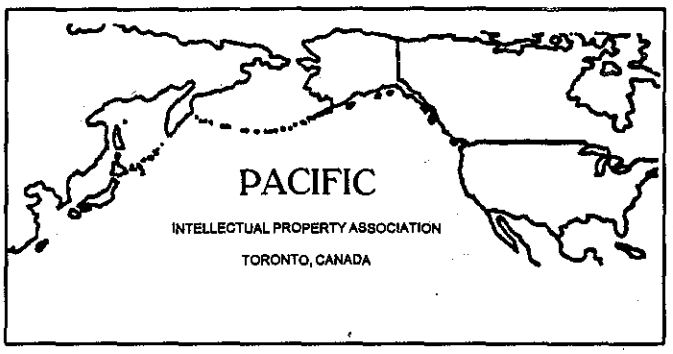


The Twenty-Eighth International Congress

Four Seasons Hotel

Toronto

September 23 - 26, 1997

TABLE OF CONTENTS

TABLE OF AUTHORS

PROGRAM

TUESDAY, SEPTEMBER 23, 1997

5:00 p.m. - 7:30 p.m. **REGISTRATION**
FOUR SEASONS HOTEL, TORONTO

7:00 p.m. - 9:30 p.m. **GRAND RECEPTION**
"STREETS OF TORONTO"
THE WINDOWS -- FOUR SEASONS HOTEL

WEDNESDAY, SEPTEMBER 24, 1997

8:00-9:00 a.m. **REGISTRATION**

9:00-11:00 a.m. **OPENING CEREMONIES**

9:00 a.m. WELCOME - Craig E. Larson
Report of 1996 Activities - Takashi Sawai

9:20 a.m. Keynote Address
Danielle Bouvet, Director,
Intellectual Property Policy Directorate
Industry, Canada

9:50 a.m. Guest Address
Stephen G. Kunin,
Deputy Assistant Commissioner for Patent Policy,
U.S. Patent and Trademark Office

10:20 a.m. Presentation of PIPA Award to J. Jeffrey Hawley

10:45 a.m. **COFFEE BREAK**

REPORT OF COMMITTEE NO. 1
Harold E. Cole and Kiyoshi Kusama, Chairpersons

11:00 a.m. **Joint Panel Discussion**
The Internet: Impact of Electronic Documents of Prior Art and Issues on Date of Publication
K. Tamura, N. Aoki, K. Jinbo, M. Kuwagaki,
L.T. Welch, J.J. Hawley, H.E. Cole, B.C. Cadenhead

12:30 p.m. **LUNCH**

1:30 p.m. *A Paperless Patent Practice Paradigm*
James M. Kanagy

1:50 p.m. *The Doctrine of Equivalents: The Uncertainty Remains*
Warren W. Kurz

2:10 p.m. *Drafting Claims Under Section 36 of the Amended Patent Law and Revised Examination Guidelines in Japan*
Tetsuya Aoki

2:30 p.m. *Double Patenting Update*
Jack E. Haken

2:50 p.m. *Three Dimensional Trademarks in Japan*
Hisako Tanaka

3:10 p.m. **COFFEE BREAK**

REPORT OF COMMITTEE NO. 2
Jack E. Haken and Kiyohide Okamoto, Chairpersons

3:30 p.m. **Joint Panel Discussion**
Intellectual Property Issues with Networks
K. Okamoto, S. Kitano, H. Oguri, T. Ezoe,
Other Participants to be Announced

- *including, IP Issues Involving Software Distributed on the Network* by Hisanori Oguri

5:15 p.m. *IP Issues with Standards Organizations*
Edward M. Blocker

5:30 p.m. *Intellectual Property Management on Founding Subsidiaries*
Tomoyoshi Ezoe

THURSDAY, SEPTEMBER 25, 1997

REPORT OF COMMITTEE NO. 3
Warren R. Bovee and Masayoshi Urayama, Chairpersons

8:30 a.m. **Joint Panel Discussion**
Comparison of Computer Related Invention Examination in the U.S., EPO and Japan
Y. Toda, T. Umehara, E. Yamada, A. Seki,
Other Participants to be Announced

10:00 a.m. *Clinical Tests of Generic Drugs Before Expiration of Pharmaceutical Patents and Infringement Thereof*
Naoyoshi Jinno, Hiroshi Homma, Hiroshi Tamada

10:20 a.m. **COFFEE BREAK**

10:40 a.m. *Recent Developments in U.S. IP Legislation*
Fred T. Boehm

11:00 a.m. *A Study on WIPO Draft of Patent Law Treaty*
Masayoshi Urayama

11:20 a.m. *The WIPO Patent Law Treaty - a U.S. Government Perspective*
Lois E. Boland, Attorney - Advisor, U.S.P.T.O

11:40 a.m. *International Development Regarding Trademarks and Trade Secrets*
Bidyut Niyogi

12:00 p.m. - 10:30 p.m. **GROUP OUTING**
City tour including the CN Tower, Sky Dome, and Art Gallery of Ontario with lunch atop the CN Tower and a buffet dinner in the Sky Dome while enjoying a Blue Jays-Orioles baseball game.

FRIDAY, SEPTEMBER 26, 1997

REPORT OF COMMITTEE NO. 4
David H. Fifield and Naoko Nanao, Chairpersons

8:30 a.m. **Joint Panel Discussions**
Distinctions in Japan - U.S. Rules of Civil Procedure in View of the Revised Japanese Civil Procedure Code Changes
B.C. Cadenhead, T.P. Strobaugh, D.H. Fifield, S. Matsui, Y. Kikuchi, Y. Kusumoto

- *including, A Study on Measures for Collection of Evidence in the Japan - U.S.* by Yasushi Kusumoto

10:15 a.m. **COFFEE BREAK**

10:30 a.m. *Electronic Presentation of Evidence for IP Litigation*
Denise Montiel, FTI Corp.

11:10 a.m. *Management of Outside Litigation Counsel in Intellectual Property Litigation*
Terrence P. Strobaugh

11:30 a.m. *U.S. International Trade Commission Section 337 Activities Update*
David H. Fifield

11:50 a.m. *Proposed Improvements to Invention Reward Systems of Japanese Companies as a Measure to Encourage Employees to Make More Inventions*
Koichi Wada

12:15 p.m. **LUNCHEON AND CLOSING CEREMONY**

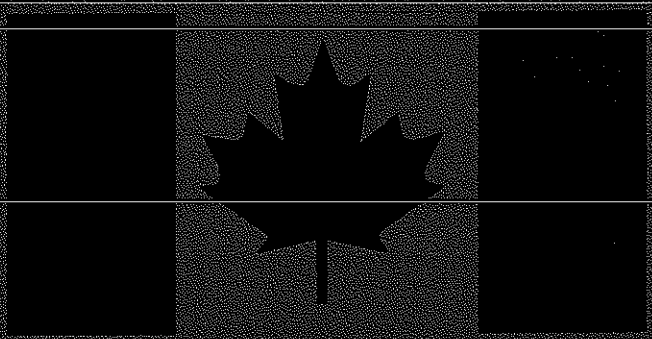
1:15 p.m. CLOSING REMARKS
Toshihiro Tetsuka, Ben Cadenhead

GUEST PROGRAM

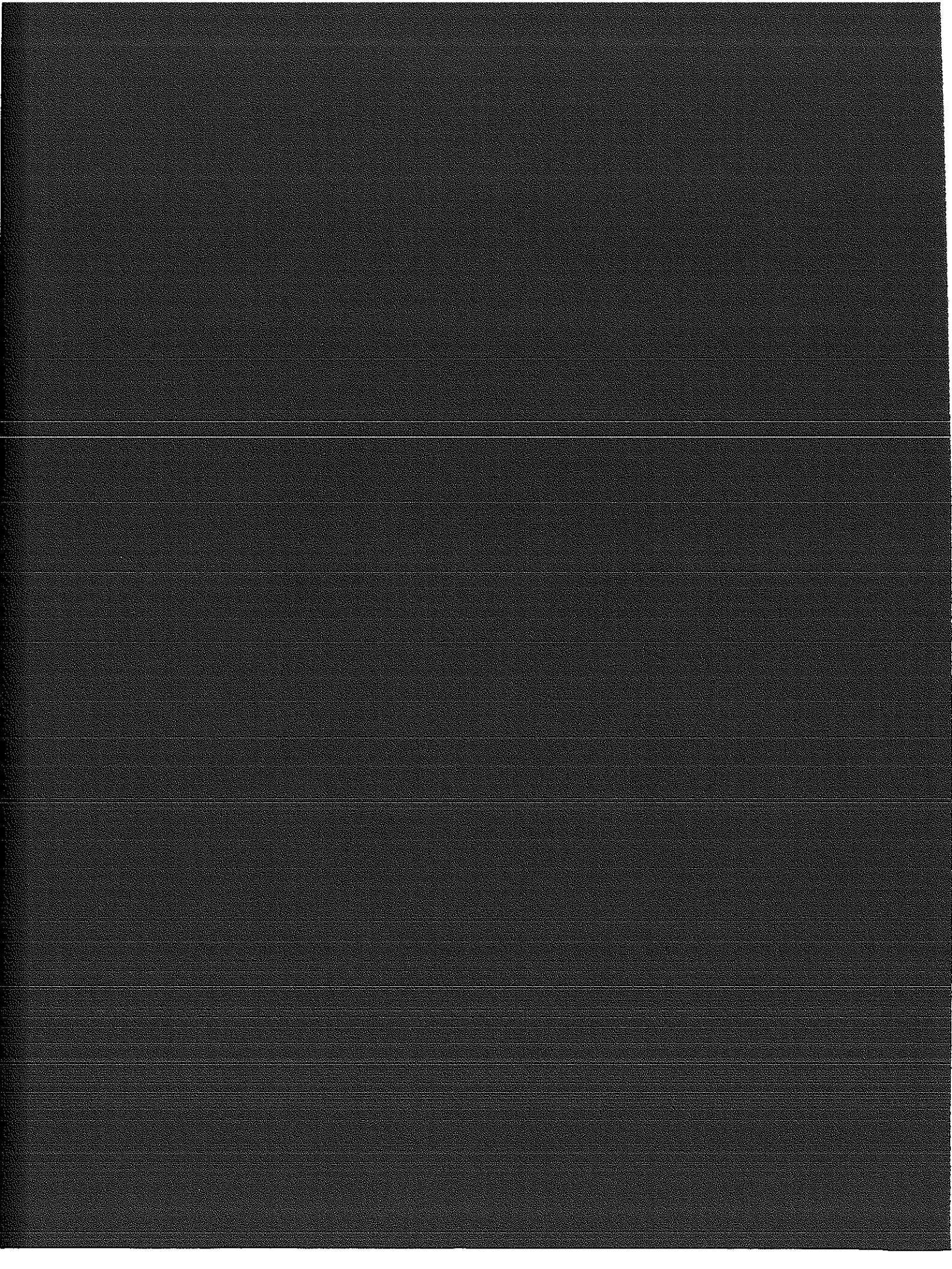
WEDNESDAY, SEPTEMBER 24, 1997

10:00 a.m. - 3:30 p.m. Toronto Multicultural tour including visits to Chinatown, Greektown, Little India, Corso Italia, Portugal Village, and Casa Loma with lunch at Biagio's.

COMMITTEE NO. 1



TORONTO CONGRESS
CANADA



(1) Title:

THE INTERNET: IMPACT OF ELECTRONIC DOCUMENTS AS PRIOR ART AND ISSUES ON DATE OF PUBLICATION

(2) Date:

September 1997 (28th General Meeting in Toronto)

(3) Source:

(1) PIPA Japan
(2) Committee; #1

(4) Authors:

Masashi Kondo,	Oki Electric Industry Co.,Ltd.
Kazushi Jimbo,	Toyota Central Research and Development Laboratories.,Inc.
Koichi Tamura,	Toyota Motor Corporation
Koji Tomita,	TEC Corporation
Takahiro Watanabe,	Hitachi,Ltd.
Noriyoshi Aoki,	Teijin Limited
Kazutaka Nakatsuru,	Mitsubishi Electric Corporation

(5) Key Words:

Internet, Electronic information, Prior art status, Publication date of prior art, Time difference,Electronic signature (digital signature), Authentication agency (third-party agency), and Electronic Notary Gazette

(6) Statutory Provisions:

Section 29, 1) of the Japanese Patent Law and Title 35 United

States Code 102

(7) Abstract:

With rapid popularization of the Internet, various problems have occurred and are predicted to occur in the world of intellectual property. Of such problems, those to be examined in this paper will include the status of known information and the time of establishing the known status of such information, namely, whether the prior art status be granted to information available on the Internet or if granted when the publication date of prior art will be established, and what procedures should be implemented for authentication of such date. First, in regard to the question of whether or not the prior art status be given to information available on the Internet, a conclusion was made acknowledging room for granting that status within the framework of current legislation although legal measures including revisions may be required in the final analysis. Also, inasmuch as the publication date of prior art is certain to be greatly affected by time difference in each country due to the characteristics of the Internet, review was made of such date. Furthermore, concrete systems of digital signature combined with an authentication agency are proposed for authentication of the publication date of prior art.

Table of Contents:

3-2-3 Proposed concrete systems

4. CONCLUSION

1. INTRODUCTION

Recent years have seen rapidly expanding application of the Internet as a new communication medium, while adequate legal measures for this medium are lagging. Consequently, it is pointed out that numerous problems are occurring in the world of intellectual property. Such problems include those of information on the Internet as prior art and the publication date of such prior art -- can information on the Internet be granted the prior art status, and if so, when should the date of publication of such information be, and how can authentication of such date be established, and they will be discussed and reviewed in this examination.

There are two kinds of information available on the Internet: one is addressed to specific individuals as in E-mail, etc., where confidentiality of the content of communication is legally protected; and the other is addressed to no specific individuals as in Home Pages, etc., where confidentiality of the content of communication is released. This paper is concerned with the latter.

2. PRIOR ART STATUS OF INFORMATION ON THE INTERNET

2-1 Prior Art Status in Japan

The "Prior Art" status in the Japanese Patent Law is stipulated as novelty in each paragraph of Section 29, 1) of the Japanese Patent Law, which reads:.

"A person who made an invention which can be of use for industrial application may receive a patent for said invention except for the following inventions:

一. An invention publicly known in Japan prior to the filing of a patent application.

二. An invention publicly implemented in Japan prior to the filing of a patent application.

三. An invention described in a printed publication distributed in Japan or in a foreign country prior to the filing of a patent application."

"Publicly" herein refers to a state out of the confines of secrecy, and "known" means that the given invention is technically known. A printed publication

refers to documents, drawings or other similar information communicating media which are reproduced for purposes of making the information known to public through circulation.

It follows that since information on the Internet can be accessed by any party through operation of terminals in Japan, in this respect, it is not confidential, thereby making it "public." Further, so long as information available at the terminals is detailed enough to make the invention technically known, it corresponds to the "known" requirement. Therefore, the provision of Section 29, 1) (1) is considered to be satisfied.

However, according to the provision of Section 29, 1), (1) , there is a condition of publicly known in "Japan," and there is also a theory that "the invention must be known in reality," to the disadvantage of an authentication party. Hence, when we consider application of the provision of Paragraph 3 which is construed as, "it is not limited to distribution in Japan but also includes that in foreign countries" and "there is no need for the invention to be known in reality, and so long as it is in the knowable state, it will suffice," treating the information on the Internet as comparable to a "printed publication" seems to be farfetched in interpretation.

In this respect, it would be best if legislative steps were implemented for solution. Nonetheless, even under the current Patent Law, the following considerations will support a position that there is no necessity to confine the concept of "a printed publication" under any circumstances to the currently accepted one. It is regarded necessary to review the provision of Paragraph 3 in terms of how far the scope of the concept of "a printed publication" can be enlarged in keeping with changing times. Review from this standpoint offers an admissible argument that information on the Internet should be treated in the same manner as "a printed publication."

(1) The gist of Section 29, 1) is that inventions which are already made public and became part of the common property of general public will not be protected.

(2) At the time of establishing the current law, the legislators lacked an idea of the Internet in the first place and cannot be regarded as actively concerned about eliminating information on the Internet.

(3) If it is construed that information on the Internet does not correspond to "a printed publication," there will be a discrepancy between the real world, in which digitalization and networking of information are developing at a fast

rate, and the legal world, making it difficult to prove bar to novelty as a result of making a database online. This would invite a situation where patents which should normally be rejected and nullified will take hold.

As the foregoing discussion shows, the prior art status of information on the Internet is interpreted to be accepted in Japan.

2-2 Prior Art Status in the United States

Stipulations regarding the "prior art status" in the United States are provided in 35 USC 102(a), which reads:

"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 foreign country, before the invention thereof by the applicant for patent, or"

The "known" condition herein means whether or not the information inquestion is publicly obtainable. Since information on the Internet is easily accessible in the United States, the "known" condition is met.

Also, as regards an argument of whether or not information on the Internet (digital information) corresponds to a "printed publication", in light of judicial precedents, so long as information on the Internet is publicly obtainable, it seems that it is treated as equivalent to "a printed publication." (In re Wyer 210 USPQ p790)

Accordingly, it is understood that the prior art status of information on the Internet is also accepted in the United States.

3. DATE OF THE PRIOR ART STATUS OF INFORMATION ON THE INTERNET AND ITS AUTHENTICATION

As explained above, the "prior art status" is considered to be granted to information on the Internet. Nevertheless, even if the "priorart status" is recognized, proving the date of acquiring the "prior art status" is not easy in that contrary to conventional printed publications, information on the Internet is devoid of a notion of the date of publication as in general magazines and books, and that since information on the Internet is digital information, changing its content is easy as in Home Pages where renewing information on a regular basis is a normal practice.

Then, when is the publication date of prior art information on the Internet established? And how is such time to be verified? Let us examine

these issues together with attendant problems.

3-1 On the Publication Date of Prior Art

3-1-1 Effect of "Time Difference" upon the publication date of prior art

There is considered to be no room for doubt in regard to the publication date of prior art information on the Internet, which is when any third party without obligation of confidentiality can freely access the information concerned. However, information on the Internet is characterized by a quality different from conventional publications, namely, its borderless availability which affords virtually simultaneous accessibility from any point in the world. Hence, it is anticipated that "time difference" of each country will exert substantial effect on authentication of the publication date of prior art in evaluating novelty of patent applications. Possible effect of "time difference" upon the evaluation of novelty will be explained below with specific examples.

Case A

Company T, a Japanese corporation, completed an invention α which would determine its future and filed a patent application X with the Japanese Patent Office at 9 a.m. on April 1, 1997 (New York time at 7 p.m. on March 31, 1997).

On the other hand, Company G, an American corporation, ran a news release in its Home Page on the Internet reporting the details of the invention α and development work underway so that new products using the invention α would be on sale in five years. This news release became accessible at every country of the world at New York time, 9 p.m. on March 31, 1997 (Japan time at 11 a.m. on April 1, 1997).

Company T made a request for examination of the patent application X and received a notice of the ground of rejection from the Japanese Patent Office on March 25, 2000. This notice reads:

"An invention described in the claims of this application is the invention described in a publication hereunder which was distributed in Japan and abroad prior to the filing of the application. Therefore, pursuant to the provision of Paragraph 3, Subsection 1, Section 29 of the Patent Law, the invention is not entitled to be patented.

REFERENCE

1. Home Page of Company G distributed on the Internet on March 31, 1997.
Note: The invention α described in the claims are identical to what was described in the aforementioned Home Page."

Case B

Company M, a Japanese corporation, completed an invention β which was revolutionary enough to reverse a conventional notion, filed a patent application Y with the Japanese Patent Office at 9 a.m. on April 1, 1997 (San Francisco time at 4 p.m. on March 31, 1997), and made a press announcement at 10 a.m. on the same day.

This news was transmitted worldwide and the content of the invention β was inserted in the Home Page of Newspaper A, which became accessible in San Francisco time at 8 p.m. on March 31, 1997.

Company M made a request for examination of the patent application Y and received a notice of the ground of rejection from the Japanese Patent Office on July 15, 1999. This notice reads:

"An invention described in the claims of this application is the invention described in a publication hereunder which was distributed in Japan and abroad prior to the filing of the application. Therefore, pursuant to the provision of Paragraph 3, Subsection 1, Section 29 of the Patent Law, the invention is not entitled to be patented.

REFERENCE

1. Home Page of Newspaper A inserted on the Internet on March 31, 1997.
Note: The invention β described in the claims are identical to what was described in the aforementioned Home Page."

3-1-2 Review

In Case A, Company T's filing of patent application X was done at 9 a.m. on April 1, 1997 and Company G's press release at 9 p.m. on March 31, 1997. In simplistic terms, Company G's news release was 12 hours earlier than Company T's filing of patent application X so that rejection on the basis of the provision of Paragraph 3, Subsection 1, Section 29 of the Patent Law appears to present no problem whatsoever. But when this is illustrated in terms of absolute time, the situation is as shown in Fig. 1 and Company G's news release is actually two hours after Company T's filing of patent application X. In this instance, application of the provision of Paragraph 3,

Subsection 1, Section 29 of the Patent Law is unreasonable.

Likewise, in Case B, simply focusing the time alone, Company M's filing of patent application Y is 13 hours behind Newspaper A's information. From this standpoint, rejection according to the provision of Paragraph 3, Subsection 1, Section 29 of the Patent Law also appears reasonable. And yet when this is shown in absolute time,the actual situation is as shown in Fig.1, where insertion of the invention β in Newspaper A's Home Page was made four hours after Company M's filing of patent application Y. Moreover, the source of information of Newspaper A's Home Page is the press announcement made by Company M itself after the filing of patent application. Consequently, in this case, we have a highly contradictory situation in which the novelty of Company M's patent application Y itself is barred by the information the Company released after the filing.

As we have seen, information on the Internet has a characteristic of its "simultaneous" accessibility virtually from all over the world, while, on the other hand, the patent law of each country operates, in principle, on a system of evaluating novelty and other factors in terms of its time. This is regarded to be responsible for causing unreasonableness mentioned above.

Now that networking of information is making swift advances, the most efficient and the most rational method of solving this unreasonableness is to require each country to evaluate novelty in terms of absolute time (for example, Greenwich Mean Time) which takes into account the "time difference" factor. There seems to be no particular inconvenience due to this arrangement. In this manner, in evaluating the time factor of establishing the publication date of prior art information on the Internet, not only when such information is known but also where it is known becomes highly critical.

3-2 On Authentication of the Publication Date of Prior Art

3-2-1 4 W's at authentication of the publication date of prior art

Information on the Internet lacks a concept of specific date such as the "publication date" in conventional printed publications. Also lacking is authentication (seal for receipt) of the day of receipt used at libraries and other institutions. Therefore, authentication of the publication date of prior art information on the Internet will encountera difficulty.

It should also be taken into consideration that information on the

Internet is generally conceived to be of low reliability. This is regarded to stem from relative ease with which the content can be changed on account of the digital property of information on the Internet and the possibility of communication errors (degeneration) due to missing bits, etc. on the Internet.

Consequently, the publication date of prior art information and reliability of the content of such information must be accomplished if information on the Internet is to be used as prior art material. To be more specific, focusing on the so-called 4W's (Who, What, When, and Where) is important. In other words, it is necessary to establish the kind of reliability which can authenticate that what content is transmitted by who, when, and where.

3-2-2 Steps to ensure reliability of 4 W's

(1) Electronic signature (Digital signature)

Practical use of digital signature is partly accepted as a contracting technique in commercial transactions on the Internet. The digital signature consists of electronical procedures corresponding to classical procedures of putting signatures. Plural methods are proposed for the digital signature.

The most promising one at present is the "Public Key Method" using two kinds of "key". One is an public "key", while the other is a secret "key". By using these two kinds of "key", the digital signature will help ensure the reliability of information.

The digital signature is outlined in Fig. 2. Transmitter A subjects communication message M (transmitting information) to Hash function h for compression to obtain Hash Value h(M). Thereafter, A's own secret key is used for encoding the Hash value to obtain digital signature. Then, this digital signature is transmitted, together with the original communication message M, to the Internet. Meanwhile, receiver B receives information transmitted by transmitter A, out of which the original communication message M is extracted and subjected to Hash function h for compression to obtain Hash value h' = h(M). At this time, out of the received information receiver B decodes the digital signature to obtain Hash value h" = h(M) with A's public key.

By authenticating that Hash values h' and h" match, receiver B can ensure that "the communication message has neither changed nor degenerated during the transmission (What)" and further ensure that

"encoding has been done with transmitter A's secret key, that is to say, transmitter is undoubtedly A (Who)." In this manner, it is considered that reliability can be assured by using the digital signature for the Who and What of information on the Internet.

(2) Establishment of a Third-Party Agency (Authentication Agency)

Use of the digital signature will ensure reliability of the Who and What of information on the Internet. Nevertheless, the digital signature is unable to establish reliability as far as the When and Where are concerned.

Note that the When and Where can be established as the transmitter himself/herself writes the time and date and the place of transmission in the transmitted information itself or by means of setting up an automatic time-and-date recording system in the transmitter's server, etc. So that an automatic write operation of the transmission time and date as well as the transmission server address is performed simultaneously upon transmission.

These methods, however, have poor reliability in that the respective transmitters themselves can easily change the transmission time and date as well as the transmission place. Accordingly, it is considered necessary to establish an authentication system with the participation of a reliable third party providing something akin to the certificates of receipt issued by libraries or the Patent Gazette published by the Patent Office. Establishment of a reliable third-party agency (authentication agency) which is official or of that nature should be required. Such establishment will also contribute to authenticating with certainty that the information concerned has been transmitted, that is, the "fact of information transmission".

3-2-3 Proposed concrete systems

A combination of the digital signature and the third party agency will be able to establish the publication date of prior art on the Internet. Here are some concrete systems proposed with such combination.

(1) System 1

An example of a system using the digital signature and the third party agency is shown in Fig. 3, where the third party agency, upon transmitter A's request, receives information (a) on the Internet. The third party writes down the time and date of receipt in the received information (a), provides the digital signature (coded with the secret key) to said information, and

makes it public on the Internet as the "Electronic Notary Gazette". Users can freely access and read the "Electronic Notary Gazette" by decoding it with the public key released by the third party agency.

According to this system, the content of the information (a), the transmission time and date (i.e. the publication time and date) of the "Electronic Notary Gazette," etc. are disclosed in the "Electronic Notary Gazette". Use of the digital signature can authenticate that no change has been made in the content of the information (a) and that the transmitter is the third party agency, thereby ensuring reliability of 4W's.

It is to be noted that what can be used as the prior art material is not the information (a) transmitted by transmitter A but the "Electronic Notary Gazette." In other words, the information (a) sent by transmitter A lacks measures to authenticate its content as well as the transmitting time and date so that it can not be used in its original form as prior art.

Also, the fact that the Electronic Notary Gazette has actually been transmitted (equivalent to distribution of a printed publication) can be sufficiently authenticated solely by the fact that " the reliable third party agency disclosed it on the Internet (Who)." If more consideration is to be paid, it may be so arranged that the Electronic Notary Gazette is made freely accessible at the third party agency.

Another possibility is that information transmitter A can urge a third person who found the information (a) to use it (as prior art material of information (a)) by mentioning or providing a tag to the information (a) to the effect that "the information (a) has been registered in the Electronic Notary Gazette."

(2) System 2

An additional example of a system using the digital signature and the third party agency is presented in Fig. 4. In this example, transmitter A transmits information (b) with his or her signature on the Internet and discloses, at the same time, information (b) and the public key of transmitter A on the Internet. The third party agency, as requested by transmitter A, newly receives the transmitted information (b) by searching on the Internet and has it decoded with the public key of transmitter A. After checking to see that the Hash value of the information (b) is identical (the Hash value of the transmitted message and the decoded Hash value from the transmitted decoded digital signature are equal) (that is,after confirming that the content

of the information (b) has not changed or degenerated during transmission), the information (b) and its time and date of receipt are recorded in a recording medium, etc. of high reliability.

This system is advantageous in that the fact of receiving the information (b) with its content unchanged or not degenerated during transmission can be authenticated from the content of recording made in the recording medium of the third party agency. Moreover, the transmission time and date of the information (b) can be authenticated by a record of the time and date of receipt at the third party agency. In other words, the fact of the information (b) being disclosed on the Internet, the completeness (genuineness) of the content of the information (b), and the disclosure time and date (transmitting time and date) can be authenticated by the third party agency.

These merits notwithstanding, the system cannot identify or authenticate a period of time during which transmitter A disclosed the information (b) on the Internet (however, this can be dealt with if the third party agency periodically searches the information (b) for a certain period of time and records the search result). As a consequence, if transmitter A discloses the information (b) on the Internet for a limited period of time (in the event that the information (b) is not currently disclosed), this period of disclosure may pose a problem. In other words, there is room for an argument pointing out that the too short a period of disclosure of the information (b) is not tantamount tovirtual disclosure.

(3) System 3

Fig. 5 shows a different example of a system utilizing the digital signature and the third party agency. This system is a variation of System 1 described above, in which information transmitted by a third person on the Internet is found by another individual totally unrelated to the third person and arrangements are made to enable said individual to register this information with the third party agency.

Transmitter A who received (found) information (c) on the Internet which had been disclosed by the third person turns in a request to the third party agency to have the information (c) registered. The third party agency which received the registration request receives the information (c) on the Internet, writes down the time and date of receipt in the received information (c), provides it with the digital signature, and transmits it on the Internet as

news of the Electronic Notary Gazette. Users can access the "Electronic Notary Gazette" by decoding it with the public key of the third party agency.

According to this system, in the same way as System 1, the content of the information (c) and the transmission time and date of the Electronic Notary Gazette are disclosed in the "Electronic Notary Gazette". And the digital signature ensures reliability of the fact that the content is unchanged and that the transmitter is the third party agency. Also, since the transmission time and date of the Electronic Notary Gazette is registered by the reliable third party agency, reliability of the transmission time and date can be achieved. Hence, it is possible for the information released by the third person on the Internet to be used as prior art material.

As described in System 1, in the event that the information (c) is already registered, the transmitter of the information (c) may add a note or a mark to the information (c) indicating "registration of the information (c) in the Electronic Notary Gazette completed" to facilitate use of such information by other people, thus preventing double registration of the information (c) by discoverer A who found it on the Internet.

Caution is due here, though, when information disclosed by the thirdperson is registered as in this System, because of a possibility that person A not entitled to the information concerned can insert it in the Electronic Notary Gazette without approval of the third person who is the proper title holder (possible illegal reproduction?), taking a further step of putting a digital signature (possible change?) at that time, thereby giving rise to the possibility of copyright problems.

4. CONCLUSION

In the foregoing discussions, we have examined problems likely to be associated with the prior art status of information on the Internet. Much as these problems are all in need of legislative and administrative actions for resolution, in view of the rapid popularization of the Internet, measures should be implemented at the earliest opportunity before such problems become tangible. Moreover, the Internet carries with it by far more international problems than conventional media, and, in particular, when information disclosed by the third person is used as prior art material, there are related copyright problems as well - all the more reason for endeavoring in search of solutions not only from the standpoint of the policy of one

country but also from the global standpoint.

REFERENCES

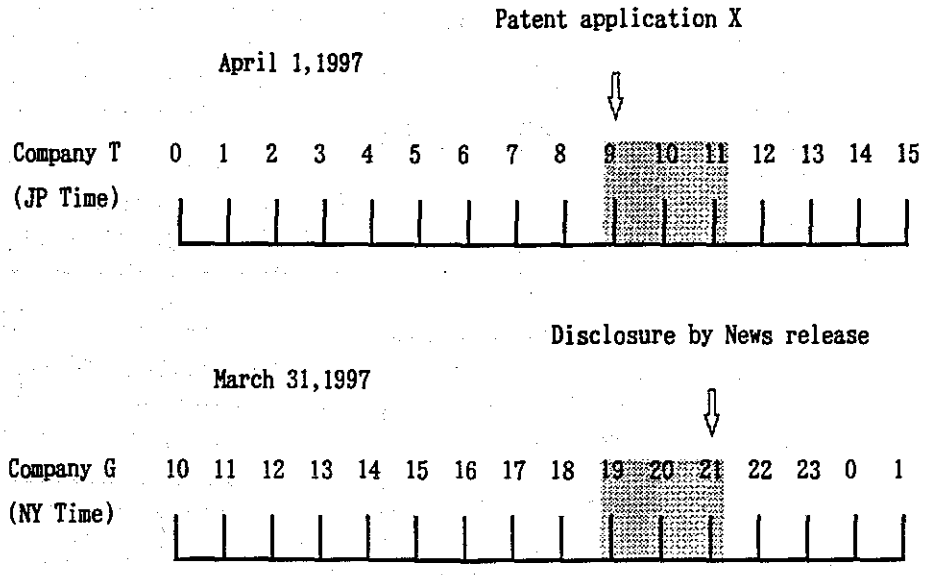
1. "Intellectual Property Law of the United States and the Internet (III), (IV)," AIPPI (1996), Vol. 41, No. 11 and No. 12.

2. "On the Effect of the International Date Line, "AIPPI (1996), Vol. 41 , No. 5.

3. "Proposed Guidelines for Preparing Electronic Records Used for Authentication of the Day of Invention," AIPPI (1996), Vol. 41, No.8.

4. "Security Technology in the Open Network," Hitachi Review, Vol. 79, No. 5.

☆ CaseA



☆ CaseB

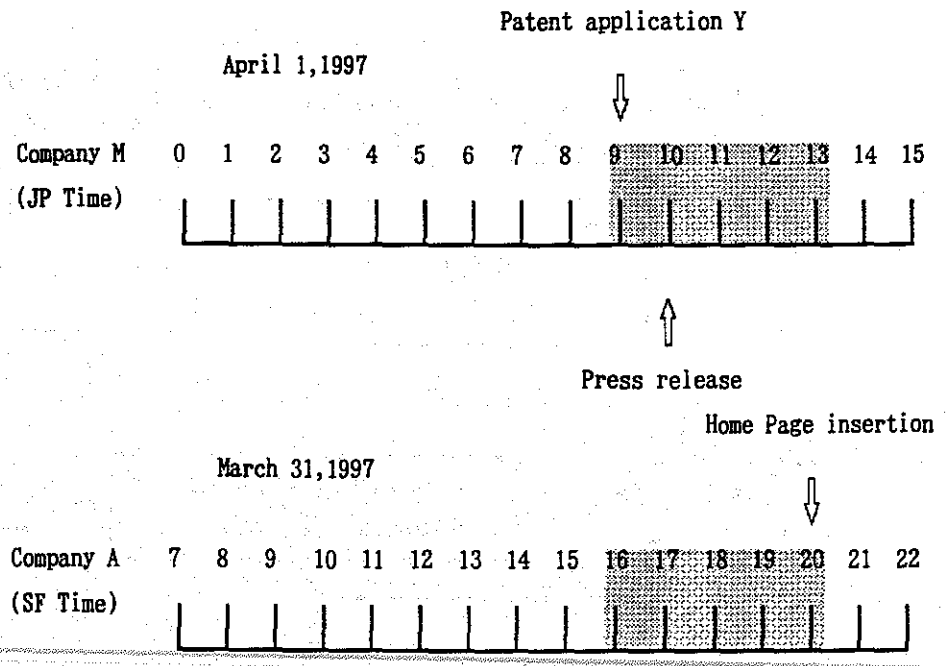


Fig. 1 Novelty of invention and time difference

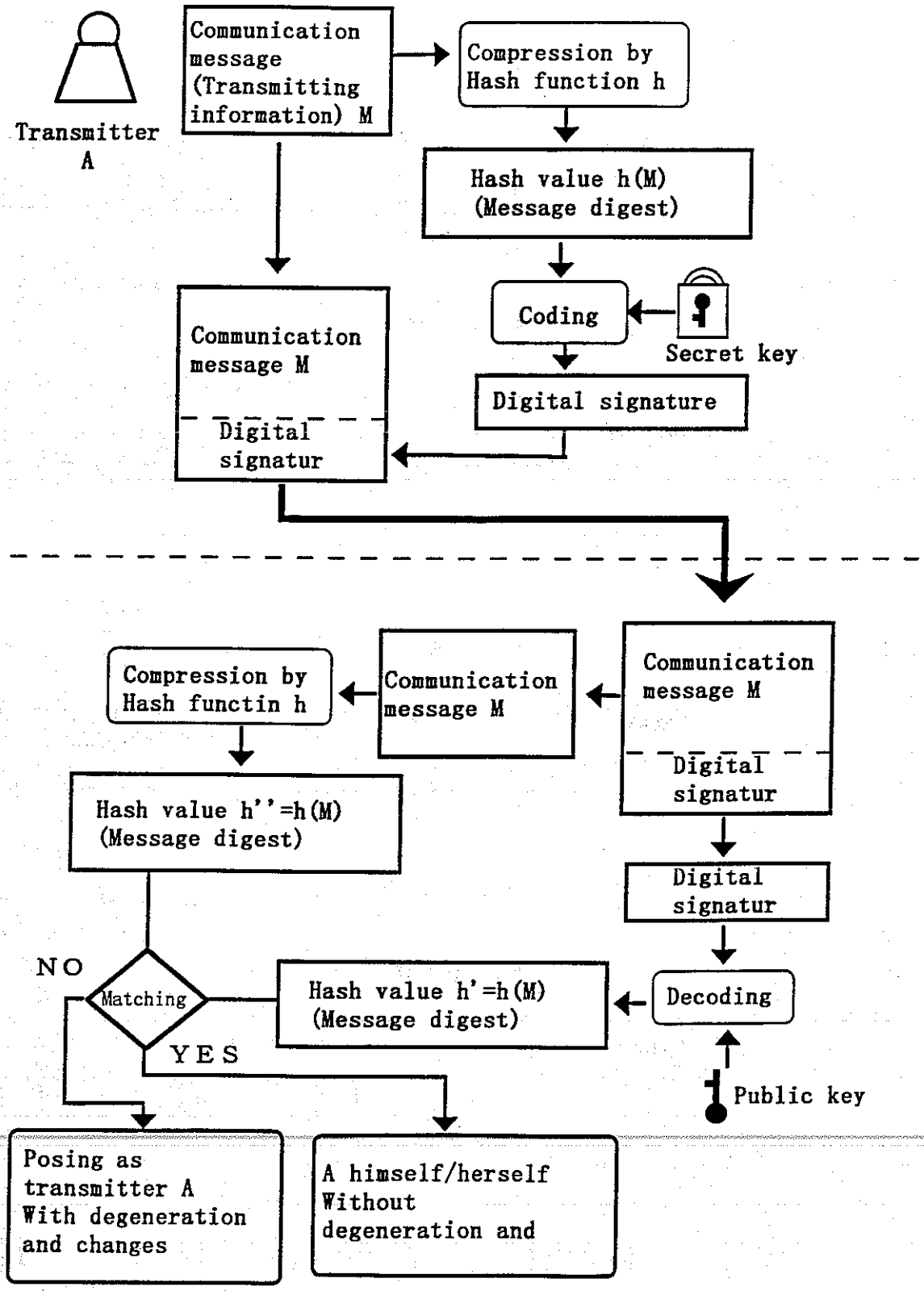


Fig. 2 How the digital signature is set up

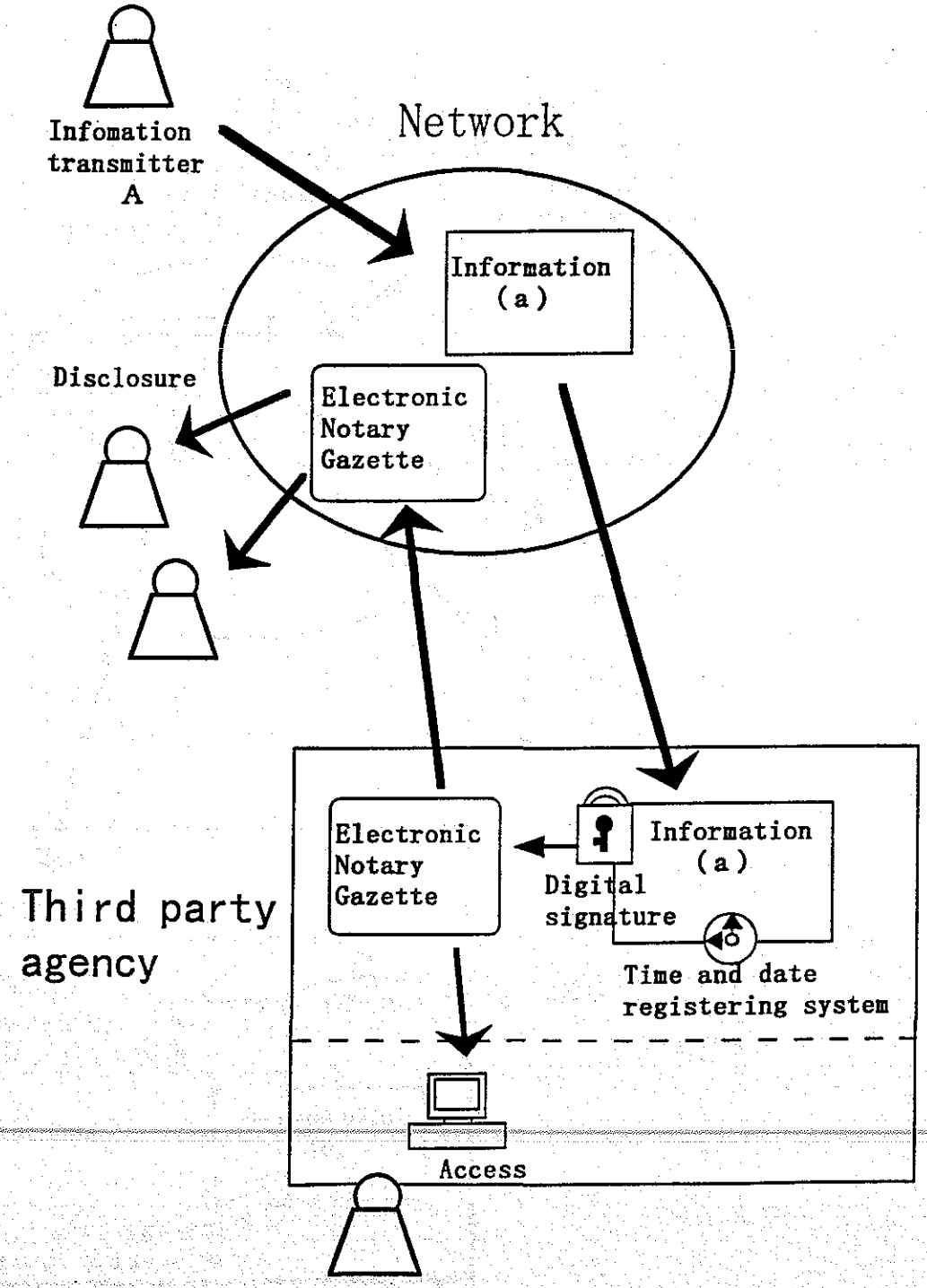


Fig. 3 System 1

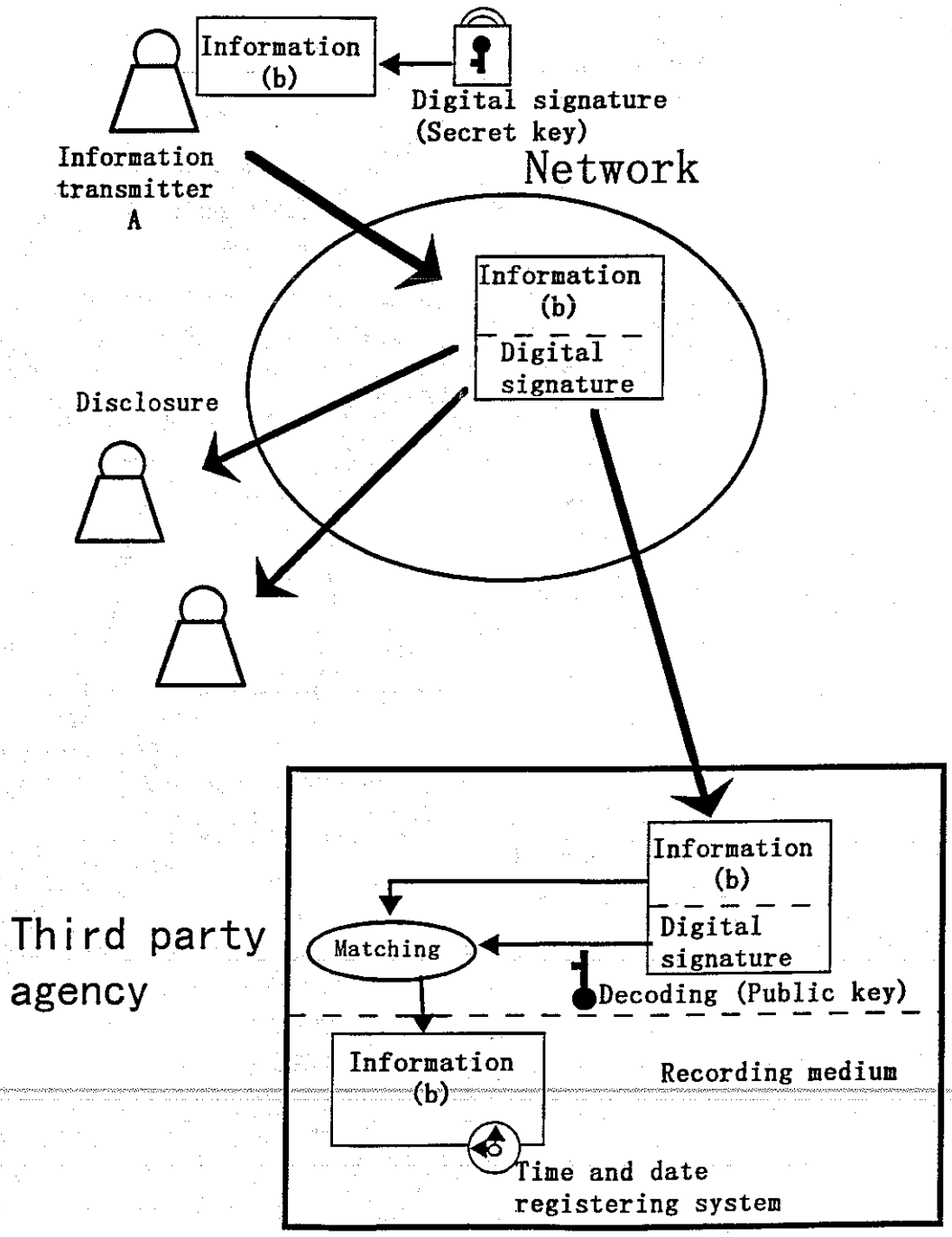


Fig. 4 System 2

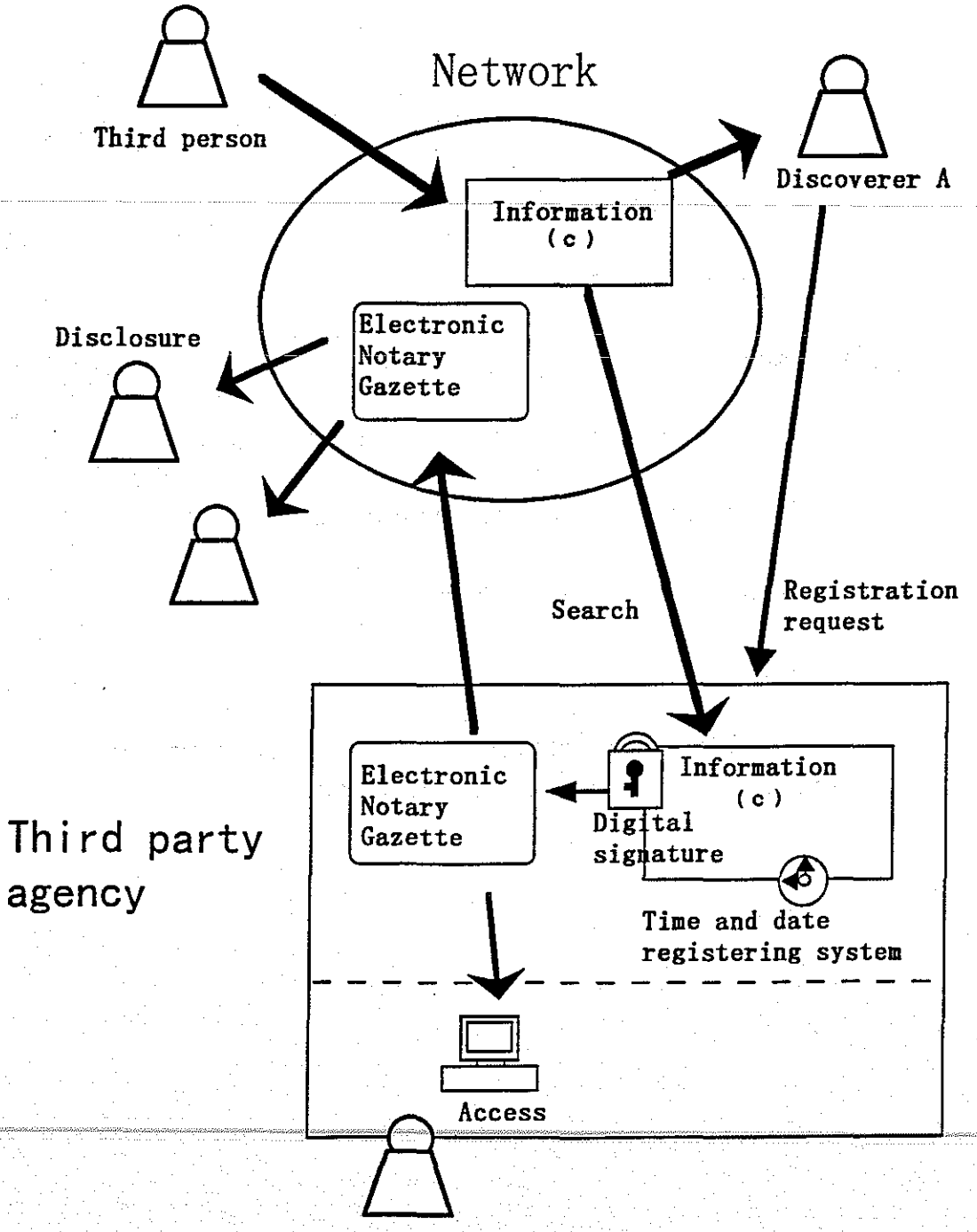


Fig. 5 System 3

(1) Title: **A PAPERLESS PATENT PRACTICE PARADIGM**

(2) Date: September 1997

(3) Source:

1) Source: PIPA

2) Group: US

3) Committee: 1

(4) Author:

James Kanagy SmithKline Beecham

(5) Keywords: Paperless Patent Process

(6) Statutory Provisions - None

(7) Abstract:

Combining electronic communication technologies with electronic information storage and process technologies.

A Paperless Patent Practice Paradigm

A lawyer without words is a poor lawyer indeed. His client is not well served; his income is circumscribed. In fact, in toady's' information age, a lawyer must use not only words, but graphics, pictures, audio and video. All of which come and go by way of telecommunication devices: the telephone, e-mail, fax, voice mail, videoconferencing and television. Everything moves electronically.

Then why do we persist in printing and storing information on paper? Should we not be keeping it in the form we created it, sent it and received it, ... on line? The world has moved to the electronic age when it comes to exchanging information. But we have not moved to the electronic age when it comes to storing information. Just as mankind stopped recording information in stone or clay tablets when paper became widely available, I submit it is time to leave go of the paper-based information systems of yesterday, and move to a fully integrated electronic information data storage and handling system.

This talk focuses on the approach of SmithKline Beecham's Corporate Intellectual Property group to combining electronic communication technologies with electronic information storage and processing technologies. This system brings with it unique efficiencies. It also provides the foundation for a work environment unrestricted by time and place.

New Paradigm

Necessity is the mother of invention it is said. SB's move to an on-line information management system grew out of the simple fact that paper files were taking up a large amount of expensive office space, determining how we used that space, and causing staff to be moved to remote locations. We were becoming the captives of our paper files. I will explain.

In 1993 the Patents and Trademarks groups of SmithKline Beecham merged to form the Corporate Intellectual Property group. Patent and Trademark staffs were combined at two locations, London and Philadelphia. In the US, that meant moving Trademarks staff from SB's Philadelphia offices to the Pharmaceutical R&D research headquarters just outside of Philadelphia where the Patents staff was located. Of course the Trademarks people wanted to bring along their paper files. And Patents already had a large collection of active files. There is where the problem arose. Filing cabinets could only be located at one place in the space

allocated to CIP because of structural limits in the weight-bearing capacity of the floor. That was prime office space, and space we needed for attorney offices since offices were over subscribed. There was no alternative space for files on site. The closest off-site storage was several miles way, not a practical solution. So the only solution was to put files where offices should go and move the attorneys to other locations. "The tail was wagging the dog" as the saying goes. Or perhaps this settles the question of which is more important, attorneys or their files.

It was during the often somber discussions of where to build offices that the though occurred to me, "Don't large insurance companies put all their files on line, and if they do, why not use that technology to get our files on line and take back the floor space given over to paper files". I knew that one 5" CD-ROM could hold up to 500,000 pages of text. So one CD would make a sizable dent in our paper files. A CD reader is quite small. And we should be able to access the CDs from any desktop PC using SB's internal network.

I asked around within SB and found a fellow who was quite experienced in document imaging and electronic document management systems. He told me that in fact electronic document management was not new technology in SB. SB had actually filed a New Drug Application with the US Food and Drug Administration using WORM technology. Also a couple of other groups in SB were using on-line systems to hold all their data. Some were using workflow software to automate the routing or control the routing of information. So with his help, I made a proposal to the CPI management team to look at the feasibility of going on-line. They agreed.

In 1994 I set up a team to analyze how we worked, our communications and storage needs, and to draw up a plan based on that analysis for implementing an electronic information management system. The team was drawn from all three of the CIP locations, London, Harlow, and Philadelphia. It included secretaries, our Formalities group who are dedicated to foreign filing activities, junior attorneys and managing attorney. Our IR groups did not have staffing to support full-time the type of effort we were undertaking. None-the-less we decided to do the ground work ourselves and bring in consultants when we needed advice on technical matters. So the CIP team did the analyses, designed a high-level system based on our findings, and prepared a cost justification. SB's IR people commented on our plan. And we hired Delphi Consulting in Boston to assist with drafting and finalizing a proposal to go to SB's management group. Our proposal was accepted by CIP management because: i) it was cost effective, ii) it would allow everyone in CIP to share data from a common storage file which we could

not do then, and iii) it would give us valuable floor space for our expanding IP staff. The proposal was integrated into the long-range development plan for CIP. The team them prepared a Request for Proposal, again with the help of Delphi Consulting, bid the job, and selected the software and integrator. As for hardware, we made our proposal conform to the hardware standards set up by SB's IR function since our of our goals was to overcome internal communication problems brought on by the fact one CIP site was running on an IBM Token ring LAN and the other two were running on DEC's VAX systems. We could not share data in this dual computing environment.

The initial pilot program is finished and we are moving to a desktop pilot this month. We plan to have active files on line and everyone in CIP hooked up to the system in 1998.

Our paperless patent system evolved as we did a detailed analysis of how we work and discovered that there were electronic tools available out of the box for managing this work. We started the project focused on getting files on line, but ended up at a different and much broader place. Our analysis showed we needed to build a system where all information was available and could be manipulated in real time from a PC, regardless of where that PC was located or when the data needed to be accessed. We discovered that a client/server hardware architecture could support this need cost effectively. We identified software that could manage information and information capture and flow. And it all could be controlled from the keyboard of a PC. We concluded it was possible to overcome the temporal and physical limits to work imposed by a paper-based system of handling information. We found that not only could we free up space for offices by eliminating paper files, we could actually eliminate the office itself, if we wished. And having achieved that, we could also throw out the clock; you could get to and do anything with your files any time, 24 hours a day. Sort of like the world-wide stock market that never sleeps. Is that good or bad? You decide.

Of course today there are infrastructure limitations and security concerns which place some limits on a 7/24 operation from anywhere on the globe, or in outer space for that matter. Today one can not expect to uplink via satellite to a server in London from a laptop PC while sitting in a Yurt on the Mongolian plateau. But it will happen some day, and sooner than we expect, I'm guessing. What we are doing is laying the foundation for realizing the benefits of computers and high-speed communications, access to information from anywhere at any time, and the ability to send it to anyone at any time.

"Hub & Spoke"

SB's electronic management system has a data management software package at its core to which is tied a number of technologies for collecting, creating and communicating information.

The electronic information management software, the hub, collects and stores the data fed into it, makes the data available on demand, and archives data automatically or on demand. It also has a workflow function. This is an electronic routing or calendar system which can automatically route a file to one or more persons in parallel or in series, or retrieve a file at a pre-set timepoint. This software runs on a server, a high-end PC or workstation.

PCs are connected to the server that runs the core software. They are loaded with software which can talk to the software on the server; the PC is called the client. Also these PCs have or can access all the tools needed to capture and distribute information, for example e-mail, fax, and data base search engines. And each PC can use all the tools from any location provided it can be connected in by way of a secure connection. The core software does operate in a "remote" mode.

