public order or that are disparaging with respect to persons, provided that the fact that words or drawings have been omitted is referred to in the publication and that a copy of the omitted words or drawings may be obtained from the Office of the Contracting Party on request.

[End of Article]

Rule 7
(formerly Rule 106)

Meaning of Publication

For the purposes of the Treaty and these Regulations, an application or a patent shall be deemed to be published if paper copies thereof are put at the disposal of any person wishing to obtain them.

[End of Rule]

Article 16
(formerly Article 107)

Time Limits for Search and Substantive Examination

(1) [Time Limits for Search] (a) If a Contracting Party requires substantive examination, its Office shall publish, together with the publication of the application under Article 15, a report, established by or on behalf of that Office, citing any documents that reflect the prior art relevant to the invention claimed in the application (hereinafter referred to as "the search report").

(b) Notwithstanding subparagraph (a), where Article 15(2) applies, the publication of the search report need not accompany the publication of the application, provided that the publication of the search report shall be effected as soon as possible, but not later than the expiration of 18 months from the filing date or, where priority is claimed, the priority date of the application.

(c) If, notwithstanding subparagraphs (a) and (b), for any exceptional reason, the publication of the search report cannot be effected as provided for in those subparagraphs, the search report shall be published as soon as possible and in no case later than the expiration of 24 months from the filing date or, where priority is claimed, the priority date of the application.

[Article continues on page 95]

[Article 16, continued]

(2) [Time Limits for Substantive Examination] (a) If a Contracting Party requires substantive examination, its Office shall start the substantive examination of the application not later than three years from the filing date of the application.

(b) Notwithstanding subparagraph (a), a Contracting Party may provide that no substantive examination shall be carried out and the application shall be rejected if a request is not made, within three years from the filing date of the application, to its Office by the applicant or any third party that substantive examination should start. Where such a request is made, the Office shall start the substantive examination promptly after receipt of the request.

(c) The Office shall, wherever possible, reach a final decision on the application not later than two years after the start of substantive examination.

[End of Article]

Article 20
(formerly Article 308)

Prior User

(1) [Right of Prior User] Any Contracting Party may provide that a patent shall, notwithstanding Article 19, have no effect against any person (hereinafter referred to as "the prior user") who in good faith before the filing date or, where priority is claimed, the priority date of the application on which the patent is granted and within the territory where the patent produces its effect was using the invention or was making effective and serious preparations for such use; any such person shall have the right, for the purposes of his business, to continue such use or to use the invention as envisaged in such preparations.

[Article continues on page 117]

[Article 20, continued]

(2) [Successor in Title of the Prior User] The right of the prior user may only be transferred or devolve together with his enterprise or business, or with that part of his enterprise or business in which the use or preparations for use have been made.

[End of Article]

Article 23
(formerly Article 307)

Enforcement of Rights

(1) [Rights Conferred by the Patent] (a) Each Contracting Party shall provide for an injunction to restrain the performance or the likely performance, without the authorization of the owner of the patent, of any of the acts referred to in Article 19(1), (2) and (4).

(b) Each Contracting Party shall provide for full damages for the prejudice caused to the owner of the patent in consequence of the performance, without his authorization, of any of the acts referred to in Article 19(1), (2) and (4).

(c) Any Contracting Party shall be free to provide for measures in addition to those specified in subparagraphs (a) and (b) in respect of the performance or the likely performance, without the authorization of the owner of the patent, of any of the acts referred to in Article 19(1), (2) and (4).

[Article continues on page 129]

[Article 23, continued]

(2) [Rights Conferred by the Publication of the Application] (a) Subject to the other provisions of this paragraph, each Contracting Party shall provide for [Alternative A: full damages] [Alternative B: reasonable compensation] for the prejudice caused to the applicant in consequence of the performance, without his authorization, of any of the acts referred to in Article 19(1), (2) and (4) in relation to any invention, claimed in a published application, as if a patent had been granted for that invention, provided that such [Alternative A: full damages] [Alternative B: reasonable compensation] shall only be awarded against a person if it is shown that, at the time of the performance of any of the said acts,

(i) he had actual knowledge that the invention that he was using was the subject matter of a published pending application, or

(ii) he had received written notice that the invention that he was using was the subject matter of a published pending application, such application being identified in the said notice by its serial number.

(b) Any Contracting Party shall be free to provide for measures in addition to that specified in subparagraph (a) in respect of the performance or the likely performance, without the authorization of the applicant, of any of the acts referred to in subparagraph (a).

[Article continues on page 131]

[Article 23(2), continued]

(c) Any Contracting Party shall be free to provide that a decision to award the measure referred to in subparagraph (a) may not be made until after the grant of a patent on the published application.

(d) In making any decision to award the measure referred to in subparagraph (a) or any other measure referred to in subparagraph (b), the extent of protection conferred by the published application shall be determined by such claims appearing in the patent granted on that application as appeared also in the application as published.

[End of Article]

11:3-1 AJ (2)

com. 3

BACKGROUND MATERIAL

PIPA COMMITTEE #3 PANEL DISCUSSIONS

NIIGATA CONGRESS - October 3-5, 1990

A. Boucher Bill

B. AIPLA Legislative Initiatives

C. PIPA Survey on Harmonization

A. Boucher Bill

PATENT REMEDY CLARIFICATION ACT (HR 3957)

A BILL

To amend title 35, United States Code, with respect to patents on certain processes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION. 1. PATENTABILITY OF CERTAIN PROCESSES.

Section 103 of title 35, United States Code, is amended by adding at the end of the following new paragraph:

"A process of making a product shall not be considered obvious under this section if an essential material used in the process is novel under section 102 and otherwise nonobvious under section 103."

SEC. 2. IMPORTATION PROHIBITION; INFRINGEMENT BY IMPORTATION, SALE, OR USE.

(a) Amendment to Tariff Act of 1930. — Section 337(a)(1)(B) of the Tariff Act of 1930 (19 U.S.C. 1337(a)(1)(B) is amended—

(1) in clause (i) by striking "or" after the semicolon:

(2) in clause (ii) by striking out the period at the end and inserting "; or"; and

(3) by adding at the end of the following:

"(iii) are made, produced, or processed under, or by means of, the use of a biotechnological material (as defined under section 154(b) of title 35, United States Code) covered by a valid and enforceable United States patent.".

(b) Amendments to Title 35, United States Code.—

(1) Infringement. — Section 271 of title 35, United States Code, is amended by adding at the end the following new subsection:

"(h) Whoever without authority imports into the United States or sells or uses within the United States a product which is made by using a biotechnological material (as defined under section 154(b)) which is patented in the United States shall be liable as an infringer if the importation, sale, or use of the product occurs during the term of such patent.".

(2) Contents and Term of Patent. — Section 154 of title 35, United States Code, is amended—

(A) by inserting "(a)" before "Every".

(B) by inserting "(1)" after "in this title,".

(C) by striking "and, if the invention" and inserting "(2) if the invention";

(D) by inserting after "products made by that process," the following: "and (3) if the invention is a biotechnological material used in making a product, of the right to exclude others form using or selling throughout the United States, or importing into the United States, that product,"; and

(E) by adding at the end of the following:

"(b) For purposes of this section, the term 'biotechnological material' means a biologically engineered organism that is essential for the production of a product. Such term includes any host cell, DNA sequence, or vector.".

SEC. 3 EFFECTIVE DATE.

(a) Section 1. — The amendment made by section 1 shall apply to all United States patents granted before, on, or after the date of the enactment of this Act and to all applications for United States patents pending on or filed after such date of enactment, including any application for the reissuance of a patent.

(b) Section 2. — (1) The amendment made by section 2(a) shall apply only to articles imported, or sold for importation, on or after the date of the enactment of this Act.

(2)(A) Subject to subparagraph (B), the amendments made by section 2(b) shall take effect on the date of the enactment of this Act.

(B)(i) With respect to any article which is imported before February 6, 1990, and which, but for the amendment made by section 2(b), could be sold or used within the United States, no person shall be liable for infringement under section 271(h) of title 35, United States Code, for such sale or use.

(ii) With respect to any article which is imported on or after February 6, 1990, but before the date of the enactment of this Act and which, but for the amendment made by section 2(b), could be sold or used within the United States, no person shall be liable for infringement under section 271(h) of title 35, United States Code—

(I) for the first such sale if it is made within 90 days after the date of the enactment of this Act; or

(II) for any such subsequent sale or for any such use.

A Harmonized Patent System for the US: The Relationship To AIPLA Legislative Initiatives

"[The AIPLA] report proposes a package of changes to the statutory provisions governing the procedures for examining and granting patents and the term of patents. The changes will maintain the current, carefully crafted balance between incentives for invention and the public interest in competition. They deliberately avoid controversial reforms to the standards for patentability, such as the "first-to-file" rule, or alter the patent law's full disclosure requirements. They will modify (but not end) the current practice under which inventors may preserve their inventions as trade secrets until receiving an indication from the Patent and Trademark Office (PTO) as to the likely patentability of their inventions.

"The changes will substantially increase the completeness and efficiency of PTO examination of patent applications, provide more certainty as to inventors' rights, and end the much-criticized phenomenon of patent protection extending for three or more decades after the filing of a patent application on an invention.

"The three fundamental changes are (1) a flexible examination system, (2) opening up and publication of patent applications 18 months after their filing (or, if applicable, an earlier priority date), and (3) expiration of patents at 20 years after the patent application filing date instead of 17 years from the patent grant date. Complimenting these fundamental changes are several secondary changes, including elimination of formal inventor's oaths and assignee filing. To provide a proper balance of inventors' rights under these changes, new statutory provisions will grant a royalty for pre-grant, post-publication use of inventions to applicants who eventually obtain patents."

-From "AIPLA Legislative Initiatives," adoped unanimously by the AIPLA Board of Directors on May 8, 1990.

Treaty Provision:	Current US Law:	AIPLA Statutory Text:
Publication of Patent Applications:		
Article 15 - Publication of Application (1) [Requirement to Publish the Application] Subject to paragraphs (2) to (4) [sic, (3)], the Office shall, without delay after the expiration of 18 months from the filing date or, where priority is claimed, from the priority date, publish the application unless it has been withdrawn, abandoned or rejected. (2) [Earlier Publication at Applicant's 'Request] If, before the expiration of the time limit referred to in paragraph (1), the applicant requests that his application be published, the Office shall, without delay after the receipt of the request, publish the application. (3) [Circumstances in Which Publication is Not Required] Any Contracting Party shall be free (i) not to publish an application for reasons of national security; (ii) not to publish an application if, by the time the application should be published according to paragraphs (1) or (2), a patent granted on the application has been published; or (iii) to omit from the publication any words or drawings that are contrary to morality or public order or that are disparaging with respect to persons, provided that the fact that words or drawings have been omitted is referred to in the publication and that a copy of the omitted words or drawings may be obtained from the Office of the Contracting Party on request. [End of Article]	**§122. Confidential status of applications.** Applications for patents shall be kept in confidence by the Patent and Trademark Office and no information concerning the same given without authority of the applicant or owner, except as necessary to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner.	**§122. Opening of patent applications; confidential status.** (a) Applications for patents shall be kept in confidence by the Patent and Trademark Office and no information concerning the same given without authority of the applicant or owner, except as necessary to carry out the provisions of any Act of Congress, as expressly provided in this section, or in such special circumstances as may be determined by the Commissioner. (b) The Commissioner shall publish patent specifications and claims without delay following the time of opening to public inspection as provided in this section. An application for patent open to public inspection under this section shall have the effect of a publication of the specification made as of the date of the opening for the purposes of Chapter 10 of this title. (c) Following the period ending eighteen months from the filing date, taking into account all claims for priority or benefit of prior applications, pending applications for patent shall be open to public inspection and copies shall be made available to the public under procedures as may be determined by the Commissioner. (d) Where an applicant requests that an application be opened to public inspection, the application shall be open to public inspection as of the date of the applicant's request. **(e) Notwithstanding any of the foregoing provisions of this section, an applicant who has requested accelerated search and examination under section 137(c) of this title and**

Treaty Provisions:	Current US Law:	AIPLA Statutory Text:
Rule 7 - Meaning of Publication For the purposes of the Treaty and these Regulations, an application or a patent shall be deemed to be published if paper copies thereof are put at the disposal of any person wishing to obtain them.		**has complied with all the requirements of section 137(c) of this title, shall be entitled to delay the opening of an application to public inspection and any publication thereof until one month after the accelerated examination is completed, whenever --** **(1) a request for postponement is made during the sixteenth month after the request for accelerated examination, and** **(2) the request establishes that the applicant has not filed corresponding applications for patent outside the United States which will be opened to public inspection or published on substantially the same terms as are set forth under this section or otherwise made a public disclosure of the invention.**

I. AIPLA RATONALE FOR OPENING PATENT APPLICATIONS TO PUBLIC INSPECTION

A. The PTO will open patent applications to public inspection 18 months after filing. At or shortly after such opening, the PTO will publish the applications. Thus, the public will have access to both the file wrapper of the pending application and the convenience of a published form of the patent specification and claims.

B. Publication 18 months after filing provides advantages over the current practice of holding applications in secrecy until the PTO grants a patent.

1. It places the U.S. patent system on a par with its principal foreign counterparts, the European Patent Office and the Japanese Patent Office.

2. It provides early notice to companies and individuals as to the nature and extent of patent rights affecting products and processes.

3. It provides prompt English language publication of foreign-origin patent applications that have counterparts published outside the U.S. in other languages.

4. Most importantly, it makes PTO examination more complete. Under current law, earlier-filed, but later-issuing patent applications constitute prior art as against later-filed, but earlier-issued U.S. patent applications. The proposed statutory changes treat the publication of the earlier-filed patent application at 18 months as the equivalent of the grant of the patent. As a result, all prior art based on earlier-filed patent applications will be available to both the examiner and the patent applicant for consideration during examination. Additionally, applicants will be better able to identify potentially interfering patent applications and advise the examiner on the need to declare an interference.

C. The opening of patent applications to the public at 18 months has a disadvantage. It eliminates an inventor's traditional right to retain trade secret rights in an invention that has not been disclosed to the public by abandoning a patent application disclosing the invention.

1. Under current law, an inventor may choose to retain trade secret rights in an invention if, as a result of the examination process, he or she determines that the invention is unpatentable or that a patent would be too limited in scope.

2. The statutory changes herein proposed preserve this traditional option by establishing an accelerated search and examination procedure. The examination process will be completed within a 16 month period, prior to the time when, under the changes, the applicant must choose between abandonment to preserve trade secrecy and opening of the application and PTO publication.

3. The only exception to the mandatory opening of applications at 18 months is in the case where the PTO fails to complete in a timely manner the statutorily-mandated 16 month accelerated examination. In these cases, where the invention was otherwise not published by the inventor, the publication would be deferred until one month following the completion of the accelerated examination.

AIPLA COMMENT ON SECTION 122:

(1) This amendment changes the current practice of retaining patent applications in secret until the actual grant of the patent. All applications would be open to public inspection after 18 months from the earliest priority date. The entire patent file wrapper would be available to the public such that search and

Treaty Provisions:	Current US Law:	AIPLA Statutory Text:

examination reports could be reviewed by independent parties to assess the prospect that a patent might issue on the application.

(2) This change will improve the quality, promptness and completeness of PTO examination by assuring that both the patent examiners and the patent applicants have access to the prior art. They will also be better able to determine the existence of interfering patent applications.

(3) Once the application is open to the public, the PTO may publish patent specifications by appropriate means. By making published patent applications promptly and readily available in English, this amendment will enhance the value and completeness of patent literature for research and education.

(4) The PTO would not be permitted to publish applications where the 16 month accelerated examination procedure was incomplete at the time set for publication and the applicant had otherwise preserved the option of maintaining the invention as a trade secret. This provision is intended to provide applicants an absolute protection against loss of trade secret rights in otherwise secret inventions solely because to PTO failed to complete the 16 month accelerated examination as required by statute.

Search, Examination, and Optional Accelerated Examination:

Article 16 - Time Limits for Search and Substantive Examination

(1) [time Limits for Search] (a) If a Contracting Party requires substantive examination, its Office shall publish, together with the publication of the application under Article 15, a report, established by or on behalf of that Office, citing any documents that reflect the prior art relevant to the invention claimed in the application (hereinafter referred to as "the search report").

(b) Notwithstanding subparagraph (a), where Article 15(2) applies, the publication of the search report need not accompany the publication of the application, provided that the publication of the search report shall be effected as soon as possible, but not later than the expiration of 18 months from the filing date or, where priority is claimed, the priority date of the application.

(c) If, notwithstanding subparagraphs (a) and (b), for any exceptional reason, the publication of the search report cannot be effected as provided for in those subparagraphs, the search report shall be published as soon as possible and in no case later than the expiration of 24 months from the filing date or, where priority is claimed, the priority date of the application.

(2) [Time Limits for Substantive Examination] (a) If a Contracting Party requires substantive examination, its Office shall start the; substantive examination of the application not later than three years from the filing dater of the application.

(b) Notwithstanding subparagraph (a), a Contracting Party may provide that no substantive examination shall be carried out and the application shall be rejected if a request is not made, within three years from the filing date of the application, to its Office by the applicant or any third party that substantive examination should start. Where such a

No existing statutory provision.

§ 136. Search and examination

A request for search and examination shall be made by the applicant or by any other person at such time and in such manner as the Commissioner may prescribe by regulation, but in no event shall any request be (1) required to be made earlier than six months prior to the date on which the application would be open under section 122(c) of this title, if still pending at such time, or (2) permitted to be made more than twelve months subsequent to the date on which the application is opened under section 122."

§137. Accelerated search and examination

(a) Upon request accompanied by payment of the regular fee for search and examination and a special fee which shall be set by the Commissioner at not more than twice the fee for search and examination, an application for patent shall receive an accelerated search and examination.

(b) During an accelerated search and examination under this section, the applicant shall be entitled to receive a search and a report of the results thereof together with any notice under section 132 within six months of the date of the payment of the fee or request. Thereafter, all examination proceedings, including any appeal to the Board of Patent Appeals and interferences, will shall be conducted with special dispatch within the Office.

(c) Upon further specific request by the applicant, the accelerated search and examination under this section, including any appeal to the Board of Patent Appeals and interferences, shall be complete within a period of not more than sixteen months whenever--

(1) the request is made not less than seventeen

Treaty Provisions:	Current US Law:	AIPLA Statutory Text:
request is made, the Office shall start the substantive examination promptly after receipt of the request. (c) The Office shall, wherever possible, reach a final decision on the application not alter than two years after the start of substantive examination. [End of Article]		months prior to the date on which the application would be laid open under section 122 of this title if still pending at such time; (2) the applicant responds to any official action under section 132 of this title within the period for response set under section 133 of this title and without an extension of time for responding; (3) the applicant waives any oral hearing under in the event of an appeal under section 134 of this title; and (4) the applicant meets such other requirements for expediting prosecution as the Commissioner shall impose by regulation.

II. AIPLA RATONALE FOR FLEXIBLE EXAMINATION

A. The flexible examination system divides the filing of a patent application from the search and examination of the invention claimed in that application. A nominal fee is charged at the time of filing (e.g., $50 for a "small entity"). An applicant may postpone a search and examination request for one year (the priority year under the Paris Convention). Alternatively, the inventor may elect a new procedure of accelerated examination, which, among other features, guarantees completion of the examination and appeal process in 16 months, two months prior to the opening of the application to the public.

B. Flexible examination provides advantages over the current unitary PTO examination system.

1. It refocuses PTO resources away from mandatory (and often wasted) search and examination of patent applications filed by inventors primarily for establishing priority rights and towards patent applications where the applicant desires accelerated examination or where examination is otherwise timely because the relevant prior art is fully available and the inventor has defined more definitely the scope of protection being sought.

2. It would delay search and examination in most cases until earlier filed co-pending United States patent applications of others, which become prior art for patentability purposes, are available to the examiner. Where the search and examination were requested a full year after the priority date, the initial search and examination report would be expected to occur within four to eight months thereafter or 16 to 20 months from the priority date.

AIPLA COMMENT ON SECTIONS 136-137:

(1) These are new provisions of United States law designed to introduce a system of flexible examination. The system will eliminate unnecessary PTO effort in preparing premature search and examination reports, provide for cheaper and more simplified filing of patent applications to establish priority rights, and, in selected cases, accelerate examination.

(2) The flexible examination system is intended to provide two important advantages to applicants.

(a) First, inventors can file a patent application solely for the purpose of establish domestic and/or international priority rights upon payment of a nominal filing fee of the $100 filing fee (plus excess claims fees). The fee is reduced to $50 for small entities. No additional fees or other action is required during the Paris Convention year to maintain the pendency of such an application, which can thereafter be searched and examined upon payment of the required fee or serve as an internal priority right for a subsequently filed application.

(b) Second, inventors who elect active prosecution during the Paris Convention year are entitled to receive a special 16 month accelerated search and examination upon payment of the regular filing and search and examination fees. Accelerated examination of this type is intended to assure that inventors will receive a complete and definitive examination prior to the end of the 18 month period in amended §122(c) when applications become open to public inspection and are published.

(3) This 16 month accelerated examination is intended to include a thorough examination before an examiner as well as a decision before the Board of Patent Appeals and Interferences. Inventors will thus preserve the option of abandoning the application prior to publication and retaining the invention as a trade secret

Treaty Provisions: **Current US Law:** **AIPLA Statutory Text:**

where the results of examination are negative.

(4) Accelerated examination is available in a more limited form to applicants who do not meet the statutory requirements for the 16 month examination. Under this more limited form of accelerated examination, the initial search report and official action based thereon is provided within 6 months and subsequent prosecution is thereafter conducted with special dispatch.

(5) Under the flexible examination system, the time limit for a request for search and examination accommodates special circumstances and permits examination in the United States to reflect activities undertaken concurrently under the Patent Cooperation Treaty or in foreign patent systems, when the applicant so elects.

(a) The following represents a typical scenario for a United States patent applicant contemplated under the new system:

1. Initial filing is undertaken with only the filing fee being paid. No search and examination is requested for the remainder of the Convention year.

2. Prior to the end of the Convention year the applicant refiles the application, taking maximal benefit of the internal priority right under the 20 year from filing patent expiration provision. The applicant may simply repeat the disclosure of the first, priority application in a "continuation" application or include further refinements in a "continuation-in-part" application.

3. Accompanying the subsequent application is the search and examination fee (or should regulations so permit, a partial fee covering only the search) for the new application, the fee being required not earlier than six months prior to the date of opening of the application to the public at 18 months from the earliest priority.

4. The application is opened to the public at 18 months and published by the PTO, ordinarily together with a report of the search.

(b) Throughout this scenario the intent of conserving the examining resources of the PTO is met. Premature examination during the priority year is avoided. As an alternative to this measured approach, applicants can have search and examination accelerated. using examining resources available as a result of the conservation achieved by the flexible examination system.

Patent Grant, Patent Term, and Post-Publication Provisional Rights

Article 22 - Term of Patents

Alternative A:

(1) [Minimum Duration of Protection] The protection conferred by a patent shall not end before the expiration of a period of 20 years counted from the filing date of the application on which the patent is granted. {WIPO Note: The final provisions (see document HL/CE/VIII/4) will contain a provisions permitting Contracting Parties, under certain conditions, to make reservations in respect of this norm.}

(2) [Circumstances in Which duration May be Counted from the Filing date of Another Application] where the patent is granted on an application for a patent of addition, on an application claiming internal priority, on an application for continuation or continuation-in-part, or on a divisional application, the period referred to in paragraph (1) may be counted from the filing date of the said application or from the filing date of the application that is invoked in the said application.

Alternative B:

[No Article 22]

[End of Article]

§154. Contents and term of patent

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States and, if the invention is a process, of the right to exclude others from using or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

§154. Contents and term of patent

(a) Every patent shall contain a short title of the invention and a grant to the patentee, his or her heirs or assigns, for a term from the date of issue until a date twenty years from the filing date in the United States, excluding any claims of priority under section 119 or 365 of this title and subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using or selling throughout the United States or importing into the United States products made by that process, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

(b) If a patent is granted based on an application published prior to grant under section 122(c) of this title, and to the extent the patent claims are identical with the claims in the published application, the grant to the patentee shall

Treaty Provisions:	Current US Law:	AIPLA Statutory Text:
Article 23 - Enforcement of Rights. (1) [Rights conferred by the Patent] (a) Each Contracting Party shall provide for an injunction to restrain the performance or the likely performance, without the authorization of the owner of the patent, of any of the acts referred to in article 19(1), (2), and (4). (b) Each Contracting Party shall provide for full damages for the prejudice caused to the owner of the patent in consequence of the performance, without his authorization, of any of the acts referred to in article 19(1), (2), and (4). (c) Any Contracting Party shall be free to provide for measures in addition to those specified in subparagraphs (a) and (b) in respect of the performance or the likely performance, without the authorization of the owner of the patent, of any of the acts referred to in Article 19(1), (2) and (4). (2) [Rights Conferred by the Publication of the Application] (a) Subject to the other provisions of this paragraph, each contracting Party shall provide for [Alternative A: full damages] [Alternative B: reasonable compensation] for the prejudice caused to the applicant in consequence of the performance, without his authorization, of any of the acts referred to in Article 19(1), (2), and (4) in relation to any invention, claimed in a published application, as if a patent had been granted for that invention, provided that such [Alternative A: full damages] [Alternative B: reasonable compensation] shall only be awarded against a person if it is shown that, at the time of the performance of any of the said acts, (i) he had actual knowledge that the invention that he was using was the subject matter of a published pending application, or (ii) he had received written notice that the invention that he was using was the subject matter of a published pending application, such application being identified in the said notice by its serial number. (b) Any Contracting Party shall be free to provide for measurers in addition to that specified in subparagraph (a) in respect of the performance of the likely performance, without the authorization of the applicant, of any of the acts referred to in subparagraph (a). (c) Any Contracting Party shall be free to provide that a decision to award the measure referred to in subparagraph (a) may not be made until after the grant of a patent on the published application. (d) In making any decision to award the measure referred to in subparagraph (a) or any other measure referred to in subparagraph (b), the extent of protection conferred by the published application shall be determined by such claims appearing in the patent granted on that application as appeared		additionally include the right to obtain a reasonable royalty from others making, using or selling the claimed invention in the United States, or importing the claimed invention into the United States, and, if the claimed invention is a process, of the right to obtain a reasonable royalty from others from using or selling throughout the United States or importing into the United States products made by that process, during the period prior to grant that, provided the person so making, using, or selling the claimed invention had actual knowledge of the published application.

also in the application as published. [End of Article]

III. AIPLA RATONALE FOR EXPIRATION OF PATENTS AT TWENTY YEARS FROM FILING DATE; INTERNAL PRIORITY

A. A patent will expire twenty years from the actual date of filing the application in the United States PTO.

B. An expiration date at twenty years from filing offers many advantages, which have been widely recognized for many years. It eliminates the extension of the life of a patent because of delays in the PTO, which, under current practice, may reach 30 or more years after the first disclosure of the invention in a patent application. This can result from interference proceedings involving issued patents, the filing of an extended series of continuation or continuation-in-part applications disclosing the invention, or from deferred filing of divisional applications.

C. Coupled with the twenty-year from filing patent expiration provision is a "domestic priority" provision that permits United States inventors to rely for priority purposes on prior-filed United States patent applications to the same extent that foreign inventors may rely on prior-filed foreign applications.

1. A "domestic priority" provision is needed to assure that the effective patent terms for United States and foreign inventors are the same. The Paris Convention prohibits use of the international one-year priority period in computing the term of a patent. Without domestic priority, foreign inventors will have their United States patents expire 21 years after filing while United States inventors will have their patents expire 20 years after filing.

IV. AIPLA RATONALE FOR RIGHTS TO PRE-GRANT, POST-PUBLICATION ROYALTY

A. After a patent is granted, the patentee can recover a royalty for use of the patented invention during the pre-grant period subsequent to publication of the application if two conditions are met.

1. First, the alleged infringer must have had actual knowledge of the published application.

2. Second, the infringer's product or process must infringe a claim in the granted patent that is substantially identical in scope with a claim in the published application. The intent is to establish the same standard of claim identity to qualify for pre-grant rights as between the published application and an issued patent as is required between an original patent grant and a reissue patent or reexamined patent in defeating a claim for intervening rights.

B. This provision has no analog in current United States law, but is a common component of those patent systems with 18 month publication and a patent term measured from the patent application filing date. It assures the inventor-patentee reasonable compensation for use of his or her invention when there is a substantial period between filing and actual grant.

AIPLA COMMENT ON SECTION 154:

(1) The amendment changes the existing United States patent term from one in which patents are effective for 17 years after grant regardless of the filing date to one in which patents expire 20 years after the filing date of the application for the patent regardless of the grant date.

(2) For applicants relying on a foreign or internal priority application, patents will expire 21 years from the earliest priority date.

(a) This measurement for the patent term is standard outside the United States. The intent is to provide a period of exclusivity that is roughly, on average, comparable to the current patent term measured from the date of grant.

(b) United States applicants are placed on an even par with applicants relying on a foreign priority whose United States prosecution (and, presumably, eventual date of grant) is often a year later compared to an applicant whose first filing is in the United States.

(3) By setting expiration of patents by reference to the date of filing of the application, the amendment will eliminate the possibility that patents may exist 30 or even 40 or more years after the initial filing of the application disclosing the invention. This is possible under current United States, and has in fact occurred, especially when interferences or the filing of a series of continuation and continuation-in-part applications delay grant of the patent.

(4) The amendment further provides for the right to recover a reasonable royalty from a person infringing the patent claims during the period after publication

Treaty Provisions: **Current US Law:** **AIPLA Statutory Text:**

of the application, but prior to the actual grant of the patent.

(a) The right vests at the time of patent grant, not before, and an action to recover damages is subject to ordinary statute of limitations in patent cases.

(b) In order to recover under this provision of the law, the patentee must establish that the alleged infringer had actual knowledge of the published patent and that the activities of the alleged infringer constitute an act of infringement of both the issued patent and the claims as present in the published application.

(c) The standard of claim identity for defeating intervening rights with respect to a reissue patent is (35 USC 252) is incorporated as the standard for recovery based upon pre-grant infringement. That is, only the claims in the published applications that are substantially identical in scope to claims in the patent claims may provide a basis for recovering a reasonable royalty.

(5) The amendment expressly includes importation of a patented invention in the category of acts of infringement.

(a) Historically, importation of a patented product has been regarded as a "use" of a patented invention in the United States.

(b) The recent Process Patent Amendments provides expressly that importation of a product made by a patented process constitutes patent infringement. To avoid the possibility of a negative implication that the importation of a patented product should not be regarded as an infringing act, the amendment clarifies the law.

(c) The amendment will provide a clear statutory basis for a court to enjoin importation when no other activity of an infringer is intended prior to patent expiration.

Right to Assert an "Internal Priority" Right in Prior-Filed Domestic Applications

Article 2 - Definitions.
For the purposes of this Treaty, unless expressly stated otherwise:

...

(vii) "priority date" means the filing date of the application (whether filed with the same or another Office) whose priority is claimed or, where the priorities of two or more applications are claimed, the filing date of the earliest-filed of those applications; the application whose priority is claimed may be an application for a patent, utility model or another title protecting an invention;

... . [Excepted from Article]

Article 7 - Priority Claim
[(1) [Delayed Submission of Separate Declaration of the Priority Claim] Where the application ("the subsequent application") could have claimed the priority of an earlier application, but, when filed, did not contain such priority claim in a separate declaration submitted to the Office within a period which shall be at least two months from the filing date of the subsequent application and not more than four months from the date on which the 12-month priority period provided for in the Paris convention for the Protection of Industrial

§119. Benefit of earlier filing date in foreign country; right of priority

An application for patent for an invention filed in this country by any person who has, or whose legal representatives or assigns have, previously regularly filed an application for a patent for the same invention in a foreign country which affords similar privileges in the case of applications filed in the United States or to citizens of the United States, shall have the same effect as the same application would have if filed in this country on the date on which the application for patent for the same invention was first filed in such foreign country, if the application in this country is filed within twelve months from the earliest date on which such foreign application was filed; but no patent shall be granted on any application for patent for an invention which had been patented or described in a printed publication in any country more than one year before the date of the actual filing of the application in this country, or which had been in public use or on sale in this country more than one year prior to such filing.

No application for patent shall be entitled to this right of priority unless a claim therefor and a certified copy of the original foreign application, specification and drawings upon which it is based are filed in the Patent and Trademark Office before the patent is granted, or at such time during the pendency of the application as required by the Commissioner

§119. Benefit of earlier application within one year; right of priority

(a) An application for patent for an invention filed in this country by an applicant who has, or whose legal representatives, agents, or assigns have, previously regularly filed an application for a patent for the same invention in this or a foreign country, provided such foreign country affords similar privileges in the case of applications filed in this country or to citizens of this country, shall be given the same effect as a regularly filed application for patent in this country filed on the date of the prior application, whenever--

(1) the application for patent is made within one year of the date of the prior application,

(2) the prior application contains a disclosure of the invention as set forth in the first paragraph of section 112 of this title, and

(3) a claim of entitlement to this right of priority is made in accordance with the requirements of this section within the period ending sixteen months from the date for which priority is sought.

(b) If the prior application is one filed in a foreign country, an application shall not be entitled to the right of priority under this section unless a certified copy of the original foreign application, specification, and drawings upon which the claim is based is filed prior to the granting of the patent. The

Treaty Provisions:

Property expired.

[(2) [Delayed Filing of Application Containing a Priority Claim] Where the application ("the subsequent application") claiming the priority of an earlier application is filed after the date on which the 12-month priority period provided for in the Paris convention for the Protection of Industrial Property expired but before the expiration of a period of two months from that date, the Office shall restore the right of priority upon an express request submitted to the Office before the expiration of the said two-month period, if the request states and the Office finds that, ins spite of due care, the subsequent application could not have been filed within the said 12-month priority period. The request for restoration shall state the grounds on which it is based, and the Office may require the production of corresponding evidence. the request may be subject to the payment of a fee to the Office.] [End of Article]

Note 7.04 of WIPO: "Paragraph (2) has been placed within square brackets because it has not won general acceptance in the discussions in pervious meetings of the Committee of Experts."

Current US Law:

not earlier than six months after the filing of the application in this country. Such certification shall be made by the patent office of the foreign country in which filed and show the date of the application and of the filing of the specification and other papers. The Commissioner may require a translation of the papers filed if not in the English language and such other information as he deems necessary.

In like manner and subject to the same conditions and requirements, the right provided in this section may be based upon a subsequent regularly filed application in the same foreign country instead of the first filed foreign application, provided that any foreign application filed prior to such subsequent application has been withdrawn, abandoned, or otherwise disposed of, without having been laid open to public inspection and without leaving any rights outstanding, and has not served, nor thereafter shall serve, as a basis for claiming a right of priority.

Applications for inventors' certificates filed in a foreign country in which applicants have a right to apply, at their discretion, either for a patent or for an inventor's certificate shall be treated in this country in the same manner and have the same effect for purpose of the right of priority under this section as applications for patents, subject to the same conditions and requirements of this section as apply to applications for patents, provided such applicants are entitled to the benefits of the Stockholm Revision of the Paris Convention at the time of such filing.

§120. Benefit of earlier filing date in the United States

An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States, or as provided by section 363 of this title, which is filed by an inventor or inventors named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it

AIPLA Statutory Text:

required certification shall be made by the patent office of the foreign country in which filed and show the date of the prior application and of the filing of the specification and other papers. The Commissioner may require the filing of the certified copy prior to the granting of the patent at any time not earlier than six months following the filing date in the United States and may require a translation of the papers filed, if not in the English language and such other information as he or she deems necessary.

(c) If the prior application is one filed in the United States, a specific reference to the prior application contained in the application for patent shall be treated as the claim for a right of priority with respect to such prior application whenever all other requirements for priority as set forth in this section are met.

(d) In like manner and subject to the same conditions and requirements, the right provided in this section may be based upon a subsequent regularly filed application in the same country instead of the first-filed application in that country, provided that any application filed prior to such subsequent application has been withdrawn, abandoned, or otherwise disposed of, without having been laid open to public inspection and without leaving any rights outstanding, and has not served, nor thereafter shall serve, as a basis for claiming a right of priority.

(e) Applications for inventors' certificates filed in a foreign country in which applicants have a right to apply, at their discretion, either for a patent or for an inventor's certificate shall be treated in this country in the same manner and have the same effect for purpose of the right of priority under this section as applications for patents, subject to the same conditions and requirements of this section as apply to applications for patents, provided such applicants are entitled to the benefits of the Stockholm Revision of the Paris Convention at the time of such filing.
in an orderly manner by the PTO.

§120. Benefit of earlier filing date in the United States

(a) An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States shall have the same effect, as to such invention, as though filed on the date of the prior application, if the application for patent--

(1) is filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application;

Treaty Provisions:	Current US Law:	AIPLA Statutory Text:
	contains or is amended to contain a specific reference to the earlier filed application.	(2) contains as filed, or is amended to contain, a specific reference to the earlier filed application; (3) is filed identifying one or more inventors identified in the previously filed application or is filed by the same applicant for patent as in the previously filed application; and (4) is not entitled to assert a right of priority in the previously filed application under the provisions of section 119 of this title. (b) A application can be amended to contain a specific reference to an earlier filed application only if such amendment is made within sixteen months of the filing date of the application to which reference is made.

AIPLA COMMENT ON SECTION 119:

(1) The amendment provides that prior-filed domestic applications will be a basis for a right of priority an a manner analogous to the manner in which prior-filed foreign application serve as a basis for priority under existing law.

(2) This change is intended to assure that the patent term set forth in amended §154 places foreign and domestic patent applicants on an equally footing. Under the Paris Convention, the one-year priority period for foreign applications must be disregarded in the calculation of the 20 year from filing expiration period. A right of priority under Section 119 allows domestic applicants to file a second application within a year and obtain the same advantage.

(3) The amendment sets a clarifies the required disclosure in a priority application filed during the Paris Convention year.

(a) The first application must contain the full disclosure set forth under §112 in order to provide priority support for a subsequent application that is filed within one year, including the "best mode" contemplated by the inventor for carrying out his or her invention as of the subsequent application's filing date.

(4) The amendment shortens the period during which foreign applicants must claim priority from a minimum of six months from the United States filing date to a maximum of 16 months from the initial priority date. This is intended to assure that preparations for publication at 18 months can be undertaken in an orderly manner by the PTO.

AIPLA COMMENT ON SECTION 120:

(1) The amendment makes three significant changes from existing United States law.

(2) First, the right to benefit from a prior-filed United States patent application under §120 is unavailable where a right of priority would apply under §119. This in intended to assure that applicants enjoy a patent term measured exclusive of the priority year, whenever possible. This is needed to place domestic applicants on an equal footing with foreign applicants whose priority application filings outside the United States are not included in the determination of the 20 year from filing patent expiration term.

(3) Second, the cross-reference to the prior filed application must be made at the time of filing, or, if added by amendment, the amendment must be made within 16 months of the filing date for which the benefit is being sought. This assures that applications, which are required under §122(c) to be open to public inspection eighteen months after the effective filing date, including any right of priority, are not keep in secrecy because the PTO has not been made aware of the benefit claim.

(4) Third, under §120(3), benefit is allowed from a prior co-pending application of the same applicant, even where no inventor is common to the two applications.

Treaty Provisions:	Current US Law:	AIPLA Statutory Text:

Rights of the Inventor; Assignee Filing; Identification of the Inventor.

Article 6 - Identification and Mention of Inventor; Declaration Concerning the Entitlement of the Applicant

(1) [Identification of the Inventor in the Application] The application shall, as prescribed, identify the inventor or, where there are several inventors, all of them, failing which it shall be rejected.

(2) [Mention of the Inventor in Publications of the Office] Any publication of the Office, containing an application or a patent granted thereon, shall mention the inventor or inventors as such, provided that any Contracting party may allow any inventor to request, in a declaration signed by him and filed with the Office, that such publications should not mention him as inventor, in which case the Office shall proceed accordingly.

(3) [Indication, in the Application, of the Applicant's Entitlement] Any Contracting Party may require that the applicant indicate the legal grounds of his entitlement to file the application.

(4) [Prohibition of Other Requirements] No requirements in respect of the identification or mention of the inventor or in respect of the indication of the applicant's entitlement that are additional to or different from those set forth in the preceding paragraphs shall be allowed.

[End of Article]

Article 9 - Right to a Patent

(1) [Right of Inventor] The right to a patent shall belong to the inventor. Any Contracting Party shall be free to determine the circumstances under which the right to the patent shall belong to the employer of the inventor or to a person who commissioned the work of the inventor which resulted in the invention.

(2) [Right Where Several Inventors] Where two or more inventors independently have made the same invention, the right to a patent for that invention shall [, irrespective of the dates on which the invention was made by each of the inventors,] belong:

(i) where only one application is filed in respect of that invention, to the applicant, as long as the application is not withdrawn, abandoned or rejected, or,

(ii) where two or more applications are filed in respect of that invention, to the applicant whose application has the earliest filing date or, where priority is claimed, the earliest priority date, as long as the said application is not withdrawn, abandoned, or rejected.

[End of Article]

§111. Application for patent

Application for patent shall be made, or authorized to be made, by the inventor, **except as otherwise provided in this title**, in writing to the Commissioner. Such application shall include (1) a specification as prescribed by section 112 of this title; (2) a drawing as prescribed by section 113 of this title; and (3) an oath by the applicant as prescribed by section 115 of this title. The application must be accompanied by the fee required by law. The fee and oath may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Commissioner. Upon failure to submit the fee and oath within such prescribed period, the application shall be regarded as abandoned, unless it is shown to the satisfaction of the Commissioner that the delay in submitting the fee and oath was unavoidable. The filing date of an application shall be the date on which the specification and any required drawing are received in the Patent and Trademark Office.

§115. Oath of applicant

The applicant shall make oath that he believes himself to be the original and first inventor of the process, machine, manufacture, or composition of matter, or improvement thereof, for which he solicits a patent; and shall state of what country he is a citizen. Such oath may be made before any person within the United States authorized by law to administer oaths, or, when, made in a foreign country, before any diplomatic or consular officer of the United States authorized to administer oaths, or before any officer having an official seal and authorized to administer oaths in the foreign country in which the applicant may be, whose authority is proved by certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States. Such oath is valid if it complies with the laws of the state or country where made. When the application is made as provided in this title by a person other than the inventor, the oath may be so varied in form that it can be made by him.

§111. Application for patent

Application for patent shall be made, or authorized to be made, by the inventor, **except as otherwise provided in this title**, in writing to the Commissioner. Such application shall include (1) a specification as prescribed by section 112 of this title{;} and (2) a drawing as prescribed by section 113 of this title. The application must be accompanied by the fee required by law. The fee may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Commissioner. Upon failure to submit the fee within such prescribed period, the application shall be regarded as abandoned, unless it is shown to the satisfaction of the Commissioner that the delay in submitting the fee was unavoidable. The filing date of an application shall be the date on which the specification and any required drawing are received in the Patent and Trademark Office.

§ 115. Request by the applicant

A person making application for patent shall file a request therefor, providing such particulars as the Commissioner may require.

Treaty Provisions:	Current US Law:	AIPLA Statutory Text:
		§ 118. Filing by other than inventor (a) Any person to whom an inventor has assigned or agreed in writing to assign an invention, or who otherwise shows sufficient proprietary interest in the matter, may make application for patent on behalf of and as agent for the inventor. The Commissioner may grant a patent to such an applicant upon such notice to the inventor as the Commissioner deems sufficient and in compliance with such regulations as the Commissioner shall prescribe. (b) A person who derives an invention from another shall have no right to a patent on any derived invention disclosed in a an application for patent filed by such person, but shall instead be deemed the agent or legal representative of the inventor to the extent of any derived invention disclosed or claimed in such application for patent. (c) When an application for patent is filed by any person other than the inventor, the identity of the inventor shall be provided in the application. (d) Whenever an application is filed in whole or in part by a person other than an inventor and in compliance with this section, the references in this title to the legal representatives and agents of the applicant shall include the legal representatives and agents of the inventor. Whenever reference in this title is made to the applicant, it shall mean, in addition to the inventor, the person actually making application, including any person making application under this section.

V. AIPLA RATONALE FOR PERMITTING ASSIGNEE FILING; ELIMINATION OF FORMAL OATHS

A. In furtherance of the policy of flexible examination, two additional changes are made in connection with the formal aspects of filing a patent application.

1. First, the requirement for an inventor's oath is eliminated.
2. Second, the filing of patent applications in the name of the real party in interest is permitted where the inventor has assigned rights to the invention.

B. These changes should greatly simplify the procedures for securing a patent.

AIPLA COMMENT ON SECTION 115:

(1) In accordance with a public policy of reducing formalities and paperwork associated with the prosecution of patent applications, the requirement that the inventor file a formal oath is eliminated.

(2) The new requirement in §115 is merely intended to reflect the requirement in the PCT that some indication be present that papers filed in the PTO are intended to represent an application for patent.

(3) No change in substantive law with respect to the rights and obligations of the inventor is intended.

32

Treaty Provisions: **Current US Law:** **AIPLA Statutory Text:**

AIPLA COMMENT ON SECTION 118:

(1) This amendment changes current law by permitting an assignee of an inventor's patent rights to file an application. Under current law, an assignee may file an application without the inventor's participation only on proof that the inventor refuses to execute an application or cannot be found after diligent effort.

(2) This is intended as a convenience to the owner of the invention. Assignee filing avoids delay, uncertainty, and inconvenience to the owner when the inventor is not readily available or competent to execute the necessary formalities associated with making the application for patent. No change in substantive law with respect to the rights and obligations of the inventor is intended.

(3) The amendment also clarifies the right of the inventor in the case of an application filed by a person who in whole or in part is not the inventor, but rather derived from the inventor subject matter being claimed. Upon a showing of derivation, the applicant is regarded as the agent of the inventor, and the inventor (or the assignee of the inventor) may control the disposition of such application for patent to the extent of the derived invention, including relying on such application under the provisions of §119 or §120.

"Harmonization" Treaty Provisions Outside the Scope of "AIPLA Legislative Initiatives:"

Treaty Provisions:	Current US Law:	"Harmonized" US Law:

Conditions of Patentability; Novelty; Non-Obviousness; Grace Period; Effect of "Senior-Filed" Application on Novelty

Article 11 - Conditions of Patentability
(1) [Patentability] An invention shall be patentable if it is novel, involves an inventive step (is non-obvious) as is useful or industrially applicable.
(2) [Novelty] (a) An invention shall be considered novel if it does not form part of the prior art.
(b) The prior art shall consist of every thin which, before the filing date or, where priority is claimed, the priority date of the application claiming the invention, has been made available to the public anywhere in the world.
[(c) Notwithstanding subparagraph (b), any Contracting Party shall be free to exclude from the prior art matter made available, by oral disclosure, by use or by display at an exhibition, in a place or space which is not under its sovereignty or, in the case of a supranational authority or of an intergovernmental organization, under the sovereignty of one of its constituent or member States.]
(3) [Inventive Step (Non-Obviousness)] an invention shall be considered to involve an inventive step (be non-obvious) if, having regard to the prior art as defined in paragraph (2), it would not have been obvious to a person skilled in the art at the filing date or, where priority is claimed, the priority date of the application claiming the invention.
[End of Article]

Article 12 - Disclosures Not Affecting Novelty and Inventive Step (Grace Period)
(1) [Circumstances of Disclosure Not Affecting Patentability] Disclosures of information which otherwise would affect the patentability of an invention claimed in the application shall not affect the patentability of that invention where the information was disclosed, during the 12 months preceding the filing date or, where priority is claimed, the priority date of the application,
(i) by the inventor,
(ii) by an Office
(a) and the information was contained in another application filed by the inventor and should not have been disclosed by the Office, or
(b) and the information was contained in an application filed without the knowledge or consent of the inventor by a third party which obtained the; information direct[ly] or indirectly from the inventor, [provided that the applicant who invokes the grace period shall have the burden of proof in respect of the fact that the information was obtained direct[ly] or indirectly from the inventor,]

§102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless -
(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or
(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or
(c) he has abandoned the invention, or
(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or
(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or on an international application by another who has fulfilled the requirements of paragraphs (1), (2), and (4) of section 371(c) of this title before the invention thereof by the applicant for patent, or
(f) he did not himself invent the subject matter sought to be patented, or
(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

§103. Conditions for patentability; non-obvious subject matter

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the

§102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless -
(a) the invention was **publicly** known or used **{by others}** in this country, or patented or described in {a} printed publications in this or a foreign country, **before the filing date of the application** for patent, or
(b) the invention was {in public use or on sale} **commercially used or sold** in this country, more than one year prior to the date of the application for patent in the United States, or
(c) [Reserved.]
(d) [Reserved.]

(e) the invention was described in a patent in this country granted to another or in a patent application in this country by another opened to public inspection under section 122 of this title filed **before the filing date of the application for patent, or"**

(f) he did not himself invent the subject matter sought to be patented.

§103. Conditions for patentability; non-obvious subject matter

A patent may not be obtained though the invention is not {identically} completely disclosed or described as set forth in section 102**(a)** of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been

Treaty Provisions:

or

(iii) by a third party which obtained the information direct[ly] or indirectly from the inventor.

(2) [Inventor] For the purposes of paragraph (1), "inventor" shall also mean any person who, at the filing date, had the right to a patent in respect of the application.

[End of Article]

Article 13 - Prior Art Effect of Certain Applications on Novelty

(1) [Principle of "Whole contents"] (a) Subject to subparagraph (b), the whole contents of an application ("the former application") as filed in, or with effect for, a Contracting Party, shall, for the sole purpose of determining the novelty of an invention claimed in another application filed in, or with effect for, that Contracting Party (and not for determining whetter that invention involves an inventive step), be considered as prior art from the filing date of the former application to the extent that the former application or the patent granted thereon is published subsequently by the authority competent for the publication of that application or patent.

(b) Where the former application referred to in subparagraph (a) claims the priority of an earlier application, matter that is contained in both the former application and the earlier application shall be considered as prior art in accordance with subparagraph (a) from the priority date of the former application.

(c) For the purposes of subparagraph (a), "whole contents" of an application consists of the description and drawings, as well as the claims, but not the abstract.

(2) [Withdrawn Applications] Notwithstanding paragraph (1), no former applications that has been published despite having been withdrawn prior to its publication shall be considered as prior art.

(3) [International Applications Under the PCT] As regards international applications filed under the Patent Cooperation Treaty, any Contracting Party may prescribe that paragraph (1) shall apply only if the acts referred to in Article 22 or, where applicable, Article 39(1) of that Treaty have been performed.

(4) [Self-Collision or Internal Priority] (a) Subject to subparagraph (b), a Contracting Party shall not apply paragraph (1) when the applicant of, or the inventor identified in, the former application, and the applicant of, or the inventor identified in, the application under examination, is one and the same person.