On the PC, for starters, CIP is using Microsoft Word, Excel, and PowerPoint; a scanner for capturing hard-copy information; e-mail (Lotus Notes); a central fax server which receives and sends faxes (Fax Sr.), a web browser (Netscape and Microsoft's Explorer), on-line CDs (virtual library), access to internal data bases, and a CIP intranet web site. We do not have an electronic signature technology in place, but we are working on that as well.

SB does not capture phone mail messages or other audio, video or multi-media files, on this system at this time. The demand is not high, the cost is. Audio and video require large amounts of storage capacity and it is costly to transmit very large files over SB's internal network. In fact it is costly to send large files over any network unless you send them via the Internet where the cost is only the cost of the local phone connection. So right now to capture audio and video data would not be cost effective. It would also slow down the overall operation of the system.

Paperless Patent Process

How will our system work? Slide 4 illustrates the general concept.

When we started to analyze how we worked, we realized that SB was already using what is essentially a paperless system to generate most patent applications. To illustrate, an inventor contacted an attorney by phone or e-mail requesting a patent be written. If the invention was ripe for filing, the inventors prepares text and graphics in Word for Windows and e-mailed it to the attorney over SB's internal network. The attorney then copied the data into a Word template, created graphics if needed, and wrote the Background section and claims, all from her desktop PC. Secretaries were no longer spending much time on drafting patent applications. Essentially all the work was done on line by the attorney using existing electronic data taken from prior filed applications or using data received on line from the inventor. Revisable drafts were being routed for editing by e-mail; that will continue under the EIMS.

I have listed "workflow", "intranet" and "fax" because we are or will be using each of these tools; more about each later. But e-mail will remain the primary avenue for exchanging revisable drafts of applications. Inventors are quite good at marking up Word documents electronically, in fact most prefer to do this kind of thing on line.

Alternatively some inventions, particularly those involving nucleotide and amino sequences, are capable of being merged into a Word template by the inventor and processed electronically through our offices. For these, we had prepared a template with a set of prompts. These templates are now stored on a Lotus Notes data base now and will be replicated to a CIP intranet site some time in 1998. An inventor who has discovered a new nucleotide sequence launches the appropriate template, responds to the prompts by merging sequence data and other information into designated fields, selects certain other characterizing statements, and forwards the merged document via e-mail to a designated attorney. This attorney reviews the specification and claims, and files a provisional application.

If we were in Japan, we would then simply forward the electronic file to the Japanese patent office. Unfortunately the US and UK Patent Offices do not accept electronic filings. We have tried to encourage the USPTO to allow us to file in some electronic format. But the USPTO is not yet in a position to act on these requests because of the diversion of its operating funds to the US Treasury. I hope that changes.

We do hold the specifications and formal papers in electronic form now, and keep a paper copy as well. Once the EIMS is fully rolled out, we will not keep a paper copy of the specifications.

As for formal papers, we still must generate hard copies and get signatures. We do not have an electronic signature system in place, though one is coming because of the recent change in FDA regulations. Once EIMS is fully operational we will scan the signed formal papers and file them away with the specifications. Once an electronic signature system is in place we will be able to eliminate the printing and scanning step; this will save quite a bit of time and cost as well.

As for electronic interchange with our foreign associates, now we use fax and e-mail to send documents back and forth. We would like to be able to send revisable documents via the Internet, which is quite cheap as compared with leased lines. But secure transmissions are a concern and we face encryption export issues with the US Government. So we limit our use of e-mail over the Internet to non-confidential correspondence, or use the fax machine. While we could rent high-speed lines to connect up securely with foreign associates, that can be quite expensive and we could not justify the cost for that approach at this time. Faxes can be converted to text using OCR or ICR, but that is time consuming and not 100% accurate. We could send floppy disks. But that does not save us much money now because the mailing costs are about the same for paper as they are for the disks, and we do not have a machine which can write one file to many disks.

SB's EIMS Configuration

SB CIP is housed at three sites. The main office is in our London headquarters (New Horizons Court). We have a second UK site at Harlow, our main Pharmaceuticals R&D site in Europe. Our US operations are located at Upper Merion just outside of Philadelphia, and the site of our Pharmaceuticals R&D headquarters in the US.

Each site will have an independently operating EIMS comprising a server, a scanner, a fax server, and online and archival storage and an separate copy of PC DOCS to control the information held at that site. Within a site, every PC will be networked with the server running PC DOCS, and the fax server. This is done using the Local Area Network infrastructure already installed at that site (Ethernet). Windows NT NOS is the network operating system that ties the PCs to PC DOCS server across the LAN. E-mail, Lotus Notes, runs on Windows NT NOS and uses LAN-based servers as well; it is provided as part of the standard desktop computing environment by SB's IR group.

We use SB's SB's Wide Area Network (WAN) to link up the independent servers at each site running PC DOCS. This system of rented high-speed lines, T1 is the fastest line we have, ties SB's phones and computers together behind a secure firewall. The WAN uses Windows NT NOS as the network operating system. Consequently we can now bridge the gap between IBM LANs and VAX-based LANs. This provides us with a couple of significant advantages which I will talk more about later on.

Information generated at a particular site will be stored at that site. Data will not be replicated to another site as a matter of routine, it will remain at its site of origin. The copy of PC DOCS at a given site will share its index with its sister copies of PC DOCS at the other two sites. To find a file, you first pull up the search window in PC DOCS and enter search criteria in the appropriate fields. This search window is a replica of the login window, with one additional field, a location field. The location field ask which of the three site indexes you wish to search, one, two or all three. PC DOCS will then search the designated index(s) for files meeting the search criteria. It give back a results screen. You select the file you wish to open. If the file is at another site, PC DOCS will send out a fetch signal and download the file to the local PC. When revisions are completed, the file is returned to the originating server, not stored locally, unless you replicate the file at that time.

We chose this approach over a replication system because replicating all data to all three sites would require about three times as much storage media at each site. It can get very expensive if you are sending large amounts of data across a WAN. The more files you have the longer it takes to search and retrieve an individual file. And backup gets more expensive and cumbersome. Since each site needs to see only a fraction of the total number of files at another site, it did not make sense to replicate all our data to each server, given the cost and the impact that would have on local performance.

In the near future, we will be able to share our files with others in SB. PC DOCS now has a web browser for accessing DOCS files. By installing a browser on a PC on, say, our General Counsel's desk, he could view files on DOCS. PC DOCS does have various levels of security. That allows for giving selective access to different PC client workstations. So a browser is an additional way of sharing information without recreating is. A mini-intranet so to speak.

SB's System Operation

Slide 6 is a detailed outline of our data capture operation when the data sources are paper and faxes.

Paper is scanned, checked to make sure it scanned properly, OCRed if it is an official action, tagged for routing, and checked into PC DOCS. Faxes are also run through a quality check, OCRed if they are an official action, tagged for routing, and checked into PC DOCS. The routing algorithm, also called workflow, moves the file to the desktop of the designated recipient. We will develop the calendaring capabilities of the workflow software next year.

Data Management Engine

SB selected PD DOCS Open as its data management engine. This package was developed in conjunction with lawyers and law firms. It is used by half of the top 100 US law firms to manage their far-flung network of offices. For example, Morrison & Forrester uses PC DOCS Open to tie together and share data amongst and between its ten offices worldwide. DuPont's legal group uses it to share data internally and to link up with the offices of its outside counsels in the US.

This software is linked up with data capture and communications systems and document creation software.

Basically PC DOCS Open stores all files using a forces indexing interface. Files are retrieved by searching index. Text files can be searched as well, but we have not added an image search engine. To assist those of use who are dilatory in putting things away, any new document coming into the system or created on a PC networked to the EIMS must be saved in the PC DOCS system before it can be closed.. Files coming in by e-mail, fax or from the scanner, must be logged into PC DOCS before they can be acted on. And when you create a new document, the "Save" command brings up the PC DOCS login screen, always. The one loop-hole we still have is that messages created in e-mail or a Lotus Notes data base are not subject to a forced login step.

Workflow is built into PC DOCS Open. Workflow can do two things, it can act as a calendar, optionally with automatic file retrieval, or it can be used to route documents in parallel and in series. We chose to use workflow primarily because it can call back files automatically or send them to another at a pre-set time. We

expect workflow to replace our calendar software, once we get it fully operational.

Right now we are using it to route incoming faxes and scanned images to our patents data base staff and the addressee.

In the longer term, we will use it to retrieve a file automatically at the time we need to act on it. For example, when a new application is filed, we will embed in that application a code which will cause the workflow software to notify the attorney at 10 months that the application is due for foreign filing review. We have not decided whether a simple electronic notice will pop up on screen or whether the file will be attached to that notice as well. Also, we plan to use this software to move files automatically between our UK and US offices. Our UK offices act as the European agents for US originating cases and we in the US act as the US agents for UK arising applications. Now we have a redundant filing system where each site has a copy of every paper in each US and European application. EIMS eliminates the need for a redundant file at each site; workflow will automatically move a file to the appropriate site on a pre-set date. Automatic routing coupled with not having to create redundant files saves time and money.

PC DOCS Open has an archival function built into it. You can set the retention period for a document when you log it into PC DOCS. We will be using this function to help manage our information retention policy and to automatically migrate files from on-demand magnetic storage which can not hold a lot of data, to an intermediate-term storage medium, and then to a long-term storage medium.

Hardware & Software

Our EIMS uses a client/server architecture. We are using 3 Compaq Proliant 5000 servers which have dual 200 Mhz Pentium Pro Processors, 128MB RAM, and four 4.3GB SCSI hotswappable drives. The PCs are Compaqs which have a 200 Mhz pentium processor and 96 MB RAM and 1GB drives, and IBM ThinkPads which have a 133 Mhz pentium processor 96 MB RAM and a 1 GB hard drive. For additional storage, we are using Hewlett Packard optical devices which have 16-slots for disks which hold 2.6GB each. These are Write Once Read Many (WORM) disks.

The servers are running Windows NT Network Operating System v4.0. The PCs are running Windows NT v4.0. The NT programs come bundled with a communications stack which is quite a bit faster than the Chameleon software we

had been using. For document creation we use the software bundled with NT v4.0. No surprise there. We use Lotus Notes 4.5 for e-mail and for certain data base functions, a library function so to speak. Netscape 3.01 is the 'net browser.

For scanning we are starting with one Fujitsu black and white scanner at each site. We will get color scanners some time later to support Trademarks' need for color renditions of marks and logos. These scanners are attached to a Compaq 166 Mhz pentium PC. We use SeaScan to capture images from the Fujitsu scanners. We wrote a program to perform an image quality check which is done before the image is logged into PC DOCS. But if the document is an official action, it is converted to text (OCR) and that text is associated with that image in the PC DOCS file so it can be searched using a full-text search engine.

Our fax servers runs on a Compaq 166 Mhz pentium machine and use Omtool's Fax Sr. software. We have just one at each site at this time. Faxes come into the server PC, are checked for quality using a custom program and converted to text (OCR) if the fax is an official action from a patent office. That OCR file is associated with its image in the PC DOCS file so it can be searched using a full-text search engine. Then they are logged into PC DOCS and routed to the addressee and the data entry person if they contain date sensitive information or require payment of a fee or tax. Faxes can be sent from any PC by selecting the "Print to fax" command rather than the "Print" command..

Operational Details

We are using a forced login so files are not lost. After a file is created or comes in by fax, e-mail, or is scanned, the system knows to launch a PC DOCS "Document Profile" window. This window has numerous fields, five of which must be filled in before the window can be closed. These fields are: File ID, Document Name, Document Type, Attorney, Country. The Document Type, Attorney and Country fields can have only certain data, and that data is the same at each site. The other fields are permissive fields, but must be filled in. This creates a common set of search parameters across all of CIP. It is indexed by PC DOCS. This uniformity is critical if we are to be able to locate files several years from now, or find data entered at another CIP location.

Other Information Connections

I would just like to note in passing a couple of resources we use more and more:

Netscape: The Internet has lots of free information and is about as up to the minute as you can get these days. I use it to track legislation, search US codes, research legal issues, and track the competition.

Intranet Site: We are establishing an intranet site to tell people what we do, how to contact us, link up to outside resources, and automate certain contract drafting. We have just begun to tap this resource.

Virtual Library: Our servers can also run CD-ROM towers. We are starting to use that capability to put our library resources on line at the desktop by purchasing CDs rather than books.

Lotus Notes Data Bases: I mentioned that we used these for template drafting of specifications. We also use LN data bases as a library resource.

Relational Data Bases: Each desktop can access our patents and trademarks data bases online.

Business Justification

We had to justify our effort by showing cost savings. Our main cost-savings today is that of putting more people in the same building by shrinking the files down onto a set of small computers and storage devices. Also, we do not have to create a second set of files at a second site, saving more floor space and reducing the cost of copying, mailing and refiling those files. An electronic system gives more rapid access to files, no need to run up and down the hall. Files are put away up front. And files can always be found; miss-filing is greatly reduced, if not eliminated. When we analyzed how we worked, we were amazed by how much time we were spending walking to the printer, then to get a signature, then to the fax, then back to check if the fax had gone, then to the file cabinets to put away the file. That time is all captured and used for some other task by simply hitting "Print to fax" then checking the file into PC DOCS with a couple of keystrokes. This is just one example.

We estimated that a $500,000 to $600,000 investment would impact about $1.5 million in cost over three years, given our current operation.

Challenges

Not everyone is embracing this change. Ingrained work habits are hard to change. Paper files are a way of life, and some of us are reluctant to give up a tried and true system. But ask your college-age son or daughter, I'll bet they would be happy to get their hands on this system.

Screen technology needs to change. Screens need to be bigger so you can read more than one page at a time. Flat panel displays should change that in time. Fujitsu is beginning to sell a panel which is 77mm thick and more than 1 meter long! But it cost $15,000 per panel right now.

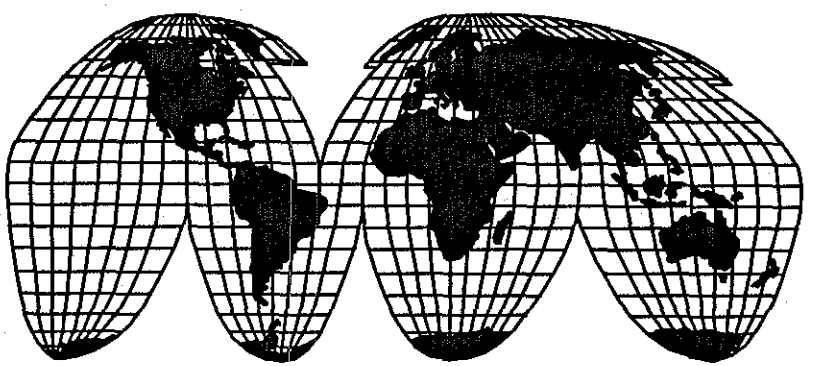
We may not convert older but still active files to online files. It can be an expensive effort and we have to look at the cost versus how often we would access these older files. We will keep our old inactive paper files in off-site storage.

Right now only microfilm and microfiche can reliably store data for much more that 10 to 15 years. Optical and magnetic storage technologies can not meet our requirements for 25 to 100 year storage. At least one very long-term computer-readable storage technology is under development, writing data to a steel needle encased in glass.

And finally, inter and intrasite infrastructures need to be faster, capable of carrying more data, and need to be more secure and robust. Switching and routing technologies need to be upgraded. Line speeds and carrying capacity need to be expanded. Small steps are being taken every day, it is just a matter of time. Remember when 512K of RAM was just an incredible amount of memory and 20Mb hard drives were state-of-the-art? Nothing is standing still in the world of electronics.

A Paperless Patent Practice Paradigm

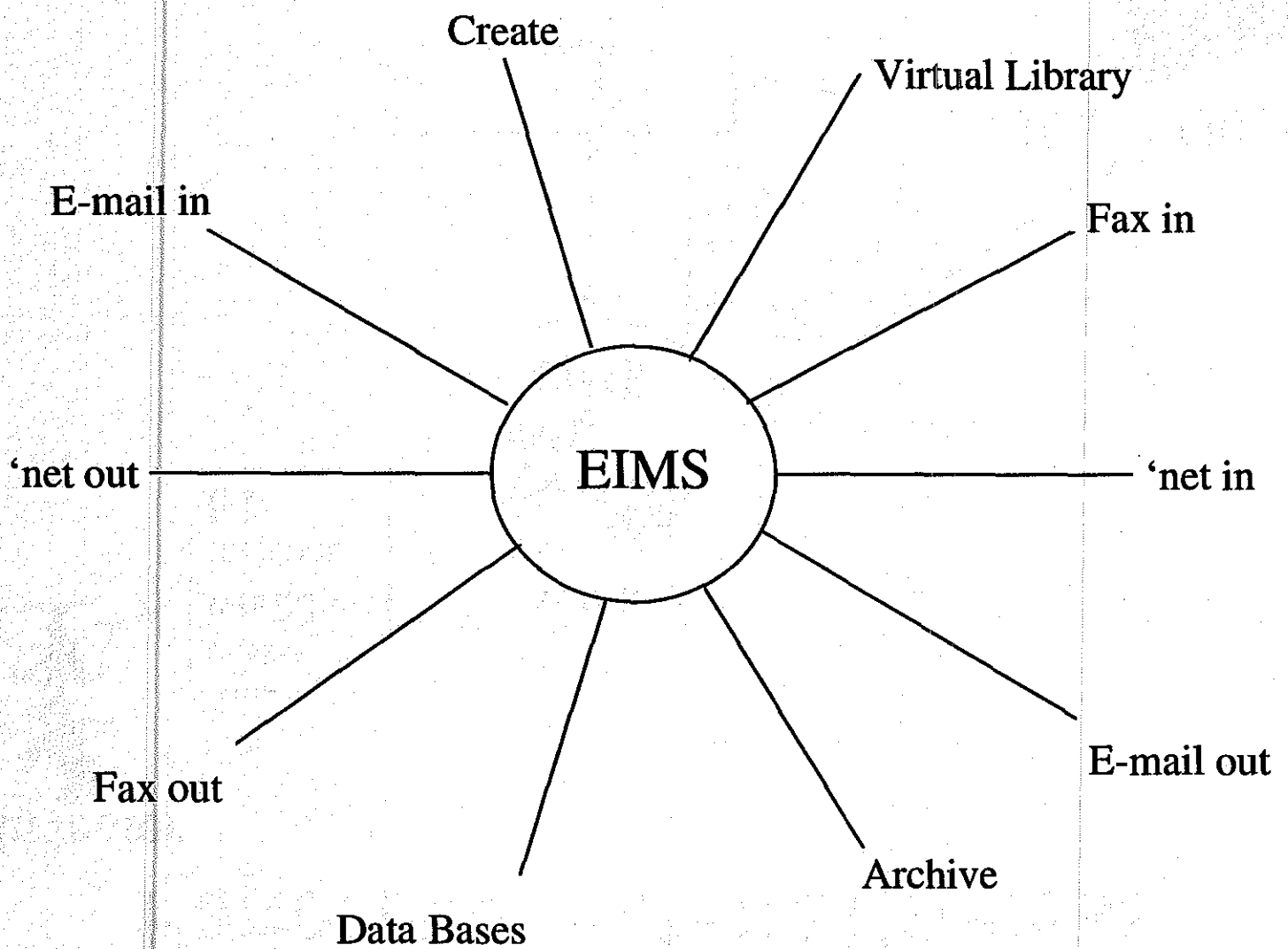
- Electronic Information Management System
- "The world at your finger tips"



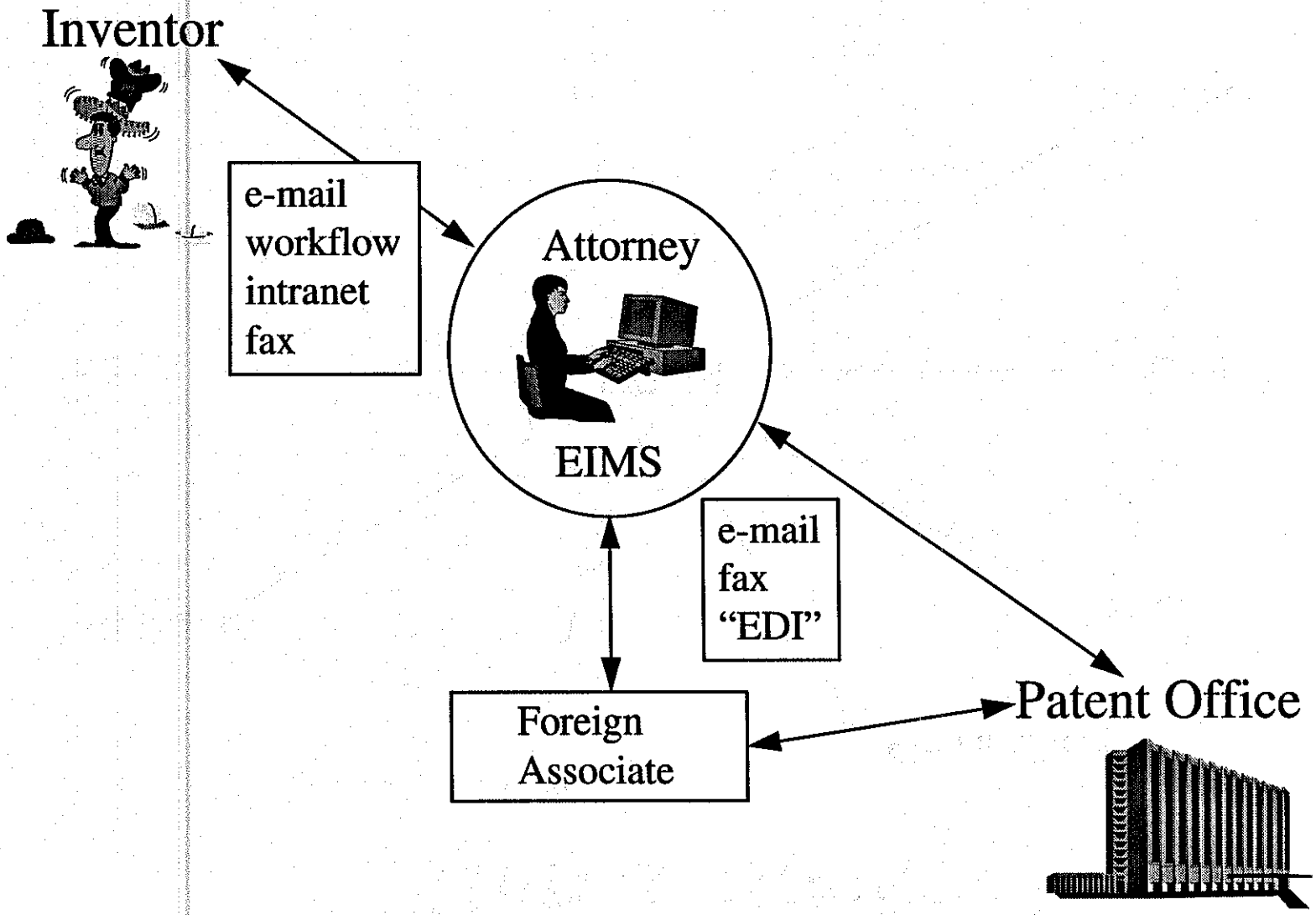
New Paradigm

- All information on-line
- All information collected and distributed On-line
- Access to all data via PC
  - No temporal limitations
  - No physical limitations

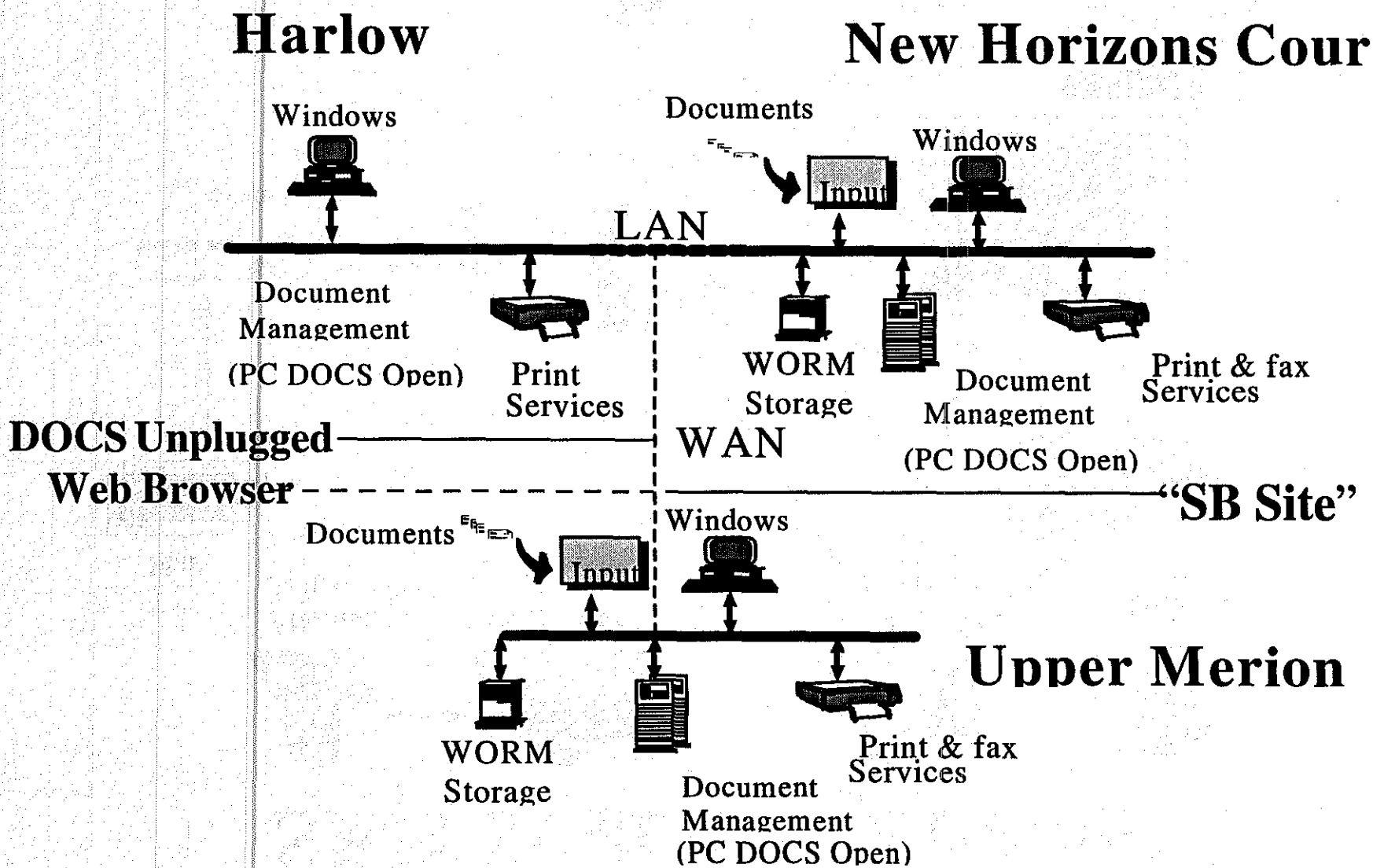
"Hub & Spoke"


Create
Virtual Library
E-mail in
Fax in
'net out
EIMS
'net in
Fax out
E-mail out
Data Bases
Archive

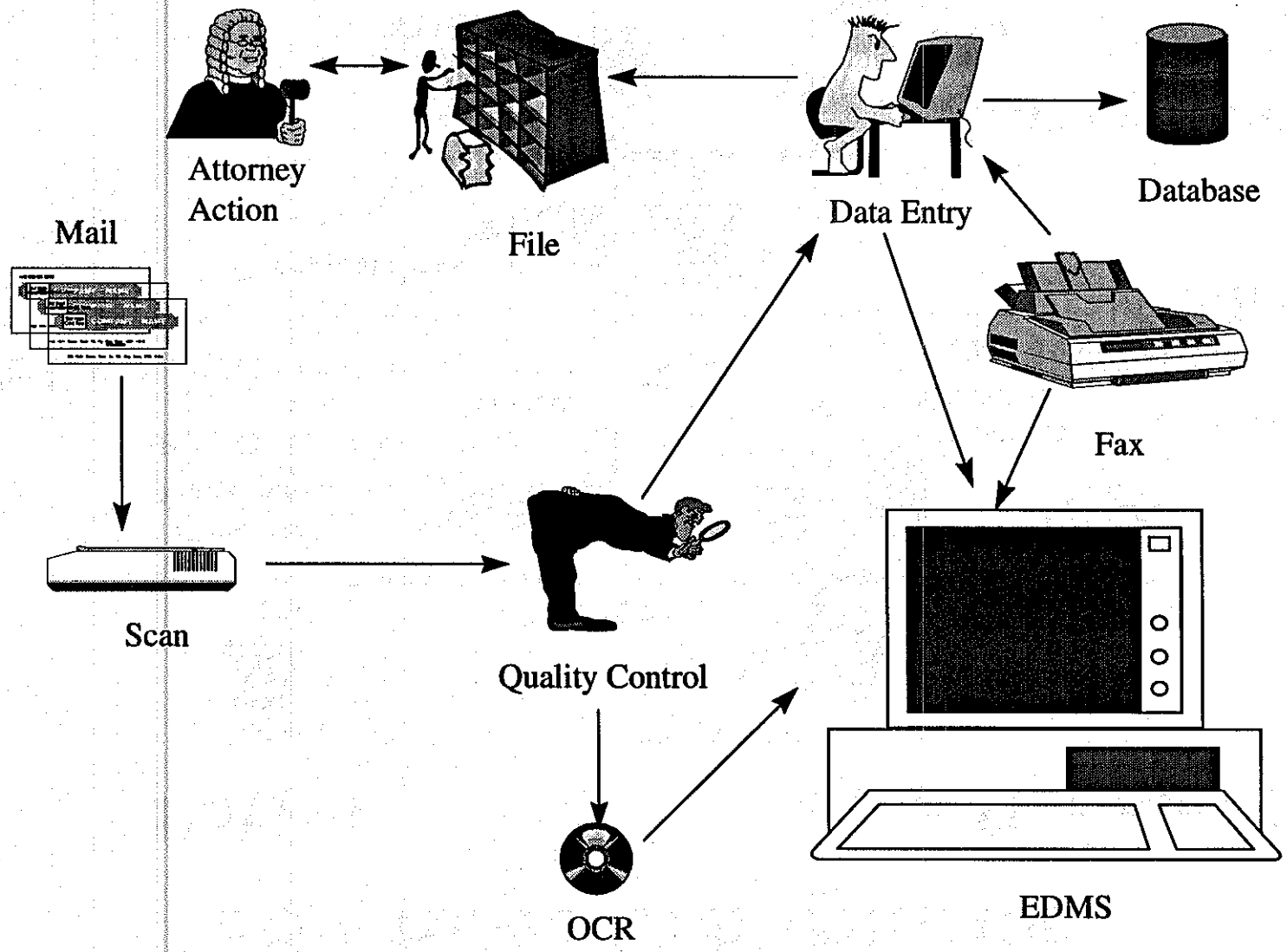
Paperless Patent Process



SB's EIMS Configuration



SB's System Operation



Data Management Engine

- Information Management Software
  - Documentum, PC DOCS Open
  - "Air Traffic Controller" for all data files
    - Links to data capture
    - Links to data storage
    - Links to data output
    - Workflow and Calendar Operation
    - Archival function

Hardware & Software

- Client/Server
- Hardware
  - Server -- Compaq Pentium Server
  - Client -- Pentium PCs
  - Magnetic and Optical Storage
- Software
  - Windows NT NOS and NT Desktop
  - PC DOCS Open, PC DOCS Unplugged
  - SeaScan (Fujitsu scanner)
  - Fax Sr.
  - Lotus Notes

Operational Details

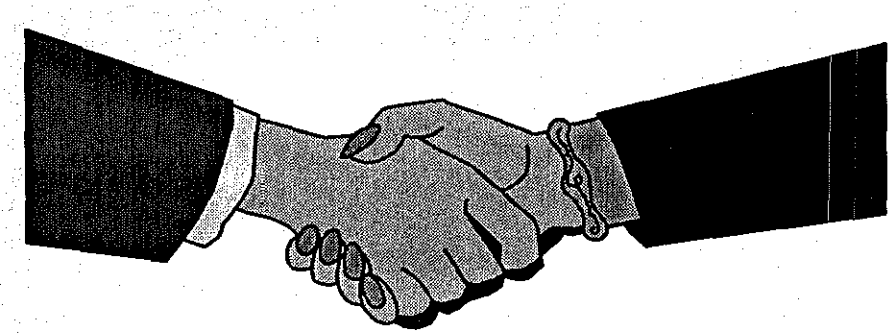
- PC DOCS -- Forced Login
  - First step: Login!
  - "Save" command always launched PC DOCS login screen
  - Five fields must be filled in before the login screen can be closed
  - Certain fields have popup windows with pre-set named and identification data

Operational Details

- New Document
  - "Save" activates login screen
    - Covers "Copy", " Import" and downloading from other data sources
- Scan or Fax
  - Scan paper, Open fax
    - QC .tiff file, OCR if needed
  - Login
- E-Mail
  - Export to temp file, Login when PC is shut down

Other Information Connections

- Internet Browser
- CIP Intranet Site
- Networked CD Readers
  - Virtual Library
- Lotus Notes Data Bases
- Relational Data Base for Patent Filing Data



Business Justification

- ROI -- three year target
  - Space savings
    - Small footprint
      - Backfile conversion as needed
  - Office efficiencies
    - Much quicker handling of information
    - Eliminates cost of a redundant file operation
    - PC access to all files
      - Everything filed quickly at the front-end
      - Electronic "Fetch" via workflow software
      - Remote access to all files

Challenges

- Change to work habits
  - "Get me the X file."
- Small, low definition screens
  - "Castle builders"
    - Large (40", 1M) Flat Panel Displays coming
- Backfile conversion
- Archival medium short-lived
- Infrastructure challenged by large files

(1) Title: DOCTRINE OF EQUIVALENTS - THE UNCERTAINTY REMAINS A POSSIBLE SOLUTION

(2) Date: September 1997

(3) Source:

1) Source: PIPA
2) Group: US
3) Committee: 1

(4) Author:

Warren W. Kurz* Coulter Corporation

(5) Keywords: Doctrine of Equivalents; Prosecution History Estoppel; Warner-Jenkinson; Hilton Davis

(6) Statutory Provisions – None

(7) Abstract

The U.S. Supreme Court decides Warner-Jenkinson v. Hilton Davis to clarify the application of the Doctrine of Equivalents. Legal uncertainty still remains. A possible solution is offered.

* The views expressed herein are those of the author and not necessarily those of Coulter Corportion.

I. Introduction

Since its creation by the U.S. courts some 183 years ago,[1] the *doctrine of equivalents* has proven to be a godsend to patentees (and their attorneys) who have unwittingly underclaimed or misclaimed their invention. On the other hand, the doctrine has made life difficult for those seeking peace of mind in knowing that their products or processes are safely outside the scope of protection afforded by another's patent. While being created for a noble purpose,[2] i.e., that of assuring that inventors get all that is due them as a result of their creativity and genius, the doctrine has operated to place an enormous burden on the public by requiring it to *guess* how broadly a court or a jury might construe a claim beyond its literal language to find infringement. From a remedy standpoint, the law draws *no distinction* between literal infringement and infringement under the doctrine. Painful injunctions and high monetary awards can result either way.

The primary purpose of this paper is to review with you the "latest word" on the doctrine of equivalents, as espoused by the U.S. Supreme Court in its recent *Warner-Jenkinson*[3] decision. As we will see, this decision, albeit clarifying several important issues regarding the application of the doctrine, still leaves important issues unresolved and presents new problems with its treatment of the doctrine of prosecution history estoppel. Another purpose of this paper is to revisit a proposal made some nine years ago at the PIPA Congress in Toba regarding a possible solution to the dilemma of balancing

---

[1] In *Odiore v. Winkley*, 18 F. Cas. 581 (C.C.D Mass. 1814), then Circuit Justice Story proclaimed that "Mere colorable differences, or slight improvements, cannot shake the right of the original inventor." at 582.]

[2] In explaining the basis for the doctrine of equivalents in the landmark decision of *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, 339 U.S. 605, 85 USPQ 328 (1950), the Supreme Court observed that limiting enforcement of patents to the literal language of the claims "would place the inventor at the *mercy of verbalism* and would subordinate substance to form." The Court went on to reason that such a limitation might encourage would-be infringers "to make unimportant and *insubstantial changes* and substitutions [to the invention as literally defined by the claims] which though adding *nothing*, would be enough ...[to evade] the reach of law." at 607.

[3] *Warner-Jenkinson Company, Inc. v. Hilton Davis Chemical Company*, 117 S.Ct. 1040, 41 USPQ2d 1865 (1997).

(a) the rights of the public to know with certainty, what subject matter is, and what subject matter is not, protected by a patent, against (b) the rights of inventors to reap a just reward for the inventions made.

II. The Latest Word On The Doctrine - *Warner-Jenkinson*

On March 3, 1997, the U.S. Supreme Court handed down an anxiously awaited decision concerning the doctrine of equivalents. In *Warner-Jenkinson*[4], the Court *unanimously* approved the continued application of the doctrine in determining patent infringement issues. Spurning the petitioner's invitation to abolish the doctrine for any one of several very plausible reasons,[5] the nine justices of the Court made it clear that, like it or not, the doctrine of equivalents is here to stay in U.S. jurisprudence, at least for the immediate future.[6] To best understand the impact of this case on our day-to-day work, it is important to understand the underlying facts of this case.

A. The Patent in Suit - U.S. 4,560,746

The patent in suit, attached as Appendix A, is owned by Hilton Davis. It relates to improvements in processes for purifying certain dyes that are commonly used in foodstuffs to make the food we eat more colorful or distinctive in appearance. The patented process involves a reverse osmosis/ultrafiltration technique in which a reaction mixture containing the dye of interest, together with certain impurities, is filtered through

---

[4]Id.

[5]Warner-Jenkinson raised the following arguments for "speaking the death" of the doctrine: (a) it is inconsistent with 35 U.S.C. 112 requiring a patentee to specifically claim the invention; (b) it circumvents the patent reissue process; (c) it is inconsistent with the primacy of the USPTO in setting the scope of a patent; and (d) it was implicitly rejected by Congress' specific and limited inclusion of the doctrine in paragraph 6 of Section 112 dealing with "means plus function" claims and the "equivalents" to what has been disclosed.

[6]As forty seven years have passed since the Court's last thorough review of the doctrine in the *Graver Tank* decision, it is likely that most of us will never see another Supreme Court ruling on the doctrine.

a porous membrane. By appropriately sizing the pores of the membrane, the impurities in the reaction mixture, which are smaller in size than the dye molecules, pass through the membrane, leaving behind a dye concentrate on the upstream side thereof. A purified form of the dye is then recovered from the concentrate by various drying techniques.

1. The Patent Application

As filed, the patent application contained but one independent, Jepson-style, claim which, for the sake of simplifying this discussion, may be assumed to read as follows:

> 1. In a process for the purification of a dye, said dye being present in a reaction mixture along with impurities, the improvement comprising: subjecting an aqueous solution of the reaction mixture to ultrafiltration through a membrane having a nominal pore diameter under a hydrostatic pressure of 200 to 400 p.s.i.g. to thereby cause separation of the impurities from the dye.

Support for the above claim is found in the specification, which included five working Examples of how the process operated to purify five different dyes. In four of the five Examples, the pH of the reaction mixture just prior to ultrafiltration was adjusted to be in the ranges of **"6.0 to 8.0"** (in Examples 1 and 2), **"8 to 10"** (in Example 3) **and "6 to 7"** (in Example 4). In the fifth example, no mention is made of pH. Additionally, the specification contains the following significant passage regarding the pH of the reaction mixture at the time of filtration:

> "In carrying out the present process, the reaction mixture as fed to the ultrafiltration unit, generally has a pH of approximately **9.0**. While these solutions can be subjected successfully to ultrafiltration, it is preferred to adjust the pH to **approximately 6.0 to 8.0** before passage through the ultrafiltration membrane."

2. The Patent Prosecution

During the prosecution stage, the above claim was rejected as being unpatentable under Section 103 over a patent reference (Booth) disclosing a similar filtration process that, among other differences, operated at a pH of **above 9**, and preferably between 11 and 13. To distinguish the claimed invention from this reference, Hilton Davis amended the above claim to read as follows:

> 1. In a process for the purification of a dye, said dye being present in a reaction mixture along with impurities, the improvement comprising: subjecting an aqueous solution of the reaction mixture to ultrafiltration through a membrane having a nominal pore under a hydrostatic pressure of 200 to 400 p.s.i.g., **at a pH from approximately 6.0 to 9.0**, to thereby cause separation of the impurities from the dye.

While the upper boundary of the pH range (i.e., "9.0") was unquestionably added to distinguish the cited reference, no explanation was given for reciting the lower limit of "approximately 6.0." Upon making the above amendment, the examiner allowed the claim and the patent issued.

B. The Accused Process

In 1986, shortly after the Hilton Davis patent issued, Warner-Jenkinson developed a similar ultrafiltration process for purifying dyes that met all limitations of claim 1 *except* that it operated at a pH of **5**. After commercializing its process, Warner-Jenkinson learned of the Hilton Davis patent.

C. The District Court Action

Some two years after learning of Warner-Jenkinson's process, Hilton Davis sued for patent infringement in the Southern District of Ohio. In the District Court action, a jury found the patent valid and infringed under the doctrine of equivalents. Prior to trial, Hilton Davis conceded that there was no literal infringement, admitting that a pH of

"approximately 6.0," as claimed, did not encompass the defendant's pH of 5. The jury determined that the infringement was not willful and awarded the patentee only 20% of the damages requested. The court entered a *permanent injunction* prohibiting the defendant from practicing the ultrafiltration process ***except at pHs above 9.01 and at pressures in excess of 500 p.s.i.g.!!!***

D. The Appeal to the Federal Circuit

On appeal, the Federal Circuit rendered a decision[7] *en banc* in which seven of the twelve judges voted to affirm the jury's verdict. The court specifically addressed three issues,[8] and its decision on these issues, as reflected by the dissenting and concurring opinions, serves to illustrate the discord among the judges in applying the doctrine. Of particular significance, the majority held that:

(1) The function-way-result test of *Graver Tank* is not "the" definitive test for equivalency. A finding of infringement under the doctrine of equivalents requires proof of *insubstantial differences* between what is claimed and what is alleged to infringe.

(2) Infringement under the doctrine is an issue of *fact* for determination by a jury, if appropriate. Thus, it is *not an equitable remedy* to be applied by the court.

(3) Application of the doctrine of equivalents is *not discretionary*. Thus, every patent owner is entitled to invoke the doctrine, a proposition inimical to the hypothesis that the doctrine is equitable.

---

[7] Hilton Davis Chemical Co. v. Warner-Jenkinson Co. 35 USPQ2d 1641(Fed. Cir. 1995).

[8] The court asked the parties to brief three questions: (1) Does a finding of infringement under the doctrine of equivalents require anything in addition to proof of the facts that show that *Graver's* "triple identity" test (i.e. substantially the same function, way and result) has been met, and if so, what? (2) Is the issue of infringement under the doctrine of equivalents an *equitable* remedy and, hence, to be decided only by the court, or is it, like literal infringement, an issue of fact to be submitted to a jury in a jury case? and (3) Is the application of the doctrine discretionary in accordance with the circumstances of the case?

Of some interest is the majority's response to a dissenting opinion arguing for adoption of a legal limitation on the application of the doctrine which would prohibit "enlargement of the claim." The majority opinion responds, "This dissent *errs*, however, in arguing that the application of the doctrine of equivalents *enlarges* the claim scope. Instead, the doctrine of equivalents *provides the same protection to the substance of the claim scope provided by the doctrine of literal infringement.* As explained in Graver Tank, when there are no substantial differences between the claimed and the accused products or processes, *they are the same*."

Thus, by the above reasoning, the public is charged with knowing, upon reading the above allowed claim, that a pH range of "approximately 6.0 to 9.0" is *the same as, and thus certainly no larger than,* a pH range of 5.0 to 9.0. As already noted, the patentee conceded that, when considered literally, 5.0 is *not* the same as "approximately 6.0." Try explaining to the U.S. Patent and Trademark Office in a Reissue application filed after two years from grant, or in a request for reexamination,[9] that your proposed amendment changing the range from "approximately 6.0 to 9.0" to --5.0 to 9.0-- is *not* broadening or enlarging!

While none of the dissenting Federal Circuit judges would have abolished the use of the doctrine, all would have significantly limited its application, at least making its use discretionary with the trial judge, to be invoked, when needed, to "temper unsparing logic and preventing an infringer from stealing the benefit of an invention." [10]

E. The U.S. Supreme Court Ruling

Accepting the petitioner's Writ of Certiorari for the purpose of "clarifying" the proper scope of the doctrine, the Supreme Court, through Justice Thomas, expressed its concern that "the doctrine of equivalents, as it has come to be applied since *Graver Tank*,

---

[9]In fact, a patentee succeeded in such an argument before the USPTO only to have its reexamined U.S. patent declared invalid for being impermissibly broadened contrary to 35 USC 305. In *Thermalloy Inc. v. Aavid Engineering Inc.*, CAFC, No. 96-1307, (8/22/97), the Federal Circuit affirmed a summary judgment of invalidity and held that "the doctrine of equivalents has no place in a challenge to validity under Section 305."

[10] From Judge Newman's concurring opinion.

has taken on a life of its own, unbounded by patent claims." Justice Thomas then went on to say, "There can be no denying that the doctrine of equivalents, when applied broadly, conflicts with the definitional and public notice functions of the statutory claiming requirement." Thus, to appropriately limit the application of the doctrine so as to avoid such "conflict," the Court held that:

> 1. "Each element contained in a patent claim is deemed material to defining the scope of the patented invention, and thus the doctrine must be applied to *individual elements* of the claim, *not to the invention as a whole.* ... [T]he application of the doctrine of equivalents, even as to an individual element, is not allowed such broad play as to effectively eliminate that element in its entirety." The Court concluded that "the 'scope' [of a patent claim] *is not enlarged* if courts do not go beyond the substitution of equivalent elements."

As regards the effect of amendments made to claims during the prosecution stage, where there is nothing in the file history to explain the reason for the amendment, the Court held that:

2. There is a *rebuttable presumption* that "the PTO had a substantial reason related to patentability for including the limiting element added by amendment." (Thus, when this presumption is not rebutted, as by a suitable explanation in the file history, prosecution history estoppel applies to prevent the doctrine of equivalents from being applied to that element.)

As regards the issue of "intent," as might enter into a determination of copying or designing around by the infringer, the Court held that:

3. "Intent plays no role in the application of the doctrine." (Thus, insofar as the *application* of the doctrine is concerned, the invention "pirate" is no worse off than one who independently invents at a later time.)

Finally, with respect to the proper time for evaluating equivalency--and thus knowledge of interchangeability between elements-- the Court held that:

4. "The proper time for evaluating equivalency ...is at *the time of infringement*, not at the time the patent issues." (Thus, the court confirmed that all equivalents developed subsequent to patent issuance are within the scope of protection.)

As indicated earlier, the *Warner-Jenkinson* decision leaves some very important issues unresolved. For example, no new test for equivalency was laid out. While the Court acknowledged that the "triple identity" test of *Graver* provides a poor framework for analyzing products and processes other than mechanical devices, and commented that the "insubstantial differences" test of the Federal Circuit "offers little additional guidance as to what might render a given difference 'insubstantial,'" the Court stated that it expected the Federal Circuit to "refine the formulation of the test for equivalence *in the orderly course of case-by-case determinations*, and we leave such refinement to the court's sound judgment... ." Also left undecided by the Court is the very important issue of whether the application of the doctrine is a task for the judge or jury. The Court *declined* to resolve the issue since it was unnecessary to decide the case. (But the Court indicated that certain issues, such as whether prosecution history estoppel applies, or if a theory of equivalents would entirely vitiate a particular claim element, are matters of law to be decided only by the court.)

Due to the absence of any evidence in the appeal record concerning the patentee's reason for amending the claim to recite the lower limit ("approximately 6.0") on the pH range, the Court reversed and remanded the case to the lower court for determination of whether or not the patentee can rebut the presumption that the amendment made had a purpose unrelated to patentability.[11]

[11]On remand to the Federal Circuit, the court reaffirmed its prior decision that "a pH of 5.0 is equivalent to a pH of 'approximately 6.0' in the context of the claimed process." The case was further remanded to the District Court to resolve the file history estoppel issue. See, *Hilton Davis Chemical Co. v. Warner-Jenkinson Co.* 43 USPQ2d 1155.(1997)

III. The Uncertainty Remains

After reviewing the Supreme Court's "clarifying" decision in *Warner-Jenkinson*, can anyone here say: "Now I get it." or "Now I understand how to apply the doctrine of equivalents in the U.S., and there will be no more uncertainty in my office in dealing with it." I should think not. After Warner-Jenkinson, we are left to wonder what the next test for equivalency will be, as it is to be later "refined" by the Federal Circuit. Whatever this new test will be, you can bet that the word "substantially," or a similar word, e.g., "essentially," will appear in it, thereby negating any precise definition. These words, like the word "non-obvious," are not subject to being defined with any precision. Thus, so long as the doctrine of equivalents is used to resolve the infringement issue, the public, *as well as the patentee*, will never know with any certainty the breadth of a given claim. And, "the reality," as noted by Judge Plager in his dissenting opinion *in Warner-Jenkinson*,[12] is that the doctrine of equivalents will continue to be "a virtually uncontrolled and unreviewable license to juries to find infringement if they so choose." And, According to Judge Plager, this will be "largely without regard to, and independent of, the express limitations of the patent claims."

Adding to the uncertainty of determining what is, and what is not, an equivalent, is the uncertainty of knowing, after going to the trouble and expense of obtaining a copy of the file history and observing that an amendment has been made to the claims, whether the patentee can satisfactorily rebut the presumption that the amendment was made for a reason "related to patentability." Presently, we have no idea what might constitute a satisfactory showing, much less whether the patentee can provide it.[13] Note, in *Warner-Jenkinson*, it is not unlikely that the patentee added the lower limit ("approximately 6.0")

---

[12]See Hilton-Davis, supra note 7, at 1662.

[13]Recent indications from a District Court decision seems to give deference to self-serving statements by the patent applicant that claim amendments were made to more clearly define a certain structure rather than to define over the prior art. See, James River Corp. of Va. v. Hallmark Cards, 43 USPQ2d 1422 (E.D. D.C.

to the pH range because he believed that the specification was not "enabling" at a lower limit. Certainly, the specification does not suggest that a pH below "approximately 6.0" would work. Possibly, the patentee could have successfully distinguished over the cited reference by merely reciting a pH of "below 9.0." But, the fact is, he didn't. Once the patentee adds such a limitation, shouldn't it count for something? It is interesting to note that, in fashioning the injunction, the District Court enjoined the defendant from practicing the process *except at pH s above 9.01*. Does this mean that the court considered any lower level to be an equivalent of "approximately 6.0? Can it be argued that the District Court, in effect, totally eliminated that "element" of the claim reciting the lower pH limit, contrary to the Supreme Court's new mandate. It will be interesting to see how the District Court treats the new issues raised on remand.

Question: How would you advise a client who, after Warner-Jenkinson, wished to practice the Hilton Davis process at a pH of **4.0**. How about **3.0**? How low must one go to be outside the scope of protection? To me, the scales of justice have tipped far too far toward "coddling" the inventor at the expense of the public interest.

IV. Interests of Inventors/Patentees vis-a-vis The Public Interest

In the United States, the public interest is clearly subordinate to the interests of inventors and patentees. The U.S. law "bends over backwards" to give every benefit of the doubt to an inventor. For example, only in the U.S can a patent applicant claim his invention in as many different ways as he chooses. If desired, a U.S. patent applicant can prosecute a hundred or more claims, *all in independent form* if he so chooses. The PTO rarely complains, so long as the additional claim fees are paid. One can claim a product or process invention using a wide variety of different, yet similar, terms and expressions, giving each claim a slightly different scope. (As you well know, in Japan and Europe, an applicant must make a special case to prosecute *two* independent claims directed to the same class of invention. If a broad application of the doctrine of equivalents makes sense anywhere, it should be in those countries (e.g., Japan and in Europe) where the applicant is given, in essence, "one bite at the apple.")

If, after prosecuting and gaining allowance of a virtually unlimited number of claims, the U.S. patentee is still unable (during litigation) to literally capture an accused product or process within the scope of a claim, *no problem*, the doctrine of equivalents is always there to help. As we have learned from Warner-Jenkinson, a U.S. patentee can enjoin others from using *equivalent elements*, as defined by a test which is yet to be "refined," which were not necessarily contemplated by the patentee *at the time of infringement*,much less at the time of patent issuance. Added to this huge advantage of unlimited claims and coverage of subject matter outside the literal scope of the claims, U.S. patent applicants are entitled to use "means plus function" language, and to use purposely vague and indefinite language, e.g., "approximately," "about," "substantially," "essentially," and similar expressions.

I submit that, in view of the present law in the U.S., a patent applicant should recite, on the first page of claims, just prior to claim 1, "What is claimed is *approximately* the following:" or "What is claimed is *something like* the following:". I ask, how can we do business without knowing, just from reading a patent and its specification, what that patent protects. As the late Justice Black leads off in his dissent in *Graver Tank*, "I heartily agree that 'fraud' [on a patent] is bad, 'piracy' is evil, and 'stealing' is reprehensible." But the answer, I submit, is not in a doctrine that is virtually impossible to understand and even-handedly apply. Another solution must be found that strikes a better balance between the respective interests of the public and patentee.

V. A Possible Solution to the Dilemma

At the 1988 PIPA Congress in Toba, "patent harmonization" was of keen interest. A bi-national committee, of which I was a part, was asked to reconcile certain differences between Japanese and U.S. law by proposing new legislation which would present a compromise between our conflicting viewpoints. One of the subjects for harmonization was, of course, the doctrine of equivalents. At that Congress, I had the opportunity to present a paper proposing the following legislation:

"A patentee has the right to exclude others from making, using and selling the patented invention provided that the claims of the patent are literally infringed by the other's product or process. "Literally infringed," as used herein, means that the claim language, as read in light of the patent specification and file history, and as normally understood by skilled artisans, reads on such product or process. Where literal infringement of the patent claims cannot be shown, a case for patent infringement may nevertheless be made if such product or process employs equivalent elements or steps to each of those recited in the claims. In such case, however, the remedy of the patentee shall be no more than a reasonable and fair royalty."

I suggest that the "legislation" proposed above may provide at least a springboard for further discussions directed to solving the dilemma of better balancing the interests of the public against those of an inventor/patentee. As will be appreciated, the statute proposed above provides for *compulsory licensing* in the case where the doctrine of equivalents must be resorted to in order to establish infringement. Question: Is this fair to patentees? For all the reasons listed above which tip the scale in favor of the U.S. patentee in being able to draft claims that literally capture infringers, I submit it is. Is it fair to the public? I submit that it is because the public could now decide, based on the *literal language* of the claim, whether to proceed or not, and would know that, so long as it operates outside the literal scope of protection, the maximum liability is a reasonable royalty. Other effects of such legislation would include:

1. U.S. patent practitioners will spend more time in carefully drafting claims.

2. There will be fewer patent lawsuits filed, and even fewer will go to trial, since patentees will know upfront the maximum recovery where literal infringement cannot be established.

3. Markman Hearings will more often determine the outcome of a patent suit.

I want to thank you all for your kind attention and consideration of the above proposal. Should you have any questions or comments, I would be pleased to hear them.

United States Patent [19]

Rebhahn et al.

[11] **Patent Number: 4,560,746**

[45] **Date of Patent: Dec. 24, 1985**

[54] **ULTRAFILTRATION PROCESS FOR PURIFICATION OF DYES USEFUL IN FOODSTUFFS**

[75] Inventors: **Robert W. J. Rebhahn**, Berkley, Mass.; **Wayne L. Cook**, Cincinnati, Ohio

[73] Assignee: **The Hilton-Davis Chemical Co.**, Cincinnati, Ohio

[21] Appl. No.: **677,118**

[22] Filed: **Nov. 30, 1984**

Related U.S. Application Data

[63] Continuation-in-part of Ser. No. 481,038, Mar. 28, 1983, abandoned.

[51] **Int. Cl.**[4] **C09B 29/16**; C09B 67/54; C09B 69/00

[52] **U.S. Cl.** **534/840**; 534/554; 534/883; 534/884; 534/887

[58] **Field of Search** ..... 260/208, 144 P; 534/887, 573, 840, 883, 884; 546/174

[56] **References Cited**

U.S. PATENT DOCUMENTS

3,249,444	5/1966	Bollenback et al. .	
3,544,455	12/1970	Adams et al. .	
4,165,288	8/1979	Teed et al. .	
4,189,380	2/1980	Booth et al.	260/144 X

FOREIGN PATENT DOCUMENTS

59782	9/1982	European Pat. Off. .
816730	10/1981	South Africa .

OTHER PUBLICATIONS

Colour Index, 3rd Edition, vol. 4, p. 4087, #15985, (1971).

Osmonics, Inc. Bulletin No. 109, Mar. 1978.

Spatz I, D. Dean, Reverse Osmosis/Ultrafiltration Application to Water Reuse and Material Reclamation, 5-1-75.

Spatz II, D. Dean, Industrial Wastes, Jan.-Feb. 1974, pp. 20-24.