(b) A Contracting Party shall not be bound by subparagraph (a) if it provides for internal priority. Internal priority shall mean that any person who has duly filed an application in, or with effect for, a Contracting Party shall

Current US Law:

time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

Subject matter developed by another person, which qualifies as prior art only under subsection (f) or (g) of section 102 of this title, shall not preclude patentability under this section where the subject matter and the claimed invention were, at the time the invention was made, owned by the same person or subject to an obligation of assignment to the same person.

§104. Invention made abroad

In proceedings in the Patent and Trademark 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 thereof, or other activity with respect thereto, in a foreign country, except as provided in sections 119 and 365 of this title. Where an invention was made by a person, civil or military, while domiciled in the United States and serving in a foreign country in connection with operations by or on behalf of the United States, he shall be entitled to the same rights of priority with respect to such invention as if the same had been made in the United States.

"Harmonized" US Law:

obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

§104. Conditions for patentability; grace period

Notwithstanding the provisions of sections 102 and 103 of this title, art which is not more than one year prior to the filing date of the application shall be disregarded whenever it results from an act --

(a) by the inventor or by legal representatives, agents, or assigns of the inventor,

(b) by the Office through publication or opening of another application by the inventor which was entitled to confidentiality under section 122 of this title, or

(c) by a third party disclosing information obtained the information directly or indirectly from the inventor.

Treaty Provisions:	Current US Law:	"Harmonized" US Law:
enjoy a right of priority for a subsequent application filed in, or with effect for, the same Contracting Party to the extent that the subsequent application claims; the same invention, if that application is filed within a period of 12 months from the filing date of the earlier application, and if neither internal priority nor priority under the Paris Convention for the Protection of Industrial Property has been claimed for the earlier application. The effect of an internal priority validly claimed shall be the same as that of a priority claimed under the said Convention. (c) Not more than one patent shall be granted on two or more applications to the extent that they claim one and the same invention. [End of Article]		

Prior User Rights

Article 20 - Prior User (1) [Right of Prior User] Any Contracting Party may provide that a patent shall, notwithstanding Article 19, have no effect against any person (hereinafter referred to as "the prior user") who in good faith before the filing date or, where priority is claimed, the priority date of the application on which the patent is granted and within the territory where the patent produces its effect was using the invention or was making effective and serious preparations for such use; any such person shall have the right, for the purposes of his business, to continue such use or to use the invention as envisaged in such preparations. (2) [Successor in Title of the Prior User] The right of the prior user may only be transferred or devolve together with his enterprise or business, or with that part of his enterprise or business in which the use or preparations for use have been made. [End of Article]	**[NO RELEVANT PROVISION OF EXISTING US LAW.]**	**§271. Infringement of patent** ... (h) Each person who has made an invention in this country which corresponds to a claim in a patent granted to another and each person who has obtained rights to use such an invention from an inventor thereof shall not be liable as an infringer or contributory infringer with respect to such claim if such person has commercially used or sold the invention in this country, or has made substantial preparations therefor in this country, prior to the filing date of the application for patent. The release from liability accorded to prior users under this subsection is personal and not subject to transfer or assignment to any other person or persons. A person shall be regarded as having made substantial preparation for commercial use or sale of an invention whenever reasonably diligent efforts to commercialize the invention are made in this country from a time prior to the filing date of the patentee in this country and continuing until actual commercial use or sale is commenced. (i) For the purposes of determining whether rights accorded to a patentee under this title have been exhausted, any act of a person which would have been an act of infringement of the patent but for the status of that person as a prior user under the provisions of subsection (g) of this section shall be considered as an act of the patentee.

Treaty Provisions:	Current US Law:	"Harmonized" US Law:

Disclosure Requirements for Patent Applications

Article 3 - Disclosure and Description

(1) [Disclosure] The application shall disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art.

(2) [Description] (a) The application shall contain a description.

(b) The description shall have the prescribed contents, and such contents shall be presented in the prescribed order.

(c) Where the description refers to biological material that cannot be disclosed in the description in such a way as to enable the invention to be carried out by a person skilled in the art and such material is not accessible to the public, the description shall be supplemented by a deposit of such material with a depositary institution.

(d) No Contracting Party shall require the description to contain elements that are additional to or different from those provided for in and under this paragraph.

[End of Article]

Rule 1 - Contents and Order of Description

(1) [Contents of Description] the description shall, after stating the title of the invention,

(i) specify the technical field or fields to which the invention relates;

(ii) indicate the background art which, as far as known to the applicant, can be regarded as useful for the understanding, search and examination of the invention, and, preferably, cite the documents reflecting such background art;

(iii) describe the invention, as claimed, in such terms that the technical problem (even if not expressly stated as such) and its solution can be understood, and state the advantageous effects, if any, of the invention with reference to the background art;

(iv) where a deposit of biological material is required under Article 3(2)(c), indicate the fact that the deposit has been made and identify at least the name and address of the depositary institution, the date of the deposit and the accession number given to the deposit by that institution;

(v) briefly describe the figures in the drawings, if any;

(vi) set forth at least one mode for carrying out the invention claimed; this shall be done in terms of examples, where appropriate, and with reference to the drawings, if any;

§112. Specification

The specification shall contain 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.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

A claim may be written in independent or, if the nature of the case admits, in dependent or multiple dependent form.

Subject to the following paragraph, a claim in dependent form shall contain a reference to a claim previously set forth and then specify a further limitation of the subject matter claimed. A claim in dependent form shall be construed to incorporate by reference all the limitations of the claim to which it refers.

A claim in multiple dependent form shall contain a reference, in the alternative only, to more than one claim previously set forth and then specify a further limitation of the subject matter claimed. A multiple dependent claim shall not serve as a basis for any other multiple dependent claim. A multiple dependent claim shall be construed to incorporate by reference all the limitations of the particular claim in relation to which it is being considered.

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.

[NO CHANGE IN SECTION 112]

Treaty Provisions:	Current US Law:	"Harmonized" US Law:
however, any Contracting Party may provide that the description set forth the best mode for carrying out the invention known to the inventor at the filing date or, where priority is claimed, priority date of the application; (vii) indicate explicitly, when it is not otherwise obvious from the description or nature of the invention, the way or ways in which the invention satisfies the requirement of being useful or industrially applicable. (2) [Order of Presentation of Contents] The contents of the description shall be presented in the order in which such contents are listed in paragraph (1), unless, because of the nature of the invention, a different order affords a better understanding and a more economical presentation. [End of Rule]		

PIPA SURVEY ON PATENT HARMONIZATION - **REVISED**

TOTAL RESPONSE: 21

(1) Are you in favor of the U.S. Group of PIPA taking positions on harmonization issues?

YES 17 NO 3 DON'T CARE 1

(2) Are you in favor of the U.S. adopting a first of file system, in the context of the harmonization package?

YES 17 NO 3 NO REPLY 1

COMMENT: "(we need to harmonize for consistent results in a global market. First-to-file is the only feasible approach to do this)."

"but only in the context of harmonization with concessions by the countries."

(3) Are you in favor of the U.S. adopting an eighteen month publication system?

YES 13 NO 7 NO REPLY 1

COMMENT: "I don't feel strongly."

(4) Are you in favor of a twenty-year patent term measured from the date of filing in the U.S.?

YES 15 NO 4 NO REPLY 2

COMMENT: "(excluding an internal priority filing if we adopt one)"

"This would work only if we do away with interference factor."

(5) Are you in favor of the U.S. adopting a definition of prior art consistent with a first to file system, (i.e., applications are used for novelty purposes from the date of filing, and are used for obvious purposes from the date of publication)?

YES 17 NO 3 NO REPLY 1

COMMENT: "(but a definition of novelty in this context is needed since existing practices - Europe & Japan - are widely divergent)"

"+ no self collision"

GENERAL COMMENTS: "In general, we at AT&T support the positions adopted by the AIPLA during this recent series of meetings on harmonization."

"Harmonization would be a boon to everybody - reduce costs, remove complications - as we head into the age of the "global village" and the "stateless corporation." It can't come soon enough! It's time to overcome narrow parochial, chauvinistic biases."

"I favor making the above concessions in return for concessions back on matters such as the obviousness standards and grace periods."

"Corporate groups with international focus should speak out. There is a divergence between corporate and private bar interests and silence by corporate sector is hurting."

"The above answers represent my personal views and not necessarily those of my employer."

"I believe we should oppose patent harmonization unless and until we see a real benefit to U.S. industry. None of the present patent harmonization proposals in my view provide any meaningful benefit to U.S. industry commensurate with what we are giving up."

"Harmonization is not in a U.S. based research company's interests. I'm not sure it improves quality for anyone else."

12:4-1

(1) Title : Protection of Products made by a Patented Process

(2) Date : 10/90 (21st, Niigata)

(3) Source :

1) Source : PIPA
2) Group : Japan
3) Committee : 4

(4) Authors: Akihide Wakamatsu, Ajinomoto Co., Ltd.
Toshio Yamauchi, Kanebo, Ltd.
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Shiro Kodama, Sekisui Chemical Co., Ltd.
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(5) Keywords : Method of production; patents, effect, working, interpretation

(6) Statutory Provision : JPL2(3)

(7) Abstract : Occasionally, it is not easy to judge whether an invention or patent of a method (or process) falls within an invention of a production method or not. This is a delicate problem for patent owners as well as third parties, because effect of the patent right of the method upon products is affected, depending on whether the invention or patent of the method employed is interpreted as representing an invention of a production method or not.

In this paper, we will clarify the reason why effect of the patent right upon a production method is made different, under the Japanese Patent Law, from that of any other method. We will also clarify the meaning of "production method" and issues in its interpretation.

We will further study how the invention of a method has been dealt with in the past cases by analyzing some of them relating to effect of a method patent upon products. In order for a patented invention of a method to be protected as a production method, it is considered necessary, according to those cases, that an article is changed in substance through the application of the method and, in addition, that the patent claim works to create an assignable product in substance.

1. Introduction

The patent law of the United Stats was amended in February 1989 to extend the effect of a process patent to products made by the process. In Japan, a similar provision was

contained in the Patent Law which was put into effect in 1899. Under the Patent Law revised in 1960, an invention of a production method was distinguished from that of any other methods to clarify that only the effect of the patent right on the former extends to its products.

It would appear to be difficult, however, to judge whether a method invention falls within a production method, when the invention relates for example, to a method of adhesion or to a measuring method employed in production. Thus, it is likely that, depending on whether or not an invention of a method is regarded as falling within that of a production method, effect of the patent right on the same is unduly narrowed or expanded. Such a problem is indeed a delicate one not only for patent owners but also for third parties to determine an infringer. Also, it is an important issue particularly on infringement regarding imports.

Nevertheless, any sufficient discussions seem not to have been made in the past.

This paper is intended to make clear the grounds why an invention of a production method is differently dealt with from those of any other methods with respect to effect of the patent right in this country. Then, this paper will review how inventions of methods have been dealt with in the past cases, and will discuss about issues on effect of the method patent upon products.

2. Protection of Invention of Production Method

The current provision of Article 2 Paragraph 3 of the Patent Law gives the following definitions in respect of working conducts of method inventions :

(1) With respect to an invention of a method, use of the method;

(2) With respect to an invntion of a production method of a product, in addition to the one provided in the above

(1), use, assignment, lease, display for assignment or lease, or import of any product made by the method.

The reason why the provision includes the conducts of use, assignment, lease, display and import of the product so made, is to afford effective protection of an invention of a production method not only for domestic production but for imports as well. The provision of the Japanese Patent Law, in which working of an invention of a production method includes as far as use, assignment, lease, display and import of the product so made, was included after the German Patent Law. Then, the purpose for which the German Patent Law included the said provision was to prevent products made in Switzerland from being imported into Germany.(1) Suppose that a patent of a production method is in effect within a country and that, in order to evade it, a product is manufactured by the method abroad and imported into that country. There, the patent owner can exercise his right against any domestic producer but cannot do so against any importer. Thus, to make fair the protection under the method patent, the patent right of a production method was made applicable to its products as well.

3. Interpretation of "Production Method" and Issues

"Production" is making of a product and is interpreted to include not only manufacturing of industrial products but also creation of animals and plants.(2)(3) According to this sense of "production", the method of blood testing and the insecticidal method are nonproductive in that nothing works to make a product. Manufacturing methods of materials or devices definitely work to make products and, therefore, are a production method. Now, a question arises as to whether the method of adhesion or bonding or method of using or measuring machines, facilities or devices for

manufacturing purposes falls within the "production method", because it is not always clear whether it works to make a product. In other words, the question of whether effect of the patent right of any of the methods just mentioned above would extend to those associated products is a vital issue for patent owners as well as third parties, inasmuch as it does have an impact upon availability of an injunction against a product or of damages for infringement, and upon determination of an infringer. Under the practice of the Japanese Patent Office, it is made clear in the course of examination of a patent application whether it represents an invention of a product or of a method. However, no particular consideration is given to whether it is an invention of a production method or of a nonproductive method. Thus, it is not until a patent infringement case actually arises that an argument is made as to whether an alleged patent represents an invention of a production method or of a nonproductive method.

4. Cases on Effects of "Method Patent" upon Products

Presented below are four precedent cases with respect to effects of method patents upon products.

(I) Cases Found to be Inventions of Production Methods

(1) Method of Smoking "Hatahata" or Sandfish (Case No. 1979 (Wa) 340)

The subject patent covered a method of smoking a sandfish with its independent claim comprising the steps of removing fish internals, consecutive drying at a high temperature, and dressing of fish skin by smoking. The plaintiff contended that the

alledged smoked sandfish was a new product and thus produced through the patented method. The Akita District Court dismissed it, finding that the alledged smoked sandfish was not a new product. Both parties were of the opinion that the subject patent should be a production method, and the Court awarded it.

(2) Method of Local Plating of Flier (Case No. 1983 (Ne) 152)

The subject patent covered a method of local plating of a flier, with its independent claim comprising the steps of stretching a flier within an isolation box and, after filling the box with lukewarm water, soaking the isolation box in the plating solution. The plaintiff contended that the product imported and sold by the defendant was produced with the patented method. The Nagoya High Court, however, found that the subject invention was a production method, but that the manufacturing method of the defendant employed different steps from the invention and thus did not infringe the patent.

(3) Method of Sticking Label (Case No. 1982 (Wa) 7827)

The subject patent covered a method of sticking labels onto meshy cloth bags with its independent claim comprising the steps of placing the meshy cloth and labels, dripping melt polyethylene, and adhesion. The plaintiff contended that the alleged product was made by the method of the patented invention. The Osaka District Court found that the structure available under the method of the invention was different from that of the alleged

product. Thus the Court found that the product was not made by the subject invention and that the manufacturing process adopted by the defendant did not infringe the patent.

(II) Cases Found to be Nonproductive Methods

(1) Method of Starting Axial Flow Pump (Case No. 1942 (o) 556)

The subject patent covered a method of starting an axial flow pump, with its independent claim comprising the steps of narrowing a blade angle, opening a water control valve by rotating a principal axis, and widening the blade angle to the normal angle. The appellant contended that the patent was granted simply on a method of using devices which had already existed on filing, and thus that the method should not be protected under the Patent Law. The Supreme Court found that, while the method of the patented invention was not that of manufacturing, it deserved protection under the Patent Law.

5. Discussion

Under the decisions of 1979 (Wa) 340, 1983 (Ne) 152 and 1982 (Wa) 7827, the subjects of the claimed inventions were methods of smoking sandfish, local metal plating of fliers, and sticking of labels onto meshy cloth bags, respectively. They were found to be production methods, although they were not expressly mentioned as a process of production or manufacturing in the claims.

In order to be found as an invention of a production method, according to those judgments, the subject of an invention

recited in the claim need not be expressed as a process or method of manufacturing or production, as long as the steps recited in the claim represent a method of production in substance.

Under the three cases, the patented inventions were found to be production methods, without any arguments to clarify the gounds. It is evidently common to all of those three cases that plural consecutive steps are recited in each of the independent claims, through which articles were changed in substance, and that the claimed methods manufacture products to assign, i.e. a smoked sand fish, a locally plated flier, and a labeled meshy cloth bag. Therefore, in order to construe a patent of a bonding method, for example, as that of a production method, it is thought firstly that an article must be changed in substance through the claimed method, and secondly that the elemnts of the claim work to create a product for assignment in substance. In other words, from the viewpoint of the patent law which is intended to extend the effect of a patent of a production method to imports, any product, which is manufactured through a patented method but can not be assigned, would not be imported directly from foreign countries, and thus there would be no need to protect such product by the patent.

Under the 1942 (O) 556 decision, on the other hand, the subject of the invention in the claim represented a method of starting an axial flow pump so that it was found to be an invention of a nonproductive method. Furthermore, it was found in the decision that, though such an patented invention of a nonproductive method should be patented, the effect of the patent should be restricted only to use.

This decision was made on a patent application under the old Patent Law. Even under the current Law, it is thought that such a patented invention as the method of starting an axial flow pump remains as a nonproductive method, and thus that the effect of the patent right is evidently restricted to use under its Article 2 Paragraph 3. In addition, such an

invention as a method of using a machine, facilities or a device or a method of measurement should not be thought as a production method, because it would not create an assignable product.(4)(5)

Suppose that a machine, facilities or a device is used in production and that a patent exists on the method of using or measuring the same. Would the effect of the patent right extend to products made or articles measured with the machine etc.? It is thought that if, in the light of the elements of the invention recited in the claim, an article is changed in substance through the claimed method and the invention creates an assignable product, the invention should be construed as a production method and the effect of the patent would extend to that product.

6. Conclusion

A patent owner of a production method enjoys the benefit of more extended protection than a patent owner of a nonproductive method, because the effect of the patent of the production method extends to products. It is thought that, in order to be protected as a production method patent, a patent should satisfy the conditions that an article used is changed in substance through the claimed method and that the claim works to create an assignable product in subtance. Conversely, if the conditions are not met, the patent should not be protected as a patent of a production method, even if the subject of the invention is mentioned as a method of production in the claim. Thus, when an invention of a production method is likely to be taken as a nonproductive method, it is thought to be preferable to take care to draft a patent claim as follows:

a) The subject of the invention should be mentioned as "method (or process) of production (or manufacturing)" in the claim in order to express the intention of the applicant to seek protection as an invention of "production method" definitely.

b) The elements of the claimed invention should be carefully expressed to define that an article is changed by application of the claimed method to make an assignable product.

REFERENCES:

(1) "Tokkyoho Shokai" (Annotated Patent Law), p.270, by Oda and Ishikawa, published on April 20, 1972

(2) "Chukai Tokkyoho" (Commentary on Patent Law), 2nd Ed., p.33, by Nakayama

(3) "Tokkyoho Gaisetsu" (Outline of Patent Law), 8th Ed., p.336, by Yoshifuji

(4) "Kogyo Shoyukenho" (Industrial Property Law), p.20, by Kaneko and Someno, published on January 20, 1971

(5) "Shin Tokkyoho" (New Patent Law), p.272, by Mitsuishi, published on October 5, 1959

b) The elements of the claimed invention should be carefully expressed to define that an article is changed by application of the claimed method to make an unobvious product.

REFERENCES:

(1) "Tokkyoho Shokai" (Annotated Patent Law), p.270, by Oda and Iwahawa, published on April 30, 1972

(2) "Chokai Tokkyoho" (Commentary on Patent Law), 3rd Ed., p.33, by Nakayama

(3) "Tokkyoho Gaiseiron" (Outline of Patent Law), 8th Ed., p.336, by Yoshikawa

(4) "Kogyo Shoyukenho" (Industrial Property Law), p.20, by Kanda and Tomita, published on January 30, 1971

(5) "Shin Tokkyoho" (New Patent Law), p.272, by Mizusaki, published on October 5, 1959

13 = 3 - 2 (b)

(1) Title:

COMPARATIVE STUDY ON THE SCOPE OF PROCESS PATENT PROTECTION IN MAJOR COUNTRIES

(2) Date: October 1990 (21st, Niigata)

(3) Source:

1) Source: PIPA
2) Group: Japan
3) Committee: 3

(4) Authors:

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(5) Keywords: Process patent, Importation, Infringement

(6) Statutory Provisions: JPL §2, 35 USC §271(g), GPL §9, BPL §60, FPL §29, KPL §45

(7) Abstract:

In 1988 the Patent Law of the United States was revised in a manner to conform the scope of process patent protection with respect to products which are produced using a patented process, sold and imported, with that other countries. However, this revision did not clarify whether the scope of the process was limited to the actual production process or included other ancillary processes (i.e. manipulation and inspection processes).

In connection with the scope of the process patent, a comparative study of the provisions of the patent laws of the various countries with purposely devised hypothetical process patent examples, was carried out.

From this study it was ascertained that there is wide country to country diversity in the legal provisions and expert opinions relating to the instant subject matter. Particular note is made of the fact that the U.S. patent attorneys exhibited a definite tendency to construe the revision in a manner which is not limited to just the manufacturing process.

I. FOREWORD

The patent laws in many countries have provided protection to process patent owners against unauthorized sale, use and importation of the products produced by the patented process in addition to the actual use of the process itself. However, until the recent revision the United States has not provided any patent protection against products made by a process patented outside, and subsequently imported into the U.S. except for a limited form of blocking the importation of goods produced by such processes under 19 USC 1337a of the Tariff Act of 1930.

These circumstances have led to the situation wherein the US process patent holders have felt that the scope of protection afforded was insufficient and that a strong improvement of the situation was in definite need. As a result of this pressure the Process Patent Amendments Act was enacted as part of the Omnibus Trade and Competitiveness Act of 1988, on February 23, 1989 with a view of improving the amount of protection provided.

This revision has created a great amount of concern among a large number of companies as to whether the changes actually brought the effect of the U.S process patent into conformity with the other major countries and if there were any major disparity and/or confusion.

The purpose of the instant comparative study is to compare the effect of the U.S law with those of the other major countries of the world.

II COMPARISON OF PROCESS PATENT PROTECTION RELATED PROVISIONS IN MAJOR COUNTRIES

1. U.S. Patent Law Provisions

35 USC § 154 and 35 USC § 271(g) have been revised. 35 USC § 271(g) was amended in the manner indicated below:

35 USC § 271(g)

"Whoever <u>imports, sells, or uses a product within the United States which is made by a process patented in the United States</u> shall be liable as an infringer....

A product which is made by a patented process will not be considered to be so made after ----

(1) it is materially changed by a subsequent process, or

(2) it becomes a trivial and nonessential element of another product."

On the other hand, in the Omnibus Trade and Competitiveness Act of 1988, the provisions relating to the scope of a process patent protection under the Tariff Act was also amended as shown below.

19 USC 1337(a)(1)

"The following are unlawful .....(B) The importation or the sale of articles that are made, produced, processed or mined under, or by means of, a process covered by the United States Patent."

The above mentioned patent provision §271(g) is such as to lead us to believe that the process in question is restricted essentially to the manufacturing process as the product is "made" by the process. In particular, a comparison of the patent law provisions with the relevant Tariff Act provisions tends to strengthen this interpretation as the latter nominates articles which are made or produced separately from those which are processed or mined.

However, in view of the US Congress's legislative history, the underlying concept of this Patent Law Amendment appears to be such that the protection afforded by the Tariff Act shall be extended in a manner to provide the same effect as the Patent Law. This is particularly clear if one considers that in the legislative history a mining process, which can be by no means regarded as a straightforward manufacturing process, is cited as an example for debate.

Taking all of these findings into account, a reasonable conclusion might be that the US process patent protection will not be confined to the production process per se.

This point however, will not be clarified until future decisions become available.

2. Statutory Provisions in other countries

As indicated above, most of the major countries of the world other than the United States have provided protection for imported products made by a patented process before the enactment of the US Process Patent Amendment Act.

The following table summarizes the statutory provisions in these countries along with those in the US.

TABLE

COUNTRY	PATENT LAW PROVISIONS	PROCESS PATENT PROTECTION (In addition to the use thereof
UNITED STATES	Section 271(g)	Sale, Use, Import of product made by the patented process (substantial change, trivial non-essential component excluded)
CANADA	No statutory provision	Sale, Use. Import of product made by the patented process (Case Law)
FEDERAL REPUBIC OF GERMANY	Section 9	Offer, put on the market, use or import or for those purposes possess the product obtained ~~direction~~ directly by the process
UNITED KINGDOM	Article 60	Disposal of,use or import of any product obtained directly by means of that process, or keeping any such product
FRANCE	Article 29	Offering putting on the market, using, or importing or storing for such purposes the product obtained directly by the process
ITALY	Article 2	Commercializing the product directly obtained by the new Industrial method or process
KOREA	Article 45	Using, selling importing and distributing the products made by the patented process
TAIWAN	Article 42 Article 90	Sale, import of the product directly produced by the patented manufacturing process
JAPAN	Section 2	Acts of using, transferring, leasing, exhibiting for the purpose of transfer or lease, or importing the thing produced by the manufacturing process

It will be noted that the statutory language of each of the European countries is identical with that used in the European Patent Convention.

3. Differences in the Patent Law Provisions

As made clear in the table of II. 2 the patent law provisions vary from country to country.

Japanese and Taiwanese Patent Laws recognize two types of processes: (a) process for manufacture and (b) process irrelevant to manufacturing (method of use for example). Based on these criteria, patent protection for a manufacturing process covers the product produced by the process. In contrast, the US patent law is such that such divisions are not prescribed and any good could be included in the scope of the patent as long as the good is considered "made by" the patented process.

Another point wherein the limitations relating to the US patent process differs comes in that the products which have been materially changed by a subsequent process or which become trivial and nonessential components of another product, will be exempt from patent protection. In order to achieve the same general scope of protection, most of the EP members take it upon themselves to define that only the products directly obtained from practicing the patent process infringe the patent. Under current Japanese Patent Law there is no such limitations posed in this connection.

The mere comparison of statutory language is not enough to ascertain if the scope of a process patent protection in these countries is uniform or not and it is necessary to study the accumulation of case law in each country. Unfortunately, decisional precedents by the courts relating to this particular issue appears to be relatively few.

III CASE STUDY REGARDING PROCESS PATENT PROTECTION

1. Hypothetical examples

In order to compare the scope of protection afforded by process patents in the major countries, two sets of hypothetical process patent examples were arbitrarily created for evaluation by patent experts in the field of interest in each of the countries in question.

Requested was an opinion as to whether the product obtained by using the hypothetical patent process would fall in the range of activity prescribed by the statutory languages, or put in another way, whether or not the

importation of the products into the country in issue would constitute process patent infringement.

The examples are shown in Appendix [1] as Case A and Case B, respectively.

The feature common to both examples is that they do not pertain to a specific product, but are generally applicable to various products:

Case A (Inspection Process)

A patent relates to an inspection process for automatically checking acceptability of products, wherein a sensing probe is used to measure various dimensions of the product and compare the same with predetermined references.

Case B (Manufacturing Control Process)

A patent relates to a method of controlling a product manufacturing process comprises the steps of:

analyzing an identification code on the product and selecting one of a plurality of machine tools for machining the product.

2. Opinions rendered by Experts

Although there were a total of 29 opinions rendered by various experts throughout 9 different countries, these did not always include clear conclusions indicating either infringement or no infringement. The following expresses the main concepts expressed in connection with these two cases. The attached table (Appendix [2]) summarizes the conclusions drawn by the experts interviewed.

2-1 United States

[Case A: Inspection process]

Of six experts interviewed, three concluded that it would be held to constitute an infringement while the other three felt that a problem of infringement was not present.

The rationale for infringement was that an inspection stage would normally be incorporated in or after the production line, thus constituting part of the production process. As far as the inspection is in someway relevant to the product, the product would be considered made by the inspection process.

Arguments for non-infringement were that the product cannot be considered "made by" the patented process because the product has already been manufactured at the time the inspection is applied.

[Case B: Manufacturing Control Process]

In this instance all rendered an opinion of infringement.

The reason for this is that although the process itself does not operate directly on the product, it is employed during the manufacture of the same. A further reason advanced was that process contains machining processes and thus appears to result in physical change, i.e. machining the product.

2-2 Canada

[Case A: Inspection Process]

Both of two experts concluded that Case A would result in no infringement.

This opinion was based on the deduction that the inspection method does not apply to the specific product and therefore does not have a particular relationship with the product.

[Case B: Manufacturing Control Process]

Of the two experts one concluded that the case should not be considered as patent infringement while the other was of the opposite opinion.

No specific grounds for the positive finding were put forward, however.

The grounds for non-infringement was indicated as being that the process does not find application to the specific product and therefore no reasonable nexus could be established.

Canadian courts are strongly influenced by British decisions. It is assumed that the above conclusion was drawn based on the British case of Wilderman v. F W Burke & Co Ltd., 1925, 42 R.P.C 79 which makes particular reference to the following standard criteria in determining infringement: "the nature of the invention and the extent to which its employment played a part in the production of the article."

2-3 Federal Republic of Germany

[Case A: Inspection Process]

All of three experts held that the importation does not constitute infringement.

The reasons advanced were that the product itself is not altered by such an inspection method, and moreover shall be by no means considered a product directly obtained by the process.

[Case B: Manufacturing Control Process]

All the experts held that the importation does not result in infringement.

The reasons for this were that the control does not relate to any property or characteristic of the product and the prerequisite for a product to be directly obtained, would only be met if the machining step was new.

It was additionally indicated that, in West Germany, a process which does not cause substantial change or influence in the products is referred to as a working process (Arbeitsverfahren) and is excluded from process patent protection, as has been recognized by German case law.

2-4 United Kingdom

[Case A: Inspection Process]

All of three experts concluded that there was no infringement.

The reason was that the patented process did not itself produce the product.

[Case B: Manufacturing Control Process]

Opinions were 2:1 Two favoured infringement while the other felt that infringement was not made out.

The grounds for infringement were advanced as being that the process contains the steps involved in operating the machine tool used for "machining" the product. Such a machining step will necessarily effect a physical change in the product. The expert rendering a no infringement verdict was of the opinion that the product concerned only has the patent process applied to it, rather than being obtained directly by the process.

2-5 France

[Case A: Inspection Process]

All three concluded felt that the product would not infringe.

The reason therefore was that the inspection process was not relevant in any way to the product manufacturing.

[Case B: Manufacturing Control Process]

Only one of the three attorneys considered the situation would not amount to infringement.

The reason for this was not made clear. As the substantiation for no infringement it was advanced that the controlling process protected a process "upstream" of the manufacturing process and does not provide for the manufacturing itself.

2-6 Italy

[Case A: Inspection Process]

Of three patent attorneys one voted in the affirmative, and the other two voted in the negative.

Specific reasons for infringement were not advanced.

The reasons for no infringement were that the inspection process does not induce changes in the product.

[Case B: Manufacturing Control Process]

Of the three patent attorneys, again the one held that the case would result in a finding. In this case also no specific reasons for this were not advanced for the positive finding.

The analysis of non-infringement entails that the product can be produced without resort to the control process and therefore presents no direct connection with the process.

2-7 Korea

[Case A: Inspection Process]

Of two experts one opted for infringement while the other favoured a decision of no infringement.

Specific reasons for infringement were not given.

On the other hand, in the case of non-infringement, the negative finding was advanced in view of the fact that inspection does not influence the manufacturing process nor the product itself.

[Case B: Manufacturing Control Process]

Both experts considered that the situation would constitute an infringement.

The reason was that the control process did in fact influence the manufacturing process. Further, the product itself will undergo changes.

2-8 Taiwan

[Case A: Inspection Process]

Of the two experts questioned, one was in favour of infringement while the other was against.

No concrete reasons for the infringement opinion were given. On the other hand, no infringement was substantiated by the fact that inspection is not a manufacturing process.

[Case B: Manufacturing Control Process]

Of the two experts one felt that it would not infringe the patent while the other disagreed.

Infringement was asserted because the control process concerns production.

The no infringement opinion was based on the logic that the control process is not a manufacturing process per se.

2-9 Japan

[Case A: Inspection Process]

All five experts held that no infringement occurred.

The reason for no infringement was that inspection has nothing to do with the manufacturing process and the product can be completed without the inspection.

[Case B: Manufacturing Control Process]

In this instance it was 4:1 in favour of infringement. Infringement was deemed to occur as the control process represents an integral part of the manufacturing process. The dissenting opinion was based on the logic that although the control process concerns manufacturing it was not sufficiently related to the specific product.

3. Overview of the opinions

In case A (inspection process) answers were evenly divided in opposite directions in the US. On the other hand, in Canada, Federal Republic of Germany, United Kingdom, France and Japan, all opined for no infringement. Further none of the experts in Italy, Korea and Taiwan stated any explicit reasons supporting the finding of infringement.

In connection with Case B (Manufacturing Control Process) all of those questioned in the US and Korea felt there was an infringement problem whereas all of the patent experts in West Germany were reluctant to opine in favour of infringement. In other countries such as Canada, U.K. France, Italy, Taiwan and Japan various pros and cons were advanced in connection with infringement findings.

The above leads us to the conclusion that, in the U.S. process patent protection is likely to be interpreted rather broadly and irrespective of whether it is concerned with the actual manufacturing process or not. Put in a different way, adopting a more liberal interpretation of the language "made by".

In the European countries concerned, while not expressly indicated in each of the statutory languages, practice demonstrates a tendency for deeming protection to be warranted only when the process exerts a physical change on the product. It is felt however that no uniform interpretation on the term "directly" has been established throughout the European countries.

IV CONCLUSION

We took advantage of the enforcement of the US process Patent Amendments Act of 1988 to conduct a comparison of the statutory provisions relating to process patent protection on a world-wide basis. The study involved interviews with patent experts in all of the countries involved and questions based on two hypothetical process patent examples. These examples were such as to include inspection and manufacture control processes - both generally irrelevant to any specific product.

The outcome revealed that certain differences exist between the statutory languages and expert opinions. In particular the opinions put forward by the US experts clearly evidenced a tendency toward granting a broad protection to process patent owners.

These differences in statutory legislation as well as in practice are deemed to be such as to evoke situations wherein the importation of the product made using a patent process will constitute infringement in one country but not in another. This of course is not a desirable situation for either the patent holder or a third party importing or selling the product. It is therefore earnestly hoped that an international harmonization of the statutory provisions and interpretations thereof can be achieved so that the interests of the patentee and public can be realized.

Appendix [1]

CASE A: Inspection Process

Claim

A method of automatically checking acceptability of a product comprising the steps of:

predeterminately locating a sensing probe and a product manufactured;

relatively moving said probe and said product to measure dimensions of said product by said probe; and

comparing probe output signals indicative of the measured dimensions with a predetermined reference thereby to check acceptability of the product.

CASE B: Manufacturing Control Process

Claim

A method of automatically controlling a manufacturing process of a product comprising the steps of:

analyzing an identification code attached to the product to be machined;

selecting one of a plurality of machine tools in response to said analyzed identification code;

directing movement of said product to said selected one of machine tools; and

operating said selected one of machine tools for machining said product.

Summary of Expert Opinions in Major Countries

COUNTRY	EXPERT	CASE A Inspection Process	CASE B Manufacturing Control Process
UNITED STATES	U-1	YES	YES
	U-2	NO	YES
	U-3	YES	YES
	U-4	YES	YES
	U-5	NO	YES
	U-6	NO	YES
CANADA	C-1	NO	YES*
	C-2	NO	NO
FEDERAL REPUBIC OF GERMANY	G-1	NO	NO
	G-2	NO	NO
	G-3	NO	NO
UNITED KINGDOM	E-1	NO	YES
	E-2	NO	NO
	E-3	NO	YES
FRANCE	F-1	NO	YES*
	F-2	NO	NO
	F-3	NO	NO
ITALY	I-1	YES*	YES*
	I-2	NO	NO
	I-3	NO	NO
KOREA	K-1	YES*	YES*
	K-2	NO	YES
TAIWAN	T-1	NO	NO
	T-2	YES*	YES
JAPAN	J-1	NO	NO
	J-2	NO	YES
	J-3	NO	YES
	J-4	NO	YES
	J-5	NO	YES

NB YES = Infringement, NO = No Infringement
* No specific reason given

13:3-2

(b)

(1) Title: Effects of Process Patents (II) - Case Studies in Mainly Chemical Area (for panel discussion)

(2) Date : 10/90 (21st, Niigata)

(3) Source:

1) Source: PIPA
2) Group : Japan
3) Committee: 3

(4) Authors:
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(5) Keywords: Process patent

(6) Statutory Provisions: EPC Article 64

(7) Abstract: Effects of process patents were reviewed in respect of concrete examples in the chemical area.

1. Introduction

Differences concerning process patents among patent laws of the countries are discussed in detail by K. Ota et al. in "Comparative Study on the Scope of Process Patent Protection in Major Countries". There are hardly any judicial precedents in concerned countries and the scope of effect of a process patent is not entirely clear. The issue becomes relevant in determining an infringement in the case where a process is practiced in a foreign country where there is no patent and the obtained product is imported to a country where the process is protected by patent. The issue, therefore, is of a great interest and concern for the industry.

We assumed concrete cases mainly in the chemical field, and present our views based on study and investigation of these cases. In conducting the review, we have consulted with patent attorneys in Europe as there are hardly any precedents on the

issue in Japan and it was only recently enacted as a part of 1988 Omnibus Trade and Competitive Act in the United States. We believe that our presentation will give a valuable information for considering the issue in other countries.

2. Cases Studies

Case 1

Patent : A process for producing a certain dye

Action : Import or sell a cloth coloured abroad by the dye produced abroad by the patented process

Our Comment:

In this case, the dye per se is the direct product. As to the question of whether the effect of a process patent extends to the cloth obtained from the fibers dyed with the dye obtained by the patented process, it is generally considered not to extend. That is to say, if the quality or nature of cloth depends largely on the process by which the dye is produced, then the cloth can be regarded as a direct product. Such a situation is quite rare, and usually does not occur. Cloth (fabrics) and fibers generally depend on the nature of the dye, but not on the process with which the dye was produced.

Case 2

Patent : A process for producing a certain fiber

Action : Import or sell a cloth made of fibers produced abroad by the patented process

Our Comment:

In this case, the direct product is fiber, and the effect of a process patent with which the fiber was produced naturally extends to the fiber. However, if a cloth was produced by using the fibers and conducting a further process step, then it is reasonable to understand that the effect of the patent does not extend to the cloth similarly to Case 1. Provided, however, it is conceivable that the process patent may cover the cloth (fabric) if its quality or nature is largely and essentially dependent on the method of producing the fiber.

Case 3

Patent : A method for killing weeds

Action : Import or sell rice obtained abroad from a rice plant which was raised by using the patented process

Our Comment:

The patent in question is related to a working process (simple method) aiming at the weed control, not to a method of producing a certain product. Therefore, there exists no direct product (if it did, it would be the killed weed or the weed-free rice field). Such a process patent is considered not extendable to rice. This is because the rice is considered not to differ in any way from other rice produced by using ordinary methods other than the patented method.

Case 4

Patent : A method for washing a bottle

Action : Import or sell a bottle washed abroad by the patented process

Our Comment:

Unless the quality or nature of the bottle is largely dependent on the method of washing the same, the process patent is considered not extendable to the bottle washed by it. If there is a special vial and a special method to effectively eliminate metals attached to such a vial, then the process patent covering the method may extend to the vial.

Case 5

Patent : A process for producing a certain acidic compound

Action : Import or sell the salt or the hydrate of the acidic compound produced abroad by the patented process

Our Comment:

This case depends largely on the situation. If the salts or hydrates are things which are usually conceivable and extremely close in chemical structure and have similar nature, then they can be considered direct products. On the other hand, if the products or hydrates have different quality and activities (such as in the case of pharmaceuticals), they can no longer be

considered as direct products. In interpretation of patent claim in this case, there is naturally a possibility of the defendant being incriminated as an infringer under the "Doctorine of Equivalency".

3. Discussion

Based on concrete examples, we presented our personal views. The generally prevailing thinking appears to divide the process patents into that involving methods of producing a certain product and working methods (of not producing products), and then holding that the effect of process patent extends to the products that are obtained directly in the case of the former.

Definition of "directly" and "obtained" is open to interpretation.

The result of our review is stated below.

(1) In the case of an invention of a process of producing a certain product, there arises a question over the scope of direct product. In other words, does the effect of a process patent reach the indirect products (secondary or tertiary products)? We believe that the question should be determined by judging whether the quality or nature of the product obtained is largely dependant on the patented process or not. If a product undergoes substantial changes by a further treatment, then it is considered not to infringe the process patent. There should be a sufficiently strong nexus between the product and the process, and the term "directly" should not be interpreted unreasonably broadly.

(2) The provision (EPC Article 64) that the effect of a process patent extends not only to the methods per se but also to "direct product" is considered generally not applicable to an invention of a simple method (working method) such as a method of testing a thing, a method of washing or heating a thing (an invention of a method which does not produce a thing) at EPC as discussed above. (There appears to be no such restrictions in the U.S.)

As for the simple method (working method), we believe that there may be cases where a patented simple process does extend to a direct product related thereto, even though such a case may be extremely rare.

It would be better to draft a process claim in the form of "a method for producing a certain product" within the limits of possibility.

We emphasize that the worldwide harmonization over this problem should be achieved.

14 : 3 - 3

(1) Title: Patent Systems in Asian Countries

(2) Date: October 1990 (21st General Meeting in Niigata)

(3) Source

1) Source: PIPA
2) Group : Japan
3) Committee: 3

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(5) Keywords: Asia, harmonization, patent

(6) Statutory provisions: Patent Law of the People's Republic of China - 1, 2, 9, 11, 22, 24, 25, 34, 35, 36, 41, 45, 48, 60
Patent Law of the Republic of Korea (revised 1990) - 2, 29, 30, 31, 32, 35, 41, 43, 49, 54, 55, 59, 61, 64, 70, 73, 88, 94, 106, 116, 127, 128, 129, 133, 169, 201
Patent Law of Taiwan - 1, 2, 3, 4, 6, 12, 27, 29, 42, 67, 85
Patent Law of the Republic of Indonesia - 2, 3, 4, 7, 9, 10, 12, 14, 15, 16, 17, 20, 21, 22, 42, 47, 48, 51, 56, 61, 64, 68, 70, 71, 94, 97
Patent Law of the Republic of the Philippines
Current law - 8, 9, 15, 21, 28, 31
Revision bill - 5, 8, 9, 26, 28, 29, 37, 44, 62, 68, 69

(7) Abstract: The histories, outlines, contemplated revisions and noteworthy points of the patent systems of some Asian countries, namely, the People's Republic of China, the Republic of Korea, Taiwan, the Republic of the Philippines and the Republic of Indonesia are compared, studied and summarized in a table, with consideration given to WIPO's draft Treaty on the Harmonization. The items taken up in the table are nine in number: unpatentable inventions, patent requirements, grace period, publication of applications, substantive examination system, cancellation of patent after registration, rights conferred by the patent, term of patent and effect of process patent. Though not final, the draft Treaty on the Harmonization is included in the table for the purpose of comparing the Asian countries' patent systems and international moves toward the unification of patent systems. In the case of the People's Republic of China and Taiwan, importance is attached to their current Patent Laws, while in the case of the Republic of Korea and the Republic of Indonesia, importance is attached to their soon-to-be enforced Patent Laws. In the case of the Republic of the Philippines, both the current Law and Revision Bill are

included in the table, because deliberation on the Bill has not yet been completed.

I. Introduction

As seen in the WIPO's draft Treaty on the Harmonization, the international trend is toward the most extensive unification possible of national patent systems not only in the aspect of procedures but also in the aspect of substantive provisions. In this trend and in light of the recent technological progress in Asian countries, it seems important to study the contents of the Asian countries' patent systems and the directions of evolution of the respective systems. Five Asian countries are taken up here. They are the People's Republic of China, the Republic of Korea, Taiwan, the Republic of Indonesia and the Republic of the Philippines. The revised Patent Law of the Republic of Korea and the Patent Law of the Republic of Indonesia have both been promulgated already. Since they are to be put into force beginning in September 1990 and in August 1991, respectively, only these new Laws are taken up here for the two countries. In the case of the People's Republic of China and Taiwan, not many years have passed since their current Patent Laws were put into effect. Though there are moves to revise the laws, no formal revision bills seem to have been presented for deliberation yet. Therefore, the current Laws are primarily studied here and the moves toward their revision are referred to only briefly. In the case of the Republic of the Philippines, the Revision Bill was introduced to the Senate in 1989 but there does not seem to be much progress in the deliberation. Therefore, equal importance is put here to the current Law and the Revision Bill.

The contents of the table seem to be self-explanatory. The "patent requirements" column shows the standard of determining novelty. The Patent Laws of all the countries taken up here, except the Republic of the Philippines, adopt the first-to-file principle. The "substantive examination system" column shows the system and procedures used for the substantive examination. According to it, contrary to the draft Treaty, it is permitted in all of the five countries to file an opposition before a patent is

granted. The "rights conferred by patent" column shows the objects of patent rights and the presence or absence of a provision concerning indirect infringement. The "remarks" column shows the systems unique to the country, moves toward a revision and so forth. The figure under the country name in the table indicates the date (month/day/year) of enforcement of the current law (or revised law) of the country.

II. The People's Republic of China

(1) History

In the People's Republic of China ("China"), the Invention Promotion Ordinance of 1963 stipulated that inventions belong to the ownership of the State. In 1979, however, China started preparations for establishing a patent system in an effort to modernize its socialism by, for example, introducing advanced technologies from foreign countries. First, a committee to work out a draft of a patent law was formed in March 1979. Through deliberation at regular meetings of the State Council, etc., a new Patent Law was adopted and promulgated on March 14, 1984, and put into effect on April 1, 1985.

(2) An Outline of the Patent System

The Patent Law of China protects "inventions and creations," which include inventions, utility models and designs (Article 2). Only inventions (patents) are taken up here for the purpose of comparison with the WIPO's draft Treaty on the Harmonization and the other countries' patent systems.

The Patent Law of China is established for the purpose of "protecting the patent rights of inventions and creations to encourage inventions and creations, promoting the diffusion and application of inventions and creations, encouraging the progress of science and technology and thus meeting the needs of modernizing socialism." Like the draft Treaty on the Harmonization, the Patent Law adopts the first-to-file principle, examination system, publication of applications, etc.

As for the procedures, a patent application filed goes through a preliminary examination, including the checking for any violation of public order or morals and for any unpatentable

reasons, followed by the publication of the application within 18 months from the filing date. An examination is started if an examination request is made within three years from the filing date. An examination may be started by the Patent Office by virtue of its authority if it deems it necessary. In the examination, novelty of the invention is judged according to whether it is publicly known or used at home. In the draft Treaty on the Harmonization, novelty is judged according to whether the invention is publicly known or used at home and abroad. The so-called grace period applies only to exhibits at trade fairs, announcements at meetings of academic societies and public disclosures against will. Inventions tested publicly, announced in publications, etc. cannot be patented.

With respect to the contents of patent rights, it is noticeable that the scope of rights of process patents is somewhat narrower than in industrial countries. That is, the effect of the patent rights for an invention concerning a manufacturing process does not extend to the products manufactured abroad by that process and then imported into China or to a case in which a material used only for the manufacture of the product is manufactured and sold. As for the turning of the burden of proof, however, Article 60 stipulates: "When the patent of an invention is for a manufacturing method of a product, any entity or individual that is manufacturing the same product must present the proof of the manufacturing method of the product." That is, the conditions concerning the product have only to be the same and the product need not be novel as required by the draft Treaty.

(3) Moves toward Revision of the Law

Five years have passed since the Patent Law of China was put into effect. There are some moves toward a revision of the Law. Points of revision considered at present are as follows:

(a) To extend the term of patent to 20 years from 15 years at present

(b) To extend the effect of a process patent to the products manufactured by the process

(c) To make it possible to provide provisional protection before a patent registration by issuing a letter of warning

(d) To introduce a domestic priority system

(e) To make it possible to turn a rejected patent application to a utility model application

(f) To require that any opposition be filed after the grant of a patent

(g) To regard the contents of claims as a part of the disclosure of the invention and permit an amendment of adding the contents to the specification.

The contemplated points of revision are all in conformity to the contents of the draft Treaty. It indicates the enthusiasm of the Government of China for internationalizing its patent system.

(4) Noteworthy Points

According to the provisions of Article 36 of the Patent Law of China, reference materials concerning the invention must be presented at the time of requesting its examination. When a patent application has been filed abroad for the invention, it is also necessary to present the materials cited against the application and the materials on the results of the examination. It should be noted that if these materials are not presented without good reason, the application is deemed to have been withdrawn. The application is also deemed to have been withdrawn if no reply is made to a notice of reasons for a refusal within a specified period (Article 37).

As for procedures, an applicant who does not have a regular place of location or an office of business in China must entrust the procedural matters to a patent agency specified by the State Council of China (Article 19).

III. The Republic of Korea

(1) History

The Republic of Korea ("Korea") extensively revised in 1961 the Patent Law based on a U.S. military decree. The revision included the granting of compulsory license or the cancellation of

a patent right in a case in which the patented invention is not applied to practical use. A revision of 1963 included a provision against the abuse of patent rights. Revisions made in February and December 1973 included the express obligation of the patentee to implement the patented invention, the strengthened provision against the abuse of patent rights, the expansion of the fields of unpatentable inventions and so forth. Before participating in the Paris Convention in 1980, Korea made numerous improvements to make its Patent Law comparable with those of industrial countries. By revisions in 1982 and 1989, Korea changed the leader of technology development from the Government to the private sector and also established a strong system to support voluntary technology development by private businesses.* Besides, a revised Patent Law of 1989 was promulgated on January 13, 1990, and is to be put into effect on September 1, 1990.

* "PATENT STUDIES" No.9, March 1990, pages 19 - 20

(2) An Outline of the Revised Law

The main contents of the revised law are shown in the attached table. Other main changes from the current (old) law are enumerated below.

(a) The scope of patentable objects has been expanded to include the inventions of tuber, tuberous and bulbous plants which can reproduce asexually, and the inventions of foods, drinks and table luxuries (Article 31).

(b) When a decision judging a misappropriate patent as null and void has been finalized, the legal patentee's application is regarded as having been filed on the day on which the application for the patent judged null and void was filed. However, this provision does not apply to a case in which the legal application is filed after the lapse of two years (five years under the current Law) from the public notice of the application for the patent or to a case in which the legal application is filed after the lapse of 30 days from the finalization of the decision (Article 35).

(c) It is required to present a summary of each specification (Article 43).

(d) When it is found after the grant of patent that the gist of a specification has been altered, the patent application is regarded as filed on the day of presentation of the amendment concerning the alteration of the gist (Article 49).

(e) It is possible to demand a trial against a decision for dismissal of amendment (Article 169).

(f) The period of presenting priority certificates is extended to one year and four months from the date of the first application (three months from the filing date under the current Law) (Article 54).

(g) The system of rejection by virtue of authority after the decision to patent is abolished (Article 73).

Other important changes include the deletion of the period of exclusion of the demand for invalidation trial (Article 133), the new provision for estimating the amount of damages (Article 128) and the adoption of an international preliminary search system (Article 201).

(3) Noteworthy points

Under the Patent Law of Korea, unpatentable inventions are limited, as compared with other Asian countries, to the substances produced by a method of nuclear transformation. It is thus possible to apply for patents in a very wide scope. It should be noted, however, that applications may be prohibited or patents may be expropriated for security reasons.

IV. Taiwan

(1) History

The Patent Law of Taiwan was promulgated on May 29, 1944, and put into effect on January 1, 1949. It covers utility models and designs as well. Minor revisions were made on January 22, 1949, and May 12, 1960. The revision made on April 16, 1979, included a number of changes to improve the level of patent protection, such as the relaxation of patent requirements, a change in the initial date of the patent period, the deletion of the provisions for cancellation of a patent due to non-working and the deletion of the provisions for the compulsory manufacture and use of patented

products. Besides, the revision of December 24, 1986, strengthened the patent system by expanding the scope of patent protection (i.e. patentability of chemical and pharmaceutical products), the reinstatement of the provisions for cancellation of patent rights due to non-working, etc.

(2) An Outline of the Patent System

With its foreign exchange reserves reaching the level second highest in the world, Taiwan now has substantial economic power. Adjusting itself to such changes in the international environment, Taiwan has been improving its patent system in order to prepare the legal foundation for encouraging Taiwan businesses to introduce high technologies from abroad and develop technologies on their own.

In 1979, the scope of patentable inventions was changed from "inventions useful for manufacturing industry" to "inventions useful for industry in general." The provisions for the cancellation of patent rights due to non-working was also deleted. Other changes were made.

In 1986, the scope of patentable inventions was substantially expanded to include chemical and pharmaceutical products. On the other hand, the provisions for the cancellation of patent rights due to non-working were reinstated for public interests, together with the granting of compulsory license.

As mentioned above, Taiwan has been improving the level of patent protection. But patents cannot still be granted to the inventions of foods, drinks, table luxuries and microorganisms or to the finding of new uses of objects, except chemical and pharmaceutical products.

(3) Moves toward Revision of the Law

Under the current Law, inventions of foods and drinks cannot be patented because of substantial effects on general consumers. However, there are now moves toward the granting of patents to such inventions and, reportedly, to the fungous seeds of microorganisms themselves. It seems likely the scope of patent protection will be expanded in the future.

(4) Noteworthy Points

When a patent application is filed in Taiwan, the following points should be noted:

(a) No priority right can be claimed because Taiwan is not a signatory member of the Paris Convention. The filing date in Taiwan is the earliest filing date.

(b) In order to secure the filing date in Taiwan, a copy of each of the following documents must be attached at the time of filing an application. It is not permitted to present them later.

. Statement of oath
. Certificate of patent application right (in the case of invention in service) or assignment (otherwise)
. Patent specification
. Drawings (Sketches are acceptable as long as they are followed by formal drawings.)

In addition to the above documents, a certificate of nationality (a full or abridged transcript of the register in the case of a corporation and a resident card in the case of an individual) is necessary for filing a patent application in Taiwan.

(c) As for the periods of presenting documents to the Patent Office such as a reply to the statement of rejection, there is no preferential longer periods specified for foreigners.

(d) For an interview with the examiners, a formal written request to that effect must be submitted. An interview with more than one examiner at a time is permissible. An interview request may be turned down by the Patent Office.

(e) At the time of filing, the specification may be prepared in a foreign language such as Japanese, English, German or French, provided that the Chinese version of the specification is submitted later in the form of a translation.

V. The Republic of the Philippines

(1) History

The first Patent Law of the Republic of the Philippines ("the Philippines") was established in 1946, just after its winning independence, and took effect on June 20, 1947. In 1978, some revisions were made, including the relaxation of the conditions for the granting of compulsory license. A Revision Bill was introduced to the Senate in 1989. The Bill includes the abolition of the first-to-invent principle to adopt the first-to-file principle and a change in the granting of compulsory license.

(2) An Outline of the Patent System (under the Current Law)

The current Patent Law of the Philippines is similar to that of the United States. That is, Article 10 of the current Law provides for the first-to-invent principle, i.e. granting a patent right to the earliest inventor. The first-to-invent principle is also reflected in the conditions of novelty. That is, according to the provisions of Article 9 of the current Law, novelty is judged in principle as of the date of the invention.

Article 15 provides for an exception to the loss of novelty. That is, novelty is not lost by any conduct within the period of 12 months prior to the filing date.

The current Law does not adopt the early publication system, deferred examination system and opposition system before the grant of patents. But Article 28 stipulates that anyone may request the cancellation of a patent within three years after the public notice in the Official Gazette of the issue of the corresponding patent certificate.

As provided for in Article 21, the patent period is 17 years from the date of granting the patent.

(3) Revision Bill

Article 12 of the Revision Bill provides for the first-to-file principle. That is, when more than one person has made the same invention independently, the first applicant is granted a patent for the invention. The first-to-file principle is also reflected in the conditions of novelty. That is, novelty is judged based on the filing date as provided for by Article 8.

Article 8, the provisions for novelty, adopts the principle of public knowledge and public use at home and announcements in domestic or foreign publications.

Article 9 provides for an exception to the loss of novelty. That is, novelty is not lost by any conduct within the period of six months prior to the filing date.

Article 26 of the Revision Bill provides for the publication of a patent application. The contents of the application are published 18 months after the filing date (or priority date). Published are the abstract or representative claim, representative drawings and search report.

Article 29 of the Revision Bill provides for the request for examination. It provides that a request for examination be made within six months from the date of publication under Article 26 and that unless no request for examination is made within the period of six months, the application is regarded as having been withdrawn.

Article 28 of the Revision Bill provides for the opposition or observation. That is, anyone may present observations after the publication of the application. The applicant is notified of the observation and may submit a comment on it. The observation and comment are put into the patent application file.

As provided for in Article 37, the term of patent is 12 years from the filing date. However, an extension for five years may be granted if the invention is fully utilized in the Philippines at the time of applying for the extension or if the invention could not have been fully utilized due to government regulations or the like.

(4) Noteworthy Points

Even if the extension of five years is granted, the term of patent under the Revision Bill is 17 years from the filing date which is shorter than the term of patent under the current Law which is 17 years from the date of granting the patent.

According to Article 56 of the Revision Bill, request for compulsory license may be filed three years (two years at present) after the date of granting the patent for such reasons as insufficient working of the invention. Besides, Article 62 of the

Revision Bill stipulates that an application may be filed for a provisional license 180 days after the date of petition for the compulsory license. Such provisional license is limited to a patented invention concerning food or medicine or products that can be used as food or medicine, or a patented invention concerning products or processes vital to national defense, economy, health or safety.

VI. The Republic of Indonesia

(1) History

The Republic of Indonesia ("Indonesia") established its first Patent Law in November 1989. The law is to be put into effect in August 1991.

(2) An Outline of the Patent Law

The first Patent Law of Indonesia, like those of industrial countries, adopts the first-to-file principle, examination system and early publication system. As a developing country, however, the Law includes the system of canceling patents due to non-working and excludes foods from patentable subject matters.

Substantive examination generally follows the steps mentioned below.

First, when the filing procedures have been gone through and a filing date is granted, the patent application is published within six months from the filing date. This period of six months is much shorter than the period of 18 months in Japan and European countries. The period is 12 months from the priority date in the case of an application in which priority is claimed. However, it is unlikely that an application in which priority is claimed barely in time will be published within the period. A request for examination must be made within three years from the filing date but after the publication of the application. Once a request for examination is made, it is determined within 24 months from the date of requesting the examination whether a patent is granted or rejected. As in industrial countries, the patent application is examined in respect of novelty, inventive step and industrial applicability.

The standard of judgment of novelty is the same as in Japan. One unique system in substantive examination is the presentation of opinions by third parties. Under the system, any third party may present an opinion to the Patent Office within six months from the publication of the patent application (a kind of supply of information). The applicant may make a reply to the opinion. The contents of the opinion and the reply are considered in the substantive examination. The patent application that has passed the substantive examination and has been registered is published again. No opposition may be filed against the registered patent. But a lawsuit may be presented to seek to invalidate the patent. If a patent is rejected through the substantive examination, an appeal may be made within three months from the date of rejection. A decision on the appeal is issued within 12 months from the date of appeal. The decision is final and cannot be appealed against.

The rights conferred by a patent are for the manufacture, sale, rent and distribution of a patented product and for the supply of a patented product for use, sale, rent and distribution. In the case of a process patent, the rights are for the use of the process and the above-mentioned acts concerning the products manufactured by the process. However, the effect of the patent rights does not extend to the import of the patented products and of the products manufactured by the patented process. Besides, it does not constitute an infringement of the patent rights to sell, rent, distribute or use any process or products that have been present before the grant of the patent.

Indonesia adopts the firsts-to-file principle. However, when an earlier inventor is already using a similar invention at the time of a patent application by another person, the inventor may continue to use the invention. The earlier inventor may apply for the issue of an earlier inventor certificate.

(3) Noteworthy Points

An outline of the Patent Law of Indonesia has been briefly explained above. One characteristic each in the aspect of procedures and in the aspect of rights is mentioned below.

The characteristic in the aspect of procedures is that a period is so set that the grant or rejection of a patent is

finalized in a short time. In this respect, the law resembles the WIPO's draft Treaty.

The characteristic in the aspect of rights is that the effect of patent rights does not extend to imports. This seems to be based on the thinking that legal protection is given to the use of the patent rights in Indonesia and that import is a question of trade. This also seems to reflect the protection of national interests such as the growth of Indonesian industry and the improvement of Indonesian people's learning of skills. For example, therefore, a third party may import a patented semi-finished product from abroad and turn it into a finished product in Indonesia without infringing the patent if the finished product is not covered by the patent. Such a case may happen, especially in field of chemical or pharmaceutical products. Meanwhile, the Patent Law stipulates that a exception may be established by Government ordinances in order to extend the effect of patent rights to imports as well. Depending on circumstances, such an exception may be established in the future.

VII. Conclusion

The patent systems of China, Korea, Taiwan, the Philippines and Indonesia are reviewed above. As the attached table shows, there are few marked differences between them and the draft Treaty. As for the opposition, however, the draft Treaty is generally headed for the prohibition of opposition before the grant of patents while all of the five Asian countries permit such pre-grant opposition (or presentation of opinion). As for the term of patent, the draft Treaty provides for the longest period of 20 years from the filing date. It should be noted, therefore, how the countries will react to such differences amid the trend toward the international standardization of the patent systems. Though the draft Treaty has no corresponding provisions, the Patent Laws of the Asian countries, except Korea, enumerate foods, drinks, chemical substances, animal and plant varieties, medical cures and so forth as unpatentable items. It is considered that these unpatentable items, chosen for the respective domestic reasons, will become fewer, if not zero, in number.

		Unpatentable invention	Patent requirements	Grace period	Publication of application	Substantive examination system	Cancellation of patent after registration	Rights conferred by patent	Patent period	Effect of process patent	Remarks
WIPO's draft of Harmonization Treaty		No provision	First-to-file All over the world Contents of earlier application by third party	12 months	18 months from filing date As requested by applicant	Search report To start within 3 years from filing date To complete within 2 years after start	To request within specified period No opposition permissible before grant of patent	Articles Methods, manufactured products Indirect infringement	20 years from filing date	Identical and novel product	Not final
People's Republic of China (4/1/85)		. Scientific discoveries . Rules and methods of mental activities . Method of diagnosing and curing diseases . Foods, drinks and seasonings . Medicines and other substances obtained through chemical processes . Animal and plant varieties . Substances derived by method of nuclear transformation	First-to-file Publicly known or used at home Announced in domestic or foreign publications Contents of earlier application by third party	6 months	18 months from filing date	Request for examination (3 years) Presentation of reference materials Opposition (3 months)	Declaration of invalidation	Articles Methods	15 years from filing date	Identical product Not covering imports	Revisions considered include extension of term of patent to 20 years, expanded protection of process patents (covering products as well), introduction of domestic priority system, filing of opposition after grant of patent.
Republic of Korea (9/1/90)		Substances that can be produced by method of nuclear transformation	First-to-file Publicly known or used at home Announced in domestic on foreign publications	6 months	18 months from filing date	Request for examination (5 years) Preferential examination Opposition (2 months) Domestic priority	Non-working for 2 years or more continuously at home after decision	Articles Methods, manufactured products Indirect infringement	15 years from date of publication (or registration) Within 20 years from filing date	Identical product not yet known at home	Inventions required for national security may be unpatentable or treated as confidential, and patents for such inventions may be expropriated.
Taiwan (12/24/86)		. Foods, drinks and table luxuries . New varieties of animals, plants and microorganisms . Method of diagnosing, curing and operating on patients . Discovery of new uses of substances except chemical and pharmaceutical products . Rules of games . Scientific theories	First-to-file Publicly known or used at home or abroad Announced in domestic or foreign publications Contents of earlier application by third party	6 months	None	Opposition (3 months)	Non-working within 2 years from licensing date Anyone may demand a trial for invalidation	Articles Methods, manufactured products	15 years from date of publication Within 18 years from filing date	Identical and novel product	Deliberation is under way to include foods, drinks and fungous seeds of microorganisms.
Republic of the Philippines	Current Law (1/14/78)	. Mere ideas, scientific principles and abstract theorem . Methods not intended for manufacture or improvement of commercial products	Publicly known or used before date of invention Announced in domestic or foreign publications or publicly used or sold at home 1 year before application filing	12 months	None		To request within 3 years after public notice in Official Gazette	Articles Methods	17 years from date of granting patent	No provi-sions	Import is not deemed to be working
	Revi-sion Bill	. Discoveries, scientific theories and mathematical methods . Plans, rules and methods concerning mental activities, games or business; computer programs . Methods of treating and diagnosing human and animal diseases . Animal and plant varieties and production methods thereof based on biochemistry . Aesthetic creations . Medicines and their production methods based on combination of already known ingredients	First-to-file Publicly known or used at home Announced in domestic or foreign publications	6 months	18 months from filing	Request for examination (within 6 months from date publication) Opposition (after publication)	To request within 1 year after public notice in Official Gazette	Articles Methods Indirect infringement	12 years from filing date (Extendable for 5 years)	No provi-sions	Provisional license system introduced
Republic of Indonesia (8/1/91)		. Foods and drinks . New varieties and breeding methods of animals and plants . Method of treating diseases . Scientific and mathematical theories and methods	First-to-file Publicly known or used at home Announced in domestic or foreign publications Contents of earlier application by third party	6 months	Within 6 months from date filing Within 12 months from priority date	Request for examination (3 years; after lapse of publication period) Presentation of opinions (after publication) Examination to be completed within 24 months from date of requesting examination	Non-working within 4 years after registration Lawsuit seeking invalidation	Articles Manufacturi-ng processes and manufactured products Not covering imports	14 years from filing date (Extendable for 2 years)	No provi-sions	Earlier inventor certificate issued on request

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TRIP REPORT
ULAN BATOR, OUTER MONGOLIA
WIPO Industrial Property Seminar
June 13-18, 1990
Karl F. Jorda

I. Introduction and Background

Mongolia was a closed country till late last year. It still is rather inaccessible. "A long forgotten nation at the end of the world" as the New York Times put it. The only practical way to get there is via Moscow. Seminar participants from India, Thailand, Laos, Vietnam, and even from North Korea had to go West to Moscow first and then East to Ulan Bator. And again home via Moscow — detours of probably ten to fifteen thousand miles. The representative from China spent 38 hours on the train from Beijing to Ulan Bator.

After the Soviet Union, Mongolia was the first country to go Communist in 1921 and had been totally dominated by the Soviet Union till last year. But a media report shortly before I left for Mongolia that the Mongolians have thrown out the Soviets and have switched to English as first foreign language, was nothing but the usual media hype. The truth is that Soviet troops will not be gone until the end of 1991 and school instruction in other foreign languages such as English, French, German will begin in mid-1991. But English is already popular and is taught on TV. (There is also talk of abandoning the Cyrillic alphabet and going back to their ancient Mongol script.)

Unfortunately, developments in Mongolia are being eclipsed by the news out of Eastern Europe. As of this year Mongolia is traveling the route of East European countries — politically, looks to Sweden as model — socially — and the NIC's or the four tigers of East Asia — economically. But Mongolia has a serious geographical problem: it is wedged between

China and the Soviet Union and thousands of miles away from sea routes. But with China relations vastly improved, access to a Chinese port is being obtained. Another problem of geography (and demography): a vast country (France times four) — but mostly steppe- and desert-like — with a small population (2 million with one quarter living in the capital and 70% being less than 35 years old).

The Mongolians are on the move, however. The spirit of the people, the construction in Ulan Bator reflect it. Free elections with six parties competing will be held on July 29. A switch to a market economy is under way. A joint venture law has been passed and the intellectual property (IP) system is to be modernized as soon as possible.

II. The WIPO Seminar Program

This set the scene and caused the urgency for the WIPO Asian Subregional Seminar on Industrial Property held in Ulan Bator between June 13 and 17, 1990 at the invitation of the Mongolian government.

Cooperation and assistance were rendered by the State Committee for Technological Progress and Standardization (SCTPS) of the Mongolian People's Republic (MPR) and the UNDP, respectively.

Mr. Geoffrey Yu (Singapore), a WIPO Director and Special Assistant to Dr. A. Bogsch was generally in charge but several sessions were chaired by WIPO's Mr. Li Jiahao (China) and Drs. J. Batsuur and Ts. Sedjav, SCTPS Chairman and Deputy Chairman, respectively. Mr. Yu is a polished diplomat (by profession) but has mastered the subject of intellectual property and did an excellent job in dealing with the Mongolians. He knew when the Mongolians did not comprehend (from their eyes) and stepped in and slowly and carefully rephrased the matter. Mr. Li also played the role of organizer and did a superb job. Neither Dr.Batsuur nor Dr. Sedjav spoke English but the latter had studied in East Berlin for three years and spoke near-perfect German.

Only about 30 Mongolians were enrolled but it seems that all ministries and departments were represented. It was quite a cross-section, quite a phalanx of "Experts", "Chiefs", "Officers" and "Secretaries", etc. While at first they were a bit shy in approaching us, they were quite open later on,

especially at social functions and they were never reluctant in asking questions — lots of questions.

III. The Mongolian Presentations

A. In his talk, Dr. J. Batsuur reviewed the history of the Mongolian IP legislation, starting with a first enactment in 1944. But this was really only concerned with encouragement of inventions. Only in 1960 was a Statute of Inventions adopted. It was replaced in 1970 by a Statute of Discoveries, Innovations and Rationalization Proposals. Industrial Design and Trademark laws were not passed till 1976 and 1987, respectively. A modern patent law in tune with international conventions is now needed and contemplated; it will replace what is essentially a Soviet-style inventor certificate system, which he described in great detail with all its limitations and restrictions. But he concluded on a positive note expressing the MPR's intense desire for close cooperation with Western institutions and international organizations. His paper is attached.

B. Dr. M. Dash dealt within the Mongolian Patent Information System. At one point he emphasized their realization that "with the open economic policy, their present patent law does not meet their needs" and that a "patent system can contribute greatly to the development of a country."

IV. Other Presentations

A. The Britishers, Trevor Lemon and Terry Johnson, did double duty. They each made several general presentations covering such basic subjects as Elements of Industrial Property; Licensing, Franchising, Joint Ventures; Trademarks and Service Marks.

B. The two WIPO officials delivered papers on WIPO, the Paris Convention and the Patent Cooperation Treaty. They did it slowly and simply and effectively.

C. Mr. Evgeny Buryak from the Soviet Patent Office made progressive statements about the workings of a patent system in his two talks on Patent Information and Its Use and Technological Innovation, R&D Activity and Patent Policy in Industrial Enterprises.

D. Mr. Wittmann from the German Patent Office talked about inventions reflecting a society's needs at any given time, the information function of patents and cooperation of the German Patent Office with developing countries.

E. My talk started naturally with the Bicentennial Celebration and a review of the history of the U.S. Patent Law. I then related how whole industries were built on patented inventions, how the Patent System came under attack but was exonerated as the best alternative by Presidential Commissions and present-day economists and ended with a description of an ideal Patent System and the Golden Age for patents we now live in.

V. Developing Country Reports

A. Representatives of the participating developing countries, i.e. China, India, Laos, North Korea, Thailand and Vietnam gave reports on the industrial property situation in their respective countries in the last session on Sunday morning. Copies of the reports delivered are attached except for Laos which was unavailable.

B. The report on China by Zhang Hongbo, Offical, International Cooperation Department, Chinese Patent Office (a very interesting outgoing individual), had a lot of statistics and details but also dealt with the enforcement possibilities and international cooperation.

C. The report by Mr. Mittal of India is a good overview of the Indian intellectual property situation. In his oral presentation he made the bald-faced statement that the Indian Patent Law "has a long and credible history of protection and compares favorably with the patent laws of industrialized countries in all respect" which is highly disputable.

D. In Laos no intellectual property laws exist but they are "working on it" — as per Mr. Sisavad of the Laos Ministry of Science and Technology.

E. North Korea was represented by three officials of the "Invention Committee" who stayed at the North Korean Embassy rather than at our hotel. One of them was a lady (Mrs. Chang) and the only one who spoke English. Her report was short: replete with propaganda and devoid of any

description of a real Patent System.

F. Thailand's report by Mr. Surat, Adviser of Patent Examination, Department of Commercial Registration, was quite lengthy and comprehensive and included several charts. A rather thorough summarization of the Thai Patent Law.

G. Vietnam's report was given by Mr. Le, a very friendly soul who stayed at first at the Vietnamese Embassy but then moved into our hotel. He talked about "doi moi" — Vietnam's form of perestroika — and the '89 enactment of a new patent law and its functions and features. Orientation courses are being held and innovation is on the increase now.

VI. Special Meetings and Visits

A. The Patent and Invention Department, housed in the same building, was visited after the Opening Ceremony. The staff is a total of five people. They process about 100 patent applications per year, register about 60 — 30 to 40 come from abroad through the Chamber of Commerce (under the Havana Agreement). Patent files are blue, those of author's certificates, green/yellow. They have registered about 30 Mongolian and 3,000 international trademarks. A patent is granted in six months; a trademark in three months. Awards: 15,000 "Tugriks" per invention, up to 10,000 per design and up to 50,000 per rationalization proposal. ($1 = 3 Tugriks.)

B. A visit to the Mongolian Chamber of Commerce was also on the agenda for noon of the first day. Its Patent Agency has three people handling all applications coming from or going abroad. They patent only two or three inventions abroad. The recently-passed Foreign Investment Law includes provisions for joint ventures: Foreigners can own 100%; Recent examples of joint ventures: camel wool processing (U.S. company), wind generators (U.K. company), oil prospecting (BP); Guarantee of no nationalization; Tax exemption for three-five years; No restriction on repatriation except for 30% tax; No taxes on exports or imports; Stock exchange in 1991; Currency convertibility to come; Transition to free market system decreed.

Only 5% of trade is with non-socialist countries. Over 80% with the USSR; 5% with Czechs. Export 150 items: 40% mining products, 25% agri-products, 25% consumer goods. Imports: 40% machines, 30% oil

products, 25% consumer goods, 5-10% chemicals. Exports: $7 million; imports: $1 billion. Deficit covered by credits (!) — Mongolia joined the Group of 77, GATT, the World Bank and the Asian Development Bank and is establishing relations with the EEC. — Promotion of tourism has started.

C. A meeting with one of the Deputy Prime Ministers, Dr. Batsuur's boss, took place after lunch on the first full day of the Seminar and lasted for about 45 minutes. The Deputy Prime Minister commented on the recent passage of the Foreign Investment Act, Mongolian plans to soon join the Patent Cooperation Treaty, the Budapest Treaty and the Berne Convention as well as the revision of the patent law which is in the works with WIPO help.

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GOVERNMENT OF THE
MONGOLIAN PEOPLE'S REPUBLIC

WORLD INTELLECTUAL
PROPERTY ORGANIZATION

WIPO ASIAN SUB-REGIONAL SEMINAR
ON
INDUSTRIAL PROPERTY

organized by

the World Intellectual Property Organization (WIPO)

in corporation with

the State Committee for Technological Progress

and Standartization (SCTPS)

of the Mongolian People's Republic

and with the assistance of

the United Nations Development Programme (UNDP)

Ulaanbaatar, June 14 to 17, 1990

,IAN PATENT LAW

by

J.Batsuur,

Chairma mmittee for Technological Progress
tandartization,
baatar, Mongolia

MONGOLIAN PATENT LAW

We are confirmed that this international seminar will contribute to the development of cooperation between the countries of the region. We would like to extend our sincere gratitute to the WIPO, as well as to its authority for accepting our proposal to organize a regional seminar in the Mongolian People's Republic and for taking relevant measures thereon. We wish your seminar every success and have a pleasant stay in Mongolia.

Now permit me to dwell on to the main subject of my report.

First legislative act relating to the protection of industrial property in the Mongolian People's Republic was elaborated in 1944. This first document had dealt only with the encourangement or stimulation of innovators and inventors.

Step-by-step measures had been taken in the course of the running of our society to improve the foundation of the patent law. For instance, in 1960 a Statute on Inventions and Innovations had been adopted, which in 1970 was renewed as a Statute on Discoveries, Innovations and Rationalization Proposals. In recent years the Statute on Industrial Designs (1976), a Statute on Trademarks (1987) were adopted respectively.

Economic and legislative basis of copyright protection, deduction, matters of use, application and transfer of patents and inventions have found their reflection in the Civil Code, Labour Code as well as in the foreign investment Code of the Mongolian People's Republic. All this permit me to state that at present in the MPR a relevant system of legislative acts of patent law is in the effect. Our country is paying, especially in the recent years a special attention to the improvement of the patent law and normatives in the light of international conventions as well as in accordance with the practice of international cooperation in this field.

In 1987 the WIPO has provided us legislative and technical advice on the renewal of the Statute on Trademarks and has taken relevant measures so as to correspond to the terms and necessary requirements of the Madrid Agreement.

One of the principle documents which is in effective use in our country on the matters of patent law is the Statute on Discoveries, Innovations and Rationalization Proposals. This Statute is relevant to all forms of industry property. For example, this Statute has foreseen that the discovery of the features and validity of a natural phenomena that is unknown in

the laws of the development of the nature and which is proved theoretically and implemented in practice should be considered as a scientific discovery.

In our country new archaeological and paleontological findings as well as discovery of deposits of mineral ores are not considered to be a scientific discovery.

In our country a diploma and an amount of 15 thousand tugrugs are handed over to a person who has made a scientific discovery. The diploma on the discovery witnesses the scientific grounding of the discovery, precises the author and fixes the date of the discovery. This diploma represents a document which quarantees the author a right to enjoy stimulation, a right of an author as well as a right to privileges and to other rights foreseen by relevant laws and instructions of the MPR.

In the above said Statute the meaning of an invention is determined as follows: "Invention means a completely new product which has provided a technical solution to any task in any branch of national economy, culture, health protection or in defence of the country and which is promissing in its efficiency".

In our country new know-how and technology, product, technical solution with principle peculiarity or device-equipments are considered to be an object of the invention.

The priority date for inventions is registered if an application has never been made in the MPR and which has never been available in the national patent reserve of the MPR by their date when the application file was accepted. Moreover the exhibition priority (6 months) and the conventional priority are accepted and quaranteed by appropriate legislation of the State/Government.

If we take the above said into consideration, it is likely that the legislation of our country on common issues of invention and innovation is more or less linked with that of foreign countries and with international conventions and agreements. This permits to establish contacts with foreign countries and international bodies in this particular trade.

The following shall not be considered as inventions:

- methods, means and systems of management of administration, economy (such as financing, planning, statistics, supply and so on);

- proposals related to the elaboration of calculation methods, formulas, systems of mathematical structures, selection of maximum geometrical dimentions and volumes of production and structures, construction of figures and monogrammes;
- different signs and symbols (road sign, traffic rules, hand-outs, schedules), game rules, elaboration of keys to them, logical circuits that could be formulated according to mathematic rules;
- proposals concerning construction designs for buildings, facilities and settlements;
- elaboration of methods and systems of education and training,grammatical systems of languages.

Discoveries and industrial designs are not considered to be an invention solution.

Author's certificate or patent can be granted to the author on his own request. The owner of the patent according to the Statute should not transfer his exclusive right to anyone other.

The patent owner has the right to licence his invention to others or to use it in collaboration with them. An appropriate agreement should be reached thereon with patent organizations (in other words they should get into an agreement with our Committee).

In case if the patent owner fails to transfer his invention to others for use or failed to transfer it to others, he has the right to change his patent certificate for author's certificate.

The inventor's certificate is a document whereby determines the priority of the invention and the author, quarantees the right of authorship on the invention.

For invention of medical components, foodstaff and chemical staffs only author's certificate is granted. Anyhow, the elaboration of know-how and technology for preparing these staffs is specified with either patent or author's certifiate.

Moreover, elaboration of methods and technology for diagnosing, prevention and cure of diseases, for selection of new breeds of animal, poultry and new varieties of plants and secret inventions in the field of nuclear energy as well as new discovery in exercising official business duties are not subject to a patent.

Inventions made in the framework of the planned target financed by the Government or inventions performed with the financial and material assistance on the part of the Government are not exposed to patent. They are subject to author's certification. The author's certification gives the author an exclusive right to keep his invention as a property of the Government which is a pecularity.

Highly qualified specialists, scientists' voluntary groups are entitled by the Government to carry out examination to the application of inventions on the basis of patent information. These examinations have their task to substantiate whether it is necessary to issue patent document and which are allowed to be repeated. In our country all disputes related to the inventions are settled by the Court.

Author's certificate is granted for life-time but a patent is granted only for 15 years to the author and to his heirs.

Technical solution to any task, new proposal which has resulted in the given territory, organization in a new efficacy and efficiency are considered to be rationalization proposal section (56 of the Rule).

A solution related to peculiarity of shape and form of production to be reproduced by industrial means and which contain specific ornaments and harmony of colours is considered to be an industrial design. Matters connected with industrial designs are solved accordingly to the Statute on Industrial Designs adopted in 1976 by Degree No 180 of the Council of Ministers of the MPR.

Authors of these industrial designs as well as innovators are given an author's certificate and innovator's certificate respectively and prior to their efficacy certain stimulation is accorded to them both.

In the MPR matters on trade and origin of products are handled in accordance with The Statute on the Trademarks adopted in 1987. A legitimate document on the trademark is given to the owner of the given product.

Matters concerning the stimulation of the author occupy an important place in the national legislation of our country. For instance, the stimulation of the author in cash or the amount of the money for reward could be augmented two times. Highly effective invention enjoys 3 years award and innovation - 2 years. One time award for invention equals to 30 thousand and for innovation - 15 thousand, for industrial design - 10 thousand tugrugs respectively. In addition, those who made extremely

important invention, new products, innovation enjoy such rights and priviledges as to be conferred on a scientific degree, to be admitted to higher educational establishments by invitation, to be supplied with additional living square in appartment flats, to be the first to participate in exhibitions at home and abroad and to be exempted from income tax or deduction imposed on his stimulation award. All these priviledges represent an important instrument not only to protect the rights of the Government and the inventors and innovators but also an additional material and mental inceptive for all innovators as a whole.

The Mongolian People's Republic entered in the WIPO in 1984 and adhered to the Paris Convention for the Protection of Industrial Property and the Madrid Agreement concerning International Registration of Trademarks in 1985 respectively. In addition, the MPR has also adhered to several agreements of the CMEA member-countries in this field and is taking due part in their activity.

In Mongolia the reformation/perestroika process is in full swing. The country is shifting on to the policy of developing market economy. The Government of the MPR attaches paramount importance to conducting an active cooperation with foreign countries, as well as with international organizations in the field of high and advanced technologies.

The fact that the Law of the MPR on the foreign investment which was adopted recently, requires to improve the management, economic and legal basis of the patent and license work in the country. Though there is no legal restriction, the MPR has not developed yet license trade with foreign countries and has not covered yet its inventions by patent Law, especially abroad. This feature is much characteristic for all developing countries, which we in the MPR, are entitled, prior to their specific conditions, to change this actual situation. In connection with this we look forward to elaborate and then adopt in the years to come a patent Law in our country.

Accordingly, we are interested in developing business-like cooperation and contacts with WIPO and other international organizations and respective governments along this direction. When elaborating a national new Patent draft Law in our country, we shall try to coordinate local laws and instructions with terms and references of international conventions and agreements (harmonizing and so on), to enable local enterprises, establishments and citizen (including foreign civilians and organizations with their participation) to acquire, broad use and transfer to each other in the territory of the MPR new technical

discoveries, techniques and technological achievements, to consolidate and strengthen national patent establishments and to broaden cooperation in the field of patent protection.

We believe that the present seminar will, no doubt, play a defenite role in the exchange of experiences between the participating countries of the region and in the transfer of knowledge of and information on the matters of patent legislature to each other. We think that if this kind of seminars are held regularly in the MPR or in one of the countries of the region where information service on patents and trademarks is considerably accurate, sure, that our country as well as other countries of the region will profit only.

Thank you for your kind attention.

(145)-3-4A-(3)

A paper presented at The Seminar on "Industrial property" held in Ulanbato - Mongolia from 14 to 17 June, 1990.

PROMOTION OF INVENTIVE, INNOVATIVE ACTIVITIES AND PROTECTION OF INDUSTRIAL PROPERTY IN S.R.VIETNAM

by Mr. Le Xuan Thao
State Committee for Science of
S.R.Vietnam

H.E. Mr. Chaiman, Ladies and Gentlemen, first of all, on behalf of the Vietnamese delegation, I thank the Mongolian Authorities, WIPO for giving us the opportunity to participate at this important event - Seminar on Industrial property". Now I would like to make a brief introduction about our activities since 1989 up to now.

It is well known that, at present time Vietnam is carrying out a open policies so call "DOI MOI" (it meant - the change - innovation) in different branches of the country, especially in Socio-economic activities in accordance with direction to encourage the creative efforts of all working people, production units of all economic sectors. Morever the change would speed up productivity quality and effectiveness and to impulse the honest competition to enhance the export-import capabilities and foreign invested capital to Vietnam.

To meet the above mentioned requirements of industrial development Innovative and Industrial property activities have been much changed. For the innitial stage we completed the legal rights for protection of all objects of Industrial property. In 1989, the State of the Socialist Republic of Vietnam has promulgated the Decree on the protection of industrial property right. It is the highest legal set-up for protection of industrial property right in Socialist Republic of Vietnam at present time, and it is the best way to properly promote innovative activities in Vietnam. The decree is aiming at the main features listed below :

- To encourage the creative efforts of all working people, productive units of all economic sectors, scientific, technological research institutions to make more invention, utility solution, industrial designs, trademarks and utilization of an appellation of origin and to introduce them quickly into production for continuous, technological innovation in order to increase productivity of labour and effectivity.

- To establish the legal bases to impulse the technology transfer between the units of different economic sectors under the forms of licence contracts.

- To encourage all the units of production business, operation services to continuously improve the quality of products and service, to enhance the prestige of their trademarks and service inside and outside the country.

- To create good opportunities for foreigners to invest capital or transfer technology into Vietnam subject to the law on foreign investment recently approved by the National Assembly of the Socialist Republic of Vietnam.

The main contents of the Decree on the protection of industrial property right of Vietnam are as follows :

- Determining concretly the objects which are protected by the State, the laws and forms of protection for every object. The objects of the industrial property in this degree are invention, utility solution industrial design, trademark and appellation of origin. The forms of protection for the above mentioned industrial property objects are the patent for invention, patent for utility solution, certificate for industrial design, certificate of registration of trademarks and appellation of origin.

- Establishing the rights and the interests appeared

from the protection, especially the exclusive right of industrial property objects for the owner.

- Determining concretely the disputes, violations of protectable right and solving these disputes and violations.

- Determining the main legal procedures serving the basis for protection of industrial property right.

- Determining the responsibilities of the state organs for the protection of industrial property rights.

At present time, we are carrying out propagating Decree of Protection of Industrial Property Right to the production units and working people all over the country using public information system such as : newspapers, TV, radio and through out training courses on industrial property. Everybody must know Decree well.

After the promulgation of the Decree on protection of industrial property right, more and more scientists and working people take much interest in the filing. For protection of industrial property right, up to now there are 284 applications have been filed. For invention, 83 inventions are protected; 38 000 Trademarks have been protected in Vietnam...

That's why services must be provided for people both at home and abroad, who seek protection in Vietnam and in other countries, helping them to understand the involved aspects in law following the application procedures, ...

In connection with the promotion of inventive, innovative activities in Vietnam, National office on invention in cooperation with WIPO, give lectures, holding seminars in the fields related to industrial property and creative methodology. Moreover, at the requests of ministries and provinces, the NOI has organized jointly training courses and seminar on patent information trademark, industrial design and the role of industrial property. The lectures of these training

courses and seminars were specialists from WIPO, ESCAP and Patent offices of different countries and of the NOI.

Coupled with the education on industrial property we have set up and promoted activities of Patent agencies offering industrial property services.

Establishing and managing a patent Documentation and information centre, providing access to legal and technical information contained in patent documents in a maner suited to the needs of the users for patent examination and for research works. At present time we have about 7 million of patent documents in Hanoi, one million in Ho Chi Minh City and the other one are now under construction in Danang. To promote the inventive and innovative activities we are giving patent information services (at no cost). To impulse the creative movement of the working people, production units of all economic sectors in this year, National office on invention in cooperation with the Vietnam labour league and the Central Committee of the Ho Chi Minh Communist Youth league and some ministries, branches concerned organizes the National Technical Creation Contest in 1990 for the celebration of the 100th jubilee of the birthday of President Ho Chi Minh.

The objectives of the contest are: Any new technical solution which can save energy concerning all kind of stove using wood, straw, stuble, rice husk, coal, electricity, petroleum; petroleum lamps and electric fans; and the new technical solution which minimize the loss of cereals rice and increase the efficiency of their utilization of corn, manioc, tomatoes). Finding out solutions to this problem is full of practical meanings for existing socio-economic conditions in Vietnam.

Thanks are also extended to Mr. Arpad Bogsch General Director of WIPO for his stimutating the creative activity in Vietnam. WIPO had rewarded one gold medal to the create contest, last year and decided to reward two gold medals to two special awards of the National technical contest - 1990 in S.R. Vietnam.

To organize, direct and manage successfully inventive innovative and industrial property protection activities in Vietnam, presently we have reorganized the National office on Invention (NOI). In 1989 National Office on Invention had a membership of 160 members, now we have 110 members. Among this less than 100 persons got university degree and post--graduate education, most of them graduate abroad. In 1989, the NOI had 12 functional sections, now there are only 7 sections :

1. The P-Information and Documentation Centre
2. Section for Examination of Invention and Utility Solutions
3. Section for Trademark, Industrial design and Appellations of origin
4. Section for legislation, Management
5. Section for Computerization and equipment
6. Section for personnel and external relation
7. Section for Administration.

Ladies and Gentlemen, participants of the Seminar,
I have just presented the main features, the new context of the innitial activities of Industrial properties' protection in Vietnam at present time. Sound results achieved so far is encouraging the innovative policies of the Government of S.R. Vietnam. We do hope this field of socio-economic development would be promoted and speeded-up with every passing day to meet most the requirements of the National economy. Morever it would intensify the National industrialization, foreign investment, Technology transfer and honest competion among the branches and investor and scientist as well as working people.

Thank you much for your kind interest and your attention.

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(14.5)-3-4A-(4)

ON THE ROLE OF STATE AND CIVIL ORGANIZATIONS IN THE ENCOURAGEMENT OF INVENTION ACTIVITIES IN THE DPRK

Democratic People's Republic of Korea

Invention Committee

Yu Sung Nam

Dear delegates,

Now, I would like to make a brief speech on some aspects related to the role of state and civil organizations in the encouragement of invention activities in the DPRK.

As everybody knows, today in the era of science and technology, all the scientific-technical achievements are possible only by a lot of inventions, great and small and valuable creative zeal and painstaking efforts of inventors and technical innovators.

Dear leader comrade Kim Jong Il indicated as follows;
" In all fields higher requirements of the technical revolution should be set out boldly and the mass technical innovation movement should be pushed ahead more vigorously."

In our country, scientists, technicians and inventors not only take the lead in the creation of invention and technical innovation, but also strengthen the creative cooperation with broad section of working masses, thus vigorously pushing ahead the mass technical innovation movement.

As all work is pushed ahead by creative efforts of popular masses, so the invention, too, can be developed ceaselessly only when the masses are motivated and their creative zeal and collective efforts are manifested fully, thus displaying great effect in production.

In the encouragement of technical innovation and creation of invention, it is very important to give correct understanding on the inventive activities through regular educational system.

In the technical universities and specialized schools of our country lectures are given in order to give general knowledge on inventive activities. At the same time, great efforts are also put into explanation, motivation and introduction work as well as short training courses.

Especially, the introduction and motivation on invention through mass media such as newspapers, magazines and radios can be a powerful way of great effect for encouraging the invention among the inventors and potential reserves of technical innovation.

In the work of invention encouragement in our country a great significance is attached to the proper organization of information-dissemination work on invented techniques.

Thanks to the far-sighted plan of the great leader and scrupulous care of the dear leader comrade Kim Jong Il, in the center of Pyongyang is the Grand People's Study House, which assume a great role in the dissemination work of scientific-technical knowledge as a center of patent documentation.

Organized here is on one hand the work of collecting, storing, nation-wide disseminating and reading the home invention documents and foreign patent documents, and on the other hand massive or specialized lectures on the technical innovation and invention and training course periodically all the year round.

The Pyongyang Patent and Trademark Agency, a civil organization, also assume a due part in encouraging invention. The agency not only acts as an agent concerning foreign patent and trademark, but even in the home invention activities, it gives various kinds of assistance as well as necessary motivation to the inventors.

Last, but not least, it is one of the most important to make proper evaluation on the inventions in the encouraging of creation of invention and technical innovations.

I will not mention here about the politico-moral and material evaluation because it is stipulated in detail in the regulations and detailed rules of invention.

I would like just to emphasize that from our experience it is advisable in the evaluation of inventions to adhere to the principle of giving first consideration to the politico-moral evaluation and, at the same time, combining properly the material evaluation with it.

I have briefly mentioned some aspects related to the role of state and civil organs in the encouragement of technical innovation in our country.

In conclusion, hoping that this seminar will carry out its mission creditably to give a great assistance in encouraging technical innovation in many countries present here,

16:3-6

(1) Title: Proposed Amendments To Section 337 of Tariff Act of 1930 and Some Comments Thereon

(2) Date : 10/90 (21st, Niigata)

(3) Source:

1) Source: PIPA
2) Group : Japan
3) Committee: 3

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(5) Keywords: GATT, ITC, Amendment, Section 337 of US Tariff Act

(6) Statutory Provisions: GATT Article III, 19 USC §1337

(7) Abstract: Section 337 of the U.S. Tariff Act of 1930 is entering a new phase as the GATT Panel Report was formally adopted by the Council in January, 1989. The U.S. Trade Representative (USTR) presented a basic proposal for amending Section 337 after the adoption and invited comments from the public both domestic and abroad. More than 30 groups and organizations sent their comments and proposals. This paper discusses USTR's proposed amendments and comments contributed by various groups, and reports the current status.

I: Introduction

At the 20th PIPA International Congress held in October, 1989 in Tucson, a report was presented about the non-compliance of Section 337 of the Tariff Act of 1930 with Section 3-4 of GATT (General Agreement on Tariffs and Trade).

According to the generally prevailing observation at that time, it was considered that the United States would not readily accept the decision of the GATT Panel and that even if they did, amending the current Act to remove all the provisions judged by the GATT Panel to be non-compliant would take a considerable period of time.

As anticipated, the United States had maintained their view against the adoption of the Panel until November, 1989 when they finally withdrew their earlier contention and the Panel decision was passed as the resolution recommended by the GATT Council.

In the face of the recommendation, the United States Trade Representative (USTR) announced their basic stance for the amendment of Section 337 as a part of domestic laws complying with the Uruguay Round Agreement.

This report discusses the situation leading to USTR's presentation of the proposed amendments to Section 337, comments by various distinguished figures and some personal opinions of the authors in order to promote the understanding of the current status.

II: Background and History

A. Situation Leading to GATT Panel Report

Dupont filed a complaint with the U.S. International Trade Commission (ITC) under Section 337 of the Tariff Act against Akzo of the Netherlands with respect to the import by Akzo of their aramid fibers to the United States citing Dupont's U.S. Patent. (April, 1984).

ITC issued a limited exclusion order for the import of aramid fibers manufactured by Akzo to the United States holding that it violates Section 337 of the Tariff Act. (November, 1985). The Court of Appeals of the Federal Circuit (CAFC) supported ITC's decision, and the U.S. Supreme Court dismissed Akzo's appeal.

Akzo filed a complaint with the EC Commission alleging that the above action was an unfair commercial practice under the European Council's Rules. The EC Commission recognized Akzo's assertion and took the matter to the attention of GATT Council under Section 23-2, and then demanded that a panel be established with the United States as the opponent. (July, 1987).

A GATT Panel was then formed and submitted its report to the GATT Council describing its decision that the measure taken under Section 337 of the Tariff Act constituted the violation of GATT Rules. (January, 1989).

At first, the United States was in the position to oppose

the adoption of the panel report by the Council, then they withdrew their opposition in November, 1989, and the report was formally adopted.

B. Content of GATT Panel

Based on the above-mentioned assertions of the EC Commission, the Panel judged that the Tariff Act Section 337 was in violation of GATT Article 3-4 in respect of the following six factors. GATT Article 3-4 provides that the exported goods are subject to the same national treatment as domestic goods.

(i) Choice of forum

The complainant can choose either or both of ITC and the federal district court as a forum for legal dispute on imported goods. As far as domestic goods are concerned, however, the matter can be brought only to a federal district court. This is discriminatory against imported goods.

(ii) Time limits

Section 337 imposes stringent and rigid requirements about procedural schedule. There are no such restrictions at a federal district court. This is discriminatory against imported goods.

(iii) Absence of counterclaims

No counterclaims are allowed under Section 337, whereas they are available at a federal district court. This is discriminatory against imported goods.

(iv) General exclusion orders

Under Section 337, importation of all merchandise, regardless of their origin, may be injuncted even if the goods are not imported by the respondent. No such relief is available for national goods. This is discriminatory against imported goods.

(v) Automatic execution

Under Section 337, an exclusion order is automatically executed by the Customs authorities without a separate procedure to be taken by the complainant. Injunction by the federal district court requires a separate procedure by the complainant. This is discriminatory agaisnt imported goods.

(vi) Dual trial

There is a possibility that a manufacturer of the imported goods or an importer may have to defend themselves both at ITC and a federal district court. For national products, defense at a federal district court is only necessary. This is discriminatory against imported goods.

The Panel studied the above six factors in order to determine whether the measure under Section 337 falls in the category of exceptions under GATT Article 20(d). They held that (iv) and (v) met the criterion of "necessary" as mentioned above, and that application of said section did not result in contravention of GATT regulations.

The reason given is that the general exclusion order of (iv) is issued when it is difficult to specify the source of an infringing article as compared to the national product, or when practical effects cannot be gained only by an in personam measure. In this case, they meet the criterion of "necessary".

Automatic execution of (v) meets the criterion of "necessary" from the viewpoint of equity in relation to the practical effectiveness of injunction ordered by a federal district court.

III: Content of Proposed Amendments to Section 337 of U.S. Tariff Act of 1930

In response to the recommendation of the GATT Council, USTR published the proposed amendments to the system of exercising U.S. patent right under Section 337, and invited the public to contribute their opinions and comments. USTR's five proposals are outlined below.

Option A: Creation of a Specialized Patent Court

A specialized trial-level patent court will be created where all patent related litigations will be heard. This specialized court will be a trial-level court, and will have an authority to issue limited exclusion orders (LEO), general exclusion orders (GEO), temporary exclusion orders (TEO) and temporary cease and desist orders (TCD) which are similar to orders issued by ITC under Section 337 in respect of imported goods in addition to

authorities exercisable by other federal district courts under Article III.

GEO issued by the specialized patent court provides post-exclusion hearings from importers and manufacturers who are not parties to the litigation. An exclusion order is notified to the U.S. Customs and executed. There is no presidential review for the decisions rendered by the court because of the independence of the jurisdiction.

Option B: Creation of a Specialized Division of the U.S. Court of International Trade (CIT)

CIT will create a specialized division which will have the jurisdiction over patent-related Section 337 cases and collateral demands such as counterclaims of the respondent. In addition to the authority exercisable by the other federal district courts under Article III and similarly to the specialized patent court of Option A, they will have an authority to issue LEO or GEO, TEO and TCD. The proposal is similar to the Option A in that the exclusion orders are enforced by the U.S. Customs and that there is no presidential review for the court's decisions.

Option C: Transfer of Section 337 Cases

Patent-related Section 337 cases may be transferred by the respondent to the special division of CIT or to a designated district court. Other respondents can choose whether to participate in the transferred case or to continue litigation at ITC. If either one of the respondents requested a transfer of the case, the complainant (patentee) may cause the entire case to be transferred to the court. Thus, they may avoid litigation in two fora.

With the transfer of the case, the complainant may add other complaints to this appeal or may seek damages and other reliefs that are admitted by the federal court. Such reliefs include temporary reliefs such as TEO and TCD or limited and general exclusion orders. The respondent may add new complaints at the court within the scope permitted for patent litigations by the district court.

If the party does not request for transfer, such party is

deemed to have agreed to ITC's decision which is binding on the parties. If the court and ITC reach different conclusions concerning the patent validity and possible exercise of rights, the court's judgement binds ITC and a change to ITC's order is required.

Option D-1: Transfer of the case after ITC's examination of temporary relief

Similar to Option C, the case may be transferred to the specialized court or a federal district court after ITC takes temporary relief. This approach follows the current practice at ITC. ITC may issue TEO and TCD. The court has an authority to amend these temporary reliefs after the transfer and at the same time can issue restrictive or general exclusion orders.

The bond for import during the period when a temporary exclusion order is effective is not forfeited by the Bureau of Treasury as is currently done, but is used for damages granted by the court.

Option D-2: Transfer of the case after ITC's decision of Section 337 violation

Similar to Option C, after the procedure up to the temporary relief is taken at ITC after the patent validity and infringement/non-infringement are determined, the case may be transferred to the specialized court or a federal district court. In other words, the points that may be disputed at the court are limited to counterclaims and disputes over the damage claims that are accepted by the court under Article III.

If a Section 337 violation is determined as a result of investigation, TEO and TCD may be issued. When the case is transferred, the court may amend the temporary relief or issue a restrictive or general exclusion order. The bond is handled in the same way as Option D-1.

IV: Comments on USTR Options

More than 30 comments and opinions from the government, trade organizations, corporations, bar associations, etc. have

been contributed to USTR. Some of these comments are discussed below.