Primary Examiner—Floyd D. Higel

Attorney, Agent, or Firm—William G. Webb; B. Woodrow Wyatt; Paul E. Dupont

[57] **ABSTRACT**

The disodium salt of 1-[(6-methoxy-4-sulfo-3-methylphenyl)azo]-2-naphthol-6-sulfonic acid (FD and C Red 40), the disodium salt of 1-[(4-sulfophenyl)azo]-2-naphthol-6-sulfonic acid (FD and C Yellow 6), the trisodium salt of 1-[1-(4-sulfonaphthyl)azo]-2-naphthol-3,6-disulfonic acid (FD and C Red 2), the disodium salt of 2-[1-(4-sulfonaphthyl)azo]-1-naphthol-4-sulfonic acid (Carmoisine) and the sodium salt of 2-(2-quinolyl)-1,3-indanedione-sulfonic acid (D and C Yellow 10) are prepared and purified in high yield and in a high state of purity by subjecting their aqueous reaction mixtures to ultrafiltration through a membrane of such structure and under such conditions that the impurities are separated from the reaction mixtures, and the products are concentrated in high purity concentrates from which the products can be isolated directly by evaporation of the solvent.

17 Claims, No Drawings

ULTRAFILTRATION PROCESS FOR PURIFICATION OF DYES USEFUL IN FOODSTUFFS

RELATED APPLICATION

This is a continuation-in-part of our prior, copending application Ser. No. 481,038, filed Mar. 28, 1983, now abandoned.

BACKGROUND OF THE INVENTION

(a) Field of the Invention

This invention relates to the field of purification, by ultrafiltration techniques, of dyes useful in foodstuffs.

(b) Information Disclosure Statement

Bollenback et al. U.S. Pat. No. 3,249,444, patented May 3, 1966, describes an ultrafiltration process for increasing the tinctorial power of caramel color in which sugar, i.e. uncaramelized sugar, is separated from caramel color by ultrafiltration through a semi-permeable membrane which permits passage of small, uncolored molecules in solutions containing caramel color and rejects the passage of larger, polymeric caramel color molecules, thus enhancing the color of the concentrate. Preferred membranes for the process are made of vinyl plastics, and preferred pressures are in the range from 20 to 100 p.s.i.g.

Adams et al. U.S. Pat. No. 3,544,455, patented Dec. 1, 1970, discloses a process for the purification of itaconic acid by reverse osmosis through a semi-permeable membrane composed of cellulose acetate or polyamide in which itaconic acid and water are forced to the downstream side of the membrane, while inorganic salts, colored materials and organic materials remain on the upstream side. The process is carried out under a hydrostatic pressure of from 100 to 1,000 p.s.i.g. and at a pH in the range from 2 to 4.

Teed et al. U.S. Pat. No. 4,165,288, patented Aug. 21, 1979, discloses a process for the concentration and partial purification of textile vat dyes for recovery and reuse of the same by subjecting the dye solutions from dyeing operations to reverse osmosis through a semi-permeable membrane, impurities being collected in the permeate and the dye being concentrated in the concentrate. The process is carried out at hydrostatic pressures from 400 to 1,300 p.s.i.g. and at temperatures from 130° F. to 212° F. In order to prevent plugging of the membrane, a turbulent flow of liquid is needed.

EPO Application No. 59,782, published Sept. 15, 1982, discloses a process for concentration, to unspecified levels of purity, of certain anionic dyes, useful in the printing and dyeing of synthetic fibre materials, by passing solutions or suspensions of the dyes through a semi-permeable membrane with a pore diameter of 1–500 Angstroms.

South African Pat. No. 81/6,730, patented Sept. 6, 1982 discloses a process for the preparation of concentrated solutions of anionic dyes, of unspecified purity and useful in printing inks and dye baths, comprising passing a suspension or solution of the dye over a semi-permeable membrane containing ionic groups and having a pore diameter of 1–500 Angstroms.

Osmonics, Inc. Bulletin No. 109 describes the use of a variety of reverse osmosis/ultrafiltration membranes for a variety of purposes, including use of Osmonics, Inc. SEPA-50 membrane in textile dye removal. The membrane is said to give 40–70% sodium chloride rejection and a molecular weight cut-off of approximately 600 for organic materials.

Spatz, Reverse Osmosis/Ultrafiltration Application to Water Reuse and Material Reclamation, May 1, 1975, at page 8, discloses that reverse osmosis/ultrafiltration membranes can be used to remove organic dyes and that some organic dyes are poorly rejected by the membrane. That is, the dye would pass through the membrane.

Spatz, Industrial Wastes, January/February 1974, pages 20–24, discloses the use of reverse osmosis/ultrafiltration membrane methods for concentrating sucrose/dye solutions used in Maraschino cherry processing so that used dyeing solutions, rather than being discarded as in the past, can be concentrated down and reused.

Thus although the general concept of the use of reverse osmosis/ultrafiltration techniques to purify and concentrate a variety of materials is known, so far as is known, the application of this technology to dyes has been restricted to its use for merely concentrating dyes for reuse either in the textile industry, as in Teed or EPO Application No. 59,782, or in Maraschino cherry dyeing, as in Spatz (Industrial Wastes).

SUMMARY

In accordance with the present invention, certain dyes useful in foodstuffs are not merely concentrated, as provided by the prior art, but rather are prepared in molar yields which are unprecedented in the food dyestuff industry, and at purity levels which exceed the purity standards required by the U.S. Food and Drug Administration.

These unprecedented results are achieved by essentially incorporating the purification of the dyes as part of a continuous preparation/purification process, the purification being effected by subjecting an aqueous solution of the reaction mixture resulting from preparation of the dye to ultrafiltration under conditions such that the dye can be isolated by evaporation of its solution in molar yields of approximately 98% and in a state of purity of approximately 90%. In certain instances molar yields as low as around 75% are obtained, but even in such cases, the state of purity of the dyes which can be achieved by the present process is around 90%. In practicing the invention, it is preferred to subject the reaction mixture, which results from the preparation of the dyes, directly to ultrafiltration without isolation of the product. Alternatively, however, the products can be isolated in crude form from the reaction mixtures, either by salting out or by spray drying, and the crude product then redissolved in water and the solution subjected to ultrafiltration.

Accordingly, the invention comprises a process for purification of a dye selected from the group consisting of the disodium salt of 1-[(6-methoxy-4-sulfo-3-methylphenyl)azo]-2-naphthol-6-sulfonic acid, the disodium salt of 1-[(4-sulfophenyl)azo]-2-naphthol-6-sulfonic acid, the trisodium salt of 1-[1-(4-sulfonaphthyl)azo]-2-naphthol-3,6-disulfonic acid, the disodium salt of 2-[1-(4-sulfonaphthyl)azo]-1-naphthol-4-sulfonic acid and the sodium salt of 2-(2-quinolyl)-1,3-indanedione-sulfonic acid as the products of their respective preparations via coupling of diazonium salts, in the case of the first four named dyes, and via sulfonation, in the case of the last named dye, where said dyes are present in the final reaction mixtures along with impurities, which process comprises subjecting an aqueous solution of the

reaction mixture resulting from said coupling or said sulfonation to ultrafiltration through a membrane having a nominal pore diameter of from 5 to 15 Angstroms under a hydrostatic pressure of approximately 200 to 400 p.s.i.g. to thereby cause separation of the impurities into the permeate and concentration of the products in the concentrate.

DETAILED DESCRIPTION INCLUSIVE OF THE PREFERRED EMBODIMENTS

The dyestuffs, FD and C Red 40 and FD and C Yellow 6, chemically the disodium salt of 1-[(6-methoxy-4-sulfo-3-methylphenyl)azo]-2-naphthol-6-sulfonic acid and the disodium salt of 1-[(4-sulfophenyl)azo]-2-naphthol-6-sulfonic acid, respectively, are approved by the U.S. Food and Drug Administration, and Amaranth and Carmoisine, chemically the trisodium salt of 1-[1-(4-sulfonaphthyl)azo]-2-naphthol-3,6-disulfonic acid and the disodium salt of 2-[1-(4-sulfonaphthyl)azo]-1-naphthol-4-sulfonic acid, respectively, are approved by the European Economic Community (E.E.C.), for use in foodstuffs, but as foodstuff additives, they must meet certain strict standards of purity. FD and C Red 40, FD and C Yellow 6, FD and C Red 2 and Carmoisine are each prepared in essentially "one pot" reactions by the diazotization of 5-methoxy-2-methylsulfanilic acid (FD and C Red 40), sulfanilic acid (FD and C Yellow 6), and sodium 4-amino-1-naphthalene sulfonate (FD and C Red 2 and Carmoisine), followed by coupling of the resulting respective diazonium salts with sodium 2-naphthol-6-sulfonate, for the preparation of FD and C Red 40 and FD and C Yellow 6, or with disodium 2-naphthol-3,6-disulfonate, for the preparation of FD and C Red 2, or with sodium 1-naphthol-4-sulfonate, for the preparation of Carmoisine. Moreover D and C Yellow 10, chemically the sodium salt of 2-(2-quinolyl)-1,3-indanedione sulfonic acid, is approved for use as a drug and cosmetic coloring agent. D and C Yellow 10 is also prepared in an essentially "one pot" procedure involving condensation of 2-quinaldine with phthalic anhydride followed by sulfonation of the resulting 2-(2-quinolyl)-1,3-indanedione.

Dyestuffs which are not intended for human consumption, for example those intended for use as textile dyes or printing inks, whose state of purity for such ultimate uses is not critical, can, of course, be isolated directly by evaporative concentration of the reaction mixtures in which they are produced followed by collection of the dye. Using such procedures, the final products are contaminated with major amounts of impurities whose presence would not adversely affect the use of the dyes. However, in dyes used as food coloring agents, for example, such product isolation procedures in which large amounts of impurities would be carried along with the product, would be completely unacceptable.

Therefore dyestuffs used as food coloring agents have conventionally been separated from impurities present in their reaction mixtures by crystallization. However, because the various dyes which are the subject of this invention are all moderately soluble in water, they have heretofore been purified of impurities present in reaction mixtures in which they are produced by the addition of large quantities of salt (sodium chloride) so as to "salt out" the product. However such salting out processes have several disadvantages. To begin with, the salt required is expensive, and furthermore the brine produced in the final filtrate presents a major disposal problem for industry. Moreover, because of the high solubility of the dyes, even in brine, a high percentage of the product (from around 12% to around 20%) is lost in the brine. Thus in a typical batch containing 2,500 pounds of FD and C Red 40 in a final reaction mixture, 13,200 pounds of salt would be required in order to recover about 2,200 pounds of product, the remaining 300 pounds being lost in the filtrate after collection of the solid product by filtration.

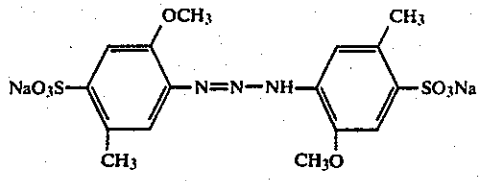
It will be seen then that, in view of the above circumstances, the cost of the salt, the added cost to industry of disposing of the brine and the cost of the lost product can, in toto, be very substantial, resulting in greatly increased costs of the products as sold. The novel method provided by the present process overcomes these disadvantages by avoiding the need for salt and by providing for recovery of up to 98% of the product actually produced in the reaction mixture. In addition, the method produces a product having a state of purity which exceeds the purity standards required by regulatory agencies, such as the U.S. Food and Drug Administration, or by the European Economic Community.

In accordance with the present invention for the purification of FD and C Red 40, FD and C Yellow 6, FD and C Red 2 and Carmoisine, all prepared by coupling of an appropriate diazonium salt with a naphthol sulfonic acid derivative, therefore, these advantages are realized by incorporating the purification step as part of an essentially continuous preparation/purification procedure in which the reaction mixtures resulting from the coupling of the diazonium salts of 5-methoxy-2-methylsulfanilic acid (for FD and C Red 40), sulfanilic acid (for FD and C Yellow 6) or 4-amino-1-naphthalene sulfonic acid (for FD and C Red 2 and Carmoisine), in the form of the corresponding sodium salts in each case, with sodium 2-naphthol-6-sulfonate, disodium 2-naphthol-3,6-disulfonate or sodium 1-naphthol-4-sulfonate, as the case may be, are subjected directly to ultrafiltration through a membrane having a nominal pore diameter of such limiting size that the membrane will reject all molecules of a molecular size either the same as or greater than the products, FD and C Red 40, FD and C Yellow 6, FD and C Red 2 or Carmoisine, but which will allow passage of smaller molecules, including unreacted starting materials, i.e. 5-methoxy-2methylsulfanilic acid (also known as cresidine sulfonic acid and hereinafter designated CSA), as used in the preparation of FD and C Red 40, sulfanilic acid (hereinafter designated SA), as used in the preparation of FD and C Yellow 6, 4amino-1-naphthalene sulfonic acid, as used in the preparation of FD and C Red 2 and Carmoisine, sodium 2-naphthol-6-sulfonate (also known as Schaeffer's salt and hereinafter designated SS), disodium 2-naphthol-3,6-disulfonate and sodium 1-naphthol-4-sulfonate, as well as sodium chloride, which are the principal impurities to be found in the various aqueous product mixtures.

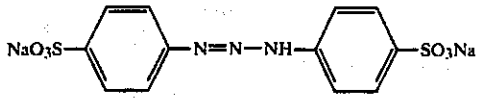
The reaction mixtures, however, may also contain impurities resulting from preparation of the 5methoxy-2-methylsulfanilic acid (used in the preparation of FD and C Red 40), sulfanilic acid (used in the preparation of FD and C Yellow 6) or 1-aminonaphthalene-4sulfonic acid by sulfonation of the respective 5-methoxy-2-methylaniline, aniline or 1-aminonaphthalene. These latter impurities include higher sulfonates of 5-methoxy-3-methylaniline, aniline and 1-aminonaphthalene (hereinafter designated HS) and sodium sulfate.

In the case of D and C Yellow 10, the principal impurities which may be found in the final product are the intermediate 2-(2-quinolyl)-1,3-indanedione, also known as Yellow 11, the disodium salt of 2-(2-quinolyl)-1,3-indanedione disulfonic acid, which results from disulfonation of Yellow 11, unreacted quinaldine, phthalic anhydride, an impurity of unknown structure designated chlorinated Yellow 11, which is produced during the high temperature, zinc chloride catalyzed condensation of 2-quinaldine and phthalic acid, and the chlorides and sulfates of sodium.

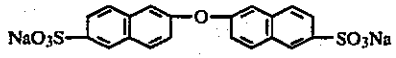
Moreover, the reaction mixtures may, in addition, contain in minor amount a variety of other impurities formed as undesired by-products, either in the preparation of FD and C Red 40 and FD and C Yellow 6, or in the preparation of starting materials used in their preparation. Thus the diazonium salt formed from 5-methoxy-3-methylsulfanilic acid can react with the amino nitrogen atom of undiazotized 5-methoxy-3-methylsulfanilic acid, in the preparation of FD and C Red 40, to form a triazene, which, in the form of the disodium salt, has the structure:



and is identified as the disodium salt of 4,4'-(diazoamino)-bis-(5-methoxy-2-methylbenzenesulfonic acid) (hereinafter designated DMMA); or the same type of triazene:



identified as the disodium salt of 4,4'-(diazoamino)-bis-(benzenesulfonic acid) (hereinafter designated DAAB) can be formed in the preparation of FD and C Yellow 6; or a dinaphthyl ether:



identified as the disodium salt of 6,6'-oxybis-(2-naphthalenesulfonic acid) (hereinafter designated DONS) can be produced as a by-product in the preparation of sodium 2-naphthol-6-sulfonate by sulfonation of 2-naphthol.

Thus it will be seen that the reaction mixtures resulting from the preparation of the various dyes purified in accordance with the invention can possibly contain in minor amounts, along with the desired products, a complex mixture of impurities. The economical separation of the wide variety of impurities from the products in the present process, in order to achieve the levels of purity required by FDA regulations, is thus a critical aspect of the preparation of these dyestuffs for commerce.

The presence of some of those impurities in the final products can, of course, be minimized by use of purified starting materials so that impurities from that source are not carried along in the synthetic process to the final product mixture. It will be appreciated from the foregoing that large molecular size impurities, which will be retained by the membranes, cannot be present in the solution to be purified by the present process at concentrations which would be unacceptable in the final product, because they would be rejected by the membranes, along with the desired product, and not separable therefrom by the present process.

The membranes used in the practice of the present process, and generally referred to as reverse osmosis-/ultrafiltration membranes, have a nominal pore diameter of 5–15 Angstroms, a preferred range being from 7–11 Angstroms. Membranes useful in the practice of the present invention are manufactured by Osmonics Inc. of Minnetonka, Minn. or by the Celanese Corporation and are generally formulated of cellulose acetate, polyamide or polyvinylfluoride. The filtration is carried out under a hydrostatic pressure of approximately 200 to 400 p.s.i.g. applied to the upstream side of the membrane. By use of a membrane having the appropriate critical pore size, those impurities of a molecular size smaller than the nominal pore diameter of the membrane, along with a large quantity of water, are thus forced through the membrane and accumulate on the downstream side as the permeate, while the desired product molecules, as well as impurities of a molecular size larger than the nominal pore diameter of the membrane, are rejected by the membrane and remain on the upstream side thereof where the product becomes more and more concentrated as more and more water and impurities are forced to the downstream side.

As indicated above, although the membranes used in the present process are referred to generically as reverse osmosis/ultrafiltration membranes, the term "reverse osmosis" generally refers to membranes which reject all solute particles, including ions, and will pass only water molecules, while the term "ultrafiltration" generally refers to membranes which will reject only solute particles above a certain molecular size and will pass smaller particles. (See, for example, Lacey, *Chemical Engineering*, Sept. 4, 1982, page 5). In the context of the present invention, therefore, the term "ultrafiltration" is considered more appropriate than the term "reverse osmosis" and accordingly is used to describe the invention.

In the preferred practice of the present process, the reaction mixture resulting from the last step in the synthetic procedure, i.e. the diazonium coupling reaction in the preparation of FD and C Red 40, FD and C Yellow 6, FD and C Red 2 or Carmoisine or the sulfonation reaction in the preparation of D and C Yellow 10, is passed to a holding tank and optionally filtered, to remove any insoluble material, before being fed to an ultrafiltration unit where, under a pressure of approximately 200 to 400 p.s.i.g., supplied by a high pressure centrifugal pump, the impurities are forced through the membrane into the permeate which can be collected for analysis or passed directly to waste lines for disposal. Alternatively the crude product previously isolated, by salting out or spray drying, can be redissolved in water and the resulting solution treated as just described.

In one embodiment contemplated by the invention, the solution from the holding tank is fed continuously to the ultrafiltration unit, while solution from the upstream side of the membrane is recirculated back to the tank. Thus ultrafiltration is carried out continuously, the

concentrate in the tank being continually depleted of impurities, and water is added to the concentrate (to replace that removed in the permeate with the impurities) at such a rate as to maintain the concentration of the product in the concentrate at approximately 5% (w/w). This procedure is referred to hereinafter as diafiltration.

In another embodiment contemplated by the invention, the concentrate from the upstream side of the membrane is recirculated back to the holding tank to be replaced by additional solution fed from the tank. However, instead of replacing the water lost from the system into the permeate as in the diafiltration method, the product is allowed to concentrate in the holding tank, the extent of such concentration, of course, not being allowed to proceed to the point where crystallization of the product would occur. In such instance, additional water is added to insure complete solution of the product at all times so as to obviate plugging of the membrane pores by the crystalline material. Typically the concentration of the product in the concentrate is maintained between approximately 5% and 25% (w/w).

In both of the above-described embodiments, the progressive removal of impurities is followed by sampling the permeate from time to time, and filtration is terminated when essentially no further impurities can be detected in the permeate and, in the case of FD and C Red 40, FD and C Yellow 6, FD and C Red 2 and Carmoisine, when, in addition, the level of sodium naphtholsulfonates, in the concentrate is determined (by appropriate analytical methods such as HPLC, TLC, etc.) to be less than 0.3% of the pure color content. The essential absence of impurities in the permeate can be determined in a variety of ways, such as by determining its electrical conductance. In that method, the conductance of the permeate gradually drops during ultrafiltration because of the continuous removal of ionic species from the concentrate. When the conductance of the permeate drops from an initial level of approximately 50,000 micromhos to approximately 1,000 micromhos, and when the level of sodium naphtholsulfonates in the concentrate reaches the desired level, as indicated above, the removal of essentially all impurities can be considered complete. When that point is reached, the concentrate, containing the highly purified product in water, is evaporated to dryness by any of a number of conventional means, for example, by pan drying or spray drying, in order to isolate the product. In this manner, one can obtain molar yields up to 98% in the process. In contrast, for example, yields of only around 77% of the total available pure color (for FD and C Yellow 6) and 86% of the total available pure color (for FD and C Red 40) are obtainable using the salting out method of isolation.

In carrying out the present process the reaction mixture, as produced in the diazo coupling and as fed to the ultrafiltration unit, generally has a pH of approximately 9.0. While these solutions can be subjected successfully to ultrafiltration, it is preferred to adjust the pH to approximately 6.0 to 8.0 before passage through the ultrafiltration membrane.

The ultrafiltration process is preferably carried out at ambient temperature but can be carried out at temperatures up to around 40° C.

In order to further describe the invention and the unique advantages afforded thereby, the following examples are included by way of illustration in order to contrast the preparation and purification of FD and C Red 40 and FD and C Yellow 6, in accordance with the present invention, with the preparation and purification of the same by conventional methods. The preparation and purification of FD and C Red 2, Carmoisine and D and C Yellow 10, in accordance with the process of the invention further illustrate the same.

EXAMPLE 1

Preparation and Purification of FD and C Red 40 by the Method of the Invention

Diazotization

To a rubber lined 1,500 gallon tank was added 3,550 pounds of water and 1,085 pounds of 5-methoxy-2-methylsulfanilic acid, and the pH of the solution was adjusted to 6.0 to 8.0 by the addition of about 550 pounds of 50% sodium hydroxide. The mixture was stirred, and when all material had dissolved, the solution was treated with 350 pounds of sodium nitrite, stirring until all material had dissolved, and was then cooled to 25°–30° C. by the addition of ice.

To a separate rubber lined 3,000 gallon tank was added 2,300 pounds of water, followed by 1,510 pounds of 20° Bé hydrochloric acid and 2,000 pounds of ice, and the solution was cooled to −5° C. to 0° C. The solution from the 1,500 gallon tank was then pumped slowly into the 3,000 gallon tank while checking the pH frequently in order to maintain acid conditions (blue to Congo Red) and checking frequently for excess nitrite with starch/iodide paper in order to insure that excess nitrite is present during the diazotization. (When all the solution from the first tank has been added, the test for nitrite should be positive, and if necessary an additional 1 to 2 pounds of sodium nitrite is added to give a positive test for nitrite.) The reaction mixture was stirred at 0°–5° C. for about one to one and a quarter hours, while maintaining a slight excess of nitrite ion.

Preparation of SS Solution

To another rubber lined 6,500 gallon tank were added 8,000 pounds of water, 1,000 pounds of sodium carbonate and 1,255 pounds of sodium 2-naphthol-6-sulfonate. The resulting slurry was agitated until uniform and saved for coupling.

Coupling Reaction

The diazotized solution from the 3,000 gallon tank, at 0°–5° C., was then slowly pumped into the 6,500 gallon tank at 20°–25° C. over a one half to one hour period, while testing frequently for excess diazo compound against alkaline H-Acid solution (8-amino-1-naphthol-3,6-disulfonic acid), and if excess diazo compound was detected, the rate of addition of the diazo solution was adjusted to give a continuous negative test. The solution was also tested from time to time to insure a continued excess of sodium 2-naphthol-6-sulfonate against Diazo Blue B solution (2,2'-dimethyl-4,4'-bis diazo-biphenyl dichloride), and to insure that the pH of the solution remains alkaline. (When all the diazo solution has been added, the temperature should be 20°–25° C., the test for diazo compound should be negative, the test for sodium 2-naphthol-6-sulfonate should be positive, and the pH should be 8.3 to 8.8.)

The solution was then stirred for an additional half hour, the pH was adjusted to 6.5 to 6.7 by the addition of 20° Bé hydrochloric acid and treated with 50 pounds of DICALITE ® brand of diatomaceous earth and 180 pounds of DARCO ® S51 brand of decolorizing char-

coal. The solution was then heated and stirred at 70°–75° C. for a half hour and then filtered. The filter was washed with about 4,500 pounds of water, and the combined filtrate was adjusted to pH 6.0 to 8.0 by addition of hydrochloric acid and was then led to a holding tank. From that solution was taken a 12 gallon aliquot amounting to 0.2% of the total product, together with impurities which was fed through a high pressure centrifugal pump to an ultrafiltration unit equipped with a cellulose acetate membrane having a nominal pore diameter of 11 Angstroms and under a hydrostatic pressure of 200–400 p.s.i.g. and subjected to diafiltration. That is, the concentrate was recycled back to the holding tank where the concentration of the product was maintained at around 5% by the addition of water. The permeate was collected separately and tested from time to time for its conductance, and the concentrate was tested from time to time for the total amount of SS relative to the total color. After a total of five cycles (of the product solution to the ultrafiltration unit and back to the holding tank), when the conductance had dropped to around 1,000 micromhos, and the amount of SS in the concentrate was less than 0.3% of the pure color content, ultrafiltration was interrupted. During the filtration the total pure color that passed through the membrane was determined, by either spectrometric methods or by visual comparison with known color standards, to constitute about 2% of the total available color in the original unfiltered solution from the reaction mixture thus leaving 98% of the total available pure color in the concentrate. The ultrafiltration process as described above afforded 2 gallons of purified concentrate. From this concentrate was taken a further 600 ml. aliquot which was spray dried to give 150 g. of purified product which, on assay, had the following specifications, the range of specifications required by regulations of the Food and Drug Administration being included for purposes of comparison. Here, and in all tables which follow, unless noted otherwise, all values are given in percent.

	Found	FDA Spec.
Pure Color	91.9	85
NaCl	0.03	
Na_2SO_4	0.56	14*
Volatiles	6.14	
CSA	<0.02	0.2
SS	0.01	0.3
DMMA	<0.02	0.1
HS	<0.3	1.0
DONS	<0.05	1.0

*The FDA specifications require that the total amount of NaCl, Na_2SO_4 and volatiles be not more than 14%. In each of the assays reported herein, separate values for each of these entities were determined and are recorded. The totals, in each case, will be seen to be within the required limits.

Two further samples of FD and C Red 40, prepared as described above, were purified by diafiltration using the procedure described above except that in one run a polyamide membrane having a nominal pore diameter of 7–10 Angstroms (Zero PA membrane obtained from the Celanese Corporation) was used and in a second run a polyvinylfluoride membrane having a nominal pore diameter of 10 Angstroms (20 VF membrane from Osmonics, Inc.) was used, to give 97% recovery of product in each case. The samples so purified had the following specifications, the ranges of specifications required by FDA regulations being given again for comparative purposes.

	Found		
	Zero PA	20 VF	FDA Spec.
Pure Color	88.4	89.3	85
NaCl	0.05	0.06	
Na_2SO_4	0.78	0.67	14
Volatiles	9.22	9.41	
CSA	<0.02	<0.02	0.2
SS	0.03	<0.02	0.3
DMMA	0.16	<0.02	0.1
HS	0.3	0.3	1.0
DONS	<0.05	<0.05	1.0

Preparation and Purification of FD and C Red 40 by the Prior Method

The above procedure was repeated through the filtration of the solution from the coupling reaction and the washing of the filter with 4,500 pounds of water. The combined filtrate was transferred to a 7,000 gallon stainless steel crystallization tank. To the tank was added 9,000 pounds of salt (equivalent to 18% of the solution volume) over a period of one half to one hour and while maintaining the temperature at about 65° C.

The crystalline material which separated was collected by filtration, and the solid was washed on the filter sequentially with 1,200 gallons each of 18° Be and 12° Be brine at 0° C. to 5° C. The filter was given a final wash with a solution of 750 gallons of water and 450 gallons of ethyl alcohol, and the product was collected and dried. There was thus obtained 2,170 pounds (87.5% yield based on 5-methoxy-2-methylsulfanilic acid) of the disodium salt of 1-[(6-methoxy-4-sulfo-3-methylphenyl)azo]-2-naphthol-6-sulfonic acid.

The material so-obtained in a series of similar runs was assayed in each case, in accordance with Food and Drug Administration regulations, and found to have the following ranges of specifications, the specifications obtained with material purified in accordance with the process of the invention as described above and specifications required by regulations of the Food and Drug Administration being given for purposes of comparison.

	Found (%)	Claimed Process	FDA Spec. (%)
Pure Color	88–92	91.9	85
NaCl	2.0–3.5	0.03	
Na_2SO_4	0.05–0.1	0.56	14
Volatiles	3.3–7.0	6.14	
CSA	0.02	<0.02	0.2
SS	0.02–0.2	0.01	0.3
DMMA	0.02	<0.02	0.1
HS	0.2–1.0	<0.05	1.0
DONS	0.1–0.2	<0.05	1.0

EXAMPLE 2

Preparation and Purification of FD and C Yellow 6 by the Method of the Invention

Diazotization

To a rubber lined 1,500 gallon tank was added 2,000 pounds of water followed by 1,038 pounds of sulfanilic acid and 490 pounds of sodium hydroxide, and the mixture was heated to 45° C. and stirred until all material dissolved. Additional sodium hydroxide was added as necessary to make the solution alkaline to Brilliant Yellow.

To the resulting solution was added, slowly and with stirring, 1,800 pounds of 20° Bé hydrochloric acid. When addition was complete, the mixture, which consisted of a slurry of sulfanilic acid in the liquid phase, was tested for acidity to Congo Red, and additional hydrochloric acid added as necessary to adjust the pH accordingly. The mixture was then cooled to 0° C. by addition of ice (about 3,000 pounds), and the solution was treated slowly, over a five to ten minute period, with a solution of 420 pounds of sodium nitrite in 1,000 pounds of water, while maintaining the temperature at 10°–12° C., the solution being added at such rate that no nitrous oxide was given off from the mixture. (When addition of the sodium nitrite is complete, the mixture should be positive to nitrite, and if not an additional 1 to 2 pounds of sodium nitrite are added to insure a slight excess.)

Preparation of SS Solution

In a separate rubber lined 6,500 gallon tank containing 5,000 pounds of water was added 1,480 pounds of sodium 2-naphthol-6-sulfonate, and the mixture was stirred until a smooth slurry was obtained. The pH was adjusted to 9.3 to 9.5 with 50% sodium hydroxide and then cooled, if necessary, to 20°–25° C. with ice.

Coupling Reaction

The diazo solution from the first tank, at 0°–5° C., was then pumped into the second tank over about a half hour period while maintaining the pH at 8.5 to 9.0 by addition of 50% sodium hydroxide, testing frequently for excess diazo compound with alkaline H-Acid. If excess diazo compound was detected, the rate of addition of the diazo solution was adjusted to give a continuous negative test. The solution was also tested from time to time for excess sodium 2-naphthol-6-sulfonic acid against Diazo Blue B solution in order to insure the continuous presence of an excess thereof. (When all the diazo solution has been added, the temperature should be 20°–25° C., the test for excess diazo compound should be negative, the test for sodium 2-naphthol-6-sulfonate should be positive, and the pH should be 8.4 to 9.0.)

The solution was then stirred for an additional half hour, the pH was adjusted to 6.5 to 6.7 by the addition of 20° Bé hydrochloric acid and treated with 50 pounds of DICALITE ® and 180 pounds of DARCO ® S51. The solution was then heated and stirred at 70°–75° C. for a half hour and filtered. The filter was washed with about 4,500 pounds of water, and the combined filtrate was adjusted to pH 6.0 to 8.0 by addition of hydrochloric acid and was then led to a holding tank. From that solution was taken a 9 gallon aliquot, amount to 0.2% of the total product together with impurities, which was then fed through a high pressure centrifugal pump to an ultrafiltration unit equipped with a cellulose acetate membrane having a nominal pore diameter of 11 Angstroms and under a hydrostatic pressure of 200–400 p.s.i.g., the concentrate being recycled back to the holding tank where the concentration of the product was maintained at approximately 5% by addition of water. The permeate was collected separately and tested from time to time for its conductance, and the concentrate was tested from time to time for the total amount of SS relative to the total color. After a total of five cycles (of the product solution to the ultrafiltration unit and back to the holding tank), when the conductance of the permeate had dropped to around 1,000 micromhos, and the amount of SS in the concentrate was less than 0.3% of the pure color content, diafiltration was interrupted. During the filtration the total pure color that passed through the membrane was determined, by either spectrometric methods or by visual comparison with known color standards, to constitute approximately 5% of the total available color in the original unfiltered solution from the reaction mixture thus leaving 95% of the total available pure color in the concentrate. The ultrafiltration process as described above afforded 4.5 gallons of purified concentrate. From this concentrate was taken a further 800 ml. aliquot which was spray dried to give 54 g. of purified product which, on assay, had the following specifications, the range of specifications required by regulations of the Food and Drug Administration being included for purposes of comparison.

	Found	FDA Spec.
Pure Color	92.2	85
NaCl	0.26	
Na_2SO_4	2.80	14
Volatiles	4.89	
SA	0.02	0.2
SS	0.1	0.3
DAAB	0.02	0.1
DONS	<0.2	1.0

Preparation and Purification of FD and C Yellow 6 by the Prior Method

The above procedure was repeated through the filtration of the solution from the coupling reaction and the washing of the filter with 4,500 pounds of water. The combined filtrate was transferred to a 7,000 gallon stainless steel crystallization tank. To the tank was added, over a period of a half hour at 70° C., an amount of sodium chloride equivalent to about 17% of the total volume (8,000–9,000 pounds).

The crystalline material which separated was collected by filtration, and the solid was washed on the filter with 1,200 gallons of 18° Bé brine, then four times with 2° Bé brine at 0°–2° C. (1,200 gallons per wash), three more times with 18° Bé brine (1,200 gallons per wash) and finally two times with 1,200 gallons of water at 0° C. and then dried. There was thus obtained 2,100 pounds of the disodium salt of 1-[(4-sulfophenyl)azo]-2-naphthol-6-sulfonic acid (77% yield based on sodium 2-naphthol-6-sulfonate).

The material so-obtained in a series of similar runs was assayed in each case, in accordance with Food and Drug Administration regulations, and found to have the following range of specifications, the specifications obtained with material purified in accordance with the process of the invention as described above and specifications required by regulations of the Food and Drug Administration being given also for purposes of comparison.

	Found	Claimed Process	FDA Spec.
Pure Color	89–92	92.2	85
NaCl	3.9–5.0	0.26	
Na_2SO_4	<0.05	2.80	14
Volatiles	1.7–5.4	4.89	
SA	0.02	0.02	0.2
SS	0.04–0.08	0.1	0.3
DAAB	0.02	0.02	0.1

-continued

	Found	Claimed Process	FDA Spec.
DONS	0.07–0.2	<0.02	1.0

EXAMPLE 3

Preparation and Purification of FD and C Red 2

Diazotization

A 10 liter glass reactor was charged with 7.5 liters of tap water and 965 g. of sodium 4amino-1-naphthalene sulfonate (76%, 3 moles). The mixture was stirred until the sulfonate dissolved, and the solution was then treated with 30 g. of NORIT ® FQA brand of decolorizing charcoal and the resulting slurry filtered. The filtrate was acidified with 911 g. of 20° Bé hydrochloric acid, and the resulting slurry was cooled with ice to 5°–10° C. and diazotized by the dropwise addition of 500 ml. of an aqueous solution of 209 g. (3.03 moles) of sodium nitrite over a one and one quarter hour period, while maintaining the temperature and pH throughout the addition at <10° C. and 1, respectively. When all the nitrite had been added, the diazonium salt slurry was stirred at 0°–10° C. and pH 1 for three hours, and the presence of excess nitrous acid was verified periodically by testing with starch/potassium iodide paper, additional sodium nitrite being added to maintain a positive test.

Coupling Reaction

A 20 liter glass reactor was charged with 6.3 liters of tap water, 1328 g. of disodium 2naphthol-3,6-disulfonate (81%, 3.09 moles) and 569 g. (5.37 moles) of sodium carbonate. The mixture was stirred until the sodium carbonate and the disulfonate salt had dissolved, and the diazonium salt slurry from the previous step was added to the solution over a ninety minute period, while maintaining the temperature and the pH at 18°–25° C. and 8–10, respectively, and while testing frequently for excess diazo compound with alkaline H-Acid in order to insure a continuous negative test with respect to the diazo compound. The solution was then treated with 7 g. of NORIT ® FQA brand of activated charcoal and 35 g. of DICALITE ® brand of diatomaceous earth and then heated to 55° C. for two and a half hours. The slurry was then filtered, cooled to room temperature and the filtrate subjected to diafiltration as described above using a cellulose acetate membrane having a nominal pore diameter of 11 Angstroms until the conductance of the concentrate and the permeate levelled off at 11,000 micromhos and 650 micromhos, respectively. The concentrate was then further concentrated to about 3.75 gallons by ultrafiltration. A 500 ml. aliquot of this concentrate was spray dried to give 67 g. of FD and C Red 2 (Amaranth) powder, corresponding to a total pure color recovery of 1772 g. or 98% of theory. This material, on assay, had the following specifications, the specifications required by EEC regulations being included for purposes of comparison.

	Found	EEC Spec.
Pure Color	91.0	85
NaCl, Na_2SO_4	1.04	5
Volatiles	7.04	10
Subsidiary Colors	0.9	3

EXAMPLE 4

Preparation and Purification of Carmoisine by the Method of the Invention

Diazotization

A 10 liter glass reactor was charged with 5.5 liters of water and 772 g. (76%, 2.24 moles) of sodium 4-amino-1-naphthalene sulfonate, and the mixture was stirred until the sulfonate dissolved. The resulting solution was treated with 30 g. of NORIT ® FQA brand of activated charcoal, the slurry was filtered, and the filtrate was acidified with 878 g. of 20° Bé hydrochloric acid. The resulting slurry was then cooled to 5°–10° C. and diazotized by the dropwise addition of 500 ml. of an aqueous solution of 156 g. (2.26 moles) of sodium nitrite over a one and one quarter hour period, while maintaining the temperature and pH of the reaction mixture at 10° C. and 1, respectively. When all the nitrite solution had been added, the resulting slurry was stirred at 0°–10° C. and pH of about 1 for three hours while testing periodically with starch/potassium iodide paper to insure a slight excess of nitrous acid at all times.

Coupling Reaction

A 20 liter glass reactor was charged with 5.5 liters of water and 425 g. of sodium carbonate, the solution was stirred until the carbonate dissolved, and then 630 g. (91.7%, 2.35 moles) of sodium 1-naphthol-4-sulfonic acid was added with stirring until all material had dissolved. The solution was then cooled to 5° C., and the previously prepared solution of the diazonium salt was then added over a period of approximately one hour while maintaining the temperature and pH at 5°–6° C. and 9–11, respectively.

The pH of the resulting solution was adjusted to 6–7 and subjected to diafiltration through a cellulose acetate membrane having a nominal pore diameter of 11 Angstroms at 200–400 p.s.i.g. and 2–3 gallons per minute. The diafiltration was continued until the concentrate and the permeate conductivities had leveled off at 5,000–10,000 micromhos and <1,000 micromhos, respectively, and the concentrate was then further concentrated to a total volume of about 4 gallons. A 500 ml. aliquot of this concentrate was spray dried to give 41 g. of pure dye, corresponding to a total recovery of 98% of theory. The material, on assay, had the following specifications, the specifications required by regulations of the E.E.C. being provided for purposes of comparison.

	Found	EEC Spec.
Pure Color	89.0	85
NaCl	0.07	N/A
Na_2SO_4	2.26	N/A
Volatiles	1.64	N/A
Subsidiary Colors	<1.0	1.0
Unreacted Intermediates	<0.5	0.5

EXAMPLE 5

Purification of D and C Yellow 10 by the Method of the Invention

To a 22 liter glass reactor charged with 16 liters of distilled water was added 803 g. of Quinoline Yellow WS (approximately 60% pure dye), and the solution was stirred until the solid had dissolved. The solution was then treated with 288 g. of DARCO® S-51 brand of activated charcoal and 100 g. of DICALITE® brand of diatomaceous earth, and the resulting mixture was heated to 80°–90° C. for two hours and then filtered. The filtrate was cooled to 30°–40° C. and then subjected to diafiltration through a Zero PA polyamide membrane having a nominal pore diameter of 7–10 Angstroms until the conductance of the permeate and the concentrate levelled off at 200–500 micromhos and 5,000–7,000 micromhos, respectively. The concentrate was then further concentrated to 3.5 gallons and a 1 gallon aliquot thereof was spray dried to give 103 g. of purified material, corresponding to 75% total recovery. The purified sample thus obtained, on assay, gave the following specifications, the corresponding specifications of the crude material prior to ultrafiltration and the specifications required by FDA regulations being provided for purposes of comparison.

	Found		FDA Spec.
	Crude	Purified	
Pure Color	60	89	85
NaCl	12	0.1	
Na_2SO_4	20	4.0	15
Volatiles	8.0	6.1	
Yellow 11	108 ppm	<0.1 ppm	4 ppm
Chlorinated Yellow 11	1190 ppm	<0.1 ppm	2 ppm

We claim:

1. In a process for the purification of a dye selected from the group consisting of the disodium salt of 1-[(6-methoxy-4-sulfo-3-methylphenyl)azo]-2-naphthol-6-sulfonic acid, the disodium salt of 1-[(4-sulfophenyl)azo]-2-naphthol-6-sulfonic acid, the trisodium salt of 1-[1-(4-sulfonaphthyl)azo]-2-naphthol-3,6-disulfonic acid, the disodium salt of 2-[1-(4-sulfonaphthyl)azo]-1-naphthol-4-sulfonic acid and the sodium salt of 2-(2-quinolyl)-1,3-indanedione-sulfonic acid as the products resulting, respectively, from the diazotization of 5-methoxy-2-methylsulfanilic acid in water with sodium nitrite in the presence of hydrochloric acid followed by the coupling under alkaline conditions of the resulting 5-methoxy-4-sulfo-2-methylphenyldiazonium chloride with sodium 2-naphthol-6-sulfonate; the diazotization of sulfanilic acid in water with sodium nitrite in the presence of hydrochloric acid followed by the coupling under alkaline conditions of the resulting 4-sulfophenyldiazonium chloride with sodium 2-naphthol-6-sulfonate; the diazotization of 4-aminonaphthalene-1-sulfonic acid in water with sodium nitrite in the presence of hydrochloric acid followed by the coupling under alkaline conditions of the resulting 1-sulfonaphthyl-4-diazonium chloride with disodium 2-naphthol-3,6-disulfonate; the diazotization of 4-aminonaphthalene-1-sulfonic acid in water with sodium nitrite in the presence of hydrochloric acid followed by the coupling under alkaline conditions of the resulting 1-sulfonaphthyl-4-diazonium chloride with sodium 1-naphthol-4-sulfonate; and the condensation of 2-quinaldine with phthalic anhydride followed by sulfonation of the resulting 2-(2-quinolyl)-1,3-indanedione, said dye being present in the resulting reaction mixtures, along with impurities, the improvement which comprises: subjecting an aqueous solution of the reaction mixture resulting from said coupling or said sulfonation to ultrafiltration through a membrane having a nominal pore diameter of 5–15 Angstroms under a hydrostatic pressure of approximately 200 to 400 p.s.i.g., at a pH from approximately 6.0 to 9.0, to thereby cause separation of said impurities from said dye, said impurities of a molecular size smaller than the nominal pore diameter passing into the permeate on the downstream side of said membrane and said dye remaining in the concentrate, and when substantially all said impurities have been removed from said concentrate, as evidenced by their essential absence in said permeate, recovering said dye, in approximately 90% purity from said concentrate by evaporation of said concentrate to dryness.

2. A process according to claim 1 wherein said membrane is composed of cellulose acetate, polyamide or polyvinylfluoride.

3. A process according to claim 2 wherein the concentration of the dye in said concentrate is maintained at approximately 5–25% (w/w) by recycling the concentrate and adding water thereto.

4. A process according to claim 2 wherein ultrafiltration is carried out until the concentration of the azo dye in the concentrate is maintained at approximately 5% (w/w).

5. A process according to claim 3 wherein the pH of the reaction mixture is adjusted to 6.0 to 8.0 before ultrafiltration.

6. A process according to claim 4 wherein the pH of the reaction mixture is adjusted to 6.0 to 8.0 before ultrafiltration.

7. A process according to claim 5 wherein ultrafiltration is interrupted, and the product isolated, when the conductance of the permeate is approximately 1,000 micromhos.

8. A process according to claim 6 wherein ultrafiltration is interrupted, and the product isolated, when the conductance of the permeate is approximately 1,000 micromhos.

9. A process according to claim 7 wherein the product is isolated by spray drying of the concentrate.

10. A process according to claim 7 wherein the product is isolated by pan drying of the concentrate.

11. A process according to claim 8 wherein the product is isolated by spray drying of the concentrate.

12. A process according to claim 8 wherein the product is isolated by pan drying of the concentrate.

13. A process according to claim 1 wherein said dye is the disodium salt of 1-[(6-methoxy-4-sulfo-3-methylphenyl)azo]-2-naphthol-6-sulfonic acid.

14. A process according to claim 1 wherein said dye is the disodium salt of 1-[(4-sulfophenyl)azo]-2-naphthol-6-sulfonic acid.

15. A process according to claim 1 wherein said dye is the trisodium salt of 1-[1-(4-sulfonaphthyl)azo]-2-naphthol-3,6-disulfonic acid.

16. A process according to claim 1 wherein said dye is the disodium salt of 2-[1-(4-sulfonaphthyl)azo]-1-naphthol-4-sulfonic acid.

17. A process according to claim 1 wherein said dye is the sodium salt of 2-(2-quinolyl)-1,3-indanedione-sulfonic acid.

* * * * *

Title:

DRAFTING CLAIMS UNDER THE SECTION 36 OF AMENDED PATENT LAW AND NEWLY REVISED EXAMINATION GUIDELINES

Date:

September 1997 (28th General Meeting in Toronto)

Committee etc.:

①PIPA Japan

②Committee, #1

Authors:

Junji Kawamoto:	Ube Industries, Ltd.
Kenichi Kato:	SUMITOMO 3M LIMITED
Mamoru Kuwagaki:	Nippon Telegraph and Telephone Corporation
Kenji Shimoda:	FUJITSU LIMITED
Tetsuya Aoki:	BROTHER INDUSTRIES, LTD.
Tohru Kitakaze:	Mitsubishi Chemical Corporation
Fumio Kishi:	Ricoh Company, Ltd.
Mikio Hayashida:	Mitsui Petrochemical Industries, Ltd.

Key words:

Claim, Degree of freedom for drafting claims, Summary of the invention and Technical scope

Statutory Provisions:

Old and New Japanese Patent Law Section 36, Japanese Patent Law Section 70 and United States of America Patent Law Section 112(6)

Abstract:

In accordance with amendments of Japanese Patent Law Section 36 and the related examination standards performed in 1994, a degree of freedom for drafting claims is increased. This draft will discuss the way how the amendment is put into a practical use on the basis of the examination standard and some concrete examples. Further, it will refer to matters to which the applicant should pay attention in order to put this amendment into a practical use.

Table of contents

3. Degree of freedom for drafting claims in the present Japanese Patent Law
4. Management of the invention in accordance with claims having an increased degree of freedom in an examination
5. interpretation of a technical scope of a patented invention
6. Interpretation of a technical scope of a patented invention having an increased degree of freedom for drafting
7. Recent trend with respect to an interpretation of a means plus function claim in the United States of America
8. Conclusion

1. Introduction

In a trend of an industrial structure change, that is, a diversification in technology, "a strong protection" by an intellectual property right is desired. In order to obtain a right or in order to exercise a right, the specification performs important duties as a subject to be examined or a certificate of title. In particular, a scope of claims for a patent is a basis for defining a scope of a right (refer to Section 70(1)) so that a method for drafting it is very important. Accordingly, for the applicant in its turn the patentee, it is a matter of great concern how the scope of claims for a patent should be drafted. In the above trend, in order to better protect the invention, the degree of freedom of a method for drafting the scope of claims for a patent is increased with keeping in step with a trend of the technology.

Conventionally, the Japanese Patent Law Section 36(5)(ii) provided that "only the features indispensable for the constitution of the invention" should be stated so that the method for drafting the scope of claims for a patent was significantly limited.

However, as a result of so-called advance of softening in the technology due to development of technology relating to information, in these technical fields, it has become frequent that a proper definition of the invention can be performed rather by defining an apparatus by the effect, operation method and the like of the apparatus than by

describing a physical structure of the apparatus and the concrete means as features indispensable for the constitution. In the meantime, it is necessary to pay regard to claims which the applicant expresses by his own intention. Further, it was necessary to take WIPO and the European and American laws into consideration and to intend an international harmonization.

Accordingly, by the amended Japanese Patent Law Section 36 in 1994, the provision that "only the features indispensable for the constitution of the invention" should be stated in the old Japanese Patent Law Section 36(5)(ii) was canceled and the provision that "all matters which an applicant for a patent considers necessary in defining an invention for which a patent is sought" should be stated was provided. In accordance with this, in the case that the applicant states an invention for which a patent is sought in claims, in addition to the method of description allowed under the old law, an expressing method unprejudiced to the constitution of the invention could be employed. Concretely speaking, in order to define the invention, in addition to expression by using the constitution, it was possible to use various matters such as effect, operation, nature, characteristic, method, use, purpose for use and the like.

Further, a degree of freedom for drafting claims increased by a guideline for enforcing an examination of an invention relating to a computer software such as an allowance of stating claims concerning a recording medium, an allowance of freely stating claims and the like.

In the meantime, in the case that a variable description is performed by particularly utilizing the Section 36, it becomes a problem how it is managed in the examination. Further, it is very interesting for the patentee how a scope of a right of claims using the above description is judged in an infringement case.

Accordingly, the present draft considers the way how the applicant should utilize the amendment of the recent Japanese

Patent Law Section 36 and the examination standard, that is, points to be paid attention for the applicant and a desirable system on the basis of the examination standard and judicial precedents.

2. Method for drafting claims in the old Japanese Patent Law Section 36

(1) Old Japanese Patent Law Section 36(5)

The old Japanese Patent Law Section 36(5) provides the following provisions concerning requirements for stating claims.

The statements of the patent claims under Section 3(4) shall comply with each of the following paragraphs as being:

1 statements setting forth the invention for which a patent is sought and which is described in the detailed explanation of the invention;

2 statements separated on a claim by claim basis by paragraphs (hereinafter referred to as "a claim of claims") which set forth only the features indispensable for the constitution of the invention for which a patent is sought; and

3 statements which are as provided for in an ordinance of the Ministry of International Trade and Industry.

In such a way, it was necessary for the applicant to define the invention for which a patent is sought by its constitution.

(2) Examination standard

In accordance with the examination standard of the old Section 36(5)(i), judgment whether or not the invention for which a patent is sought corresponds to "the invention which is described in the detailed explanation of the invention" is performed by whether or not the matters corresponding to the matters described in the scope of claims for a patent are formally described in the detailed explanation of the invention. The fact "not formally

described" means that the case in which the matters corresponding to the matters described in the scope of claims for a patent are not apparently described in the detailed explanation of the invention and the case in which terms described in the scope of claims for a patent and the detailed explanation of the invention are not uniformly used so that a corresponding relation between them is unclear.

Next, in accordance with the examination standard of the old Section 35(5)(ii), the fact that "the features indispensable for the constitution of the invention for which a patent is sought" is described means that the invention for which a patent is sought can be clearly understood on the basis of the matters described in a claim. In the meantime, an object of the term "only" is preventing an argument that a part of the matters described in the scope of a claim for a patent is not the matter indispensable for the constitution of the invention for which a patent is sought. In the examination standard, an example as shown in Table 1 was provided as a type of contravention against the old Section 36(5)(ii). As mentioned above, in the conventional examination practice, though it seemed that the invention should be defined only by the constitution under the understanding in accordance with the wording in the law, a flexible management was performed such as allowing the definition by the other than the constitution as shown in the following chapter 2. (3).

(3) Concrete example in practice

Concrete examples in an actual practice is shown in Table 2.

In a patent application of "crank rotating mechanism having a swinging rod" (Japanese Patent Publication No. 61-241423, Date of Application: March 29, 1982), the expressions of "an apparatus for obtaining an effective rotating force from the beginning of a piston operating stroke" and "a suitable cam curve" are only a description

of the object of the invention. This application was rejected by a trial decision under the old Japanese Patent Law Section 36(5)(ii) for the reason that the expression of "crank rotating apparatus having a swinging rod with a groove cam having a cam curve and swinging between a piston rod and a crank" did not show how the cam rod was arranged between the piston rod and the crank at a time when the piston was in a top dead center.

In a utility model application of "copy apparatus" (Japanese Utility Model Registration No. 2061325, Date of Application: December 29, 1984), since the original expression of "a material having a current conductivity of not more than 10^{12} Ω cm is used as a slip prevention member" apparently defined a significance of claiming terms on the basis of the description in the detailed explanation of the invention of the original specification and the technical level at a time of application, the amendment to a functional expression "a current conductivity having a degree capable of substantially leaking friction static charge" was allowed.

In a patent application of "electric spark method and apparatus" (Japanese Patent Registration No. 1672455, Date of Application: June 23, 1975), in an action for requiring annulment of the trial decision, since the detailed explanation of the invention of the specification in this application apparently described that an electro-magnetic field was generated at an operation interval by a step giving an electric influence to a wire electrode 1 in the electric spark process and a force for generating a deformation or a lateral vibration of the wire electrode was compensated during the electric spark process, thereby removing said deformation or lateral vibration, and that "the electro-magnetic field which is generated by an electric influence to the wire electrode compensates a force for generating the deformation or lateral vibration of said

wire electrode during the electric spark process" as a technical means indispensable for achieving the object of the invention, it was judged that the judgment in the rejection recognition in the present trial decision was wrong.

In a patent application of "Gaede's rotary vacuum pump" (Japanese Patent Application No. 43-87489, Date of Application: November 29, 1968), Japanese Patent Office recognized that the description "for obtaining a high vacuum degree of not less than 10^{-3} Torr" described the object of the invention so that the invention was defined with canceling the object. However, the wordings "obtaining a high vacuum degree of not less than 10^{-3} Torr" defined the Gaede's high speed rotary vacuum pump as a JIS third kind of pump on the basis of the description in the application specification by the court of justice.

3. Degree of freedom for drafting claims in the present Japanese Patent Law

(1) Amended law in 1994

(1.1) In accordance with the amended law in 1994, the requirement for describing a scope of claims for a patent was eased below from a principle of defining the invention by the constitution to a principle of defining the invention by the free description.

Section 36(5)

In the patent claim under Section 3(4), there shall be set forth, by statements separated on a claim by a claim basis, all matters which an applicant for a patent considers necessary in defining an invention for which a patent is sought. In such a case, it shall not preclude the statements of the patent claims to be such that an invention claimed in one claim is the same as an invention claimed in another claim.

Section 36(6)

The statement of the patent claims under Section 3(4) shall comply with each of the following paragraphs:

1 statements setting forth the invention for which a patent is sought and which is described in the detailed explanation of the

invention;

2 statements setting forth the invention for which a patent is sought and which is clear;

3 statements setting forth the claim which is concise;

4 statements which are as provided for in an ordinance of the Ministry of International Trade and Industry.

Amended points in the requirement for describing the scope of claims for a patent in Section 36(6)(i),(iii) and (iv) were not substantially changed from the conventional provisions and Section 36(5) and Section 36(6)(ii) were greatly changed.

Accordingly, Section 36(5) has a significance in a point capable of freely describing the invention in flexible correspondence to variety of technologies with no relation to the constitution of the invention by providing that there shall be set forth all matters which an applicant for a patent considers necessary in defining an invention for which a patent is sought.

In this case, though the scope of claims for a patent can be freely described, this provision is on the assumption that the invention for which a patent is sought is clear. Since Section 36(6)(ii) provides that the invention for which a patent is sought is clear, the case that the invention can not understood from one claim and requirements for a patent such as novelty and inventive step can not be judged corresponds to contravention against the present provision. In the meantime, under the old Section 36, when the invention for which a paten is sought can not clearly understood such as the description in claims themselves is unclear, the application was rejected because of contravention against the old Section 36(5)(ii) by the practice. The present Section makes this practice clear under the law.

(1.2) Method of describing the matters for defining the invention

In accordance with this amendment, for example in the case of "an invention of product", the matters for defining the invention can be described by using the constitution of the product and further can be defined by using effect, operation, nature, characteristic, method, use, purpose for use and the other various matters as far as the description satisfies the requirements under Section 36(4) ("the invention shall be stated in a manner sufficiently clear and complete for the invention to be carried out by a person having

ordinary skill in the art") and Section 36(6). Further, in the case of "an invention of a process", the matters for defining the invention can be described by using the constitution of the process and further can be defined by using a product used for the behavior or action, purpose for use and the other matters as far as the description satisfies the requirements under Section 36(4) and Section 36(6).

(2) Amendment of the examination standard in a specified technical field

With respect to the invention relating to a computer software, the description of a recording medium claim is allowed so that a degree of freedom for describing a claim is increased. Further, with respect to the invention relating to a living thing, a free description can be allowed as far as the invention is defined.

(2.1) Invention relating to a computer software

When the invention can be expressed as a series of processes or operations in a time series, that is, "procedures", the invention can be described in a claim as the invention of "process" category by defining the "procedure, and when the invention can be expressed by one or more functions performed by the invention, the invention can be described as the invention of "product" category by defining the functions in the same manner as the conventional manner.

Further, after April 1997, new expressions such as a computer readable recording medium recording programs (hereinafter also refer to "a recording medium recording programs") or a computer readable recording medium recording data having constitution (hereinafter also refer to "a recording medium recording data having constitution) were allowed. This kind of so-called medium claim is managed as a product category.

However, the describing way is not free for the applicant and is required to accord the following formal conditions in accordance with the examination standard.

"A computer readable recording medium recording programs for performing procedures A, B, C, ... in a computer"

"A computer readable recording medium recording data having A constitution, B constitution, C constitution, ... "

(2.2) Invention relating to a living thing

New practical guideline for examining the invention relating to

a living thing was published on February 1997 by the Japanese Patent Office and the requirements for describing claims in a field of a gene technology was significantly eased.

In the old practical guideline, each general way for describing each of bio-products was designated, for example, a gene was generally defined by a base sequence and a fusion cell was defined by a combination of a used parent cell, function, nature of the fusion cell, a producing method of the fusion cell and the like. However, in the new practical guideline, these general describing way was degraded to examples of describing way that "can be described such that".

It is worthy of special mention that concerning a base sequence of a gene and an amino acid sequence of a protein, a way for describing claims including matters a part of which is replaced is clearly allowed. In the old practical guideline, for example, in the case of claiming a gene, it was allowed to describe by specially defining by a combination of function, physical and chemical nature, origin, source, producing method and the like only when the gene could not define a base sequence. However, in the new practical guideline, it is clearly stated that a gene can be generically described by combining a expression such as "lack, replaced or added" and "hybridized" and a function of the gene and further an origin, source and the like as occasion demands. Then, the following claims examples were shown.

A gene for coding the following (a) of (b) protein

(a) protein comprising an amino acid sequence of Met-Tyr- ... Cys-Leu,

(b) protein comprising an amino acid sequence in which one or more amino acid sequences are lack or replaced or added with respect to the amino acid sequence (a) and having an A enzyme activity

(Note: The protein (a) has an A enzyme activity. It is presumed that the gene for coding the protein (b) is described in the detailed description of the invention in such a manner that those skilled in the art can produce without an trial and error over a degree of expectation of those skilled in the art and a complex and difficult experiment.)

In this case, it is to be noted that the invention should be clear

and satisfy the requirement for practice in the same manner as the conventional manner. The requirements for practice can be satisfied if those skilled in the art can put the invention into practice on the basis of the disclosure in the specification and the drawings and the technical common sense at a time of patent application, and in the case of the invention of product and invention of producing product, it is sufficient to produce the product.

The part concerning claims in the new practical guideline was applied to applications filed after July 1, 1995, however, in the application filed before the date, broad claims were often allowed in the same manner as the above manner. For example, in Japanese Patent Publication No. 6-16709 (date of application: August 31, 1984), the expression that "DNA including a base sequence for coding an amino acid sequence in which one or more amino acid is added or lack or replaced with respect to said amino acid sequence and an enzyme activity of cellibiase I is effected" was already allowed. Accordingly, the new practical guideline at this time corresponds to confirmation of the above presence in examination.

Further, in the famous t-PA case, it was contested whether or not the gene in which only a part of the claimed base sequence is replaced constituted infringement, as a result, infringement on the basis of doctrine of equivalents was recognized. One of divisional applications of the patents of which validity and infringement were contested in this case was allowed as Patent No. 2,564,444 with including the expression that "including an amino acid sequence obtained by omitting or adding or replacing an amino acid residue with respect to the following amino acid sequence".

4. Management of the invention in accordance with claims having an increased degree of freedom in an examination

Judgment of novelty and inventive step is performed with respect to "the invention in accordance with claims" in the same manner as in the old law. As a result of increase in the degree of freedom for describing claims, it is considered how the invention is recognized. We have searched and considered the matter from the judicial precedents and the application guideline by the Japanese Patent Office (note: since the examination guideline has not been issued yet, the following is from "explanation, application of the

amended Japanese Patent Law in 1994" (hereinafter refer to "application guideline" edited by Japanese Patent Office Examination Standard Group).

(1) Judicial precedents

Table 3 shows concrete examples of examination.

The so-called Lipase Judgment (Judgment by the Supreme Court in March 8, 1991) stated that "recognition of subject matter of the patent invention should be performed on the basis of the description of the scope of claims for a patent as far as a special reason does not exist and only when there is a special reason such as a technical significance of the description in the scope of claims for a patent can not be definitely and clearly understood or when the description is clearly and apparently erroneous in view of the description of the detailed explanation in the specification, consideration of the description in the detailed explanation of the invention is allowed". Accordingly, this judgment showed a basic judgment standard with respect to recognition of the summary of the invention in the examination of novelty and inventive step.

Then, in the "word processor" case (Judgment by the Tokyo High Court in September 30, 1991), the judgment referred to the above Lipase Judgment and stated that in the present invention it was not recognized that there was no special reason so that the scope of claims for a patent should be interpreted as the matter as described there.

In contrast with this, the "low temperature fluid through composition" case (Judgment by the Tokyo High Court in September 19, 1991) stated that since the term could be interpreted as the different meaning in the technical field where the term is used, the significance of the term was not always determined definitely. Further, the "method of application prediction type differential motion pulse marking method" (Judgment by the Tokyo High Court in July, 28, 1992) followed the Lipase Judgment and showed an example in which a technical significance was not definitely clear, and in addition to this, the subject for judging whether or not the significance is definitely clear was those skilled in the art and not only the detailed explanation

of the invention in the specification but also the drawings could be considered.

Further, the "wire rope" case (the Judgment by the Tokyo High Court in April 27, 1993) stated that "whether or not definitely clear should not be mechanically understood as the simple literature and sciences following the appearance of the word, if the technical significance which the invention included as a whole can be understood from the scope of claims for a utility model, even when it seems that the technical significance is difficulty understood from the literature and sciences of a partial description of the scope of claims for a utility model, it should be allowed that the description of the technical matter in the detailed explanation of the invention is considered so that the technical significance thereof is clarified".

As mentioned above, the judgments by the High Court after the Lipase Judgment basically followed the Lipase Judgment and intended to clarify the judgment standard.

(2) Application guideline of the examination in the Japanese Patent Office

(2.1) In the current application guideline, recognition of the invention should be performed by that "when the description of the scope of claims for a patent is clear, the invention is recognized as the scope of claims for a patent, in contrast with this, when the description of the scope of claims for a patent is not clear, the description in the specification and the drawings and the technical common sense at a time of patent application are considered". This basically follows the judgment standard shown in the above series of judicial precedents.

(a) When the term which is not generally known is used in the scope of claims for a patent, or when the meaning thereof can not be clearly understood only by the description of the scope of claims for a patent, there is a high risk that the description of the scope of claims for a patent is recognized to be unclear so that the description of the specification and the drawings and the technical common sense at a time of patent application will be considered.

It is to be noted that consideration of the description of the specification and the drawings and the technical common sense at a time of patent application is not directly connected with a limited interpretation to the embodiment.

Accordingly, in the application guideline, it is stated that "as a result of referring to the description of the specification and the drawings, in the case that the description of the detailed explanation of the invention corresponds to only an embodiment, it is applied as the invention is not limited by that one".

Accordingly, when the applicant uses the term which is not generally known, it is necessary to describe the definition of the term in the specification. Further, in the case that the term is not used for its general meaning, if the definition of the term is described in the specification, the term is advantageously interpreted as the meaning which the applicant intends since the specification is considered in interpreting the meaning of the term even if the description of the scope of claims for a patent is clear.

However, the definition of the term should be carefully performed since it often involves difficulty. It should be noted since it apt to include unexpected limitation so as to unexpectedly narrow the range. (Reference: Electronic translation apparatus case (Judgment by the Tokyo High Court in December 20, 1994), note: infringement case)

(b) The recognition of the invention in the claims in which the product is specified by the operation, function, nature and characteristic is generally interpreted as the product serving the operation and function or the product having the nature and characteristic.

Accordingly, in the case that the invention can be specified by the operation and function themselves, effective and functional expression should be positively used. However, on the contrary, since the invention includes the known examples having the function, there is a risk that the invention is easily rejected. As a countermeasure to this,

in the case that it is difficult to differentiate from the known examples in the functional expression, it is preferable to describe a number of concrete structures about each of the functions in order to differentiate later in the structures.

It is to be noted that in the case that the function is unique for the product to be specified by the function, it is interpreted that the function means the product itself even if the above description is performed. Further, taking the connotation of the invention into consideration, there is often the case that the product serving the operation and function and the product having the nature and characteristic are not interpreted.

(c) In recognition of the claim (for example, "an air plane capable of flying at a speed of not less than A" and the like) which specifies the product only by the result to be achieved by the claim defining the product by the operation, function, nature and characteristic with respect to inventive step, when the result ("flying at a speed of not less than A") is well known those skilled in the art before the application and the product to be specified ("an air plane") is well known to those skilled in the art before the application, inventive step is not recognized.
However, in the case that the description is included in a part of the claims or that the description specifies the product by a plurality of operations, functions, natures and characteristics, unless these relation is denied, inventive step is recognized.

In the above case, it is necessary to describe at least one of the concrete means for realizing the operation, function, nature and the like.

(d) The claims which specifies the product by using the use and use purpose of the product (use limitation) have been recognized conventionally and the management thereof is not different from the conventional manner.

(e) The claims which specifies the product by the

manufacturing method (product by process claim) is interpreted to mean the product finally obtained without any relation to the manufacturing method. Accordingly, in the case that the same product can be manufactured by the method different from the claimed manufacturing method and the product is well known, novelty can not be recognized. Accordingly, in the case that the product can not be properly specified, the above claiming method should be positively utilized. Further, if it is unclear whether or not the product itself has a patentability, in the case that the manufacturing method is considered to have a patentability, the manufacturing method claim should be described in addition to the above claiming method.

(2.2) The application guideline states that "in the case that the invention in accordance with the claims is not clear even when the description of the specification without the scope of claims for a patent and the drawings and the technical common sense at a time of patent application, the invention in accordance with the claims is not recognized".

When the invention is not recognized, the application becomes contravention against Section 36(6)(ii). The application guideline describes the following examples as types of contravention against this paragraph.

The case that the invention for which a patent is sought is not clear as a result that the description of claims itself is unclear.

The case that the invention for which a patent is sought as a technical idea is not define in a technically certain manner so as to be unclear as a result that the connotation of the matter for specifying the invention includes a technical error.

The case that the denotation of the invention for which a patent is sought is unclear.

(However, in the case that the appearance of the denotation is judged to be unclear, when the connotation is clear, the denotation is deemed to be clear. In this case, the denotation of idea means a range of a matter to which the idea should be applied and the connotation of idea means all the nature which the matters belonged to the range (denotation) to which the idea is applied include in common.)

The case that a category of the invention for which a patent is sought is unclear (the invention of the product, the invention of the process, the invention of the method for producing the product) is unclear or the case that the matter in which the category can not be judged is described.

The case that the matter for specifying the invention is expressed by the choices and the choices do not have a similar nature or function.

(a) With respect to the claims for specifying the product by operation, function, nature or characteristic, it is to be noted that when those skilled in the art can not clearly understand the invention for which a patent is sought as a result of the description, the case of contravention against Section 36(6)(ii) may be occurs.

In particular, in the case of describing the operation, function, nature or characteristic which is not known to those skilled in the art, or the case of expressing the description for specifying the product by the operation, function, nature or characteristic by the term for expressing a degree, attention will be necessary since the denotation of the invention is judged to be unclear.

As a countermeasure, in the case that understanding by those skilled in the art due to the technical common sense at a time of patent application (note that experiments or method for analysis are included) can not possibly expected, it is considered that the description of the specification should include the definition of operation, function, nature, or characteristic as much as possible. In the application in which the invention is specified by unique parameters (so-called a parameter patent), such a definition is indispensable.

In this case, when the denotation of the invention is clear, it should be noted that even if the meanings of operation, function, nature or characteristic described in the claim is solely well known to those skilled in the art, it is necessary to immediately recognize a concrete means capable of serving the operation, function, nature or characteristic, or if the meaning of the operation, function, nature or characteristic

is not clear by the claim itself, it is necessary to understand whether or not the concrete product can serve the operation or function or have the nature or characteristic when those skilled in the art interpret the meaning of the operation, function, nature or characteristic described in the claim on the basis of the description of the specification and the drawings and the technical common sense at a time of patent application.

(b) With respect to claims including definition of a product by a manufacturing method (a product by process claim), it is not proper that the claim is judged to be a contravention against Section 36(6)(ii) for the only reason the claim includes the description for specifying the product by the manufacturing method. However, it should be noted that as a result of this description, if those skilled in the art can not clearly understand the invention at a time of patent application, the application may be judged to be a contravention against Section 36(6)(ii).

In particular, in the case of describing a manufacturing method which is not known to those skilled in the art, or in the case that the description of the manufacturing method is unclear (for example, when the description of a necessary manufacturing process is unclear, or the description of a necessary manufacturing condition is unclear or the like), attention is necessary since the denotation of the invention is judged to be unclear. Accordingly, the same countermeasure as (a) will be necessary.

(c) Specific technical field

With respect to the invention relating to a computer software, in the case that as a result of description of a procedure or function, those skilled in the art can not clearly understand the invention for which a patent is sought, it should be noted that the application may be judged to be a contravention against Section 36(6)(ii).

5. Interpretation of technical scope of a patented invention

(1) General rule

Section 70(1) states that "the technical scope of a patented invention shall be determined on the basis of the statements

of the patent claim in the specification attached to the request".

Conventionally, general rules for interpreting the technical scope include, in addition to "a general rule of considering the description of the detailed explanation of the invention" in which the description of the detailed explanation of the invention and a technical common sense by those skilled in the art at a time of patent application for interpreting the meaning of the term in the claim, a general rule of considering the course of patent application (the Judgment No. 247 page 267 by the Tokyo District Court in March 25, 1970), a general rule of excluding the known fact (the Judgment No. 4 (1) 224 by the Tokyo High Court in April 7, 1972), a general rule of excluding the mater excluded on purpose (the Judgment No. 17 (1) 199 by the Tokyo District Court in April 26, 1985), a general rule of laying stress on operational effect (the Judgment No. 4 (1) 384 by the Tokyo High Court in June 27, 1972) and a general rule of limiting recognition (the Judgment No. 1054 page 133 by the Tokyo District Court in September 29, 1982) and these general rules are suitably applied to in the conventional business. Accordingly, in order to interpret the technical scope, the judgment under considering these general rules synthetically has been necessary.

(2) Lipase Judgment, the Japanese Patent Law Section 70 and an object of the amended examination standard
Table 4 shows concrete judicial precedents.

Opinions are divided whether or not the Lipase Judgment mentioned in the above chapter 4.1 can be directly applied to the infringement cases.

For example, in accordance with the "universal joint case" (the Judgment by the Tokyo High Court in September 17, 1991), the judgment states that "the technical scope of a patented invention shall be determined on the basis of the statements of the patent claim in the specification and only when a special reason such as the technical significance can not be clearly understood solely by the description, the detailed explanation of the invention in the specification and the drawing can be considered"

and indicates that the recognition of subject matter of the invention and the technical scope of a patented invention should be considered to be basically the same.

On the contrary, in the "ground paper book case" (the Judgment by the Osaka High Court in June 17, 1993), the judgment states that "the Lipase Judgment indicates about the recognition of the summary of the invention in accordance with the patent application so that it can not directly apply to the interpretation of the technical scope of the invention in the infringement suit".

The summary of the Lipase Judgment states to all appearance that "without a special reason, even for the purpose of clarifying the term, it is not allowed to consider the detailed explanation of the invention and the like" so that it is possible to interpret this judgment as a different judgment from the conventional judgment in the infringement suits.

Then, Section 70(2) of the amended law in 1994 states that "the meaning of a term or terms of the patent claim shall be interpreted in the light of the specification excluding the patent claim and the drawings" so that it is confirmed that "on the assumption that consideration of the detailed explanation of the invention is generally allowed for the purpose of clarifying the meaning of the term, in the case that the technical matters described in the claim are clearly understood as they are, it is not allowed that the detailed explanation of the invention is considered in such a manner as to limit the matters more detailed. Further, the matter which is described in the detailed explanation of the invention but not described in the claim should be managed as it is not described.", thereby solving under legislation.

(3) Interpretation of the technical scope under the amended Law in 1994

Accordingly, interpretation of the technical scope of the patented invention is generally performed on the basis of the description of the scope of claims for a patent, and when the meaning or definition of the term described in the scope of

claims for a patent is described in the detailed explanation of the invention or the like, the recognition of the technical scope of the patented invention is performed by taking these matters into consideration.

Further, as far as there is no specific reason in recognizing the technical scope of the patented invention, it is needless to say that the technical scope of the patented invention is not interpreted by defining it to the embodiment or the matters which are described in the detailed explanation of the invention but not described in the scope of claims for a patent are interpreted as matters described in the scope of claims for a patent.

6. Interpretation of the technical scope of the patented invention having an increased degree of freedom for description (judicial precedents)

Even under the conventional examination practice, claims including expressions other than those explaining constitution of the invention, such as functional or abstract expressions, have become allowed. Then, how the technical scopes of inventions patented with such claims should be interpreted in interesting. We searched and analyzed some of the judical precedents on this matter.

(1) Judicial precedents

Table 5 shows concrete judicial precedents with respect to interpretation of the technical scope of the patented invention.

(1.1) Hulls sorting machine case (the Judgment by the Nagoya High Court in December 21, 1992) states that since the way how "the distribution state on the plate surface is detected" and what the "relational connection" between the adjusting device and the detecting device means cannot be understood just from description of claims because of the functional and abstract expressions of the elements, the detailed explanation of the invention, the description of the drawings and the file history should be considered. As a result, it is interpreted that the detecting device should detect an amount of flow of the hulls particles in the downstream side of the sorting machine and is necessary to be disposed in the discharge side thereof so that

the product by a defendant is deemed not to be within the technical scope.

(1.2) Method for issuing an application card for medical examination and treatment case (the Judgment by the Osaka Distinct Court in November 30, 1993) states that it cannot be asserted that "the control apparatus" has a sole meaning of an apparatus other than "the host computer" just by reviewing the description of the claims on such a computer related invention which defines the constitution of the invention with function realizing expression, and that there is still a slight possibility of broadly interpreting the meaning thereof. However, the Judgment states that it is recognized that a trend of dispersed operation system was remarkable at the time of patent application so that the apparatus must be an independent apparatus and states that the product of the defendant is not within the technical scope.

(2) Consideration

When claims include functional or abstract expressions, it sometimes happens that the scope of the invention becomes unclear. Such unclear claims tend to be interpreted as defining a scope limited to the embodiment. For this reason, in order to prevent such a limited interpretation, when claims include functional or abstract expressions, the meaning of the term should be sufficiently explained in the detailed explanation of the invention, thereby clarifying the technical idea at the time of patent application. Further, it is important to describe the embodiment as much as possible in the detailed explanation of the invention and the like.

7. Trend with respect to interpretation of means plus function claims in the United States of America

(1) In the US Patent Law, Section 112(6) is a problem for describing claims. The provision states that "means plus function claim" effects only the matter that has the function and is disclosed in the specification and the matter equal thereto. The PTO has rejected claims by interpreting broadly and on the contrary the CAFC has interpreted restrictedly so that there was a difference of interpretation between the PTO

and the CAFC. This difference is unified by the Donaldson Judgment that the means plus function claim should be restrictedly interpreted.

However, it is a problem that what case Section 112(6) should be applied to. The York Judgment (Fed, Cir, 1996, 11, 1) states that even when the term "means" is used in the claims, the term following to the "means" describes the detailed constitution not function so that the section is not applied to this case. Further, the Cole Judgment (Fed, Cir, 1996, 12, 6) states that in order to correspond to the means plus function claim stated in the US Patent Law Section 112(6), the means claim have to describe the constitution for achieving the function so that whether or not the element in the claim corresponds to a means plus function is judged on the basis of the patent and the examination course.

On the contrary, in the Greenberg Judgment (Fed, Cir, 1996, 8), though the claim does not include the wording of "means", whether or not the claim corresponds to the means plus function claim was a legal dispute. The CAFC reversed the judgment by the distinct court that said "the claim corresponds to the means plus function claim" and showed the case the claims using the wording "so that" and "function" was judged as the means plus function claim even if it did not include the wording "means".

As mentioned above, the United States of America has wavered in the judgment whether or not the claim corresponds to the function claim, that is, the judgment with respect to the right scope.

(2) In the mean time, the Japanese Application Guideline clearly states that the interpretation way in the same manner such as the US Section 112(6) is not employed. As the reasons thereof, it is stated that a unique claim interpretation is deviated from the range for interpreting the law as far as the law provisions in the US does not exist, and that the practices in the US is not employed in the practices at the patent offices in the every countries including the European Patent Office.

The Japanese Patent Office states under the above condition that "since in the United States of America, it is not necessarily

clear what degree of broadness the range of the "equivalents" can be interpreted and in the Japanese Application Guidelines, as is stated the wording "generally", consideration of the description of the detailed explanation of the invention and the like is not excluded, it is not sweepingly said that there is a great difference in actually interpreting the claims in each of the cases".

8. Conclusion

The Japanese Patent Law was amended so that the applicant could employ various expression ways without swayed by the constitution of the invention. By this amended law, it is possible to obtain a patent right in accordance with the true nature of the invention.

Under the conventional law, it was required that the invention having a point in operation, function, nature, characteristic or the like had to be described by forcibly replacing the point by "constitution elements". However, by utilizing the current law, it is expected that the technical idea which is nearer to the true nature of the invention can be protected. Further, flexibly making the invention corresponding to the softness of the technology a right can be applied to any of the technical fields.

However, there is a fear that what range the right is given becomes unclear. For example, in the case that the claim is made by the very broad functional expression and the special concrete embodiment is described in the description of the embodiment, this claim is allowed for a patent in accordance with the above standard. In this case, "Explanation: application of the amended Patent Law in 1994" states ways for defining the invention in the case of using operation, function, nature, characteristic and the like in "1.5.1.3 concrete ways for recognizing the invention in a claim having a special expression" and states that the invention can be interpreted to be "a product capable of serving such an operation and function or a product having such a nature or characteristic". Accordingly, it can be understood that if the operation, function, nature, characteristic and the like are not known and

one of the embodiments can be described, a right with respect to all the products having the operation, function, nature, characteristic and the like can be obtained. However, in the footnotes, it is stated that "this guidelines is not made by reflecting an actual business about how the technical scope of the patented invention of the claims is recognized after a patent is allowed", whereby it is indicated that there may be a case that the recognition of the invention in the examination course is different from the technical scope of the patented invention. Although it is ideal that both are generally the same, when the both is separately used in the above manner, in the infringement case, the applicant interprets the right scope broad and the third party interprets the right scope restricted. Accordingly, there is a risk that useless troubles are risen for the reason of misunderstanding to each other.

Accordingly, any of "brakes" is deemed to be necessary in the right scope in view of purposes of the Japanese Patent Law having a purpose of development of industry and prevention of useless troubles. It is a fact that there is an idea stated in the application guideline against the US Patent Law Section 112(6) and the interpretation of the means plus function claim is wavered in the United States of America. However, the practice of Japanese Patent Office and legislation measures such as introduction of "braking" provisions such as US Patent Law Section 112(6), introduction of legal system for totally interpreting the right in the civil action to obtain patent and the civil action to infringement and the like are desired.

Table 1 a type of contravention against the old Section 36(5) (ii)

A case that description in a claim is not technically clear

A case that a claim includes a description of a matter which has no relation with a constitution of the invention, such as a selling area and a selling agency

A case that a claim describes only a purpose, operation and effect of the invention

A case that the invention understood on the basis of a matter described in a claim is unclear in view that it belongs to which category of the invention of "a product", the invention of "a process" or the invention of "a method for manufacturing a product"

A case that when a matter described in a claim consists of a simple technical means, the technical means is functionally or operationally expressed

A case that one settled technical idea can not be understood on the basis of a matter described in a claim

For example, a case that a constitution element is apparently lack in view of a description of a claim and a case that two or more inventions are described in a claim

A case that constitution elements are simply arranged in a row so that a mutual relation becomes unclear

However, when the relation is obvious in view of the technical common sense at a time of patent application, the case is not contravention.

A case that in an invention of a product, a technical means is expressed by a method

However, when there is no suitable expression without an expression by a method and a product can be specified by the expression, it is not restricted to the case.

A case that an invention of a chemical material is not indicated by a name of chemical material or a formula of chemical

organization

A case that a use of a use invention is not sufficiently specified
A case that a description of a claim is replaced by the detailed explanation of the invention or the description of the drawings
Table 2 Concrete examples in a practice

(i) "Crank rotating mechanism having a swinging rod" (Japanese Patent Unexamined Publication No. 61-241423, Date of Application: March 29, 1982)

(ii) Scope of claims for a patent

A crank rotating apparatus for obtaining an effective rotating force from the beginning of a piston operating stroke comprising "a swinging rod with a groove cam having a suitable cam curve and swinging between a piston rod and a crank"

(iii) Point in question

It is recognized that the matter concerning the shape including at least the expression of a specified shape of the groove cam curve, for example, "the groove cam curve includes a crank circular arc curve having a constant length allowing a rotation of the crank arm at a time of a top dead point of the piston" as a part of the indispensable matters of the invention. However, this case is rejected for the reason that the scope of claims for a patent only includes the significantly abstract description such as "a suitable" so that it can not be recognized that the scope of claims for a patent describes the features indispensable for the constitution of the invention and the case is also rejected in the trial decision for the following reason.

"An apparatus for obtaining an effective rotating force from the beginning of a piston operating stroke" and "a suitable cam curve": these are solely the description of an object.

"A crank rotating apparatus comprising a swinging rod with a groove cam having a suitable cam curve and swinging between a piston rod and a crank": It is not known by what aspect the cam rod is arranged between the piston rod and the crank.

(i) "Copy apparatus" (Japanese Utility Model Registration No. 2061325, Date of Application: December 29, 1984)

(ii) Scope of claims for a utility model

A copy apparatus comprising a drive roller, at least one driven roller, an endless image supporting belt which is wound between the drive roller and the driven roller in a tensional state and has a insulate contacting portion, and an electro static latent image formed on said image supporting belt, wherein a slip prevention member is covered on a surface of said drive roller, and wherein said slip prevention member has a current conductivity having a degree capable of substantially leaking friction static charge generated by contacting and separating between said drive roller and the insulate portion of said image supporting belt.

(iii) Point in question

The original claim at a time of patent application described that "a material having a current conductivity of not more than 10^{12} Ω cm is used as a slip prevention member". However, the specification included a description that "as a result of various kinds of experiments by the inventor of the present invention, the slip prevention member 4 is made of a rubber member having a current conductivity of not more than 10^{12} Ω cm. In accordance with this constitution, since the slip prevention member 4 has a small resistance, no high voltage is generated so that a sticking phenomenon of the photosensitive belt 1 is hardly recognized.". The technical idea of this description was not in the value of "not more than 10^{12} Ω cm" but in the meaning of "a current conductivity having a degree capable of substantially leaking friction static charge". Accordingly, the amendment of the above claim was recognized.

(i) "Electric spark method and apparatus" (Japanese Patent Registration No. 1672455, Date of Application: June 23, 1975) The Judgment No. 199 by the Tokyo High Court in 1984

(ii) Scope of claims for a patent

An electric spark method for removing an accuracy of an electric spark and a speed of an electric spark generated by a deformation or lateral vibration of a wire electrode under a mechanical stress during the electric spark process, wherein an electro-magnetic field which is applied to said electric spark process, applies an electric influence to said

wire electrode 1 and is generated by this electric influence compensates a force which generates said deformation or lateral vibration of said wire electrode 1 during said electric spark process.

(iii) Point in question

The Japanese Patent Office issued the Trial Decision of Rejection since the scope of claims for a patent did not describe means for realizing the object of the invention and described only the operation deemed to be on the basis of the means and the object or desire of the invention, and it was not deemed that the matters indispensable for the constitution of the invention was described so that the claims did not satisfy the requirements prescribed in the old Japanese Patent Law Section 36(5).

In contrast with this, in an action for requiring annulment of the trial decision, it was apparent that the detailed explanation of the invention in the specification of the present application described that an electro-magnetic field was generated at an operation interval by a step giving an electric influence to a wire electrode 1 in the electric spark process and a force for generating a deformation or a lateral vibration of the wire electrode was compensated during the electric spark process, thereby removing said deformation or lateral vibration, and that "the electro-magnetic field which is generated by an electric influence to the wire electrode compensates a force for generating the deformation or lateral vibration of said wire electrode during the electric spark process" as a technical means indispensable for achieving the object of the invention, it was judged that the judgment in the rejection recognition in the present trial decision was wrong.

(i)"Gaede's rotary vacuum pump" (Japanese Patent Application No. 43-87489, Date of Application: November 29, 1968), the Judgment No. 55-179 by the Tokyo High Court in October 25, 1980

(ii) Scope of claims for a patent

"A Gaede's high speed rotary vacuum pump comprising a vane made of a material having a specific gravity of 0.8 to 5 and a motor

directly connected and driving for obtaining a high vacuum degree of not less than 10^{-3} Torr."

(iii) Point in question

The examiner in the Japanese Patent Office recognized that the description "for obtaining a high vacuum degree of not less than 10^{-3} Torr" described the object of the invention so that the invention was defined with canceling the object. However, the wordings "obtaining a high vacuum degree of not less than 10^{-3} Torr" defined the Gaede's high speed rotary vacuum pump as a JIS third kind of pump on the basis of the description in the application specification by the court of justice.

Table 3 Judicial precedents in examinations

(i) "Lipase Judgment" (Judgment by the Supreme Court in March 8, 1991)

(ii) Point in question

The patent application relating to a method for quantitating triglyceride by lipase was rejected in the trial decision. The applicant brought an action for requiring annulment of the trial decision to the Tokyo High Court. The Tokyo High Court withdrew the trial decision for the reason that the present invention had inventive step by restrictedly interpreting the term lipase described in the scope of claims for a patent as Ra lipase described in the detailed explanation of the invention. In opposition to this judgment, the Director General made an appeal for the reason that the judgment of the High Court in which "lipase" was restrictedly interpreted as "Ra lipase" was wrong. The Supreme Court stated that "in recognizing the summary of the invention, in order to interpret the significance of the term described in the scope of claims for a patent, the description of the detailed explanation of the invention in the specification could be considered only when the specific reason existed" and further stated that the judgment by the High Court that inventive step was determined by restrictedly interpreting the "lipase" as the "Ra lipase" was illegal.

(i) "Word processor" (Judgment by the Tokyo High Court in September 30, 1991)

(ii) Scope of claims for a patent

A word processor comprising an input device having character keys for inputting kana or romaji and selection keys disposed in three lines and three columns, a converting device for converting a part corresponding to kanji in a sentence including kana and kanji to be input among signals input by an operation of said character keys to a corresponding kanji, and a display device for displaying a key frame having three lines and three columns when a plurality of converted results are output and displaying each of said converted results in each of the frame.

(iii) Summary of Judgment

Recognition of the summary of the invention should be performed on the basis of the description in the scope of claims for a patent as far as there is no specific reason so that it can be considered only when there is a specific reason such as the technical significance of the scope of claims for a patent can not definitely and clearly understood or a fact that the description is apparently an error is apparent from the description of the detailed explanation of the invention.

Then, with respect to the present invention, since it is not recognized that there is a specific reason, interpretation of the scope of claims for a patent should be performed by only the description thereof. Accordingly, the judgment states that the specific constitution element that a number of the characters having the same sound and different letter within the kanji conversion table is not less than 10 does not exist so that the device can not be interpreted as a device which separately displays the characters in order when the number of the characters having the same sound and different letter is ten or more, thereby dismissing the action for requiring annulment for the trial decision.

(i) "Low temperature fluid through composition" (Judgment by the Tokyo High Court in September 19, 1991)

(ii) Summary of Judgment

In the petrochemistry technical field, the term "paraffin" is commonly used as a meaning of a paraffin wax and further is often used as a broad meaning including petrolatum, liquid paraffin and the like. Accordingly, the technical significance of the term

"paraffin" is not always and definitely clear.
The scope of claims for a patent only describes "a paraffin content obtained by atmospheric distillation of a mixed base crude oil", "a paraffin base crude oil" and "a paraffin within a mixed oil". However, since those skilled in the technical field of the petrochemistry can not definitely understand what material the "paraffin" of the present invention means and the way how the "content" is measured, it is allowed to consider the detailed explanation and understand the technical significance.

(i) "Application prediction type differential motion pulse marking method" (Judgment by the Tokyo High Court in July, 28, 1992)

(ii) Scope of claims for a patent

"An application prediction type differential motion pulse marking method comprising a step of quantizing difference between an input signal and a predicted value in a marking portion, a step of inputting said quantized result from said quantized result by using a non-recurrent type adaptive filter in which respective coefficients successively change in a corresponding manner or an application filter including a non-recurrent type and recurrent type filters, and a step of forming and outputting a reproduced input signal by using a filter having the same structure as that of the filter in said marking portion."

(iii) Summary of Judgment

A court of justice recognized that although "an application prediction type differential motion pulse marking method" is generally understood for those skilled in the art as a differential motion pulse mark modulating system which quantizes a difference between the predicted value and the current input signal by a plurality of bits and then marks, it is not said that those skilled in the art never understand the method includes a delta modulation system having a bit quantizing number, so that it is not said that the technical significance is definitely clear.

Further, the court of justice withdrew the trial decision for the reason that taking the detailed explanation of the invention

and the drawings into consideration, the differential motion pulse marking method was limited to a differential motion pulse modulating method having a plurality of quantizing bit number so that the present invention was different from the cited reference.

(i)"Wire rope" (Judgment by the Tokyo High Court in April 27, 1993)

(ii) Scope of claims for a utility model

"A wire rope swing prevention apparatus comprising two upper rollers disposed in parallel on a base plate fixed to an upper surface of a top plate of a club bucket and the like and two pulleys disposed in series immediately below the rollers along a gap thereof, wherein said two pulleys are disposed obliquely above and below."

(iii) Summary of Judgment

The plaintiff argued that the structure "two pulleys are disposed obliquely above and below" literally meant that relative position of the two pulleys was obliquely above and below with respect to each other and this was definitely clear from the description itself in the claim so that it was not allowed to consider the detailed explanation.

The court of justice stated that "whether or not definitely clear should not be mechanically understood as the simple literature and sciences following the appearance of the word, if the technical significance which the invention included as a whole can be understood from the scope of claims for a utility model, even when it seems that the technical significance is difficulty understood from the literature and sciences of a partial description of the scope of claims for a utility model, it should be allowed that the description of the technical matter in the detailed explanation of the invention is considered so that the technical significance thereof is clarified" and stated that the interpretation that the structure "two pulleys were disposed obliquely above and below" meant the obliquely above and below positional relation of the two pulleys in accordance with a simple literal interpretation could not solely make the technical significance of this structure clear in comparison with the known art. Taking the detailed description of the

invention into consideration, it was apparent that the wire rope disposed between the two pulleys was required to be simultaneously contact with the groove bottom surface of each of the pulleys disposed obliquely above and below and it should be said that the structure was selected for holding the positional relation between the pulleys and the wire rope, thereby dismissing the action for requiring annulment of the trial decision.

Table 4 Judicial precedents in infringement cases

(i) "Universal joint case" (the Judgment by the Tokyo High Court in September 17, 1991)

This case corresponds to an example in which a demand of compensation for loss is not recognized for the reason that the product by the defendant (a wind surfing having a rubber joint) is not within the technical scope of the patented invention named "wind propellant apparatus".

The subject patent: Japanese Patent No. 630352 "Wind propellant apparatus", date of application: March 11, 1969

(ii) Point in question

The Tokyo High Court judges that "the technical scope of a patented invention shall be determined on the basis of the statements of the patent claim and only when a special reason such as the technical significance can not be clearly understood solely by the description, the detailed explanation of the invention and the drawing can be considered". Further, the general meaning of the term "a universal joint" in the scope of claims for a patent is definitely understood as "a universal axial coupling" defined as "a coupling for coupling two rotating shaft having main axes which are not coincident with each other and inclined at a certain angle and for transmitting a rotating motion of one rotating shaft to the other rotating shaft" at a time of claiming priority right so that the patented invention is recognized to have this technical scope. Accordingly, the judgment dismissed the appeal since the rubber joint of the product by the defendant did not correspond to the universal joint in view of the common meaning.

(i) "Ground paper book case" (the Judgment by the Osaka High Court in June 17, 1993)

(ii) Scope of claims for a utility model

"A ground paper book comprising a cover member having a cover portion and a back cover portion, a plural sheet of ground papers disposed between filed side edge portions at an interval corresponding to a predetermined thickness of thick papers, a thermal melt type adhesive disposed between a mutual space of the ground papers for keeping said interval in each of said filed side edge portions of each of the ground papers and connecting an end surface of the filed side edge portion of said plural sheet of ground papers to an inside of said back cover portion."

(iii) Summary of the case

The court stated that "the Lipase Judgment indicates about the recognition of the summary of the invention in accordance with the patent application so that it can not directly apply to the interpretation of the technical scope of the invention in the infringement suit such as this case".

Further, the court judged that the technical significance of the term "thermal melt type adhesive" described in the claim apparently meant the constitution for interposing the thermal melt type adhesive between the ground papers at a degree of replacing the function of the spacer of the conventional thick paper and the like as a means "for keeping the interval corresponding to the thickness of the thick paper" from the statements in the prior known art, the description of the detailed explanation and the argument so that the action by the appellant had no reason (the product by the defendant (appealed person) was not within the technical scope).

Table 5 Judical precedents in interpretation of techincal scope

(i)"Hulls sorting machine case" (the Judgment by the Nagoya High Court in December 21, 1992)

(ii) Scope of claims for a patent

"A: An automatic adjusting apparatus for adjusting a vertical inclination in a swinging hulls sorting machine in which a plate surface of the sorting machine 1 is formed as a rough surface, one of them is a supply side H and the other is a discharge side L, cereals are flown from the supply side H to the discharge side L and a reciprocating swing motion vertically inclined in a direction crossing the flowing direction of the cereals is

applied to said machine 1 so as to separate and in a deflected manner discharge mixed particles of various kinds of cereals, wherein

B: an adjusting device 6 capable of adjusting a vertical inclined angle β is attached to said sorting machine 1,

C: a detecting device 5 for sensing a distribution state on the plate surface and sending a signal to said adjusting device 6 is provide in said sorting machine 1, and

D: said adjusting device 6 and said detecting device 5 are relationally connected to each other so as to automatically adjust the vertical inclined angle β of the sorting machine 1."

(iii) Summary of Judgment

Judgment stated that since the way how "the distribution state on the plate surface is detected" and what the "relational connection" between the adjusting device and the detecting device means could not known only by the scope of claims for a patent because of the functional and abstract expression of the elements C and D, the detailed explanation of the invention, the description of the drawings and the application course should be considered. As a result, it was interpreted that the detecting device detected an amount of flow of the hulls particles in the downstream side of the sorting machine and was necessary to be disposed in the discharge side thereof so that the product by a defendant was deemed not to be within the technical scope.

(i) "Method for issuing an application card for medical examination and treatment case" (the Judgment by the Osaka Distinct Court in November 30, 1993)

(ii) Summary of the case

The product by the defendant performs the function of the control apparatus by the host computer. In contrast with this, the patented claim of the plaintiff states that "... one control apparatus, ... a host computer, ...". Accordingly, whether or not the product by the defendant which did not include these apparatuses as respective independent apparatuses was within the technical scope was disputed.

(iii) Summary of Judgment

The court considered the problems of the detailed explanation, the technical level of the computer system at a time of patent application and the other matters since the description of the claim did not always and directly determine that "the control apparatus" has solely the meaning of the other apparatus than the host computer and there was a possibility of broadly interpreting the meaning thereof as means for realizing so-called function claim.

Further, the court stated that the present patented invention mainly aimed to constitute a single on-line system operation system and dispersing operation system by combining the host computer, the control apparatus corresponding to a compact computer and the application apparatus for medical examination and treatment by steps so that the control apparatus is positioned as a sub-computer in a dispersed manner disposed as an independent apparatus from the host computer, thereby judging that the product by the defendant was not within the technical scope of the present patent.

(1) Title: Double Patenting Update

(2) Date: September 1997

(3) Source:

1) Source: PIPA
2) Group: US
3) Committee: 1

(4) Author:

Jack E. Haken U.S. Philips Corporation

(5) Keywords: Double Patenting

(6) Statutory Provisions: 35 U.S.C. 101, 35 U.S.C. 121, 35 U.S.C. , 35 U.S.C. 253

(7) Abstract:

Principles of Double Patenting remain important in the post-GATT environment. Recent decisions and developments relating to the law of Double Patenting are reviewed.

Double Patenting Update

A double patenting rejection precludes a person from obtaining more than one valid patent for either (a) the "same invention" or (b) and "obvious" modification of the same invention.[1]

Rejections for double patenting based on the same invention find their support in 35 U.S.C 101. The term "same invention" in this context means identical subject matter.[2]

Obviousness type double patenting is a judicially created doctrine founded in the public policy of the patent laws, rather than in the actual language of the statutes. The purpose of this rejection is to prevent the improper timewise extension of the patent right by prohibiting the issuance of claims in a second patent which are not "patentably distinct" from the claims of a first patent. The doctrine has also been phrased as prohibiting claims in the second patent which define "merely an obvious variation " of an invention claimed in the first patent.[3]

Double patenting is a question of law which is reviewed *de novo* by appellate courts. [4]

The filing of a terminal disclaimer pursuant to 35 U.S.C. 235 cures obviousness type double patenting. Traditionally, most double patenting rejections have arisen in the context of continuation or divisional patent applications which claimed priority under 35 U.S.C. 120 or 121. A terminal disclaimer could significantly shorten the term of protection afforded to a continuation or divisional patent which was filed before June 8,1995, but the amendments made to conform U.S. patent law to GATT limits the term of new divisional and continuation patents to expire 20 years after the filing date of the parent application[5] and many practioners had predicted that terminal disclaimers practice would thus loose its impact.

A number of recent decisions from the Federal Circuit seem to indicate that double patenting is still an active area of the patent law. This paper will briefly review selected lines of these cases.

<u>One way, Two ways, Which way?</u>

As stated above, the purpose of an obviousness-type double patenting rejection is to prevent the improper timewise extension of the patent right by prohibiting the issuance of claims in a second patent which are not "patentably distinct" from the claims of a first patent. The determining factor is the existence of patentable difference between the two sets of claims. Court opinions use phrases such as "patentably distinguishable", "patentable distinctions" and "whether such differences would have been obvious to one of ordinary skill in the art". They are all equivalent.[6]

Determining what is patented by correct claim interpretation is essential to determination of obviousness-type double patenting issues. One must look not at what the patent (including its claims) discloses, but at what the claims define. The disclosure of a patent cited in support of a

double patenting rejection cannot be used as if it were prior art, even when the disclosure is found in the claims. The words of the claims are not used as prior art, but for determining what has already been patented.

The conventional test for obviousness-type double patenting is to determine whether any claim in the application defines an obvious variation of the invention claimed in the issued patent.[7] However, in some special circumstances more is required. The situation arises most frequently when an applicant files a later patent application which is related to an earlier-filed case and the later-filed application is the first to issue as a patent.

Consider the case of an inventor who first invents a basic combination of elements and afterwards adds an additional element as an improvement to his basic invention. The omission of one element from a combination is almost always held to be an obvious variation of the larger combination. Thus, if the improvement patent application is first to issue, the conventional test would bar the first application for the basic invention. In this case a special rule is used: if the earlier-filed application is for the basic combination invention and the later-filed, first-issued patent is for an improvement to the combination the test for improper double patenting becomes whether the improvement would be obvious over the basic invention.[8]

A similar problem arises when a first-filed application claims a first subcombination of elements and the later-filed, first-issued patent claims a combination of the first subcombination with a second, nonobvious subcombination. In this circumstance the court held that a double patenting rejection will only stand if there is two-way obviousness. That is, if the larger combination is obvious over the first subcombination and the first subcombination is obvious over the larger combination.[9]

A recent line of cases has further limited the applicability of "two-way" or "reverse" obviousness tests to situations where the delays in the Patent Office which caused the later -filed application to issue first were beyond the applicant's control.[10] Thus, an applicant who chose to forgo immediate appeal on a rejection of broader claims and instead filed a continuation to issue narrow species claims was denied use of the two-way obviousness rule.

Reexamination

In a very recent case[11], the Federal Circuit held that the Patent Office is authorized to consider questions of double patenting during reexamination. In this case the reexamined patent was rejected over an expired patent which had issued first. The expired patent and the rejected patent both claimed priority from a common parent application in parallel prosecution chains, but it is not clear from the case report if the original examiner of the patent knew of or considered the parallel patent chain during his examination. If he did, it would seem that consideration of double patenting would be precluded under the Federal Circuit's newly stated doctrine which strictly limits reexamination to new questions of patentability.[12]

A new kind of double patenting?

For several years the Patent Office has embraced a third type of double patenting, "nonobviousness type" double patenting which is based upon the Court of Customs and Patent Appeals' 1968 decision in *In re Schneller*. [13] The Manual of Patent Examining Procedure states:

> "In making an analysis ... of nonstatutory double patenting, the first question is: Is the subject matter recited in the claims of the application fully disclosed in the patent and covered by a claim in the patent? If the answer is no, double patenting does not exist. If the answer is yes, the second question is: Is there any reason why the applicant was prevented from presenting the same claims in the issued patent? If the answer is no, a double patenting rejection is appropriate. "[14]

The M.P.E.P. notes that the Federal Circuit reached a different conclusion in a later case with a fact pattern similar to *Schneller* [15], but attempts to distinguish the two fact patterns and further states "To the extent [the two] decisions are in conflict, it is clear that *Schneller* is the controlling precedent." The Federal Circuit had an opportunity to rule on the continued viability of *Schneller* type rejections this summer [16], but declined to address the issue and decided the case on other grounds. There were indications at the PIPA 1997 Annual meeting that support for *Schneller* rejections is weak within the Patent Office and hopefully they will soon disappear.

Consonance

Double patenting rejections cannot normally be maintained between a patents and applications which were divided in response to an examiner's requirement for restriction under 35 U.S.C. 121.[17] However this statutory provision will not apply to remove the parent patent as a reference when the principle of consonance is violated. [18]

> "Consonance requires that the line of demarcation between the "independent and distinct" inventions that prompted the restriction requirement be maintained. Though the claims may be amended, they must not be so amended as to bring them back over the line imposed by the restriction requirement. When that line is crossed the prohibition of the third sentence of 35 U.S.C. 121 does not apply". [19]

Terminal Disclaimers

Obviousness-type double patenting can be cured by filing a Terminal disclaimer under 35 U.S.C. 253 and 37 C.F.R. 1.321(b) & (c). Filing of a terminal disclaimer serves the function of removing the rejection of double patenting, and raises neither presumption nor estoppel on the merits of the rejection. [20] When obvious-type double patenting is recognized before issuance of a patent, the price extracted for obtaining the second patent is disclaimer of part of the term of protection for all claims of the patent, i.e. even those claims which standing alone would not run afoul of the rule against double patenting. [21] (In contrast, if individual claims are found invalid for double patenting during an infringement action the remaining claims remain intact and

enforceable.)

There does not appear to be any rule against filing a terminal disclaimer to cure double patenting after the second patent issues. At least one district court has held that the patent holder's intent, deceptive or otherwise is irrelevant to its decision to file a terminal disclaimer and that there is no requirement that the disclaimer be filed without unreasonable delay. [22]

1.*In re Longi et al*, 225 U.S.P.Q. 645 (Fed Cir 1985)

2.*In re Vogel*, 164 U.S.P.Q. 619 (CCPA 1970)

3. *In re Bratt*, 19 U.S.P.Q.2d 1289 (Fed Cir 1991) citing *In re Vogel supra.*

4. *General Foods Corp. v Studiengesellschaft Kohle mbH*, 23 U.S.P.Q.2d 1839 (CAFC 1992)

5.§534 of Pub. L. 103-465

6.*General Foods Corp. v Studiengesellschaft Kohle mbH supra*

7. *In re Vogel, supra*

8.*In re Borah*, 148 U.S.P.Q. 213 (CCPA 1966)

9. *In re Bratt, supra*

10. *In re Goodman*, 29 U.S.P.Q.2d 2010 (CAFC 1993), *Ex parte Nesbit*, 25 U.S.P.Q.2d 1817 (BdPatApp&Int 1992)

11. *In re Robert Lonardo*, Appeal 96-1001,-1123,-1124, ___U.S.P.Q.2d ___ (CAFC July 8, 1997)

12. *In re Recreative Technologies*, 38 U.S.P.Q.2d 1776 (Fed Cir 1996)

13. 158 U.S.P.Q. 210 (CCPA 1968)

14. M.P.E.P. §804(B)(2) p. 800-20 (July 1966)

15. *In re Kaplan*, 789 F.2d 1574, 229 U.S.P.Q. 678 (Fed Cir 1986)

16. *In re Lonardo, supra*

17. "If two or more independent and distinct inventions are claimed in one application, the Commissioner may require the application to be restricted to one of the inventions. ... A patent issuing on an application with respect to which a requirement for restriction under this section has

been made, or on an application filed as a result of such a requirement, shall not be used as a reference ... against a divisional application or against the original application or any patent issued on either of them ... ."

18. *Symbol Technologies Inc. v Opticon Inc.*, 19 U.S.P.Q.2d 1241 (Fed Cir 1991)

19. *Gerber Garment Technology Inc. v. Lectra Systems Inc.*, 16 U.S.P.Q.2d 1436 (Fed Cir 1990)

20. *Quad Envtl. Technologies Corp. v Union Sanitary Dist.*, 20 U.S.P.Q.2d 1392 (Fed Cir 1991)

21. *Ortho Pharmaceutical Corp. v Smith*, 22 U.S.P.Q.2d 1119 (Fed Cir 1992) citing *Ex parte Kumagai*, 9 U.S.P.Q.2d (Bd. Pat. App. & Int. 1988)

22. *Bayer AG v Barr Laboratories Inc.*, 24 U.S.P.Q.2d 1864 (DC SNY 1992)

Title: **Three-Dimensional Trademarks in Japan**

Date: September, 1997 (28th General Meeting in Toronto)

Source:
1 PIPA
2 Japan
3 Committee#1

Authors:
Namura Shoichi, Mitsubishi Electric Corporation
Tanaka Hisako, Pfizer Pharmaceuticals Inc.
Mizuno Emi, Sapporo Breweries Ltd.
Nishimura Akemi, Tosoh Corporation

Key words: 3-D Trademark, 2-D Device Mark, Examination Standards, Trademark infringement, Use of trademarks

Statutory provisions: Trademark Law Article 2-1, 2-4, 3-1, 3-2, 4-1-11, 4-1-18, 26-1, Lanham Act Sec. 2(f)

Abstruct: With the amended Trademark Law, effective from April 1, 1997, it has now become possible to protect three dimensional trademarks under Japanese Trademark Law. This report presents the results of the investigation concerning this new system, including judgments regarding the distinctiveness and functionality of 3-D TMs. Cases have been selected from surveys of U.S. registrations as well as of "2-D device marks" applied in Japan prior to the amendment.

I. Introduction

With the amended Trademark Law, effective from April 1, 1997, it has now become possible to protect three dimensional trademarks (3-D TMs) under Japanese Trademark Law. From the perspective of global harmonization of trademark systems, the introduction of the new system in Japan was highly desirable.

In addition to the protection of commercial-good shapes provided by the Unfair Competition Act, the protection of 3-D shapes (configurations) was anticipated. In fact, there had already been actual cases in which a shape consisting of a 3-D configuration had been registered in the form of a plane-figure (two-dimensional) device mark (referred to as "2-D device marks" in the present report).

The present report presents the results of the investigation concerning this new system, including judgments regarding the distinctiveness and functionality of 3-D TMs. Cases have been selected from surveys of U.S. registrations as well as of "2-D device marks" applied in Japan prior to the amendment.

Since this is a completely new system to be introduced in Japan, and since examinations under the system have not yet begun as of the current date, companies are rather blindly groping for ways to respond to this system. It is hoped that the analysis provided in this report will be of some assistance in finding ways to utilize the 3-D TM system.

II. 3-D TM Protection Under the Japanese Trademark Law

The following is provided as an overview of the 3-D TM system under the Japanese Trademark Law, with special focus on the points that will be discussed within this report.

(1) Definition of 3-D TM

1) Definition of 3-D TM

"The definition of mark is characters, graphics, symbols, or three-dimensional shapes or their combinations, or combinations of characters, graphics, symbols, or three-dimensional shapes with color." (Section 2(1))

2) Use of 3-D TMs

From the newly added Section 2(4), the following are assumed as "use" of 3-D TMs:

a) Shape of a good itself

b) Shape of a package (container, etc.) of a good

c) Shape of an article, etc., used in a service

d) Shape of an advertisement (signboard)

(2) Absolute requirements of registration

1) Distinctiveness

The following will not be registered:

"Trademarks consisting solely of marks indicating the ... shape of goods ... (including the shape of goods packaging) ... in the ordinary manner." (Section 3(1)(iii))

However, a trademark that acquires distinctiveness through its use can be registered, as follows:

"Even trademarks conforming to subparagraphs iii-v of the preceding paragraph, when, as a result of the use of such trademarks, consumers can thereby identify the source of the goods or services concerned with a certain person's business, notwithstanding the stipulations of the preceding paragraph, are eligible for trademark registration."

(Section 3(2))

2) Functionality

Even in the case where the above-noted Section 3(2) is found to be applicable, a trademark cannot be registered in the following case:

"A trademark consisting solely of a three-dimensional shape indispensable to securing the functions of goods or goods packaging, as in the shape of goods or goods packaging."

(Section 4(1)(xviii))

(3) Relative requirements of registration

Below is a summary of Section 4(1)(xi). In the examination, a determination is made concerning similarity or lack thereof as described in the combinations below.

1) 3-D TM : Plane trademark

In principle, 3-D TMs are similar in appearance to plane trademarks in the way they appear when viewed from specific directions.

2) 3-D TM : 3-D TM

In principle, 3-D TMs that look alike when viewed from specific directions are similar in appearance.

3) Names and concepts

3-D TMs can generate names and concepts not only from their overall appearance, but also in conformance with the way they appear when viewed from specific directions. In the case where a 3-D TM consists of a combination with characters, in principle, only names or concepts that conform to the applicable character portions can be generated.

(4) Scope beyond effect of trademark rights

The effects of trademark rights do not extend to the trademarks described below.

"A trademark consisting solely of a three-dimensional shape indispensable to securing the functions of goods or goods packaging, as in the shape of goods or goods packaging." (Section 26(1)(v))

"Trademarks consisting solely of marks indicating the shape of goods (including the shape of goods packaging) in the ordinary manner." (Section 26(1)(ii, iii))

III. 3-D TM Registration Requirements — a comparison between U.S. and Japan

The first 3-D TM registered in the main Federal Register of U.S. was the Haig Co.'s pinchbottle in 1958. Next followed the bottle shape of the Coca-Cola. Since then, a large number of 3-D TMs have been approved. This chapter will present some considerations concerning the registration requirements and examination standards for 3-D TMs, using as a reference registered cases in the U.S., a country considered as a "developed nation" in terms of 3-D TMs.

(1) Requirements for registration of 3-D TMs

In addition to the determination in regards to the similarity or lack thereof to previously applied-for and registered trademarks, the requirements for registration of 3-D TMs in both Japan and the U.S. are as follows: (1) the trademark must be distinctive, and (2) it must not be a shape that is indispensable to securing functions. However, it appears that there are

differences between the two countries in their respective judgment standards.

1) U.S. registration requirements

a) Functionality

When a design is indispensable to the use or purpose of an object, or when the design will have an effect on the price or quality of an object, that design is considered to be *de jure* (legally) functional, and therefore not registerable. Since such items can be sufficiently protected for a fixed and limited time-period in the form of patent rights or design rights, it is thought that protection in the form of trademark rights —a permanent exclusive right —would interfere with the competitive principle. As a result, a design is registerable only when the special characteristics of that design have no connection with the purpose of usage of its respective object (i.e., when the design is non-functional). During the application stage, the USPTO demands from the applicant, a clear and accurate statement of its special characteristics, and analyzes the functionality of the mark.

b) Distinctiveness

In principle, the USPTO employs a usage principle. Therefore, there are many trademarks that have acquired distinctiveness through their use (Lanham Act, Section 2(f)). Even in regards to the shape of a good or a good container/package, etc., if it is possible to visually identify that shape—thereby creating a distinction between it and other shapes—then in most cases the related mark is registerable in terms of its distinctiveness.

2) Japanese registration requirements

In Japan, examinations of distinctiveness will apparently be rather strict. In various seminars, JPO have explained that "3-D TM interpreted by users as representing merely the shape itself of designated goods are subject to rigid controls, falling under Section 3(1)(iii)". This policy has been specified within the examination standards, and can be imagined that 3-D TMs that consist only of the shape of the good itself, or the shape of the package or container of a good, will not be easily approved.