(1) Intellectual Property Committee

Item	Outline
1. Creation of a Specialized Patent Court (Option A)	• As for enhancing patent law expertise, creating a specialized patent court will increase opportunities for developing expertise on patent issues, expedite disposal of cases, and ensure more uniform decision making. At the same time, however, centraliz-ing all patent disputes in a single patent court could lead to a greater difference among the judges in addressing a particular legal issue, therefore inhibiting the sound development of legal doctrine. • Feasibility of the changes involves disputes, and this option is the least secure of all the five options. It is also the most expensive in cost. • As for expeditiousness of judgements, they are bound to be delayed because the court will handle all the patent related cases. This makes it utterly impossible for the patent court to handle the Article 337 cases as expeditiously as ITC. The Congress cannot be expected to impose such stringent time limits on this type of court in view of the complex nature of patent disputes. • As for the availability of GEO, it is doubtful whether the Article III Court can issue a GEO.
2. Creation of a Specialized Division within the CIT (Option B)	• This is the only option that is likely to afford expeditious permanent relief from infringing imports, because unlike Option A, CIT would hear only the Section 337 cases. One apparent disadvantage of this option is

	that Congress rarely has imposed strict statutory time deadlines on an Article III court like CIT (although there is a possibility that Congress may do so in the future.) • As for the availability of GEO, it is the same as Option A.
3. Transfer of Cases after Filing to ITC (Option C)	Preserving the Commission's Role • Advantages of this Option would be lost if most respondents elected to transfer their cases to the district court. • The availability of two or more fora is likely to create confusion as well as increase burdens for litigants. • Respondents' ability to seek transfers could virtually eliminate petitioners' right to obtain expeditious relief.
4. Transfer after ITC Preliminary Hearing (Option D-1)	• This option is better than Option C in respect of expeditious relief. However, like Option C, it could create confusion and waste resources.
5. Transfer after Completion of Procedure at ITC (Option D-2)	• This option requires the fewest changes, and would eliminate the less favorable treatment of imports by allowing counterclaims to be raised in a district court. • Like Options C and D-1, it is likely to create confusion and waste resources. It is not clear what the respondent can obtain by the transfer.
Summary conclusion	The important thing is to preserve the advantages of the existing Section 337 process. The importance of withholding any final decision is reiterated on amendment to the Section 337 process until after the conclusion of successful negotiations on a

	compre-hensive trade related aspects of intellectual property rights (TRIPS) agreement.

(2) U.S. Chamber of Commerce

Item	Outline
1. Time Litmits of Section 337	· GATT Report stated that stringent time limits under Section 337 are violation of GATT, but they are found justifiable for rapid preliminary or conservatory action against imported products. Accordingly, Section 337 should be permitted to provide a fixed time limit for preliminary relief.
2. Need for defending at ITC and Federal District Court for imported products	· In order to eliminate disadvantages for the respondent, the complainant must elect in which forum to proceed while suspending the other action if multiple actions are filed. In this case, the record developed for the action in one forum must be made available for that in the other forum. This would encourage judicial economy.
3. Unavailability of counter-claims for respondent in Section 337 procedure	· The respondent should be able to raise any counterclaims that relate directly to the patent issue based on the ITC's investigation.
4. Complainant's choice of forum between ITC and federal district court	· This determination by GATT Panel was premised that the procedures at ITC and federal district court differ. If the above mentioned items 1 to 3 are rectified, there would be no substantial differences in procedures at the two fora, thus obviating problems brought to the GATT Panel.
5. Availability of general exclusion orders under Section 337	· GATT Panel determined that general exclusion orders are violation of GATT, but they may be recognized in some circumstances. Therefore, the Act should be amended to provide that general exclusion orders will

	only be available where deemed necessary to effectuate an appropriate remedy.
Summary conclusion	GATT Panel does not require abolishing or substantially ineffectuating Section 337 of the Tariff Act. Therefore, the modifications should be limited to the scope recognized as violation by GATT Panel. Handling of an effective border enforcement measure in Uruguay Round Negotiation on TRIPS should also be considered by the modification. The legal system should serve as protection against unfair competitions from foreign countries.

(3) Harold C. Wegner (Law Offices of Wegner & Bretschneider)

Item	Outline
1. Creation of a Specialized Patent Court (Option A)	• The option is bold enough to transcend the interests of ITC litigants. Option A needs deliberation before it can be carried out. Instead of a single specialized patent court, a plurality of courts should be established. In order to assure more uniform quality among courts, the number of the courts should be limited so that judges can acquire patent expertise.
2. Creation of a Specialized Division of CIT (Option B)	• To provide an additional patent court within CIT only against importers under this Option will still be questionable. One is that when there are domestic importers and foreign importers, foreign importers are more likely to be discriminatorily treated by CIT. The other is that it is not appropriate when patent infringement cases concentrate in a single court.
3. Transfer to the courts from ITC (Option C)	• This option is the most viable. Instead of transferring the action from ITC to the court, it makes better sense to suspend the ITC action pending resolution at a federal district court. The respondent would demand the federal district court for declaratory judgement action for non-infringement or invalidity, which would take precedence over the ITC proceeding. After the above mentioned judgement at the federal district court, ITC proceeding will be resumed. The result of ITC proceeding can

	be anticipated based on the federal court's judgement.
4. Transfer after temporary relief by ITC (Option D-1)	These options are not preferable in view of litigation economy.
5. Transfer after completion of procedure at ITC (Option D-2)	Both ITC and a federal district court will be required to address the same patent issues.
Summary conclusion	Of the five optioins, Option C is most sensible. Option A is favored, but not immediately executable. Options B and D are flawed.

(4) ITC Trial Lawyers Association

Item	Outline
1. Conditions for amending Section 337	• Limited modifications of Section 337 along the following lines are proposed. (1) Retain the availability of expeditious adjudication of Section 337 complaints filed with ITC. (2) Allow as a complete defense against a patent-based complaint under Section 337, counterclaims based on a complainant's alleged infringement of respondent's U.S. patent(s) which relate directly to the subject matter of the patent issue in suit; (3) Preclude simultaneous Section 337/ patent infringement court actions by requiring the complainant to elect one forum in which to proceed, reserving his right to proceed in the other forum upon termination of the action in the first forum, utilizing the evidentiary record in the first forum.
2. Amendment of Section 337 proposed by USTR	• None of the USTR's proposals is supported. Primarily because none allows expeditious temporary or permanent relief under Section 337 to U.S. patent owner(s). Option D-2 proposed by USTR is close to the option proposed by this Association, but is different in that an expeditious temporary relief is not granted to the complainant by restricting relief by ITC after a 12 month litigation procedure.

Summary conclusion	In the context of Uruguay Round Negotiations, particularly the TRIPS negotiations, a correct and full understanding of Section 337 is essential not only for any comprehensive discussion and formulation of a GATT intellectual property code, but also as an example of the type of effective border control measure that any country seeks. For domestic and international policy reasons, this is not the time to cripple or weaken Section 337 unnecessarily. Rather, the situation calls for a more pragmatic and measured response to the GATT Report.

(5) American Intellectual Property Law Association

Item	Outline
1. Creation of a Specialized Patent Court	• Strongly opposes the creation of a specialized patent court. The proposal is fundamentally flawed in that it poses a threat to fair adjudication of the rights of patent owners and the complainant of patent infringement. Exclusion orders granted by the ITC are useful in protecting the patent owners from import of infringing products not only by the current importers but also by the future importers. Exclusion orders are absolutely essential for border control measures. • A further reason why this proposal is fundamentally unsound is that it would deprive litigants in patent cases of access to the fully developed and sound judicial system of the United States. Existing laws governing venue and jurisdiction give access to litigants access to conveniently located courts. This substantially reduces the cost of litigation and promotes public confidence in the judicial system. The most potentially harmful effect of the proposal is that specialized judges would preside over all U.S. patent related litigations. These judges would soon be "experts" in patent law, but they would also be susceptible over time to developing preconceived ideas, sympathies, or biases which may favor or disfavor patent owners. • The fact that Congress created the Court of Appeals for the Federal Circuit in 1982 and

	gave it jurisdiction over all appeals in patent cases is a further strong reason why this proposal is not warranted.
2. AIPLA Proposals: Enforcement of Patent Rights in Fedeal Courts	• The Complaint: All actions for patent infringement, including infringement by importation, would be initiated by filing a complaint or a counterclaim in a district court. • Preliminary relief: The patentee could move for a temporary restraining order and/or a preliminary injunction immediately upon filing suit at the district court. If the patentee believes that the importation of infringing products are causing irreparable harm, it could file a complaint with the ITC praying for preliminary relief. If the patentee elects to seek relief at the ITC, the district court trial would be stayed. Respondents could participate in the ITC temporary relief proceedings. In the temporary relief proceedings, the ITC would examine patent validity, enforceability, misuse, infringement or any other defense which could be raised under current law in a district court. The ITC would be required to decide on temporary relief within current time limits measured from the date the complaint requesting the relief is filed with the ITC. The President would have 30 days in which to review and disapprove temporary relief orders issued by the ITC. The parties could take interlocutory appeals to the CAFC. • Trial on the Merits: After the ITC preliminary relief proceeding has been completed, the district court would proceed

	with the trial on the merits. Foreign defendants would have all the rights now possessed by domestic defendants in patent infringement litigation. If the patentee failed to secure an order for temporary relief from the ITC, the patentee could not subsequently seek a preliminary injunction from the district court. If the court finds for defendant, temporary relief ordered by the ITC immediately dissolves as to that defendant. If the court finds for the patentee, it would award such injunction relief and damages as it deemed justified. An ITC order for temporary relief would dissolve 30 days after entry of judgement, unless the patentee applies within that period for a permanent exclusion order from the ITC. • Post Trial: If the patentee prevails in the district court, it would have the option to seek a permanent exclusion order from the ITC. Proceedings would be similar to the "remedy phase" of current ITC proceedings. The time limit at the ITC would be eliminated, but it would be provided to expeditiously dispose the matter.
Relation with GATT Panel Report	• Time limits: The only time limit under this option is for preliminary relief procedure at ITC. • Absence of counterclaim: Under this option, the domestic and foreign parties who are complained of patent infringements are able to counterclaim in a similar manner. If the patentee is to seek for a preliminary relief at ITC, the foreign party can resort to any kind of counterclaims in a procedure similar to that which is available to the

	party accused of infringement at the district court. • Possibility of Dual Litigation: Section 337 was criticized by EC because it is possible that a foreign party may be sued both at the district court and the ITC. The present option excludes this possibility. • Choice of fora: The basic promise made by this option is that the U.S. patentee can challenge only the infringing product at the federal district court irrespective of whether it originates inside or outside the country. The right of a domestic or a foreign owner of the accused infringing product does not differ. After the substantive proceeding at the district court is over, the patentee may demand a permanent exclusion order at the ITC. At this time, the presence or absence of infringement for the foreign product is finally judged.
Summary conclusion	After the conclusion of the GATT Uruguay Round TRIP negotiation including the border control measure, there may be changes for GATT obligations of the United States. In this case, the U.S. Government would have to reconsider their options for amending Section 337 in the light of their new obligations. Until the result of the TRIP negotiation is achieved, no changes should be made to the present Law.

(6) Japanese Embassy in Washington, D.C.

Item	Outline
1. Time limits under Section 337	· Very short time allowed under Section 337 deprives the respondents of sufficient opportunity to respond. The amendments should remove such time limits. Options C and D appear to maintain these time limits. Options A and B should not impose such limits.
2. Availability of general exclusion orders (GEO) under Section 337	· GEO is characterized in that third parties who could not participate in the procedures are affected. GATT criticized this point, but Options are suspected to retain this feature. GEO should be excluded from the options, and if it stays, its exercise should be allowed only with the most rigorous conditions.
3. Non-availability of counterclaims under Section 337	·Options, particularly Option D, do not allow counterclaims. This is the same as the current situation, which is not improved in any way.
4. Depositing bonds for temporary relief order	· Option D-1 provides deposit of the bond by the importer when a temporary relief order is issued, which bond is used to pay for damages of the complainant. Damages caused by the complaint to the importer should also be provided for in view of fairness. Options other than Option D-1 should contain this provision.
5. Others	· Complainants who may be protected by Section 337 are limited to U.S. firms. This contravenes the principle of International Treaty for Protection of Intellectual Property (IP).

	• Section 337 protects only the patents. As pointed out by the GATT Panel, not only patent related procedure but also all IP procedures should be treated.
Summary conclusion	At the consultation over the border control measures for intellectual properties that are being discussed at TRIPS, a proposal was made to give sufficient opportunity of responses to the respondent. As the details of the procedures for options are not known, we refrain from giving conclusive comments on options. We would like to reserve the opportunity of giving our views when the directions of the options are made clear.

(7) Japan Machinery Exporters' Association

Item	Outline
1. Time limits under Section 337	· Strict time limits should be removed so as to comply with GATT Panel Report
2. Non-availability of counterclaim under Section 337	·Counterclaims should be allowed in the procedure under Section 337.
3. Choice of fora	· ITC should continue to have the jurisdiction under Section 337, but litigants should be given a choice of transfer to the federal district court.
4. Availability of general exclusion orders under Section 337	· Cases where general exclusion orders are available are to be limited to the scope recognized by GATT Panel Report. The Law should be amended to read that the general exclusion order in rem should be limited to the cases where it is proven that the relief of a U.S. patentee is difficult under the ordinary procedure.
5. Veto by the President	· As a means to avoid trade frictions, the President should continue to have the right of vetoing ITC's relief order measure because of a political reason. A mechanism wherein the government can intervene in view of public interest should be structured.
Summary conclusion	The most effective method to obtain compliance of the U.S. laws with GATT is to eliminate the aspect of Section 337 which is useful for U.S. complainants in attacking the imports and which can not be used to attack the domestic products.

	USTR should not trade-off Section 337 for a more powerful protection of U.S. intellectual properties. USTR's proposal is complicated and difficult to realize. It does not explain whether the Patent Law alone is to be addressed.

V. Conclusion and Comment

As outlined above, many opinions and comments were contributed concerning USTR's options to amend Section 337 of the Tariff Act.

We selected and outlined seven opinions which are considered to be representative of the public opinions. We wish to discuss these and others and give our general view.

(I) Option A (Creation of a specialized patent court)

One ground for supporting Option A was that concentration of expertise knowledge on patent issues would lead to fairer and more sophisticated judgements by a specialized court on patent matters.

The oppositions, on the other hand, to Option A were that the establishment of the court would take some time owing to substantial costs involved, etc., and that a single patent court might not be able to handle a myriad of patent infringement litigations.

We consider the advantages of Option A are, among other things, that a complainant needs to take just one step to demand an exclusion order for import, an injunction inside the country and demand for damages, and there are no rigid time limits as in the ITC if the code of civil procedure rules are applicable. We, therefore, are inclined to support Option A to some extent.

As will be discussed later, however, the problem of general exclusion orders is not resolved, and the propatent tendency by the creation of CAFC may be accelerated. We cannot, therefore, support this Option A fully.

(II) Option B (Creation of CIT Special Division)

The ground cited for supporting Option B by a limited number of groups is that as CIT, which handles international trade matters, deals with the patent litigations and Section 337 litigations together, the permanent relief for infringing imports may be quickly obtained.

As the ground for not supporting Option B, it was pointed out that CIT was highly likely to handle the domestic importers and the foreign importers discriminatingly.

We consider Option B to be more realistic and moderate than Option A in that the general patent infringement cases would be handled by the federal district court. Since CIT was created originally for deliberating dumpings, etc., it may be inclined more to the relief of damages of the patentee rather than to deliberation of infringement of the product or validity of the patent, we therefore cannot fully support it.

(III) Option C (Transfer of Section 337 cases)

Option C allows the respondent to demand the transfer of the case to the federal district court, etc. on the premise of ITC measures of Section 337. Very few support this option; only some individuals supported it. The grounds given for not supporting the option are that if most of the respondents demanded the transfer of their cases to the district court, the advantages of the option would be lost and the right of the respondent to demand transfer means the loss of the right of the claimant for expeditious relief.

As for items (i), (ii), (iii) and (iv) raised by the GATT Panel, we highly evaluate the fact that the problems raised by the GATT Panel are obviated by giving the choice of fora to the respondents. However, it is not reasonable that the demand by a complainant can result in transfer of all the cases to the federal district court if there are a plural number of respondents. If most of the respondents want the transfer to the federal district court, the decision by the court will have the precedence, thus emasculating ITC. Then, it would be more reasonable to abolish ITC than to adopt the Option C.

(IV) Option D-1 (Transfer of the case after ITC's examination of temporary relief)

(V) Option D-2 (Transfer of the case after ITC's decision of Section 337 violation)

There are groups which support these Options D-1 and D-2. Under these options, ITC procedure continues to be viable. Points raised in (i) to (vi) by GATT Panel will remain unresolved, and we cannot support it.

As for options other than Options (I) - (V), a U.S. group alleged that Section 337 of the Tariff Act should remain intact because there is no need for amendment. This view disregards the GATT Recommendation that Section 337 is non-complying, and we cannot support this view.

The current options presented by USTR can be supported in that they are showing a positive attitude toward changes and improvements, but there still remain a number of problems including those related to operation. We cannot, therefore, make a decisive choice for USTR's options.

In conclusion, we wish to point out two items which should at least be met by the modified Section 337 of the Tariff Act.

(1) The time limit at the ITC should be eased.

Currently, the respondent is deprived of sufficient opportunities to prepare the defense because of the strict time limits currently imposed by the ITC and they are at times forced to suspend their manufacturing activities to cope with the ITC litigation in a short period of time. Concerning this point, Options D-1 and D-2, in particular, allow the time limits to remain unchanged at the ITC. Options A, B and C have not necessarily eliminated the strict time limits which are imposed currently by the ITC. We therefore propose to ease the time limits at the ITC by amending Section 337 of the Tariff Act in view of the fair and just operation of the court.

(2) Abolishing general exclusion orders that are recognized as GATT violation

It should be noted that none of the USTR options has resolved the problem of general exclusion orders which were criticized by GATT Panel.

So far as a case is transferred to the court of justice under the Options A, B or C, items (i), (ii) and (vi) held as violating GATT in ITC procedure are removed. However, amending the judicial competency alone does not remove the problem (iv).

We believe that this general exclusion order should be absolutely abolished in order to secure free international trade and we therefore propose to abolish it.

VI: Conclusion

Since Section 337 of the U.S. Tariff Act has been held as not complying with GATT Article 3-4, it cannot continue its existence unless amended by GATT and TRIP negotiations. We expect some form of amendment to take place.

The current situation involving Section 337 of the Tariff Act which we face now is undeniably affected by the economic problems in the United States as its underlying problems or the trade imbalance with other countries (particularly Japan).

As is evident in the attached "History of ITC", the U.S. Tariff Act had been made stricter each time the country faced economic crises. Thus, it cannot be considered separately from the economic factors within the United States.

Unless the U.S. trade payment deficit is improved, this kind of border control measures or a form of protectionism will continue to exist in some form or other.

Japanese industry importing products to the U.S. will then be required to take a long term strategy for improving the import ratio and Japan-U.S. trade balance by shifting the activities of development and production to the United States.

Based on the above, we believe that the following are essential for sound and competitive development of the U.S. and Japanese industries;

(1) Radical improvements on Section 337 of the Tariff Act should be made in a better form based on the agreement of the countries concerned.

(2) Unique technology developed on its own which does not infringe others' rights should be established.

(3) Harmonization of intellectual properties should be promoted in order to correct as much as possible non-uniformity of legal systems among countries and to learn the legal systems of other countries.

(4) The climate where the third party rights are respected and honored should be created.

The list of recent litigations at the ITC is attached for reference.

1. History of ITC

1885: Revenue Commission established.

(At the time of the Civil War, the North was in an economic crisis (which mainly depended on tariffs as the source of income), and the Revenue Commission helped to rebuild the finance)

1916: Tariff Commission established.

(The First World War)

1930: Law on which the Tariff Commission relied was promulgated.

(The Economic Crisis)

1945: Tariff Commission reinforced.

(The Second World War ends)

1974: International Trade Commission established; the Tariff Law enacted.

(The Viet Nam War ends. Dollar Crisis)

1988: Section 337 revision toward reinforcement.

(Trade imbalance becomes a big issue)

2. Changes in the number of litigations at ITC

(Litigations related to Section 337 between 1983 and July, 1990)

Year	1983	1984	1985	1986	1987	1988	1989	1990 (as of July 12)
Case No. 337-TA-	137-180	181-215	216-239	240-262	263-280	281-289	290-309	310-
Number of cases filed	49	40	27	27	21	12	22	7
Number of investigations	44	35	24	23	18	9	20	(0)
No investigation	5	5	3	4	3	3	2	(0)
Number of Japanese companeis	9	8	7	8	3	2	5	1

17:4-2A

PIPA Database Coversheet

(1) Title: U.S. Response to the GATT Panel Report on Section 337 of the 1930 Tariff Act

(2) Date: October 1990

(3) Source:

1) Source: PIPA
2) Group: American
3) Committee: 4

(4) Author: J. Wesley Blumenshine, Caterpillar Inc.

(5) Keywords(s): Imports, 337

(6) Statutory Provision(s): 19 USC §1337

(7) Abstract: A GATT Panel issued a report in 1989 ruling that §337 of the United States Tariff Act of 1930 is not compatible with Article III of GATT. This paper examines the options for reform being considered by the United States under the direction of the U.S. Trade Representative.

U.S. RESPONSE TO THE GATT PANEL REPORT ON
SECTION 337 OF THE 1930 TARIFF ACT

I. BACKGROUND

A. Section 337

Section 337 of the United States Tariff Act of 1930 (Appendix A) makes it unlawful to import into the United States, sell for importation, or sell within the United States after importation, articles that infringe a United States Patent or are made, produced, or processed by a process covered by the claims of a United States Patent or, to engage in unfair acts or unfair methods of competition when importing or selling imported goods. Section 337 is an *in rem* procedure (i.e., defendant need not be present at the proceeding). Judgment may be against a "product" rather than a particular party so that all of such products will be stopped at the border by the United States Customs Service, regardless of their manufacturer or importer. The United States International Trade Commission has exclusive original jurisdiction over Section 337 actions.

Because the United States has been the world's largest unitary market, it has long been targeted for imports from around the world. The fragmentation or inaccessibility of other markets has insulated those countries from the same kind of pressure felt by the United States from foreign imports and foreign infringers. Given this and the fact that the United States, as well as most other countries around the world, have consistently maintained that importation is a privilege, not a right, the United States has taken the view that imports can best be dealt with, from a legal standpoint, at its borders.

Section 337 has been used in circumstances where; (1) there were numerous importing entities spread throughout the nation; (2) jurisdiction could not be obtained in United States District Courts over foreign manufacturers or exporters; (3) there was an unavailability of resources in the United States to satisfy a judgement from foreign manufactures or exporters; (4) discovery was unavailable or cost-prohibitive against the foreign parties in a Federal Court proceeding; or a combination of the above.

B. The GATT Panel Report

In 1987, the European Community Commission initiated complaint procedures under the General Agreement on Tariffs and Trade (GATT), alleging that Section 337 discriminates against foreigners. The Community alleged that because in the case of imported goods the complainant could take action in the ITC under Section 337 or in Federal District Court, but in the case of domestically produced goods, the matter could only be brought in Federal District Court, the Section 337 procedures subjected imported goods to treatment that was different from the treatment afforded domestic goods. Thus, the procedures at issue constituted a violation of the National Treatment Rules set forth in Article III:4 of GATT.

A GATT Panel was assembled and in November 1988 the Panel issued its ruling agreeing with the Community that in most cases Section 337 was not compatible with Article III of GATT. The report cited the following factors:

1. The availability to complainants of a choice of forum in which to challenge imported products, whereas no corresponding choice is available to challenge products of United States origin;

2. The potential disadvantage to producers or importers of challenged products of foreign origin resulting from the tight and fixed time limits under Section 337, when no comparable time-limits apply to producers of challenged products of United States origin;

3. The inability in Section 337 proceedings to raise counterclaims, as is possible in proceedings in Federal District Court;

4. The availability of general exclusion orders under Section 337, where no comparable remedy is available against infringing products of United States origin;

5. The automatic enforcement of exclusion orders by the United States Customs Service, when injunctive relief obtainable in Federal Court against infringing products of United States origin requires individual proceedings brought against each defendant prior to enforcement; and

6. The possibility that producers or importers of challenged products of foreign origin may have to defend their products both before the ITC and in Federal District Court, whereas no corresponding exposure exists with respect to products of United States origin.

However, the Panel did accept that differences in procedures such as those set forth in 4 and 5 above, may be necessary in limited circumstances.

II. REACTION TO THE REPORT

A. Prior to Unblocking

The timing of the report was significant because of the on-going GATT Uruguay round of negotiations on Trade-Related Aspects of Intellectual Property (TRIPs). The TRIPs agreement being negotiated at this time contains border control measures.

After the report was issued, there was great debate within and between government and industry on whether the report should be unblocked before a TRIPs agreement acceptable to the United States was negotiated, or only after other countries had agreed not to block any further panel reports directed to them, or to unblock the Report at all.

In November 1989, in order to show good faith in the TRIPs negotiation and a willingness to provide equal treatment to foreigners, the United States unblocked the Panel Report and it was adopted by the GATT Council.

Prior to and especially since the unblocking of the Panel Report, government and industry have been proposing and debating numerous "fixes" to Section 337 which would bring it into compliance with GATT. However, with almost universal backing from industry, the United States Trade Representative's Office (USTR) has stated that no changes will be made to Section 337 to make it compatible with GATT until an acceptable TRIPs agreement is reached. Assuming a TRIPs agreement is reached, any changes to Section 337 are expected to be made with the GATT Uruguay round implementing legislation.

B. Since Unblocking

In February 1990, the USTR issued an invitation for public comments on possible amendments to Section 337. As part of its invitation, the USTR offered five alternative approaches to bring the United States into conformity with its international obligations (Appendix B).

In response to the invitation, thirty-nine submissions (Appendix C) were made to the USTR by various industry groups, individual corporations, law firms, legal associations, and others, including the KEIDANREN (Japan Federation of Economic Organizations), the Japan Machinery Exporters Association, the Embassy of Japan in Washington D.C., and a professor of law from the Nihon University.

The submissions ranged from creating a Federal Patent Court that would have exclusive original jurisdiction in all patent matters including Section 337 patent infringement matters, to negotiating border enforcement measures into TRIPs that would provide a basis for maintaining Section 337 unchanged.

An analysis of the various submissions shows a split primarily between establishing 1) a single Patent Court; 2) bringing all patent enforcement actions, foreign or domestic, in Federal District Court; or 3) making minimal changes to Section 337 so that it will comply with GATT obligations.

Most seem to agree that whatever changes are made, the following features should be maintained:

- o effective preliminary relief subject to statutory deadline;
- o general exclusion remedy where necessary; and
- o in rem jurisdiction.

With regard to the option of creating a single patent court, such a proposal seems to address all of the GATT incompatible aspects of the current system and ensure equal treatment of domestic and foreign products. However, such a change would raise serious Constitutional, administrative and practical concerns and would take years to implement.

With regard to the option of bringing all patent enforcement actions in Federal District Court, the scenario might be as follows. If the plaintiff believes that traditional judicial remedies (in personam injunctions and damages) would be adequate, the case would be tried by the court as under present law. If the plaintiff concludes, however, that infringing imports raise special problems warranting the imposition of a border remedy, it could obtain emergency relief and a temporary exclusion order in expedited proceedings before the ITC. Respondents could obtain an automatic stay of District Court proceedings during the ITC's temporary relief proceeding. After completion of any temporary relief proceedings before the ITC, the case would be tried on the merits by the District Court.

If the District Court then determines plaintiff's patent to be valid and infringed, it would enter judgment for appropriate damages and injunctive relief. The plaintiff could then also seek a permanent exclusion order from the ITC by showing the need for a border remedy. As under current law, all ITC exclusion orders would be subject to Presidential review. The United States Court of Appeals for the Federal Circuit ("CAFC") could review District Court patent judgments and related ITC remedial orders in consolidated appeal proceedings.

Such a procedure would seem to not only improve the speed and effectiveness of the border remedy available to holders of United States patents, but also address the fairness arguments in the GATT Panel Report. At the same time, the procedure would (i) minimize changes to Federal District Court patent enforcement proceedings, (ii) preserve the ITC's role in the issuance and administration of temporary and permanent exclusion orders, and (iii) maintain Presidential oversight of matters potentially affecting foreign policy.

With regard to the option of making minimalist changes to Section 337, while not demonstrative of the position of every advocate, most seem to be supporting changes along the following lines:

- Allow an alleged infringer to initiate a declaratory judgement proceeding in the ITC;

- Allow respondent to assert counterclaims in the ITC directly related to the allegedly infringed right to defeat a remedy under Section 337;

- Eliminate fixed time limits for permanent relief in the ITC while maintaining fixed time limits for temporary exclusion order proceedings; and

- Provide that when infringement of the same right is asserted simultaneously in an ITC proceeding and a District Court action, a respondent in the ITC proceeding is entitled to stay the District Court action until completion of the ITC proceeding. The ITC record would be transferable to the District Court to avoid duplicate effort.

It is asserted that these modifications respond to and overcome the GATT panel objections in that:

- The fixed time limits for permanent relief in the ITC are eliminated;

- The inability to assert counterclaims is overcome;

- The possibility of simultaneous ITC and District Court actions is eliminated; and

- The patent owner and alleged infringer each have a choice of forum for initiating an action.

Meanwhile, Section 337 would remain a potent, expeditious means for border enforcement of intellectual property rights.

Lobbying groups supporting these various ideas are beginning to form. They want to make sure that when the time for implementing legislation comes, Congress will have no misunderstanding as to the solution desired by industry.

Whatever changes are made to the unfair import or intellectual property protection systems, they should not be made in a reactive mode. They should be well considered and should conform to established principles of United States jurisprudence, while at the same time satisfying the needs of the United States' partnership role in international trade relations.

§ 1337. Unfair practices in import trade

(a) Unfair methods of competition declared unlawful. (1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:

(A) Unfair methods of competition and unfair acts in the importation of articles (other than articles provided for in subparagraphs (B), (C), and (D)) into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—

(i) to destroy or substantially injure an industry in the United States;

(ii) to prevent the establishment of such an industry; or

(iii) to restrain or monopolize trade and commerce in the United States.

(B) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that—

(i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under title 17, United States Code; or

(ii) are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.

(C) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.

(D) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of a semiconductor chip product in a manner that constitutes infringement of a mask work registered under chapter 9 of title 17, United States Code [17 USCS §§ 901 et seq.].

(2) Subparagraphs (B), (C), and (D) of paragraph (1) apply only if an industry in the United States, relating to the articles protected by the patent, copyright, trademark, or mask work concerned, exists or is in the process of being established.

(3) For purposes of paragraph (2), an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent, copyright, trademark, or mask work concerned—

(A) significant investment in plant and equipment;

(B) significant employment of labor or capital; or

(C) substantial investment in its exploitation, including engineering, research and development, or licensing.

(4) For the purposes of this section, the phrase "owner, importer, or consignee" includes any agent of the owner, importer, or consignee.

55 FR 3503

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Revisions to U.S. Patent Enforcement Procedures; Section 337: Request for Public Comments

AGENCY: Office of the United States Trade Representative.

ACTION: Request for written comments from the public on possible amendments to section 337 of the Tariff Act of 1930, as amended, and other relevant statutes.

SUMMARY: The Uruguay Round of negotiations on trade-related aspects of intellectual property (TRIPs) and the General Agreement on Tariffs and Trade (GATT) panel report on section 337 of the Tariff Act of 1930, as amended, provide an incentive and opportunity to improve the current mechanism for enforcement of patent rights under U.S. law. We seek comments on proposed approaches for consideration in preparing possible legislative amendments to section 337 and other relevant laws.

DATES: Submissions must be received at USTR on or before 12 noon on Friday, March 26, 1990.

ADDRESSES: 600 17th Street NW., Washington, DC 20506.

FOR FURTHER INFORMATION CONTACT: Catherine Field, Associate General Counsel, Office of the United States Trade Representative, (202) 395–3432. For information on filing submissions or obtaining a copy of a detailed paper discussing the various approaches contact, Dorothy Balaban, Office of the United States Trade Representative, (202) 395–6800.

SUPPLEMENTARY INFORMATION: USTR believes that the current system for patent enforcement in the United States could be improved in ways that would facilitate procedures, provide more comprehensive relief in a single action and also bring the United States into conformity with its international obligations. The following is a very brief description of proposed approaches: (1) Congress could create a specialized trial-level patent court empowered to hear all patent-related litigation and amend section 337 to provide that patent-based complaints be brought before the new court. Congress could grant this patent court the authority to issue limited and general exclusion orders, temporary exclusion orders (TEOs) and temporary cease and desist orders (TCDs). These authorities would be in addition to the powers exercised by other Article III courts. (2) Congress could create a new division of the CIT which would have jurisdiction over section 337 patent-based actions and collateral claims (patent litigation not involving imports would continue to be heard in the district courts). The new division of the CIT could have the authority to issue limited and general exclusion orders, TEOs, and TCDs and exercise all other Article III authorities. Rules would provide for consolidation of related court actions such as declaratory judgments requests into a single proceeding. (3) Congress could provide for transfer of patent-based section 337 cases to a specialized division of the CIT or to designated district courts at the request of the respondents in the section 337 action. Further amendments to section 337 could provide a procedure whereby the patent owner could obtain damages from the court after a USITC patent-based section 337 proceeding without a de novo hearing by the court on patent infringement issues. Rules on consolidation of actions would also be part of this approach. (4) Congress could enact a variation on the transfer approach described above that would permit transfer of a patent-based section 337 action to court after a USITC hearing on preliminary relief. The portion of the proceeding heard before the USITC would be subject to statutory deadlines and presidential review. Rules on obtaining damages and consolidation of court actions would be the same as

those described above. (5) Congress could amend section 337 to provide for transfer of patent-based section 337 cases to court for a hearing on those issues that cannot be adjudicated by the USITC, e.g., damage claims and counterclaims. Transfer would occur after the USITC determined whether there is a violation of section 337 in the importation of goods that infringe a valid and enforceable U.S. patent and decided whether to issue TEO and/or TCD orders.

Members of the public who are interested in commenting on these and any other approaches should request a copy of a more detailed paper discussing each approach and its rationale from the Office of USTR. We request that submissions address both broad issues of the effect of each proposed approach on the overall system of patent enforcement as well as the details of any or all of the proposed approaches. Has this paper identified those elements necessary and important for effective patent enforcement? If not, what are those elements and how should they be addressed in light of the objectives of this review? What are the constitutional, other legal, and administrative implications of various approaches for the Federal judiciary and the USITC? Submissions should also address whether a particular approach is practicable; whether there are legal or procedural obstacles that have not been identified or appropriately addressed; and whether a particular approach would appropriately address issues raised in the GATT panel. Are there other approaches worth considering?

Requirements for Submissions

USTR invites submissions discussing proposed approaches to amending section 337 and other relevant statutes. Members of the public may obtain a copy of the detailed paper and the GATT panel report on section 337 from Dorothy Balaban, Office of the General Counsel, room 222, 600 17th Street NW., Washington, DC 20506.

Interested persons must provide twenty copies of their submission to Dorothy Balaban, Office of the U.S. Trade Representative, no later that 12 noon on Monday, March 26, 1990.

Joshua B. Bolten,
General Counsel.

Possible Amendments to Procedures for Enforcement of Patent Rights

The Uruguay Round of negotiations on trade-related aspects of intellectual property (TRIPs) and the General Agreement on Tariffs and Trade (GATT) panel report on section 337 of the Tariff Act of 1930, as amended, provide an incentive and opportunity to improve the current mechanism for enforcement of patent rights under U.S. law. In November 1989, President Bush set forth the Administration's policy regarding Presidential review of section 337 orders. In a memorandum to the United States Trade Representative, the President stated:

> I am committed to the adequate and effective protection of U.S. intellectual property rights. This Administration places the highest priority on strengthening the enforcement of intellectual property rights in the Uruguay Round and in bilateral negotiations.
>
> Pending enactment of legislation amending section 337, which could most effectively occur through Uruguay Round implementing legislation, the Administration will continue to enforce section 337 without change. The Congress by law has authorized me to disapprove section 337 orders for policy reasons. In accordance with this Administration's existing practice, use of this authority should be considered only in those unusual circumstances where compelling public policy reasons may require disapproval. Pending legislative modification, the GATT panel report should not provide a basis for changing current practice with respect to Presidential review or for disapproving section 337 orders.
>
> I appreciate your assurance that the USTR-led interagency process will give the highest priority to working with the Congress, the U.S. International Trade Commission, and the private sector to develop an effective, GATT-consistent section 337 mechanism.

This paper is part of the process which we believe should lead to improved enforcement of patent rights in the United States. The paper discusses several alternative mechanisms for enforcing patent rights which focus primarily on achieving effective border enforcement. One alternative, creation of a trial-level patent court, addresses both internal and border enforcement of patents. We seek comments on these possible revisions to the U.S. patent enforcement system, which are set forth in Section IV below, for consideration in preparing possible legislative amendments to section 337 and other relevant laws.

We request that submissions address both broad issues, such as the effect of each proposed approach on the overall system of patent enforcement in the United States, as well as the details of any or all of the proposed approaches. Submissions should address, for example, whether this paper has identified those elements necessary and important for effective patent enforcement. If not, what are those elements and how should they be addressed in light of the objectives of improving enforcement of patent rights and bringing the United States into conformity with its GATT obligations? What are the constitutional, other legal, and administrative implications of various approaches for the federal judiciary and the USITC?

Submissions should also address whether a particular approach is practicable, whether there are legal or procedural obstacles that have not been identified or appropriately addressed, and whether a particular approach would appropriately address issues raised in the GATT panel report on section 337. Finally, are there other approaches that we should be considering? What changes to U.S. law and practice would such an approach require and how would it meet U.S. objectives?

As noted in the *Federal Register* notice seeking comments, we ask that submissions be received at USTR no later than 12:00 noon on March 26, 1990. Although we are interested in all of the questions raised in this request, we welcome comments on any of these matters of particular interest to the submitter.

I. *Characteristics of An Effective Patent Enforcement System*

In broad terms, and effective patent enforcement system should provide prompt remedies against patent infringers pursuant to procedures that provide the parties a fair opportunity to prepare and present relevant evidence and arguments. The time and resources that may be consumed in obtaining effective enforcement of patent rights are also important considerations particularly in situations where enforcement of rights against a limited number of parties will not preserve the exclusive rights granted by the patent.

Remedies should include damages sufficient to compensate patent owners fully and to deter future infringement. In addition, patent owners should be able to seek to enjoin infringing activity on both a preliminary and permanent basis. In the case of infringing imports, effective enforcement requires that such goods be prevented from entering internal channels of distribution.

Enforcing U.S. patent rights against infringing imports can in some cases involve numerous actual or potential foreign manufacturers and both domestic and foreign importers. In such cases expanding enforcement efforts from the domestic arena to a global one can place such a burden on the patent owner so as to discourage enforcement of rights. Moreover, accomplishing enforcement of judgments in the international context can be difficult. An effective enforcement mechanism should provide means to address both of these problems.

II. *The Current Patent Enforcement System In the United States*

Acts constituting patent infringement are defined in section 271 of Title 35 of the U.S. Code. Both U.S. and foreign nationals are subject to suit for patent infringement in federal district court if U.S. constitu-

tional, statutory and procedural rule requirements are met.

U.S. district courts have original jurisdiction over civil actions arising under "any Act of Congress relating to patents." Patent litigation is conducted under the Federal Rules of Civil Procedure, Federal Rules of Evidence and other pertinent laws and regulations governing matters such as venue. Trial by jury is available.

Difficulties in meeting judicial requirements with respect to obtaining jurisdiction over some foreign persons or entities and effective enforcement of judicial remedies have led to use of an administrative mechanism for enforcement of patent rights against imported products. This mechanism is provided under procedures applied under section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337.)

The U.S. International Trade Commission (USITC) is responsible for determining whether there is a violation of section 337. That statute declares unlawful unfair acts and unfair methods of competition in the import and sale of articles in the United States. The importation, sale for importation, or sale within the United States after importation of articles that infringe a valid and enforceable U.S. patent are unlawful acts within the meaning of section 337.

A number of differences exist between procedures for enforcement of patent rights in district court and before the USITC, the nature and scope of remedies that are available and the types of issues that may be raised before courts and the USITC. For example, USITC investigations under section 337 are subject to statutory time limits for determining whether preliminary relief should be accorded an also for making a final determination on violation and remedy.

Unlike district courts, the USITC has the authority to issue temporary relief in the form of a temporary exclusion order (TEO or temporary cease and desist order (TCD) for imports. TEOs and TCDs are similar to preliminary injunctions issued by district courts except that importation or marketing activity can continue under bond while the temporary order is in place.

Final remedies under section 337 are limited to: (1) "exclusion orders," which the U.S. Customs Service enforces by prohibiting entry into the United States of goods covered by the order, and (2) cease and desist orders which prohibit specified activities relating to goods covered by the order (e.g., importation or sale of infringing goods.) Exclusion orders can be limited in scope, i.e., cover specified goods from identified parties, or, in appropriate cases, general. General exclusion orders are enforced against all importers and foreign manufacturers of infringing goods even if those entities were not parties to the case before the USITC or engaged in the prohibited activity at the time of the case. Thus, a U.S. firm may obtain a remedy against all imported goods as a result of a single case.

The USITC does not award damages nor do its patent findings have *res judicata* effect in district court proceedings. Relief under section 337 is in addition to any other remedy available to the complainant. Thus importers and foreign manufacturers may, in certain cases, be required to litigate before the USITC under section 337 and also before federal district court in a patent infringement case.

The public interest plays a role in section 337 actions that is not present in district court patent litigation. First, the USITC decides whether the remedy it has chosen, e.g. a general exclusion order, is precluded by public interest considerations. Although the USITC rarely denies relief because of the public interest, the USITC has taken such issues into account in drafting its remedies.

Further, the USITC's administrative orders are subject to Presidential review. In five section 337 cases, the President has disapproved a USITC order for policy reasons. For constitutional reasons, the President may not review judicial decisions.

A final important difference between section 337 actions and district court patent litigation is that defendants (respondents in a section 337 proceeding cannot raise counterclaims before the USITC, but must file a separate case in district court if they want to obtain relief.

III. The GATT Panel Report on Section 337

In response to a complaint filed by the European Community (EC), the GATT authorized a dispute settlement panel to examine claims that differences in procedure under section 337 accorded imported products treatment less favorable than that accorded domestic products. The GATT panel report on section 337 found that the following procedures under section 337 resulted in less favorable treatment to imports:

(1) the availability to U.S. patent owners of a choice of forum in which to challenge imported products, whereas there is no choice of forum for litigating against domestic products;

(2) tight and fixed time limits that apply under section 337, but not in district court patent litigation;

(3) the inability to raise counterclaims under section 337, that can be raised in district court proceedings;

(4) the availability of general exclusions under section 337, where no comparable remedy is available against infringing products of U.S. origin;

(5) the automatic enforcement of exclusion orders by the U.S. Customs Service; and

(6) the possibility that producers or importers of products manufactured abroad may have to defend their products both before the USITC and district court.

The GATT panel also found that:

(1) automatic enforcement of exclusion orders by the U.S. Customs Service; and

(2) issuance of general exclusion orders under certain conditions

are necessary to secure compliance with U.S. patent laws and thus excepted from GATT obligations. The GATT panel noted that with respect to strict time limits, difficulties related to collecting awards of

damages for past infringement that might indicate a need for particularly expeditious relief against infringing imports could only provide a justification for rapid preliminary or conservatory action against imported products.

On November 7, 1989 the GATT Council adopted the panel report on section 337 including the recommendation that the United States bring its procedures applied in patent infringement cases bearing on imported products into conformity with its obligations under the General Agreement. The United States did not join in the consensus to adopt the report and continues to have reservations regarding the panel's interpretation of the General Agreement and application of GATT standards to section 337. If the United States does not implement the GATT Council's recommendation within a reasonable period of time, GATT members may seek authorizations to retaliate against U.S. goods by suspending concessions under the GATT. Generally, this means increases in tariffs for certain U.S. goods.

We believe that the GATT panel report on section 337 recognizes the legitimacy of obtaining effective enforcement against infringing imports, but takes the view that, generally speaking, differences in procedures applicable to U.S. and foreign goods and/or persons should be avoided. The panel report accepts that differences in procedures may be necessary in limited circumstances. Where "less favorable treatment for imported products" must exist for objectively identifiable reasons, such treatment should consist of those measures least inconsistent with the GATT which are reasonably available to the government.

IV. Possible Revisions To the U.S. Patent Enforcement System

We believe that the current system for patent enforcement in the United States could be improved in ways that would facilitate procedures, provide more comprehensive relief in a single action and also bring the United States into conformity with its international obligations. This task is complex and difficult, however, and there are many approaches for achieving this objective. Several approached that show promise and are described below.

A. Creation of A Specialized Article III Patent Court

1. Description of the Court and its Authorities

Congress could create a specialized trial-level patent court empowered to hear all patent-related litigation and amend section 337 so that section 337 investigations concerning alleged patent infringement would be heard by this specialized court. In order to address problems that are particularly relevant to cases involving imported products, Congress could grant such a patent court powers and authorities in addition to those exercised by other Article III courts. These powers could include the ability to issue limited and general exclusion orders similar to those issued by the USITC in section 337 actions. Congress could also grant this court the authority to issue temporary exclusion orders (TEOs) and temporary cease and desist orders (TCDs) as an additional form of preliminary relief.

Court issued exclusion orders would be transmitted to the U.S. Customs Service for enforcement at the border. These judicial decisions, however, could not be subject to Presidential review for reasons related to separation of powers. Appeals from decisions of the specialized court, including decisions to issue TEOs and TCDs, and general and limited exclusion orders, would be to the U.S. Court of Appeals For the Federal Circuit.

Patent-based section 337 investigations would thus become a judicial cause of action and subject to procedural rules typically applied by Article III courts. With respect to jurisdiction to adjudicate such actions, a court could obtain jurisdiction necessary to issue both limited and general exclusions orders. So long as a defendant has sufficient minimum contacts with the United States, there should be a basis for asserting jurisdiction to hear the claims (and counterclaims) that may be part of a patent-based section 337 action and to provide relief in the form of damages, an injunction, temporary orders or a limited exclusion order. Procedural requirements for obtaining a general exclusion order from a specialized court, however, would differ from those necessary to obtain a general exclusion order from the USITC because of judicial due process requirements.

For importers or manufacturers who are not parties to the underlying action and do not receive notice of it, a general exclusion order issued by the specialized court would provide for a post-exclusion hearing on the merits. Goods would be detained at the border while the alleged infringer contested the case (including the validity and infringement of the patent at issue).

2. Rationale

Congress recognized the need to provide some specialized treatment for patent cases, at least at the appellate level, when it created the U.S. Court of Appeals for the Federal Circuit in 1982. Congressional objectives for the Federal Circuit were to: (1) ensure greater uniformity in the development and application of U.S. patent law; (2) create more stability and predictability in patent protection; (3) eliminate forum shopping in the area of patent litigation; and (4) relieve the workload of the regional courts of appeal. The initial assessment is that the Court of Appeals For the Federal Circuit has achieved the objectives set for it in 1982.

Creation of a specialized trial-level patent court could improve the enforcement of patent rights in the United States. Such improvements in enforcement could include increased expedition in disposition of cases, development of judicial expertise in applying patent law to complex technologies, facilitation of the development of a uniform body of law and a decreased burden of cases filed with district courts. Moreover, if such a court is provided enhanced jurisdictional and remedial authorities, it could also provide effective enforcement against infringing imports.

In 1982, Congress recognized that patent litigation at the appellate level is unusually complex and time

consuming and that creating the Federal Circuit would have a more profound effect than the mere number of cases involved would indicate. Statistics concerning the time taken for judicial disposition of patent litigation at the trial level indicate that these same conditions exist at the trial level.

In the 12 month period from June 1988-89, litigants filed 1,248 patent infringement actions in district court. Although only 8 percent of patent infringement cases that are filed go to trial, the median time for disposition of such cases (31 months) is longer than for any other type of civil action.[1] Moreover, there are extreme variances between the median time in each circuit. The time expended in obtaining a judgment can be a significant consideration when a patent owner decides whether to attempt to enforce his rights.

Patent law may not be intrinsically more difficult to apply than other laws; however, the "facts" to which patent law may be applied, i.e., cutting edge technology, present special challenges to any judge. Creation of a specialized patent court would encourage development of expertise either through appointment of judges with technical backgrounds or through court staff experts. It would also free district court judges from expending the considerable time it may take to learn the basics of a particular technology needed to evaluate expert witness testimony.

Greater uniformity in the application and interpretation of U.S. patent law is another likely benefit of creating a specialized court. Concern has been expressed about potential negative effects from uniformity in outlook and decision making that might result from creation of a specialized patent court. Other criticisms of a specialized court have included: possible bias in favor of or against patent owners, maintaining the prestige of appointments to a specialized court, and ensuring that the Court of Appeals For the Federal Circuit would exercise meaningful review of the new court's decisions.

The enhanced authorities provided such a court could improve the current two-fora enforcement mechanism used against imported products by permitting "one-stop" patent litigation that would maintain most of the benefits of the current USITC proceeding. Both the patent owner and defendant could litigate all issues between them and receive all appropriate relief in the same forum. While patent-related issues would represent the gravamen of the complaint, the court would have normal authority to hear collateral claims raised by both parties.

With respect to differences in procedures that would exist between those applied by the proposed specialized court and those currently applied by the USITC, the practical effect of such differences should not be overestimated. Although the specialized court would not be bound by statutory deadlines, a specialized docket without criminal proceedings and the possibility of additional judicial appointments could result in expedited disposition of cases. Furthermore, preliminary relief in the form of TEOs, TCDS and preliminary injunctions would be granted in appropriate cases. While requiring a patent owner to litigate, in a post-exclusion hearing, validity issues that may be raised would impose a greater burden on U.S. firms than presently under USITC advisory opinion proceedings, that burden could diminish since there are a limited number of issues related to validity that could be raised.

B. Creation of a Specialized Division of the U.S. Court of International Trade (CIT) To Hear Patent Infringement Cases Involving Imports

1. Description of the New CIT Division

Under this approach, Congress could create a new division of the CIT which could have jurisdiction over section 337 patent-based actions and collateral claims including counterclaims raised by a defendant. The new division of the CIT could have all of the enhanced authorities described in the preceding section but its jurisdiction would be limited to cases involving imported products that allegedly infringe a U.S. firm's patent. Thus, the court would have the authority to issue TEOs, TCDs, and limited and general exclusion orders. CIT exclusion orders would be transmitted to the U.S. Customs Service and enforced by Customs at the border. CIT decisions could not be subject to Presidential review.