If such is the case, exactly what kinds of marks will be approved as 3-D TMs? JPO's judgments concerning shapes that "merely represents the shape itself of designated goods" and its idea of the "functionality" is awaited.

(2) Registrations in the United States

Below are some principal registered trademarks that have been approved for registration in the U.S. because they were inherently distinctive. This report especially focuses on an analysis of registration cases that involve the shape of a good itself or the shape of a package of a good. Also, a hypothesis is made regarding how such trademarks would be judged if applied for within Japan.

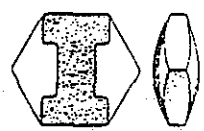
1) Shape of goods

1)-4) below refer to the shape of goods.

1) Tablet

Reg. No. 1,357,580

No claim is made to the exclusive right to use the hexagonal shape of a tablet, apart from the mark as shown. The stippling on the mark is for shading purposes only. The mark consists of the combination of the configuration of a hexagonal shaped tablet and the raised "I" relief design on one surface. For pharmaceutical preparations for the treatment of certain cardiovascular conditions, migraine, tremors, anxiety, and portal hypertension.



2) Tablet

Reg. No. 1,638,849

The mark consists of a scalloped-shape tablet.

For pharmaceutical of cardiovascular diseases.

3) Tablet

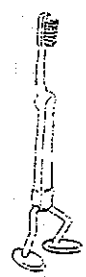
Reg. No. 1,376,817

The stippling in the mark is for shading purposes only. The design portion of the mark is the configuration of the goods (a tablet).

4) Toothbrush

Reg. No. 1,994,174

The mark is a toothbrush with a removable, footed base.



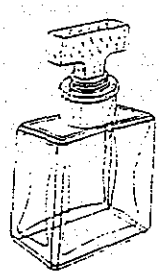
2) Shape of goods package (container)

5)-7) below express the shape of containers of goods; they are thus records of trademarks where the shape itself is the special characteristic.

5) Perfume Bottle

Reg. No. 1,608,754

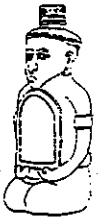
The mark is the configuration of an elegantly dimensioned geometric high clarity flint glass bottle, with bevelled [sic] edges, and heavy walled distribution. It gives the illusion of a bottle within a bottle, and softly contoured sides, and the fragrance free floating in the inner bottle cavity. It is capped with a squared-off silver colored stopper.



7) Alcohol Container

Reg. No. 1.951.005

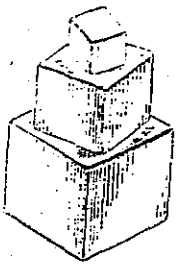
The lining in the drawing indicates shading, is a feature of the mark, and is not intended to indicate color. The mark consists of a three dimensional configuration of a bottle in the shape of a stylized pre-Columbian man holding a tablet.



6) Perfume Bottle

Reg. No. 1.660.255

The stippling is for shading purposes only and does not indicate color. The mark consist of a configuration of the container for the goods.



3) Hypothesized examination judgments in Japan

The tablets 1) and 2) have special characteristics, especially when compared with more ordinary shapes such as circles, triangles, ovals, etc. Yet when the designated goods are pharmaceutical preparations, it can easily be identified as a tablet. As mentioned above, unless the shape exceeds the scope of being merely that of the tablet itself, it will be hard to register the shape as a trademark. Hitherto, these kinds of tablet shapes were protected as design patents. These shapes that does not exceed the scope of the shape of designated goods, will most likely be deemed as being liable to protection by a design patent. If the Japanese examination standard is to be applied in a literal fashion, then 1) and 2) would likely be rejected under Section 3(1)(iii). These types of would-be marks, unless they acquire distinctiveness through use as stipulated in Section 3(2), are thought to be non-registerable.

3) is a trademark that is a combination of shape and characters. This is a case where registration was approved for the combination, and distinctiveness was not recognized for the 3-D shape alone. In Japan, too, there is a high possibility that if the character portion is distinctive, then the overall combination will be considered as being distinctive, making such marks registerable.

In 4), one can clearly tell what the good (article) is, simply by observing the shape itself. However, there is a possibility that judgments in regards to such will bifurcate at a certain point: namely, at whether or not the ornamental portion possesses an originality that sufficiently generates a distinctiveness between that ornament (decoration) and other ornaments.

5) and 6) involves the question of whether or not the respective shapes can be identified as perfume bottles. Similarly, 7) is a question of whether or not the shape looks like a container for alcoholic beverages. One way of viewing these types of cases emphasizes whether or not a claim could be made that there are obvious differences between such shapes and other shapes or marks. However, it

is perhaps more reasonable to assume that if the shape can be identified as a bottle or container, then all the marks of 5)-7) would be considered as lacking distinctiveness.

In the U.S., the special characteristic claimed by the applicants in all of the above-quoted cases —in other words, the ornamental portion that had the special characteristics— were registered surely because they satisfied the following two conditions: 1) they were not found to involve the *de jure* functionality of the good, and 2) they were found to be original, and to have other aspects of distinctiveness. Conversely, if the same marks were to be applied in Japan, just as with the cases discussed above, registration would most likely be difficult, unless distinctiveness could be secured through the use of such marks.

However, when an attempt is made to pin down exactly what is meant by trademarks that "are interpreted by users as representing merely the shape itself of designated goods" ("Examination Standards" Section 3(1)(iii)), one finds that such standard is vague and elusive. Thus there could be differences between the examination results due to the differing perceptions of individual examiners. Perhaps if the shape of the good or the package is extremely original, and if it is a shape that can itself become a "signal" or "beacon" at times of consumer selection, then even before such a mark acquires a distinctiveness through use, it may be possible to register that mark, as it will already be considered as possessing inherent distinctiveness.

As for now, no actual examination results exist. For a clearer answer, we would have to await for the judgment of the JPO

IV. 3-D TMs and "2-D Device Marks"

(1) 2-D device mark applications and registrations

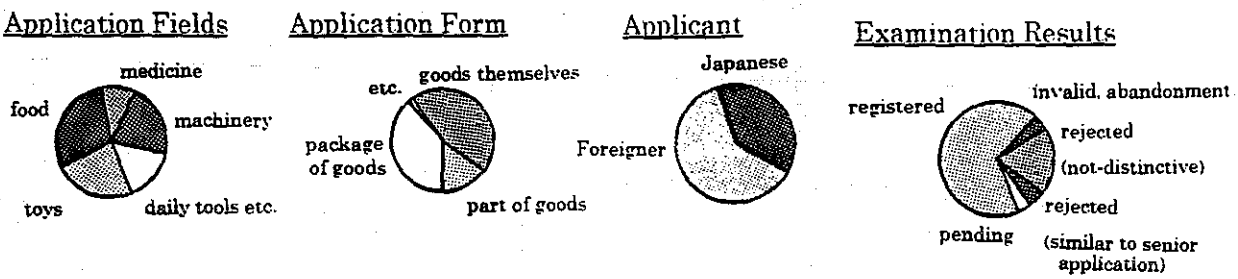
The Trademark committee of the Industrial Property Rights Council has reported the following as one of the goals of introducing the 3-D TM system: "Cases exist where shapes in various 3-D configurations, have been applied and registered in the form of a plane-surface (flat) figure. It can be imagined that these trademarks were originally desired to be registered as a 3-D TM. Therefore, there is a real need for 3-D TM protection." (As mentioned previously, registered "plane-surface figures" are referred to as "2-D device marks" in the present report).

The authors of the present report performed a survey to determine what kinds

of "2-D device marks" actually existed in applications prior to the Law's amendment. We will also present our considerations regarding the relationship between "2-D device marks" and 3-D TMs.

Below is a somewhat general selection (from a total of 134 cases) of "2-D device mark" applications made in 1989-1994.

1) Survey results



"2-D device marks" were almost uniformly applied for in fields where there are opportunities for consumers themselves to directly view the marks. Most of the application examples have been goods themselves or goods packaging.
More than half of the applicants have been foreigners, chiefly Europeans and North Americans. This is presumably a result of their desiring the same protection for 3-D TMs as in their own countries. The reasons for the relative scarcity of Japanese applicants are probably as follows: a weak sense that 3-D objects would be recognized as trademarks, a lack of familiarity with such concept, and a failure to find meaning in obtaining rights for a plane-dimension drawing of an article which is being used in a 3-D shape.

2) Current need for 3-D TM systems

A need for 3-D TM system have existed to foreigners who have been forced to apply for such marks in the form of a "2-D device mark".

As for Japanese applicants, the necessity of the 3-D TM system will be swayed by the goods they are selling. For example, there will probably be a large number of applications for goods with a high probability of distinctiveness, for instance in the field of confectioneries, toys, etc.

(2) Distinctiveness judgments

1) Distinctiveness judgments regarding "2-D device marks"

Below is an actual example of "2-D device mark application". A plane-figure drawing of a designated good (package) shape itself has been basically judged

as an ordinary indication of the "shape" of that good (package), and therefore rejected due to its conformity with Section 3(1)(iii) of the Trademark Law. However, you could see that there are also cases that have been registered.

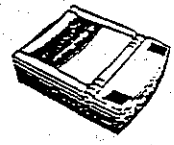
Rejection Examples

1) Ap. H6 (1994)-66407
Cosmetics, etc.

2) Ap. H3 (1991)-117929
Electrical machinery and equipment, etc.

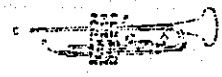
3) Ap. H3 (1991)-48556
Guitars, etc.

4) Ap. H6 (1994)-107547
Soft drinks, etc.



5) Ap. H6 (1994)- 82783
Electronic-application machinery and equipment

6) Ap. H4 (1992)-138889
Handbags

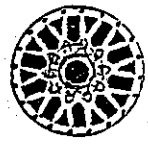


7) Ap. H3 (1991)-114968
Trumpets

8) Ap. H4 (1992)-29087
Footwear, etc.

Registration (Publication) Examples

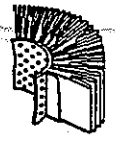
9) Reg. No. 2633887
Cosmetics, etc.



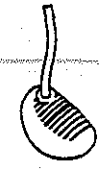
10) Reg. No. 3130861
Automobile parts, etc.

11) Reg. No. 2604634
Toys, etc.

12) Reg. No. 2692657
Liquors

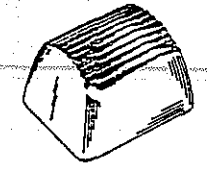


13) Reg. No. 3278511
Oil filters



14) Reg. No. 3238714
Exercise equipment ("gymnastic articles")

15) Pub.H9 (1997)-32892
Dress-up dolls



16) Reg. No. 3066372
Confectioneries, bread

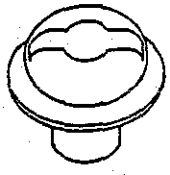
Trial Decision Rejection Examples

17) Trial Decision S-52 (1977). No. 11773 Beer, etc.

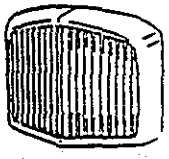
18) Trial Decision S-39 (1977). No. 5512 Golf clubs, etc.

19) Trial Decision S-57 (1982). No. 21820 Exercise equipment

Trial Decision Registration Examples



20) Reg. No. 1388242 Screws with washers



21) Reg. No. 2191509 Automobile parts, etc.

The rejections 1)-8) were all marks judged to be an ordinary indication of the "shape" of the respective good or package, and therefore conformable to Section 3(1)(iii) of the Trademark Law. One can readily agree to the judgment of rejection in each of these cases.

However the registrations 9), 10), 12), 13), 15), also appear to be nothing more than ordinary indications of the "shape" of their respective good or package. When looking at these registrations, one gets the sense that there is a lack of conformity in comparison with 1)-8).

A "2-D device mark" is nothing more than a plane figure, and their respective rights are thus limited to the flat (2-D) plane. The lack of conformity maybe because of the fact that the mark was examined merely as a flat figure. But altogether, it appears that there was no well-defined policy, —at least to the extent that there is now in the new examination standard for 3-D TMs.

Examples 1) and 9) especially show, that hitherto, there has been a mixture of both registration and rejection examples. That is, 1) was a mark that looked like a container for a cosmetic product, and this was rejected; meanwhile, 9) was a mark that looked like a container for a perfume, and was registered. The reason for these directly opposite judgments was surely the result of a broad interpretation which existed for the statement "indicating the shape of goods in the ordinary manner" (Section 3(1)(iii)). Such determinations were thus left to the individual perspective of each examiner and judge.

2) Distinctiveness judgments regarding 3-D TMs

In the examination of 3-D shapes of goods (packages) themselves, those shapes which "are interpreted by users as representing merely the shape itself of designated goods" ("Examination Standards"), will be rejected as lacking distinctiveness. However, it is not clear whether the actual judgment standard refers to either (A) or (B) below.

(A) A typical or "classical" shape of the designated good is assumed. The mark is registered if the mark's shape exceeds the domain (scope) covered by that "typical" shape.

(B) Even if it is not the typical or "classical" shape of the designated good, the mark will be rejected as long as it can be seen as an "extension" of the shape of the designated good.

Viewing the "Examination Standards", it appears that judgments regarding the distinctiveness of the shapes of 3-D TMs will be especially strict. Therefore, standard (B) will most likely be fundamentally applied. However, there will surely be cases where a decision will be difficult, as in the above-listed example 11).

If examinations are performed based on the above-described standard, then there is no guarantee that "2-D device mark" registrations will be automatically registered if applied for as 3-D TMs. One can imagine that applicants who have received a reason for rejection stating a lack of distinctiveness for their 3-D TM application will object by showing examples of registered "2-D device marks", thereby claiming distinctiveness. However, as discussed above, since there are different judgment standards for plane trademarks and 3-D TMs, it will be difficult for the above kind of claims to be accepted.

(3) Scope of rights

1) The concept of "use"

a) Use of 3-D TMs

Section 2(4) of the Trademark Law states that 'applying the mark' to goods, etc., includes the use of the good, etc., as the shape of the mark. Thus, when a 3-D TM that indicates the good (package) shape is registered, the sale, etc., of the good with the shape of this registered trademark constitutes a use of the registered trademark.

b) Use of "2-D device marks"

Conversely, a "2-D device mark" is nothing more than a plane-surface (flat) trademark. Unless the use is specifically a plane-related use, such will not be recognized as a "use" of the trademark. Let's assume that the owner of a "2-D device mark" showing the shape of a candy were to actually create a 3-D candy shape with that mark. In a large number of cases, it would probably be judged that such does not constitute a use of that trademark.

2) Infringements

a) Infringements of 3-D TMs

It would be considered as an infringement, for those who do not have fair rights to sell, etc. goods of similar or identical shape to a registered 3-D TM.

b) Infringements of 2-D device marks

Prior to its amendment, there was no concept under the Japanese Trademark Law of "3-D" trademarks. Since "2-D device marks" are nothing more than plane-surface trademarks, interpretations differed as to whether the validity of the related trademark rights extended to 3-D goods. Therefore, in the case where a third party sold, etc., a good that had a similar external appearance to the "2-D device mark", interpretations differed as to whether or not such constituted an infringement of the trademark rights: some thought it did, while others thought it did not.

Following the amendment of the Law, the similarity between 3-D TMs and plane trademarks has now been made an object of examination. If, for example, a 3-D TM were to be rejected as a result of an existing "2-D device mark", the Patent Office would have thereby made a determination that the two marks are similar. And if the applicant is then found to be already using the trademark, there is a fear that this applicant may be sued for trademark infringement. Therefore, following the amendment of the Law, it is clear that using shapes that are similar to "2-D device marks" may have chances of being considered as an infringement.

Nevertheless, a "2-D device mark" has been examined solely as a plane figure. And, as shown repeatedly above, the marks were registered while there were still serious questions regarding its distinctiveness when viewed from a third dimension. In this environment, then, let us consider the following hypothetical example.

Suppose that an application were made for a 3-D TM that was similar in appearance to the above-quoted case 9) (concerning which, under the current

examination standard, has a high possibility of being rejected as lacking distinctiveness). If the applied-for 3-D TM were to be rejected for a lack of distinctiveness, then there would be no problem. Yet if case 9) were quoted in the rejection, then the applicant would be required to pursue countermeasures such as a request for a contract forbidding the claiming of rights or a preparation for a defense around the claim that the trademark rights do not extend to the applied-for mark. Also, if the use in the form of 3-D shapes are not to be judged as a "use" of "2-D device marks", one could consider making an appeal for a cancellation for non-use.

V. Probable Future Trends

Opinions regarding future trends are divided into two separate camps: some feel that we can anticipate strict examinations, where the examination standards will be strictly applied in regards to the need for acquiring distinctiveness through the use of goods themselves and/or goods packages/containers; others believe that we can instead expect a "looser," less-rigid examination standard, where marks will be approved for registration so long as they possess a unique shape when compared with other marks. Whatever the case may be, in order to ensure the implementation of the 3-D TM system without confusion, a clear and distinct application of the examination standards, and a strict limitation of the scope of the validity of already registered device marks will be required.

(1) Examination standards

As described above, the majority opinion is that registration be permitted for those which have acquired distinctiveness through use as stipulated in Section 3(2). However, it will be difficult to ensure that such judgments of distinctiveness themselves are uniform and consistent. JPO will be placed in a difficult position when distinctiveness is claimed by citing overseas registrations. How long will it be able to strictly maintain independent Japanese examination standards, and how shall it find a balance from the perspective of international harmonization?

Further, since it is expected that the registration of goods themselves and of goods packages/containers will be extremely difficult, there will probably be many 3-D TM applications that take the form of the above-quoted U.S. registered tablet case 3) —namely, a combination of a distinctive character or picture (diagram) trademark and a 3-D shape. However, for many of these trademarks,

it was the character portion or the pictorial portion which was recognized as distinctive. In many cases, the owner of the rights will not be able to actually claim rights for the third-dimensional portion alone.

However, we cannot deny thee possibility that the above sort of marks will be cited, as having a similar shape, in the examination of the later applications. We would like to request the consistent identification (recognition) of the main portion(s) —the parts that were originally approved as distinctive, so that later applications not be excluded for the above-noted kinds of reasons. Yet desire such as we may, registered 3-D TMs comprised of these kinds of combinations will play a major restraining role when a thinking of using a similar 3-D shape. Thus, confusion regarding the interpretation of the scope of rights and the identification (recognition) of main portions will surely be unavoidable.

Further, what will be the impact of distinctiveness already acquired as a result of use, during the application and examination stages? How will the "typical" or "classical" shape be determined? The possibility of difference arising between the examiners can not be denied.

To combat such confusion, we would like to express our deep desire that the examination standards be strictly, seriously, and consistently applied.

(2) The "2-D Device Marks"

As mentioned above, opinions are divided as to whether the scope of the rights of a "2-D device mark" is limited to the plane-surface diagram (figure) itself. Remember that such "2-D device mark" were applied prior to the amendment of the Law, when "3-D TMs" did not even exist. The examination standards for "2-D device mark" was of course, not as strict as that of 3-D TM, especially concerning the distinctiveness of the shape when considered as a 3-D.

However, if, a "2-D device marks" were to be cited in the examination of 3-D TM, and lead to the rejection of the mark, there will be a possibility that using the 3-D mark will be considered as an infringement of the "2-D device mark". This would gives us the impression that there was an expansion in the scope of right because of the amendment.

In contrary, if such trademarks are rejected due to Section 3 (i.e., as lacking distinctiveness), and the shape conforms to Section 26 (i.e., it falls within the scope where the validity of trademark rights do not extend), it will be possible to use the mark even if its not registered. Naturally in such cases, infringement would be out of the question.

Differences in the interpretation of device marks by the examiners will present a major problem to the users of 3-D TMs. Certainly the best way to

handle such cases would be, as much as possible, to make rejections based on a lack of distinctiveness. Moreover, is it not true that only by strictly and thoroughly applying such a standard will the 3-D TM system be able to be applied without confusion and disarray?

VI. Conclusion

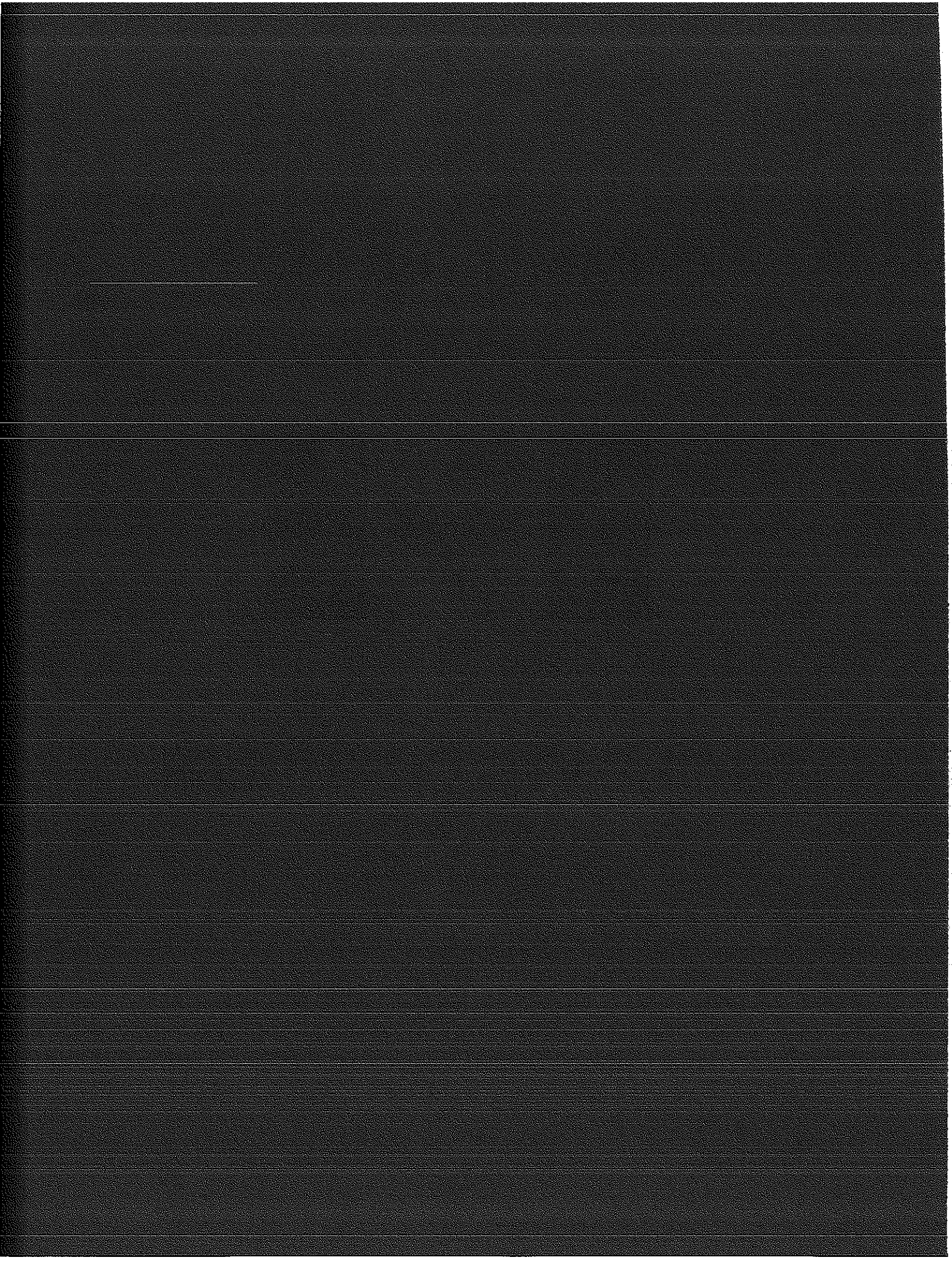
On April 1, 1997, the very first day of the introduction of the 3-D TM system, the number of 3-D TM applications was around 780. At the current date of this writing, when examinations of these applied-for 3-D TMs have yet to be performed, it is difficult to predict clearly and exactly what directions such examinations will take.

However, if this 3-D TM system was introduced truly with the goal of international harmonization, one can expect that the direction of future examinations will be somewhat fluid and changeable. Therefore, we assume that if a company possesses 3-D TMs which should be protected, it would be the best policy to first go ahead and try applying for the registration.

Further, persons which are using marks similar to the 3-D TMs of others should pay special attention to the distinctiveness and functionality of the 3-D shape (configuration). It would surely be necessary to secure evidence that will enable a defense under Section 26 of the Trademark Law.

COMMITTEE NO. 2

TORONTO CONGRESS
CANADA



(1) Title:

INTELLECTUAL PROPERTY ISSUES INVOLVING SOFTWARE DISTRIBUTED ON NETWORKS

(2) Date:

September, 1997 (The 28th General Congress in Toronto)

(3) Source:

PIPA Japanese Committee #2

(4) Authors:

Hisanori Oguri, Toshiba Corporation
Mariko Kishi, Mitsubishi Electric Co., Ltd.
Masanori Kitagawa, Sony Corporation
Shigeru Kitano, Fujitsu Ltd.
Shinichi Matsumoto, Nippon Telegraph and Telephone Corporation

(5) Key Words:

Networks, Internet, License, Copyrighted software,
Common carriers, Network service providers, Shrink wrap contract
Hyperlinks, and WIPO

(6) Statutory Provisions:

Patent Law, Copyright Law

(7) Abstract:

As networks represented by the Internet spread quickly, digital copyrighted software are being distributed on the networks in great numbers. It must be undisputed that this of new field of business will continue to grow when we consider the needs of consumers who want to get software products whenever they want as well as those of suppliers who benefit from getting a multitude of potential customers at low cost. This paper focuses on the various issues involving the legal liability of network service providers, practical work of execution of license agreements and collection of the license fees. In addition to those issues, this paper also discussed the revision of network related laws by organizations such as the WIPO and recent general legal topics concerning networks.

(8) Table of Contents:

1. INTRODUCTION (ARRIVAL OF NETWORKED SOCIETY ON A FULL SCALE)

Not a day passes by without coming across one or two network-related articles when one opens a newspaper. Networks represented by the Internet are coming into wider and wider use at all levels the world over, transforming our social life as well as business in a tangible way.

With regards to the Internet, an "explosive" increase is an expression that aptly describes the current situation. For instance, the White Paper on Communications announced this May by the Japanese Ministry of Posts and Telecommunications points out that the size of the Fiscal 1996 cyber business market (mail order sales using the Internet) reached approximately 40 times that of the previous year. (Yet, the size of the Japanese cyber business market is only about one-tenth of that of the U.S. cyber business market.)

At the27th Congress held in Hiroshima last year, the PIPA Japanese Committee #2 took up a theme of "Intellectual Property Issues Involving the Internet" and gave its article. With a different viewpoint this year, the Committee will focus its attention on the legal liability issues of network service providers, software distribution, and problems associated with practical license work. At the same time, actions of network-related law-making by the WIPO as well as recent legal problems regarding the overall networks will be introduced.

2. ACTIONS FOR REVISING THE INTELLECTUAL PROPERTY LAW REGARDING NETWORKS

2.1 WIPO

As a result of the diplomatic conference held in Geneva in December, 1996, the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty were adopted. (The WIPO Copyright Treaty is a special agreement within the meaning of Article 20 of the Berne Convention 2-i.) These two Treaties contain provisions to cope with the digital network environment represented by the Internet. (Note that for these Treaties to take effect, 30 instruments of ratification or accession by Member States of WIPO must be deposited with the Director General of WIPO 2-ii.)

2.1.1 WIPO Copyright Treaty

First, let us take a look at the main points of the provisions of this Treaty coping with the digital network environment.

(1) Protection of computer programs as literary work and protection of databases (Article 4 and Article 5) These problems are already dealt with by Japanese Copyright Law.

(2) Right of Communication to the Public (Article 8) Objects of the "right of transmission to the public" are expanded to cover all literary and artistic works.

This right includes authorizing the making available of works to the public, by wire or wireless, in such a way that members of the public may access them from a place and a time individually chosen by them. It covers on-demand and interactive transmission on the Internet, and the act of uploading to the electronic bulletin board in PC communication is naturally included.

It is to be noted that in the agreed statement regarding the WIPO Copyright Treaty adopted simultaneously by the diplomatic conference, a statement was made that mere provision of physical facilities for enabling or making a communication does not in itself amount to communication2-iii.

*Behind this agreed statement lies a fact that, as seen in the "Playboy Enterprises, Inc. v. Frena" case in the United States, there are an increasing number of cases charging network service providers with illicit distribution of works. Since it is considered that where there is no bearing on the content itself, there is no applicable case of communication, the statement to that effect was made clear in the agreed statement.

(3) Obligations concerning Technological Means (Article 11)

It is stipulated that Contracting Parties shall provide adequate legal protection and remedy against the circumvention of effective technological measures which are employed to obstruct acts infringing the copyright (for example, copy protection signals of video soft and copy protection techniques of video games).

(4) Obligations concerning Rights Management Information

Contracting Parties are now required to stipulate legal remedy for removal or alteration of any electronic rights management information. Rights management information as used in this Article, means information which identifies the works, the authors of the work, the owner of any right in the work, or information about the terms and conditions of use of the work, and any numbers or codes that represent such information.

This provision has in mind works which are in distribution on the networks. When the contents of CD and video soft are being distributed on-line, it is easy to tamper with rights management information (for example, an author's name is replaced by someone else's name) and distribute it again on-line. Consequently, taking proper legal measures against such act is stipulated.

(5) Issues of the Right of Reproduction

On the other hand, in the draft for the WIPO Copyright Treaty, it was proposed that the concept of reproduction apply to temporary storage in RAM of computers, etc. As far as this was concerned, compromise between telecommunication carriers fearing that the right of reproduction might extend to technical storage generated in the middle of communications and European countries and the United States supporting the proposal did not materialize. Since handling this matter properly was considered possible according to the

international standards regarding the current right of reproduction and exceptions to the right of reproduction, particularly, Article 9 of the Berne Convention2-iv, it was deleted from the draft of the Treaty.

Because of the deletion from the draft, there was an attempt from some quarters to insert a statement in the agreed statement to the effect that "temporary storage is also reproduction." Finally, a statement to the effect that "It is understood that the storage of a protected work in digital form in an electronic medium constitute a reproduction within the meaning of Article 9 of the Berne Convention" was made in the agreed statement2-v. The meaning of "storage" was not made clear. How much is meant by storage is left to the interpretation and lawmaking of each member state.

* It is a generally-accepted notion in Japan that temporary storage in computer memories is not reproduction, while a case in the United States shows that temporary storage in RAM of computer programs is reproduction2-vi. In Europe, too, according to EC directive, temporary storage of computer programs is reproduction.

2.1.2 WIPO Performances and Phonograms Treaty

In this Treaty, too, provisions for coping with the digital network environment are incorporated.

(1) In Article 10, the exclusive right of performers is set forth to authorize the making available to the public of their performances fixed in phonograms, by wire or wireless means, in such a way that members of the public may access them from a place and at a time individually chosen by them.

(2) In Article 14, the exclusive right of producers of phonograms is set forth to authorize the making available to the public of their phonograms, by wire or wireless, in such a way that members of the public may access them from a place and at a time individually chosen by them.

* In both the above-mentioned Article 10 and Article 14, as in the case of Article 8 of the WIPO Copyright Treaty respectively, the exclusive right in regard to the act of uploading to an electronic bulletin board in PC communication was granted to performers and producers of phonograms.

(3) In Article 18, as in the case of Article 11 of the WIPO Copyright Treaty, provisions of "Obligations concerning Technological Measures" were established.

(4) In Article 19, as in the case of Article 12 of the WIPO Copyright Treaty, provisions of "Obligations concerning Rights Management Information" were established.

2.2 Problems of Revision of Japanese Copyright Law - in Terms of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty

On the basis of the contents of the adopted WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, the Multimedia Subcommittee of the Copyright Council presented its Review Progress Report in

February, 1997, citing the following items which called for immediate action in regard to revisions of the Copyright Law to cope with digitization and networking:

1) Establishing rights of performers and producers of phonograms regarding "transmission performed upon request,"
2) Including in the transmission of works " the making available to the public of works,"
3) As for wire transmission of computer programs, the rights should extend to those in the same premises as well,
4) Properly arranging the provisions regarding wireless "broadcast" and "transmission performed upon request,"
5) Reviewing without delay which action to take for the copy protection release devices.

Additional comments on 2) and 4) above will be made as follows:

a. In Japanese Copyright Law, in addition to the conventional "broadcast right," the "wire transmission right" was already provided for in the 1986 revision, and on-demand transmission via the Internet is covered by "wire transmission." (This is made clear as "wire broadcast" is defined as simultaneous reception by public of transmission of the same content.) Note, however, that the right concerns the act of transmission. In the Review Progress Report, it is mentioned necessary to include "the making available to public" in "transmission" in line with the concept of "communication" in the "WIPO Copyright Treaty."

b. As for wireless transmission, the "broadcast right" is prescribed. Contrary to the "wire transmission right" and the "wire broadcast right," whether wireless on-demand transmission is included or not is not clear. Since on-demand transmission is covered by the Rights of Communication in the "WIPO Copyright Treaty, regardless of by wire or wireless means, the Review Progress Report refers to the necessity of making proper arrangements of wireless transmission in terms of the Copyright Law just as in the case of wire transmission.

REFERENCE: Definition of Terminology in the Copyright Law

"Wire transmission" - Performing transmission of wire telecommunications for purposes of being directly received by public.

"Wire broadcast" - Of the wire transmission, transmission conducted so that transmission of the same content is simultaneously received by public.

"Broadcast" - Performing transmission of wireless communications for purposes of being directly received by public.

Items mentioned above are regarded to be items whose revision is necessary for ratification of both Treaties. The Copyright Council will review items not taken up at this time in due course and make a "Review Progress Report."

FOOTNOTES

2-i) Article 1, WIPO Copyright Treaty.

2-ii) Article 20, WIPO Copyright Treaty and Article 29, WIPO Performances and Phonograms Treaty.

2-iii) AGREED STATEMENTS CONCERNING THE WIPO COPYRIGHT TREATY, Concerning Article 8

2-iv) WIPO Press Release No.106

"The conference also discussed whether or not specific provisions are needed concerning the application of the right of reproduction concerning some temporary, transient, incidental reproductions, but did not adopt any such provisions since it considered that those issues may be appropriately handled on the basis of the existing international norms on the right of reproduction, and the possible exceptions to it, particularly under Article 9 of the Berne Convention."

2-v) AGREED STATEMENTS CONCERNING THE WIPO COPYRIGHT TREATY, Concerning Article 1(4)

2-vi) Mai Systems Corporation v. Peak Computer, Inc. 991 F.2d 511 (9th Cir. 1993)

3. EXAMPLES OF LEGAL TOPICS REGARDING NETWORKS

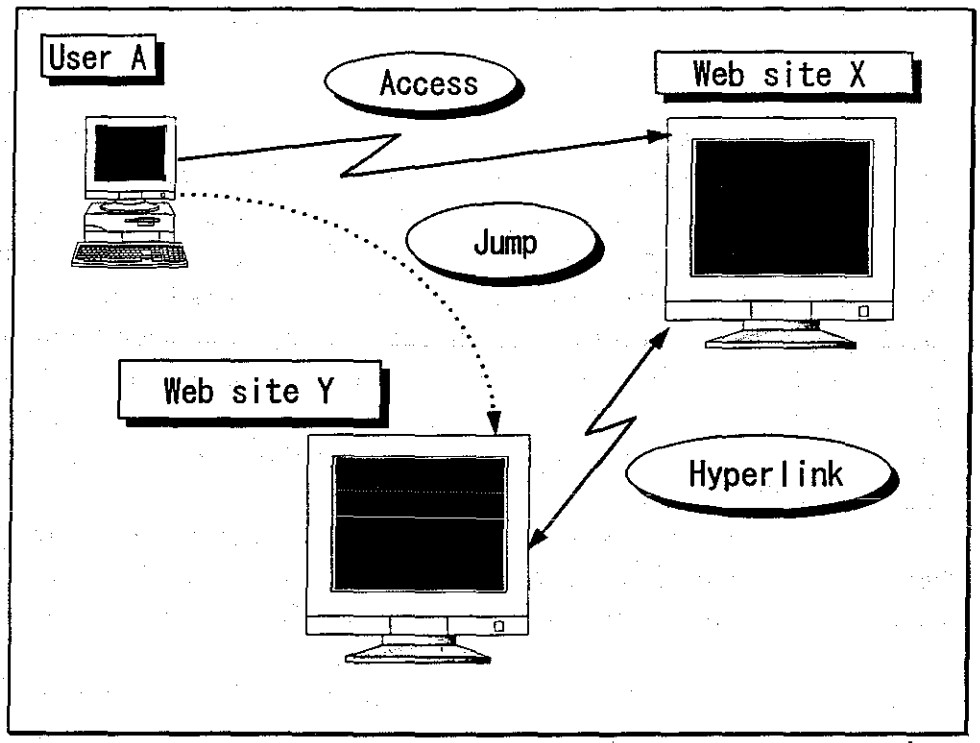
3.1 Hyperlinks

A hyperlink is an "act of linking" so that one can jump instantaneously from one web site to another by clicking a designated spot on a web site screen on the Internet.

For example, X opens a web site in his server X, where the access location of Y's paper (network name, etc.) existing in server Y is written, and it can be so arranged that third person A who wants to read that paper clicks with mouse the access location of Y's paper in X's web site of server X to access server Y and that he can read Y's paper. (Various modes of links can be worked out: not only papers but corporate advertising can be displayed and by clicking that spot, it is possible to jump to the advertiser's web site.)

Whether there are links to other web sites can be recognized by the user from a change in the display color of lines on the screen and from a change of the mouse pointer from an arrow to a palm mark.

Hyperlink



Since the act of linking to other web sites in this manner is not only for the benefit of network users but may be conducive to increasing the number of access to one's own web site, it is now widely practiced by one party without other's consent. In actual operation, no special contractual procedures are required between the parties concerned operating respective web sites. Hyperlinking is freely conducted conceivably because information disclosed on the web sites is accessible by anyone and hyperlinking itself is interpreted to be in no way illegal.

3-2 Disputes Involving Hyperlinks

These considerations notwithstanding, since disputes involving hyperlinks are occurring, some of them are introduced as follows.

3-2-1 *Ticketmaster v. Microsoft*

(97-CV-3055 US District Court, Central District of California)

In April, 1997, a suit was filed, and the case is pending as of July, 1997. Plaintiff Ticketmaster is the world's largest ticket sales agency handling a wide variety of entertainment-related tickets in the United States. With its own web site, Ticketmaster sells tickets via the Internet as well. "Seattle Sidewalk," a web site of a local entertainment guide opened and operated in Seattle by Defendant Microsoft created hyperlinks to Ticketmaster web site and used Ticketmaster's trademark without permission, thereby purportedly

causing damage to Ticketmaster. Because Microsoft had not cut off its hyperlinks to Ticketmaster's web site despite Ticketmaster's warning, Ticketmaster sued Microsoft.

Ticketmaster cites as reasons for the complaint Microsoft's use of Ticketmaster's trademark without permission which caused damage, fraudulent act concerning Tickemaster's business through Microsoft's advertising activities, and unfair competition imposed by Microsoft. A special concern of Ticketmaster's is hyperlinks from Microsoft's web site enabling users to pass through the front cover of the Ticketmaster's web site to get direct access to the inside pages. Ticketmaster asserts that damage has been incurred as a result of users' loss of chances to see precautions listed on the front cover of Tickermaster's web site and ads on other pages. On the other hand, Microsoft contends no illegality in its operation, clearly showing its intention to stand face to face with Ticketmaster.

Many comments from industry sources question Ticketmaster's complaint because Microsoft is not a competitor of Ticketmaster's and not engaged in business to get consumers mixed up by using Ticketmaster's trademark.

3-2-2 *Shetland Times Ltd. v. Dr. Jonathan Wills and Another*
(Civil Superior Court, Edinburgh, U.K.)

Plaintiff Shetland Times Ltd. is a newspaper publisher of United Kingdom issuing a newspaper, the *Shetland Times*. Defendant Dr. Jonathan Wills and Another is an agent offering news service, the *Shetland News*.

The *Shetland Times* opened a web site on the Internet, which offered articles appearing in the *Shetland Times* with additions of pictures. Articles are electronically stored on the web site with an index of their headlines so that users can access articles themselves by clicking headlines. On the other hand, since October of 1996, Defendant has reproduced verbatim numerous headlines registered in the Plaintiff's web site and included them in the headlines of the front page of its own web site. Consequently, users of the Defendant's web site, by clicking these headlines, are able to access directly the texts of related articles without accessing the front page of the Plaintiff's web site.

For reasons of copyright infringement, Plaintiff filed an action seeking a temporary injunction of the Defendant's use of the Plaintiff's headlines at the Defendant's web site. On October 24, 1996, the court decided in favor of the complaint of Plaintiff, the *Shetland Times*, affirming copyright infringement and gave a preliminary injunction of hyperlinking of the web site offered by the Defendant to the Plaintiff's web site.

Although this case made no decision of the hyperlink's illegality, attention is called to the practice of taking proprietary information of the hyperlinked party into one's own web site without restriction.

3-3 Comment

With the opening of a network called the Internet for commercial purposes come chances of making big profits in a new way. If the court had given a decision that the above-mentioned act of hyperlinking without permission was illegal and that approval of the web site holder was required, not only the Internet users but also the network service providers would have been greatly affected. There is a notion that this kind of problem will eventually be solved once a new technique of blocking unauthorized hyperlinks among web sites is developed, but from the user's standpoint, it would not be desirable to see a free network surfing environment on the way out.

4. LEGAL LIABILITY OF NETWORK SERVICE PROVIDERS

In software distribution on the network, the network service provider is always involved. It is obvious that when there is infringement of intellectual property by a piece of software in distribution, the one who provides the software concerned is the infringing party and assumes civil and criminal liability. However, what liability the network service provider involved in distribution assumes is not necessarily clear. In this section, using a recent case in our country for reference, let us examine the liability of the network service provider under Japanese Copyright Law and Patent Law when software, etc. uploaded by users on the network commit infringement of copyrights or patents of the third party.

4-1 Types of Network Service Providers and Their Role

Generally speaking, agents called network service providers are roughly divided into the following, depending on the role they play: (1) common carriers offering communication lines which form the infrastructure of the networks and serving as a conduit of communication, (2) Internet access providers offering access service to the Internet, and (3) commercial PC communication providers sponsoring commercial PC communication networks and offering various on-line services 4-i, ii.

As an example of services offered by (2) and (3) above (hereinafter referred to as provider), the followings are available: providing access to networks such as the Internet (E-mail, FTP, Telnet, WWW), providing and transferring information uploaded by users (e.g. setting up users' Home Pages, i.e., offering users part of the hard disk capacity on the server for storing the users' Home Pages), operation of BBS (Bulletin Board System, i.e., Electronic Bulletin Board), providing and transferring information edited by the providers themselves (e.g. data base service), etc. 4-iii.

In Japan, (1) through (3) above correspond to Type I telecommunications carrier (Article 6.1)) or Type II telecommunications carrier (Article 6.2)) stipulated in the Telecommunications Business Law. This Law provides for

prohibition of censorship of communications handled by the telecommunications carriers (Article 3) and confidentiality of communications (Article 4). Since transmission on the networks handled by the telecommunications carriers corresponding to (1), (2) or (3) is considered to be equivalent to "communications" of the Law, it is covered by the prohibition of censorship and protection of the confidentiality of communications.

The provisions of the Law can be construed that they prohibit the censorship or interception of the communication conducted by governmental authorities. But there are divergent opinions on whether the provisions of the Law preclude such conducts by the telecommunications carrier itself 4-iv. However, we should consider the provisions in light of the purpose of the legislation, which recognizes that because governmental authorities have actual capabilities to censor or intercept communications, such action must be subject to restriction. Because of the fact that the telecommunications carriers have actual capabilities to censor and intercept communications, we think it is reasonable to interpret that the telecommunications carriers are also under the restrictions 4-v.

4-2 Recent Noteworthy Examples

As a good example of legal liability of a network service provider in Japan, the Tokyo District Court delivered a noteworthy decision on May 26, 1997 4-iv. This is a case in which X, a member of a PC communication service, filed suit against Y, another member. X sued Y for reasons of defamation and libel on X committed by Y at a "forum" (equivalent to the BBS) which had been offered by said PC communication service. The suit also included charges against a system operator Z operating and managing the forum with a tort in nonperformance (leaving Y's act unchecked) and against the PC communication service provider A with nonperformance of employer's liability and default (failure in duty of considering safety of the PC communication service members).

In regard to the system operator Z's liability, the court gave the following decision for the following reasons. (1) The system operator is entrusted by the PC communication service provider with operation and management of the forum and taking appropriate action in the event of a defamatory and libelous comment being written constitutes part of the forum operation and management. (2) When a comment with such a content as to defame someone's honor is written in the forum, the system operator is able to take action to stop wire transmission of such comment by deleting it or other measures. However, the person whose honor was defamed is unable to take such action. (3) Procedures for which action to take in case a comment is made to defame or libel another person are stipulated in the membership regulations and the operating manual on which the system operator bases his position regarding the operation and management of the forum. Considerations of these factors show that in the event that a comment defaming and libeling another person is made, a

certain degree of legal duty of performance is imposed on the system operator.

On the other hand, the court also pointed out other factors. (i) The system operator cannot check in advance comments written in the forum. (ii) Many system operators are not specializing in system operation and have other main lines of business. Therefore they have not so much time for operation and management of their forum. (iii) Because of enormous numbers of comments written per day in one forum as a whole, checking all written comments and examining each problem of such comments are normally extremely difficult. (iv) In not a few cases, it is difficult to evaluate the contents of comments as to whether they may constitute defamation or libel. Consequently, the decision considered it unreasonable to impose upon the system operator such heavy duty of performance as to monitor the contents of comments written in the forum at all times and to examine all comments as to their questionable contents.

In conclusion, decision stated that "At least when the system operator has a positive idea that a comment defaming other's honor has been written in the forum under its operation and management, it is to be construed that in view of its position and authorization, said system operator has duty of performance from the standpoint of reason to take necessary measures to ensure that such person's honor will not be unduly harmed."

Also, in regard to the liability of the PC communication service provider A, the court examined the forum operating agreement between A and Z. In the agreement, it is stipulated that the system operator Z follows A's instructions and that the agreement shall be terminated without prior notice in the event of Z's violation of the terms of the agreement. Therefore, it is recognized that the right of command and supervision essentially exists between A and Z and the decision concluded by admitting A's employer liability 4-vii.

In this case, the court judged that the system operator in charge of management and operation has a certain degree of duty of performance from the standpoint of reason when questionable comments are made in the forum. However, the court limited the application of said duty of performance only to the case of the operator having a positive idea of the presence of the questionable content, taking into account impossibility of prior check of comments written in the forum, virtual difficulty of checking all individual comments, and other factors. In this sense, although this is a case of defamation and libel and not involving intellectual property infringements, it merits our attention. Judgment regarding duty of performance in this case was made with respect to the system operator. But the role of the system operator lies in managing and operating agency work such as offering a place where information provided by a third party is offered to another third party. Thus, it is reasonable to think that said judgment is generally applicable to the case of providers in the business of offering and transferring information uploaded by other parties. Also, its way of thinking in regard to the range of duty of performance will be of use for reference in other cases as a criterion of

recognizing negligence.

4-3 Provider's Liability in Terms of Copyright Law

A classic case of provider's liability in connection with copyright becoming an issue is when Y, a customer using provider X's services, uploads a copyright material which infringes copyright of a third party to the server run by the provider X and makes it available to general public through his own Home Page set up on said server, or through the BBS run by the provider X. There may be another case where said material is transferred to other BBSs or Home Pages on servers of third parties via the provider X.

When Y's Home Page or the BBS where said copyright material is disclosed is accessed by a third party, or when said copyright materials is transferred to other servers, said copyright material is transmitted from the X's server to the computer (server) of the third party and stored there. Said steps themselves are automatically processed under X's server's directions. Nevertheless, inasmuch as X owns the server itself, such steps can be construed as an act committed by X. Hence, in Japan, X's act corresponds to reproduction of said copyright material (when transfer to the third party server is made and the copy of the material is stored there) and an act of wire transmission (when copyright material is transferred to the third party from the X's server). Those acts are likely to constitute copyright infringements.

For remedies of copyright infringement, basically two actions can be considered. One is injunction (Article 112, Copyright Law) and the other is claim for damages (Article 708, Civil Law). Because the existence of willfulness or negligence is not a requirement as far as the former is concerned, an injunction to X (scrapping of the copyright material stored in the server, suspension of an act of transmission, etc.) is likely to be granted 4-viii.

As regards the latter, since the existence of willfulness or negligence is a requirement, whether willfulness or negligence can be recognized in X or not becomes an issue. At present, (1) because there is a possibility that a prior check of information to be sent to other servers may transgress prohibition of censorship and confidentiality of communications forbidden by the Telecommunications Business Law, its implementation is difficult 4-ix. (2) It is physically impossible for the network service provider to conduct prior checks of all information uploaded to its server as well as information received to be transferred to other servers. (3) Even if prior checks should be conducted, judgment of copyright infringement is difficult.

In terms of judgment criteria of the decision in 4-2 above, it is reasonable to think these considerations above show that unless after the possibility of copyright infringement is recognized or made recognizable as a result of being pointed out by the copyright owner, charges of willfulness or negligence cannot be brought on the provider because the provider has no opportunity to materially control information uploaded to its own server before that 4-x, xi.

It is to be noted that in the foregoing example, common carriers having communication lines will be involved in reality. However, inasmuch the common carriers only offer communication lines and act as a conduit of communications performed by X and Y, it is considered that they will assume no liability whatsoever in terms of the Copyright Law.

4-4 Provider's Liability in Terms of Patent Law.

The provider's liability in connection with patent right becomes an issue, for example, when customer Y using the provider X's services uploads software infringing the patent right of a third party Z and makes its copy downloadable through his Home Page, etc. Or when a transfer is made to another server operated by a third party A via the provider X.

If Y's software fixed in a recording medium should infringe upon a medium claim of Z's patent, it is possible that an act of X's transfer of software to A's server may correspond to an act of producing materials infringing on said claim 4-xii. On the other hand, when a third party gains access to Y's Home Page and downloads software to its own computer, the principal of the act of infringement is either said third party (manufacture of infringing materials) or Y (assignment or offer to assign). Therefore the X's act will not constitute an act of infringement.

In the event that Y's software fixed in a recording medium becomes a material indirectly infringing on an apparatus claim or method claim of Z's patent, X's act of transfer said software to A's server or an act of downloading the software by a third party from Y's Home Page will respectively constitute an indirect infringement by X, Y or the third party.

In the case of patent right, remedy for an act of infringement is the same as the case of copyright - injunction (Article 100 of the Patent Law) and claim for damages (Article 709 of the Civil Law). Since the same reasons for (1) through (3) in 4-3 above can also be applied to the case of patent right, both injunction and claim for damages are handled in the same way as the case of copyright. However, as a result of the presumption of negligence in Article 102 of the Patent Law, when a provider receives a claim for damages, the burden of proof of no negligence lies on the provider's side, and this is different from the case of copyright 4-xiii.

Also, even though the act of the provider itself does not constitute a patent infringement directly nor indirectly, should the act of Y or a third party as mentioned above constitute a direct or an indirect patent infringement, X is aiding Y's or the third party's act of infringement. Hence, when willfulness or negligence is found in X as far as aiding Y's or third party's act of patent infringement is concerned, X is most likely to be charged with aiding and abetting a tort or joint tort liability (Paragraph 1, 2, Article 719 of the Civil Law) and liability for damages will result. As for the judgment criteria of willfulness and negligence, the key issue will be also whether or not action was

taken to delete said software from the server even though infringement had been pointed out so that there was possibility of recognition or recognition of the fact of infringement.

In the case of patent right, too, the common carriers having communications lines will be involved. However, as regards the common carriers, in the same way as the case of copyright, no charges of liability whatsoever will be brought in terms of the Patent Law.

FOOTNOTES

4-i) The aforementioned classifications are not mutually exclusive. In reality, there are many cases where (3) plays the role of (2) as part of its services or (1) plays the role of (2).

4-ii) In addition to the above classifications, network sponsors of non-profit organizations such as colleges or individuals who operates BBSs and others can be considered. But, in this section they can be treated in the same way as (2) or (3), so they were omitted.

4-iii) Masao Yoshida, "Network Service Provider's Liabilities" Chizai Kanri (Intellectual Property Management), Vol. 46, No. 11, pp. 1740 - 1741.

4-iv) Hisamichi Okamura and Tsuyoshi Kondo, Legal Practice of the Internet, Shin Nihon Hoki, p. 241, p. 246.Note that there are also two theories regarding whether the provisions of this Law preclude said conducts by governmental authorities or only said conducts by administrative authorities. See p. 241.

4-v) Same opinion. Takashi Kurita, "Infringement of rights by Web Pages and Liabilities of Telecommunications Equipment Provider: the Internet Providers and Colleges and Universities."
(http://www.hk.kansai u.ac.jp/kurita/copyright/ article5.html)

4-vi) 1994 (Wa) Case No. 7784 of Claim for Damages.

4-vii) A's violation of duty of considering safety was not admitted.

4-viii) Masao Yoshida, "Network Service Provider's Liabilities" Chizai Kanri (Intellectual Property Management), Vol. 46, No. 11, pp. 1746 - 1747 and Hisamichi Okamura and Tsuyoshi Kondo, Legal Practice of the Internet, Shin Nihon Hoki, p. 259.

4-ix) However, as mentioned above, from the standpoint that the communications carriers are not subject to the provisions of prohibition of censorship and confidentiality of communications, this contention will not serve as a basis of no fault.

4-x) Ditto 4-viii)

4-xi) As regards the provider's liabilities, there is an opinion that, "As for copyright infringement, the wire transmission right is clearly protected. If the liability of the network information agent is to be limited, a theory asserting that such agent is not the principal of the act of wire transmission must be built up." (Harumichi Uchida and Tsunemichi Yokoyama, Ed., The

Internet Law - Guidlines to Business Legal Practice, Shoji Homu Kenkyukai (Commercial Law Center, Inc.), p. 68.). Nonetheless, the thinking of this section which treats the provider as the principal of wire transmission makes it easier for the infringed person to exercise his/her right of injunction against the provider, thus facilitating to prevent copyright infringement of one's right from expanding effectively. Further, as for the financial loss of the provider due to claim for damages, judging the degree of willfulness or negligence can set limits to a range of such loss. Therefore we think more balanced settlement can be made by the thinking of this section.

4-xii) This is the case when the X's server automatically performs a transfer to the server of a third party. When a transfer is made by the X's server upon A's request, this can be said to be the same as the case where a third party gains access to the Y's Home Page and downloads software.

4-xiii) As a consequence of the burden of proof of no negligence being imposed on the provider, the provider's duty of taking precautionary measures will be materially on a higher level than the case of copyright.

5. PRACTICAL WORK ON SOFTWARE DISTRIBUTION AND LICENSE

5-1 Collection of License Fee

5-1-1 Identifying the Problem

Originally configured by the financial assistance of the U.S. Government, the Internet was used primarily for exchanging information among researchers. Now that it is completely run privately (rather, it has changed into an aggregation of separate networks having no specific operators), it has come to be used widely for commercial purposes. Firms engaged in mail order sales by placing merchandise catalogs on the network are coming up, one after another. Since shops on the network do not require too much cost of opening and maintenance, it is said that businesses taking full advantage of their small size of operation can be developed. This is particularly true when the merchandise is the kind that can be handled as digital information such as data and programs. Orders are not only accepted on-line but the merchandise itself can be shipped on the network. Another merit is that without inventories, upon receipt of an order, copies can be reproduced instantly. These are the features that set this business apart from conventional mail order business. Offering digital information is the special feature of the Internet business.

Actually, computer software has been in distribution for a long time on the Internet, but such distribution was confined to software distributed free or nearly free of charge. All such prior uses were not for business purposes but were confined mostly to the research of computer engineers and the experiments of computer maniacs. Be that as it may, if the distribution of computer software is to be carried out as a business, problems occur as to how to collect

payment (License Fee). If the seller and the buyer face each other and conduct a transaction just like shopping in a shop, the buyer examines the merchandise, is convinced of the price, indicates his or her intention to buy, and the transfer of the merchandise and payment of the price can be performed simultaneously. However, to do the same thing on the Internet is impossible. A piece of merchandise like software can easily be transmitted on the network, but ¥10,000 notes or ¥10 coins cannot be transmitted. At present, sending money off-line is the only way, and this creates many kinds of problems.

1) Problems of payment by generally used means

Advance payment is always made and software is transmitted after confirming receipt of the payment. This would ensure that the license fee is paid with certainty with a minimum of risk for the licenser (seller). But payment by registered mail, remittance via bank, postal money order, etc. is cumbersome for the licensee (purchaser). Although shopping on the Internet is advantageous in that one can look at merchandise from all over the world without being aware of national boundaries and distance and make a purchase, the time and effort needed for transferring payment off-line will ruin the convenience of this method of shopping.

2) Problems associated with credit card payment and security of the Internet

Trouble involved in transferring payment seems to lessen considerably when payment is settled by credit card. All that is required of the licensee is to transmit information concerning his/her credit card type, number, and expiration date via E-mail and the licenser can conduct a prior credit check based on that information.

Nevertheless, inasmuch as the Internet is not designed with commercial applications in mind as mentioned above, it lacks a sufficient degree of security for handling information related to the sending and receiving of money. Information transmitted goes through a number of other parties' computers until it reaches the computer of the receiving party. If there should be some malicious person along the way, it is possible for that person to read someone else's information surreptitiously or alter such information and transmit it to the receiving party.

Generally speaking, users transmitting information on the Internet may face the following risks:

(i) A sender transmits information posing as someone else,
(ii)A sender denies having transmitted information though the sender in fact transmitted it,
(iii)A third party alters or falsifies information,
(iv)A third party taps into other transmissions.

In light of these risks, credit card information transmitted to the licenser may be false. Unless there are available means of authenticating that such

information has actually been sent by the licensee, the licenser or the credit card company will be burdened with the risk of the inability to collect payment.

After payment is made from the licensee's bank account and the completed payment is confirmed, the software is transmitted. This kind of arrangement would eliminate any risk. But it takes time approximately one or two months, before the payment is completed and the licensee may find it bothersome to wait until then to receive his or her goods. Besides, the primary function of the credit card, which is to enable to consumer to receive goods at the time of purchase, is not given full play.

On the other hand, the licensee has to conduct the transaction fearing a risk that the credit card number he/she transmitted may be tapped by someone and used for unlawful purposes. This is no way to enjoy shopping without worrying.

5-1-2 Legal Remedies When License Fee Cannot Be Collected

When the payment cannot be collected, the licenser will probably think of receiving some legal remedy as in the case of a normal license agreement. Charges of criminal liability by filing a claim for damages due to nonperformance of an agreement, a claim for damages due to tort, fraud, etc. as well as an injunction and claim for damages pursuant to the provisions of the Copyright Law in the event that the licensee reproduces obtained software for distribution are all measures which may be considered by the licenser.

Be that as it may, information traveling on the Internet be subject to the foregoing risks and problems different from normal license agreements occur. If a transaction is carried out on the Internet alone, there is nothing to show in writing what kind of agreement was made at what time between the licenser and the licensee. Naturally, there are times when an unwritten agreement takes hold effectively. But, the record of communications exchanged may actually have been transmitted by someone posing as the licenser or the licensee. There is also a possibility of falsification during the communications. If so, establishing proof is rendered difficult.

Then, regarding the Internet transactions, there may be questions of the designation of the time of establishing agreement as well as the effect of the agreement itself. Moreover, it may be difficult to specify the licensee who committed malpractice. If it involved sales of a tangible item, the licenser and the licensee would designate a location that actually exists for giving and receiving the item. The software's destination is nothing but an address on the Internet. As compared to moving to a physical location, moving on the network is easy, perhaps on a global scale. For the giving and receiving of materials, one does not have to worry about being seen. For someone with technical know-how and malice, it is very possible to make off with software without leaving evidence.

5-1-3 Method of realizing business on the Internet

How should actual business be conducted under such security conditions?

1) Doing business by allowing for a certain amount of risk.

This may not be a basic solution, but one way to do business is to carry out transactions by taking risks. Upon accepting an order, the licenser transmits software by taking chances that no payment will be collected. Even though tapping and falsification are technically possible, all information running on the network cannot possibly suffer damages of this type. So long as profitability is worked out by taking into account some level of accidents, this way of doing business will serve as a viable method. In the case of selling software, even if the payment is not collected, the merchandise sent can be reproduced by hardly spending any money, damages due to being cheated should be less than the case of tangible items.

Nonetheless, since there is a possibility of serious damages to the licensee (or to the credit card company with which the licensee participates) when credit card numbers are used for illicit purposes, the licensee may be hesitant about transmitting card information. Also, in the event of an occurrence of serious damages, the credit card company may reject this kind of dealing. To reduce the risk of wrongful use of credit cards, although this takes some effort, there is a method of sending only the credit card information off-line such as by telephone (5-i).

2) Encryption of information

To conduct transactions on the network with safety, some measures should be taken to prevent information exchanged between the licensee and the licenser (information on ordering and payment) from being exposed to the risks of altering, falsifying, and related risks.

Consequently, systems using cryptographic technology are being studied and experimented in many countries.

Generally speaking, cryptographic technology brings to mind only the function of preventing information tapping. In today's field of cryptographic technology, in addition to the prevention of information tapping, system configuration work is underway with emphasis on identifying the transmitter and verifying that no falsification has been done. Let us briefly review the functions which can be realized by cryptography (5-ii).

a. Prevention of tapping (concealing function)

This is a well-known method of using cryptography. Information is enciphered according to a pre-arranged method between the transmitter and the receiver. Since the enciphered message cannot be read by persons who have no key to decipherment, even if such message is transmitted, there is no danger of information contained being read by any third party.

b. Authentication of the transmitter and authentication of no falsification (authentication function)

Enciphering the original information correctly can only be done by persons who have a key to encryption. Therefore, when the receiver deciphers an enciphered message received and a plain message with meaning (original text) appears, it is a verification that the person who knows the key has transmitted it and that the content has not been altered on the way.

However, to produce either function (a) or (b), first the key must be safely forwarded to the other communicating party. Once this key is known to a third party, enciphered messages will be deciphered. Hence, the key must be kept tightly secured, and transmitting this key on the Internet with weak security is dangerous.

This is where the "Public Key System" comes in as a means to solve the problem of sending the key. Recently, mass media has often taken up this topic of the Public Key, but it is somewhat complicated and hard to understand for those outside this field.

To the general public, the "key to encryption" naturally means something to be kept completely secret. The public key system breaks through that wall of common sense and makes the key public for use. Because the key does not need to be made secret, a difficult problem of sending the key safely can be solved. In this system of encryption, two kinds of "key" are available. This is also contrary to conventional wisdom by using one key for enciphering and another for deciphering. In other words, there are separate keys for closing and for opening so that even if one key is known, the other key cannot be conjectured.

Furthermore, in communication, one key is made public as the "Public Key," and the other key is not made public but used on hand as the "Secret Key." How to use these keys may be outlined as follows:

(i) Realization of the concealing function.

For example, if it is desired to keep information to be transmitted secret, the receiver makes public in advance the "Closing Key" of the two keys as the "Public Key" and declares that any information to be transmitted to him/her should be enciphered with this "Public Key" and sent. The transmitter uses the "Public Key" freely, enciphers the information he/she sends, and transmits to the receiver concerned. Since deciphering the enciphered information needs the "Secret Key" ("Opening Key" in this case) which only the receiver concerned has, no one other than the rightful receiver can decipher it.

(ii) Realization of the authentication function.

If it is desired to designate a certain individual or party as the information transmitter, the transmitter makes his/her "Public Key" public in advance as the "Opening Key" and declares that anyone wishing to decipher information to be sent by him/her should use this "Public Key" for deciphering. And at the

time of sending information, the transmitter enciphers the information with the "Secret Key" ("Closing Key" in this case) that only he/she has and transmits it. The receiver deciphers the information received with the "Public Key." As a result, if a meaningful text is obtained, it is known that the received information has been enciphered with the "Secret Key" which corresponds properly to the "Public Key." Since only one person has the "Secret Key," the person who made the transmission can be identified.

Enciphered messages which have been altered on the way or enciphered messages prepared by someone else posing as the transmitter cannot correspond to the "Public Key," hence, when deciphered, they will not turn out to be a meaningful text.

However, in this case, use of the "Public Key" will permit anyone to decipher and read the content so that the purpose of concealing the content cannot be accomplished. When this system of encryption is used, the concealment and authentication functions can be realized among a great many communicators, greatly reducing the load on key management.

It is noted that the open key system of encryption is disadvantageous in that its process time is longer than the conventional common key system of encryption and that a set of two keys are required because of simultaneous concealment and authentication. Therefore, system configuration based exclusively on the public key system of encryption seems to be difficult. The common key system of encryption is suited to making fast and inexpensive cryptographic devices. Consequently, the common key system of encryption is employed, while the public key system of encryption is applied to sending that key safely. Such a combination of the two cryptographic techniques seems to be in practice.

Systems using this cryptographic technology such as accounts settlement systems in which safe transmission of order sheets and credit card numbers as well as making inquiry, upon receipt of an order, into the licensee's bank account to settle payment, are being configured now. Further, experiments are underway, in which "electronic money" is being circulated with the licensee obtaining it from the bank and transmitting it to the licenser. The "electronic money" is a technology that will make consumers be possible to do shopping on the network anonymously. There are many projects on electronic commercial transactions which were launched in many countries of the world.

Representative of these projects are Commerce Net of the United States (a consortium for the purposes of resolving problems of configuring a commercial transaction system on the Internet, with participation of the computer industry, communications industry, and financial world), Mondex of Britain (an electronic money project initiated mainly by British banks, conducting a demonstrating experiment using actual consumers and shops and stores), and the Electronic Commercial Transaction Demonstration Promotion Committee of Japan (a project of electronic commercial transaction demonstration backed by the

Ministry of International Trade and Industry, where overall problems including legal problems of electronic commercial transactions are being examined (5-iii).

In this subsection, security has been covered as a basic problem of software license on the Internet. As regards this problem, various methods of sending the merchandise and settling accounts seem to be under experiment, but the most suitable method of solution has not been established yet.

In the next subsection, specific problems of "establishing a license agreement" will be reviewed by assuming a simple model of software license business on the network.

5-2 On Establishment of License Agreement

In the distribution of software through the network, the licensor and the licensee can be connected one-to-one through the network. This makes it possible for the two parties to present and select a variety of license conditions.

In the previous subsection, collection of the license fee for the software license through the network was described. In this subsection, the establishment of software license agreement and its validity, which is a prerequisite to the license fee collection, will be discussed.

5-2-1 On the validity of the "Click on License"

The software distributed through the network can be brought into one's computer by downloading it out of a host of software offered on the network. This downloaded software is to be used according to the license conditions presented by the licensor. But since there is no way for the licensee to indicate his intention to accept the license conditions by way of signing and sealing the agreement, a mode of contract generally called "Click on License" is employed.

This is a procedure in which prior to executing download operation, license conditions are shown on the PC screen so that if these license conditions are acceptable, one clicks on the "I agree" position on the screen and proceeds with downloading. Clicking on "I agree" is one's indication of the intention to accept the license conditions offered by the licensee.

However, whether or not this "Click on License" is valid is not made clear at present. Let us now discuss the validity of this "click on license" in comparison to the "shrink wrap agreement" used in package software.

The "shrink wrap agreement" deems a licensee's irreversible act of unsealing a package as an expression of the intention to honor the agreement. For example, on the outside of the package of purchased software is written statement, "This product may be used in accordance with the license agreement contained in the package. Before unsealing the wrapping of a media case herein, you are required to read the license agreement. Once you unseal the wrapping of the media case, it is deemed that you have agreed to the provisions of this agreement."

"Unsealing the wrapping of a media case" is an act of "Shrink Wrap" which

indicates the acceptance the license conditions by the licensee. Use of such agreement is due to the fact that in the distribution process of software packages, indication of intent to accept by way of licensee's signature and seal cannot be made. In this respect, it is the same as the case of the "Click on License".

The validity of this "Shrink wrap agreement" is generally recognized in Japan, no judicial precedents can be found in this regard. In the United States, however, a decision was handed down in favor of the validity of the "Shrink wrap agreement" by the 7th Circuit Court.5-iv). This Circuit Court decision states, "So long as the shrink wrap agreement is beyond any question of doubt on the grounds of generally applied authority." Further, the following conditions are cited to make the "shrink wrap agreement" valid:

(i) Prior to the "shrink wrap" which is deemed an expression of intent to accept the license conditions, the licensee has an opportunity to know the license conditions,

(ii) In the event of no consent to the agreement, the software may be returned.

If we investigate the "Click on License" from this standpoint, as long as the license conditions are displayed on the PC screen prior to downloading, it is valid. Also, the license conditions are not necessarily required to be shown: A statement, "See the license conditions listed in the Home Page," is equivalent to the aforementioned condition establishing the validity of the "shrink wrap contact" which is "an opportunity to know the license conditions." Moreover, in case of no agreement to the license conditions, simply stop downloading, which is equivalent to "in the event of no consent, the software may be returned.

Examination of these terms and conditions leads us to conclude that the conditions of rendering the "shrink wrap agreement" valid also satisfy those of the "click on license," thus lending validity to it.

5-2-2 On Precautions of Chargeable Software on the Network

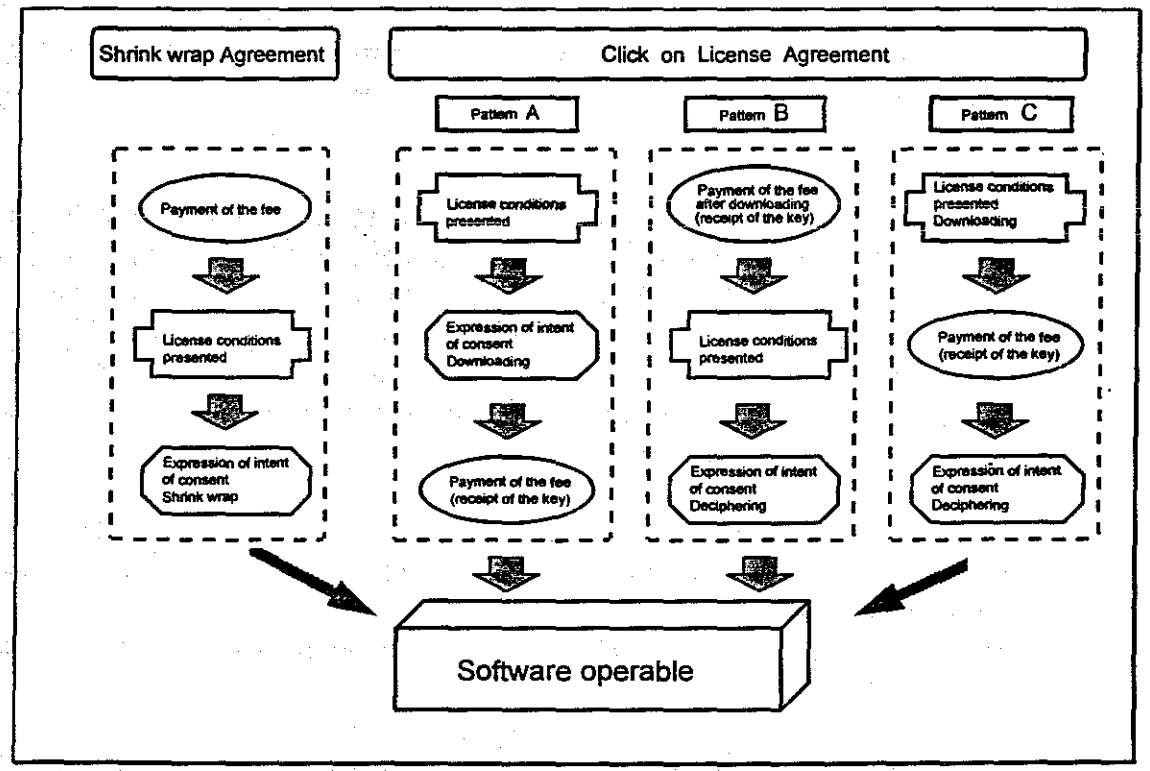
In many cases, software distributed through the network is free of charge, providing an environment in which after downloading, the licensee can use the software as it is, and the licensee's opportunity of expressing intent to consent to the license conditions consists of "clicking only" for downloading. However, when the software delivered by transmission on the network is to be paid for, it becomes necessary to review the "Click on License."

Take an example of chargeable software distributed through the network. First, the licensee downloads software to his PC from the network. To avoid a risk of incapacity to collect the payment, the downloaded software is enciphered and cannot be used as it is. Using his or her credit card, the licensee pays a fee and acquires the "key" for deciphering from the licensor. This "key" is used to decipher the encryption of the downloaded software to enable the licensee to run the software properly.

In this case, two procedures of "clicking for downloading" and "deciphering"

are executed by the licensee, thus making it necessary to examine at what point in time the "presentation of the license conditions" is made and what constitutes the "expression of intent to consent to the license conditions."
Three patterns (see table) will be explained below.

Table: Comparative Examination "Shrink Wrap Agreement" and the "Click on License Agreement" (Patterns A to C)



* Pattern A

The license conditions are presented prior to downloading, and clicking for download is construed as the Licensee's expression of intent to accept. (Conventional Click on License)

In this case, if there is no consent to the license conditions, no downloading is the only step required, thus meeting a condition of "software may be returned" which is a requirement for finalizing the "shrink wrap agreement." Nevertheless, the fact remains that the licensor grants a license prior to receiving the payment of the fee, whereas the licensee is made unable to use the software despite consent to the license conditions until "deciphering." This is a characteristic different from the case of the "shrink wrap agreement" whose environment follows a series of steps from the completion of fee payment, indication of intent to consent to the license conditions, to immediate availability of the software. This point of difference may possibly become an issue in the discussions of validity of the contractual mode of Pattern A.

* Pattern B

After downloading, the conditions of the agreement are presented prior to "deciphering" and the "deciphering" is construed as an expression of licensee's intent to consent.

From the licensor's viewpoint, there is a payment of the fee prior to licensing, and the licensee is in an environment of using the software after "deciphering" which forms an expression of intent to consent. Yet, since the license conditions are presented prior to the "deciphering" after downloading, should there be no consent to the license conditions, there are problems of what to do with returning the software as well as the "key" received.

* Pattern C

The license conditions are presented prior to downloading and "deciphering" is construed as an expression of licensee's intent to consent.

When consent can be given to the license conditions presented prior to downloading, download is executed and the "key" is requested. The licensor grants a license after verifying the fee payment and the licensee is in an environment where the software can be used after expressing intent to consent by means of "deciphering."

In the foregoing examples of Patters A to C, an addition of "deciphering" to the "click for downloading" makes it necessary to pay consideration to the following points:

1) Inasmuch as the licensee's act is divided into two steps of "clicking for download" and "deciphering," if the person who downloaded and the person who executed decryption are different, there is a problem of which one is the licensee.

From the licensor's viewpoint, although the person to whom the "key" was given can be identified, the person who did the downloading cannot be verified. As a result, the person who paid the fee and received the "key" will be considered the licensee.

In this instance, for a case like Pattern C, it is necessary to have an opportunity for the licensee to see the license conditions prior to "deciphering," too. Judging from the decision on the "shrink wrap agreement," in the event of no such opportunity, there is a chance that the agreement will be nullified. Consequently, to avoid such risk, the licensor must take action such as downloading the license conditions.

2) Receipt of the "key" by the licensee is the time when the licensee has an opportunity of "deciphering." In the "shrink wrap agreement," even if the software is not installed in the PC, so long as its shrink wrap has been opened, it is an expression of intent to consent. If the same thinking is employed, even in case the "deciphering" is not executed, as long as its proof is difficult, there is a possibility that "receipt of the key" is construed as an expression of intent to

consent.

As the foregoing discussions show, when software can be downloaded from the network for use at no charge, the "Click on License" can adequately cope with the situation. However, as in the case of charged software, the licensee is required to proceed in two steps of "clicking for download" and "deciphering," therefore, discussions are needed to determine when to present the "license conditions," as well as to define which of "clicking for download," "receipt of the key," or "deciphering" as the licensee's expression of intent to consent.

Be that as it may, taking procedures such as "deciphering" creates a process of "application for the key for deciphering" during which it becomes possible for the licensor to ascertain the licensee's intent to consent. In this respect, validity as agreement can be asserted better than the case of the "shrink wrap agreement".

FOOTNOTES

5-i) Pete Roshin, trans. by Cyber Commerce Division of Nomura Sogo Kenkyu-sho, Handling Electronic Commerce from Electronic Settlement to Security, Diamond Co., Ltd., p. 129.

5-ii) Shigeo Tsujii, Security of Post Modern Encryption Information, Kodansha.

5-iii) For details, see Norishiko Ishiguro, Conditions of Reviving Electronic Commercial Transaction in Japan, Nikkan Kogyo Shimbunsha, p. 176 and succeeding pages.

5-iv) 97-C-0671-C US District Court for the Western District of Wisconsin

(1) Title: Use Of Patented Technology In Industry Standards: The Risks To Companies By Participating On Standards Setting Committees

(2) Date: September, 1997 (The 28th Convention in Toronto)

(3) Source:

1. Source: PIPA
2. Group: U.S.
3. Committee: 2

(4) Authors: Edward Blocker and Arthur Schaier, U.S. Philips Corporation

(5) Key Words: "Standards", "ANSI", "Dell FTC Consent Order", "Non-Discriminatory"

(6) Statutory Provisions:

15 U.S.C. §§1,2
FTC §5

(7) Abstract:

Standards setting organizations in establishing industry standards can result in damaging anti-competitive effects including higher entry barriers (costs) into an industry, an increase in market price and a reduction in the number of industry participants. When these standards incorporate patented technology, companies serving as committee members of the organization may be faced with violation of antitrust laws as well as the loss of right to enforce those patents within their portfolio used by the standard. This paper will explore the potential risks and propose guidelines in minimizing risks to companies and their patent(s) arising from participation on standards setting committees.

USE OF PATENTED TECHNOLOGY IN INDUSTRY STANDARDS: THE RISKS TO COMPANIES BY PARTICIPATING ON STANDARDS SETTING COMMITTEES

I. Introduction

Generally, when a company promotes adoption of its invention(s) as an industry standard, the company explicitly agrees to place limitations on its rights under the invention(s) and any patent(s) issuing thereon. Most companies either make a license available i) without compensation to those implementing the standard or ii) under reasonable terms and conditions that are demonstrably free of any unfair discrimination.[1] But what are terms and conditions that are reasonable and demonstrably free of unfair discrimination? Notwithstanding this commitment by the company, such "terms and conditions" can nonetheless result in damaging, anti-competitive effects within the relevant industry, including higher entry barriers (costs) for a competitor to enter the industry, an increase in market price to consumers and/or an overall reduction in the number of industry participants.

Individual committee members (i.e. each of the corporations having a representative on the committee) also risk being subjected to a claim of having violated the antitrust laws[2] by having adopted a standard which limits competition and/or having proposed a patented industry standard without assurances of adequate and reasonable availability of the technology to others.[3] The U.S. Supreme Court has acknowledged the natural preference of a plaintiff to pursue individual corporate committee members rather than the committee itself.[4]

The action (or inaction) taken by committee members also may render certain of their patents unenforceable. For example, in 1995, the Federal Trade Commission (FTC) issued a consent order[5] against Dell Computer Corporation for allegedly violating Section 5 of the Federal Trade Commission Act (15 U.S.C. §45)[6] thus precluding Dell from enforcing one of its patents after Dell's representative signed a statement that to the best of his knowledge, a proposed standard did not infringe Dell's intellectual property rights. The proposed standard, however, did infringe one of Dell's patents.

Although Dell's committee representative did not knowingly misrepresent or intentionally mislead the committee, liability was based on the constructive knowledge of the Dell committee representative or unsubstantiated inferences by the FTC that the Dell committee representative knew of the patent. The FTC position may be read as setting a strict liability standard under which a company may place its intellectual property at risk by participating in the standard setting process.

This paper will explore the potential risks and propose guidelines in minimizing risks to a company and its patent(s) arising from participation on a standards setting committee.

II. Background

A standard is technology set by a technically competent group normally formed of members in the industry, typically competitors, to encourage innovation, reduce costs, improve quality and marketability of products and services, break down trade barriers and provide industry stability.[7] Technology can also become a "de facto" standard over time, through widespread use rather than formal adoption by a standards setting committee.

There are numerous organizations that set standards which often are adopted after a detailed review by a standards committee.[8] Typical international standard organizations include the Comité Consultatif International Télégraphique et Téléphonique (CCITT), the International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO). Typical domestic standard organizations include the Japanese Telecommunications Technology Committee (TTC), the Japanese Research Development Center for Radio Systems (RCR), the Japan Industrial Standards Committee (JISC), the U.S. Institute of Electrical and Electronics Engineers (IEEE), the U.S. National Electrical Manufacturers Association (NEMA) and the European Telecommunication Standards Institute (ESTI). The American National Standards Institute (ANSI) is the leading U.S. organization.[9]

Competitors, through a trade association or otherwise, can act together to adopt standards when the promulgation of standards by the private association enhances competition and are based on the merits of "objective expert judgments and through procedures that prevent the standard-setting process from being biased by members with economic interests in stifling product competition."[10] Accordingly, standards setting activities are typically analyzed under the rule of reason rather than the *per se* rule.[11]

Standards setting activities undertaken for the purpose of persuading a governmental authority to adopt a standard are typically immune from prosecution under the U.S. antitrust laws.[12] The U.S. Department of Justice's *Antitrust Enforcement Guidelines for International Operations* (issued in October of 1994) has made it clear that this doctrine of immunity, known as the "*Noerr-Pennington* doctrine" will be applied by the enforcement agencies equally both to non-U.S. firms and U.S. firms. However, when the anticompetitive restraint results from private action which is not "incidental to a valid effort to influence governmental action,"[13] antitrust liability may be found.[14]

The patent policies of standards setting organizations, such as ANSI and NEMA, prior to approval of a proposed standard request statements from concerned companies, including standard setting committee participants, that the company does not hold and does not anticipate holding any invention whose use would be required for compliance with the proposed sta ndard or assurance that a license will be made available to applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination.[15] Terms and conditions which fairly discriminate are not precluded. For example, a patent holder in granting a license to a first licensee may charge a low royalty in view of a grantback associated with the first licensee's strong patent portfolio. The patent holder may, however, charge a higher royalty rate to a second licensee with no grantback in view of a second licensee's much weaker patent portfolio. The differences in royalty rates may lead

the second licensee to charge higher prices for the same goods. The harm arising from the anticompetitive effects of higher prices may violate and thereby expose the members of the standards setting committee to the antitrust laws.

Patent owners who consent to adoption of an industry standard which uses their patent(s) generally accept the limitations placed on their patent rights by the standards setting organizations.[16] Consent to use of a patent as part of the new standard, however, sometimes can be difficult to control especially when the company is serving as a member on the standards setting committee which is considering adoption of this new standard.

III. Consent

A committee member's involvement in the standard setting process affects whether "authority" has been conferred on other companies to use the member's patented invention when the latter is necessarily infringed by compliance with the standard. The patent holder, *inter alia*, may: (a) be involved in the process of setting a standard involving its patent; (b) be notified by the organization that its invention is being considered; (c) be a member of the standard-setting organization but not involved in the process regarding the relevant standard; (d) be deliberately absent from the process; (f) be justifiably or unjustifiably unaware of the process.

The standards organizations' procedures also impact on this analysis. For example, although proposals for new standards are generally developed in and originate from committees or working groups, participation is normally not exclusive to members. Additionally, there may be windows of opportunity set aside for the standard to be revised or withdrawn if additional, not previously considered information is brought to the committee's attention. Such information may come to light during periods of public notification (just prior to final adoption of the standard), which may also promote further interest in the proposed standard.

The degree of involvement in the standard setting process by the member will inevitably have an affect on when and the extent to which a patent owner learns of the standards development process. The notice provisions and any provisions to permit publication of the proposed standard typically invite additional comments from interested parties. They also facilitate the interested parties in becoming involved as soon as possible. Most standard setting bodies encourage early disclosure of relevant patents, such information being elicited through public notifications, such as electronic billboards and mailings. Patent holders or interested parties are, however, normally not under a duty (from the standard setting body) to affirmatively review their patent portfolio for such disclosure.

The "degree of consent" by the patent owner affects the legal doctrines that apply. The courts have assessed a patent holder's "degree of consent" under the doctrines of "estoppel" and "laches." In Stambler v. Diebold, Inc.[17], the patent holder was a member of an ANSI committee that considered the proposed standard, but did not notify ANSI of its complete intellectual property portfolio. The court held that enforcement of a previously undisclosed patent was barred by estoppel and laches. The court also indicated that general industry knowledge may be enough to raise an estoppel issue: "[i]t was well known to [the patent owner] and throughout the industry that [the technologies] were being contemplated as national and international standards."[18] Similar results were reached in Potter Instrument Co., Inc. v. Storage Technology Corp.,[19] where the patent holder's representatives attended an ANSI subcommittee meeting designated to formulate the standard for the technology at issue at a time when the standard was being developed, but did not disclose ownership of any patents relating to the proposed standard.[20] The court held that Potter was estopped from enforcing its patent since Potter actively participated with the subcommittee in developing the standard and intentionally failed to bring its ownership of the asserted patent to the committee's attention.[21] Lastly, in Stryker Corp. v. Zimmer Inc.,[22] where the patent holder sat on his rights while the patented

invention became part of a developing, *de facto* industry standard, the court found estoppel by silence and laches.

IV. Dell

But what if there is no "knowing" consent by the patentee in the standard setting process? In 1995, the FTC issued a consent order (decision announced by FTC on November 2, 1995) against Dell Computer Corporation (Dell) finding Dell in violation of Section 5 of the Federal Trade Commission Act.[23] Specifically, the Federal Trade Commission settled charges with Dell that it restricted competition in the personal computer industry and undermined the standard-setting process by threatening to exercise undisclosed patent rights against computer companies adopting a "VL-bus" standard. Under the final order, Dell cannot enforce its patent rights against computer manufacturers using the VL-bus, a mechanism to transfer instructions between the computer's CPU and its peripherals, such as a hard disk drive or video display hardware.

During the standard-setting process, VESA [Video Electronics Standard Association] asked its members to certify whether they had any patents that conflicted with the proposed VL-bus standard. Dell certified through a Dell representative that it knew of no Dell intellectual property rights that the bus design would violate. VESA adopted the standard, based, in part, on Dell's certification. After the VESA VL-bus design standard became successful and computer manufacturers had sold more than 1.4 million personal computers incorporating the VL-bus, Dell contacted certain VESA members and asserted that one ot its patents (issued prior to the date of certification) was infringed by computers implementing the VL-bus standard.[24]

The Commission decided the case under the doctrine of estoppel, in which the patent-holders are precluded from enforcing patents when they fail properly to disclose the existence of those patents

when under a duty to do so. In this case, Dell was precluded from enforcing the patent only against those implementing the relevant standard.[25]

The Commission, responding to concerns that the decision set a precedent of imposing liability for an unknowing or inadvertent failure to disclose patent rights, stated that the enforcement action was limited to the facts of this case in which there was reason to believe that Dell's failure to disclose the patent was not inadvertent, and that the order should not be read to create a general rule that inadvertence in the standard-setting process provides a basis for enforcement action. [26]

While there was a consent order in the Dell case rather than a judgment after trial, the result is important in that it alerts the public as to new enforcement concerns. Consent orders, however, have much less value as a basis for predicting liability than do litigated decisions.

A traditional antitrust analysis of Dell's conduct would have centered on two questions: whether Dell intentionally misled VESA into adopting a VL-bus standard that was covered by Dell's patent and whether as a result of the adoption of such a standard, Dell obtained market power beyond that lawfully conferred by the patent. Had Dell obtained market power by knowingly or intentionally misleading a standards-setting organization, the consent order would have stirred little if any attention as a legal precedent setting case. The consent order, however, prohibits Dell from enforcing its patent without any allegation that Dell intentionally and knowingly misled VESA and without any allegation that Dell had obtained market power as a result of the misstatement at issue. Although Dell's voting representative to VESA indicated on the ballot that "to the best of my knowledge" the VL-bus standard did not infringe a patent right, the FTC made no allegation that he was aware either of the patent or of the potential infringement at the time the ballot was cast.

V. Guidelines For Participating In Standards Setting Committee[27]

In reducing the risks to a company and its patent(s) arising from participation on a standards setting committee, it would be helpful to keep in mind that:

1. whenever possible, the proposed standard should avoid incorporation of patented technology;

2. inasmuch as it is difficult to reach consensus on terms and conditions which are reasonable and nondiscriminatory, much less demonstrably free of any unfair discrimination, assurances should be sought from the patent holder that the same preapproved terms and conditions (and especially royalty rates) will be offered to all licensees. When this is not possible, the license offered by the patent holder should be free of provisions which result in different royalty rates between licensees. Licenses should be made available within a certain period of time after approval of the standard to avoid undue reliance on the standard by potential licensees;

3. during the standard's development period, and in any event, before final approval of the proposed standard, periodic internal reviews of a company's patent portfolio (including pending applications) should be conducted so as to best minimize the risks of only later learning of a patent (which is necessarily being infringed by the practice of the approved standard), and having such patent being rendered unenforceable due to the constructive knowledge of the entire portfolio being imputed to the company and its representatives at the time of the standard's approval; and

4. participation on standards setting committees should be open to all competitors to avoid the appearance of conspiracy to restrain trade or commerce by the committee members. Entry barriers for non-members applying for membership in standard setting organizations should be avoided.

VI. Conclusion

Participation on standards setting committees can expose committee members to charges of having violated antitrust laws as well as the loss of right to enforce patents within their portfolio which are used by the standard. These risks can be reduced by including all competitors who wish to take part in the standards setting process, by providing an open environmment in which all interested parties can obtain a license from the patent holder under the same reasonable and non-discriminatory terms and conditions and through each committee member having its company's patent portfolio reviewed to promote full disclosure of all pertinent patents to the standards setting committee prior to final adoption of the standard.

Endnotes

1.
See the American National Standards Institute's (ANSI) Patent Policy §I2, whichstates in part: "[p]rior to approval of such a proposed American National Standard, the Institute shall receive from the patent holder... either:

assurance in the form of a general disclaimer to the effect that the patentee does not hold and does not anticipate holding any invention whose use would be required for compliance with the proposed American National Standard or assurance that:

(1) A license will be made available without compensation to applicants desiring to utilize the license for the purpose of implementing the standard, or

(2) A license will be made available to applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination."

See also, for example, the National Electrical Manufacturers Association's (NEMA) Patent Policy §3.9.1, citing the same terms and conditions.

2.
For example, Section 1 of the Sherman Act, 15 U.S.C. §1 states; "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal."

Section 2 of the Sherman Act, 15 U.S.C. §2 states; "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony. ..."

3.
In fact, this liability can flow down to the individual agents such as the individual corporations which make up the committees. See American Society of Mechanical Engineers v. Hydrolevel Corp., 456 U.S. 556, 572 (1982) ("It is true that imposing liability on ASME's agents themselves will have some deterrent effect, because they will know if they violate the antitrust laws through their participation in ASME, they risk the consequences of personal civil liability."). Additionally, liability can be imposed on the responsible individuals of the corporation, even though they are acting on behalf of their respective member corporation. United States v. Wise, 370 U.S. 405 (1962), (holding that prosecution of corporate personnel under Section 1 of the Sherman Act was permissible); see also United States v. Maryland State Licensed Beverage Association, 138 F.Supp. 685, 688 (D. Md. 1956), *rev'd on other grounds* 240 F.2d 420 (4th Cir. 1957); see also Antitrust Laws and Trade Regulation, Bender & Co. (1996) §98.01 et. seq. ("A corporate director, officer or agent may be liable for acts under the federal antitrust statutes. This liability may be imposed even though the acts were done in a representative capacity")

4.
American Society of Mechanical Engineers v. Hydrolevel Corp., 456 U.S. at 574, f.n. 13 ("Although

the litigation ended with ASME as the only remaining defendant, it seems likely that, in general, a plaintiff will prefer to bring a corporate defendant [of the committee] before a jury rather than a nonprofit organization that understandably may appeal to a jury's sympathies and that may not provide so deep a pocket as a commercial enterprise.")

5.
Federal Trade Commission File No. 931-0097; Federal Trade Commission Docket No. C-3658

6.
15 U.S.C. §45(a)(1) declares unlawful unfair methods of competition and deceptive acts or practices in or affecting commerce. 15 U.S.C. §45(a)(2) empowers the Federal Trade Commission to prevent "persons, partnerships, or corporations" from using such methods, act or practices.

7.
See ANSI Standardization: "A Management Tool For Building Success". Additional information can be found at the ANSI website at www.ansi.org/broch1.html.

8.
A detailed discussion of domestic and international standardization organizations can be found in a report entitled *Licensing of Intellectual Property Right in the Course of Technical Standardization* by Masao Ohasi et al presented during the 23rd International Congress held in Okayama, Japan.

9.
ANSI itself does not develop standards, but approves them through its Board of Standards Review (BSR).

10. Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 501 (1988)

11.
A *per se* violation is one in which the standard set is merely a sham to effectuate an unlawful agreement among competitors with respect to price or output. However, a standard that is allegedly broader than necessary to achieve its purpose and thereby has an adverse effect on the market price and output of a product would probably be analyzed under the rule of reason. See, e.g., Allied Tube, 486 U.S. at 501.

12.
See Id. at 499. If, however, the recommended standards will be adopted first by private standards-making entities, and only later by government agencies, then antitrust immunity is more problematic and should not be relied upon without additional, careful analysis. Id.

13.
Allied Tube, 486 U.S. at 499 (citing Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc. 365 U.S. 127, 143 (1961))

14.
In American Society, the Court held that the petitioner, a nonprofit membership corporation with over 90,000 members from the mechanical engineering industry, was civilly liable under the antitrust laws for the antitrust violations of its agents committed with apparent authority. The respondent, Hydrolevel Corp., marketed a safety device for use in water boilers and secured a customer of a competitor who was part of the American Society of Mechanical Engineers (hereinafter "ASME"). The competitor's vice president who sat on the ASME subcommittee that drafted and interpreted the code guidelines covering the safety devices, together with other board members, issued a response advising that Hydrolevel's device was unsafe. The competitor's salesmen thereafter used the ASME's subcommittee response to discourage future customers from using Hydrolevel's device, thus "successfully [using the competitor's] position within ASME in an effort to thwart Hydrolevel's competitive challenge. Id. at 562.

15.
See endnote 1.

16.
Id.

17.
11 U.S.P.Q. 2d 1709 (E.D.N.Y. 1988). In Stambler, the court found that the plaintiff knew that the provisions being relied on for infringement were being contemplated as a national standard. Id. at 1715. The court found that although the plaintiff even left the committee, it did so without notifying it of the alleged infringement by the patent. Id. The court stated that the "[p]laintiff could not remain silent while an entire industry implemented the proposed standard and then when the proposed standards were adopted assert that [the plaintiff's] patent covered what manufacturers believed to be an open and available standard. Id.

18. 11 U.S.P.Q.2d at 1715

19.
207 U.S.P.Q. 763 (E.D. Va. 1980), *aff'd*, 641 F.2d 190 (4th Cir.), *cert. dism'd*, 453 U.S. 923 and *cert. denied*, 454 U.S. 832 (1981). In Potter, the plaintiff, Potter Instrument Company ("Potter"), brought suit charging several competitor companies with patent infringement, asserting that each of the defendants were infringing a patent by making, using and selling systems employing technology adopted as an industry-wide standard by ANSI. Id. at 764.

20.
Id. at 766

21.
Id. at 769; See also Wang Laboratories, Inc. v. Mitsubishi Electronics America, Inc., 29 U.S.P.Q. 2d 1481, 1496 (C.D. Cal. 1481) where the patent holder took "aggressive steps" to promote an industry standard which read on one of the patent holder's undisclosed patents. The court indicated in the preliminary stages of the litigation that such facts are persuasive evidence of unclean hands.

22.
17 U.S.P.Q. 2d 1945 (D.N.J. 1990). In Stryker, while there was no formal industry standard, but the patent holder did not enforce his patent for at least over four (4) years while the industry built up. This "intentionally misleading silence in combination with the declaratory judgment plaintiff's reliance, in combination with the growth of the many companies relying on the use and exploitation of the allegedly infringing technology, "amounted to bad faith" preventing any assertion of the patent against anyone in the industry. Id. at 1949.

23.
Federal Trade Commission File No. 931-0097; Federal Trade Commission Docket No. C-3658

24.
The Commission found evidence that the association would have implemented a different non-proprietary design had it been informed of the patent conflict during the certification process, and that Dell failed to act in good faith to identify and disclose patent conflicts.

The FTC charged that Dell's actions were unfair and that they unreasonably restrained competition in the following ways: 1) industry acceptance of the VESA VL-bus standard was hindered pending a resolution of the patent issue; 2) companies avoided using systems incorporating the VL-bus design because they were concerned that the patent issue would chill its acceptance as the industry standard; 3) uncertainty about acceptance of the design standard raised the cost of implementing the VL-bus design and the costs of developing competing bus designs; and 4) willingness to participate in industry standard-setting efforts has been chilled.

25.
In response to questions from third parties, the Commission stated that the relief granted should be limited to the facts of the case and was not intended to signal that there is a general duty to search for patents when a firm engages in a standard-setting process.

26.
However, the settlement makes it clear that members cannot commit to an open standard, and then, after it becomes successful, assert patent rights in an effort to block use of the design or drive up the price through royalty payments.

27.
The following guidelines are those of the authors and are not to be attributed to or have been approved by U.S. Philips Corporation.

(1) Title:

Intellectual Property Management on founding Subsidiaries

(2) Date:

September, 1997 (The 28th International Congress in Toronto)

(3) Source:

1) PIPA Japan
2) Comittee: #2

(4) Authors:

Igarashi Masatoshi, Lion Corporation
Ezoe Tomoyoshi, Chisso Corporation
Kawashima Hironari, Kobe Steel, Ltd.
Sato Kazuaki, Toyota Motor Corporation
Nagaishi Eisaku, Ricoh Co., Ltd.

(5) Keywords:

Parent Company Centralized Management: Subsidiary Centralized Management: Mixed Management: Parallel Import: Trademark License: Management of Trade Secret

(6) Abstract:

This paper is to examine the importance of the management and the strategy of intellectual properties in the course of business strategy, especially the intellectual property-related issues which should be noted when establishing a subsidiary in the course of the global strategy. Among all, the specific viewpoints are the merits and demerits of the Parent Company Centralized management and the Subsidiary Centralized Management with respect

to intellectual properties arising from subsidiaries and the related legal systems; patent guarantee in licensing intellectual properties and technology of the parent company to subsidiaries; parallel import-related issues; licensing of trademarks to subsidiaries; and management by subsidiaries of the trade secret. Though each issue has already been well discussed, this paper is characterized in that it examines each issue in terms of the management of intellectual properties on establishing subsidiaries.

(7) Contents:

1. Introduction

It has become more and more common, regardless of its business fields, to establish and run a subsidiary as a part of business strategy to achieve certain goal. On expanding business in such ways, one of the most important issues to be considered is how to manage the intellectual properties arising from established subsidiary and how to carry out its licensing strategy. It has close relationship with the business tactics and strategy of parent company, for which it must be proceeded under clear management in the current global trend of strengthening the protection of intellectual properties.

This paper is to study the management and the operation of intellectual properties in the course of the establishment of subsidiaries as part of business strategy of parent company,

considering intellectual property-related issues which may arise from the establishment of subsidiaries and to take a look at certain aspects of the ways to manage intellectual properties between the parent company and subsidiaries.

2. The Purpose of Establishing a Subsidiary and Managing Intellectual Properties

As the activities of businesses become more globalized, soft-weighted and the products are more specialized, companies are trying to adapt themselves to the changing economic environments, by means of dividing their unit and/or establishing a new company with aiming at improving its competitiveness and entering certain field with new technologies in order to assure the future of the group and reduce risks. While the operational form of the subsidiaries vary by the fields, purpose and the place of establishment, there are broadly two types; a 100% parent company-owned subsidiary and a joint venture with another company. It could be said in Japan that certain strategy for intellectual property-related issues might not be discussed so much at this stage so far, but establishment of strategy for intellectual properties should be carefully considered to attain the purpose of establishment of subsidiaries and to keep the balance with the business strategy of the parent company. There are following few points to be considered in establishing a manufacturing subsidiary or a subsidiary for a new business;

2.1 Establishment of a Manufacturing Subsidiary

A manufacturing subsidiary in Japan is established mainly as part of the business strategy to divide a unit as a self-attained company while a purpose of the establishment of a manufacturing subsidiary overseas is aimed to improve competitiveness of the parent company through cost reduction, to assure the status as a raw material supplyer by following the users' shift to overseas and to cope with the trade unbalance. To enter fast-growing Asian countries market has been done by Japanese, European and North American companies as a part of the important business strategy to grow and survive. A subsidiary which is established to be a

business unit of the parent company mainly produce certain products under the license of technology and intellectual properties from the parent company, for which the treatment of the improvement of the technology arising from the manufacturing process of the products is often provided in the license agreement. In such cases, it seems favorable in light of the purpose of the establishment that the parent company takes control over the intellectual properties. In the case of an overseas subsidiary, however, the local laws and rules relating to the treatment of inventions made in the subsidiary and the licensing of intellectual properties and technologies to the subsidiary need to be noted (There are plenty of references regarding the details of the laws and rules such as "Laws and Practices in Asian Countries Concerning Technology Transfers "(1995) by the 2nd Committee of PIPA). The business strategy involving establishment of subsidiaries should be made, at an early stage, under the consideration of the local laws relating to the intellectual properties and its actualities of the enforcement, by which the globalization and risk-hedge of the business will be pursued. In certain Asian countries, for instance, where there are such strict rules as restricting the share of the parent company in the subsidiary, some subsidiaries cannot be operated in the desirable ways that the parent company wishes and so in many cases they are operated as joint ventures with local major companies. In such cases where a subsidiary is run jointly with a third party, the ownership of the inventions and other matters arising from the joint venture and the treatment of intellectual properties thereto should clearly be prescribed in the agreement with the joint owners. It is also quite effective for the good management of the intellectual properties on establishing a subsidiary to consider the basic governmental policy of the country in allowing foreign capitals. In the case where a subsidiary is established in Japan, proper arrangement between the parent company and the subsidiary regarding the intellectual properties is needed such as to assign the intellectual properties to the parent company or to give license to the parent company with appropriate remuneration.

2.2 Establishment of a Subsidiary for a New Business

The operational form of a subsidiary for a new business and/or research and development may vary for the reason that it can be established with the competitor and/or venture businesses. In the light of the nature of the purpose, such subsidiaries often do not need to be controlled by the parent company, for which the management including that for intellectual properties may in many cases fully assigned to the subsidiaries. The basic issues to be considered relating to the strategy for the intellectual properties may not different from those described in 2.1. In the case of a joint venture subsidiary, such matters as the management of licensed technologies from the parent company, the ownership of the intellectual properties arising from the subsidiary and the use thereof need to be clearly prescribed in the agreement with the joint owners while decisions shall be made by the parent company regarding the control either by the subsidiary or the parent company based on the business strategy of the parent company in the case of a subsidiary wholly owned.

3. Management of Intellectual Properties of the Subsidiaries

3.1 Parent Company Centralized Management; Subsidiary Centralized Management; Mixed Management

As more manufacturing activities of Japanese companies become globalized and more intellectual properties are produced overseas in the 1990's, the management of intellectual properties of the subsidiaries started to be discussed and 3 forms of management are recognized as major categories of managing intellectual properties, that is parent company centralized management, subsidiary centralized management and mixed management.

3.1.1 Parent Company Centralized Management

This form of management is that the parent company wholly owns the intellectual properties arising from its subsidiaries and all the subsidiaries can use all the rights of the parent company. Each subsidiary can use the intellectual properties of the parent company as well as those of other subsidiaries by paying certain royalties. This form of management is said to be generally seen in the multinational companies of which origins are in Europe and

North America.
The merit lies in the following points;
(1) As a group
· Efficient management could be realized by centralizing whole management to the parent company because of which each subsidiary does not need to manage applications or maintenance of patents and others.
· It will be easier to form a comprehensive strategy for the group and such overlapping activities will be avoided as more than one subsidiary seek for rights for the same idea.
· A global application strategy will be easily available if the management is centralized to the parent company which generally has more intellectual property-related budget.
· The competitiveness relating to the intellectual properties will be improved by the centralized management.
(2) As a parent company
· Royalties being paid, the parent company can obtain another income source from its subsidiaries other than dividends.
(3) As a subsidiary
· By paying royalties, a subsidiary can use the intellectual properties of the parent company and other subsidiaries.
· As discussed later, a subsidiary may be able to use the intellectual properties of a third party under the license agreement concluded by the parent company.

On the other hand, there may be such demerits as reducing the motivation and incentives within the subsidiaries. In the case of an overseas subsidiary, this form of management may even evoke anti-Japanese sentiment.

As far as the parent company own the intellectual properties arising from the subsidiaries, the remuneration for the transfer from the subsidiaries to the parent company should meet the appropriate level. Such appropriate remuneration is necessary to avoid any trouble relating to the price of transfer especially in the case where an overseas subsidiary transfers the intellectual properties to the parent company in Japan.

The issue of royalties which will be paid to the parent company by the overseas subsidiary is another point to be noted when the parent company licenses intellectual properties to an overseas subsidiary. While such royalties are expected to be accounted as cost within the subsidiary, the local taxation system should well be noted, since the taxation office of some countries may regard them as dividend paid to the parent company if, for instance, the products made by the subsidiary are exported to a third country via the parent company,

3.1.2 Subsidiary Centralized Management

This form of management is that the subsidiary itself manages and maintains the intellectual properties arising therefrom. While there are such merits as devolving power on the subsidiary and maintaining the motivation and incentives therein, the integration of the group may be lost because of which some conditions are often included in the license agreement between the parent company and subsidiaries such as giving sublicense to the parent company and prohibiting subsidiaries to give license to a third party on its own decision.

As described above, this form of management makes it possible for the subsidiary to maintain the motivation and incentives. At the same time, intellectual property-related investment of the parent company to the subsidiary including the patent maintenance fees will be saved.

The demerits, on the other hand, are;

· The management as a group will be ineffective. Each subsidiary will need the section and budget for the management of intellectual property. In the case of Japanese companies which generally do not account much of the management of intellectual properties within the subsidiaries, the intellectual properties of the subsidiaries managed in this way to maintain the motivations may not be fully protected by the negligence of the parent company to organize appropriate section within the subsidiary.

· An integrated intellectual property-related strategy may not be formed as a group if there is not enough cooperation and exchange of information between the parent company and subsidiaries.

3.1.3 Mixed Management

This form of management is the mixture of the parent company centralized management and subsidiary centralized management in which the intellectual properties arising from the subsidiaries are owned partly by the subsidiary and partly by the parent company. Following criteria may be considered in determining which will own what types of intellectual properties;

(1) The intellectual properties arising from the R&D activities of which cost was born by the parent company or R&D activities consigned by the parent company shall be owned by the parent company while intellectual properties arising from the independent development of the subsidiary shall be owned by the subsidiary.

(2) In the case of an overseas subsidiary, patents and other rights obtained in the country of the subsidiary shall be owned by the subsidiary and corresponding rights obtained in the other countries shall be owned by the parent company.

3.2 The Relationship of the intellectual properties arising from the subsidiary and their management

3.2.1 The Laws Relating to the Management of Intellectual Properties by the Overseas Subsidiaries

Following items should be noted in relation to the laws of the country in which the subsidiary is located when managing the intellectual properties arising from the overseas subsidiary.

(1) The existence of laws relating to the export of technology from the country

(2) The existence of laws which restrict the transfer to other countries of inventions made in the country where the subsidiary is located.

(3) The existence of laws which require to file patent application firstly in the country where the subsidiary is located.

(4) The existence of laws relating to the employee's invention

(5) The existence of laws relating to the treatment of joint-ownership of patents in the country where the subsidiary is located.

While the detail of the laws of each country shall be referred to the various reports already published, this report attempts to consider the relationship between the each item and each form of intellectual property management which has been discussed above.

(1) Technology Export

In the case of the parent company centralized management, the technology information including the contents of intellectual properties shall be sent to the parent company with such aims of pre-application patentability search. Even in the subsidiary centralized management, the technology information may be sent to the parent company with such aims of pre-application patentability search because of such reasons as the lack of proper ability and search tools within the subsidiary. It is necessary to confirm that this type of movement of technology information does not bring about any inconsistence with the local laws. In Europe and North America, US, England and France give restrictions to such technology export and in recent years, some Asian countries such as the People's Republic of China (PRC), Singapore, India and Taiwan have same type of restriction. Thus it is necessary to check the laws of each country and form, if necessary, certain compliance program to comply with the local laws.

(2) Transfer of Inventions to Overseas

Laws regarding this issue shall have direct link with the parent company centralized management since the transfer to the parent company in Japan shall fall within the subject of the provision. In PRC, for instance, Article 10 of the Patent Act provides that the approval of the government (the Department of State) shall be required to transfer patents or patent applications to a foreigner.

(3) First application

If the intellectual properties are wholly managed by the subsidiaries, there will be no trouble since the first country of filing application shall generally be the one in which the subsidiary is located. In the case of the parent company centralized management, however, applications for intellectual properties cannot be filed firstly in the country where the parent company is located since some countries such as PRC and US make it obligation to file an application for an invention firstly in these countries where the invention was made.

(4) Employee's Invention

In any form of management, it goes without saying that the intellectual properties arising from the subsidiary must be

assigned in advance by the inventor to the employer, i.e., the local subsidiary. Irrespective of the existence of relevant provisions relating to employee's invention such as in Japan, explicit provisions to that effect must be included in the employment agreement which shall be concluded with employees.

(5) Jointly-owned Patent

This is regarding an invention made in the local subsidiary which relates to the joint ownership with a local third party. It should be checked if it is required for the subsidiary to obtain approval of the joint owner when assigning its part of ownership to the invention to the parent company, which process is necessary in the case of the parent company centralized management. In the case of subsidiary centralized management or mixed management, it will be necessary to check whether or not the approval of the joint owner is required when the subsidiary is obliged to grant license or sublicense to the parent company.

3.3 The relationship of Intellectual Properties Arising from the Subsidiary in Japan and the management thereof

As described above, there are various laws and other matters to be considered by each country in which an overseas subsidiary is established and ample research has been made thereto for which the management policy and practical system relating to intellectual properties in overseas subsidiaries seem to be relatively well shaped.

On the other hand, in the case of a subsidiary in Japan, it is not really necessary to consider such various relevant laws as in overseas. In addition, intellectual properties are not accounted much as in Europe and North America. For this reason, some companies might not fully discuss the treatment of intellectual properties before establishing a subsidiary.

There should be clear policy on how to manage the intellectual properties arising from the subsidiaries, even if they are established in Japan, and they have to link with the businesses of the parent company and the group strategy of the parent company. If the intellectual properties are to be managed and maintained independently by the subsidiary in Japan, the structure of the subsidiary and the support system of the parent company should be

considered at an early stage.

3.4 Points to be Noted in the License Agreement with a Third Party and Relationship with a Subsidiary

3.4.1 In the parent company centralized management, basically the parent company owns the intellectual properties arising from the subsidiaries. Accordingly, it is important for the subsidiary to understand and maintain the rights and obligations provided in the agreement which is concluded between the parent company and a third party in case the subsidiary is the party to the agreement.

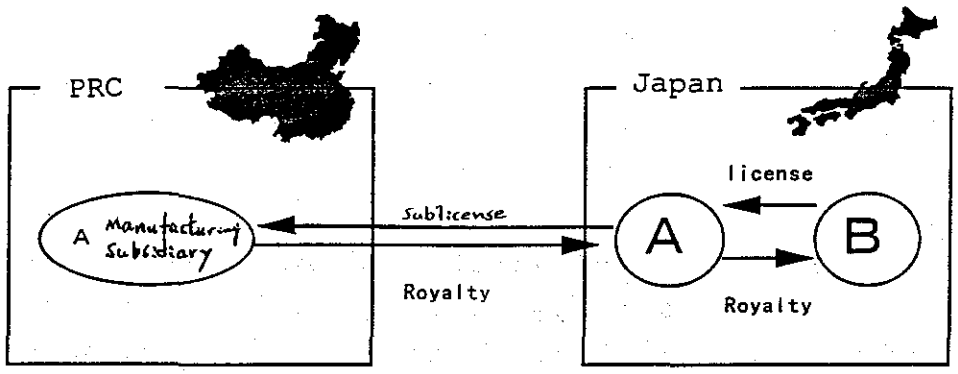
(1) Maintenance of the Agreement

The parent company is obliged to notify the subsidiary of the provisions of the agreement and make the subsidiary to observe them if the subsidiary is included as a party to the agreement. The parent company also has to manage the licensed rights by obliging the subsidiary to notify the parent company of such subsidiary's use of patents owned by the third party.

(2) Management of Royalties

The management of royalties becomes more complicated in case an overseas subsidiary is involved as a party to the license agreement, and the agreement with a third party involves the subsidiary as a licensee. Is it possible, for instance, for a subsidiary in PRC to remit royalties to the parent company in Japan regarding the products made under the royalty-bearing license agreement concluded between the parent company and a third party in Japan? In PRC, a technology introduction agreement which includes a license agreement shall take effect only after the approval of the governmental authority.

To remit money to overseas, the subsidiary has to give good reason for which the sublicense agreement needs to be concluded between the parent company and the subsidiary of PRC regarding the patent of the third party.