The new CIT division could sit in Washington with ready access to the USITC and the Court of Appeals For the Federal Circuit. Appeal from CIT patent decisions would be to the Federal Circuit to maintain continuity and uniformity in decisions.

Since the CIT's authority and rules differ from district court authority and rules in some limited respects, it would be necessary to amend provisions such as 28 U.S.C. 1583 to provide the CIT jurisdiction to hear all the forms of counterclaims that district courts may entertain. It may also be necessary to provide for transfer of some proceedings from district court to the CIT in order to consolidate all related proceedings in a single fora. Since patent-based section 337 actions could only be heard before the CIT, that court should be the destination of any transferred actions.

Eliminating the public interest considerations examined by the USITC in determining whether such interests bar relief in a particular case is another possible amendment to be considered.

2. Rationale

Congress has long recognized the existence of special conditions that pertain to imported products and foreign manufacturers that require that expedited proceedings and special remedial powers exercised by the USITC under section 337. Creation of a specialized division of the CIT to hear patent infringement cases involving imported products and collateral claims is an approach that could improve upon the current enforcement mechanism while maintaining many positive aspects of USITC proceedings. Several of the considerations that support formation of a specialized court to hear all patent infringement cases are also

[1] Antitrust cases take the next longest to try; however, there are far fewer antitrust cases filed and brought to trial in the United States than patent infringement cases.

relevant to this approach which involves a less drastic change in patent enforcement procedures.

The new CIT division would bring trade expertise to section 337 proceedings and develop expertise in the area of patent litigation. Although fewer judicial appointments would be necessary than in the case of a court hearing all patent-based litigation because of the more limited number of actions, expeditious treatment of cases is more likely in a new division of the CIT than in most district courts. The court could through its rules control any tendency of parties to use "discovery" or motion practice to delay litigation.

U.S. patent owners would benefit by being able to resolve the patent-based section 337 action and any collateral issues in a single action, i.e., it would not be necessary to file a district court action for patent infringement at the same time as or after litigating before the USITC. Unlike current practice, issues of patent validity and infringement would not be relitigated in court before damages could be awarded.

Although there would be some differences in authorities exercised by the CIT division as compared with district courts, the ability to issue TEOs, TCDs and general and limited exclusion orders could be tailored to address the special problems inherent in obtaining jurisdiction and effective enforcement of rights against imported products. The need for prompt preliminary relief against products imported or manufactured by a large number of parties is important for effective enforcement of patent rights.

C. Transfer of Certain Investigations in Their Entirety to a Specialized Court or Designated District Courts

1. Description of the Mechanism

Congress could provide for transfer of certain patent-based section 337 cases in their entirety to a specialized division of the CIT or to designated district courts. An owner of a U.S. patent would file a complaint with the USITC under the rules and procedures currently in effect with particular emphasis on the need to name all known manufacturers of products imported into the United States that allegedly infringe the U.S. patent (and importers of such products). The USITC would decide whether to initiate an investigation based on the complaint and publish notice of that decision in the *Federal Register*. (Consistent with current practice, the agency would also provide a copy of the complaint and notice of investigation to respondents and to the government of any of the parties named as a respondent in the investigation.)

At that time or at any time before a date specified, one or more respondents/defendants could request transfer of the case to the court. Other respondents in the case before the USITC could choose between joining the transferred proceeding or litigating before the USITC. Once a respondent chooses not to join the transferred action, he would not be able to request transfer at a later stage in the proceeding. However, if transfer is requested by one of the respondents, the patent owner should be able to transfer the entire case to court at this option, thus avoiding the need to litigate in two fora simultaneously.

At the same time that the case is transferred, the patent owner should be permitted to amend his complaint to include other claims and to request damages and any other remedy available from the court in such actions. Such remedies could include TEOs, TCDs and general and limited exclusion orders. Defendants would also be able to raise claims before the court to the same extent as is permitted in district court patent litigation.

If parties do not request transfer, they will be deemed to have agreed that any USITC decision on patent validity and infringement would be binding on them. Thus, if the patent owner won the case before the USITC, he would have the right to go to district court and seek an award of damages. The issue before the district court would be limited to the amount of damages since the defendant would have waived his right to contest validity and infringement. Conversely, if the patent owner lost before the USITC, he would be precluded from seeking a ruling on validity, infringement and damages before the district court. This hearing procedure is similar to the practice of bifurcating the district court hearing on (1) patent validity and infringement, and (2) damages.[2]

The court vested with jurisdiction over transferred section 337 actions should adopt a liberal attitude towards joinder of persons. However, requests for joinder at a late stage in the proceedings should not unreasonably delay a decision on the merits with respect to other defendants.

If the USITC issues an order prior to a judicial decision (for example, where some respondents requested transfer of the case, but others chose to remain at the USITC), that order should not be effective against parties to the judicial proceeding. If the court reaches a different decision than the USITC on the issues of patent validitiy or enforceability, that decision would be binding on the agency and require modification of the USITC order.

Transferred cases would not be subject to Presidential review, but the President could continue to review USITC order and disapprove them for policy reasons. Moreover, Congress could eliminate from the court's review the public interest considerations currently examined by the USITC in the determining if a remedy should not be issued. These differences in treatment between the court and the USITC might encourage some respondents to choose to litigate before the USITC.

Appeals from the court and the USITC would be to the U.S. Court of Appeals for the Federal Circuit. Both USITC and court orders in patent-based section 337 actions would be enforced by the Customs Service at the border.

Effective operation of a transfer mechanism will require rules on timing and effect of a request for transfer of proceedings to a court. For example, a request by a respondent for transfer must be made within a specified period of time. Rules will also be

[2] This waiver would be effective between the parties and would not bind the court. Thus, a non-party to this proceeding could contest validity and infringement of the patent in district court.

needed to address all of the other steps outlined in the description of the transfer mechanism such as permitting the patent owner to amend his complaint to include related claims such as patent infringement and to request damages and any other remedy available from the court. Rules for consolidation of related actions such as a patent infringement action or a request for declaratory judgment must be provided in order to avoid litigating in two fora at the same time. Because of the particular need for prompt action in cases involving imports and the potential for obtaining exclusion orders, rules on consolidation should favor the section 337 forum.

2. Rationale

One aspect of legislation implementing either of the approaches making patent-based section 337 cases a purely judicial cause of action is that it fails to take advantage of the expertise that currently exists at the USITC. Furthermore, these options could *impose* a judicial forum on cases, such as default cases or those in which the alleged infringer prefers the rapid adjudication provided by the USITC, in which they are not required. In such cases current practice and procedural requirements might be maintained and judicial resources conserved.

The transfer approach described above would maintain the possibility of litigating before the USITC or in a court (possibly the specialized division of the CIT discussed above.) If Congress decided to require transfer of certain patent-based section 337 actions to a new division of the CIT, some of the benefits of a specialized court could be realized. These benefits could include faster disposition of cases than typical in most district court patent infringement actions, uniformity of decision, and development of patent and technical expertise. The CIT division could have the same enhanced authorities discussed in connection with a specialized court and thus provide relief similar to that available from the USITC.

D. A Bifurcated-Mechanism Involving the USITC and District Courts

Two of the major issues raised by a "transfer" approach are the timing of the transfer and what issues should be subject to a judicial hearing. The transfer option discussed above would permit transfer of all issues in all cases when transfer is requested by a respondent at an early stage of the case. Additional claims raised by both the alleged infringer and the patent owner would also be heard by the court. Two variations on this transfer approach would designate a later time for transfer of the case and/or limit the issues that could be transferred.

1) The USITC as a Forum for Preliminary Relief

(a) Description of Procedure

This approach could maintain current practice with respect to filing requests for and pursuing temporary relief under section 337 before the USITC. While statutory time limits could apply to these proceedings, it may be appropriate to extend the time permitted the USITC to reach a decision on temporary relief.[1]

Consistent with current practice, USITC decisions on temporary relief (TEOs and TCDs) would be subject to Presidential review. While section 337 provisions permitting entry under bond during the pendency of the case could continue in effect, Congress could amend section 337 to provide that such bond be used toward any damages awarded by a court in the action. Currently, the bond is forfeited to the U.S. Treasury.

Under this approach a respondent would have the option of continuing to litigate the case before the USITC and thus obtain a final decision within the current statutory time limits. Default cases would continue to be litigated before the USITC.

In cases in which litigation continued before the USITC by choice of the parties, section 337 could be amended to provide that the parties will be deemed to have agreed that any USITC decision on patent validity and infringement would be binding on them. Thus, if the patent owner wins the case before the USITC, he would have the right to go to district court and seek an award of damages. On the other hand, he would be barred from relitigating validity or infringement and seeking damages if he lost the case before the USITC.

If a respondent chooses not to litigate at the USITC, the case would be transferred to the appropriate court, i.e., either a specialized court or district court. Transfer would have to be timely and the patent owner would have the option of transferring the action against all of the parties to court in the event that one of the respondents requested transfer. The court receiving the patent-based section 337 action from the USITC could have the authority to issue limited and general exclusion orders as well as the authority to modify the temporary relief.

Rules on consolidation of related judicial actions such as requests for declaratory judgments and patent infringement actions would be necessary. Under this approach as well as with other transfer options, it would appear that the court hearing the section 337 case should hear the consolidated action because of the possibility of obtaining relief in the form of an exclusion order.

Final relief granted by the USITC could be subject to Presidential review. Final relief granted by a court could not be subject to Presidential review.

Since the complaint giving rise to the litigation concerns alleged patent infringement, appeal from all section 337 cases including judicial and USITC decisions would be to the Federal Circuit. This would ensure uniformity of decisions and application of the law.

(b) Rationale

This approach could preserve the availability of prompt remedies in cases involving imported products. Obtaining prompt preliminary relief through mechanisms such as a TEO is often more important with respect to infringing imports than obtaining pre-

[1] Prior to the 1988 amendments to section 337, the USITC took 7 months to issue a decision on temporary relief. In 1988, Congress enacted a statutory time limit of 3 months, or 5 months in complicated cases. In practice, the USITC has found the 3 month time limit difficult to meet.

liminary injunctive relief against domestically produced goods since it is more difficult to enforce both preliminary and permanent relief against imported goods.

For imports, there is no manufacturer within the "enforcement jurisdiction" of the court to identify as the source of infringing goods and the beginning of the flow of products into commercial channels. Since the dissemination of infringing goods into the market is thus more difficult to trace and stop, it is imperative to provide enforcement at the border — the closest we can come to a source point — as quickly as possible.

With respect to permanent relief, it is often difficult to collect damages against foreign manufacturers and/or importers since the manufacturers are outside the court's jurisdiction and importers sometimes have few assets that might be used to satisfy a judgment. Thus, it is important to limit damage as quickly as possible through a TEO and/or a TCD.

The judicial portion of the action could also proceed more quickly than is currently the case in patent litigation. In cases transferred to a court, that court would have the benefit of the discovery and evidentiary hearing testimony developed before the USITC during the temporary relief proceedings. This could reduce the need for, and duration of, pretrial and discovery proceedings. We recognize, however, that some discovery will be necessary if damages are sought or additional issues or counterclaims are raised before the court.

Maintaining the possibility of litigating the entire case before the USITC, would preserve judicial resources and expedite disposition of cases. Some respondents could favor remaining at the USITC for a decision on the merits, particularly in cases in which the USITC denied preliminary relief based on a failure to prove a sufficient likelihood of success on the merits. In those cases, respondents might favor an expedited proceeding.

2) Litigate Only Counterclaims and Damage Issues In Court

a) Description of Procedure

The second variation on a bifurcated proceeding would (1) permit transfer of cases from the USITC only after completion of what is currently the violation portion of a patent-based section 337 proceeding and (2) limit the issues litigated before the court to those that only an Article III court can entertain, e.g., counterclaims and damages. If a violation of section 337 is found at the end of the 12 month investigation, the USITC would enter a TEO or TCD which could be modified by the Court at the time of transfer and/or at the time of final disposition of the case to provide for a limited or general exclusion order. Since the USITC's decision would be preliminary in nature, time limits could apply.

As with the preceding transfer approach, importation could continue under bond during the pendency of the judicial hearing and the bond could be applied to satisfy any damages awarded by the court. As with other approaches, time limits would not apply to the judicial portion of the proceeding. If a complainant did not seek damages and no counterclaims or collateral claims were raised, the proceeding would terminate with issuance of a final exclusion order and/or cease and desist order by the USITC. The patent owner, however, would be deemed to have waived his right to damages if he chooses not to seek them at the time of the section 337 proceeding.

Under these modifications to section 337 procedures a patent owner has the opportunity to obtain all available judicial remedies possibly including limited and general exclusion orders as well as TEOs and TCDs. Consequently, the patent owner should be limited to one action against a particular alleged infringer. Parties named in a district court patent infringement case should not be included in a section 337 action or subject to any exclusion order issued by the USITC or court.

Appeal of all portions of the patent-based section 337 proceeding including decisions on temporary relief and any counterclaims would be to the Federal Circuit. The USITC's decisions could be subject to Presidential review and disapproval for policy reasons, but the court's findings could not be reviewed by the President.

b) Rationale

This approach would require more limited changes to the current patent enforcement system while addressing practices cited in the GATT panel report as providing less favorable treatment for imported products. A patent owner could receive temporary relief subject to statutory time limits and all of the parties could have the benefit of a judicial decision and judgment on those issues which an Article III court must adjudicate including the award of damages for patent infringement.

The USITC would continue to examine and decide those issues related to the expertise that it has developed over the years and the courts would focus on those issues that they deal with on a regular basis. Alleged patent infringers would be subject to suit in only one fora and could raise any counterclaims that they might have in that fora. Finally, patent owners could obtain the types of relief currently available in a single, although more protracted action, instead of being required to litigate in both district court and before the USITC.

SUBMISSIONS RECEIVED BY USTR

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Public Comments

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1. Federal Register notice, dated February 1, 1990, cite 55 FR 3503

2. Written comments, dated February 22, 1990, from Charles L. Gholz, Esq.

3. Written comments, dated March 2, 1990, from Genentech, Inc.

4. Written comments, dated March 9, 1990, from SmithKline Beechman

5. Written comments, received March 12, 1990, from Mr. Michael Crawford

6. Written comments, received March 23, 1990, from ITC Trial Lawyers Association

7. Written comments, received March 23, 1990, from Japan Federation of Economic Organizations

8. Written comments, received March 26, 1990, from Free Trade Enterprises, Inc.

9. Written comments, received March 26, 1990, from Intellectual Property Owners, Inc.

10. Written comments, received March 26, 1990, from Semiconductor Industry Association

11. Written comments, received March 26, 1990, from E.I. du Pont de Nemours and Company

12. Written comments, received March 26, 1990, from Japan Machinery Exporters Association

13. Written comments, received March 26, 1990, from Intellectual Property Committee

14. Written comments, received March 26, 1990, from U.S. Chamber of Commerce

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Public Comments

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28. Apple Computer, Inc.

29. University of Michigan Law School

30. Professor Nogimura

31. The American Bar Association

32. The Hexcel Corporation

33. Chemical Manufacturers Association

34. New York University School of Law

35. German Industry and Trade

36. International Electronics Manufacturers and Consumers of America, Inc.

37. Union of Industrial Employers' Confederations of Europe (UNICE)

38. Computer and Business Equipment Manufacturers Association (CBEMA)

39. Rosemount, Inc.

18:4-3A

PIPA Database Coversheet

(1) Title: Patent Arbitration in the United States and the PIPA Conciliation System Revisited

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1) Source: PIPA
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(4) Author: James E. Espe, General Electric Company

(5) Keywords(s): Arbitration, Conciliation

(6) Statutory Provision(s): 15 USC 294, 9 USC 2

(7) Abstract: In 1983, 35 USC 294 came into effect permitting arbitration of patent validity and infringement issues. In 1975, PIPA instituted its Conciliation System. A recent survey suggests that both arbitration under 35 USC 294 and the PIPA Conciliation System have been used very little.

PATENT ARBITRATION IN THE UNITED STATES

AND THE PIPA CONCILIATION SYSTEM REVISITED

JAMES E. ESPE

Pacific Industrial Property Association
Twenty-First International Congress
Niigata, Japan
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PATENT ARBITRATION IN THE UNITED STATES AND THE PIPA CONCILIATION SYSTEM REVISITED

Good morning, ladies and gentlemen. It is, indeed, a pleasure to have this opportunity to address the Twenty-First Congress of PIPA in the beautiful city of Niigata.

As many of you know, in 1983 new Section 294 of Title 35 of the United States Code (35 USC 294) became effective to provide for voluntary arbitration of patent disputes. One purpose of my presentation today is to review that provision of the U.S. Patent law and also to report on an informal survey which I have conducted and which reveals that voluntary arbitration of patent disputes under this new law has not been used extensively thus far. Also, while looking through my files at General Electric Company for information concerning patent arbitration, I came across a file that my predecessor, Marty Kalikow, had compiled on patent arbitration. In that file, I discovered a pamphlet describing the PIPA Conciliation System. I was intrigued by this pamphlet for two reasons: (1) it sets forth a simple and direct method to settle disputes and, (2) until April of this year, I had never heard of the PIPA Conciliation System even though it has now been in place for fifteen years. Accordingly, a second purpose of my presentation today is to re-acquaint the old timers in the audience with the PIPA Conciliation System and to introduce it to those others in the audience who are unfamiliar with its provisions and availability. Let's turn first to patent arbitration in the United States.

Before 35 USC 294 became effective in 1983, there was a series of court decisions in the United States which specifically disapproved of the use of arbitration to resolve patent infringement and validity disputes. There had been

earlier legislation passed in 1929 called the United States Arbitration Act which later became Title 9 of the United States Code. Section 2 of Title 9 provided:

> A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

In somewhat convoluted language, this Section says that arbitration to settle a controversy in a transaction involving "commerce" shall be enforceable.

Based upon this section of the Arbitration Act, parties entered into agreements to arbitrate patent validity and infringement controversies. In the first of the line of cases holding patent validity and infringement as inappropriate for arbitration (Zip Manufacturing Company v. Pep Manufacturing Company, 7 USPQ 62), the court was requested to stay the trial of a patent litigation suit until an arbitration of the patent issues could be conducted. The court declined to do so saying that the Arbitration Act did not apply because questions of validity and infringement of a patent relate to controversies involving neither commerce nor maritime transaction. The court further held that the determination of the status of a patent, its validity and infringement, is inherently unsuited to arbitration.

Although it is difficult to understand why a patent controversy would not involve commerce, the Zip Manufacturing

Company case was only the first in a long series of cases leading up to a 1976 case (Babcock & Wilcox Co. v. Public Service Co. of Indiana, 193 USPQ 161) in which the District Court for the Southern District of Indiana stated, "It is an established rule that the public interest in questions of patent validity and infringement renders them inappropriate for determination in arbitration proceedings." Facing this judicial hostility toward arbitration of patent controversies, about ten years ago, several groups of patent lawyers in the United States began work on drafting and escorting through Congress a statute which would expressly authorize arbitration of patent infringement and validity issues. Among these groups was an ad hoc committee of corporate patent lawyers chaired by Dr. Pauline Newman who is, of course, now Judge Newman of the Court of Appeals for the Federal Circuit and a past chairman of the American Group of PIPA. We will hear more of Dr. Newman later on when I discuss the PIPA Conciliation Service. Another group actively promoting a patent arbitration statute was Committee 402 of the Patent, Trademark and Copyright Law Section of the American Bar Association which at that time was chaired by Harry Manbeck, then the General Patent Counsel of the General Electric Company, and now the U.S. Commissioner of Patents and Trademarks. These groups were successful in getting a patent arbitration section included in Public Law 97-247 which was signed by President Reagan on August 27, 1982. The arbitration section, now 35 USC 294, became effective on February 27, 1983.

A copy of 35 USC 294 is attached as Appendix A to the distributed copy of my presentation.

Upon enactment of the new statute, there seemed to be, at least among corporate practitioners, a general expression of

enthusiasm over the new availability of arbitration to settle patent infringement and validity disputes. Among the reasons given for this enthusiasm was that patent litigation had become very complex and very costly, and corporate patent attorneys saw patent arbitration as a means for relatively inexpensive, quick resolution of a dispute. Furthermore, it reduced the likelihood that top-level executives would be tied up in lengthy depositions and other court proceedings. In many cases, the arbitration could be handled by in-house counsel without the need to engage expensive outside trial counsel. Moreover, the arbitration proceeding could be structured to accommodate the particular circumstances of the controversy rather than following rigid procedural requirements of a formal trial. Finally, patent arbitration would avoid time-consuming and expensive appeals. Accordingly, there seemed to be a general feeling that patent arbitration would catch on and replace a substantial amount of patent litigation. As I will point out in a few minutes, actual experience has proven patent arbitration to be somewhat less attractive than first expected.

What, perhaps, many people don't appreciate is that patent arbitration has always been available in the United States to resolve disputes between parties who are willing to agree to patent arbitration. The problem that arose in the past arose as a result of turning to the courts to either enforce an arbitrator's award or requesting the court to stay a proceeding while arbitration takes place. In those circumstances, the court would decline on the premise that the court, rather than an arbitrator, should resolve disputes pertaining to patent validity and infringement.

In 1965, I was involved in the arbitration of a patent dispute between the General Electric Company and one of its

United States competitors involving the validity and infringement of a U.S. patent pertaining to a dishwasher rack mechanism. The parties agreed to arbitrate the controversy; the arbitration was conducted; the arbitrator granted an award; both parties fulfilled their commitment as set forth in the arbitrator's award; and the dispute was resolved quickly, cleanly, and much less expensively than would have been experienced with patent litigation. Let me very briefly describe my experience with patent arbitration. You may find it interesting and educational if you are contemplating patent arbitration in the future. Although this proceeding took place twenty-five years ago, the lessons learned then are still applicable today.

General Electric Company had a U.S. patent pertaining to a dishwasher rack. A dishwasher rack, as I'm sure most of you know, is designed to hold dishes within an automatic dishwasher in such a fashion that they don't bounce into each other and break and, at the same time, are positioned such that the water spraying around within the dishwasher contacts the dishes in such a fashion as to clean them. We had one licensee under the patent. We asserted the patent against Company A, which was unlicensed, and offered a license identical to that granted to our earlier licensee. Company A rejected the license alleging that our patent was invalid and noninfringed by Company A's product. Our licensee had earlier argued noninfringement based on the same argument that Company A was presenting. When negotiations came to a standstill, GE filed a complaint in Federal District Court initiating a patent infringement suit against Company A.

Company A and GE were in competition in those days across a wide range of products and businesses and were frequently

encountering patent disputes. The general counsel for each of the two companies had, in 1964, discussed the possibility of resolving some of these disputes by arbitration rather than the more costly avenue of patent litigation. This controversy came along at an opportune time when both parties were predisposed toward arbitrating the controversy.

A private agreement was negotiated which set out in detail the procedure to be followed in selecting the arbitrator, filing a joint stipulation dismissing the earlier filed civil action, identifying the issue to be submitted to the arbitrator, and stating the obligation of each party with respect to the patent in controversy in light of the arbitrator's award.

In 1965, the Court of Appeals for the Federal Circuit did not exist so the arbitration agreement provided that, with respect to any issue regarding standard of invention or inventive level, the arbitrator shall be instructed to apply his judgment of what constitutes generally recognized criteria, without reference to any special criterion of any one case or court, and shall apply his individual judgment to the extent that subjective judgment is required. Moreover, the arbitrator was instructed that, to the extent he believed there was unresolved conflict among circuits, the law declared by the Ninth Circuit Court of Appeals shall be resorted to.

The issue submitted to the arbitrator was whether any of Company A's dishwashers, which were specifically identified by model numbers, infringed any valid claim of the subject patent. The agreement further provided that, if the arbitrator found favorably for GE concerning the submitted issue, Company A agreed to execute the patent license contained in an

appendix to the arbitration agreement. In other words, the license agreement had already been drafted and, if the arbitrator found in favor of GE, the parties would sign the appended license agreement without further negotiation. On the other hand, if the arbitrator found favorably for Company A with respect to infringement only, GE agreed to withdraw all charges of infringement, and to abstain from future charges of infringement, of the subject patent as it applied to all of Company A's dishwasher rack structures considered by the arbitrator during the arbitration proceeding. Moreover, if the arbitrator found favorably for Company A in respect to validity of the subject patent, GE further agreed to abstain from any future charges of infringement by Company A of the subject patent.

The parties selected a single arbitrator who was a patent attorney in Philadelphia, Pennsylvania, with no significant prior association with either GE or Company A and who was well recognized in the profession. He had been a former chairman of the Patent, Trademark and Copyright Law Section of the American Bar Association.

The subject patent was a good one for arbitration in that we could bring to the arbitrator the accused dishwasher and show the arbitrator how the dishwasher worked by demonstration. This would have been difficult if the subject of the controversy were a jet engine or a railroad locomotive.

After full opportunity by both sides to present their positions, by direct testimony before the arbitrator, written briefs and oral argument, the arbitrator rendered his decision. For GE, the good news was that the arbitrator found the patent valid. The bad news was that he found the patent

not infringed. This illustrates a potential problem with arbitration: a tendency for the arbitrator to compromise and give each party something.

Following the award, we advised our earlier licensee of the arbitrator's award and permitted it to terminate its license. We did this because the reasoning expressed by the arbitrator in reaching his decision of noninfringement would also apply to the structure produced by the licensee, and we believed it would be unfair to our licensee to require him to continue the payment of royalty under the license when Company A was not obligated to. We did not report the arbitration award to the U.S. Patent Office since there was, then, no requirement to do so. Our experience, with respect to time and cost to resolve the dispute was very favorable compared to our experiences with patent litigation.

Now, let's take a look at statistics regarding utilization of arbitration to resolve patent disputes under 35 USC 294 since its enactment in 1983.

As I mentioned at the beginning of my presentation, it is evident that utilization of arbitration to resolve patent controversies under the 1983 law has not been widespread. I have conducted an informal survey to determine to what extent patent arbitration has been used and have learned that it is very difficult to determine precisely the number of patent arbitrations which have taken place.

Shortly after the 1983 statute came into effect, the American Arbitration Association drafted and published patent arbitration rules which would apply to patent arbitrations conducted under the auspices of the American Arbitration

Association. The American Arbitration Association conducted a campaign at that time to encourage utilization of the American Arbitration Association for patent arbitration. I spoke with a representative of the Case Administration Department of the American Arbitration Association to determine the number of arbitrations handled by the AAA since June 1, 1983. The spokesman indicated that the AAA had statistics only going back to 1987. She advised me that, under the patent rules, the AAA handled two patent arbitrations filed in 1987, four in 1988, four in 1989, and through May of 1990, none. Thus, during the 3-1/2 year period a total of ten patent arbitrations were filed with the AAA under the patent rules.

I should point out that, during the same period, there were filed with the AAA, under their commercial rules, which could include patent licensing matters and trademarks, 27 arbitrations in 1987, 57 in 1988, 63 in 1989, and 33 through May of 1990. I asked the spokesman whether she could identify for me the patents involved, the parties involved, or counsel representing any of the parties involved in those ten arbitrations under the patent rules. Her response was that all arbitrations handled by the AAA are kept in strict confidence and she could give me no information beyond those raw numbers.

Paragraph (d) of 35 USC 294 states:

> When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner (of Patents and Trademarks). There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award.

In view of this requirement, I requested my Washington office to inquire of the USPTO as to the availability of these notices given to the Commissioner. We learned that, when these notices are received at the USPTO, they are directed to the Solicitor's office. When the notices reach the Solicitor's office, no record is made of the receipt in that office; but, instead, the notices are sent for filing in the appropriate file wrapper. In other words, in order to determine what happened in a particular arbitration, one must first know the patent number involved.

The spokesman in the Solicitor's office, in an aside, mentioned that all notices of arbitration awards, along with all notices of litigation required to be filed with the USPTO, are reported to LITALERT, an on-line data base which contains information regarding patent litigation. I called the LITALERT expert at Research Publications, Inc., in Arlington, Virginia, the organization that merchandises that data base, and she denied that arbitration notices were reported to LITALERT. Despite that, I had a search conducted in LITALERT looking for any cases containing the key word "arbitration" with the idea that we may uncover some patent arbitrations which were later turned over to a court for enforcement. As it turned out, we came up with four notices under 35 USC 294(d). So, as it turns out, notices of patent arbitrations sent to the Commissioner do, in fact, end up in LITALERT, or at least some of them do.

The notices turned up in our search through LITALERT involved five U.S. patents: 3,516,527; 3,543,904; 4,024,163; 4,236,393; and 4,284,719. Of the three file wrappers we were able to obtain from the USPTO, each of the arbitrations involved a controversy between a European party and an American party. One arbitration had a former U.S. Court of Claims judge

as the arbitrator and did not appear to have been conducted under the auspices of the AAA or the International Chamber of Commerce. Of the other two, one was under the auspices of the International Chamber of Commerce and the other under the AAA. The one under the AAA, however, was under the commercial rules and was really a pure contractual issue. The arbitrator's award did not even identify the patent involved. The complexity and size of the arbitrator's opinion/award varied from two pages in one case, to 34 pages in another case, to 73 pages in the third case. As I mentioned earlier, one arbitration was purely a contractual issue, but was interesting in that the European party did not appear or respond during the arbitration, and the arbitrator awarded the U.S. company $750,000 in his brief, but effective, two-page award statement. The other two arbitrations did involve clear-cut patent validity and infringement issues. In one, the patent was held valid and infringed and a subsequent and separate accounting phase was held. In the other arbitration, the patent was held valid but not infringed.

The only real pattern, if one can call it that, demonstrated by these three arbitrations is that one party was European and the other was U.S. Otherwise, the character, complexity, and outcome of the arbitrations seem to span a broad spectrum.

We were unable to obtain the files for the other two patents which have been arbitrated. The files have been lost or misplaced by the USPTO.

It is clear that arbitration of patent disputes has not caught on to the extent expected when the patent arbitration statute was enacted. Early on, it was thought that it was

simply a matter of time before patent arbitrations became common. In other words, patent arbitration provisions would be put in agreements following the enactment of the new statute and then it would be necessary to wait until disputes arose. But time is passing. It has now been well over seven years since the statute was enacted and every indication is that patent arbitration is being utilized in a very limited manner. What are the reasons for this?

There may be a reluctance on the part of patent attorneys to recommend an untried approach; it subjects one to criticism if it does not turn out favorably. Arbitrators tend to compromise. As happened in the arbitration I was involved in, an easy compromise for the arbitrator is to find the patent valid but not infringed, giving something to both parties. (This may suggest that arbitration favors a party in the position of defendant rather than in the position of plaintiff.) Another reason why arbitration may not be used extensively is that many contract provisions calling for arbitration are permissive, i.e., both sides must be agreeable to arbitration at the time the controversy arises. Those willing to put an arbitration clause in a license, or willing to agree to arbitrate, are more likely to work out their differences before resorting to arbitration. It is difficult to argue against the proposition that it makes a lot of sense for the parties to settle a dispute rather than turning it over to a stranger to settle.

For whatever reason, it is clear that the 1983 patent arbitration statute has not resulted in a large move to patent arbitration in the United States.

Let's turn now to the PIPA Conciliation System. As I mentioned earlier, while looking through my files at General Electric Company to locate resource data regarding patent arbitration, I came across a pamphlet entitled Pacific Industrial Property Association Conciliation System 1975. I read the pamphlet with great interest and, while doing so, was surprised that I had never heard of the PIPA Conciliation System. I wonder how many other U.S. and Japanese patent professionals whose companies are members of PIPA are also unaware of the existence of the PIPA Conciliation System.

A copy of the 1975 pamphlet is attached to the distributed copy of my presentation as Appendix B.

For those of you who are unaware of the PIPA Conciliation System, let me read to you the remarks made by Polly Newman at the 1976 PIPA Congress at Hakone. At that time, Dr. Newman was Chairman of the American Group of Committee #4. Her remarks:

> Five years ago it occurred to some of the far-thinking members of this organization that PIPA could fill a very special role, and provide a useful service to our members. This is reflected in the procedure that has been proposed, that PIPA provide for a conciliation service, available to Japanese and Americans, to mediate disputes involving industrial property.
>
> The Japanese and American groups have worked out the details together. Various unforeseen problems have arisen and have been resolved, such as questions relating to the need for representation by counsel. In the United States it is not required, for conciliation or even for arbitration - even though arbitration is binding - that parties be represented by counsel; although of course they often are. And we can foresee circumstances, in using the PIPA conciliation procedure, where the parties would want to be represented by counsel.

The chief advantage of conciliation is its relative informality: an open, unstructured, exchange of views. Conciliation is not extensively used in the United States in the industrial property area, although it it well established in other areas such as labor disputes. It seemed to us, in PIPA, that it could have particular value in international patent and licensing disputes.

In working out this proposal, the PIPA committees followed some simple basic principles:

1. We sought a procedure that is not binding, and thus would encourage participation because there would be no penalty if the conciliation did not succeed.

2. We sought a procedure that would be simple to start, yet with enough Rules and guidance that the parties would know how to proceed.

3. The parties can always invoke their legal remedies. The law decides who is right and wrong, while conciliation seeks practical solutions.

4. The role of PIPA would be to help the conciliation get started, and then to withdraw.

Thus, proposed Rules and Regulations were published, developed after a study of existing conciliation procedures, but specific to industrial property.

We don't know how much use - if any - will be made of this conciliation procedure. It is purely voluntary. However, in the survey three years ago of the members of the Japanese and American groups, there was very strong interest in establishing such a procedure.

Conciliation is really a commercial device to enable an exchange of viewpoints. The parties can, if they wish, accept the compromises that usually result from conciliation. The parties can, if they wish, be represented by legal counsel during the conciliation or they can consult separately with legal counsel, to be sure they understand their legal alternatives.

The success of conciliation depends principally on

the good will of the parties to a dispute. If they are sincerely interested in resolving their differences, this procedure should help. But if they wish to rely solely on their legal rights and remedies, conciliation should probably not be used at all.

PIPA believes that a formalized conciliation procedure, outside of the usual legal remedies for settling disputes, is particularly useful between parties of different countries. In the relationships between Japanese and American companies, it may happen that our different ways of doing business, our different legal systems, and our different language structure, could lead to misunderstandings that could best be settled by voluntary mediation if there were an easy way to do this; and thus avoid ill will, or litigation, that might be really unnecessary.

The cost of litigation in foreign countries is enormous to both sides. Many international contracts now invoke international arbitration. The PIPA proposal would enable international conciliation, as another choice available to parties involved with patents, trademarks, and know-how rights. We believe that this choice can be useful, and we have at this Congress worked out the few remaining details.

That ends Dr. Newman's remarks made at the 1976 PIPA Congress.

Briefly, the Conciliation Rules include the following major points: Article 1 requires that one party to the dispute be a resident or national of Japan or the United States. Article 2 imposes on PIPA the obligation of maintaining a Panel of at least ten conciliators who are experts in various aspects of industrial property. The parties need not select a member of this panel if they agree on some other conciliator.

Article 3 sets out the method of invoking this procedure by writing to the Secretary of either the Japanese or American Group. Articles 4 and 5 outline simple procedural steps for

conduct of the conciliation. Article 6 affirms the privacy of the proceedings, including the identity of the participants. Article 7 suggests a 30-day limit to the conciliation process, unless the parties themselves want to extend it. It further affirms that nothing said in the course of an unsuccessful conciliation, such as, for example, an offer of compromise, shall be used against a party.

Article 8 provides for a fee ($100 as set out in the Regulations) to be paid to PIPA. Articles 9, 10, and 11 address housekeeping matters such as issuance of Regulations, amendment of Rules, and administration of the Rules and Regulations.

It's conceivable, I suppose, that I'm the only member of PIPA who had not heard of the PIPA Conciliation System before. But I am more inclined to believe that the Conciliation System, since its inception fifteen years ago, has faded slowly into complete oblivion.

As I read through the pamphlet, many questions came to mind. Is the Conciliation System still available? Is there in existence a panel of conciliators as called for in paragraph (a) of Article 2? If there is no existing panel, is there sufficient interest among PIPA members to reinstitute the panel? How would one go about initiating conciliation today? Should the System be updated? (It would seem appropriate, after fifteen years, to at least increase the $100 fee called for in Article 4 of the Regulations.) Should access to the Conciliation System be limited to PIPA members? And, finally, and perhaps most significantly, has anyone ever used the PIPA Conciliation System?

May I ask for a show of hands of those in attendance here today who have used the PIPA Conciliation System or know of someone who has?

Also, if you don't mind, may I have a show of hands of those in the audience who, like myself, were completely unaware of the PIPA Conciliation System until it appeared on the agenda for this Congress?

If, after reading through Appendix B of the distributed copy of my presentation, you have an interest in the Conciliation System, I suggest you contact your PIPA Board of Governors and request that the System be updated and re-implemented.

I think it's interesting to note that there is an apparent reluctance to use available alternative means to resolve disputes such as patent arbitration or the PIPA Conciliation System. I believe that many of the reasons I stated earlier regarding reluctance to use patent arbitration also apply to conciliation. Additionally, I suppose one would feel that conciliation can be achieved between the two parties without bringing in a third party from the PIPA panel.

In conclusion, it would appear that patent arbitration in the United States and resolution of disputes through the PIPA Conciliation System are two ideas whose times have not yet come. Thank you.

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35 USC 294

VOLUNTARY ARBITRATION

(a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Commissioner. The Commissioner shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Commissioner, any party to the proceeding may provide such notice to the Commissioner.

(e) The award shall be unenforceable until the notice required by subsection (d) is received by the Commissioner.

APPENDIX B

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

CONCILIATION SYSTEM

太平洋工業所有権協会の調停機構

1975

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

太平洋工業所有権協会

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION
CONCILIATION SYSTEM

太平洋工業所有権協会の調停機構

INTRODUCTION TO PIPA CONCILIATION

The Pacific Industrial Property Association was formed in 1970, by 86 leading Japanese and United States corporations. Its membership, as of May 1975, numbers 147 companies. The purposes of this Association, as stated in its Constitution, include

(i) fostering rights and interests in industrial property, such as inventions, patents, licenses, trademarks, confidential technology, and know-how;

(ii) promoting commercial progress through innovative technology and distinctive marks of origin, and related industrial property rights; and

(iii) supporting institutions favoring the recognition of rights and interests in industrial property;

all particularly as concerns the industry and commerce of the United States of America and Japan, as well as other industrialized nations bordering the Pacific Ocean, such as Canada, and more particularly as concerns the commercial and industrial relations of enterprises in these countries with each other and with the rest of the world.

As one aspect of the implementation of these purposes, this Association has adopted a procedure for the conciliation of disputes that might arise in the industrial property field. The basic principles followed in preparing the Rules and Regulations for this procedure are these:

a procedure that is simple to invoke, yet which carries enough formality that the parties and the conciliator will know how to proceed;

a procedure that is non-binding, and thus encourages participation, since it does not penalize either party if the dispute remains unsettled;

a procedure that protects the proprietary and confidential information of the participants; and

a procedure that is open to non-members as well as members of PIPA, to give it the broadest possible value.

The Rules include the following major points:

Article 1 requires that one party to the dispute be a resident or national of Japan or the United States.

Article 2 imposes on PIPA the obligation of maintaining a Panel of at least ten possible conciliators, experts in various aspects of industrial property. The parties need not select a member of this panel, if they agree on some other conciliator.

Article 3 sets out the method for invoking this procedure, by writing to the Secretary of either the Japanese or American Group. Article 6 affirms the privacy of the proceedings, including the identity of the participants.

Article 7 suggests a 30-day limit to the conciliation process, unless the parties themselves want to extend it. It further affirms that nothing said in the course of an unsuccessful conciliation, for example offers at compromise, shall be used against a party.

The Appendix is a suggested clause for incorporation into contracts on industrial property.

The Regulations provide some elaboration to the Rules, and contain additional guidance on the mechanics of conciliation.

Comments and suggestions are welcomed from those who may participate in this procedure.

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

RULES FOR CONCILIATION

Article 1.

The objective of conciliation and the procedures therefor are to facilitate the settlement of disputes relating to intellectual property matters, outside the courts. Conciliation shall be made available under the auspices of the Pacific Industrial Property Association (hereinafter PIPA) whenever at least one party to the dispute is a resident or national of one of the countries of PIPA.

Article 2.

(a) PIPA shall maintain a Panel of at least ten persons who shall have been approved by the Board of Governors, and who have stated their willingness to act as conciliators, subject to availability at any given time.

(b) The Panel of conciliators shall include experts in industrial property from both member states of PIPA and from non-member states. However, 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.

(c) Administration of these Rules and accompanying Regulations shall be carried out by the Secretaries of the American and Japanese Groups, or by other persons designated by them and approved by the President of the pertinent Group, which persons shall hereafter be included in the term "Secretary" for the purposes of these Rules and Regulations.

(d) The Secretaries of the American and Japanese Groups shall each maintain a current file of approved conciliators, their qualifications, fields of expertise, fees, and any other available pertinent information.

Article 3.

(a) The application for initiation of the conciliation procedure shall be made in writing by either party or by both parties to the Secretary of either the American or the Japanese Group, as appropriate, stating the general subject of the dispute. Such Secretary shall determine, subject to advice and consent by the Board of Governors, whether the subject and character of the dispute falls within these Rules and Regulations and is subject to conciliation hereunder, and shall promptly so notify the applicant(s). The applicant(s) shall make a written declaration that he (they) will submit to conciliation in accordance with these Rules, and that he(they) will not commence any legal action until this conciliation is deemed to have failed.

(b) If only one party applies for the conciliation procedure, the appropriate

Secretary shall promptly notify the other party, requesting that it state, within thirty (30) days, whether it agrees to submit to conciliation in accordance with these Rules.

(c) If such other party rejects the PIPA conciliation procedure or fails to reply to the Secretary's notification and request, the Secretary shall notify the applicant that the conciliation procedure cannot be implemented.

Article 4.

If both parties have agreed to conciliation, the appropriate Secretary shall advise the parties of the Panel of possible conciliators, and shall use his best efforts to assist the parties in selecting an acceptable conciliator who is able to act. 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. Unless the parties agree otherwise, there shall be one conciliator selected.

Article 5.

(a) Following selection of the conciliator, the appropriate Secretary shall, in consultation with the parties and the conciliator, set a date and location for commencement of conciliation, and for continuing meetings during the conciliation procedure. Representatives of the parties may include counsel and shall include persons who are authorized to act on behalf of the parties.

(b) The representatives of the parties shall meet together with the conciliator, and shall provide and exchange appropriate documentation to facilitate settlement of the dispute, with full and open discussion of the issues, subject to any confidentiality restrictions agreed upon by the parties. Such conciliation shall proceed diligently, including subsequent meetings which may be held by mutual agreement, and the parties shall act in good faith to reach a prompt and acceptable conclusion.

Article 6.

(a) The conciliation procedure shall be private, and all documentation, the proceedings, and results shall be maintained in confidence by the participants, the conciliator, and the Secretary and other PIPA officials and their designates. The conciliator shall, promptly following conclusion of conciliation, destroy or return all documentation and materials related to the conciliation. No report other than statistical shall be made by the conciliator or by the Secretary, and the parties will not be identified without their consent.

(b) No proposed settlement shall be binding unless agreed to by the parties and contained in a signed written agreement. The conciliator shall be prepared to assist the parties in reaching a written agreement, which in such event shall be deemed part of the conciliation process.

(c) The conciliator shall notify the appropriate Secretary of termination of conciliation, and shall advise whether the parties reached agreement.

(d) 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.

(a) 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.

(b) Upon failure of the attempt at conciliation, the parties shall be free to act in accordance with other available procedures.

(c) 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.

Article 8.

(a) A fee shall be paid to PIPA for the costs and administration of such conciliation procedures, as set forth in the Regulations. Such fee shall be due and payable when the application for initiation of the conciliation procedure is made in writing by either or both parties to the pertinent Secretary. This fee is not returnable, unless the Secretary determines that the dispute is not subject to conciliation hereunder, as set forth in Article 3(a), in which event the fee shall be refunded at the time the Secretary so notifies the applicant(s). The parties shall each bear their own additional expenses.

(b) The conciliator is not an agent of PIPA. Any fees or expenses of the conciliator shall be shared equally by the parties, and paid directly to the conciliator.

Article 9.

Regulations shall be issued from time to time for the purpose of implementing and supplementing these Rules.

Article 10.

These Rules may be amended by majority vote taken, subject to prior notice, of those present and voting at any annual meeting of PIPA. The Regulations may be amended at any time by a majority vote of the Board of Governors.

Article 11.

(a) The Board of Governors, through the Secretaries of each national group or such

other person or persons designated for this purpose, is responsible for administration of these Rules and Regulations.

(b) The Secretaries or such other person or persons designated for this purpose shall report annually on the use and their estimate of the value of this conciliation procedure (without identifying participants), and shall recommend changes in the Rules and/or Regulations as necessary.

* * * * * *

Appendix to Rules.

The following clause may be incorporated in contracts pertaining to industrial property matters between Japanese and American companies:

"Any dispute arising out of this contract which the parties are unable to settle between themselves shall be submitted to conciliation in accordance with the Rules for Conciliation of the Pacific Industrial Property Association, before any other remedy is pursued."

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

REGULATIONS

The following Regulations are for the purpose of implementing and supplementing the Rules for Conciliation of disputes on intellectual property matters, and are to be applied in conjunction therewith.

1. Subject matter for PIPA conciliation

   Disputes involving:

   a. Patents
   b. Trademarks
   c. Copyright
   d. Know-how
   e. Technical information
   f. Trade secrets

   Examples:

   a. License agreements
   b. Secrecy agreements
   c. Other contracts on the above subject matter
   d. Validity, interpretation, and/or scope of patents
   e. Infringement matters

   Not included:

   Conciliations in conflict with national legal considerations affecting either party.

2. Panel of conciliators

   a. An eventual panel of fifteen to twenty persons is contemplated, depending on need, but PIPA participation shall not become effective until a minimum of ten (10) conciliators have been selected and have agreed to become members of the Panel.

   b. The Board of Governors shall be responsible for the selection of the Panel. Committee 4 shall provide the Board of Governors with a list of proposed Panel members as they are initially and from time to time required.

   c. The Panel shall include experts, to the extent possible, in the various aspects and technical fields of intellectual property.

   d. The Panel preferably shall comprise about one-third Japanese experts, one-third American experts, and one-third from other countries, but this proportion shall not be binding upon the Board of Governors except to the extent that the number of Japanese and American experts shall be substantially equal.

e. Upon the written request of any PIPA member or any other person having an interest in the PIPA conciliation procedure, all pertinent information including a copy of the Rules and Regulations shall be provided to such person by the Secretary of either Group.

3. Conciliation procedures

a. Conciliation proceedings may be commenced by either party to a dispute upon notice to the other party in accordance with the Rules.

b. In setting dates and locations for commencement and continuation of conciliation, the parties shall have due consideration for the convenience of each other and of the conciliator.

c. To the extent possible, an adequate block of time shall be set aside to permit conclusion of conciliation in consecutive daily sessions.

d. The consiliator is expected to conduct an orderly exchange, while maintaining the necessary informality of this type of procedure. The submission of oral and written arguments and objections shall be at the discretion of the conciliator.

4. Fees

The fee paid to PIPA in accordance with Article 8(a) of the Rules shall be $100.00 per party, or such other fee as may be set by amendement of these Regulations.

5. Language

a. The conciliation procedure may be carried out in any language or languages selected by each party, with due consideration to the convenience of each other and the conciliator.

b. When either party requires for itself translation or interpretation, such shall be at its own initiative and expense.

c. When the conciliator requires or requests translation or interpretation in order to carry out his duties, any additional expense of such translation or interpretation shall be shared equally by the parties to the conciliation.