3.4.2 Subsidiary Centralized Management

In this type of management, the intellectual properties arising from the subsidiaries are in principle owned by the subsidiaries. For this reason, when the parent company concludes a license agreement involving subsidiaries with a third party, the parent company needs to pursue coordination with each subsidiary with regard to their intellectual property. It sometimes impede the smooth conclusion of agreements. Thus the parent company needs to consider following measures with taking into account of the intellectual properties belonging to the subsidiaries;

(1) Licensing Intellectual Properties of Subsidiaries to the Parent Company

· The parent company needs to obtain the right to grant licenses under intellectual property of the subsidiaries. The parent company can use the intellectual properties and can grant license to a third party by obtaining licenses thereto with grant-back rights and sublicense in exchange for its contribution to the subsidiary offering subject technologies, manufacturing facilities and human resources at the time of establishment. Such license agreement is essential especially when the subsidiary is established in the countries where there is a strict rule to restrict the share of the parent company within the subsidiary(which the parent company owns not more than 50 % of it) such as in India. The conditions of the license agreement involving sublicensing rights should be clearly provided between the parent company and subsidiaries such as (1)non-conditional sublicense, (2)sublicense which does not require the approval of the subsidiary regarding certain field or certain companies

specified by the subsidiary, (3)sublicense which requires the approval of the subsidiary and (4)sublicense which only requires the notification to the subsidiary in advance.

・When concluding a comprehensive cross license agreement involving the subsidiary with a third party, it is also possible to preserve the independence of the subsidiary in the management of intellectual properties by making their intellectual properties available as an option designated by the other party in the agreement and reserving the veto under certain conditions.

(2) Licensing Subsidiary Patents to a Third Party

A subsidiary may grant license under its own patents to a third party on its own will if its business field has no relationship with that of the parent company. It is often obligated, however, for the subsidiary of which business has a nature as one of the business units of the parent company such as a manufacturing company to notify in advance to the fact of licensing so as not to divert from the license policy of the parent company. It shall be noted that business strategies of the parent company could be affected by the sales of products overseas by third parties under the license of subsidiaries or import of such products to the country where the parent company is located, especially in case an overseas subsidiary grant license to third parties without taking into account of the policy of the parent company.

(3) Treatment of a Patent Jointly Owned by a Subsidiary and a Third Party

In Japan and other Asian countries excluding Indonesia, a patent cannot be licensed to a third party without the approval of the joint owner. On the contrary, all the countries including Japan allow a joint owner to file an infringement suit on its own decision which means that the parent company can be sued for the infringement of patent which is owned jointly by its subsidiary and a third party. To avoid such unexpected situation, it is necessary for the parent company to direct the subsidiary that subsidiaries shall apply for patents jointly with a third party on condition that subsidiaries can grant its license to their parent company.

4. Problems Arising from Technology Transfer and Others Between the Parent Company and the Subsidiaries

4.1 Patent Warranty

The Two Practical Categories of Patent Warranty

(A) Warranty that the patent does not infringe or included in any of third party's patents (Warranty of Non-Infringement)

This is the warranty which confirms that the technology or products transfered between the parent and subsidiary companies do not infringe other companies' patents or are not injuncted due to other companies' patents. It means that the company which gives such warranty shall guarantee that the technology or products shall not infringe the rights of any third party and a licensor bears comprehensive responsibility such as filing counterclaims or concluding license agreements against any enforcement of a third party's intellectual property.

(B) Warranty of Patentability

This is the warranty which confirms that the rights relating to the offering technology (such as patents) effectively exist and be enforceable for which, for instance, the company which gives such warranty shall prevent the launch of similar products and restrain the sales of them if they are put in the stream of commerce.

These operations are basically well discussed in the general commentary regarding license agreements and the situation in a license agreement concluded between the parent company and a subsidiary is not much different. We hereunder consider the relevant laws, problems and solutions regarding the license agreement concluded between the parent company and a subsidiary which is established in the Asian countries.

4.1.1. (A) The Practice for Non-Infringement Warranty

(1) Relevant Laws in the Asian Countries

a. PRC; Art.6 of Technology Transfer Agreement Control Ordinance; Arts 9 and 11 of Enforcement Regulation for the Control Ordinance-The person who grant the technology shall bear full responsibility to counter the suit filed by a third party.

b. Japan; It is lawful unless it is unfair.

c. Other Countries; In the Philippines, a licensor has a responsibility to guarantee that a licensor does not know the

existence of rights of a third party within his/her knowledge. It is prohibited that a licensor is indemnified from the suits arising out of the implementation of subject technology based on a license agreement. In the Republic of Korea, an agreement by which the licensor is unfairly indemnified from the responsibility to counter the enforcement of a third party shall not be approved by the government.

(2) Problems and Solutions

• In the case of an overseas subsidiary

It seems desirable that determination on whether or not a patent infringes any third party's rights be made by the overseas subsidiary. The subsidiary is generally more familiar with each local information on such as each problem in the Patent Law, language problem, nature of judges and trends of court proceedings. Enormous time for the exchange of information can be saved. Some products may need to be improved or modified in compliance with the local features. If all these matters are managed by the parent company, the prompt response which is the basic factor of a business activity will be dampened, because of which the management by the subsidiary is desirable.

The third party patentee, however, may file suits primarily in the country where the subsidiary does not have strong defending system and/or the patentee seems more protected. It is thus effective both for the parent company and the subsidiary that the parent company as the licensor takes part in the defensing activities against the enforcement by any third party. In this respect, the intellectual properties may be better managed by the parent company.

• In the case of a subsidiary in Japan

Whether or not the subsidiary's products infringe any third party's rights is often judged by the parent company due to the immaturity of fledging subsidiary. However, if the subsidiary is sued or worn by any third party, it needs to be carefully determined on which decides whether or not to appeal or settle it. Because the result of the suit will have a directly impact on the business of the subsidiary. Also when the subsidiary itself has a long history, the parent company may not be able to make proper decision since the subsidiary may have its own technology which is strange

to the parent company for which the parent company is no more regarded as a skilled person in the art. Thus the subsidiaries need to cultivate certain ability to make decision.

In the case of a manufacturing subsidiary, it is better that the parent company copes with any problems relating to third party's intellectual property because the specification of the products is generally instructed by the parent company. Also in the case of a research subsidiary, the parent company will do if it determines which research result be exploited in the business.

In the case of a subsidiary which is established for a new business or as an independent unit which was used to be a division in the parent company, the overhead expenses such as for intellectual property section of the subsidiary are born by the parent company to facilitate the early stage of its operation. The policy for improving the ability of the subsidiary to bear such cost shall be determined in accordance with the policy of the parent company in light of general merits and demerits described above (3. The Management of Intellectual Properties of Subsidiaries).

4.1.2 (B) Warranty Clause for Eliminating the Patent Infringement by the Third Party

In the case of an exclusive license agreement, licensor generally have an obligation to eliminate a patent infringement by third parties.

Whether or not subject right in offer is effective, i.e. the patentability and enforceability is most acknowledged by the parent company which obtain the rights. However, in the social circumstances where a subsidiary is established, it needs the local information from the subsidiary to determine which legal means (industrial property right law, unfair competition prevention law, law of civil procedure, administrative law or settlement) to be applied for the effective enforcement because of which the cooperation between the parent company and subsidiaries is essential.

(1) Related Legal System

Some countries require in an license agreement the person who grants technology to provide a provision to warrant that there is no defect

in the technology. In PRC, for instance, Article 6 of the Technology Transfer Agreement Control Ordinance requires the person who grants the technology to "guarantee that the offering technology is complete, defect-free, effective and satisfactory to attain the purpose defined in the agreement." A similar provision is seen in the Vietnamese law which requires to "guarantee the quality and reliability of the technology, retention of the secrecy and that the technology has no defect."

(2) Problems and Solutions

Sales of intellectual property infringing products by third parties do damage both to the parent company and subsidiaries. Since they share the interests, there is little obstacle to cooperate to seek solution. And in many countries except for PRC and Vietnam, the free conclusion of agreements is in principle recognized. Thus each company shall consider in light of the merits and demerits of each of the three management forms of the intellectual properties which have been described above.

In general, either of the parent company or the subsidiary has the prior right to determine whether or not to file suit and the one which does not have the prior right can determine it after the first one determined not to file suit. However, in some Asian countries where legal system quickly changes or countries which sometimes cause problems in enforcing laws despite the existence of proper legal system, it is more effective that the parent company and the subsidiary discuss in good faith on each case.

4.2 Parallel Import

Parallel importing is such trading activities where genuine products from different sources come into a single market in spite of the intentions of intellectual property owners, especially where products to which rights have already been exhausted outside the market are imported. It occurs when products made by a subsidiary are introduced to the market of the parent company or when the products made by more than one subsidiaries circulate in both ways in spite of the intention of the subsidiaries to divide market based on the intellectual properties. In this paper, following items shall be overlooked in terms of legal system and

consider the possible solution between the parent company and subsidiaries.

(1) Whether or not it is admitted in each countries that licensor cancel a contract for the reason of export of products bound for the place other than those provided in the contract.

(2) Whether or not there is certain law or rules regarding parallel imports in the country.

4.2.1 (A) Legal System of Each Country

(1) Possibility to Restrict by the Contract

· PRC: Contract which contains restriction to export shall not be authorized in principle while this restriction is available to the country where the exclusive licensee exists or where contractual representative office exists.

· The Republic of Korea: Prohibition of export shall not be authorized in principle while certain restriction is available to the country where subject patent is registered, where the licensor conducts its sales activities or where the exclusive licensee exists.

· The Philippines: Restriction to export shall not be authorized in principle while the restriction is available to the country where the exclusive licensee exists.

· Vietnam: Certain approval is required to export restriction except for the country where the licensor carries out the rights or the exclusive licensee exists.

· Thailand: Unidentified

· Indonesia: Restriction to implementation is available to the country where subject patent is registered and to the places where the licensor conducts its business activities.

(2) Legal Restrictions to Parallel Import

·PRC: No provisions regarding parallel imports

·The Pepublic of Korea: Unidentified regarding the technological industrial properties

(It permits parallel imports of brand products from November 1, 1995. The treatment of patented products is not specified.)

·The Philippines: Measures to the parallel imports are unidentified.

·Singapore: Parallel imports are wholly permitted.
·Vietnam: Measures to the parallel imports are unidentified.
·Thailand: While parallel imports without the consent of the trademark owner can be injuncted at the customs, effective enforcement has not been seen.
·Malaysia: The customs do not have the authority for injunction (It follows the decision of Ministry of Tradings and Industries.)
·Indonesia: Parallel imports are exempted from the implementation. Treatment after the import is unknown. While parallel imports relating to trademarks and copyrights can be injuncted on the motion of owner, there is no actual cases.
·India: There is no case in which Customs and Export Promotion Committee has treated parallel imports. The imports of counterfeit of limited luxurious products have been experienced.

4.2.2 (B) Problems and Solutions

It is permitted to restrict export in the agreement, that is to say, to the countries where subject patent is registered, the exclusive licensee exists or the licensor conducts its sales activities. The regional restriction provided in the agreement can be neutralized through the domestic buyers in the stream of commerce. A parent company which has strong control over the operation of its subsidiaries can restrict the sales of subsidiaries to certain buyers of which activities do not go with the intention of the parent company as far as relevant laws such as unfair competition prevention law allows.
The reasons for such parallel importing being conducted lie in the intention of discount stores which seek to utilize the functions of trademarks to indicate the origin and quality of products. In this context, the parent company needs to take restrictive measures to the subsidiaries to which it allows the use of housemarks.

It is a general issue relating to the licensing of intellectual properties rather than issues between the parent company and subsidiaries.

As an explanation to the fact that the restriction to export is exceptionally allowed in the case where the destination of

product is the countries where a patent relating to the patented products is registered by the licensor, a guideline made by the International Section of the Economic Division in the Bureau of the Fair Trading Committee provides that "in this case, restriction to exports bound for such places shall be allowable since the licensor can restrict importing of, in general, patented products based on the patent law of the country of destination." Under this description lies the recognition of the independence of patent rights and so it seems natural that a law-governed country does not allow exporting of products which may cause infringement in the country of destination.

On July 1 of this year came out the decision of the Japanese Supreme Court in the BBS case which relates to the parallel imports of patented products. In this case, BBS, a German manufacturer of automobile hubcaps sued a Japanese company which had been purchased BBS products in Germany and sold them in Japan claiming for injunction and damages based on its Japanese Patent which is corresponding Patent of German patent. The Court permitted parallel importing of patented products from Germany saying, "···there is no needs that a patentee should be awarded double rewards in the stream of commerce.···in considering the balance between the circulation of products in the international trades and the rights of a patent holder,···it is reasonable to understand that a patent holder is not allowed to enforce its patented rights to the products in Japan against the buyer except that it has agreement with the buyer to exclude this country from selling or using subject products,or against a third party who obtained the products resold by the buyer and others who obtained it afterward except that a patent holder has the said agreement with the buyer and has clearly indicated to that effect on the patented products···"

Basically, a patent holder and/or a licensee has rights to export and/or import subject products within the area in which they are allowed to carry out rights and in which their activities are not restricted by the agreement with a third party. An buyer is not restricted to sell or resell the products in the scope of the patentee's or licensee's rights. In this context the exhaustion doctrine in the international transactions is understandable. Yet

the exporting and importing of the products in the places where the rights of patentee or licensee do not cover (where their own implementation is restricted by the agreement with a third party) are clearly different issues.

In any case, other measures need to be considered since the entering of genuine products cannot be stopped at the Japanese Customs. One of the measures is, as indicated in the decision of the Supreme Court, to conclude agreements with the buyers not to export the products to the country in which equivalent patents are registered and indicated to that effect on the patented products. It is also effective to prevent exporting in the country of origin. In PRC, for instance, rules are revised on October 1, 1995 in accordance with the World Trade Agreement, under which injunctive motion against exporting of patent infringing products to the destination country can be filed after registration to the Customs of PRC. The Annex 1C Art.51 to the Agreement of the World Trade Organization(WTO) provides the motion to stop exporting unauthorized products including the products which constitute infringement of intellectual property and other rights. It is worth considering to what extent the member countries of WTO can implement this provision.

4.3 Problems in Licensing Trademarks to Subsidiaries

4.3.1 Licensing of a Trademark

A trademark in general has such functions as indicating the origin of products and services by which the products and services bearing the same trademark is regarded as produced or provided by the same manufacturer or provider and guaranteeing the quality of products and services by which the products and services bearing the same trademark is regarded as satisfying certain quality level. In this context, a trademark is a collateral for the credibility of the products and services and is regarded as an important guidance for the consumers to choose appropriate products or services.

On establishing a subsidiary, the parent company licenses not only patents and know-hows but also its trademarks (in many cases including housemarks) and the subsidiary will manufacture and sell the products with such trademarks. By using the trademarks

licensed from the parent company, a subsidiary can enjoy the good will, that is to say the consumer-attracting power of the marks because of which such licensing of trademarks is quite important in the business strategy especially of the manufacturing subsidiaries and subsidiaries which deal with the products similar to those of the parent company.

On the other hand, easy licensing may cause enormous damage not only to the subsidiaries which use the marks but also to the parent company which licensed it. To avoid such situation, we examine some issues relating to the licensing of trademarks.

4.3.2 Management of the Mode of Use

While most companies have rules for the mode of using their trademarks and manage them in accordance with these rules, it is critical to pursue the thorough application of these rules in the subsidiaries' use of trademarks licensed by the parent company.

Any inappropriate use of a trademark may cause dilution and generalization of the words or phrases. Even in the countries where there is not strict provision as in the US of which Lanham Act provides that a trademark which is generalized because of the negligence of the trademark owner is regarded as abandoned, the dilution and generalization of a trademark may weaken the distinguishability of the products and services bearing the trademark, extinguish the good will of the mark and greatly reduce the effectiveness of the trademarks.

Also the trademark laws of most countries require the registered mark to be properly used and non-use of a registered mark may cause the cancellation. There are more than some countries which require to submit the certification of use when filing renewal application. Thus it is necessary to manage good evidence of use in the case of the subsidiaries.

4.3.3 Quality Control

As one of the functions of a trademark is to guarantee certain quality level, consumers regard a trademark as an important guidance to their purchasing products by assuming the quality of products and services with the trademark. However, if a subsidiary sell products of poor quality the good will of the trademarks owned

by the parent company may be severely damaged and the image of not only the subsidiary but also the whole group including the parent company may be deteriorated.

To avoid such risk, the parent company must keep control over the quality of the products sold by its subsidiaries and the trademark licensing agreement should contain the provisions giving parent company rights to oversee the quality of the products.

While the quality of some products manufactured by the subsidiaries may be lower than those of the parent company due to using a different specification to meet the local market needs, the brand image created by the parent company may be deteriorated if the same trademark is indicated on such local products.

Such problem may be resolved by making a local brand for the local products which is different from the marks of the parent company while the determination to use the house mark or a local mark will be made by balancing the merits of the good will in the house marks and the risk of deteriorating the brand image of the parent company.

4.3.4 Product Liability

The issue of product liability should be considered before granting trademark license.

4.3.4.1 Legal Circumstances

The legislation of product liability law has become an international trend after issuance of "Directive of EC Council (EC Directive) on the Modernization of Laws, Rules and Administrative Rules of Member States regarding the Liability for the Defect Products" in 1985. In Europe, as many as 17 countries adopted legislation for product liability followed by Brazil, Russian Federation and Australia. In Asia, Japan enacted PL law in 1995, PRC in 1993 and the Philippines in 1992.

In US, the Strict Liability in the fields of defect products was provided in the Restatement of Torts (Restatement (second) vol. 2 §402A) according to which many state courts have handed down their decisions.

4.3.4.2 Trademark License and Product Liability

In the laws regarding the product liability such as those in

Japan, the subject person in charge is defined as the immediate manufacturer as well as the "person who indicate itself as the manufacturer (the indicated manufacturer)."

In many cases, the indication of a trademark is a collateral for the credibility of the products because of which it plays the role of a guide for the consumers to choose the products. In terms of protecting consumers, therefore, the person associated with the trademark that is to say the licensor of the trademark may well be pursued the no-fault liability as an indicated manufacturer.

In the US, §400 of the Restatement of Torts stipulates that a person who sold products with its trademark on shall bear the same liability with the manufacturer.

In fact, there are many cases in which the liability of a trademark licensor was disputed and many state courts have found the strict liability of the licensor by applying "stream of commerce theory" and "enterprise theory."

It is also highly possible that a parent company is pursued the product liability because, as described above, it often involves itself much on design and manufacturing as well as the quality control of products made by the subsidiaries so as to avoid dilution of trademarks and deterioration of good will in the course of granting trademark licenses.

In the countries which do not have laws stipulating the product liability, while a relevant incident may be treated as one of the unlawful act due to negligence, the parent company may be pursued its responsibility if the parent company is deeply committed to the manufacturing and sales of the subsidiaries for which prudent measures are needed.

4.3.5 Registering the License of Trademarks

Under the Korean trademark law, the registration of license agreement is obligated even if it is of non-exclusive nature and non-registration may lead the cancellation of subject trademark (§73.1.1 of Trademark Act) for which it must be noted when granting license of trademarks to a Korean subsidiary. Many other countries also have the system of registering trademark license, even if negligence of the registration may not be the reason for the cancellation as in Korea, and sometimes such registration

constitutes the requirement for the licensee to enforce the rights against a third party.

5. Management of Trade Secrets in the Subsidiaries

5.1 Management of Trade Secrets in the Subsidiaries

There seems not many issues to be specially noted regarding the management of trade secret of the parent company or of the subsidiaries in Japan since in Japan, Europe and North American countries, the management systems for preserving the trade secret have been well developed legally and within a company (such as submission of agreements to preserve the confidentiality at the time of employment and resigning) as well as the employees are aware of the importance. In the other Asian countries, the protecting system of trade secret is being developed as the governments become more and more aware of the importance of intellectual properties due to their recent economic growth by introducing foreign technologies and the advancement of the technologies. Trade secrets are protected under unfair competition prevention law in PRC and the Republic of Korea, civil law and criminal law in the Thailand and Indonesia and common law in ex-Great Britain countries such as Malaysia, Singapore and India. In spite of their legal system, however, the management system shall be operated more prudently in this region than in the European and North American countries since the general awareness toward the intangible assets such as intellectual properties remains still low. Any negligence of management may not only lead to lose the rights due to not satisfying certain legal requirements but also give severe damage to the interest of the parent company due to expansion of copy products made by unauthorized use of trade secrets. Of course it is possible to file suits claiming for injunctive relief and damages but it may take time and the effectiveness is not much expected, for which following measures are taken by companies to protect trade secrets as general preventive measures.

In Korea, in recent years, some companies oblige employees who have access to critical trade secret to sign on an agreement to keep the secrecy and to pay fixed amount of money if he/she

breaches the agreement and gives damages to the company.

While the burden of proof will be born by the company in the case of any trouble, such provision is said to give psychological pressure against the leakage of trade secrets and so has certain effect. The subject employees are often prohibited to work for another company of same business field for certain proper time period(6~12 months) which some courts approves the appropriateness in their decision.

In PRC, some court decisions in this field came out in recent years. There was a case in which the effectiveness of an agreement to preserve the confidential information was disputed. The agreement was concluded between the plaintiff company X and defendant Y(a former employee) at the time of Y's resign and contained a sentence that Y "will keep the confidentiality during the working time and shall not work for a company of the same business for 2 years." The peoples court in Tianjin found that "it is reasonable that a company to conclude agreements with its resigning employee to preserve the confidential information of the company." The court also said that "the restriction to Y's new employment for 2 years is not enough to say that the company deprived Y of the rights to work." This case is said to be a landmark of this field and will be helpful to the future business practice.

As to the practice in Taiwan and other Asian countries, while the effectiveness is unknown, basically the same type of measures seem to be needed.

The points described above are essential for a parent company to consider in establishing a subsidiary irrespective of the purpose. There is no difference if the local subsidiary is wholly owned by the parent company or a joint venture with another company. It is necessary to evoke the notice of local employees who have access to confidential information of the parent company against the leakage. The parent company may easily manage such situation if it wholly owns the subsidiary. In the case of a joint venture with a third party, it is necessary not only to conclude agreements with the employees but also to make the joint partner to bear the

obligation to preserve the confidential information to clarify the responsibility of the joint partner in the case of leakage.

5.2 Points to be Noted regarding the governmental rules in relation to the licensing of the technology of the parent company

The peculiar problems to licensing trade secrets lie in the treatment thereof after the expiration of the license agreement. While it is commonly allowed, as far as the secrecy is still preserved, to put the obligation to keep the confidentiality on the licensee even after the expiration of the agreement, PRC requires to submit the application thereto with reasons in advance with an application for approval of the license agreement to the relevant authority, otherwise the obligation to preserve confidentiality may cease to be effective at the time when the agreement is expired. It is also true of granting license to Chinese subsidiary and in the case of a joint venture, the information to be disclosed should be carefully chosen since rights to important trade secrets will be transferred to the JV on expiration of the agreement.

6. Conclusion

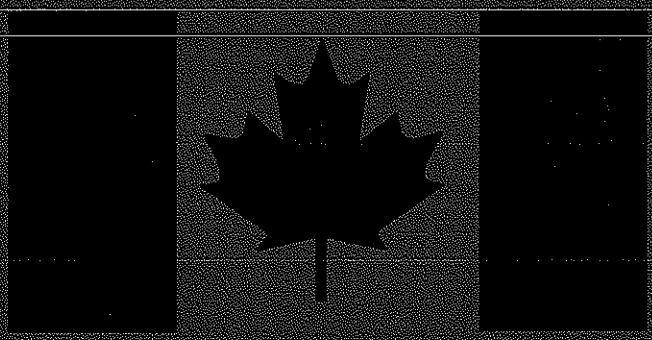
Intellectual property-related issues on establishing a subsidiary should be noted at an early stage of the establishment. We have examined some points to grasp the establishment of a subsidiary as a part of a business strategy with the viewpoint of management of intellectual properties. Though we cannot make a general conclusion since this field is quite complicated with the strategies of each company, we hope this paper be one of the aspects to be referred to in your managing intellectual properties.

Bibliography:

"Notes to the Treatment of Local Invention,"
vol. 45 No. 1 1995 Intellectual Property Management, International Committee
"Notes to the Inventions Made in the Asian Countries,"
vol. 46 No. 6 1996 Intellectual Property Management, the 1st Committee of the International Committee

"Treatment of Jointly owned Patents in Asias and Oeanic Countries," vol. 46 No. 9 1996 Intellectual Property Management, 1st Committee of the International Committee

COMMITTEE NO. 3



TORONTO CONGRESS
CANADA

(1) Title:

Comparison of Computer-Related Inventions in Japan, the United States and Europe

(2) Date:

September, 1997 (28th General Meeting in Toronto)

(3) Source:

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

(4) Authors:

Eiji Yamada,	IBM Japan, Ltd.
Yoshihiro Suzuki,	Denso Corporation
Koji Shimanuki,	Fuji Photo Film Co., Ltd.
Yutaka Nozawa,	Fujitsu, Ltd.
Yuji Toda,	Hitachi, Ltd.
Akira Seki,	Matsushita Electric Industrial Co., Ltd.
Tomonori Bekku,	Mitsubishi Motors Corporation
Yoshihiro Kimachi,	Nippon Telegraph and Telephone Corporation
Masamichi Yamamoto,	TEC Corporation
Takashi Umehara,	Toyoda Automatic Loom Works, Ltd.
Mikio Honda,	Toyota Motor Corporation

(5) Key words:

computer-related invention, computer software related invention, Examination Guidelines, computer-readable media, storage medium

(6) Statutory Provisions:

Japanese Patent Law Section 29(1), main paragraph
U.S. Patent Law Section 101

(7) Abstract:

This paper concerns the comparison of computer-related inventions in Japan, the United States, both of which have recently revised their Examination guidelines, and Europe. The trend, content and application strategy were analyzed with respect to the treatment of computer-related inventions in Japan, the United States and Europe.

The significant features of the revised Examination Guidelines of Japan and the United States are that practical application programs including mathematical algorithms are able to be patented more than before and that computer-readable media for storing programs or data structures have been recognized as patentable subject matter. It appears that both of these changes will become worldwide tendencies. However, specific applications or interpretations of the Examination Guidelines may differ in respective categories of apparatus (system), method and medium because the origins of the Japanese and U.S. Patent Laws differ significantly. A comparison between Japan and the United States has been made using details of examples of the Examination Guidelines and representative cases in the United States.

Further, an analysis has been made on application strategies from the view point of applicants with respect to the grasping of the essence of the invention in consideration of distribution modes of products, points of attention in forming claims in respective categories of apparatus (system), method and medium and ways of describing embodiments and drawings. Reference is made to future problems concerning ways of dealing with a network age, substantial establishment of an examination system and the spread of the Japanese and the United States Examination Guidelines to other countries, Europe and Asia.

(8) Analysis:

I. Computer-related invention trends in Japan, the United States and Europe

In recent years, the development of computer-related technology has been remarkable and the request for protection of computer-related inventions through patent rights has been increasing. In the United States and Japan the Examination Guidelines have been revised and as a result computer-related inventions (particularly, computer software related inventions) are now protected more broadly than before.

We made an analysis on the trend of computer-related inventions from 1990 to 1996 in Japan, the United States and Europe using data bases. The content of this analysis follows.

A. Japan

A search was conducted on a number of laid-open applications. The search terms used were: "computer", "calculating machine", "processor", "information processing", "work station" and "personal computer". The result of the search is shown in Figure 1.

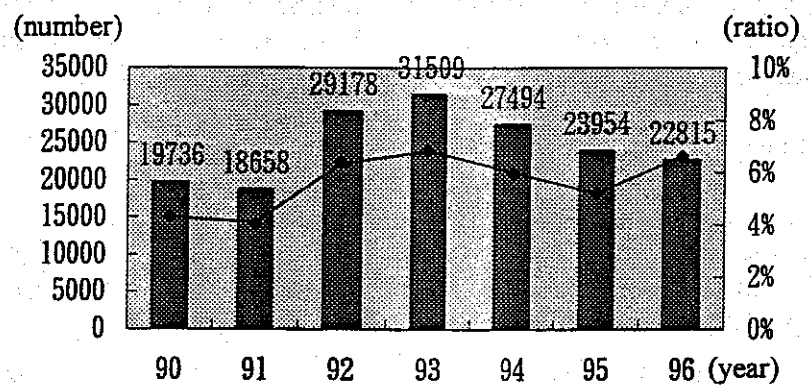


Figure 1

The number of laid-open applications of computer-related inventions in Japan has decreased after a peak in 1993. This seems to be due to the decrease in the total number of applications filed, caused by reevaluation of the number of patent applications filed by applicants.

However, the ratio of the number of laid-open applications of computer-related inventions to the total number of laid-open applications, which decreased after a peak in 1993, began to increase again in 1996. Both the number of laid-open applications of computer-related inventions and the ratio of computer-related invention applications to total applications are anticipated to increase due to the revision of the Implementing Guidelines in 1997.

B. United States

A search was conducted on issued patents. The search terms used were: "computer",

"processor", "PC", "WS", "CPU", "personal computer" and "work station". The field of the search was abstracts of the disclosure. The result of the search is shown in Figure 2.

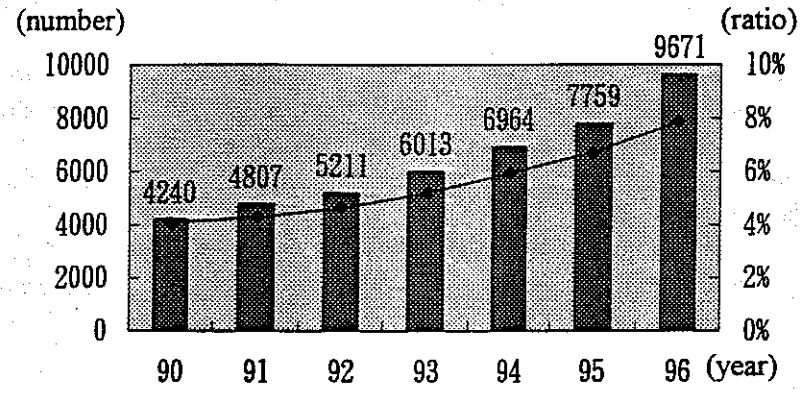


Figure 2

The number of issued patents of computer-related inventions in the United States has been increasing each year. Also, the ratio of the number of issued patents of computer-related inventions to the total number of issued patents has been increasing each year. Particularly, the increases in 1996 are significant reflecting the application of the new Examination Guidelines from March, 1996. We anticipate considerable increases to continue in 1997 and thereafter.

C. Europe

A search was conducted on a number of EPC laid-open applications. The search terms used were: "computer", "calculate", "micro processor", "information process", "work station" and "word process". The field of search used was the abstracts of publicized applications. The search result is shown in Figure 3.

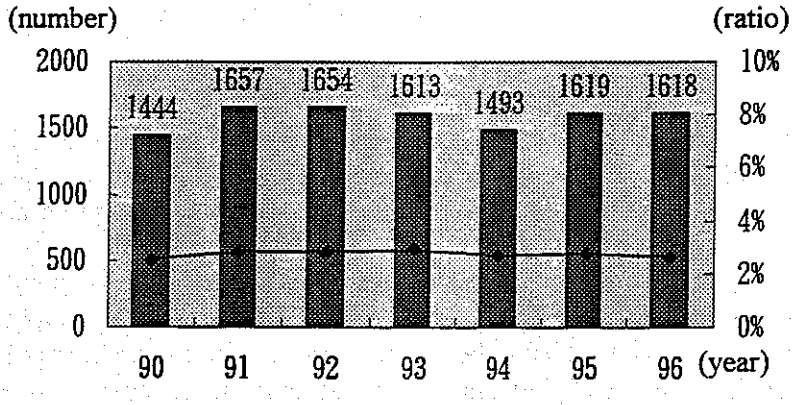


Figure 3

The number of laid-open applications of computer-related inventions in Europe (EPC) has remained substantially constant all through the period of years and the ratio of the number of laid-open applications of computer-related inventions to the total number of laid-open applications also

has remained substantially constant. No particularly significant changes have been observed with respect to the number of laid-open applications of computer-related inventions in Europe.

II. Examination Guidelines for computer-related inventions in Japan, the United States and Europe

The United States Patent & Trademark Office ("USPTO") started to apply its new examination guidelines for computer-related inventions in March of 1996. The conventional two-part test (*Freeman-Walter-Abele* test) was not applied directly. The presence or absence of mathematical algorithms was removed from the reference of examination and computer-readable media for storing programs or data structures were recognized as patentable subject matter.

The Japanese Patent Office also revised its examination guidelines (referred to as "Implementing Guidelines") for computer software related inventions starting in April of 1997. Interpretation of "utilizing natural laws" was enlarged and computer-readable storage medium having programs or structured data were recognized as patentable subject matter, similar to the United States.

In contrast to the changes in Japan and the United States, no movement toward changing the conventional Examination Guidelines have been observed in the European Patent Office "EPO".

A. Japanese Implementing Guidelines

In Japan, the interpretation of "invention" in "Industrially Applicable Inventions" stipulated in Patent Law Section 29(1), main paragraph, was revised. Although "invention" is defined in Patent Law Section 2(1) as "invention shall be a creation of technical ideas utilizing natural laws", the most significant point of the revision resides in enlargement of the interpretation of "utilizing natural laws".

As shown by Figure 4, firstly, a claimed invention is identified and whether the claimed invention falls under any of the "non-statutory inventions" listed in the Implementing Guidelines for "Industrially Applicable Inventions", is determined. If the claimed invention does not fall under any of them, the claimed invention is determined as an "invention". A problem to be solved by the claimed invention and its solution are identified. When the solution utilizes natural laws, then the claimed invention should fall under "utilizing natural laws". Even if the solution utilizes natural laws, when it is no more than the "mere processing of information by using a computer", "mere recording of a program or data on a storage medium", or "mere processing of information by using a computer and mere recording of a program or data on a storage medium", the claimed invention is deemed as non-statutory.

When the solution fits into one of the three following categories it is considered to utilize natural laws.

(i) control for hardware resources, or processing with respect to the control
(ii) information processing based on the physical or technological properties of an object
(iii) information processing in which hardware resources are used

Further, in correspondence with the United States, "computer-readable storage medium having a program recorded thereon" or "computer-readable medium having data having structured data recorded thereon" became capable of being specified in a "product invention" and the description requirement of the specification was revised.

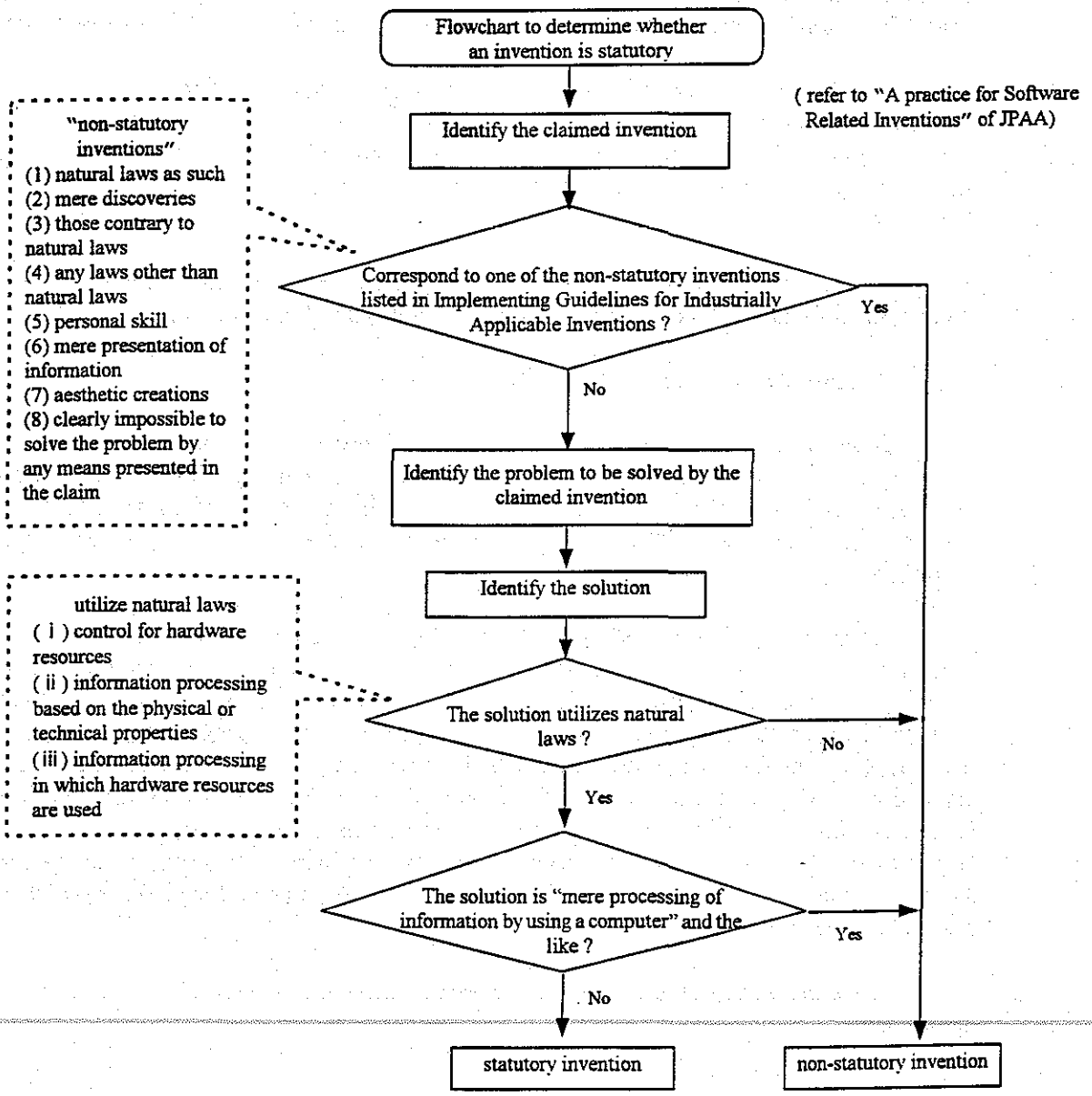


Figure 4

B. United States Examination Guidelines

The Examination Guidelines for computer-related inventions were revised in view of the spirit of Patent Law Section 101 stipulating "statutory subject matter" in consideration of recent cases (*In re Lowry, In re Beuregard, In re Warmerdam* and the like) of computer-related inventions.

The most significant revisions are (1) "whether or not a claim includes a mathematical algorithm" no longer constitutes the reference of examination and (2) the patent protection of computer-readable media for storing programs or data structures was approved.

For the purpose of examination, the descriptive material of computer programs or data structures is classified into functional descriptive material and non-functional descriptive material and a guideline that the functional descriptive material is statutory if it defines structural and functional interrelationship with a computer-readable medium was created.

Other than a post-computer process activity which has been conventionally statutory under "Examination Guideline for Computer-Related Invention" of the USPTO, IV-B-2(b)(i) as Safe Harbors, forming computer data by transforming measurements of physical objects or activities outside of the computer as a pre post-computer process activity and a requisite of causing physical transformation of the signals by the process are prescribed to constitute statutory process claims. "Statutory subject matter" under the new Examination Guidelines is determined by following the steps shown by Figure 5.

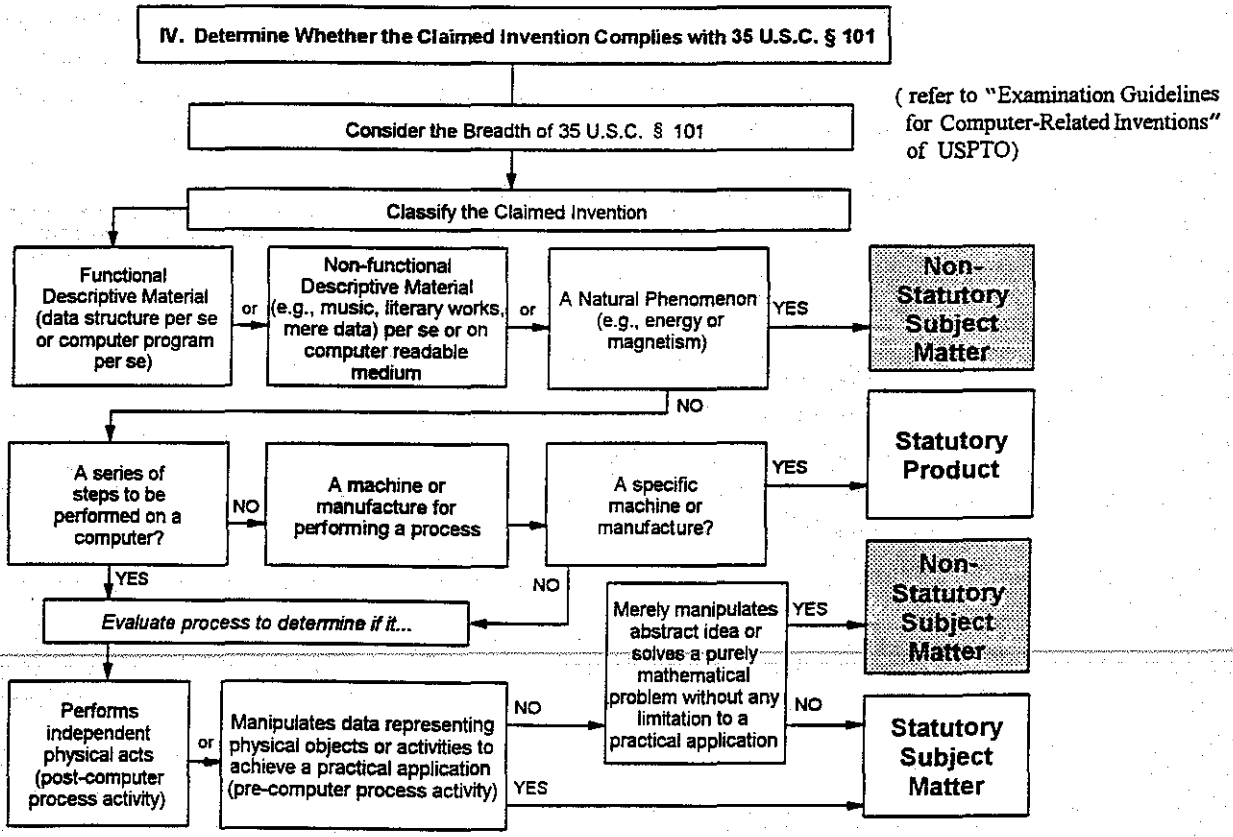


Figure 5

C. EPO Examination Guidelines

No movement of revision in correspondence with the revisions of the Examination Guidelines in Japan and the United States has been observed in the EPO. The determination on whether the subject matter of the claimed invention is protectable under the European Patent Law, resides in whether the "technical contribution" is achieved in claim as a whole, which is referred to as contribution approach. The specific provisions are as follows:

(a) European patents shall be granted for any inventions which are susceptible of industrial application, which are new and which involve an inventive step. Further, invention must have a technical feature (Art. 52(1)).

(b) Subjects which are not regarded as inventions, are "discoveries", "scientific theories", "mathematical methods", "aesthetic creations", "schemes, rules and methods for performing mental acts, playing games or doing business", "programs for computers" and "presentations of information" are pointed out (Art. 52(2)).

(c) Determination of whether invention is constituted, is dependent on whether a technical effect surpassing a conventional technology is present in consideration of a claimed subject matter as a whole. That is, when a computer program is claimed in a style of a tape or record on a disk, the effect in respect of a conventional technology is no more than a computer program per se and program is not regarded as invention. However, when a computer program operates a computer by a method different from a conventional method in view of a technical point by a combination thereof with the computer, the method can be regarded as invention and may be patented. However, the program per se and the storage medium recorded computer program are not allowed as a patent.

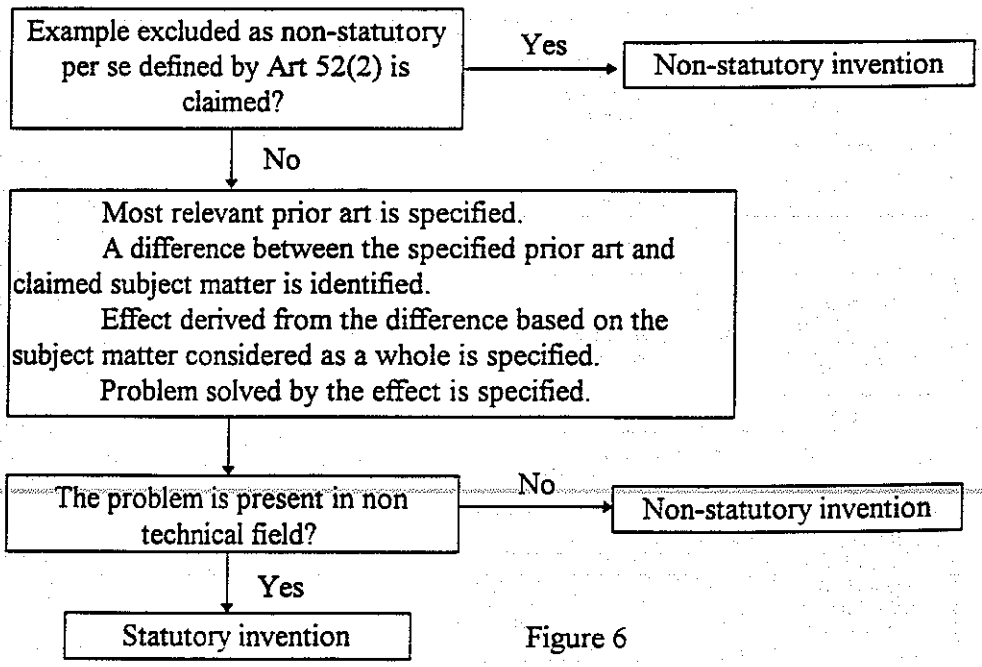


Figure 6

III. Comparison of the Japanese and United States Examination Guidelines for computer-related inventions

Section II above, reviewed the Examination Guidelines for computer-related inventions in Japan, the United States and Europe. Section II detailed that the recent revisions in Japan and the United States were similar in the following two points:

(a) Inventions concerning practical application programs including mathematical algorithms or the like are more likely to be considered patentable subject matter.

(b) Computer-readable media for storing programs or data structures have been approved as patentable subject matter.

However, the Examination Guidelines in Japan and the United States may differ from each other at the level of specific application and interpretation because the origins of the Patent Laws in Japan and the United States are different. This section will compare the two countries Examination Guidelines.

A. Comparison using examples and cases.

We, PIPA Japan group, 3rd Committee have made a study on whether examples introduced in the new Examination Guidelines in Japan and the United States, and recent cases in the United States, can be approved as "statutory claims" in view of the new Examination Guidelines in both countries.

The result of the study is shown in Table 1. It seems that determinations on shaded examples and cases in Table 1 may differ between Japan and the United States. Survey sheets for investigation are attached.

Table 1

(○ : statutory, △ : may be statutory, × : non-statutory)

Examples and Cases		Japanese Implementing Guidelines		United States Examination Guidelines	
Japanese Example 1	(claim 1) An apparatus for controlling rate of fuel injection for an automobile engine by a programmed computer, ...	○	control for hardware resources	○	a specific machine
	(claim 2) A method for controlling rate of fuel injection for an automobile engine by a programmed computer, ...	○	control for hardware resources	○	post-computer process activity
	(claim 3) A storage medium containing thereon a computer program for controlling rate of fuel injection for an automobile engine, ...	○	control for hardware resources	○	a specific manufacture

Examples and Cases		Japanese Implementing Guidelines		United States Examination Guidelines	
Japanese Example 2	(claim 1) An image processing method by computer ...	○	information processing based on the physical properties	○	pre-computer process activity
	(claim 2) A computer-readable storage medium having a computer-program recorded thereon, ...	○	information processing based on the physical properties	○	a specific manufacture
Japanese Example 3	(claim 1) An apparatus for calculating the sum of natural numbers from "n" to "n+k" by using a computer, *(comprising: means for inputting ..., arithmetic means ...,and means for outputting .... .)*	×	how hardware resources is utilized (mere processing of information by using a computer)	×	merely solves a purely mathematical program without any limitation to a practical application
	(claim 2) An apparatus for calculating the sum of natural numbers from "n" to "n+k" by using a computer, *(comprising: means for inputting ..., "n" storage means ..., "n+k" storage means ..., means for calculating "k" ..., "k" storage means ..., arithmetic means ..., and means for outputting .... .)*	○	information processing in which hardware resources are used	△	a specific machine (how computer elements are configured in either hardware or a combination of hardware and specific software)
Japanese Example 4	(claim 1) A process for calculating the sum "s" of natural numbers from "n" to "n+k" by using a computer with s = (k+1)(2n+k) / 2.	×	how hardware resources are utilized (mere processing of information by using a computer)	×	merely solves a purely mathematical program without any limitation to a practical application
Japanese Example 5	(claim 1) An apparatus for predicting daily sales of various commodities ...	○	information processing in which hardware resources are used	○	a specific machine
Japanese Example 6	(claim 1) A computer-readable storage medium containing student performance management data recorded thereon, said student performance management data consists of; student code data, student name data, data for subjects studied by students, and student's performance data.	×	mere presentation of information	×	non-functional descriptive material

Examples and Cases		Japanese Implementing Guidelines		United States Examination Guidelines	
Japanese Example 6	(claim 2) A computer-readable storage medium containing student performance management data recorded thereon; *(where: said student performance management data being stored in a student file and a performance file ..., said student file has a subject data area that records each subject studied by the student, keyed to a specific pointer, said performance file has a performance data area ..., and said specific pointer indicates the leading address in the area where student performance data for the corresponding subjects studied are sorted and recorded.)*	○	information processing in which hardware resources are used	○	a specific manufacture
Japanese Example 7	(claim 1) A computerized card game machine, comprising: means for assigning specific points of a score to a set of cards dealt, according to the complexity of the hand involved.	×	how hardware resources are utilized (mere processing of information by using a computer)	×	merely manipulates abstract idea without any limitation to a practical application
	(claim 2) A computerized card game machine, *(comprising: means for memorizing a data table for a scoring hand ..., and a score data table ..., and, means for assigning corresponding scoring hand data by retrieving said scoring hand data table ..., assigning corresponding score data by retrieving the score data table ..., and outputting all of the scoring hand data and total points scored.)*	○	information processing in which hardware resources are used	○	a specific machine
United States Example 1	(claim 1) A computer system for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising: a. means for receiving a data signal, b. means for processing the data signal into variable length codewords, and c. means for outputting the processed data signal.)*	○	control for hardware resources (information processing based on the physical properties)	○	limitation to a practical application
United States Example 2	(claim 2) A computer system for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising: a. means for decrypting ..., b. means for decompressing ..., and c. means for controlling .... .)*	○	control for hardware resources (information processing based on the physical properties)	○	post-computer process activity

	Examples and Cases		Japanese Implementing Guidelines		United States Examination Guidelines
United States Example 3	(claim 3) A computer system for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising:* *a. means for compressing ..., and* *b. an application specific integrated circuit ...)*	○	information processing in which hardware resources are used (information processing based on the physical properties)	○	a specific machine
United States Example 4	(claim 4) A method for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising the steps of:* *a. generating a data signal ...,* *b. compressing the data signal ..., and* *c. encrypting the compressed data signal ....)*	○	control for hardware resources (information processing based on the physical properties)	○	pre-computer process activity
United States Example 5	(claim 5) A computer system apparatus for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising:* *a. a first data portion ....* *b. a second data portion ....* *c. a third data portion .... and* *d. a fourth data portion. ...)*	△	control for hardware resources (information processing based on the physical properties)	×	non-functional descriptive material
United States Example 6	(claim 6) A computer program for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising:* *a. means for compressing ..., and* *b .means for encrypting ....)*	×	category of an invention is unclear	×	functional descriptive material
United States Example 7	(claim 7) A computer program embodied on computer-readable medium for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising:* *a, a compression source code segment ..., and* *b. an encryption source code segment ....)*	○	information processing in which hardware resources are used (information processing based on the physical properties)	○	a specific manufacture
United States Example 8	(claim 8) A method for controlling and controlling an automated manufacturing plant using a telemetered processed data signal *(comprising the steps of:* *a. receiving a data signal,* *b. processing the data signal into variable length codewords, and* *c. outputting the processed data signal.)*	○	control for hardware resources (information processing based on the physical properties)	×	merely solves a purely mathematical program without any limitation to a practical application

	Examples and Cases		Japanese Implementing Guidelines		United States Examination Guidelines
United States Case 1	***In re Lowry*** (claim 1) A memory for storing data for access by an application program being executed a data processing system, *(comprising:* *a data structure stored in said memory, ... and including:* *a plurality of attribute data objects ...,* *a signal holder attribute data objects ...,* *a referent attribute data objects ...,* *an apex data objects ....)*	△	information processing in which hardware resources are used	○	a specific manufacture
United States Case 2	***In re Warmerdam*** (claim 1) A method for generating a data structure represents the shape of physical objects in a position and/or motion control machine as hierarchy of bubbles, *(comprising the steps of:* *first locating the medial axis of the object and then creating a hierarchy of bubbles on the medial axis.)*	△	control for hardware resources	×	merely manipulates abstract idea or solves a purely mathematical problem without any limitation to a practical application
United States Case 3	***In re Trovato*** (claim 1) A method for determining motion of an object *(comprising the steps of:* *a) storing a configuration space data structure ..., and* *b) propagating cost waves, ...)*	×	how hardware resources are utilized	×	merely manipulates abstract idea or solves a purely mathematical problem without any limitation to a practical application
	(claim 33) Apparatus for planning a least cost path *(comprising:* *a) means for storing ...,* *b) means for assigning ...,* *c) means for starting ..., and* *d) means for identifying ....)*	○	information processing in which hardware resources are used	○	limitation to a practical application

Japanese Example 3	An apparatus for calculating the sum of natural numbers from "n" to "n+k" by using a computer	
claim	(claim 2) An apparatus for calculating the sum of natural numbers from "n" to "n+k" by using a computer, comprising: means for inputting natural numbers "n" and "n+k"; "n" storage means for storing input "n"; "n+k" storage means for storing input "n+k"; means for calculating "k" by reading "n" from "n" storage means and "n+k" from "n+k storage means respectively; "k" storage means for storing said "k"; arithmetic means for calculating the sum "s" of natural numbers from "n" to "n+k" with s=(k+1)(2n+k)/2, where "n" and "k" being stored in "n" storage means and "k" storage means respectively; and means for outputting the calculated result.	
	Japan	United States
comments	1. The claim is a statutory claim. 2. Reason The solution to the problem falls under "information processing in which hardware resources are used", which is considered to utilize natural laws. Since some matters defining the invention in claim 2, such as "means for calculating "k" by reading "n" from "n" storage means and "n+k" from "n+k storage means respectively; "k" storage means for storing said "k"; arithmetic means for calculating the sum "s" of natural numbers from "n" to "n+k" with s=(k+1)(2n+k)/2, where "n" and "k" being stored in "n" storage means and "k" storage means respectively", suggest directly how the hardware resources of the computer are utilized in the processing, the solution to the problem utilizing natural laws is something more than "mere processing of information by using a computer". It follows, therefore, the invention regarding claim 2 is considered as constituting a "statutory invention".	1. The claim may be a statutory claim. 2. Reason The point of determination is to which of "Claims that Encompass Any Machine or Manufacture Embodiment of a Process" (Examination Guideline IV-B-2(a)(i)) or "Product Claims -- Claims Directed to Specific Machine and Manufacture" (IV-B-2(a)(ii)), the claim is classified. IV-B-2(a)(ii) teaches that a claim defines the physical structure of machine or manufacture in terms of its hardware or hardware and "specific software", and a claim drawn to a particular programmed computer should identify the elements of the computer and indicate how those elements are configured in either hardware or a combination of hardware and specific software. In claim 2, means for calculating "k", "k" storage means, and arithmetic means, may identify computer elements and may correspond to a configuration in either hardware or a combination of hardware and specific software. If IV-B-2(a)(ii) is not cleared, the Examination Guideline IV-B-2(C) "Non-Statutory Process Claims" or IV-B-2(d) "Certain Claim Language Related to Mathematical Operation Steps of a Process" may be applied and the claim may not constitute a statutory invention highly probably.

United States Example 5	AUTOMATED MANUFACTURING PLANT	
claim	(claim 5) A computer system apparatus for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal comprising: a. a first data portion embodying the compressed and encrypted operating parameters of the automated manufacturing plant; b. a second data portion embodying the compressed and encrypted physical outputs of the plant; c. a third data portion embodying a first encryption key for the encrypted operating parameters embodied on the first data portion; and d. a fourth data portion embodying a second encryption key for the encrypted physical outputs embodied on the second data portion.	
	Japan	United States
comments	1. The claim may be a statutory claim. 2. Reason In claim 5, the preamble identifies "a computer system apparatus for monitoring and controlling an automated manufacturing plant". Also, the body of the claim shows data structures for compressing / encrypting of operating parameters and physical outputs. These data structures are used in order to control the processing of the automated manufacturing plant as hardware resources. As the processing controls the hardware resources and also that based on the physical or technical properties of an object, the solution utilizes natural laws. However, there may be the possibility that the claim would be rejected under Section 36 since a description of the claim is not clear.	1. The claim is not a statutory claim. 2. Reason According to Examination Guideline IV-B-1(a)(b), as either a machine, an article of manufacture, or an arrangement of data, the claimed invention recites non-functional descriptive material, *i.e.*, mere data. Non-functional descriptive material does not impart functionality to either the data as claimed or the computer system. Therefore, claim 5 should be rejected under Section 101. Also, the claimed invention is unclear as to whether it claims a machine, an article of manufacture, or an arrangement of data. In particular, it is whether: (1) the preamble and the body of the claim defines an arrangement of data, a machine, or an article of manufacture, or an arrangement of data, (2) how the phrase "data portion" in the body of the claim relates to the preamble. Claim 5 should be rejected under Section 112, 2nd paragraph for failure to distinctly point out and claim the invention.