OFFICE FOR APPLICATION

The application for initiation of the conciliation procedure shall be made for the attention of

The Secretary of American Gronp of PIPA
Pacific Industrlal Property Association
P.O. Box 3477
Grand Central Station
New York, New York 10017, U.S.A.

or

The Secretary of Japanese Group of PIPA
c/o Japan Patent Association
Kanda Sanwa Building 4 F
5, 2-chome, Kanda Ogawamachi
Chiyoda-ku, Tokyo, 101, Japan.
Tel : 03-295-8475

はしがき

太平洋工業所有権協会は、日米両国の主要企業86社により、去る1970年3月に設立された工業所有権関係の国際団体で、次のような事項を主な目的として会則に掲げております。

1）工業所有権（特許、実用新案、意匠、商標、ノウ・ハウ、ライセンスなどに関する権利）の保護を助長すること。

2）革新的技術、顕著な出所表示、およびこれらに関する工業所有権を通じて産業の発展に寄与すること。

3）工業所有権の保護に関する諸制度を支援すること。

名称にも示されておりますとおり、この協会は、日本、米国など太平洋周辺地域の工業的先進国における工業所有権問題、とくに同地域内における諸企業間およびそれら諸企業と同地域外企業との間の工業所有権問題を取り扱っております。この協会の活動は、総会、日米両国部会総会、常設委員会などの活動を通じて各界に広く認識され支援されるに至り、1975年5月末現在の会員企業数は147社に達しております。

これまでの活動を基盤とし、上記目的のより一層の達成を期して、本協会はこのたび工業所有権関係紛争の解決のための調停サービスを行なうこととし、その手続規則および細則をとりまとめ、それらをこの小冊子に収録いたしました。これら規則および施行細則の基本的考え方は次のとおりです。

1）簡単に執れる手続であって、両当事者および調停人の手続進行の手順を明確に規定していること。

2）拘束力がなく、また不調に終った場合の制裁もなく、したがって両当事者が積極的に参加できる手続であること。

3）両当事者の権利を保護し、秘密を保持できる手続であること。

4）会員企業だけでなく非会員にも利用できる手続であること。

これら基本原則に基づく本調停規則の主な規定は次のとおりです。

1）当事者の少なくとも一方が日米両国のいずれかに国籍または住所を有するものとする（第1条）。

2）本協会は工業所有権問題の種々の側面についての専門家少なくとも10名からなる調停人パネルを保持し、両当事者はそれら専門家の中から調停人を選任するものとする。ただし、両当事者間に合意がある場合は他の調停人を選任しても差支えない（第2条）。

3）日米両部会のいずれかの書記（とくに指定がなければ日本部会財務理事）に書面で通知するだけで本調停手続は申請できる（第3条）。

4）両当事者の名称など各調停手続に関する情報はすべて秘密に保持する（第6条）。

5）両当事者が延長を希望しない限り調停手続はその開始後30日間で終結するものとし、不調に終った場合は、調停手続の過程で提出された妥協案などをその後の別の手続において提出当事者に不利な材料に使わないものとする（第7条）。

6）各当事者は事務局費として所定の金額を支払うものとする。なお、調停人費用などその他の費用は両当事者が夫々負担する（第8条および細則）。

7）対外取引を行なう場合の契約書に、紛争発生の場合はまず本調停手続を利用して解決を図る旨の調停条項を挿入するよう各方面に勧告する（付則）。

この調停機構が各界の方々に広く利用され、紛争解決のためのお役に立てば幸いです。

1975年8月

太平洋工業所有権協会

太平洋工業所有権協会

調停規則

第 1 条

本調停およびその手続は、知的財産に関する紛争を裁判所外で解決するための便宜を図ることを目的とする。

紛争の少なくとも一方の当事者が太平洋工業所有権協会（以下PIPAという）会員国のうちの一国に居住しているか、もしくは国籍をおく場合は、PIPAの援助により本調停を利用し得るものとする。

第 2 条

(a) PIPAは、理事会において承認され可能な限り常時調停人として勤めることを意思表示した少なくとも10人の調停人パネルを保持するものとする。

(b) 調停人パネルは、PIPAの両会員国および非会員国出身の知的財産の専門家を含むものとする。特定の紛争において、両当事者の要請があった場合は、そのための調停人はこの名簿から選ばれる必要はなく、理事会が承認した知的財産に関する専門家でよい。

(c) 本規則および本規則に附属する施行細則の運用は米国部会および日本部会の書記または当該書記が指定し当該部会の部会長が承認した者が行うものとする。かゝる指定人は以下本規則と施行細則において〝書記〟と総称する。

(d) 米国部会および日本部会の書記は、承認された調停人名、資格、専門分野、調停料、その他入手可能な最新の関連情報のファイルをそれぞれ保持するものとする。

第 3 条

(a) 調停手続開始の申請は、いずれか一方の当事者または両当事者が、日米両部会のいずれかの書記に対し、紛争の総括的内容を記した書類を提出することによって行うものとする。当該書記は、理事会の勧告と同意とを得ることを条件として紛争の内容および性格が本規則および施行細則に該当するか否かおよび本規則にもとづく調停の対象となるか否かを決定し、速やかに申請者にその旨通知するものとする。申請者は本規則に従った調停に服すること、および当該調停が不調に終ったとみなされる時点までは、一切の訴訟手続を開始しないことを書面で宣言するものとする。

(b) 一方の当事者のみが調停手続を申請した場合は、担当書記は直ちに相手方の当事者に通知し、本規則に従った調停に服することに同意するか否かを30日以内に回答するよう要請するものとする。

(c) 相手方当事者がPIPA調停手続を拒否するか、または書記の通知および要請に回答しなかった場合は、書記は当該申請者に対し調停手続は実施できない旨を通知する。

第 4 条

両当事者が調停に同意した場合は、担当書記は調停人パネルを両当事者に通知し、調停を行う能力があり両当事者に受容れられる調停人を選任できるよう援助することに最善の努力を払う。両当事者が調停に同意してから45日以内または相互に同意した延長期間内に調停人が選任されなかった場合は、本規則に基くすべての手続は終了する。両当事者が別段の同意をした場合を除き、調停人は一人だけ選任されるものとする。

第 5 条

(a) 調停人の選任の後、担当書記は両当事者および調停人と協議のうえ調停の開始および調停手続期間中に引続き行われるその後の会議のために日時と場所を取り決める。両当事者の代理人には、代理人としての権限を付与された者を含むものとし、また弁護士を含むことができるものとする。

(b) 紛争解決の促進を図るため、両当事者が合意した秘密保持の条件にもとづき、両当事者の代理人は調停人と共に会議を開き、適切な書類を作成交換するものとし、すべての争点につき十分なかつ率直な討議を行うものとする。当該調停は相互の合意により開催されるその後の会談も含め、誠実に取り進められるものとする。両当事者は迅速かつ受諾可能な結論に達するために誠意をもって処するものとする。

第 6 条

(a) 調停手続は非公開とし、すべての書類、進捗状況および結果に関し、参加者、調停人、書記および他のPIPA役員ならびにその指定人は秘密を保持するものとする。
調停人は調停終了後速かに調停に関するすべての書類および資料を廃棄し、または返却するものとする。調停人および書記は統計以外の報告を作成しないものとし、当事者名はその同意を得た場合を除き公表してはならはい。

(b) いかなる解決案も、両当事者が同意し署名した契約書に記載されない限り、拘束力を有しないものとする。調停人は両当事者が契約書を作成し締結できるよう援助する用意があるものとし、その場合当該援助は調停手続の一部と見なす。

(c) 調停人は担当書記に対し、調停の終了の事実および両当事者が同意に達したか否かを通知する。

(d) 調停の秘密を保持するため、担当書記は調停終了後、参加者に関するすべての往復文書を保管文書から取り除き、速やかにこれを廃棄するものとする。

第 7 条

(a) 調停人との会談開始後30日以内に同意に達しなかった場合は、本規則に基く調停は不調に終ったと見なされ、調停人は書記に対しその旨通知する。この期限は全員の同意により延長することができる。

(b) 調停工作が不調に終った時点において両当事者は他の手続を自由に執ることができる。

(c) いずれの当事者も不調に終った調停手続における一切の供述、提案、妥協の申入れ、その他いかなる見解にも拘束されないものとし、またその後のいかなる手続にもこれらを持込んではならないものとする。

第 8 条

(a) 調停申請人は、本調停手続運用のため施行細則に規定された手数料をPIPAに支払うものとする。この手数料は調停の申請が一方あるいは両当事者により当該書記に対し書面によりなされた時に支払われるものとする。各当事者はそれぞれ上記以外の自己の費用を負担する。この手数料は返還されないものとする。ただし紛争が第3条(a)の規定により本規則に馴染まないと担当書記が決定した時は、当該手数料は、担当書記がその決定を申請人に通知した時点で返還されるものとする。

(b) 調停人はPIPAの代理人ではない。調停人の調停料および費用はすべて当事者が均等に分担し、調停人に直接支払うものとする。

第 9 条

本規則を運用し補足する目的で施行細則を随時発行するものとする。

第 10 条

本規則は、事前に通知した上、PIPAの年次総会において出席し投票した会員の多数決により改正することができる。施行細則は理事会の多数決により何時でも改正することができる。

第 11 条

(a) 理事会は各国部会の書記または本件のためにかゝる書記が指定した者を介して、本規則および施行細則の運用につき責任を負うものとする。

(b) 書記または本件のためのその指定人は本調停手続の利用状況およびその評価に関して毎年報告を行うものとし(この場合は紛争当事者名を明らかにしないものとする)、かつ本規則および施行細則における必要な改正を勧告するものとする。

付　則

日本法人および米国法人の間の知的財産に関する契約の中に次の規定を挿入することができる。

"本契約から発生した紛争であって当事者間で解決出来ない紛争は他の救済方法を求めるに先立ち、太平洋工業所有権協会の調停規則に従った調停に付すものとする。"

太平洋工業所有権協会

施行細則

この施行細則は、知的財産に関する紛争の調停のための規則を運用し補足する目的をもつて当該規則と併せて適用されるものとする。

1．PIPAの調停事項

(a) 特許、実用新案、意匠

(b) 商　　標

(c) 著 作 権

(d) ノウ・ハウ

(e) 技術情報

(f) 企業秘密

に係る紛争

例

(a) ライセンス契約

(b) 秘密保持契約

(c) 上記事項に関するその他の契約

(d) 特許の有効性、解釈および／または範囲

(e) 権利侵害問題

除外事項

いずれかの当事者に影響を及ぼす国内法上の配慮と矛盾する調停

2．調停人パネル

(a) 必要に応じ最終的には15乃至20名のパネルが考慮されている。ただし、PIPAの参加は、最低10人の調停人が選ばれかつ調停人パネル構成員になることに同意するまでは効力がないものとする。

(b) 理事会は、調停人パネルの選任に責任を有するものとする。第4委員会は理事会に対し、当初必要とされる調停人候補一覧およびその時々で必要とされているものを提示するものとする。

(c) 調停人パネルには、知的財産問題の種々の側面および専門分野におけるできるだけ高度の専門家を含めるものとする。

(d) 調停人パネルは、できれば約三分の一を日本の専門家、三分の一を米国の専門家で、残

り三分の一を他の国から選ぶものとする。ただし、当該比率は日本と米国の専門家の数が実質的に同じである限りは理事会を拘束するものではない。

(e) PIPAの会員またはPIPAの調停手続に関心を有する非会員から書面による要請があった場合は、書記は規則および施行細則の写を含むすべての情報をその要請者に提供するものとする。

3．調停手続

(a) 調停手続は、この規則に基づく相手方当事者への通知があればいづれの当事者からでも開始できる。

(b) 調停の開始および継続のための日時および場所を設定する場合、両当事者は相互間および調停人の便宜を十分考慮するものとする。

(c) 調停の終結を可能にするため、可能な範囲で連日にわたる会談に十分な時間を割当てるものとする。

(d) 調停人は、手続が形式に流れないようにするとともに整然としたやりとりを指揮するよう期待されている。口頭および書面による議論および異議の提出は調停人の自由裁量にゆだねられるものとする。

4．手数料

(a) 本規則の第8条(a)に従ってPIPAに対して支払う手数料は、この細則の改正によって定められる場合を除き、各当事者当り100米ドルとする。

5 言語

(a) 本調停手続は、相手側当事者および調停人の便宜を然るべく考慮して各当事者が選んだ単数または複数の言語を用いて実施することができる。

(b) 当事者の一方が自己のために翻訳または通訳を必要とする場合は、自己の意志により自己の費用負担で行うものとする。

(c) 調停人がその義務を果たすために翻訳あるいは通訳を必要とし、またはこれを要請する場合には、かゝる翻訳あるいは通訳に要する追加費用は両当事者が均等に負担するものとする。

調停申込先

調停手続開始は次の何れかへ申込んで頂き度い。

〒101

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New York, New York 10017, U.S.A.

19:4-4

(1) Title: Unexamined Patent Publication and Claim for Compensation

(2) Date: 10/1990 (21st, Niigata)

(3) Source

1) Source: PIPA
2) Group : Japan
3) Committee: 4

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(5) Keywords: warning, malicious person, amount equivalent to royalty, preferential examination, indemnity liability at non-negligence

(6) Statutory provisions:

JPL 65-3, JPL 48-6, JPL 52, JPL 52-2, JUML 13-3

(7) Abstract: For the purpose of allowing technical information to be used effectively in order to promote advance of industry as well as to prevent possible duplicate researches and duplicate applications for patents, the system for unexamined patent publication (laying-open of patent application for public inspection) has been introduced in Japan on one hand and the right to claim compensation is allowed for such applicants who may suffer from disadvantage caused by a third party commercially working the invention claimed in the patent application laid open for public inspection on the other.

Therefore, we have studied some of the past judicial precedents relating to the right to claim compensation in order to clarify the actualities of the exercise of such right and to consider the matters to be taken care of if such right is exercised.

In this report we will explain about the contents of the right to claim compensation as well as the use thereof from the point of view of protection of applicant after unexamined patent publication and suggest the matters to be noted when such right is exercised.

1. Introduction

In the Japanese Patent Law and Utility Model Law as

well as in the European Patent Convention, system for unexamined patent publication (Article 65-2 of Patent Law, etc.) is adopted, where the contents of patent application are laid open in principle for public inspection after the lapse of one year and six months from the date of filing of the application, in order to prevent possible duplicate researches and duplicate applications by third parties and to encourage invention by the use of technical information laid open for public inspection. These laws grant the right for provisional protection to the patent applicant after examined patent publication in return for unexamined patent publication and grant the patent right to the patentee after registration of the patent for the purpose of ensuring protection of invention as well as development of industry.

However, unexamined patent publication is apt to result in the possible working of the invention claimed in the patent application by a third party and the disadvantage of the said applicant. The right to claim compensation is allowed to the applicant in Japan in order to make up for loss of the profit which the applicant would receive unless the third party uses the claimed invention (Article 65-3 of Patent Law, Article 13-3 of Utility Model Law).

However, where there is high probability of rejection expected for the application, the third party might suffer a loss, if the right to claim compensation should be exercised. Therefore, indemnity at non-negligence liability is imposed on the applicant and a right to request suspension of litigation proceedings is allowed to the third party, in order to expect carefulness on the part of applicant in the exercise of such right. (Article 52 (4) and Article 52-2, etc. of Patent Law).

Where a period from unexamined patent publication to examined patent publication thereof may lengthen due to delay of examination, the applicant could possibly suffer such disadvantage that may be over the one, claimed for compensation, equivalent to royalty. For a purpose to prevent such disadvantage, a right to request preferential examination is allowed to the applicant (Article 48-6 of Patent Law).

In this report we will explain mainly about the actualities of exercise of a right to claim compensation observed in the judicial precedents and the manner of use of such right together with necessary care to be taken thereon as well from the point of view of protection of applicants subsequent to unexamined patent publication.

For convenience's sake following explanation will be made mainly on patent, such being applied to the cases where utility model is referred to.

2. Right to Claim Compensation

In Japan, system for early unexamined patent Publication and one for request for examination (Article 65-2 and 48-2 of Patent Law) have been adopted. The examination is to be carried out only for applications which the applicant desires to be established as a patent right according to the purpose of the application. However, as a result of applications which are too many as a whole, it tends that examination is apt to delay. And, during a period from unexamined patent publication to examined patent publication thereof, an applicant is not permitted to prohibit a third party from commercially working an invention or device (Hereinafter referred to as the "invention, etc.") claimed in the application, because those applications are yet to be unexamined and not a few of them are of the low rate of possibility to be patented. And after examined patent publication a right of provisional protection similar to patent right and utility model right (hereinafter referred to as the "patent right, etc.") is granted and a third party having no legitimate title (hereinafter referred to merely as the "third party") is prohibited from working commercially the claimed invention, etc.

If it is permitted that a third party commercially works the claimed invention after unexamined patent publication, etc., the applicant would incur economic loss. The right to claim compensation has been introduced to make up for such disadvantage of the applicant, and the contents thereof are

provided in Article 65-3 of Patent Law including the following provision and Article 13-3 of Utility Model Law.

This right may be said not to be the exclusive right in turn for unexamined patent publication but to be "legal claim" based upon a right to get patent, etc.

Article 65-3 (1) of Patent Law

"After the unexamined patent publication and following a warning by the applicant in the form of a document describing the contents of the invention claimed in the application, the applicant may demand of a person who has commercially worked the invention after the warning but before the examined patent publication of the application, payment of compensation in a sum of money equivalent to what he would normally be entitled to receive for the working of the invention if it were a patented invention. Even in the absence of the warning, the same shall apply to a person who commercially worked the invention before the examined patent publication of the application, knowing that the invention was the one claimed in the patent application laid open for public inspection."

2.1 Factors for occurrence of a right to claim compensation

Following factors have to be satisfied for a right to claim compensation to occur.

(1) Patent application has been laid open for public inspection.

First of all, it is required that the patent application has been laid open for public inspection because this right is the one to be conferred to cover disadvantage suffered by the applicant as a result of unexamined patent publication. Such right is allowed in the case of international application too, and in such case, international publication is required as for application in Japanese and national publication of translated version is as for application in any foreign language. Unexamined patent publication and international publication are to be done after one year and six months from the filing date of the application, and when priority has been declared, from the

priority date. National publication is, as a rule, to be done after one year and eight months from such date.

(2) A warning has been given to a third party, or the third party has known that the patent application was laid open for public inspection.

It is also the requisite that the applicant has given a warning in the form of a document describing the contents of the invention claimed in the patent application to the third party who commercially worked the invention. Such is because cases of applications laid open are so many that it would be too severe for the third party to be obliged to peruse all of them and it is impossible to presume negligence same as the case of patent right, etc. The third party as meant here is a person who has no legitimate right to defend oneself to patent right to be given in future with regard to the application.

However, the said warning is not required if the third party has known that the invention is the one claimed in the patent application laid open for public inspection. In such case, the applicant has to produce evidence that the third party has been aware of, that is, he is a malicious person.

In passing, "an invention claimed in the patent application" means an invention described in the claim. "Document describing the contents" means papers describing serial number of the unexamined patent publication, the claim, etc. that explain the contents of the invention to such extent that the third party could understand. "Warning in the form of a document" means to communicate or to notify specifically to a third party, for instance, to send by contents-certified mail the said document setting forth that the claimant intends to exercise the right to demand compensation against the third party for such act of the latter as commercially working the invention after the warning. Mere printing of warning in newspapers in which the party to be warned is not specified does not come under such category.

(3) A third party has commercially worked the invention.

It is also required that a third party has commercially worked the invention prior to the examined patent publication following the date of his knowledge of the said warning or

unexamined patent publication. "Commercially work of the invention" means, for example, acts of manufacturing, using, selling, etc. of the product of an invention in business (Article 2 (3) of Patent Law). Personal or domestic working is excluded.

2.2 Exercise of the right to claim compensation

If the above-mentioned requirements for occurrence of the right are met, exercise of the right to demand compensation is allowed as follows:

(1) Subject of exercise

A person who is entitled to exercise the right is limited to the applicant or successor thereof for a period from warning, etc. to the examined patent publication, because this is a system purported to make up for disadvantage caused to the applicant by unexamined patent publication.

(2) Object of exercise

Object of exercise of the right is working on the commercial basis by a third party of the invention claimed in the patent application, as a rule, at the time of unexamined patent publication, during a period from warning, etc. to the examined patent publication .

If the claim changes due to amendment, etc., object of exercise changes too. Details thereof will be described hereafter.

(3) Amount of compensation

Sum of money equivalent to what the applicant would be normally entitled to receive from working an invention if such invention, etc. were patented, that is, compensation money in amount equivalent to royalty may be demanded to be paid (Article 65-3 (1) of Patent Law).

Reason why compensation money is stipulated to be in amount equivalent to royalty is to prevent from unreasonable reduction of said money by reason of possibility of rejection, etc. instead of patented invention, etc.

(4) Time for exercise

The right to claim compensation shall not be exercised until after the examined patent publication (Article 65-3 (2) of Patent Law). Such restriction is due to a fact that patent applications in such stage as prior to the examined patent publication thereof are inclusive of many of those highly probable to be rejected in examination and if the right to demand compensation is allowed for such applications, adjustment of interests among those concerned in the case of rejection for such application is expected to be troublesome with a result of an increase in the burden of court and disorder in the industry.

A period during which the right may be exercised is limited, as a rule, to three years following the examined patent publication (Article 65-3 (2) of Patent Law). This is because it is not desirable to allow the said period to continue indefinitely as disputes could possibly occur during such period.

Exercise of the right to demand compensation is only allowed to make up for disadvantage of the applicant due to the unexamined patent publication, and the right to request injunction as well as the one to demand damages are not allowed. Such is because, if an exclusive right like the right to request injunction, etc. is allowed in such stage that many applications are highly probable to be rejected, disadvantage to be received by a third party will become very large, upsetting balance with advantage to be enjoyed by the applicant.

2.3 Lapse of the right to claim compensation

If such right to demand compensation arises, ① where the patent application has been abandoned, withdrawn or invalidated after the examined patent publication, or ② where examiner's decision or trial decision that the application is to be rejected has become final and conclusive, or ③ where the patent right has been deemed never to have existed due to the failure of the patentee to pay deferred registration fee within the time

limit for late payment, or ④ where the trial decision that the patent is to be invalidated has become final and conclusive and the right has been deemed never to have existed, the right to demand compensation shall be deemed never to have arisen (Article 52 (3) of Patent Law). Then where the applicant does not exercise the right to claim compensation for three years after the examined patent publication, the said right shall elapse (Article 53 (4) of Patent Law).

3. Actualities of exercise of the right to claim compensation in judicial precedents

Unexpectedly, there are very few cases where exercise of the right to demand compensation with respect to patent and utility model brought in dispute in a suit to finally result in judgement, as far as judicial precedents are concerned. However, in actualities, there are considered to be such other cases as, though disputed in the suit, both parties reached to amicable settlement on the way, not being brought to final decision, or amicable settlement has been reached before action was instituted, or though warning was given by the applicant to a person who commercially worked the invention claimed in the application, the applicant made only request for injunction or demand for damages based on patent right, etc., not exercising the right to claim compensation.

In the judicial precedents, the right to claim compensation is exercised together with request for injunction and demand for damages based on patent right or utility model right or the right of so-called provisional protection which may be given after the publication of the application.

In the following explanation, points in dispute with regard to the exercise of the right to claim compensation in the past judicial precedents will be dealt with.

3.1 Amendment of the claim after unexamined patent publication

It shall be the requisite for the right to claim compensation to be exercised that warning in the form of a

document describing the contents of an invention, etc. claimed in the application is given by the applicant, after unexamined patent publication, to a third party commercially working an invention claimed in the application without permission. Then the said third party is the one who is thereby aware of the invention claimed in the application laid open for public inspection (malicious person).

In the event that the claim was amended after a third party became aware of the contents of a claimed invention, as a result of such amendment as either expanding or changing original claim, what the third party worked was outside the technical scope of the claimed invention according to the pre-amendment claim but became found inside the technical scope according to the post-amendment claim. In such case, it is required that the applicant gives warning again, and the third party becomes aware thereby of the contents of the claim after amendment. However, if the amendment is to reduce the claim and what the third party works is within the technical scope of the claimed invention both prior to and after the amendment, it is not required that the third party is aware of the contents of the claim after amendment through another warning, etc. (Earthbelt case, decision of Supreme Court in 1988).

As a reason for that, "in the light of the purpose of legislation of the provision demanding warning or to be malice as a prerequisite for preventing from a surprise of sudden demand for compensation to a third party, another warning or to be malice is only required in the case of former and another warning or to be malice is not required in the latter case." Such is iterated in the judicial precedent "Earthbelt case" of Supreme Court.

Such judgement may be said meaningful as the leading case of Supreme Court having confirmed the common view so far held rejecting necessity for another warning if the amendment results in reduction in the claim.

In the judgement of "Pillar cover case" too, it was recognized that, opposing such claim of the defendant that" as the claim of the invention changed under the amendment procedure after unexamined patent publication, a written notice shall be

delivered under the claim after the amendment or evidence for the defendant to be malicious with respect to the claim after the amendment has to be produced", it should be said, "it is not required in order to enable the plaintiff to obtain the right to demand compensation that the plaintiff gives another warning, etc. and the defendant becomes aware thereby of the contents of the claim after amendment, because the amendment procedure plainly resulted in reduction in the claim and therefore, matter in dispute is within the technical scope of the claim both before and after amendment."

3.2 The recognition of malicious person

"Malicious person" in the exercise of the right to claim compensation means a person commercially working the invention, etc. before examined patent publication, knowing that the said invention is the invention/device claimed in the application laid open for public inspection (Article 65-3, latter half of (1) of Patent Law, Article 13-3, latter half of (1) of Utility Model Law). It is, when "warning" mentioned in the former half of (1) of Article 65-3 is not given, that the "malicious person" becomes a matter.

In consideration of such fact that, "knowing that the device is claimed in the application laid open for public inspection", is stipulated in the latter half of Article 13-3(1) of Utility Model Law and "a person is malicious" constitutes the requisite for the right to claim compensation to occur in case of absence of "warning" mentioned in the former half of the said subparagraph, and "warning" is to be given in the form of a document describing the contents of the device after unexamined utility model publication, it is required for malicious person that a person working commercially the device was aware of the unexamined utility model publication and that he was aware of the contents of the device to such extent that he could recognize of the identity of the said device (Pillar cover case).

In the event that "warning" is absent or there is no evidence for the warning given, the plaintiff has to prove that requirements for being malicious are satisfied by the defendant.

In the "Pillar cover case", as of the date when the defendant considered countermeasures after receiving from his patent attorney, whom the defendant asked for research on the situation of applications for utility model right on pillar cover, an explanation based on the Official Gazette of the unexamined utility model publication, the said defendant was recognized to have become a malicious person as provided in the latter half of Article 13-3 (1) of Utility Model Law. Before that time, though, for instance, some facts were recognized, the plaintiff indicated orally instead of showing written material concerned with the application such fact that the product the plaintiff began to manufacture and sell was the same as the device of the application, and a report was made to the defendant from his patent attorney to such effect that, since unexamined utilty model publication concerned with the device was recently done, arrangements were made by the patent attorney for acquisition of information concerned. The defendant was not recognized as such "malicious person" by reason of such facts.

In addition, the defendant was once employed by a firm organized by the plaintiff and engaged in the sale of pillar cover. The defendant was aware then of a fact that the utility model application for pillar cover was filed, but was never shown a document concerning the application.

As mentioned above, even if the defendant was aware of a fact that the application was laid open for public inspection, the defendant is not recognizable as a malicious person unless a fact that the defendant was aware of the contents of the device claimed in the application to such extent that he could perceive the identity of his product with the said device is proved.

3.3 The evidence for working the invention by a third party

Upon the exercise of the right to claim compensation, the plaintiff has to prove the scale in which the third party was commercially working the invention after the warning or after

the third party became a malicious person by reason of his knowledge that the said invention was the one claimed in the application laid open for public inspection but before examined patent publication concerned. This is because burden of proof lies with the plaintiff who is to receive gain through the exercise of the right.

Upon the request of the plaintiff, the court may order the defendant to submit a document necessary for the said proof in consideration of difficulty to prove by the plaintiff (Article 105 of Patent Law).

In any case, before exercise of the right to claim compensation, adequate evidence to determined sales quantity and amount of the matter in dispute has to be submitted for calculation based thereon, because the amount of compensation will not be determinable unless the said sales quantity and amount are determined as the basis of calculation.

For instance, in the judgement of "pillar cover case", it was held that there was no adequate evidence to determine the quantity or amount of sales of the matter in dispute made by the defendant from the date at which the defendant became a malicious person. Subsequently, as the sales quantity and amount to make a basis of calculation for compensation money are not determinable, the plaintiff's demand for compensation by reason of the sales of the matter in dispute by the defendant has no reason to be based on."

It was also held in the judgement of the case of "cutting unit for block of ice" that "there is not enough evidence to prove the plaintiff's demand as such, the matter in dispute commercially produced by the defendant after he was given warning was 1,500 units in quantity and 9,243,000 yen in amount. Because there is no other positive proof available for this case, there is no other way but to admit that the sales quantity is 87 units as far as such is recognized from evidence provided by Exhibits No. 2 and No. 5, and the sales amount can be recognized to be 4,951,440 yen according to evidence available".

And it was also held that, as for the matter in dispute returned to the defendant, it would be unreasonable to interprete that such matter should be excluded for the

calculation of compensation money, since such was once actually sold.

3.4 The calculation of amount equivalent to royalty

Amount equivalent to royalty demanded for compensation was provided so as to prevent such money from being paid at unreasonable low rate because of the probability of rejection of the application. As for the method for calculation, it is deemed useful to prove by way of such evidence as royalty according to the usual practice in the industry or the past cases of royalty for licence with regard to the said invention or device. If it is difficult to prove licence royalty or customary royalty of past cases, the amount equivalent to royalty may possibly be determined on the basis of goverment-owned patent right method.*)

For instance, in the judgement of the case of "golf bag conveyer", the plaintiff asserted that amount equivalent to 10 percent of sales value would be reasonable, but he failed to produce evidence for examples of licence royalty and customary royalty in the same kind of industry. Resultingly, the plaintiff's assertion not based on any proof was not admitted and the royalty for the device was determined on the basis of goverment-owned patent right method asserted by the defendant.

In this calculation, standard rate for calculation of royalty was given 3% as sales value was used as basis and the value of the working of the device was a medium level. In consideration of the proportion of the value of equipment except considered working the device to the total value of the product of the working, 80% was given to the proportion of the device occupied in the unit in other words, the rate of utilization. And rate of increase/decrease and rate of development were assigned 100% respectively. Resultingly, rate of royalty was determined to be 2.4% by the following formula.

*) Refer to the report by Japanese Committee 4 at 20th PIPA Meeting in Tucson.

Rate of royalty = 3% (standard rate) x 80% (rate of utilization) x 100% (increase/decrease rate) x 100% (development rate) = 2.4%

And, 7,958,038 yen, obtained by multiplying 331,584,933 yen, sales amount of unit (1) of the defendant, by this royalty rate of 2.4% was recognized as the amount of compensation money the plaintiff was entitled to demand to the defendant.

In the case of demand for damages based on the right of provisional protection given in respect of the unexamined utility model publication, the plaintiff asserted for damages to be made such an amount equivalent to royalty and such amount as obtained by multiplying sales amount by royalty rate of 2.4% was recognized.

Also in the judgement of the case of "cutting unit for block of ice", against the plaintiff's assertion that amount equivalent to royalty must not be less than 3% of the sales amount, the defendant's manufacture-sales quantity was limited to a larger extent than asserted by the plaintiff but 3% was recognized as the royalty rate to be applied. After all, 145,545 yen obtained by multiplying 4,851,440 yen, sales amount, by 3% was determined as compensation money.

From such judgements, it may be said that, in the dispute in the court with respect to the claim for compensation, it is indispensable to submit evidence such as examples of licence royalty to prove if relatively high rate of royalty like 10% is to be asserted.

4. Notice with Regard to Claim for Compensation

As mentioned above, the right to claim compensation is allowed for an applicant in order to make up for disadvantage of the applicant as a result of unexamined patent publication.

However, with lengthening of a period from unexamined patent publication to examined patent publication thereof, there will be an increase in the possibility of large economic loss or other disadvantage caused by the working the invention by a

third party in amount as much as more than the one equivalent to royalty to be obtained by the exercise of the right to claim compensation. As a tactics to prevent such disadvantage, the applicant may not only file early a request for examination of the application but use a system for preferential examination, early examination, etc.

Exercise of the right to claim compensation, where there is high probability of rejection expected, might give disadvantage to the third party on the contrary. For prevention thereof, the applicant may be imposed on indemnity liability at non-negligence under a certain condition. On the other hand, attention should be given to that the third party against whom suit was instituted is allowed a right to request suspension of litigation proceedings.

In passing, there is probably no precedent relating to such indemnity liability at non-negligence or the right to request suspension .

Further, with regard to a person who commercially worked the claimed invention, etc. in the application laid open for public inspection, the applicant may not demand compensation against a person who may have a legitimate title in future such as legal licence to the patent right, etc.

Hereafter, these matter will be dealt with in detail to clarify the relation with exercise of patent right, etc. and other matter of notice.

4.1 The preferential examination system

This is a system provided to prevent the right to claim compensation from becoming nominal due to lengthening of examination period to ensure the protection of the applicant on one hand and to prevent possible obstruction per-petrated by the applicant against a third party over a long time where there is high probability of rejection.

This system is to let the examiner to examine a certain application in preference of other applications when Director-General of Patent Office recognizes it so necessary in disregard

of the order of acceptance of requests for examination (Article 48-6 of Patent Law).

When a third party is commercially working the invention claimed in the application laid open for public inspection and a dispute occurs between the third party and applicant, either the applicant or the third party may request preferential examination by submitting a statement explaining affairs concerning the preferential examination. Such statement explaining affairs must include (1) circumstances of the working of the invention by the third party, (2) effect of such working of the invention, (3) progress of negotiation with the other party and (4) if submitted by the other party, with a document describing reason for rejection and material to prove attached.

If a request for examination of application is not filed yet, either the applicant or the third party needs to file it.

Such preferential examinations were used at the rate of about thirty cases a year, for instance in 1989.

4.2 Early examination

This is a system, upon a request, to start as early as possible some applications in preference of other applications.

If early examination is wanted, the applicant must file to the Patent Office a statement of affairs concerning early examination with respect to the application of which the applicant or a person granted a licence by the applicant commercially works the invention or has proceeded considerably with the preparation thereto. The statement of affairs must include description of (1) circumstances of the applicant commercially working the invention and (2) research of prior art and explanation of it in comparison therewith.

As for use of such system, the statement of affairs were submitted at a rate of 300 cases, for instance in 1989.

4.3 Indemnity liability at non-negligence

If the right to claim compensation is exercised and patent right is not established or any of the other prescribed affairs

occurs, a person who exercised the right and caused damage thereby to the other party is liable for the damage whether due to negligence or not (non-negligence liability) (Article 52 (4) of Patent Law). Such is so as to make the applicant more careful in the exercise of the right to claim compensation with regard to such application that is highly liable to be rejected due to an objection even after examined patent publication.

Such prescribed affairs include:

(1) The application concerned has not been patented (the application has been abandoned, withdrawn or invalidated, or either decision or trial decision of rejection has been made) and

(2) Even if patented, the invention worked by other party has come to be not within the scope of the claimed invention as a result of amendment, etc.

Further, as a result of warning, if the other party ceased the working of the invention and thereby damage was caused to the other party, mere warning should not be held to be the exercise of the right and to create indemnity liability at non-negligence.

4.4 The right to request suspension

When either party files an action in respect of demand for compensation, the other party is allowed a right to request suspension of litigation proceedings (Article 52-2 (1) of Patent Law). Where rejection of application is highly probable due to raise of opposition to patent, etc., it is intended to make the applicant more careful in the exercise of the right by recognizing the right to request suspension of litigation proceedings for the third party, a defendant who is commercially working the invention. The court will make a decision on the request and, if such decision has been made to recognize such request, the litigation proceedings is suspended before and until the final decision of rejection or grant of patent has been made.

4.5 A person free from exercise of the right to claim compensation

Non-exclusive licensee by virtue of prior use (Article 79 of Patent Law) and licensee of an employee's invention (Article 35 (1)) or such other who may become usually a legitimate non-exclusive licence when the invention concerned is patented, is free from exercise of the right to claim compensation.

Further, influential is such view in this country that the right to claim compensation can be exercised against so-called user in good faith who has made an invention by oneself independently of the claimed invention, commercially working such invention from the time before unexamined patent publication as long as such person continued such working even after given a warning, because such person comes under "a person" mentioned in the former part of Article 65-3 (1) of Patent Law.

4.6 The relation between exercise of the right to claim compensation and that of patent right, etc.

Exercise of the right to claim compensation shall not preclude exercise of the right of provisional protection based on examined patent publication or exercise of the patent right (Article 65-3 (3)).

In other words, here is expressly stated that exercise of the right to claim compensation shall not exhaust the patent right, etc. This is because protection which the inventor is normally entitled to receive will be weakened considerably by unexamined patent publication if the right of patent capable of also requesting injunction is exhausted merely by exercise of the right to claim compensation.

Therefore, for example, when compensation is paid by a maker for the machine manufactured by the maker during the time from unexamined patent publication to examined patent publication, the applicant may exercise the right to request injunction or the right to demand damages against the user who

bought the said machine and used it after examined patent publication.

However, it is not desirable for the safety of transaction that such person as buying and using an article manufactured and sold after compensation has been paid is made the object of request for injunction under the patent right, etc. It is therefore desirable to provide the said special agreement between the applicant and the said maker upon conclusion of contract for the payment of compensation where the article compensation has been paid for shall be thereafter beyond the effect of patent right.

4.7 Other matters to note, considered from judicial precedents, upon exercise of the right to claim compensation

When some amendment such as substantial expansion or change of the scope of calim is made after a warning is given with regard to the scope of claim, the applicant should give a warning again to the other party to make it easier to prove that the other party became aware of the contents of the claim after amendment. Rewarning is, however, not necessary if the amendment results in reduction in the claim.

The reason why such warning is required is that, in many cases where the other party is deemed a malicious person, it is often difficult to prove the knowledge of the other party of the invention claimed in the patent application at unexamied patent publication to the extent of identifying such invention.

It should be kept in mind, in the litigation for exercise of the right to claim compensation, the plaintiff is required to submit the quantity and amount of sales and rate of royalty of matter in dispute as well as the proof by way of evidence to be made a basis for determination of compensation money recognized to be an amount equivalent to royalty.

5. Conclusion

We may say, it is a trend in the world , along with EPC, to employ the system of unexamined patent publication with the

purpose of preventing possible duplicate researches and duplicate applications for patents, etc. through early laying-open of the contents of the patent application and to facilitate thereby use of technical information for development of industry as well.

However, on the other hand, unexamined patent publication unavoidably causes disadvantage to the applicant, rendering it necessarily indispensable to provide systems for protection of the applicant to make up for such disadvantage. And the system of the right to claim compensation is the one effective in making up for such disadvantage of the applicant.

However, it is easily assumed that, if a period from unexamined patent publication to examined patent publication thereof turns out rather long, disadvantage of the applicant is not possibly expected to be fully covered only by the exercise of the right to claim compensation money equivalent to royalty. For the purpose of a relief for the applicant, preferential examination is in operation as a system to accelerate examination, however it seems not easy to make the use of this system because of the proceedings which include difficult matters such as description about the actual working by the third party of the invention concerned, etc. Therefore, what is desired is a measure taken to speed up examination as well as to improve preferential examination system. paperless system reduce to 24 mos

(Materials referred)

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(2) Pillar cover case

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1986, (Wa) No. 11250 Case of counter action against demand for damages, etc.

(3) Golf bag conveyer case

Decision of Osaka District Court, May 27, 1983

1977, (Wa) No. 5686 Case of claim for compensation, etc.

1981, (Wa) No. 6457 Case of request for injunction of infringement on utility model right

(4) Case of cutting unit for block of ice

Decision of Osaka District Court, Dec. 23, 1981

1979, (Wa) No. 1666 Case of request for injunction of infringement of the right of provisional protection on examined patent publication

(2) Pillar cover case

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examined patent publication

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(7) Abstract Intellectual property matters of interest to the U.S. aerospace industry are reviewed, with an emphasis on the rights of the U.S. Government in inventions made, and technical data developed, in the U.S. The review covers the administration of "Secrecy Orders" placed on U.S. patent applications, permissible patent application filings of Secrecy Order cases in certain foreign countries, now including Japan (since 1988), and the right of the U.S. Government to use any invention patented in the U.S. subject to reasonable compensation.

Also reviewed, for background purposes, is the history of the Manufacturers Aircraft Association patent cross-license agreement which was established at the request of the U.S. Government in 1917. The agreement was terminated in 1976 by a consent decree which became the Final Judgment in an antitrust lawsuit brought by the U.S. Government against twenty U.S. aerospace companies. The Final Judgment continues to restrict certain patent licensing agreements by these companies.

U.S. AEROSPACE INDUSTRY

INTELLECTUAL PROPERTY MATTERS

I. PATENT RIGHTS

A. U. S. Government Patent Rights

1. Right to Place Inventions Made in the U.S. Under Secrecy Order.

(a) Secrecy Order Criteria

With regard to inventions made in the United States in which the U.S. Government does not have a property interest, 35 USC 181 provides in effect that whenever the disclosure of such an invention might, in the opinion of the Patent Commissioner, be detrimental to the national security, he shall make the patent application available for inspection by the Atomic Energy Commission, the Department of Defense, or any other defense agency of the United States that might have an interest in the invention. If any of these agencies concludes that the disclosure of the invention would be detrimental to the national security, the Patent Commissioner is notified. The Commissioner then issues a Secrecy Order and withholds the grant of a patent for such period as the national interest requires. I am informed that more than 5,000 patent applications in the U.S. Patent and Trademark

Office (USPTO) are presently under Secrecy Order, with about 400 new Secrecy Orders being issued, and about 200 being rescinded, each year.

(b) Administration

35 USC 184 provides, as to inventions made in the U.S., that except when authorized by a license obtained from the USPTO, a person shall not file a patent application in any foreign country prior to six months after filing the application for patent in the U.S. The six-month period was selected to allow time for the U.S. Government review process discussed above in connection with Secrecy Orders. In recent years, the USPTO has developed the practice of issuing a "Foreign Filing License Granted" statement on the filing receipt papers of those patent applications that clearly do not relate to the national security. This statement has become known as a "filing receipt license". If such a filing receipt license is not granted, it is an indication that the application is being reviewed for a possible Secrecy Order.

For national patent applications subject to Secrecy Orders, USPTO Office Actions will proceed as usual to the point where the application is either found to be in condition for allowance or has been made subject to a final rejection. If a final rejection has been made,

the applicant must file an appeal to avoid abandonment of the application. The appeal will not be set for hearing until the Secrecy Order is removed. When allowed or under appeal, the national application is in a condition of suspension until the Secrecy Order is rescinded by the agency that imposed it.

Patent Cooperation Treaty (PCT) international patent applications on an invention made in the United States and placed under Secrecy Order will be processed only to the point where, if it were not for the Secrecy Order, record and search copies would be transmitted to the international authorities or the applicant. At that time, any further action on the application is suspended until the Secrecy Order is rescinded. Accordingly, if the Secrecy Order remains in effect at the end of the time limit under PCT Rule 27.3, the PCT application will be considered withdrawn (abandoned) because the Record Copy of the application was not received by the International Bureau (37 CFR 5.3(d), PCT Article 12(3), and PCT Rule 22.3).

Therefore, if a patent application is likely to become subject to a U.S. Secrecy Order, it should not be filed initially as a PCT application. Such a patent application should be filed as a national application in the U.S. and filed later, within the

one-year convention period, in foreign countries on an individual national basis as permitted by the Secrecy Order. Applicants may petition for rescission or modification of a Secrecy Order. For example, a rescission may be appropriate if facts exist that would render the Secrecy Order ineffectual, and a modification may be made if it becomes necessary to disclose the invention to another party working on a U.S. Government military contract.

In the past, a petition for modification of a Secrecy Order was required for permission to file foreign patent applications. In recent years, however, Type 1 Secrecy Orders (entitled "Secrecy Order and Permit for Foreign Filing in Certain Countries") list all available countries in which Secrecy Order applications may be filed.

(c) Subsequent Patent Applications in Europe

For many years, the United States has had reciprocal patent application security agreements with certain Western European and other countries. Under those security agreements, implementing procedures are established to allow the filing of patent applications in order to obtain priority dates for the inventions, it being understood that the applications would be preserved in secrecy and would not be examined until the Secrecy

Order is rescinded. It should be noted that no security agreement exists with the European Patent Office (EPO). Accordingly, Secrecy Order patent applications cannot be filed directly with the EPO, but must be filed nationally.

(d) Subsequent Patent Applications in Japan

In 1956, the U.S. and Japanese Governments executed an agreement entitled "Agreement Between the Government of the United States and the Government of Japan to Facilitate Interchange of Patent Rights and Technical Information for Purposes of Defense". However, at that time the two governments failed to establish implementing procedures for this Agreement, despite attempts to do so in the 1960's.

The issue of implementing the 1956 Agreement was not again raised until the mid 1980's. Then the lack of implementing procedures came to the attention of the U.S. Patent Office because numerous U.S. patent applicants had requested, and been denied, the right to file in Japan on Secrecy Order cases. The rationale in denying such requests was that the U.S. simply did not have agreed upon security arrangements with Japan. The Patent Office took the lead in urging the Department of Defense and the Department of State to entertain negotiations with Japan; the U.S. objective being to provide U.S. industry with patent protection in Japan that

was being denied for lack of implementing procedures. Negotiations were prolonged and issues were frequently raised to relatively high levels of each government. Agreement was finally reached on April 12, 1988.

Unlike similar procedures in place between the U.S. and other countries, the procedures established with Japan are "one-way" in that they apply only to U.S. patent applications filed in Japan. There are no reciprocal procedures for Japanese patent applications in the U.S. because Japan does not maintain any patent applications in secrecy. Evidently, this is due to a strong "public disclosure" policy with respect to patents in Japan. See, for example, the editorial entitled "Handling 'Secret' Patents" in the Asahi Evening newspaper of April 15, 1988.

The editorial discusses the principle of the Japanese patent system that all patents should be disclosed to promote progress in science and technology. The editorial also mentions several specific Japanese concerns with the then recent agreement with the U.S. and indicates that the Japanese Government position is that if a Japanese company files a patent application that is identical in content to a U.S. Secrecy Order patent application, the Japanese company's patent will be published as usual in accordance with Japanese law.

To file a U.S. Secrecy Order patent application in Japan, a U.S. applicant will transmit two certified copies of the U.S. patent application and the Secrecy Order filing permit to the U.S. agency imposing the Secrecy Order with a request that the application be filed in Japan by a "designated" patent firm. The agency will then send the application to the U.S. Embassy in Japan through the U.S. State Department. The Embassy in turn will send the documents to the Japan Defense Agency (JDA). The JDA will forward one copy to the "designated" Japanese patent firm so the firm may translate, prepare and file the Japanese patent application and Secrecy Order permit with the Japan Patent Office (JPO).

Apparently, at this time, there are not very many patent firms in Japan that have a "designated" status for handling U.S. Secrecy Order cases. I have been told, however, that if a U.S. company so requests, the JDA will consider a "designated" status for a Japanese patent firm if, for example, the U.S. company has a long-standing relationship with that firm.

(e) Penalties

Under 35 USC 182, if an invention is disclosed or a patent application is filed in a foreign country in violation of a Secrecy Order, the U.S. patent

application will be considered abandoned as of the time of the violation. Moreover, 35 USC 186 provides for criminal penalties in the amount of $10,000 or imprisonment for not more than two years, or both, for such a violation.

(f) Right to Compensation

35 USC 183 provides for compensation for certain damages caused by a Secrecy Order and/or for the use of the invention by the U.S. Government. I understand that fewer than fifty such claims for compensation have been made in the past thirty years.

2. Right of Government to Use U.S. Patent Rights

Under 28 USC 1498, whenever an invention covered by a U.S. patent is used or manufactured for the U.S. Government with the authorization and consent of the Government, the patent owners remedy is limited to a claim against the Government for reasonable compensation for such use and manufacture. In other words, it is not possible to obtain an injunction to prevent use of a patented invention by a Government contractor if the Government has given its authorization and consent to such use. A broad "Authorization and Consent" clause is normally provided in Government contracts involving research and development. A somewhat more limited clause

is often used in supply contracts not involving research and development. The Government can also provide in a contract that, despite its assumption of patent infringement liability under the Authorization and Consent clause, the infringing contractor must indemnify the Government against any claims it may be forced to pay. For administrative and judicial interpretations regarding these matters, see Section 16,600 of the Government Contracts Reporter, Commerce Clearing House, Inc.

3. Rights in a Government Contractors Patents

Whenever an invention is "made" (either conceived or first actually reduced to practice) by a contractor under, or in the course of, a Government contract, the Government will obtain certain rights depending upon the patent regulations of the agency that issued the contract. Such inventions are called "subject inventions". For subject inventions, the regulations of U.S. Department of Defense require that the Government retain, at the minimum, an irrevocable, nonexclusive, royalty-free, world-wide license, as well as the right to grant licenses to foreign governments or international organizations for use in research and development programs or for use in mutual defense production of equipment or weapons. For subject inventions made by contractors with

Government funding while under contract to NASA or the AEC, the U.S. Government will, by statute, normally retain title to those inventions; however, under NASA patent regulations a "waiver" of title may be granted by NASA, in which case the contractor will retain exclusive rights in the commercial (non-Government) market. In recent years, it has been NASA policy to liberally grant such waivers of title to patent rights where an invention has potential in the commercial market.

Both the Defense Acquisition Regulations and the Federal Procurement Regulations require contractors to disclose to the government each subject invention within six months after the invention is made.

B. Commercial Patent Rights

1. MAA Patent Cross-License Agreement

The Manufacturers Aircraft Association, Inc. (MAA) was formed during World War I, in 1917, at the suggestion of the U.S. Government. At that time, a number of basic patents covering airplane construction and control systems were owned by Wright-Martin Aircraft Corporation and Curtiss Aeroplane & Motor Corporation. As noted in an Opinion of the Attorney General in 1917, the patents controlled by these two companies were of such a

character as to make it difficult to construct a modern approved form of aircraft without infringing these basic patents. Wright-Martin, controlling the original patent of the Wright brothers and other patents, was demanding very high royalties for patent licenses. Curtiss, controlling numerous improvement patents, was likewise making royalty demands regarded as excessive. The result of these patent claims was not only to render the costs to the Government excessive, but also to make it difficult for the Government to get its wartime orders filled. Airplane manufacturers were facing expensive and time-consuming patent litigation, were having difficulty getting bank loans, and were unwilling to expand their plants because of the uncertainties concerning the patent situation.

The War Department and the Navy Department asked the newly-formed National Advisory Committee for Aeronautics (NACA) to investigate the situation and to suggest a solution for the unsatisfactory conditions existing in the aircraft industry concerning patents. After several months of study and conferences with the parties involved, the NACA recommended the formation of an association of aircraft manufacturers to operate under an aircraft patent cross-license agreement.

The MAA was formed and incorporated as a nonprofit corporation under the Laws of the State of New York, and substantially all of the U.S. manufacturers of aircraft became subscribers and stockholders of the MAA in order to participate in the cross-licensing arrangement. A royalty schedule was established for payment of substantial (but materially lower than previously demanded) royalties to the basic patent owners until the expiration of the basic patents. Under the MAA agreement, each subscriber made its airplane patents available to each other subscriber at a reasonable royalty established by arbitration conducted under MAA rules. In other words, the right of a subscriber to obtain injunctive relief to prevent use of an invention by another subscriber was effectively waived. Any company or other party with an intention to manufacture airplanes in the United States could become an MAA subscriber upon payment of $1,000 to the MAA. Accordingly, the MAA arrangement was that of an "open" patent pool, rather than a "closed" patent pool of the type not favored by the courts.

The MAA performed its basic function of conducting arbitration hearings to establish patent royalty rates and performed other services for its subscribers (e.g., prior art searches, technical library research, and dispute resolution) until the patent

cross-license agreement was terminated, and the MAA dissolved, in 1976. During its existence, the MAA provided the means for subscribers to economically and quickly establish reasonable royalty rates and settle patent disputes. Costly patent litigation and the threat of injunctions that would disrupt production of aircraft were avoided, and so far as I am aware, each of the subscribers was pleased with the arrangement. The companies subscribing to the MAA patent cross-license agreement were as follows:

Aeronca	General Dynamics	McDonnell Douglas
Beech	Grumman	No. Amer. Rockwell
Bell	Kaman	Northrop
Boeing	Ling-Tempco Vought	Piper
Cessna	Lockheed	Teledyne Ryan
Curtiss-Wright	Martin Marietta	Textron
Fairchild		United Aircraft

In March of 1972, the U.S. Department of Justice filed a lawsuit in the U.S. District Court, Southern District of New York, naming as defendants the MAA Inc. and each of the twenty individual subscribers listed above. The complaint alleged, inter alia, that the effect of the industry-wide MAA agreement was: to restrict and suppress competition in development,

manufacture and sale of airplanes; to restrict and suppress competition in the purchase of third party airplane patents and inventions; and to hinder and delay research and development of patentable inventions.

So far as I am aware, none of the defendants felt that any aspect of the lawsuit was justified. However, after several years of burdensome court-sanctioned discovery proceedings, including extensive production of business data and documents that did not appear to be directly related to the issues in the case, several of the individual company defendants decided to enter into discussions with the Department of Justice with respect to settlement of the lawsuit. Finally, more than four years after the lawsuit was filed, all defendants executed a consent decree which became a Final Judgment that terminated the MAA agreement and led to the dissolution of the MAA corporation.

It is worth noting that during this time period in the early 1970's, the Antitrust Division of the U.S. Department of Justice was taking a very aggressive posture with respect to patent licensing matters. You may recall the "nine no-no's" of patent licensing that were becoming known as "luncheon speech law" because they were being presented at law association meetings by speakers from the Antitrust Division. At least as early as 1981, however, the Antitrust Division repudiated its position on the nine

no-no's and softened its position on other patent licensing matters (see, for example, the November 26, 1981 article entitled "Justice Department Official Attacks 'Nine No-No's' of Patent Licensing" BNA PT&C Journal No. 556, p. A-1).

2. The Final Judgment in the U.S. v. MAA et al.

The Final Judgment and a "Competitive Impact Statement" for the U.S. v. MAA et al. lawsuit are set forth in the Federal Register at Vol. 40, No. 142. This Final Judgment remains in effect today and prohibits the defendants from entering into "industry-wide" patent licensing agreements; however, licensing agreements involving no more than two defendants are allowed under certain conditions. Each defendant is also enjoined: from entering any license agreement where the consent of both parties is required for issuing a license to a third party; and from joint assessment with any competitor of the value of airplane patents. In addition, under the Final Judgment, each defendant was required, as to patentable inventions existing as of the date of the consent decree, to issue licenses on reasonable terms for manufacture or use within the U.S. to any party requesting a license. Further, if the request was made within five years of the date of the Final Judgment, the defendant was

also required to provide with the patent license any existing technical information that the licensee would need to practice the invention.

II. TECHNICAL DATA RIGHTS

A. In U.S. Government Contracts

The regulations controlling rights in technical data relating to contracts of the U.S. Government are extensive and complex. Data regulations for the Department of Defense (DoD) are part of the Defense Federal Acquisition Regulation Supplement (DFARS). Data regulations for the "civilian" agencies are found in the Federal Acquisition Regulation (FAR).

Many, if not most, companies in the U.S. aerospace industry regard proprietary technical data rights in their product designs and research and development programs to be more valuable than their patent rights.

Since 1984, the U.S. Congress has on four occasions enacted detailed legislation impacting the DFARS data regulations. This was due, in part, to complaints of the U.S. aerospace industry that the DFARS data regulations were unfair to industry. There were also congressional concerns about overpricing of spare parts. Private and

Government studies have shown, however, that proprietary technical data rights have very little influence on the pricing problems, and that the basic government procurement process, e.g., ordering special parts in very small quantities, is primarily to blame.

With each of the four legislative changes, there has been a corresponding revision to the DFARS data regulations. As each of these revisions has been published for public comment, industry organizations, such as the Aerospace Industries Association (AIA), have raised vigorous objections on the basis that the proposed regulations are inequitable and have gone beyond what is reasonable and necessary to implement the statutory changes. At the present time, an "interim" or temporary regulation issued in October, 1988 remains in effect, and a joint industry-government committee is being formed to make recommendations concerning revisions to the DFARS data regulations.

The interim DFARS data regulations categorize data as either: (1) unlimited rights data; (2) limited rights data; or (3) Government purpose license rights (GPLR) data. Normally, the Government will have unlimited rights in data pertaining to items, components, or processes which have been or will be developed exclusively with Government funds. Also, the Government will have

unlimited rights in ten other specified types of data set forth at DFARS 227.472-3 and 52.227-7013 even if the development was exclusively with private funds.

These specified types of unlimited rights data include: form, fit and function; specified as an element of performance under a Government contract; manuals or instructional materials; corrections or changes to Government-furnished data or computer software; published by the contractor; the Government has negotiated for and obtained unlimited rights; DoD imposed time limits on limited rights or GPLR status have expired; and when delivered to the Government, were not identified in a required listing to be submitted under DFARS 252.227-7013.

As the words imply, unlimited rights means that the Government has the right to do substantially anything with the data. Such data is also subject to access by the public under the Freedom of Information Act unless it is classified for security reasons or is controlled under the data export regulations.

Unpublished technical data pertaining to items, components or processes developed exclusively at private expense will be treated as limited rights data provided the data are properly marked with a specified limited rights legend and the data are not subject to unlimited rights treatment under one of the ten types of data

mentioned in the preceding paragraph. Limited rights data cannot be disclosed to another contractor by the DoD without permission of the owner except in emergency situations.

Government purpose license rights (GPLR) data is a relatively new category of data rights that was established in the regulations pursuant to legislation enacted by the Congress. P.L. 99-500 of 1986 required the DoD to determine equitable rights in mixed funding situations, i.e., where both private and Government funds were involved. In the past, the DoD had taken the position that limited rights treatment was not available to a contractor if one dollar of Government money had been spent on development of the item, component or process, no matter how much private expense money the contractor had invested in its development.

GPLR data may be used by the DoD for any Government purpose, but commercial (i.e. non-Government) rights remain with the contractor. The DoD does not favor GPLR because it creates an administrative burden in that nondisclosure agreements must be executed by contractors performing the Government purpose work in order to preserve the owner's commercial rights in the data.

Even where the DoD has accepted limited rights data from a contractor and the data is properly marked under

DFARS 227.473-3 and 252.227-7018, a challenge may be issued by the DoD within three years after delivery of the data or after final payment, whichever is later, or at anytime if the technical data is believed to be available to the public, or has been furnished without restrictions. The challenge is made under the "Validation of Restrictive Markings on Technical Data" regulation at DFARS 227.473-4 and 252.227-7037.

When a contractor is challenged under this Validation regulation, the contractor must "justify" the validity of the limited rights status for the data within 60 days. This may require a showing that the item to which the data pertains was developed exclusively at private expense. If the data is relatively old and has been in use for some period of time, e.g., for a commercial product never before sold to the Government, the necessary business and technical records to establish the development at private expense may be very difficult to locate.

The FAR data regulations used by the civilian agencies are substantially different from the DFARS data regulations. In general, the FAR data regulations are less complex, and present fewer problems for contractors, than the DFARS data regulations. Several years ago, the Office of Federal Procurement Policy directed the civilian and military agencies to get together and draft a single

new uniform data regulation that would be applicable to all agencies. I understand that considerable progress has recently been made toward agreement by the agencies on the language of the uniform data regulation. However, this new regulation has not yet been released for public comment. Accordingly, it remains to be seen whether or not the new regulation will be regarded by private industry as an improvement over existing regulations.

B. Commercial Technical Data Rights

As noted previously, companies in the U.S. aerospace industry place a relatively high value on their rights in technical data for the products and designs they have developed at private expense. Also, most new commercial aerospace programs require the expertise of a large number of suppliers, contractors and subcontractors. As a result, these programs frequently generate hundreds of "proprietary information" or "nondisclosure" agreements involving an exchange of data between two or more parties. In case of a dispute, the law used for interpreting such agreements is the same law that would be applied to similar agreements in other U.S. industries; viz., state trade secret case law and statutes (the Uniform Trade Secrets Act has now been adopted by at least six states).

Employees of most companies in the U.S. aerospace industry are required, as a condition of employment at the time they are hired, to execute a written agreement to preserve and protect not only the proprietary information of the employer but information received in confidence by the employer from a third party.

In the U.S. aerospace industry, it is common practice to mark drawings and documents with a proprietary legend. These legends usually assert that the information contained on the drawing is proprietary to the originating company and is not to be used or disclosed without the prior written permission of that company. It has been held, however, that specific notice of the proprietary nature of a company drawing or document is not required for enforcement of trade secret rights (see, for example, A. H. Emery v. Marcan Products Corp. 389 F.2d 11, 156 USPQ 529 (2d Cir.), cert denied, 159 USPQ 799(1968)).

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21:1-7A

PIPA Database Coversheet

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(6) Statutory Provisions: English statute of Monopolies of 1623-1624, Venetian Patent Statute of 1474.

(7) Abstract

The Gross National Products (GNP) for United Sates, Japan and the European Economic Community, reported in 1990, are compared. Projected increased Community GNP based on potential membership expansion also is considered. The possible economic effects on Japan and the United States of proposed changes to United States patent law are questioned in a financially more powerful Community environment. Although historical evidence indicates that United States patent law is now (1990) due for major revision, much earlier experience with the European civil code and the English common law suggests that care should be exercised to avoid adopting legal principles that have latent damaging effects.

Changes in the United States Rules of Patent Practice since October, 1989 also are mentioned. These rule changes include clarification of application filing procedures, access to the Patent and Trademark Office computer database, biological material deposits and rules that relate to nucleotide sequence and amino-acid sequence disclosures in patent applications.

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CHANGES IN UNITED STATES PATENT LAW SINCE OCTOBER, 1989

There have been a number of regulatory changes in United States patent law since October of 1989 and these changes will be reviewed in this paper. But more important for all of us - Japanese and Americans alike - is our need to develop a much deeper understanding of the various proposals now under consideration to change the United States patent system. These proposals should be considered not only for their immediate effect on patent office practice, corporate patent policies and patent portfolios, but they also should be measured against a framework that includes larger and long-term Japanese and American diplomatic, economic and commercial needs.

Look briefly at Table 1, which shows the gross national (or domestic) products (GNP) of Japan, the United States and the European Economic Community reported in 1990.

Japan enjoys a GNP that is about two-thirds of the Community's and the United States GNP is about one-third greater than the Community's. Although there is a remarkable lack of research directed to the relation between intellectual property protection and economic development, there is nevertheless a causal link between these two factors.[1] Thus, it is safe to say that the economic results in the Community, Japan and the United States derive at least to some extent from intellectual property protection.

Table 1 is divided into right and left halves, the left half captioned "European Potential" lists first the total GNP for the twelve Community states (including the East German GNP).[2] Participation in the Comnunity does not necessarily require membership but can, instead, involve some other form of affiliation. Thus, those states that have at this writing (August, 1990) expressed a definite interest in establishing a formal relation with the Community, as well as their most recent GNP data, are listed under "Possible Community Affiliation." Although the Soviet Union has not publicly expressed an interest in Community affiliation, this potential is not beyond the realm of possibility and for that reason, the Soviet Union also is included in these data. For

example, your attention is invited to the bilateral trade and economic cooperation treaty that was entered between the Community and the Soviet Union on December 19, 1989 as reported in "European Community News," No. 48/89, of December 19, 1989.

Based, then on announced interest and currently reported GNP data, the Community potential is about equal to the combined GNP of the United States and Japan.[3] Considered from another standpoint, if the Community grows to include the Soviet Union and those nations that have (1990) expressed definite interest in Community participation, the 1990 fractions will change markedly. Japan would have, based on current data, one-third of the Community's GNP and the United States would have a GNP equal to about two-thirds of the Community's.

Note that several of the states actively involved with the Community at this time are members of the Committee for Mutual Economic Assistance (CMEA), which was in some ways the Eastern European response to the Community. Czechoslovakia, Bulgaria, Romania, by expressing Community participation interest, have demonstrated two very important changes in the Eastern European world outlook. The first change is the de facto recognition that large, multi-national

economic combinations are essential to individual national survival. Thus, to survive economically, a state must participate in CMEA, or if that does not provide a satisfactory vehicle, it must join the successful combination, the European Community. This is the economic fact that CMEA and the European Community have taught the socialist states. The second, and perhaps, even more profound change in the European world outlook, is the obvious result of the East German economic experiment. The economic integration of East Germany into the European Community demonstrates that a socialist state can enter the European Economic Community. Unquestionably, the unique cultural and geographical considerations that apply to this East and West German anschluss, or fusion, within the European Community eased the integration process. Nevertheless, East Germany has proved the case for socialist state participation within the Community.

With the foregoing economic possibilities in mind, it might be well to consider the status of the United States and Japan in a world in which our joint economic power is just about equal to that of the potential European Community

of the future. Considered from our own specialized standpoint, and recognizing the economic fact that intellectual property protection has a direct bearing on industrial growth and development, we should consider very carefully the effect that proposals to change our respective national intellectual property laws will have in our nations' long-term futures. For example, the economic data in Table 1 certainly raises a question about the possible influences that United States, Japanese and European patent laws may have had on the large United States GNP and the truly astonishing Japanese GNP as contrasted to the Community's GNP. Considering the respective economic results achieved with some contributions from the Japanese and American patent systems, it might be wise to copy the wisdom of the Japanese Diet during the Meiji Era and make haste slowly in adopting new patent laws. For example, the French Civil Code was first translated into Japanese in 1870 and the Japanese commercial code that eventually entered force in 1899, twenty-nine years later, was not the French, but the German code.[4]

The foregoing economic data is presented only to establish a better awareness of the way in which the not too distant economic future may develop and make us alert to the

possible long-term industrial impact on Japan and the United States of the major changes now suggested for the United States patent system.

To better understand the long-term dangers in making the wrong choice in developing a patent system, it is useful to briefly review the events that led to the Anglo-Saxon common law patent system as it exists in the United States today. Your attention now is invited to Table 2 which shows, on your right, those major patent events that eventually produced the British Statute of Monopolies of 1623/1624. You can see that this development was a long and frequently painful process that began on the European continent in the pre-Christian era, most notably reported in the writings of Aristotle.

To provide a general historical perspective from which these legal events can best be judged, the left hand column of Table 2 lists world events that essentially coordinate with patent events. Although I believe that Japanese patent practitioners have a better knowledge of European history than their United States colleagues enjoy of Japanese history, the world events column specifically lists Japanese historical eras to provide a background of greater familiarity.

Briefly, the realization that a government granted monopoly promotes trade and industrial growth began in England and on the European continent about 1200 AD through the growth of the craft guilds. It took until 1474, with the adoption of the Venetian patent statute, for the European civil law to begin restricting trade monopolies to protective grant for technical innovation. It took another 150 years for this concept, carried from Renaissance Italy to England, to see its absorption into the common law as codified in the 1623/1624 Statute of Monopolies.

There was at least one major difference between the Venetian patent law and the British Statute of Monopolies. Your attention now is invited to Table 3. The major difference between the Venetian law of 1474 and the British Statute of Monopolies is in the penalty for patent infringement. In Venice, at least initially, criminal punishment was the only available relief for patent infringement. Although civil remedies of money damages and injunction eventually entered the civil code, the possibility of criminal penalties as a punishment for patent infringement continues to be a salient characteristic of those patent systems that derive from one of the European civil codes.[5]

The British, in contrast, rejected criminal punishment for patent infringement and restricted relief to the usual civil remedies of money damages and injunction. This too, is a salient characteristic of common law patent systems. For example, only one nation influenced by the common law, Sudan, imposes criminal, as well as civil penalties for patent infringement.

If you will consider the severity, or perhaps, even the brutality of the criminal justice system in the England of James II, it is clear that the imposition of criminal penalties for patent infringement at that time would have been a most serious matter. We need only recall, for example, the infamous George "Bloody" Jeffreys, First Baron of Wem, to realize what a criminal conviction could mean in those times.

Clearly, the common law, in ignoring the rigorous logic of the criminal penalty for patent infringment - according to the penal standards of that time - was much more subtle and infinitely more practical. To give a patentee the right to protect an invention from appropriation by others encourages industrial development. But, to encourage further business investment where an issue of patent infringement and

validity exists, it is perhaps, best to leave that matter in the hands of the civil courts to decide the usual remedies of money damages and injunctions. This would permit businessmen to test questionable patents and infringement issues without risk of criminal penalties if patent counsel's advice proved flawed. Thus, criminal penalties for patent infringement did not enter the common law, thereby avoiding the extremely detrimental effect of possible criminal punishment on business risk calculation.

Unquestionably, rejecting the concept of criminal patent infringement gave Britain an industrial development advantage that was not shared among counterpart European civil code nations. It is my opinion, moreover, that the long-term effect of this small, but vital difference between the two legal systems has been largely unrecognized. The lesson to be learned from this older British experience is the idea that a principle can be absorbed into a legal system for several hundred years without any recognition either of the principle or the economic effect of that principle. Transferring the British experience to current proposals for fundamental patent system change, it is clear that we must be extremely careful in revising the United States patent law. A detrimental change in the law at this time might not be

recognized as such for many years, perhaps, even for decades. By the time an amendment to the law to reverse the error finally is undertaken, a great deal of economic damage may already have occurred.

Consider, for example, one issue, quite small, when viewed within the context of this larger economic challenge that is arising on the European continent. The statement often has been made that United States interference practice, as it is constituted in 1990, is unfair to the non-domestic United States patent applicant. There may be merit to this complaint. The appropriate response to this statement is an exploration not only of fairness in specific instances, but also, and perhaps more important, the contribution, if any, that United States interference practice will make toward the overall economic strength of Japan and the United States in the long and difficult years ahead.

Considered from a different standpoint, to hold interference practice as a property to be bartered away in exchange for some multi-national treaty concession trivializes a most important issue. The critical issue is the effect of interference practice, small though it may be, in equipping Japan and the United States to face the challenge of economic parity with the European Community.

This is not to be construed as an argument that interference practice makes any more than some slight contribution or loss to economic strength in foreign trade. Interference practice has been selected only as an illustrative feature of United States patent law, that, although subject to criticism among our Japanese and European colleagues (and among many Americans, too), should not be terminated or traded away without first being considered carefully for its long-term economic benefit to Japan and to the United States.

Tracking the historical development of United States Patent law from the Venetian Statute of 1474 to its current status shown in Table 3, brings to our attention a curious recurrence. From the time of the British Statute of monopolies, United States patent law and its direct lineal predecessors underwent a major revision every 150 to 200 years. We are now at another 150 to 200 years time of revision. If we are actually confronted with some recurring historical process inherent in the development of the common law patent, then major changes in the United States patent system are only to be expected in the immediate future.

The danger in these proposals for changes is our failure to have taken a truly statesmanlike view of the matter and to study these recommendations from their very long term effect on the Japanese and United States economies in a world in which together we both merely match European financial power. In examining and adopting new principles of patent law, let us keep in mind the wisdom of the Meiji Era Diet which took almost thirty years to choose a legal system for Japan, a legal system that undeniably made a significant contribution to the strength and power of Japan today. Similarly, in examining each of these proposals for changing United States patent law we should be ever mindful of the British who chose - and rejected - so carefully among the civil code patent principles that were set before them.

On January 16, 1990 the United States Patent and Trademark Office amended a number of Rules of Practice that relate to patent application filing practices. More particularly, Rules 53, 60 and 62 were amended to clarify patent application filing requirements and to establish procedures for curing a number of application filing defects.[6] Rule 53 has been amended, for example, to permit

all of the inventors to be named subsequent to the application filing date, without loss of that date, if a petition stating adequate reasons for not naming the inventors at the time the application was filed is later submitted to the Patent and Trademark Office.

Rule 60 was amended to more clearly state that the information in the Rule applies only to applications filed under the Rule. Applications filed under Rule 60, moreover, now must specifically state that they are being filed under Rule 60, or they will automatically be considered as having been filed under Rule 53.

Amended Rule 62 permits continuation, continuation-in-part or divisional applications to use the file wrapper and contents of the prior application. Changes to the prior application must be made in the form of an amendment to the prior application at the time the Rule 62 application is filed, and no copy of the prior application or new specification is required. Should a copy of the prior application or new specification be filed with the Rule 62 application, a filing date will not be awarded unless a petition to cancel the improperly filed copy is lodged.

Fees were established for the on-line use of the United States Patent and Trademark Office's APS-Text.[7] This is the Office's data base, which contains the full text of United States patents issued after 1974, United States classification data from 1790 to the present, English language abstracts of many Japanese and Chinese patents and the trademark search system. These systems are installed in the Patent Search Room and the Trademark Search Library in Crystal City, Virginia. Apart from some pilot experiments, the Office does not plan to provide routine remote on-line access to these data bases.

On January 1, 1990, rules (37 CFR 1.801 to 1.809) were adopted with respect to the deposit of biological materials for patent purposes.[8] These new rules govern the deposit of biological material that cannot be described in writing and in which access to the biological material is necessary to satisfy the complete disclosure statutory requirements for patentability under 35 USC 112. Biological materials are defined, for the purpose of these rules, to include material that is capable of self-replication either directly or indirectly. With respect to the need to deposit biological materials, Rule 802 states that a deposit is not required if the material is known and readily available to

the public or can be made or isolated without undue experimentation. Other Rules identify acceptable depositories (International Depositary Authorities under the Budapest Treaty or other depository recognized by the Patent and Trademark Office); the time for making an original deposit (usually before the patent application is filed); procedures for a deposit replacement or supplement; the deposit term (thirty years and five years from the most recent request for a sample); deposit viability (at the time of and during the term of the deposit); samples must be furnished during the pendency of the associated patent application upon suitable application, and without restriction upon patent grant; and, finally, examination procedures are addressed.

Of further interest to practitioners involved in biotechnology matters are new Rules 821 through 825 that took effect on October 1, 1990 with respect to requirements for patent applications containing nucleotide sequence and amino-acid sequence disclosures. These Rules establish a standardized format for descriptions of nucleotide and amino-acid sequence data submitted in patent applications in conjunction with the required submission of this data in computer readable form. The standardized format and symbols

established in these new Rules eliminate the lack of uniformity in sequence data submitted to the Patent and Trademark Office and avoid the impracticability of properly searching and examining sequences submitted in paper form.

In summary, the Rules define nucleotide and amino-acid sequences (Rule 821); establish symbols and format that are to be used for nucleotide and amino-acid sequence data (Rule 822); set down formal requirements for nucleotide and amino-acid sequences as a part of the application papers (Rule 823); prescribe sequence submissions in computer readable form (Rule 824); and provide for amendments to, or replacements of sequence listing and computer readable copy.

Changes in United States patent practice during the last year have been of particular importance in the biotechnology field. We are, moreover, confronted with a major transition in United States patent practice in which the long-term interests both of Japan and the United States will be best served through a careful examination of the eventual economic impacts inherent in each of these proposals for change.

FOOTNOTES

1. "A Microeconomic View of Intellectual Property Protection in Brazilian Development," Robert M. Sherwood, and "Economic Development and Intellectual Property Protection in Southeast Asia," Gunda Schumann, both published in Intellectual Property In Science, Technology, and Economic Performance, Westview Press, Boulder, 1990, pp. 129 and 195, respectively.

2. "The other Member States of the Community are, therefore, firmly locked into the process of German Unification." EEC Press Release, 22 March, 1990, 18h 00, quoting Vice-President Martin Bangemann speaking before the "College d'Europe," Bruges.

3. Austria: "EEC-Austria: The Commission Consultation On The Admission Request..." Europe General News. No. 5063 (m.s.), 24/75 July 1984. Bulgaria (including Czechoslovakia and Romania) Commission des Communautes Europeennes, Service du Porte - Parole, Brussels, 11 May 1990. Cyprus - "Nicosia applies to join EEC on behalf of all Cyprus," "Financial Times," Thursday, July 5, 1990., Malta: "Malta to press UK for support in joining EC," "Financial Times," Sept. 14, 1988. Norway: "Norway/EC High Level Meeting Joint Communique," EEC Press Release, 2 June 1987. Turkey: "Commission Opinion On Turkey's Request For Accession To The Community," Commission of the European Communities, Sec. (89) 2290 final/2, Brussels, 20 December, 1989.

4. A Study Of History, Arnold J. Toynbee, Vol. VII, Oxford University Press, London, 1954, pp. 277 and 278.

5. World Patent Law And Practice, Vol. 2, J. W. Baxter and JohnP. Sinnott, Matthew Bender, New York, 1990, pp. 13-10 to 13-13.

6. 1109 Official Gazette 6 et seq., December 5, 1989 (hereafter cited as OG).

7. 1109 OG 32, December 19, 1989.

8. 1106 OG 37 et seq., September 12, 1989.

TABLE 1

GROSS NATIONAL AND DOMESTIC PRODUCTS*

European Potential		Pacific Rim Potential	
European Economic Community (1990)	3,902.2	Japan	2,644
		United States	4,864.3
	3,902.2		
Possible Community Affiliation			
Austria	120.3		
Bulgaria	61.2		
Cyprus	3.7		
Czechoslovakia	143.9		
Malta	1.5		
Norway	82.6		
Romania	138		
Soviet Union	2,357		
Turkey	67.1		
	2,975.3		
Total Europe	6,877.5	Total Japan and United States	7,508.3

*These Gross National Products and Gross Domestic Products data were published in The 1990 Information Please Almanac, Houghton Mifflin Company, Boston, pp. 151 to 288. These data are presented in billions of dollars (U.S.).

TABLE 2

COMPARATIVE CHRONOLOGY

World Events	Patent Events
BEFORE CHRIST (BC)	
	322 Aristotle dies
323 Alexander The Great dies	
AFTER CHRIST (AD)	
337 Emperor Constantine dies	337 Special civil status granted to skilled tradesmen and manufacturers
455 Vandals enter Rome	
	480 Emperor Zeno invalidates monopoly rights
710-794 Nara Era	
794-1192 Heian Era	
1150-1167 Universities of Paris and Oxford founded	Circa 1150 Code of Justinian studied in Western Europe
1192-1336 Kamakura Era	Circa 1200 Organization of craft guilds
1215 Magna Carta signed	
1241 Mongols invade Poland and Hungary	
	1297 Pharmaceutical trade secret statute adopted in Venice
	1331 Royal "Letters of Protection" granted to encourage skilled worker immigration

World Events	Patent Events
Circa 1336-1600 Muromachi Era	
1347-1351 "Black Death"	
1376-1382 John Wycliffe translates Latin Bible into English	
	1377 Peachie's London wine monopoly invalidated by Parliament
1431 Jeanne d'Arc burned at the stake	
	1440 Schiedame grant for salt manufacture
	1449 Utynam colored glass grant
1453 Turks capture Constantinople	1453 Petri receives Venetian invention patent
1455 Gutenberg's first printed Bible	
	1474 Adoption of Venetian patent statute
1492 Columbus discovers America	
1532 Pizarro conquers Peru	
1535 Henry VIII becomes head of English Church	
	1537 Guidotti petitions Henry VIII for invention patent
	1559 Acontius petitions Elizabeth I for invention patent
1588 Spanish Armada defeated	
	1597 Bill in Commons to revoke Queen's monopoly power

World Events	Patent Events
Circa 1600 Edo Era	
1600 Hamlet produced, East India Company organized	
	1601 Elizabeth I revokes some monopoly grants and leaves others for judicial determination
	1602 Darcy v. Allen invalidates playing card monopoly
1607 Jamestown, VA established	
1614 John Napier discovers logarithms	
	1615 The Clothworkers of Ipswich sustains "relative" novelty
1620 Pilgrims land at Plymouth Rock	
	1623-1624 Statute of Monopolies enacted - enters force

TABLE 3

	Venetian Statute 1474	English Statute of Monopolies 1623/24	U.S. Patent Statute 1990	Draft Harmonization Treaty 1990
Novelty	New to Venice ("Relative Novelty")	New within the realm ("Relative Novelty")	Not known or used in U.S.; not published anywhere ("Modified Relative Novelty")	Not disclosed anywhere before effective filing date ("Absolute Novelty")
Right to Grant	Inventor	Inventor	Inventor	Inventor
Term	10 years from grant	21 years from grant	17 years from grant	20 years from filing date
Infringement Penalty	Criminal (fine and imprisonment)	Civil (damages, injunction)	Civil (damages, injunction)	Civil (damages, injunction)
Time Increments		(1474 to 1623) 149 Years	(1623 to 1790) 167 Years	(1790 to 1990) 200 Years or (1836 to 1990) 154 Years

(1) Title: Recent Changes in Industrial Property Law

(2) Date: 10/90 (21st, Niigata)

(3) Source:
1) Source: PIPA
2) Group: Japan
3) Committee: 1

(4) Author: Takashi Sawai, Nippon Telegraph and Telephone Corp.

(5) Keywords: Special Law (Law on Special Treatment of Procedures, etc. relating to the Industrial Property), Paperless, Electronic Application, FD Application

(6) Statutory provisions: Special Treatment Law

(7) Abstract:

In 1984, JPO initiated a 10-year program called "Paperless Scheme" aiming at establishing a computer-assisted network for more efficient and modernized prosecution. Legislation was sought to backup this program and a new special law was promulgated on June 13, 1990. This law allows patent and utility model applications filed with electronic means. In December 1990, JPO will start accepting electronically filed applications (on-line filing) and flexible discs applications (FD filing). Supplementary systems shall follow, including systems for deposits of patent or official fees, and filing general authorization (power of attorney). A designated information processing institution will also be established to deal with transferring the information of application to the JPO's computer file. A designated search institution will also be established to search prior art. This program shall be applied to prosecutions of design and trademark applications and appeal cases, and improvements in services of the public reading room and document delivery in the near future. All procedures are expected to be performed in "paperless" manner.

I. Introduction

In 1984, the Japanese Patent Office (JPO) started a 10-year program and initiated searches for the establishment of efficient prosecution work with more use of computers. This program has been known as a program to form a paperless system. When this program is finally completed, JPO will be a central player for electronic processing and storage of patent information. Online linkage between JPO and the

individual applicants would form an extensive network. In the near future, online would be usable for the field of document deliveries and public reading rooms.

As the legislation was enacted to carry out the paperless scheme, the author outlines the legislation referring to the paperless scheme.

II. Overview of the Paperless Scheme

(1) Purpose

The paperless scheme aims at improving prosecution work by way of using more computer resources. More specifically, its targets are: (i) shortening the examination period for industrial property applications, (ii) expansion and improvement of services in connection with industrial property information, (iii) efficiency of and improvements in prosecution works, and (iv) promotion of cooperation in international exchange of industrial property information.

(2) Contents

The overview of the paperless scheme is shown in Fig. 1. In view of the job flow at JPO, it can be roughly classified into three parts.

(a) Application/Processing System

This system relates to electronic processing of applications and verification of filing format, thereby to improve the clerical work.

The online applications can be achieved by directly sending the necessary informations through a terminal to the JPO's computer. An flexible disc storing the text of an application can be filed with JPO as an FD application. Applications in traditional writing form remain acceptable, provided that they shall be converted into electronic means later.

All the applications filed with JPO are to be stored in the JPO's online file which shall be used for prosecution work and publication of gazettes.

(b) Prosecution System

This system allows prior art searches to facilitate examination of the application through general reference

data base and the F-term retrieval system. For the time being, this system is available for patent and utility model applications. However, a likewise system is expected to be developed for design and trademark applications.

(c) Industrial Property Information Service

Data base obtained from the paperless system is available for use by JPO's personnel as well as applicants and their attorneys. They can have an access to the data base with online, and the contents of the data base will be published in the form of optical disc and CR-ROM. Management of patent information will be remarkably enhanced when this data base becomes available.

The plan includes inspection of the file wrapper through online.

JPO intends to promote international cooperation in the field of information exchange among the U.S. PTO, the EPO and JPO.

III. Laws Relating to Paperless Scheme

(1) Legislation and Amendment

The special law, called "The Law on Special Treatment of Procedures, etc. relating to the Industrial Property", was promulgated on June 13, 1990. It aims at promoting the change of the current JPO's documentation system largely relying on paper, to a computer-assisted system. Under this law, electronically filed applications will be accepted in December 1990. This law, having another purpose to facilitate procedural matters relating to the industrial property and promotion of information exchange, is a special legislation to include new forms of filing applications under the current Patent Law and the Utility Model Law. In relation to this special law, partial amendments to these two laws, as well as the Design Law, have been effected.

(2) Details of the Law

a) Introduction of Electronic Information Processing Institution (EIPI) for Procedures

i) On the Part of Applicants:

Electronic Filing:

Specific procedures can be handled through the EIPI. When storage is made on the JPO's computer file, the procedure shall be deemed to have been completed in writing (Article 3).

Flexible Disk Filing:

Specific procedures can be considered to have been completed by filing a magnetic disc on which sufficient information is stored. Upon filing such a magnetic disc, the procedure shall be deemed to have been completed in writing (Article 6). JPO shall store the information on the magnetic disc in the JPO's computer file (Article 6).

Written application:

Procedures can be completed even with written documents, provided that the applicant must request, within a prescribed period of time, the Director General of JPO to store the written information on the magnetic disc (Article 7). JPO shall further store the information on the disc into the JPO's computer file and the thus stored information shall be presumed the same as the original written information.

ii) On the Part of JPO

JPO can dispose of the procedures through the EIPI. The thus-disposed procedures shall be deemed to have been made in writing (Article 4).

JPO can make certain notices through the EIPI. The thus-made notices shall be deemed to have been arrived when it reaches, for storage, the terminal file of the applicant (or its attorney). The disposal contained shall be deemed to have been made in writing. (Article 5).

JPO can publish magnetic discs in place of printed gazettes (Article 13).

iii) Designated Information Processing Institution

An information processing institution (IPI) designated by the Director General of JPO can do jobs of transferring the information stored on the magnetic disc to the JPO's computer file (Article 9).

iv) Contents of Stored Information

Any written document describing the information stored in the file shall be deemed as original copies of the stored information (Article 10). Some of them shall be laid open in the public reading room (Article 11). Any third party can examine the information stored in the file through the EIPI (Article 12).

b) Deposit System

i) Deposit of Appropriate Fees

For the payment of patent fees or official fees, he/she can deposit a certain amount of money beforehand. (Article 14).

ii) Withdrawal from the Deposit

Per request from the depositor, the patent fee or official fee can be withdrawn from the deposited amount (Article 15).

c) Designated Information Processing Institution and Designated Search Institution

i) The designated information processing institution (IPI) shall be under the control of Director General of JPO and its officers and employees shall be liable for confidentiality with respect to confidential information obtained through the jobs (Chapter 4, Paragraph 1).

ii) The designated search institution shall perform prior art searches relating to patent applications. Likewise, it shall be under the control of Director General of JPO and its officers and employees shall be liable for confidentiality with respect to confidential information obtained through the jobs (Chapter 4, Paragraph 2).

(3) Outline of the Partial Amendments of the Patent Law and the Utility Model Law

Abstract: A legitimate application document must include an abstract of his/her invention in addition to a specification and necessary drawings (Patent Law, Article 36). However, determination of the scope of patented invention shall not take into account the description of the abstract (Patent Law, Article 70).

The abstract is necessary for the utility model applcation likewise.

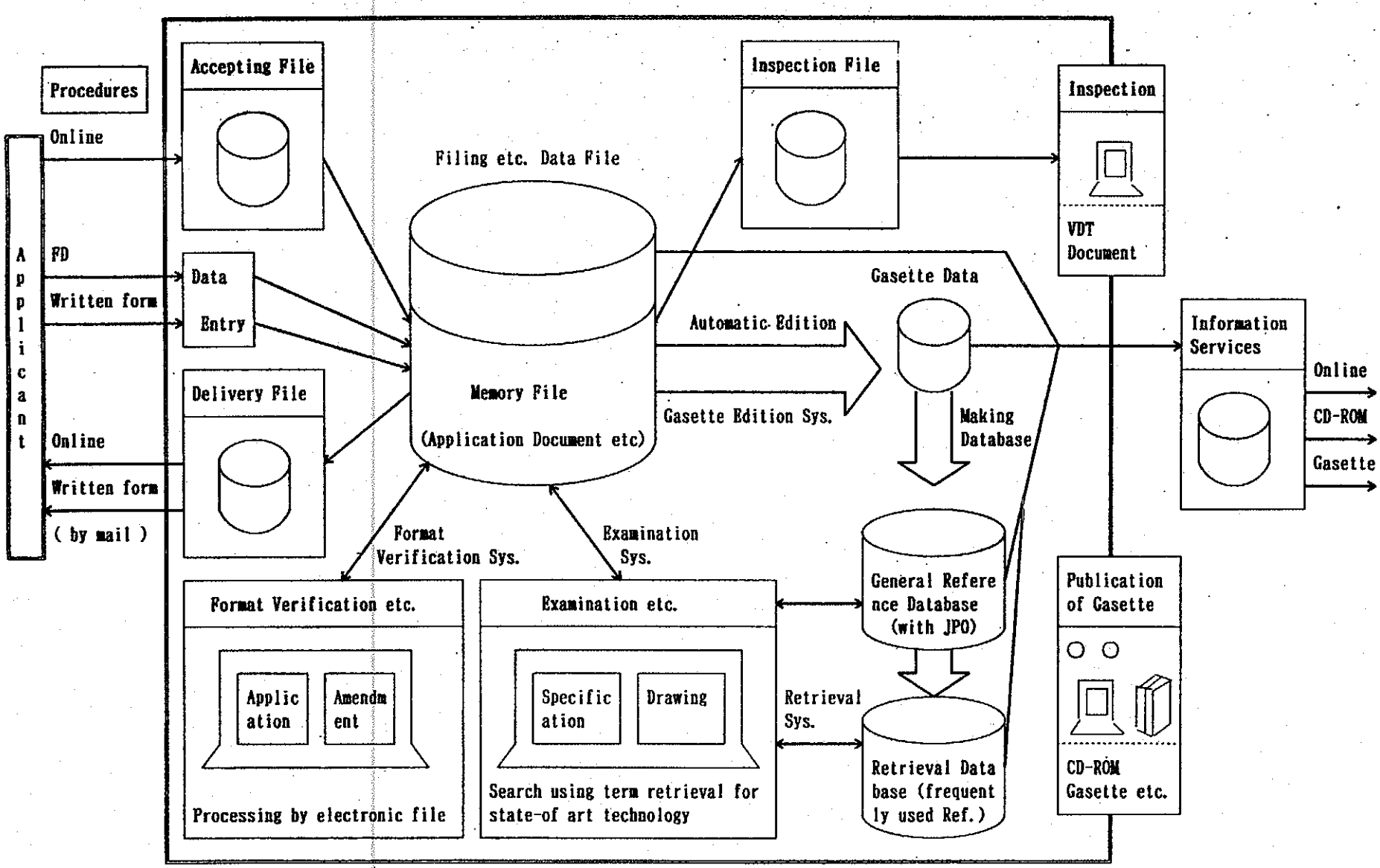
(4) Others

In order to smoothly implement the paperless system, an identification (ID) number, an accession number and an applicant-recognition label shall be issued. The ID number identifies the applicant when he/she files an application by means of on-line. Once general authorization (the power of attorneys) listing the names of his/her attorneys is filed with the Patent Office, there shall be no need to file a power of attorney for an individual application, provided that the applicant indicates the name of his/her attorney and the number given to the general authorization.

IV. Conclusion

Legislation has now cleared the way for electronic applications for patent and utility model. In the near future, electronic applications shall be available for design and trademark. On-line services will be available for the public reading room and document delivery. Eventually, it will achieve the "paperless" procedures.

Fig. 1 Conceptual Sketch of Paperless System



23 : 1 - 4

(1) Title: PRESENT PROTECTION AND FUTURE INTRODUCTION OF THE REGISTRATION SYSTEM OF SERVICE MARK IN JAPAN

(2) Date: 10/90 (21st, Nigata)

(3) Source:

1) Source: PIPA
2) Group: Japan
3) Committee: 1 (Trademark)

(4) Authors: Aiko Nanameki, Asahi Chemical Industry Co., Ltd.
Moeko Iwaya, Sapporo Breweries Ltd.
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Saburo Shimada, Matsushita Electric Industrial Co., Ltd.
Yuji Suzuki, Mitsubishi Rayon Co., Ltd.

(5) Keywords: Service Mark

(6) Statutory provisions: Unfair Competition Prevention Law, Trademark Law, Commercial Law, Copyright Law, Civil Law, Criminal Law

(7) Abstract:

In Japan, there is no registration system for service mark in effect. Although the service mark is protected to some extent under the Unfair Competition Prevention Law and some other laws, the protection so afforded is restricted.

Growth of the service industry in Japan has been significant particularly recently, with an increased necessity for protection of service mark. With strong requests from within and outside of Japan, the Japanese Patent Office is making preparations for introduction of a registration system for service mark in a few years.

In this text, we will first outline the protection of service mark provided under the existing legislation and study problems the legislation has. We will then examine the present situation of the protection by studying typical precedent cases on the protection of service mark, as divided into two groups consisting of those protected and those not protected. We will then proceed further to examine those cases in which some service marks are presumed to be registered as trademark because of lack of a system for registration of service mark, and study effects and problems of the same.

We will, then, introduce an outline of the registration system of service mark under study of the Patent Office.

Lastly, we will refer to the matters to be careful when using service marks in Japan.

1. Introduction:

A service mark is a mark furnished for use by a supplier of service to distinguish it from the rest. In this respect, a service mark is different from a trademark used for goods.

At present, there is no registration system of the service mark in this country. Although protected under the Unfair Competition Prevention Law and some other laws, the service mark is not fully protected under the respective laws.

Development of the service industries in Japan has been significant particularly recently. It shows quick expansion not only within Japan but in international transaction of services in accordance with growing internationalization of economy. To meet strong request from within and outside of Japan, the Japanese Patent Office is preparing for introduction of the registration system for service marks in a few years.

In this text, this Group will examine the protection of the service mark in Japan, as it is, and problems incident thereto; introduce an outline of the registration system of the service mark under study by the Patent Office; and mention matters of importance to be borne in mind when using the service mark in this country.

2. Present Protection of Service Mark:

1) Legislation for Protection of Service Mark:

There is no registration system for the service mark in Japan. The service mark is, therefore, protected on the grounds of the undermentioned laws. We will discuss what are protections afforded under them and problems incident thereto.

(i) Unfair Competition Prevention Law:

The aim of this law is to protect commercial interest of competitors and maintain fair order in competitions by regulating unfair competition acts in respect of representations of, among others, business and goods.

In order to be qualified for protection under this law, a service mark must satisfy the following requirements (Article 1 Paragraph 1 Item 2):

a) It shows business;
b) It is well-known in Japan (Popularity);
c) A mark identical with or similar to a well-known service mark is used by another person; and
d) Confusion has taken place with respect to business establishments or activities, because of use of the mark mentioned above by another person.

Remedies available are, as follows:

a) Civil Remedies:
Any person who is likely to sustain loss of or damage to his business interest because of any of the acts mentioned above, may have such act forbidden (Article 1 Paragraph 1) and, in addition, the person who has had his business interest impaired may seek payment of damages from the person who has intentionally or negligently done any of the above acts (Article 1-2 Paragraph 1).

b) Criminal Remedies:
Any person who has used a service mark for the purpose of unfair competition shall be sentenced to penal servitude not exceeding three (3) years or a fine not exceeding ¥200,000 (Article 5).

Problems:
To be covered under this law, a service mark must be well-known and also satisfy certain requirements, such as production of proof as to confusion of business entities. Thus, it is only a part of service marks that are protected under this law.

(ii) Trademark Law:

This law aims at maintenance of order in transaction of goods by protecting business reputation of a user of a trademark (Article 1), and is not intended to protect any service mark. A trademark is, however, "used on goods by a person who, produces, processes, certifies or assigns such goods, in the course of trade," (Article 2 Paragraph 1). It is likely, therefore, that a mark of "processing" and/or

"certification" which should originally be a "service mark" is protected indirectly as a trademark.

Problems:

This law is intended to maintain good business reputation of a person using a trademark by protecting the trademark used in respect of goods. Thus, it is unclear to what extent a service mark actually used in service is protected under this law. It can hardly be said that a service mark is properly protected under this law.

(iii) Commercial Law:

This law contains provisions for protection of registered or unregistered trade names (Article 16 and thereafter). A trade name could also serve as service-identifying mark, in which event it may be protected under this law.

A person who has effected registration of a trade name is entitled to seek injunction of use of a trade name identical with or similar to that trade name against any person who so uses the trade name with the intention of unfair competition and also to seek payment of damages for any loss sustained thereby (Article 20 Paragraph 1). In addition, a person who uses a trade name registered by and for another person in the same business within the same municipality is presumed to be so using it for the purpose of unfair competition (Article 20 Paragraph 2).

Regardless of whether a trade name is registered, no person may use, for any unjust purpose, any trade name which could be taken mistakenly as representing another person's business (Article 21 Paragraph 1) and, for any use in violation thereof, an injunction of use or payment of damages may be sought (Article 21 Paragraph 2).

Any person who has used a trade name for the purpose of unfair competition shall be sentenced to a minor fine not exceeding ¥200,000 (Article 22).

Problems:

Under this law, a service mark is protected only if it is also a trade name. For protection under

this law, "unjust purpose" and "the purpose of unfair competition" must be proven. Thus, a service mark is not properly protected under the Commercial Law.

(iv) Copyright Law:

This law protects work in which an idea or feeling is creatively expressed and which falls under the category of literature, science, art or music (Article 2 Paragraph 1 Item 2).

Any service mark which consists of products of pictures or drawings, comics characters, theme musics, slogans or the like and which falls within the work under the Copyright Law may be protected under that Law.

Problems:

To be protected under this law, a service mark must fall within the work under this law and, in addition, it must be proven that the user had an access to the work. Therefore, scope of its actual protection is very narrow.

(v) Civil Law:

The more famous a service mark is, the more favorable business reputation is accumulated in it. For this reason, if the owner of a famous service mark sustains loss because of "free ride" by an infringing party, the owner may claim for damages under Article 709 (Torts).

Problems:

If, in the event a case comes under torts under this law, it is also protected under a special law such as the Unfair Competition Prevention Law, protection is sought usually under the special law and, if protection under the special law is not available, then under the provisions of the general law.

In order to seek protection under this law, the existence of interest worth legal protection and the existence of torts (willful intent or negligence) must be proven. It is not easy,

therefore, to seek protection under the torts provision.

(vi) Criminal Law:

Use of a mark identical with or similar to a famous service mark, knowing that it would injure business reputation of its owner or interrupt his business, with the result of injury to the reputation or of interruption of the business, the crime of reputation injury or interference with business (Article 233) may be formed.

Problems:

For application of a penalty under this law, it is necessary to prove the willful intent of the doer. It will not be easy, therefore, to impose a penalty on infringement of a service mark.

2) Precedent Cases on Infringement of Service Mark:

In the following, we will discuss typical precedent cases on the service mark disputed on the grounds of the Unfair Competition Prevention Law, Trademark Law, Commercial Law or Copyright Law (with regard to those for which protection was granted and not granted), and examine the protection of the service mark under the present legislation and the limit thereunder:

A. Precedent Cases in which Protection of Service Mark was Granted:

(i) Hotel Chanel Case (Kobe District Court, Sho 59 (Wa) 94, Decided March 25, 1987):

<u>Statutory Grounds</u>:

Unfair Competition Prevention Law

<u>Parties</u>:

Plaintiff: Chanel Societe Anonyme

Defendant: Koei Shoji K.K.

<u>Facts</u>:

Defendant made use of the name of "CHANEL," a world-famous perfume trademark of Plaintiff, to run a "love" hotel in the name of "Hotel Chanel" in Kobe.

Decition:

The name "Hotel Chanel" used by Defendant is similar to the well-known trade name and trademark in Japan of Plaintiff and is likely to result in confusion with business activities of Plaintiff. Although Defendant has changed the name to another one already, an award for payment of ¥1,000,000 damages for loss of reputation of Plaintiff because of the past use by Defendant was granted.

Comment:

The diversified operation trend prevailing in the fashion industry was taken into consideration in the finding of likelihood of confusion.

(ii) "Crab Sign" Case (Osaka District Court, Sho 56 (Wa) 9093, Decided May 27, 1987)

Statutory Grounds:

Unfair Competition Prevention Law

Parties:

Plaintiff: K.K. Kani Doraku

Defendant: K.K. Kani Shogun

Facts:

Plaintiff which runs crab restaurants through many chain stores nationwide, with a moving "crab sign," applied for injunction against use of a similar "crab sign" by Defendant who also runs crab restaurants, on the grounds of the Unfair Competition Prevention Law.

"Crab sign" mark with moving function:

Fig. 1 (Front view)

Fig. 2 (Stereograph)

Decision:
Injunction against use of a large moving "crab sign" by Defendant was granted, as applied for by Plaintiff, because of likelihood of confusion of business entities resulting from its similarity to the well-known moving "crab sign" used by Plaintiff.

Comment:
Popularity of the large moving "crab sign", coupled with creativity and idea employed in it, was taken into consideration.

(iii) "Genroku Sushi" Case, (Osaka District Court, Sho 59 (Wa) 5473, Decided October 9, 1989):

Statutory Grounds:
Unfair Competition Prevention Law and Trademark Law

Parties:
Plaintiff: Genroku Bussan K.K.
Defendant: Taisho Bussan K.K.

Facts:
Plaintiff, with 11 stores in Osaka-fu, runs "Sushi" bar business in the name of "Genroku Sushi," and owns a registered trademark kept in effect, consisting of "Genroku" in Chinese characters to cover "'Sushi,' lunch and similar goods" as designated goods.
Defendant runs "Sushi" bars and take-out "Sushi" shops in Ishikawa and Toyama Prefectures in the names of "Genroku Sushi," and "Circulating Genroku Sushi."
Plaintiff seeks injunction against use of expressions employed by Defendant under the Unfair Competition Prevention Law and Trademark Law.

Decision:
Business name of Plaintiff can hardly be

recognized as having been known as far as to the Hokuriku district in which Defendant bases its operation. The claim of Defendant under the Unfair Competition Prevention Law has no valid reason to support it.

The mark used in the wrapping paper etc. for take-out "Sushi," being sold by Defendant, may not be said not representing use as trademark. The name, "Genroku Sushi," used by Defendant is similar to the registered trademark, "Genroku," of Plaintiff and, therefore, constitutes an infringement of the trademark right of Plaintiff.

Comment:

In this decision, it was noteworthy that the take-out "Sushi" was found to be goods under the Trademark Law and the mark placed by Defendant on its wrapping paper was found to represent use as trademark. Dishes furnished at a restaurant for immediate consumption there do not come within the goods under the Trademark Law. In this particular case, however, the foods sold, being wrapped up in a container for take-out purpose, were found to be the goods under the Trademark Law.

If, however, Defendant had not used the mark in question on a wrapping paper for take-out "Sushi" but used it in dishes to be immediately consumed there or simply for indication of business line, it would not constitute use as trademark, thus not constituting an infringement of the trademark of Plaintiff, in which event Plaintiff would not be able to exclude use of the mark of Defendant.

The registration system will be great help in cases like this where a mark is used for objects of service.

(iv) Dai-Ichi Kangin Case (Shizuoka District Court, Sho 49 (Wa) 277) and (Tokyo High Court, Sho 49 (Ne) 2593, Decided June 25, 1975):

Statutory Grounds: Commercial Law

Parties:

Appellant (Defendant): K.K. Dai-Ichi Kangin

Appellee (Plaintiff): K.K. Dai-Ichi Kangyo Ginko

Facts:

After effecting registration for transfer of its head office from Hamamatsu-shi, Shizuoka-ken, where Plaintiff maintained its branch office, to Fukuroi-shi in the same Shizuoka-ken where Plaintiff did not have its branch, Defendant changed its trade name and purposes of business to "K.K. Dai-Ichi Kangin" and "Financing for the public, etc." respectively, and completed registrations accordingly. In the business of banking in the name of "K.K. Dai-Ichi Kangyo Ginko," Plaintiff brought a suit, seeking injunction against use of trade name by Defendant.

Decisions:

District Court: The District Court ordered an injunction against use of the trade name and deletion of the registration of Defendant, holding that the trade name, "K.K. Dai-Ichi Kangin," as used by Defendant was likely to create confusion with the business of Plaintiff which was a reputed bank and came under the "trade name that could give rise to confusion as if it were business of another," as provided for in Article 21 Paragraph 1 of the Commercial Law, and also that Defendant had an unjust intention in doing so.

High Court: The Court held in support of the decision granted by the District Court that,

because of the similarity in the appearance of the trade name between the Appellant, "K.K. Dai-Ichi Kangin," and the Appellee, "K.K. Dai-Ichi Kangyo Ginko," and of the sameness of the abbreviated company name of the Appellee, "Dai-Ichi Kangin," with the trade name of the Appellant, use of the trade name of Appellant is likely to cause confusion with the business of the Appellee and to injure business interest of the Appellee and, in addition, the Appellant was considered to have been with unjust intention in doing so.

Comment:

This case evidently related to the "trade name that could give rise to confusion as if it were business of another," as provided for in Article 21 Paragraph 1 of the Commercial Law, because of the following reasons:

- The trade name of the Appellee was a nationwide, well-known one.
- The abbreviated company name of the Appellee was the same as the trade name of the Appellant.
- The fact that the Appellant changed its trade name to "K.K. Dai-Ichi Kangin" and used it was sufficiently enough for the court to assume its intention to make undue profit out of it.

(v) "Sazae-san" Case (Tokyo District Court, Sho 46 (Wa) 151, Decided May 26, 1976):

Statutory Grounds: Copyright Law

Parties:

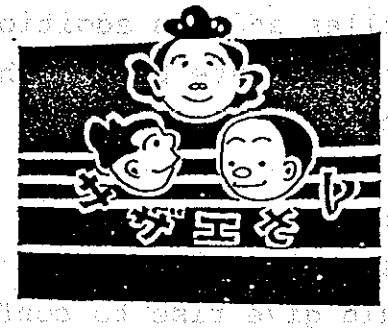
Plaintiff: Machiko Hasegawa

Defendant: Tachikawa Sightseeing Bus K.K.

Facts:

Plaintiff, who owned the copyright in her comics

titled "Sazae-san," on the grounds of infringement of her copyright, sued Defendant which, when starting for the sightseeing bus business, used the business name of "Sazae-san Sightseeing" and had painted on both sides of the buses head pictures of "Sazae," "Katsuo," and "Wakame" who were characters of her comics (see below).



Decision:

While use [of the characters] by Defendant relates to the name of business establishments or activities (service mark), it is clear to everybody that characters of the comics, "Sazae-san," are shown. It was held that Defendant made use of them, infringing the copyright of Plaintiff, and an award for payment of damages was granted in favor of Plaintiff.

Comment:

In this decision, characters of the comics, "Sazae-san," represented work of Plaintiff and were famous. On these grounds, Defendant was found to have had access to that particular work and an award was granted. It would follow, therefore, that if any comics falling under work are not famous, it would be up to Plaintiff to prove that Defendant had in fact access to them, with the result that protection available would then be narrowed.

B. Precedent Cases in which Protection of Service Mark was not Granted:

(i) Century Case (Tokyo District Court, Sho 59 (Wa) 1752, Decided February 20, 1987):

Statutory Grounds:

Unfair Competition Prevention Law

Parties:

Plaintiff: Century & Co., Ltd.

Defendant: Century Staff K.K.

Facts:

Both of Plaintiff and Defendant were running the part-time help service. Operation of Plaintiff was rather small, with almost no publicity or advertisement being then made through mass communication media.

Plaintiff sought injunction against use of the trade name of and the word "Century" by Defendant.

Decision:

In view of the fact that there had not been much publicity or advertisement to speak of and the companies were not widely known, the injunction was not granted.

Comment:

Petition under the Unfair Competition Prevention Law was not favored on the grounds of lack of popularity because of, among others, restricted area of business activities. It is extremely difficult for a small business like Plaintiff to enjoy protection under the existing legislation.

(ii) Ten-Ichi Case (Tokyo District Court, Sho 59 (Wa) 6476, Decided April 27, 1987)(Tokyo High Court Sho 62 (Ne) 1462, Decided March 29, 1988):

Statutory Grounds:

The Unfair Competition Prevention Law, Commercial Law and Trademark Law

Parties:

Appellant (Plaintiff): K.K. Ten-Ichi

Appellee (Defendant): K.K. Ten-Ichi

Facts:

Plaintiff runs "Tenpura" restaurants in the name of "Ten-Ichi" in the central 23 wards of Tokyo and adjacent areas thereto, Sapporo-shi and Hiroshima-shi. It also holds a registered trademark consisting of two Chinese characters reading, "Ten-Ichi," covering "Foods and additives not included in other classes," under former classification class 45. Defendant runs a Japanese restaurant in Ota-shi, Gunma-ken, in the business name of "Ten-Ichi" under the trade name of "Kabushiki Kaisha Ten-Ichi." Plaintiff sought prohibition of use of the business name and trade name of Defendant under the Unfair Competition Prevention Law, Commercial Law and Trademark Law. As the petition was rejected in the original judgment, Plaintiff appealed.

Decision:

The Court finds, it was improbable that the trade name of the Appellant or the business name of "Ten-Ichi" had been widely known among inhabitants of Ota-shi, Gunma-ken and adjacent areas thereto, prior to use of business name of "Ten-Ichi" and of present trade name by Appellee. The petition of the Appellant under the Unfair Competition Prevention Law, therefore, has no valid reason.

The Court does not find that the Appellee used its present trade name or the business name of "Ten-Ichi," for any "unfair competition purpose" or "unjust purpose." The claim of the Appellant under the Commercial Law, therefore, has no valid reason.

Japanese food packed in a container and furnished for take-out for a consideration at the request of customers does not come under the goods within the

meaning of the Trademark Law and, therefore, does not infringe the trademark right of the Appellant.

Comment:

The trade name and the business name of "Ten-Ichi" satisfactorily accomplish their objectives of distinguishing service of the Appellant from that of others and, in the opinion of the authors, are widely known. In this particular case, however, its popularity was not acknowledged and the protection under the Unfair Competition Prevention Law was not granted, probably because the popularity was judged on the territorial basis of Ota-shi, Gunma-ken, and adjacent areas thereto, representing a restricted area, which does not fall within the operation area of the Appellant. If judgment had been made on the basis of Tokyo where Appellant does business, the popularity of Ten-Ichi would have been admitted.

To be qualified for protection under the Unfair Competition Prevention Law, judgment of popularity is very strict. To be qualified for protection under the Commercial Law, it is extremely difficult to prove the "unjust purpose" and "unfair competition purpose." And, protection under the Trademark Law requires use of the trademark in respect of goods. Thus, unreasonable situation would take place as in this case where cases are not protected simply because of lack of the registration of service mark system.

This case represents a typical one which reminds readers of the necessity of adoption of the service mark registration system at an earliest convenience.

(iii) "Daidarazaurus" Case (Osaka District Court, Sho 45 (Yo) 1219, Decided May 20, 1970):

Statutory Grounds: Trademark Law

Parties:

Plaintiff: Katsuo Iwata

Defendant: Japan International Exposition

Foundation
Keihanshin Kyuko Dentetsu K.K.

Facts:
A petition was filed for temporary disposition, alleging that the name of "Daidarazaurus" displayed on the signboard for amusement facilities in EXPO '70 (Osaka) infringed the trademark of Plaintiff registered in the same name under Class 9 including amusement park using machines and instruments.

Decision:
The roller-coaster-like travelling equipment under reference is an immovable fixture to the land and is not replaceable, tangible, movable property which could pass from hand to hand as an object of general transactions. Therefore, it does not fall within goods under the Trademark Law. Thus, it does not infringe the trademark right to display the said name.

Comment:
This is one of few precedent cases dealing with whether a given name constitutes a name of goods under the Trademark Law.
Plaintiff filled application for registration of the trademark, knowing that Defendant adopted this name. This name falls within the service mark used for amusement service. If there had been the registration system for the service mark, trials like this could have been avoided.

(iv) "Dosho" Case (Tokyo District Court, Sho 62 (Wa) 1136, Decided August 29, 1988):

Statutory Grounds: Copyright Law

Parties:
Plaintiff: Kazukichi Tsukamoto
Defendant: Katsuko Fujita

Facts:
Defendant had made a sign on which two Chinese

characters, reading "Ka" and "Sen," were shown and displayed it at a Japanese restaurant run by it and named "Ka-Sen. "Plaintiff sought payment of damages, alleging that Defendant infringed the reproduction right relating to the two Chinese characters inserted in a publication by Plaintiff.

Decision:

Defendant was not involved in production of the sign. She only took delivery of a sign which was then already made out and installed in the restaurant of Defendant. Defendant was not in a position to be held responsible for alleged infringement of the reproduction right of Plaintiff in respect of the two characters of "Ka" and "Sen" inserted in the publication. Claim of Plaintiff was rejected.

Comment:

Under the present Copyright Law, whether there is an infringement of the copyright is determined according to whether access was made to work. Protection under this law is subject to restriction.

3) Protection of Service Mark under the Trademark Registration System:

(i) Registration of Service Mark as Trademark:

As stated in the above, service marks are protected under the Unfair Competition Prevention Law and other laws, however, subject to strict requirements such as popularity. The registered trademark is uniformly protected against infringement, based on the registration, regardless of whether it is in use.

Thus, suppliers of service occasionally get their trademarks registered in respect of goods relating to the service they offer. As an example, we show below the status of registration of the "crane device" trademark of the Japan Air Line (JAL) which is famous for its air transportation service:

Owner	Trademark	Class	Registration No.
JAL		10	1177954
		11	1148397
		18	1855160
		19	1821716
		21	1232839
		22	1785688
		23	1832662
		24	691643,1159687,1519987
		25	1406484
		26	609377,1316615
		29	1096645

We also quote below the registration status of marks used by DHL, a world-famous courier service company, in the United States and Japan.

Registered Mark	U.S.A.		Japan	
	Reg. No.	Designated Svc.	Reg. No.	Designated Goods
DHL	1103602	Courier Services by Air, Land & Sea, Namely, Transportation of Business Documents (Cl.39)		
	1104948	Same as above	1905443	Containers (Cl.18)
			1873111	Papers, Stationery (Cl.25)
			1867756	Printed Matters (Cl.26)

The above illustrations will be indicative of the following:

a) Suppliers of service in this country are likely to have their trademarks registered as broadly as possible in respect of their service-related goods.

b) Suppliers of service of the U.S.A. have only their service marks registered in the U.S.A.but, because of lack of the registration system for service marks in Japan, tend to get their trademarks registered in Japan in respect of their service-related goods.

Both of a) and b) above show that suppliers of service in Japan rely on registered trademarks for protection of marks which would otherwise be better protected as service marks.

(ii) Effects of Registration of Service Marks as Trademark:

A service mark, if registered as trademark, will have the following effects under the provisions of the Trademark Law:

a) The owner may retard registration as trademarks by a third party of such other marks as are identical with or similar to it, even when it is not well-known or not in use.

b) The owner may exclude, as infringement of the trademark right, use of any mark identical with or similar to his registered trademark on any goods identical with or similar to those goods covered for his registered trademark.

A service mark, if registered as trademark, is protected as such. Therefore, use of it by a third party as service mark does not constitute an infringement of the trademark right and the owner of the trademark does not have protection against it. As such, registration of a service mark as trademark is not always an effective way of protection.

Also, as long as a mark is used as service mark, it is subject to cancellation for non-use and it would be impossible to renew the term of the trademark.

Suppliers of service in Japan depend on registered trademarks for their protection, simply because there is no other better ways, knowing that protection of service mark under the trademark is not the best.

(iii) Problems due to Registration of Service Mark as Trademark:

The following problems will arise if a service mark is registered as trademark, without the intention of use of it as trademark but in the hope of legal protection or defense of it as service mark:

a) It will reduce the possibility for selection of trademarks by others.

b) It will delay examination of applications for registration of trademarks.

c) It will distort the purposes of protection of goodwill accumulated by use of the trademark for which the trademark system is maintained.

It is extremely difficult to find out exactly to what extent service marks are registered as trademark. Nevertheless, because of the rapidly increasing suppliers of service in Japan, the number of service marks registered as trademarks will continue to increase unless some effective measures are taken promptly.

A drastic solution to the above problems will be to promptly introduce a system for registration of service marks similar to the one for registration of trademarks.

3. Study on Introduction of the Service Mark Registration System:

In the following, we will outline the registration system for service marks under study by the Patent Office, based on the "Registration System for Service Marks (as Drafted)" made public early this year by the Patent Office.

1) Why must the Service Mark be Introduced?

Recent development in service transactions has exalted the importance of the service mark. While many disputes involving service marks are taking place, protection of the same under the Unfair Competition Prevention Law and other existing laws are restricted. Thus, the necessity for introduction of the registration system for service marks is strongly urged in Japan.

In addition, many of advanced countries of the world have adopted the registration system for service marks. Under the proposed Trademark Harmonization Treaty being worked out by WIPO, registration of service mark is to be imposed. These international trends are also another reason prompting introduction of the service mark registration system.

2) Principles for Protection:

(i) Basically, protection will be provided under the Trademark Law in the same manner as for the trademark. In other words, any marks used in goods or service will be defined collectively as "trademark" for protection purposes. Thus, the manner in which the service mark is protected will be the same as that adopted by other countries. As Japan adopts the first-to-file principle, it will be possible to apply for and register any service marks not in use then.

(ii) Areas in which the Service Mark Right is Effective:

In the same manner as under the trademark right, the service mark right will be valid nationwide and will not be restricted to any particular area or territory of the country. This is necessitated because of increase of nationwide service as the result of expansion of operation areas and of an increasing trend of affiliation as in operations on a chain store basis.

3) Transition Measures:

(i) At the start of the registration system, there will be provided exceptional measures for application date in respect of the service mark. This is intended to avoid concentration of applications for registration and resultant confusion on the first day on which the registration system

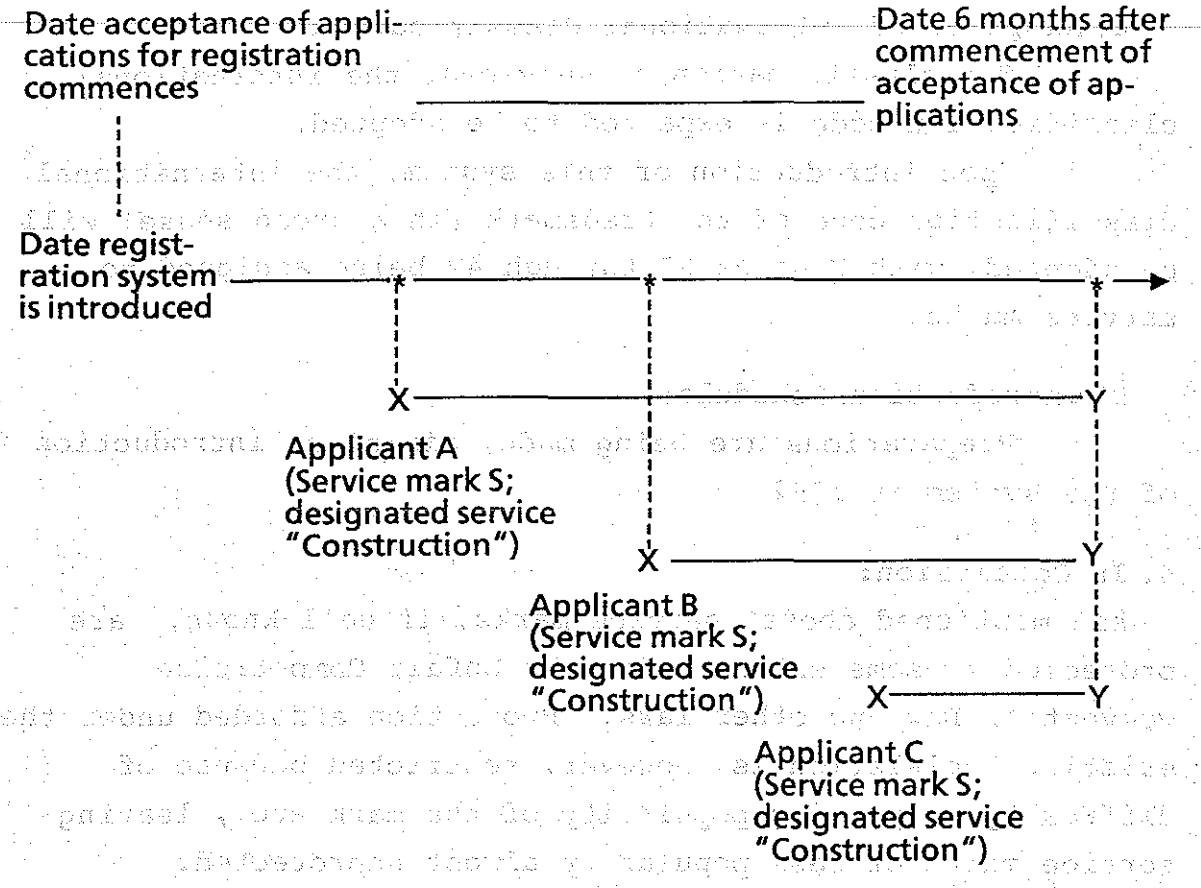
is made available and also to permit application for the priority registration as explained hereinafter.

(ii) Under the said exceptional measures, any application filed within a certain period (6 months) at the beginning of the registration system will be treated as being filed on the last day of the said period.

(iii) For protection of service marks then in use, two measures as outlined below will be introduced:

i) Right of Continuous Use:
This is intended to protect any service mark which has been in use, for other than unfair competition purposes, from before promulgation of the amendment to the law, and to permit it to be validly used continuously even when, as the result of introduction of the registration system, a third party secures registration of any infringing service mark. The rightful third party who has so secured the registration of a service mark may demand the party who is so permitted to continue to use that service mark, to use a suitable identification to prevent confusion of the source.

ii) Priority Registration:
This will be provided, as an exception to the first-to-file principle, in respect of any application for service mark which is filed within the first 6 months of the registration system and for which there is no ground of rejection.
In other words, if, in the event of two or more applications for a mutually infringing service mark, those for the mark "then in use" will have priority over those for the mark "yet to be used" (if all are "then in use," all will be registered (Duplicated registration).
The following illustration will explain for itself:



X: Date actually application filed
Y: Date application regarded as being filed..

a) Any of Applicants A, B and C who HAS Service Mark S in use for construction service from before promulgation of the amended Trademark Law has priority over the rest for registration.

b) Any of Applicants A, B and C who HAVE Service Mark S in use for construction service from before promulgation of the amended Trademark Law are all entitled to registration thereof.

c) If none of Applicants A, B and C have Service Mark S in use for construction service from before promulgation of the amended Trademark Law, Applicants A, B and C will determine one who shall be entitled to a registration by consulting with each other (if no agreement is arrived at, then by lot).

4) Adoption of International Classification:

For classification of services, the international classification code is expected to be adopted.

Upon introduction of this system, the international classification code of the trademark (in a broad sense) will be adopted, with Classes 35 through 42 being assigned to service marks.

5) Introduction Schedule:

Preparations are being made, aiming at introduction of the system in 1992.

4. In Conclusion:

As mentioned above, service marks, if well-known, are protected to some extent under the Unfair Competition Prevention Law and other laws. Protection afforded under the existing legislation is, however, restricted because of difficulty in proving popularity of the mark etc., leaving service marks of less popularity almost unprotected.

In order to achieve protection of service marks under the existing legislation of Japan, it will be necessary for owners of the same to make the marks popular, to the extent required, through use and publicity-advertisement activities.

Preparations are being made, with the aim of introducing the registration system for service marks in 1992. You should carefully follow the introduction work of the Patent Office after thoroughly undestanding such measures as "Exceptional Measures for Application Date", "Right of Continuous Use" and "Priority Registration" expected to be adopted as already explained, and adequately adapt yourself to the new registration system.

In consideration of the fact that the use of a service mark before application greatly affects the right of the service mark, it is necessary to pay attention to the initiation of use of the service mark in advance of introduction of the registration system.

As Japan adopts the first-to-file principle as already mentioned, once an application for registration of an unused

service mark is filed and it is registered, the applicant will become the rightful owner of it. For any service mark for which there is a specific plan for use, it is important always to file an application even when it is yet to be used.

24:2-3A

SOFTWARE PROTECTION:

THE SHIFTING BOUNDARIES

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SOFTWARE PROTECTION: THE SHIFTING BOUNDARIES

> When statutes establish evaluative standards for deciding cases, courts -- by necessity -- must locate boundaries in unchartered terrain, using the markers that Congress has placed. At some places a boundary may run straight as a surveyor's sightline between markers; at others, it may meander like a stream, moving toward resolution of clashing objects and policies the markers identify.
>
> Judge Robert E. Keeton
> Lotus Development Corp. v. Paperback Software International, Inc.

With these words, US District Court Judge Robert Keeton described the task before him in determining whether Paperback Software's spreadsheet program, VP-Planner, was an infringing copy of Lotus Development's program, 1-2-3. Judge Keeton went on to chart the boundaries of copyright protection for computer programs as they now lie, in the context of the particular programs at issue. Ultimately, he found that Paperback had infringed Lotus's copyright, and in the process clarified a number of issues that US lawyers had been debating for some time. He did so in a way that was consistent with prior law and with general copyright principles, and the decision should have surprised no one, except perhaps the defendant.

In the US, copyright law has been the principle means of protecting computer software for many years. It has proved to be a body of law that is adaptable to the rapid changes taking place in the underlying technology, and that fairly balances the interests of the developer, the user and society as a whole. We

believe that copyright law will continue to be the best means of protecting software in the future.

This paper discusses the "shifting boundaries" of copyright law as it relates to computer programs. In doing so, it focuses on the US experience, since case law involving the application of copyright law to computer programs is more extensive in the US than in other countries. Although US copyright law differs, in some areas significantly, from the copyright laws of other countries, some general concepts of copyright law, such as the idea/expression dichotomy, are very similar in most countries. Thus, many of the issues raised in the US cases are issues which either have been, or likely will be, raised under other countries' copyright laws.

The paper first examines the development of copyright law in the US, as it relates to computer programs, up to the Lotus decision. It will then discuss that decision in some detail. Finally, we will try to look into the future to a certain extent, to divine how existing US copyright law might apply to some of the emerging issues in software protection.

The paper concludes that copyright law has provided a fair and measured regime under which the rights of various parties can be ascertained, while at the same time proving adaptable to new technological developments, and new uses for existing technology.

PART I

THE HISTORY OF THE COPYRIGHTABILITY OF COMPUTER PROGRAMS

The General Theory of Copyright

A key part of the application of copyright law to software technology is the important and longstanding principle, present in the laws of most, if not all, countries, that copyright does not protect ideas. US copyright law specifically provides that

> "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."[1]

The principle that copyright does not protect ideas leads to what is known as the idea/expression dichotomy and the attempt to divine the boundary between protected expression and unprotected ideas. The boundary between the two is often close and difficult of precise calculation. In the US system, the boundary is one that must be drawn on a case by case basis, in light of the precise facts of each case.

Two other key concepts of copyright law, corollaries to the idea/expression dichotomy, are merger and indispensable expression. Merger occurs when the idea and the expression are so close as to be inseparable. Merger is often found when there

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[1] 17 U.S.C. § 102(b). The U.S. Copyright Act is codified as Title 17 to the United States Code, the body of United States Federal Statutory law.

are only a few ways of expressing an idea. Indispensable expression is found if the expression is a necessary by-product of the idea itself. When either merger or indispensable expression occurs, the expression at issue is considered non-copyrightable.

These three concepts, the idea/expression dichotomy, merger, and indispensable expression, are critical aspects of any analysis of the scope of protection afforded by copyright to computer programs, which by their very nature combine "imaginative" or "creative" and purely utilitarian aspects. As discussed below, the successful application of copyright law to these aspects has depended, and will continue to depend, on how well courts have applied these concepts. As also discussed below, we believe that courts, which have at their disposal the precise facts of each particular situation, are far better at applying these concepts, and determining the precise boundary, than legislatures.

Copyright Law and Computer Programs

The US Copyright Act defines a computer program as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result."[2] Although this is a very narrow definition, essentially referring to the code only, it does not imply that the scope of protection afforded computer programs is similarly narrow. It is well

[2] 17 U.S.C. § 101.

settled US law that one can infringe the copyright in a novel, or play, or movie, even if one has not slavishly copied the text. Similarly, it should come as no surprise that the copyright in a computer program protects more than the code, and may protect the user interface, structure, sequence and organization and other "non-literal" aspects of the program.

Phase One: The Copyrightability of Program Code.

The early cases examining the issue of the copyrightability of computer programs concentrated solely on program code. In these cases, the primary argument against copyrightability was that code was not a "literary work" as defined under the Copyright Act, but rather a utilitarian, or purely functional, aspect of a computer system.[3]

Courts uniformly rejected this argument. In Apple Computer, Inc. v. Franklin Computer Corp.,[4] for example, the court held that all code was copyrightable, noting that the mere fact that "the words of a program are used ultimately in the implementation of a process should in no way affect their copyrightability."[5]

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[3]See, e.g., Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240 (3d Cir. 1983), *cert. dismissed*, 464 U.S. 1033 (1984).

[4]714 F.2d 1240 (3d Cir. 1983), *cert. dismissed*, 464 U.S. 1033 (1984).

[5]Id. at 1252 (quoting the National Commission on New Technological Uses of Copyrighted Works, The Final Report and Recommendations, 21).

The court in Apple Computer, Inc. v. Formula International, Inc.[6] took a similar view, holding that operating systems, not just applications programs, were copyrightable.[7]

More recently, the court in NEC v. Intel[8] rejected the argument that microcode was not copyrightable. The defendants in Intel argued that microcode,[9] unlike other types of program code, is "a defining element of the computer,"[10] rather than a computer program, which is defined under the Copyright Act as "'set of statements or instructions to be used . . . in a computer.'"[11] The court rejected this argument, stating that "[t]here is nothing in [the Copyright Act] which suggests a different result [concerning copyrightability] for different types of computer programs based upon the function they serve within the machine."[12]

These and other "code" cases ended the debate, as least in US courts, over whether computer programs are copyrightable at

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[6]725 F.2d 521 (9th Cir. 1984).

[7]Id. at 523-25.

[8]10 USPQ2d 1177 (N.D. Cal. 1989).

[9]Microcode is "a set of encoded instructions . . . that controls the fine details of the execution of one of more primitive functions of a computer." Lotus Development Corp. v. Paperback Software International, No. 87-74-K, slip. op. at 5 (D. Mass. June 28, 1990) (quoting Samuelson, CONTU Revisited: The Case Against Copyright Protection for Computer Programs in Machine-Readable Form, 1984 Duke L.J. 663, 677).

[10]Id. at 1179 (emphasis added).

[11]Id. (emphasis in original).

[12]Id. at 1179 (quoting Franklin, 714 F.2d at 1252).

all. Presently, in the US, as in most other countries, there is no question today that computer programs generally are protectible by copyright, and that copying the protected expression in a program is an infringement of the copyright. The real questions today are what is and what should be the scope of protection afforded by the copyright.

Phase 2: The Copyrightability of a Program's Internal Design.

Once program code was found to be copyrightable, litigation over the copyrightability of other aspects of computer programs became inevitable. The next phase of litigation that arose concerned the structure, sequence, and organization of computer programs. As the cases discussed below indicate, this phase of litigation shifted copyright law's boundaries from the literal to the non-literal aspects of computer programs.

Whelan Associates, Inc. v. Jaslow Dental Laboratory, Inc.[13] is the leading case concerning the scope of protection for the internal design and structure of a program. The defendant in Whelan was a sales representative for a company that marketed a dental laboratory software system. The system as originally developed was incompatible with a number of computer systems. The defendant, recognizing a potential market for the dental system on other computer systems, wrote a compatible version of the system and marketed it without the consent of the plaintiff,

[13]797 F.2d 1222 (3d Cir. 1986), *cert denied*, 479 U.S. 1031 (1987).

the author and owner of the original system.[14] The plaintiff sued for copyright infringement, claiming that defendant impermissibly copied the program.

In considering the issue, the court focused on the idea-expression dichotomy critical to the issue of a work's copyrightability. The defendant argued that the structure and organization of a software system is an idea and therefore not copyrightable.[15] The court disagreed, giving a broader view to "idea" than defendants advanced. It found that the particular structural design adopted by the plaintiff was an expression of the idea of a dental laboratory system, not the idea itself.[16] A dental laboratory system can be designed in many ways, the court found, and the structure, sequence and organization of the plaintiff's system neither merged with nor was an indispensable expression of the idea itself. Thus, the structure, sequence and organization of her system was protected by the copyright in the program.[17]

Another seminal case dealing with the internal design of a program was Synercom Technology, Inc. v. University Computing Co.,[18] which addressed the copyrightability of the input/output file format of programs. In Synercom, the alleged infringer

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[14] Id. at 1226.

[15] Id. at 1235.

[16] Id. at 1238.

[17] Id.

[18] 462 F.Supp. 1003 (N.D. Texas 1978).

developed software that competed with plaintiff's copyrighted software. The alleged infringer's software was programmed so that it could accept input files created from plaintiff's software. Users who previously had used plaintiff's system could switch to defendant's system and continue to use files created under plaintiff's system.

Plaintiff claimed that defendant had impermissibly copied its user manual, which described the sequence and ordering of the input data to be used with its software.[19] The court found for defendant, holding that the idea manifested by plaintiff's input ordering and sequencing was not a separable expression. Moreover, the court held, even if the sequence and ordering of data were "expression," the plaintiff would not be entitled to protection under the doctrine of merger, since the format cards articulated no idea separable from the sequence and ordering expressed.[20]

Digital Communications Associates, Inc. v. Softklone Distributing Corp.[21] involved a claim of copyright infringement of the command sets used by the plaintiff in the screen displays of a program. In finding that infringement had occurred, the court distinguished Synercom as it applied to input formats in the following passage:

"The Synercom court concluded that no infringement

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[19] Id. at 1004.

[20] Id. at 1014.

[21] 659 F.Supp 449 (N.D. Ga. 1987).

> occurred because the defendant merely copied the idea of . . . the particular sequence of the data. Translated into the instant case, the comparable situation would have occurred had the defendants designed a program which accepted all of the same commands utilized by the plaintiff . . . . If this had been the situation, then there would have been only an appropriation of the plaintiff's idea and not its expression. The difference between Synercom and the instant case is that in Synercom the sequence of the data input into the computer is relevant to the functioning of the Synercom computer program and the defendant copied only the sequence. The Synercom defendant did not, however, create format cards with the same headings and shaded areas. In the instant case, the arrangement of the parameters/commands on the status screen and the highlighting and capitalizing of two specific letters of each command have no relationship to the functioning of the status screen or of the computer program underlying the status screen."[22]

It is clear from the DCA opinion that what the defendants did wrong was not use the same commands; rather, it was the arrangement of the screen and the presentation of the commands that constituted infringement of the copyrightable expression in the screen.

Phase Three: The Copyrightability of User Interfaces.

The most recent cases in US courts over the scope of copyright protection for computer programs have involved the user interfaces of programs.[23] These cases have generated the most interesting and difficult issues for US courts attempting to determine the boundaries of copyright law as it applies to

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[22]Id. at 460.

[23]User interfaces are often referred to as the "look and feel" of a program.

computer programs.

Broderbund Software, Inc. v. Unison World, Inc.[24] was one of the earliest cases to address the copyrightability of the elements of a screen design. Broderbund involved the scope of protection of the menu and other screens of a card-printing program. The plaintiff alleged that the user interface -- the screen format and arrangement -- of the defendant's competing system was substantially similar to its own and therefore infringed its copyright. No claim was made that the defendant had copied, or even had access to, the actual code or design.

The court found for the plaintiff. To determine whether the user interface was copyrightable, the court first considered the idea/expression dichotomy and, relying on Whelan, determined that the user interface was an expression of the idea of a card-printing program, not the idea itself. Next, it considered whether sufficient alternative interfaces were available for such a system, or whether instead the expression was so indispensable to the idea as to merge with it. Evidence of other card-printing programs indicated that alternative interfaces were possible.

Data East USA, Inc. v. Epyx, Inc.[25] was the next case involving a user interface. Epyx involved an alleged infringement of a karate video game. The district, or lower, court in Epyx had held that the defendant's karate game infringed the copyright in the plaintiff's game "in that the defendant's

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[24] 648 F.Supp. 1127 (N.D. Cal 1986).

[25] 862 F.2d 204 (9th Cir. 1988).

game unlawfully appropriates the total feel and concept of plaintiff's game."[26] The holding was highly criticized and was overturned on appeal. The appeals court held that the similar features of defendant's and plaintiff's systems were expressions that "necessarily follow from the idea of a martial arts karate combat game, or are inseparable from, indispensable to, or even standard treatment of the idea of the karate sport," and thus not copyrightable.[27] Turning to the only two "protectible" elements of the game in plaintiff's program, the scoreboard and background scenes, the court found that defendant's comparable screens were vastly different, and thus copyright infringement had not occurred.[28]

[26]1987 U.S. Dist. LEXIS 16 (N.D. Cal. 1987).

[27]862 F.2d at 209.

[28]Id. at 209-10.

PART II

The Lotus Case

The most recent case involving user interfaces, decided less than three months ago, is Lotus Development Corp. v. Paperback Software International, Inc.[29] Lotus involved an alleged infringement of the user interface of Lotus' 1-2-3 electronic spreadsheet. Specifically at issue was the 1-2-3 user interface, including its menus, the menu screen displays, and the hierarchical organization of the menu commands.

Lotus contended that the entire user interface of 1-2-3 was protectible, whether taken as a whole, as individual parts, or in sequence. Defendant Paperback countered that the interface was a functional manner of expressing the idea of an electronic spreadsheet, much like the QWERTY structure on a typewriter is a purely functional arrangement of letters, and therefore is merely a "procedure, process, system, [or] method or operation" which is outside the scope of the Copyright Act.[30] Additionally, Paperback argued that the command structure of 1-2-3, to the extent that it is expression, is indispensable expression. This is because the 1-2-3 macro commands will only work in another electronic spreadsheet if the latter spreadsheet structures and orders the commands in the exact way that 1-2-3 does. Thus, to make the 1-2-3 spreadsheet compatible with other spreadsheets,

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[29]No. 87-46-K (D. Mass. June 28, 1990).

[30]No. 87-46-K, slip. op. at 34-35.

its command structure -- a very significant and popular part of its interface -- must be duplicated verbatim.

The court found that the defendant had infringed. First, the court undertook a very extensive examination of the history of copyright law and its applicability to computer programs and concluded that user interfaces were indeed intended to be protected under the Copyright Act.[31]

Next, the court applied a legal test to the issue of whether the 1-2-3 user interface was copyrightable. The test poses three questions. The first is whether the concept at issue is idea or expression. To help answer this question, the court held, the decision maker must consider where the concept "falls" on a abstraction scale ranging from the most general to the most specific. The second question, which is considered only if the concept at issue is found to be expression rather than idea, asks whether the elements of the expression are essential or non-essential to the total idea. Finally, the third question, which in turn is considered only if non-essential elements exist, asks whether the non-essential elements are a substantial part of the idea.[32]

Applying the test to the case at hand, the court found that

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[31] Id. at 14-31.

[32] Id. at 48-51. The test, the court held, is not a "bright-line" rule but rather an "evaluative or 'judgmental' weighing of all relevant characteristics of the work in which a copyright is claimed, all relevant characteristics of the allegedly infringing work, and all of the relevant circumstances of their development and use." Id. at 52.

the Lotus 1-2-3 spreadsheet was copyrightable. First, the court found that a user interface for an electronic spreadsheet was an expression of the idea of an electronic spreadsheet, but was not the idea itself. In making this determination, the court relied heavily on evidence of a number of electronic spreadsheets with much different user interfaces than the 1-2-3 interface.

Moving on to the second part of the test, the court considered whether the Lotus 1-2-3 interface contained only essential elements of the idea. It found that it did not. It did find a number of elements of the 1-2-3 spreadsheet "essential" and thus not copyrightable individually. For example, it held that the rotated "L" format was not copyrightable because "there is a rather low limit, as a factual matter, on the number of ways of making a computer screen resemble a spreadsheet."[33] Other "essential" elements included the use of particular keys to invoke certain commands or to signal particular functions, because the number of keys available for such use is limited.[34]

Nonetheless, the court held other aspects of the interface were non-essential elements of an electronic spreadsheet. These aspects included, most significantly, the menu command structure. The court concluded:

> "a menu command structure is capable of being expressed in many if not an unlimited number of ways, and . . . the command structure of 1-2-3 is an original

[33] Id. at 64.

[34] Id.

> and nonobvious way of expressing a command structure. . . . Accordingly, the menu structure, taken as a whole -- including the choice of command terms, the structure and order of those terms, their presentation on the screen, and the long prompts -- is an aspect of 1-2-3 that is not present in every expression of an electronic spreadsheet. It meets the requirements of the second element of the legal test for copyrightability."[35]

Finally, considering the third question of the test, the court held that the non-essential elements of the interface were a substantial part of the spreadsheet, noting that the "user interface of 1-2-3 is its most unique element, and is the aspect that has made 1-2-3 so popular."[36] As such, the interface as a whole certainly was copyrightable.

Thus, the only issue left for the court to decide was whether the defendant had "copied" the copyrightable elements of the 1-2-3 interface. While this issue may be difficult to discern in some cases, it was not so in this case. Defendants admitted that they copied many elements of 1-2-3, including the expressive elements which made 1-2-3 so unique and popular.

Despite the opinion's long and elaborate discourse on the copyrightability of computer programs, Lotus actually is a fairly narrow decision. In essence, it holds only that a user interface, taken as a whole, is copyrightable. Considering past precedent, Lotus is neither a surprising nor controversial decision.

The case has led Lotus to bring suit against a number of

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[35] Id. at 68.

[36] Id. at 69.

other companies for infringement of the 1-2-3 interface. Given the narrow holding in Lotus, however, the outcome of these cases cannot be predicted with certainty.

PART III

The Future

Although most of the questions concerning the scope of protection have been answered, several important issues remain to be decided. These include: the copyrightability of computer languages themselves; whether copyright alone prohibits reverse engineering; the scope of permissible copying for reasons of compatibility or interoperability and the scope of protection of databases. In addition, advances in technology, including the growth of artificial intelligence and the development of CASE tools and methods, present us with additional questions to think about, and ultimately to answer. This part of the paper will explore these issues, again from the standpoint of US copyright law.

The Copyrightability of Computer Languages

In the Lotus decision, Judge Keeton considered, and rejected, an argument by Paperback that in copying the 1-2-3 macro facility it had only copied a "language" and languages are not copyrightable. According to the Judge, Paperback had not "explicitly stated all the essential steps of the argument" so the Judge filled in the apparent missing steps himself: the

macro facility is a language; languages are never copyrightable; therefore the menu command hierarchy is unprotected. Unfortunately, Paperback did not justify any of the three parts of its argument, so the Judge rejected it. He did not, in the process, decide that the macro facility was a language, nor did he decide that languages, either generally or specifically, were protectible by copyright.

Unlike Japanese copyright law, US copyright law does not expressly exclude computer languages from coverage, and -- surprisingly -- the issue of whether languages are copyrightable has been not yet been squarely addressed in any US case. The cases cited by Lotus[37] to refute Paperback's defense that languages are not copyrightable actually stand for no more than the proposition that a particular compilation and arrangement of words, whether those words have any meaning or not, may be copyrightable.

Let us examine, in the context of computers, what we mean when we talk about a "language". There are two fundamental elements: one is the language's "words", and the other is the set of rules for putting the words together into sentences, or statements, in the program. If the 1-2-3 macro facility is a language, then the words would be the commands themselves, and the set of rules for putting them together might be the structure

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[37] Reiss v. National Quotation Bureau, 276 F. 717 (S.D.N.Y. 1921); Hartfield v. Peterson, 91 F. 2d 998 (2d Cir. 1937); College Entrance Book Co. v. Amsco Book Co., 119 F.2d 876; Marling v. Ellison, 218 USPQ (BNA) 702 (S.D. Fla. 1982); and Signo Trading Int'l Ltd. v. Gordon, 535 F. Supp. 365.

or hierarchical organization of the commands. But this is not the only organization possible of the commands, which can be grouped in many different ways and still provide a functioning macro facility. So the particular organization of the 1-2-3 commands may not be a language itself, but a particular expression of the language. Under the Lotus decision, which expressly acknowledged that at least some of the individual commands were not protectible, one cannot copy the precise organization of command terms used by Lotus. That does not necessarily imply that one cannot use each and every command term, arranged in a materially different way, in another program.

Thinking about the concept of a language in the abstract, it is difficult to see what copyrightable expression might exist in the language in and of itself. The language would seem to be a means of expressing other ideas. That does not mean that a particular description of the language would not be copyrightable or that a compiler for the language would not be copyrightable.

Even if a language were found to be copyrightable, one still would have questions about the scope of that protection. Concepts in the US copyright jurisprudence such as the doctrine that the scope of protection is narrow for fact-based or similar works, and the doctrine of fair use, might still allow third parties to use the language either to create programs or to read programs or data created with the language and translate them or extend them. Even if this were not held to be the case, if the language assumed an important competitive position, then a

rational owner of the language would seek to maximize its return through licensing and similar measures. And if the owner did not, then the tools of antitrust and unfair competition might provide some relief.

Reverse Engineering

"Reverse engineering" is a shorthand phrase that can mean a number of things, and one that has become the subject of bitter polarized feuds in the industry. As used here, reverse engineering means the decompilation or reverse assembly of an object code version of a computer program to obtain source code. Reverse engineering as we use it does not include observing the operation of the programming, or running the program with controlled input to study the way the output changes.

The question of whether decompiling a program violates the copyright in the program has yet to be squarely decided in the United States. In three cases[38], the fact that a program had been decompiled was apparently before the court. In two cases (Uniden and NEC), the court seemed unconcerned, and the issue did not affect the result. In the third case, the court seemed to dismiss the decompilation argument because the defendant's purpose was not to create a competitive program.

Looking at the issue as one of first impression, it seems

[38] Vault v. Quaid, 655 F. Supp. 750, *aff'd*, 847 F.2d 255 (5th Cir., 1988); NEC v. Intel, 10 USPQ 2d (BNA) 1177 (N.D. Cal. 1989); and E.F. Johnson Co., v. Uniden, 623 F. Supp., 1485 (D.C. Minn. 1985).

incontrovertible that the process of decompilation involves making copies of the program, both in the computer and in printed listings. Since one of the fundamental rights of the owner of copyright is to make and authorize the making of copies, it would follow that making the copies in the course of decompilation would be infringement, unless permitted or excused. Presumably, if there is a license agreement controlling the use of the program, it will prohibit decompilation. In this case, copying that goes beyond the scope of the permission provided in the license is infringement.

Vault did hold that a provision in a shrink wrap license that prohibited decompilation was void, because the entire license was void as a contract of adhesion. However, that case does not control a negotiated and signed license agreement, and in any event the reasoning of the case is highly suspect.

It might be argued that Section 117 of the Copyright Act authorizes decompilation. That Section provides that it is not infringement for the owner of a copy of a computer program to adapt it as necessary for his or her use. Without the source code, adaptation is difficult if not impossible, therefore, by implication, section 117 authorizes the owner to obtain the source code by decompilation.

We think that this reasoning stretches Section 117 far beyond its true meaning. There is nothing in the legislative history of the provision that supports this view. Rather, that history deals with the worry that an owner having legitimate

access to the source code might not be able to adapt the program because that adaptation would be a derivative work, permission for the creation of which must be granted by the holder of the copyright in the original program. In addition, although some courts have ignored the fact, Section 117 does not by its terms apply to someone who is merely a licensee of the program.

Decompilation might also be argued to be justified under the doctrine of "fair use." Under this doctrine, a court will consider the following four factors:

* the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
* the nature of the copyrighted work;
* the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
* the effect of the use upon the potential market for or value of the copyrighted work.

We think that proper evaluation of these factors will normally compel a conclusion that decompilation is not fair use. With respect to the first factor, although one might argue that learning about how a program operates is an "educational" use, that use is almost always going to be in a commercial, and not non-profit, context. According to the US Supreme Court, all commercial uses are presumptively unfair.[39]

With respect to the second factor, programs are not the factual, historical or other type of work typically found to be ones from which more, rather than less, copying is fair. With

[39] Sony v. Universal City Studios, 464 U.S. 417 (1984).

respect to the third factor, in practice it will usually be necessary to decompile the entire program to adequately understand it.

The most important of the factors is the effect of the copying on the market for the product.[40] In the case that is most serious, i.e. decompilation by a competitor for the purpose of producing a competing program, the effect would be direct and immediate. Even in an arguably less egregious case, i.e. decompilation by a licensee for the sole purpose of adapting or maintaining the program, the licensor is deprived of the maintenance revenue it would otherwise have received, so in a sense, the licensee has competed with the licensor for that revenue.

Finally, we feel that a conclusion that decompilation is prohibited by copyright is sound public policy. Software developers spend a great deal of time and effort to protect the confidentiality of their source code. They distribute their products in object code form because they do not want the licensee to have access to the source code, and the licensee generally does not have a reasonable expectation that he will have such access. When he does, source escrow arrangements are carefully worked out. Holding decompilation to be prohibited by copyright is consistent with the interests of developers and their customers, and does not interfere with the legitimate

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[40] Harper & Row Publishers, Inc. v. Nation Enterprises, 105 S. Ct. 2218 (1985).

independent development efforts of competitors.

Compatibility/Interoperability

Prior to the Lotus decision, there had been some cases that suggested that "compatibility" might justify copying.[41] Lotus, however, ringingly refutes this:

> [E]ven if VP-Planner otherwise would have been a commercial failure, and even if no other technological ways of achieving macro and menu compatibility existed, the desire to achieve "compatibility" or "standardization" cannot override the rights of authors to a limited monopoly in the expression embodied in their intellectual "work".

What do we mean by "compatibility" and "interoperability"? At a minimum, a program, such as VP-Planner, is "compatible" with another program, such as 1-2-3, if it can read files written by the target program. This low level of compatibility allows the user to retain the investment represented by the data or other files created with the target program. Paperback also pointed to another aspect of compatibility: the user interfaces. If a program uses the same user interface as the target program, then the user does not need to learn a new interface. Although it is probably possible to provide file-read compatibility generally without copying protected expression, providing a user interface similar enough to the target's to avoid the necessity to retrain almost certainly will require copying of protected expression,

[41] In the Uniden case cited above, the Judge remarked that if the defendant had limited its copying to just that material necessary for compatibility (something called a "Barker word"), the defendant might not have been liable.

especially as user interfaces become richer and more graphical.

Interoperability is slightly different. Here, the goal is not to supplant the target program, but to communicate with it or run under the same environment. This is more of a software-to-software or software-to-hardware issue than one of software-to-user. What is required to be interoperable depends on the particular situation: for one application to be interoperable with another may require nothing more than knowing, or figuring out, the input and output file formats of the target program. These formats are by themselves probably not protected expression. On the other hand, to design an operating system that is interoperable with UNIX applications requires much more: the operating system must respond to the applications in the same way that UNIX itself does. Certainly this is possible, as a theoretical matter, without copying protected expression. Whether a particular implementation has or has not copied too much depends on the facts of the particular case.

Strong protection for computer programs under copyright principles does not preclude the development of compatible or interoperable programs, except at the user interface level. And under our definition of reverse engineering, which is limited to decompilation of the object code, one is free to examine the file formats, and to observe the operation of a program when presented with particular data or commands, in order to create a compatible or interoperable program. Certainly it might be easier if one had the source code; but the challenge presented by not having it

should stimulate more innovative, rather than replicative, development.

New Technologies

Artificial intelligence advances and the development of computer assisted software engineering (CASE) raise several new interesting questions.

With the advent of programs written not directly by humans but by other software, some have questioned whether these computer-generated programs should be eligible for copyright protection.

We believe that this is the wrong question. A program written by other software is still a "computer program" as defined in the Copyright Act. It should be treated no differently than a more traditional program written by a human. The correct question concerns who the author of the program, and consequently the owner of the copyright, is.

Copyright law suggests that the author of the program is not the author of the programs creating the program. The relationship between the new program and the programs that created it is at best that between a derivative work and the underlying works on which it is based. It is settled under US copyright law that a derivative work is an independent work and that the authorship in that work is separate from that in the underlying work.

The author of the new program should be the human, or

organization, that has directed that the program be created, and specified its nature. Whether this is the person directly using the CASE software, or the designer of the specifications for the new program, or yet some other participant, will depend on the facts of each case, and will be determined on the basis of years of experience in determining authorship.

Similar principles will apply to programs written with object oriented software.

The ability to extend familiar and settled principles of law to new areas is one of the major benefits of protecting software under copyright.

PART IV

Conclusion

As we have just reviewed, US Copyright law provides a comprehensive and cohesive environment for the protection of computer software. It has proved very successful in striking the proper balance between protecting against software piracy and encouraging continued growth in the software industry. In fact, far from stifling growth in the industry, the application of copyright law to computer programs, by prohibiting exact copying, actually has encouraged programmers to develop new and more innovative programs.

As we look at the future development of software, we believe that copyright will continue to be the optimal regime for protection. Indeed, programs will evolve to be more like traditional works of authorship than they have been in the past.

The current graphical user interfaces are but the first wave of changes that include multimedia environments, where program code, images, sounds and perhaps other forms of media are mixed and merged. If one wants to change the legal regime applicable to the programs, does one change the regime applicable to the more traditional aspects of the complete product?

Indeed, the evolution is not all in the program side. Increasingly, books, records, and sounds are being digitized and stored in manipulable form. A teacher can order up a custom textbook based on parts of many other works. Perhaps a book on programming would include actual program code. As everything becomes digitized, every thing begins to look more and more like computer programs.

Some may say that the US experience is not applicable in most other countries, because unlike the bottom-up approach of the common law system, most countries in the world have a civil law system. We think that this is not really a valid argument. Courts in civil law countries still must adjudicate the applicability of statutes in particular cases, and do so everyday. Significant decisions upholding the applicability of copyright to computer programs have also been rendered in a number of important civil law countries, including Japan, France and Germany.

The alternative to copyright that is most frequently suggested is some form of *sui generis* legislation. The major problem with this approach from a theoretical point of view is

that, as discussed above, it is hard, and getting harder, to draw meaningful distinctions between computer programs and other, more traditional, works that are the subject of copyright. More importantly, from a practical point of view the process of enacting, and changing, legislation is a slow and cumbersome one which just cannot keep up with the rapid pace of change in this industry. One need only look at the Semiconductor Chip Protection Act in the United States for an example of this. Chip designers will tell you that this statute has already been obsoleted by the technology, and in point of fact, the Act has not proven to be very important.

Software is an important industry throughout the world, and it will only become more important. Software needs to be protected in order to stimulate the enormous investment that will be required to realize the full potential of the industry. Copyright has proven to be a good means of supplying the appropriate degree of protection so far, and should, properly applied by people who understand the law and the technology, continue to be so for the future.