United States Example 8	AUTOMATED MANUFACTURING PLANT	
claim	(claim 8) A method for monitoring and controlling an automated manufacturing plant using a telemetered processed data signal comprising the steps of; a. receiving the data signal; b. processing the data signal into variable length codeword; and c. outputting the processed data signal.	
	Japan	United States
comments	1. The claim is a statutory claim. 2. Reason In claim 8, the preamble identifies "a method for monitoring and controlling an automated manufacturing plant". Also, the body of the claim shows processes for outputting received data signal by converting it into variable length codeword (that is, compressed). As the processes control the hardware resources and also are based on the physical or technical properties of an object, the solution utilizes natural laws. Additionally, in Japan, there is no such practice in which the determination of patentability differs between the above-described claim and an apparatus invention (claim 1) that is substantially the same. However, there may be the possibility that the claim would be rejected under Section 36 since a description of the claim is not clear.	1. The claim is not a statutory claim. 2. Reason The process does not require any pre-process activity. Step a. merely provides the data signal for use in the mathematical operation of step b. It does not measure physical objects or activities. Step c. merely conveys the direct result of steps a. and b. Step b. corresponds to the calculation of variable length codewords from a series of equations. Thus, step b. recites a mathematical operation. Therefore, the claimed invention merely converts one set of numbers into another set of numbers. Also, the preamble language is a statement of intended use that does not limit the claim to practical application of monitoring and controlling an automated manufacturing plant.

United States Case 1	*In re Lowry*: (DATA PROCESSING SYSTEM HAVING A DATA STRUCTURE WITH A SIMPLE PRIMITIVE)	
claim	(claim 1) A memory for storing data for access by an application program being executed on a data processing system, comprising: a data structure stored in said memory, said data structure including information resident in a database used by said application program and including: a plurality of attribute data objects stored in said memory, each of said attribute data objects containing different information from said database; a single holder attribute data object for each of said attribute data objects, each of said holder attribute data objects being one of said plurality of attribute data objects, a being-held relationship existing between each attribute data object and its holder attribute data objects, and each of said attribute data objects having a being-held relationship with only a single other attribute data object, thereby establishing a hierarchy of said plurality of attribute data objects; a referent attribute data object for at least one of said attribute data objects, said referent attribute data object being nonhierarchically related to a holder attribute data object for the same at least one of said attribute data objects and also being one of said plurality of attribute data objects, attribute data objects for which there exist only holder attribute data objects being called element data objects, and attribute data objects, for which there also exist referent attribute data objects being called relation data objects; and an apex data objects stored in said memory and having no being-held relationship with any of said attribute data objects having a being-held relationship with said apex data object.	
	Japan	United States
comments	1. The claim may be a statutory claim. 2. Reason The claimed invention is a storage medium (memory) specifying a data structure. It is a clear relationship between the data structure, and the application program and the processing using hardware resources. The problem, therefore, is solved by utilizing natural laws and the claimed invention falls under the "statutory invention". If a relationship between the data structure and the application program is not clear, the claimed invention does not show how the hardware resources of a computer are used (how to) in solving means utilizing natural law and therefore, the claims falls under the non-statutory "invention".	1. The claim is a statutory claim. 2. Reason The claimed invention is a storage medium (memory) which can be read by a computer where the data structure is recorded and corresponds to a specified machine or a manufacture and accordingly, it is a "statutory invention".

(refer to *In re Lowry*, 32 F. 3d 1579, 32 USPQ2d 1031 (Fed. Cir. 1994))

United States Case 2	*In re Warmerdam* : (METHOD AND APPARATUS FOR CONTROLLING THE MOTION OF OBJECTS AND MACHINES)	
claim	(claim 1) A method for generating a data structure which represents the shape of physical objects in a position and/or motion control machine as a hierarchy of bubbles, comprising the steps of: first locating the medial axis of the object and then creating a hierarchy of bubbles on the medial axis.	
	Japan	United States
comments	1. The claim may be a statutory claim. 2. Reason The problem that the invention addresses is "to provide a method, in controlling an operation of a robot, capable of easily expanding to a three-dimensional object and an expression of a system and capable of easily finding an optimum arrangement of bubbles". The solving means comprises processing accompanied by operational control of the robot, which utilizes natural laws.	1. The claim is not a statutory claim. 2. Reason Claim 1 recites the steps of locating the medial axis and creating a bubble hierarchy on the medial axis, however, there is no limitation to a practical application. Therefore, these steps describe nothing more than the manipulation of abstract ideas.

(refer to *In re Warmerdam*, 33 F. 3d 1354, 31 USPQ2d 1754 (Fed. Cir. 1994))

B. Summary of comparing content

As a conclusion, there is no significant difference between the Implementing Guidelines in Japan and the Examination Guidelines in the U.S. with respect to whether a claim is a "statutory claim". However, there appears to be a difference in the application of the guidelines with respect to the following points.

1. Apparatus (system) claim / medium claim

In the U.S., a claim of a specific machine or manufacture, will most likely be approved as a "statutory claim". According to the Examination Guideline IV-B-2(a)(i), "if a product claim encompasses any and every computer implementation of a process, when read in light of specification, it should be examined on the basis of the underlying process". However, according to the Examination Guideline IV-B-2(a)(ii), it is stated that if a product claim does not encompass any and every computer-implementation of a process, then it must be treated as a specific machine or manufacture. Also, if the claimed invention would be examined on the basis of the underlying process, it may be approved as "Statutory Process Claims" of the Examination Guideline IV-B-2(b)

In Japan, (i) control for hardware resources, (ii) information processing based on the physical or technical properties, or (iii) information processing in which hardware resources are used, constitute the reference of determination, however, it seems that the conditions for approving an apparatus (system) claim / medium claim (data structure) as a "statutory claim" are similar to those in the U.S.

However, since the references of determination differ between Japan and the U.S., the differences may be seen in the results of Japanese Example 3, U.S. Example 5, and U.S. Case 1.

2. Method claim

In the U.S., according to the Examination guideline IV-B-2(b) "Statutory Process Claims" (IV-B-2(b)(i) Safe Harbors - Post-Computer Process Activity or the like) is introduced. Meanwhile, Non-Statutory Process Claims in the Examination guideline IV-B-2(c), Certain Claim Language Related to Mathematical Operation Steps of a Process in the Examination Guidelines IV-B-2(d), are finely stipulated as cases where claims are not approved as "statutory claims". Especially, a process claim which "merely manipulates abstract idea or solves a purely mathematical problem without any limitation to a practical applications," is not approved as a "statutory claim".

In Japan, a method claim uses the same reference of determination as an apparatus claim specifically: (i) control for hardware resources, (ii) information processing based on the physical or technical properties, or (iii) information processing in which hardware resources are used, and therefore, a process claim is approved as a "statutory claim" with higher probability than in the U.S. (refer to U.S. Example 8, U.S. Case 2).

IV. A survey on application strategy

A. Object of applications of computer-related inventions

What should be considered first is "for what purpose is the computer-related invention patent applications filed for?" The reasons for filing applications of computer-related inventions naturally differs between electrical industries (particularly, computer-related industries) and other non-electrical industries (mechanical and chemical industries etc.).

The appendix includes an awareness survey on computer-related invention in Japanese industries.

1. Electrical Industries

Assuming that the hardware or software of a computer is developed and then sold to outside industries, the objective for filing the application centers on (1) securing degrees of freedom in products and business and (2) contribution to patent licensing.

2. Non-Electrical Industries

Developments of software for production and management control and software particular to products controlled and processed by computer, developed by industries are not for sale outside of industries as a rule. In this case, the objective for filing the application seems to center on securing degrees of freedom in products and business (particularly, latent defense against other industries including those in different lines of business).

B. Application strategy based upon a Global Patent Portfolio

A Global Patent Portfolio with respect to computer related inventions must be planned and determined in view of the objectives for filing the application as described above. That is, an investigation must be performed concerning in which countries applications should be filed by paying attention to the modes of fabrication and the sale of products of industries, tendencies in other corporations and the like. Even in non-electrical industries, if products or the like loaded with software developed by a company may be fabricated or sold in foreign countries, applications must be filed not only in its own country but in foreign countries.

Here, what is intended to be emphasized is not to be preoccupied about the Patent Laws or Examination Guidelines in your own country when preparing specifications with respect to computer-related inventions. As mentioned above, the Examination Guidelines differ at the level of application specifically in Japan, the United States and Europe. Accordingly, extremely biased grasping of the essence of an invention and preparation of its specification based upon that biased grasping may not be acceptable to other countries. The important point is to prepare specifications having high quality that are acceptable to many countries in the world.

Furthermore, since types of patentable applications appear to be expanding, patents of unexpected software, for example, a patent concerning business applications which cover the management of business per se may suddenly be established. Hence, it appears to be important to remove the preconceived notions that "software (program) is a problem of copyright and it is meaningless to file an application thereof since it is not protected by patent rights" and "the same business has conventionally been performed by paper and pencil and there is no room for establishing a patent even if a computer is simply introduced to the business" and "to regard as an invention" the software or the business per se.

C. Grasping the essence of an invention in consideration of the circulation mode of a product

Due to the revision of the Examination Guidelines in Japan and the United States, both direct and indirect infringement have been established with respect to programs or data having structures circulated in the form of media. In addition to categories of "apparatus (system)" and "method" which were conventional modes of protection concerning computer software, a mode of protecting claims which may be referred to as a new category, or "medium" is added.

Accordingly, it becomes more important to grasp the essence of an invention and to prepare a claim in consideration of the circulation mode (product feature) of products in respect to computer software. That is, a thorough investigation must be performed in order to determine whether patent rights are applicable to producers and distributors of apparatus (system) where the software is installed. With direct infringement as a premise, the following are generally established:

Apparatus (system) claim: effective to maker and user of apparatus (system).
Method claim: effective to user.
Medium claim: effective to software maker and distributor.

D. Claim Drafting

Claims of respective categories of "apparatus (system)", "method" and "medium" must be formed in an independent style in consideration of the mode of circulating a product as mentioned above. It is preferable to form claims using many points of view.

1. "Apparatus (system) claim" (including claims corresponding to a network)

This is a typical claim type for computer-related inventions which have been approved conventionally. Particularly, it describes a correlation with hardware in consideration of "specific machine or manufacture" as defined in the Examination Guidelines of the United States, "utilization of hardware resources" according to the Implementing Guidelines in Japanese examination, and "technical contribution" in Europe.

As a point of caution in claim drafting, if it is specified too broadly, a claim where software is functionally expressed using a general purpose hardware resource, it may not be approved as a "statutory claim" in some countries. Therefore, it seems that in addition to an inherent function of a hardware resource, a point where the technical properties are utilized, must be clearly described. Meanwhile, when an applicant is excessively conscious of the Examination Guidelines of respective countries, the specific limitation of hardware resources may be intensified and a narrow claim may be formed, making patent rights enforcement difficult. Accordingly, it is preferable to describe a apparatus (system) claim in a stepwise manner in various points of view.

Caution is required in the United States with respect to computer-related inventions (particularly computer software related inventions) where claims in the style of means plus function are frequently used. In line with the decision in *In re Donaldson* in 1994, when interpreting a claim of a means plus function style, the interpretation is based on the specific structure disclosed in the specification and equivalents thereof in compliance with stipulation of U.S. Patent Law Section 112, 6th paragraph. In *In re Alappat*, the interpretation of a computer-related invention claim of means plus function style was confirmed and has been continued in other decisions.

Accordingly, with respect to computer-related inventions (particularly, computer software related inventions), a claim of means plus function style must be used as little as possible and if there is a pertinent general term that is pertinent in expressing a higher concept of an element of the invention, the general term must be used. Computer software related inventions frequently have to be expressed in means plus function style and accordingly, it is important to add various alternatives and modified examples of embodiments in the specification in order to provide basis for claiming a broader range of patent rights.

In dealing with a network, in consideration of supplying software that is a characterizing item of the invention, from a server on the network, an apparatus (system) in view from the side of the server must

be described in an independent claim style. Especially, infringement of patent rights may not be firmly pursued with respect to software circulated via a network in the case of a medium claim, mentioned later and accordingly, it becomes important to form a claim in correspondence with a network.

Further, it is possible to regard apparatus (system) claims on the side of a client and on the side of a server as subcombinations and describe an independent claim for a total combination as a "network system".

2. "Method Claim"

A method claim seems to be able to be functionally described most broadly in the case of computer-related inventions (particularly, computer software related inventions). However, in the case where a determination on "whether an abstract idea is manipulated or a mathematical problem is solved without limitation to a practical application" in the Examination Guidelines in the U.S. is severe and further, there may be a case where patent rights are difficult to provide only in view of utilizing hardware resources. It is preferable to use a method claim along with an apparatus (system) claim, a medium claim and the like.

Further, in view of enforcing patent rights, there is a tendency where a user becomes a target of direct infringement and therefore, an applicant must refrain from forming a claim strategy centering on (only on) a method claim.

3. "Medium claim"

This is a style of representing a claim which has been approved to specify by the revisions of the Examination Guidelines in Japan and the United States. The claim is approved in two view points of "computer-readable medium storing programs" and "computer-readable medium storing data structures".

In the U.S. the following descriptions are approved:

Example 1: A computer readable medium having a computer program, said computer program comprising: ...

Example 2: A computer program embodied on computer-readable medium for ..., said program comprising: ...

Example 3: A computer program product for ..., the program product comprising: ... (It is necessary to write a language including "embodied on computer -readable medium" in the preamble or body.)

There are three ways of description within of a claim such as (1) description in means plus function style, (2) description as portions (example, source code segment) and (3) description in steps as in a method claim.

In Japan, the following four ways of description are introduced in the Implementing Guideline.

Example 1: "A computer-readable storage medium having a program recorded thereon;
where the program is to make the computer execute procedure A, procedure B, procedure C..."

Example 2: "A computer-readable storage medium having a program recorded thereon;
where the program is to make the computer operate as (the combination of) means A, means B, means C,...

Example 3:"A computer-readable storage medium having a program recorded thereon;
where the program is to provide function A, function B, function C ... to the computer.

Example 4:"A computer-readable storage medium having structured data recorded thereon;
where the structured data comprise portion A, portion B, portion C, ...

As a matter of caution in drafting claims, in the case of a computer-readable medium storing programs, similar to other computer software related inventions, it is preferable to draft claims centering on how a specific processing by the program uses hardware resources of a computer.

In the case of a computer-readable medium storing data structures, in addition to a relationship among data, arrangement of data, mode of modifying data per se or the like for having hardware resources of a computer execute a specific processing, seem to be written.

E. Ways of describing embodiments and drawings

1. Computer-related inventions (particularly, computer software related inventions) in general

It is normally preferable to describe a block diagram representing the whole of a apparatus (system) in Fig. 1 and clarifying the hardware which comprises the invention. The portion of software featuring the invention must be described in flowcharts to correspond to constituent elements in claims. In that case, an applicant must intend to develop detailed flowcharts from a flowchart expressing the total flow.

Further, connection states or access states of input and output devices and storing devices with respect to the CPU, user interfaces in input and output devices and the like constitute important items expressing the feature of invention and accordingly, they should be described along with the drawings. Timing diagrams or detailed structure (circuit structure or the like) of individual hardware resources per se should be described as necessary.

What is important in the case of computer software related inventions is to define language. Even with a function which the language in a claim inherently provides, useless discussion can be prevented interpreting patent rights by defining the function in embodiments of the specification. This as well as description of various alternatives and modified examples become particularly important when a claim of means plus function style is formed.

2. "Computer-readable medium for storing program" or "Computer-readable medium for storing data structure" inventions

In addition to the items of caution mentioned above, further caution is required in the following points:

First of all, a program constituting an object must be made clear. A program is operated by hardware resources of a computer. Therefore, what kind of a program is present and by which computer it is operated must be clarified.

Secondly, it must be clearly described that the program can be stored in a computer-readable medium. A description must be carried out in consideration of various alternatives and modified example with respect to how the program is circulated, from where and in what mode (medium) the program is carried, to where and how the program is installed and how the program is stored after installment. Further, in consideration of the fact that the program is circulated via a network, not only a storing state of the program and flowcharts on the side of a client, but a storing state of the program on the side of a server and a flowchart of processing on the side of the server must be described. Here, formation of a single flowchart by summarizing processing on the side of the server and on the side of the client, must be avoided as much as possible since the corresponding relationship is difficult to establish.

Third, a data structure must be described with respect to where a computer is made to perform a specific processing owing to a specific structure of data. For example, when there is a feature in arranging data and data is read or written from or to a memory or the like in accordance with a structure of arranging data, ways of accessing to data, ways of changing the arrangement of data and the like must be explained by illustrating the ways by using data tables. When data is modified based on its properties, ways of converting data (conversion table or the like), styles of data before and after conversion must be explained by illustrating them using data tables or the like such that the structure of modifying data can be grasped. Naturally, since the structure of data has a computer perform a specific processing data, not only the simple illustration of data tables but flow charts of programs must be explained by illustrating them, as mentioned above.

V. Conclusion and Recommendation for the Future

An explanation has been given of the trend, content, comparison between countries and application strategy with respect to dealing with computer related inventions in Japan, the United States and Europe in accordance with the revision of the Examination Guidelines of computer-related inventions in Japan and the United States.

The significant features of the Examination Guidelines in Japan and the United States are that practical application programs including mathematical algorithms are more liable to be patented than before and media for storing programs or data structures are approved as patentable. Both of which will be a worldwide tendencies in the future.

However, because the origins of Patent Laws are different in both countries, in the respective categories of apparatus (system) and method, a comparison between Japan and the United States has been made with respect to examples in the Examination Guidelines and representative cases in the United States.

Further, with respect to application strategy from applicant's view point, mention has been given of points of caution on grasping the essence of an invention in consideration of circulation modes of products forming claims in respective categories of apparatus (system), method and medium, and in the ways of describing embodiments and drawings.

The following three points are future problems for investigation identified through the review of current trends of industries.

First, dealing with the network age. It can be evaluated that a patent of medium is approved and direct infringement can be established in respect of the circulation of software according to the new

Examination Guidelines of Japan and the United States. However, in view of the current state where not only record media per se are circulated but software is easily distributed and circulated via a network, a range of how the patent right of a medium claim can be enforced (whether direct infringement can be established) is not clear.

It seems that applicants should draft multiple claims for a single computer software invention which are of apparatus (system), method and medium type. Applicants should also include description in the specification and claims drawn to the application of computer software inventions to networks. In the future, it may be appropriate to further investigate the protection of computer software inventions used with networks. A survey could be used addressing the protection of patent right in expression styles of "program," "data having structure," "software" and the like.

Second, the examination system must be substantially established. There will be a need for examination of computer-related inventions (particularly, computer software related inventions) based on publicly-known data closely related to products such as manuals or the like which are different from conventional publicly-known data (patent publication, academic literature, general magazine, book and the like). In this regard, the CSDB (Computer Software DataBase) planned by the Japanese Patent Office is preferable. When an examination cooperation system among respective countries such as an exchange of publicly-known data or the like is established in examination with the Patent Offices of Japan and the United States as leaders, attenuation of duplicated work or realization of a unified patent can be expected.

Third, the spread of Examination Guidelines similar to those in Japan and the United States to Europe and Asia. Subjected to a wave of globalization, locations of production and locations of market in the world are always changing. Especially, in the field of computer software, a huge amount of capital investment is not needed and locations of activity tend to change dynamically and fluidly. Accordingly, worldwide protection of software is an urgent task and establishment or revision of Examination Guidelines similar to those in Japan and the United States is requested to respective countries including Europe in order to achieve patent rights that are unified worldwide.

It seems that in Korea, Examination Guidelines are going to be revised in the near future similar to those in Japan and the United States, which is a positive development.

APPENDIX: Awareness survey on computer-related invention in Japanese industries

An awareness survey of Japanese industries in accordance with the revisions of Examination Guidelines in Japan and U.S., has been performed.

A blind question and answer survey was submitted to membership industries belonging to PIPA Japan group, 3rd Committee covering: view points of patent application, monitoring patents of other companies, measures for patents of other companies and the like and responses were obtained from 20 companies. The lines of business of object industries are, chemical group: 6, mechanical group: 4, electrical group: 10. The results of survey will are as follows:

(1) With respect to Implementing Guidelines for computer software related Inventions in Japan.

Figure A shows a situation of dealing with Implementing Guidelines.

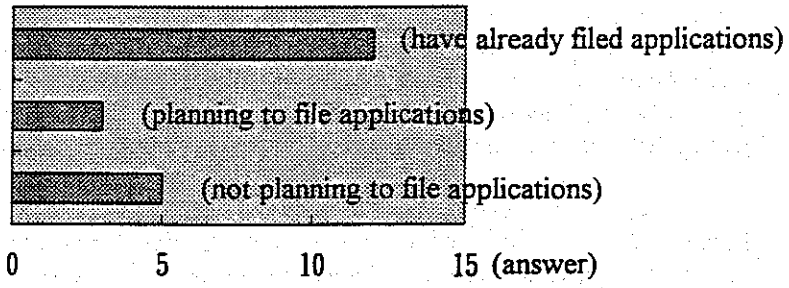


Figure A

Except some chemical or medical industries, high interest is given with respect to Implementing Guidelines for Computer software related Inventions (refer to Figure A) and almost all the industries "have already filed applications in line with Implementing Guidelines" or " planning to file applications"

Figure B shows the influence by the new Implementing Guidelines on the amount of monitoring of patents of other companies that is performed.

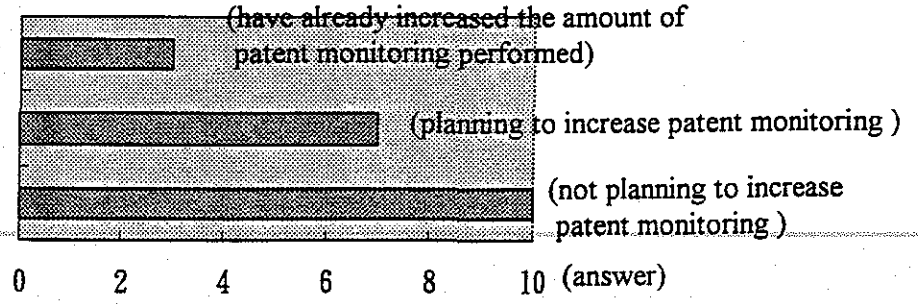


Figure B

Most of the electrical industries and some of the chemical and mechanical industries have reinvestigated the amount of other companies patents they will monitor or currently investigating (refer to Figure B) in consideration of where new problematic patents may be issued based on the Implementing Guidelines for Computer software related inventions.

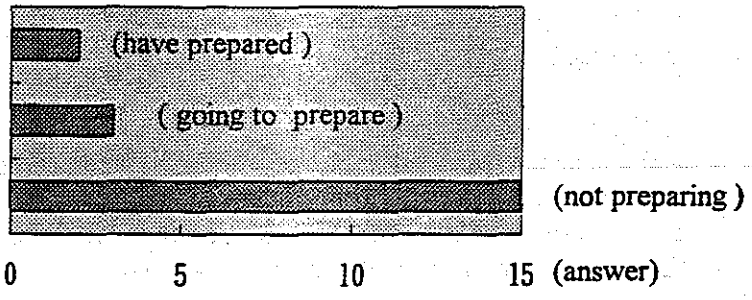


Figure C

Figure C shows the situation of preparing prior use proof. Many industries have not prepared yet for proving prior use. Currently, most companies do not prepare prior use evidence when reviewing other companies patent rights.

Figure D shows the possibility of causing a lawsuit with a different line of business.

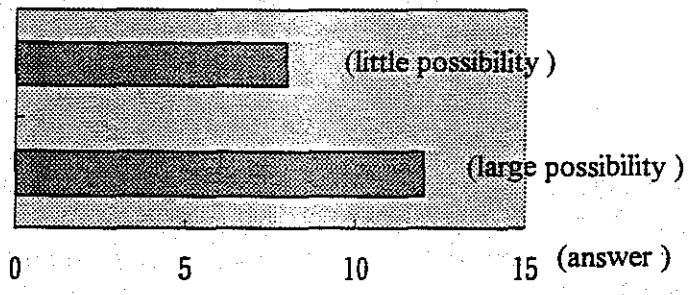


Figure D

There are many industries recognizing a danger of causing a lawsuit with respect to a main stream portion of industry such as industrial control, management control or the like with respect to a possibility of causing lawsuit with different lines of business (particularly, non-maker) concerning computer software related inventions. However, currently, no clear plan has been established with respect to a specific counter measure for this problem.

Opinions were requested with respect to how a measure could be established as owners of patent rights concerning distribution and circulation of programs or data via a network. As a result, the answers were;

(a) Patent right will be enforced with respect to a medium on a server by a medium claim.
(b) Claims and specification will be devised.

* Patent right will be enforced by at least indirect infringement by forming claims in many view points such as method, device, apparatus, system and the like.

* Claims in a network style (claims including transmitting means in addition to a medium and a reading means) will be formed. With respect to the protection of software, there was an opinion requesting a revision of legal system for restraining infringement action of suppliers (for example, establishment of law for determining infringement of products if functions of products are the same, is preferable.).

(2) With respect to the Examination Guidelines for Computer-Related Inventions in the U.S.

Figure E shows a situation of dealing with the Examination Guidelines in the U.S.

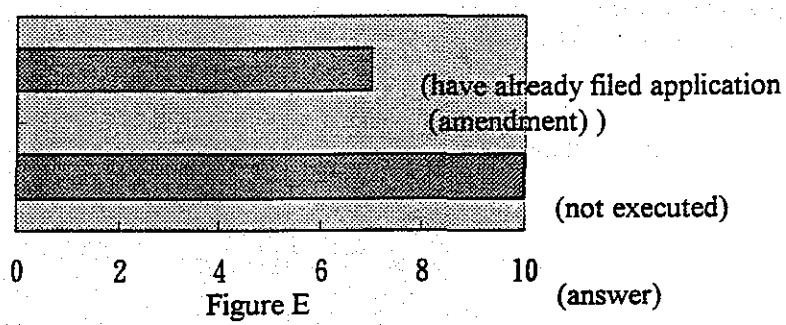


Figure E

Currently, in accordance with the revision of the Examination Guidelines in the U.S., centering on the electrical industries, some industries have dealt with applications (amendment) or the like, however, measures with respect to patent rights of other companies and the like have not been executed.

Concerning the influence on the method of monitoring the patents of other companies, only two industries answered that "the monitoring method was changed." However, there were comments "the range of monitoring software patents was extended also to hardware products" and "medium claims for storing programs or data structures would be checked."

Additionally, almost all the industries request a cooperative relationship between both countries such as collection and maintenance of publicly-known data of manuals and the like in Japan and the United States. As a specific example, therefore, there were opinions "making common technical terms with those in US, EP and the like." "mutual dissemination of databases and the like (two companies)" and "unification of examination references of both countries (two companies)."

(3) With respect to computer software related inventions in Europe and other countries.

Figure F shows a request for strengthening protection of computer software related inventions in Europe.

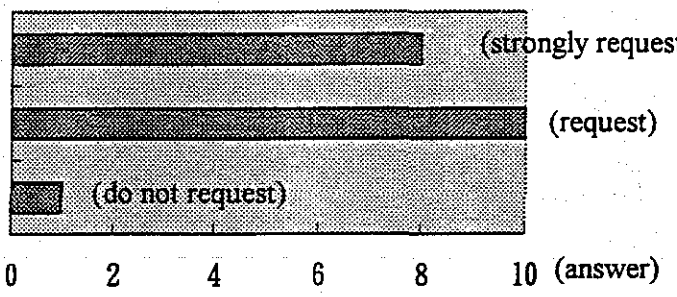


Figure F

Many industries request strengthening of protecting patents of computer-related inventions (computer software related inventions) in Europe.

Figure G shows countries to which Japanese industries request strengthening of protection of computer software related inventions, other than Japan, U.S. and Europe.

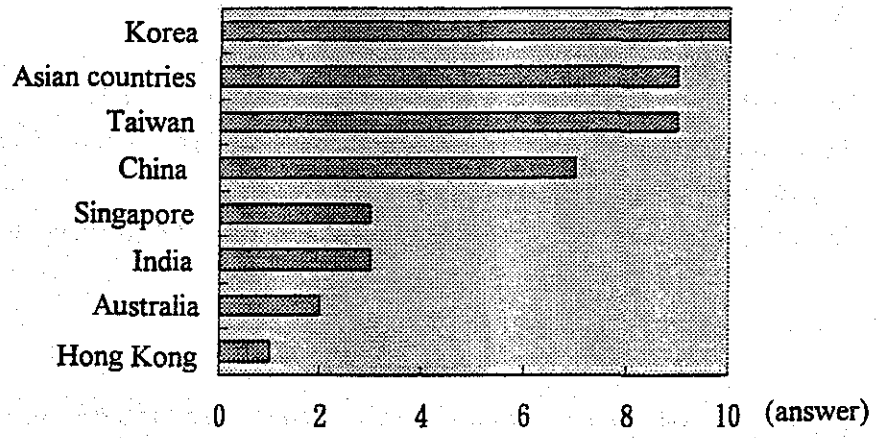


Figure G

Further, although the degree of request is rather small, there were opinions requesting strengthening of protection of patents of computer-related invention in Asia or the like. Specifically, there were opinion requesting for revision or establishment of Examination Guidelines in Asian countries, (particularly, Korea, Taiwan, China) as countries where software is circulated or countries where computer technology is advancing.

(1) Title:

Clinical Trials for Official approval for manufacturing Generic Medicine, and Effect of Patent Right Thereto

(2) Date:

September 24-26, 1997 (The 28th International Congress in Toronto)

(3) Source:

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

(4) Authors:

Tomoyuki Kakehi, Toyoda Gosei Co., Ltd.
Osamu Sasaki, Tanabe Seiyaku Co., Ltd.
Naoyoshi Jinno, Sumitomo Chemical Co., Ltd.
Hiroaki Tamada, Fujisawa Pharmaceutical Co., Ltd.
Hiroshi Homma, Sankyo Co., Ltd.
Kazuhisa Yamauchi, Sumitomo Electric Industries, Ltd.

(5) Keywords:

Generic Medicine; Clinical Trial; Official approval for manufacturing; Experiment or research, Experimental Use

(6) Statutory Provisoins:

Japanese Patent Law: Article 68, and Article 69-1
British Patent Law: Article 60
German Patent Law: Article 11-2
French Patent Law: Article 30(b)
Dutch Patent Law: Article 30(3)
U.S. Patent Law: 35 U.S.C. 271(e)(1)

(7) Abstract:

The problem as to whether or not clinical trials necessary for obtaining official approval for manufacturing a generic medicine, if performed within the term of a patent right to a patented medicine, would infringe the patent right has become highlighted in these days. We have summarized the particular matters relating to the official approval for manufacturing generic medicines, the related laws and ordinances in Japan, Europe and the United States of America, and also the recent cases concerned in those countries, and have discussed them as to whether or not they are reasonable from various viewpoints of non-interested third parties, manufacturers of generic medicines, and manufacturers of patented new medicines. In addition, based on the standpoint that the clinical trials of that type shall infringe patent rights, we have discussed possible countermeasures for protecting patentees from such infringement of their patent rights. Herein we report our studies and discussions.

Clinical Trials for official approval for manufacturing Generic Medicine, and Effect of Patent Right Thereto

1. Preface : Specific matters relating to official approval for manufacturing medicines:

(1) Clinical trials for application for official approval for manufacturing new medicines:

One who desires to manufacture and sell a medicine containing a novel active ingredient (new medicine) must file an application for official approval for manufacturing the medicine in the Ministry of Health and Welfare , and must obtain the official approval for the manufacturing. To obtain the official approval, one must perform "clinical trials" in authorized medical institutions (hospitals, etc.) in accordance with the good clinical practice (GCP) standards whereby efficacy and safety of the new medicine in human beings must be prepared. The application for official approval for manufacturing the new medicine must be filed along with the clinical trial data thus prepared. The clinical trial generally takes about 5 to 10 years, during which period a new medicine cannot be manufactured or sold before obtaining the official approval for manufacturing even during the term of the patent right to the new medicine. Such a protracted clinical trial period substantially shortens the term of the patent right to a new medicine, resulting in unsatisfactory protection of the patented inventions. Considering this problem, some rules for extending the term of patent rights have been made and are employed in many countries.

(2) Clinical trials for application for official approval for manufacturing generic medicines, and effect of patent rights to them:

On the other hand, any third party that desires to manufacture and sell a generic medicine after the expiration of the term of the patent right to a new medicine must also file an application for official approval for manufacturing the medicine in the Ministry of Health and Welfare, and must obtain the official approval.

In this case, however, no clinical examination for efficacy

and safety of the generic medicine is required. Only accelerated tests for the stability of the medicine and the test for bioequivalence thereof are required. In the stability test preparation samples containing the active ingredient of the medicine are stored under a predetermined conditions and time-dependent, physical and chemical changes, if any, are observed, thereby confirming the storage stability of the medicine. Bioequivalence test is to administer both the patented medicine and the generic medicine to healthy subjects whereby the sameness in the bioavailability between the two is confirmed.

Therefore, though falling within the category of clinical trials, the experiment of generic medicines for official approval for manufacturing is not for confirming the potency of the medicines for disorders, and its object and meaning are vastly different from those of the experiment of novel patented medicines. The experiment period for generic medicines is shorter than that for novel patented medicines, and the costs for the former are much lower than those for the latter.

(3) Problems concerned:

However, at present, it takes more than one year for the application for official approval for manufacturing a generic medicine to reach the approval in many countries. Therefore, if a manufacturer desires to manufacture and sell a generic medicine immediately after the expiration of the term of the patent right to a patented medicine, it is necessary for the manufacturer to file an application for official approval for the manufacturing of the generic medicine before the expiration of the term of the patent right of the patented medicine. Consequently, this necessitates the manufacturer to perform clinical trials of the generic medicine within the term of the patent right. Given this situation, problems have arised in many countries as to whether or not clinical trials of a generic medicine would infringe the patent right to the patented medicine.

We summarize herein some specific matters relating to the official approval for manufacturing medicines, and some recent cases in Japan, Europe and the United States of America, and discussing their appropriateness.

2. Recent cases relating to generic medicines in Japan, Europe and the United States of America:

(1) In Japan:

Under the stipulation of Art. 69, Par. 1 of the Japanese Patent Law, a patent right shall not apply to the working of the patented invention for experiments and research (see Reference Material 1-1). The reasons being that experiments and research are to promote a technology to the next higher stage, and that, the application of a patent right even to those experiments and research, shall rather interfere with the development of technology to which the patent system is directed (see Detailed Interpretations of Industrial Property Laws, edited by the Japanese Patent Law). Experiments for the official approval for generic medicine manufacturing fall within the scope of the experiments referred to in Art. 69, Par. 1 of the Patent Law, to which, therefore any patent right shall not apply. However, there are many known cases that deny this insistence, such as those mentioned hereinunder.

In the Glyphosate Case (decision rendered on July 10, 1987 in the Tokyo District Court: Reference Material 2-1), which does not relate to medicine, the applicability of the stipulation of Art. 69, Par. 1 of the Patent Law to the experiments for the official approval for the manufacturing the patented herbicide, Glyphosate, was disputed. In this Case, the defendant performed experiments for obtaining the official registration of the herbicide, which is necessary for its commercial sale, within the term of the patent right to the herbicide (the defendant's experiments fall within the scope of the working of the patented invention), but the Court decision was that the stipulation in question should not apply to these experiments.

In the Nagoya Gramalil Case (decision rendered on March 6, 1996 in the Nagoya District Court: Reference Material 2-2), Nagoya Baccidal Case (decision rendered on August 28, 1996 in the Nagoya District Court: Reference Material 2-3), and the Osaka Baccidal Case (decision rendered on February 7, 1997 in the Osaka District Court; Reference Material 2-4), experiments for official approval for manufacturing generic medicines were disputed. In these

Cases, all the court decisions were such that "the experiments are not to promote technology and should not fall within the category of the working of patented inventions for experiment or research as stipulated in Art. 69 of the Patent Law".

There is another known assertion that the working of a patented invention for experiment or research is not one for the purpose of business and therefore the effect of the patent right shall not apply to that working (Art. 68 of the Patent Law). In the Toyama Gramalil Case (decision rendered on January 12, 1996 in the Toyama District Court: Reference Material 2-5), the Court decision was that, because of the absence of sufficient evidence to verify that the experiments were performed for the purpose of business, the working of the patented invention for the experiments required for the official approval for manufacturing the medicine (the manufacturing of the medicine only for the experiments) is not one for the purpose of business.

In many other judicial cases, however, the assertion that the experiments for official approval for manufacturing generic medicines are not those for the purpose of business was not accepted. For example, in the Nagoya Gramalil Case (decision rendered on March 6, 1996 in the Nagoya District Court: Reference Material 2-2) and in the Toyama-Nagoya Gramalil Case (decision rendered on March 18, 1996 in the Nagoya Higher Court: Reference Material 2-6 - this Higher Court decision dismissed the preliminary decision rendered in the Toyama District Court), both court decisions were such that the defendant's working is the working of the patented invention for the defendant's business. Also in the Nagoya Baccidal Case (decision rendered on August 28, 1996 in the Nagoya District Court: Reference Material 2-3) and in the Osaka Baccidal Case (decision rendered on February 7, 1997 in the Osaka District Court: Reference Material 2-4), the both court decisions were such that the experiments carried out for the official approval for manufacturing falls within the category of the working of the patented invention for the purpose of business.

As in the above, the judgment that the clinical trial for official approval for manufacturing generic medicines does not

fall within the category of the experiments as stipulated in Art. 69, Par. 1 of the Patent Law but falls within the category of the working of patented inventions for the purpose of business seemed to be established in Japan*.

However, in the Osaka Baccidal Case (Reference Material 2-4), the Court recognized that the manufacturing and use of preparation samples in the clinical practice for official approval for manufacturing the generic medicine lacks the substantial illegality of infringing the patent right (though such would formally infringe the patent right as so mentioned above). Also in the Osaka-Osaka Baccidal Case (decision rendered on April 15, 1997 in the Osaka Higher Court: Reference Material 2-7 - this Higher Court decision supported the preliminary decision rendered in the Osaka District Court), the Court, while supporting the preliminary decision, recognized that the defendant's working lacks the substantial illegality of infringing the patent right, for the reason that "the defendant's working itself does neither substantially infringe the plaintiff's exclusive benefit within the term of the plaintiff's patent right nor has any great possibility of infringing it". As in these cases, there are some known judicial precedents in which the clinical practice for official approval for manufacturing generic medicines is accepted within the term of patent rights.

* note : Very recently, some courts in Japan have given decisions which overturned the precedents mentioned-above. For example, in a case in the Tokyo District Court (decision rendered on July 18, 1997), the court said that the clinical practice for official approval for manufacturing generic medicines falls within the category of the experiments as stipulated in Art. 69, Par. 1 of the Patent Law.

(2) In Europe:

Also in European countries, they have a rule that a patent right shall not apply to the working of the patented invention for experiment or research and therefore the working of that type is not to infringe the patent right, such as in Art. 69, Par. 1 of the Japanese Patent Law (Reference Material 1-2). It has been

disputed in courts in Europe as to whether or not the experiments only for official approval for manufacturing, such as those for official approval for manufacturing generic medicines, fall within the category of the experiments to which patent rights shall not apply. In many judicial cases in Europe, it was decided that "such experiments only for official approval for manufacturing do not fall within the category of the experiments to which patent rights shall not apply".

For example, in "Monsanto Co. vs. Stauffer Chemical" Case in England (Reference Material 3-1 - this does not relate to medicine), the Court decided as follows: "The defendant's field test of the herbicide that was directed to obtaining the official approval for the stability of the herbicide is the act for the purpose of enlarging the subjects for the product (that utilizes the patented invention). . . . The exceptional stipulation (in the British Patent Law 60(5)(b)) shall not apply to any experiment to be effected for commercial embodiment of a patented invention or for stretching it." In this, the Court recognized that the field test as carried out for the purpose of obtaining the official approval for the defendant's herbicide is to infringe the patent right. Also in "Smith Kline & French Laboratories vs. Evans Medical Ltd." Case (Reference Material 3-3), the Court, referring to the Monsanto Case, decided that "any assertion based on the British Patent Law 60(5)(b) is unacceptable for the experiments that use any other patents of the plaintiff for obtaining the reference material for opposition to the amendment to the patent".

Also in "Science Union et Compagne vs. Les Laboratories Servier et al" Case in France, the Court decided that the experiments for obtaining the official approval for manufacturing and sale of medicines are recognized as the acts for commercial purposes and are to infringe the patent right.

In Germany, the Supreme Court decided in "Boehringer Ingelheim vs. Dr. Rentschler Arzneimittel et al" Case (Reference Material 3-7) that the clinical trials made within the term of the patent right is not to infringe the patent right so far as it contributes to the scientific research relating to the inventive subject (for example, it is for the purpose of searching for any novel medical applications), irrespective of the fact that it would

further contribute to any other econcmical purposes. This court decision should be so interpreted that the experiments that merely contribute to economical purposes without contributing to any scientific research relating to the inventive subject are to infringe the patent right. In "Bayer AG vs. Unannounced" Case (Reference Material 3-5) and in "Sch. AG vs. S.P. GmbH et al" Case (Reference Material 3-6), the court decisions are such that "the manufacturing and use of a new medicine in clinical trials for the purpose of obtaining the official approval for manufacturing before the expiration of the term of the patent right to the new medicine, as well as the field test that utilizes a new chemical are to infringe the patent right to the new medicine or chemical". Also in Holland, the court decisions in "ICI vs. Medicopharma" Case (Reference Material 3-8), "Kirin Amgen vs. Boehringer Mannheim" Cases (Reference Materials 3-9 and 3-10), "Applied Research Systems vs. Organon International" Case (Reference Material 3-11) and "Generics B.V. vs. Smith Kline & French Laboratories Limited" Case (Reference Material 3-12) have the same position as in the German Court Cases.

If the experiments for official approval for manufacturing a patented product that are carried out before the expiration of the term of the patent right to the product are recognized to infringe the patent right, this position is to admit the exclusive patent benefits for the patentee even after the expiration of the term of the patent right. The patentee's substantial and exclusive benefit in this position is naturally admitted in Europe for the purpose of protecting the patent right. (See Reference Materials 3-6 and 3-12).

(3) In the United States of America:

In the United States of America, the assertion that the working of a patented invention for experiments and research is not to infringe the patent right to the invention has been admitted in judicial precedents. In "Roche Products, Inc. vs. Bolar Pharmaceutical Co., Inc." Case (Reference Material 4), however, the assertion in that position was not admitted for the experiments for official approval for manufacturing. In this, the Court decided that the experiments for official approval for

manufacturing are to infringe the patent right.

In the Roche's court decision, the Court said that any third party cannot make any clinical trials necessary for FDA approval, before the expiration of the term of the patent right. On the other hand, in those days, in order to enhance the protection for medicine inventions, the legislation was discussed for extending the term of patent rights. However, there occurred a strong argument against the legislation in that the protection for patentees will be enhanced too much unreasonably if the extension of the term of patent rights is admitted and if the position in the Roche court decision is accepted. Given that situation, therefore, 35 U.S.C. 271(e)(1) was legislated for patent rights (Reference Material 1). According to 35 U.S.C. 271(e)(1), the working of a patented invention only for the purposes that reasonably relate to the provision of the information necessary for obtaining legal approval for the manufacturing of the patented product is recognized not to infringe the patent right to the invention. Thus in the United States of America, this problem was legally solved.

3. Discussion on problems with generic medicines:

Is it reasonable to admit the working of a patented invention within the term of the patent right to the invention, for the purpose of obtaining the experimental data that are necessary for official approval for manufacturing the generic medicine of the patented invention? We discussed this problem from the standpoint of patented medicine manufacturers and from that of third parties with no interest in this problem.

(1) Position of non-interested third parties:

As has been mentioned hereinabove, the judicial precedents in Europe take the settled standpoint of such that the experiments to be carried out only for the purpose of obtaining official approval for manufacturing a patented medicine are not within the category of experiments to which a patent right shall not apply. Many judgments in Japan have also taken the same standpoint as that in Europe. (As mentioned above, some very recent judgments in Japan overturned the judicial precedents. See the note at the end of

2.(1)) Since the stipulation in Art. 69, Par.1 of the Japanese Patent Law (and also the corresponding stipulation in the Patent Laws in European countries) is to ensure the freedom of experiments and research for improving technology, it will be natural and reasonable not to accept any exceptions for experiments and research that do not contribute to the improvement in technology, thereby protecting patented inventions.

In Japan, the effect of a patent right shall be limited to the working of the patented invention for the purpose of business, and it is said that the reason for this limitation is because a patent right should not cover any household and personal use of the patented invention. From this standpoint, the object of the experiments for official approval for manufacturing a generic medicine is to manufacture and sell the generic medicine, and the experiments could not be within the category of household or personal use of the patented invention for the medicine but are those for the purpose of business of the medicine.

On the other hand, as in Baccidal Cases in Japan, there is another court opinion of such that clinical trials of a generic medicine do not infringe the patent right to the medicine since it does not substantially reduce the patentee's exclusive benefit even though it would formally infringe the patent right. It is considered that the Japanese courts judged so on the presumption that such a small amount of preparation samples for experiments would not interfere with the patentee's benefit. In those courts where the infringement or the non-infringement of a patent right by any third party is disputed and where the third party's act is recognized to formally infringe the patent right, however, we think that the court judges shall naturally decide the cases in favor of the patentee, taking the position that the third party's act infringes the patent right, irrespective of whether the amount of the samples prepared by the third party is large or small and of whether or not the third party's act will reduce the patentee's benefit. Based on the decision, the judges may further dismiss the patentee's demand for damages because of the presence of no substantial damages in the case. Anyway, in that court case, it is not reasonable for the judges to forcedly decide that the third party's act does not infringe the patent right as a whole.

In addition, the Japanese judges' decision of such that "the defendant's working itself does not substantially infringe the plaintiff's exclusive benefit" will be problematic in that the defendant's clinical trials shall substantially reduce the patentee's exclusive benefit after the expiration of the term of the patent right.

Is it naturally admittable to ensure patentee's substantial and exclusive benefit after the expiration of the term of a patent right? The patent system exists in order to develop industry along with good balance between protection and utilization of inventions. This problem will be discussed hereinunder.

The background of this problem locally existing in the field of medicines will result from the fact that a patentee (that is, a manufacturer of a new medicine) could not be satisfactorily protected during the term of the patent right due to the rule that requires the official approval for the manufacturing of the new medicine. The patentee must be protected satisfactorily, but if not, there should be provided any measure for compensating the patentee for its loss. In many countries, a rule has been made for extending the term of a patent right. However, at present, it is said that the rule is not satisfactory to protect patentees. The current situation of such that the unsatisfactory patent protection is compensated for by the prohibition against the clinical practice for a generic medicine for its official approval for manufacturing during the term of the patent right to the medicine could not be the substantial solution of this problem. This is because the substantial extension of the term of a patent right is not definite but shall vary depending on any other situations not based on the balance between protection and utilization of inventions, and the extended period of the term of a patent right could not be legally stabilized at least at present. For these reasons, the best measure for ensuring patent protection will be to complete the rule of extending the term of a patent right. The legal solution according to the Bolar stipulation in the United States of America will be one means of solving this problem, except for the separate problem of how to satisfactorily protect new medicines.

(2) Position of manufacturers of generic medicines:

Having studied various cases, we have noted some points that are common to generic medicine manufacturers. Most generic medicine manufacturers assert as follows: 1) Clinical trials, even if made during the term of a patent right to a patented medicine, do not produce any commercial profit during the term of the patent right, and therefore it does neither reduce the patentee's benefit nor economically utilize the patented medicine. 2) If clinical trials of that type are not accepted, such shall result in substantial extension of the term of a patent right. If so, this is against the spirit of the Patent Law. In addition, this is against the public interest from the viewpoint that the expiration of the term of a patent right may manufacture competitive low-priced products. [This assertion is against any unfair competition, based on the spirit of the patent system (Art. 1 of the Patent Law; the faith rule in the Civil Code)]. In addition, 3) a patentee of a novel medicine can file an application for the extension of the term of the patent right for the reason that the period of clinical trials of the medicine shall not be within the term of the patent right, but this is unreasonable. This is because, if clinical trials fall within the category of the working of the patented invention, the period of such clinical trials shall be the period within which the patented invention can be performed and therefore should be excluded from the period of the extended term of the patent right. In fact, however, in Art. 67, Par. 2 of the Patent Law, it is stipulated that the term of a patent right can be extended to cover the period of clinical trials using the patented medicine for the reason that the patentee could not perform its patented invention within the period of the clinical trials.

(3) Position of manufacturers of patented new medicine:

Regarding the "patentee's benefit" in 1), Someno's opinion will be reasonable, which is as follows: A patentee shall naturally start the commercial manufacturing of a new medicine for its patent at the filing date of the patent application to obtain its benefit. However, owing to the necessary clinical practices, the patentee could not often obtain the intended benefit, and any third party that desires to manufacture a generic medicine

corresponding to the new medicine shall benefit by the substantial loss of the patentee's benefit.

Regarding the "public interest" in 2), Nakayama's opinion is referred to, which is as follows: Clinical trials of a generic medicine are to be made by a generic medicine manufacturer, who carries out the patented invention immediately after the expiration of the term of the patent right to the new medicine to thereby reconfirm the properties of the medicine, and this is only for the generic medicine manufacturer' benefit without producing any improved invention through it. Considering this situation, it is quite problematic as to whether or not the generic medicine is to be protected by the current Patent Law in view of the content and the meaning of the clinical trials to be made by the generic medicine manufacturer. In addition, the assertion based on that "public interest", which is such that "the clinical trials made by a generic medicine manufacturer fall within the category of the experiments as stipulated in Art. 69, Par. 1 of the Patent Law, and therefore does not infringe the patent right to the new medicine corresponding to the generic medicine" will be against the spirit of the stipulation of Art. 69, Par. 1 of the Patent Law which states the range to which a patent right shall not apply, as an exception of the effects of the patent right (Art. 68 of Japanese Patent Law).

The period for the official approval for a medicine is defined by the government authorities and could not be reduced by the wish or effort of an applicant. Therefore, both new medicine manufacturers and generic medicine manufacturers must accept this period as a certain invariable period. However, the clinical trial of a generic medicine is more simple than that of a new medicine, and the period for the former is much shorter than that for the latter. This situation regarding the working of medicine inventions is much more convenient for the third parties including generic medicine manufacturers than for new medicine manufacturers.

Regarding the "unreasonableness" in 3), it is to be noted that the stipulation in the main text of Art. 67 of the Patent Law is to define the term of a patent right and that the stipulation in

Art. 67, Par. 2 is to state the way of working of a patented invention in relation to the term of a patent right as stipulated in the main text of Art. 67. Therefore, for the working of a patented invention, it is not natural to shortsightedly and paradoxically interpret this Article of the Patent Law in view of the spirit of the Patent Law and of the object of the patent term-extending system. In this connection, recent judicial precedents, referring to the "working" of a patented invention with respect to the presence or absence of an infringement of the patent right to the invention, say that the judgment as to whether or not a act corresponds to the working of a patented invention shall be made only on the basis of Art. 68 and Art. 2, Par. 3 of the Patent Law but should not apply to Art. 67, Par. 2 of the Patent Law.

4. Countermeasures against patent infringement:

Against clinical trials made by a generic medicine manufacturer that will infringe a patent right during its term, is there any countermeasure to protect the patentee? In this connection, the matter as to whether or not the clinical trial made by a generic medicine manufacturer infringes the patent right to the medicine will be disputed in various points, as mentioned hereinabove, and the following discussion on this problem (that occurs especially in Japan) is based on the presumption that the clinical trials of that type infringe the patent right. In the following sub-sections, discussed is the presence or absence of any countermeasure for protecting a patentee against clinical trials as made by a generic medicine manufacturer.

(1) Injunction against clinical trials:

If any third party makes clinical trials of a patented medicine that infringe the patent right to the medicine, within the term of the patent right, the injunction against the clinical trials is reasonably accepted (Art. 100 of the Patent Law). For the patentee's request for the injunction against clinical trials, the patentee must present the evidence for the infringement. However, clinical trials of that type are generally made in secrete, and it is almost impossible for the patentee to find out the fact of the infringement and to present the evidence for the infringement.

For these reasons, at least at present, it will be impossible to expect the patent protection by the request for the injunction against third party's clinical trials as made within the term of a patent right.

(2) Injunction against manufacturing and sale of patented medicine after the expiration of the term of patent right:

Is it possible to legally prohibit third party's manufacturing and sale of a patented medicine, of which the manufacturing was approved through clinical trials made by the third party during the term of the patent right to the medicine, after the expiration of the term of the patent right? Where the term of the patent right has expired before the sale of a generic medicine, the patent right shall not apply to the medicine and therefore the sale of the medicine does not infringe the patent right. Since the term of the patent right has expired, the patentee cannot request the injunction against the manufacturing and sale of the medicine. In Foipan Case (decided on May 16, 1997 in the Tokyo District Court), the plaintiff requested the injunction against the sale of the defendant's medicine, of which the manufacturing was approved through the defendant's clinical trials as made during the term of the plaintiff's patent right to the medicine, after the expiration of the term of the plaintiff's patent right to the medicine, but the court decision was against the plaintiff, saying that "there is no room for the approval for the plaintiff's request for the injunction against the defendant's sale of the medicine since the plaintiff's request is based on the expired patent right".

(3) Injunction against the use of data obtained through illegal act:

1) Even if the clinical trial of a medicine made by a generic medicine manufacturer caused no substantial loss to the patentee of the patent right to the medicine in those days, the promoted competitive sale of the generic medicine by the generic medicine manufacturer would cause any loss to the patentee in future after the expiration of the term of the patent right. Regarding this problem, German and Dutch courts rendered interesting decisions.

2) In a German court case, "Sch. AG vs. S.P. GmbH et al" (Reference Material 3-6), where the defendant was said to have performed the field test using a patented chemical of the plaintiff for the purpose of obtaining the official approval for the manufacturing of the chemical within the term of the plaintiff's patent right to the chemical, the court prohibited the defendant's use of its data as obtained through the field test for the application for official approval for the manufacturing of the chemical within the term that might be presumed to correspond to the period of time which the defendant would have taken for the field test to be effected after the expiration of the term of the patent right.

In a Dutch court case, "Generics B.V. vs. Smith Kline & French Laboratories Limited" (Reference Material 3-12), the court, saying that, if the defendant be allowed to use its experimental data and information, which had been illegally obtained before the expiration of the plaintiff's patent right, just after the expiration of the patent right, such would put the plaintiff in an unfavorable position in the market, prohibited the defendant's use of the experimental data for the period of time necessary for the defendant to obtain the same experimental data (that is, for 14 months).

As has been mentioned hereinabove, the German and Dutch courts recognized that, even if the clinical trial of a medicine made by a generic medicine manufacturer caused no substantial loss to the patentee of the patent right to the medicine in those days, the promoted competitive sale of the generic medicine by the generic medicine manufacturer would cause any loss to the patentee in future after the expiration of the term of the patent right. These decisions thus rendered the injunction against the defendant's use of the data, which the defendant had obtained through the illegal action, for the purpose of protecting the plaintiff (= patentee) from the pressing, defendant's illegal action.

3) The reasonability of those court decisions in Germany and Holland and the applicability thereof to Japanese cases are discussed hereinunder.

The Germany and Dutch court decisions are such that, since clinical trials as made during the term of a patent right is not reasonable, as being a premature working, the sale of the generic medicine must be delayed for the period of time for the premature working, and these decisions will be reasonable from the viewpoint of equity. Unfortunately, however, the law system in Japan is different from that in those countries, and we can find no rules in any Japanese laws that may be the ground for such decisions. In fact, in some Japanese cases for the same claim as that in such German and Dutch cases, the court judges decided against the plaintiff's claim, saying that the Patent Law is to protect the patentee's economical benefit only within the settled period of term of the patent right but is not to protect it after the expiration of the term of the patent right.

For these reasons, in Japan, it is difficult to ensure the patent protection by any legal means at least at present, and no one can expect any favorable measures except for the related administrative guidance.

(4) Demand for damages, and demand for restoration of unjust enrichments:

Except for the patent protection by the injunction against any third party's act on a patented invention, a patentee may appeal to the law for the demand for damages and the demand for restoration of unjust enrichments. Briefly, a patentee can appeal to the law for the demand for damages, provided that the amount of the actual damages can be clarified, that the reasons for the damages resulting from the patent infringement can be clarified, that the intentional or accidental patent infringement by a third party can be verified, and that the demand is not barred by statute. It would not be difficult for a patentee to verify the intentional or accidental patent infringement. If the amount of the actual damages could not be clarified, a patentee shall receive a so-called license fee. However, since the patented substance used in clinical trials is generally small, the license fee will also be very small. If the patent infringer obtained any profits, the profits would be presumed to be the damages, and the patentee could demand the restoration of such unjust enrichments from the infringer.

5. Conclusion:

The key to the solution of this problem resides in, after all, "how and to what degree the freedom of the 'working' of a patented invention by a third party shall be limited after the expiration of the term of the patent to the invention". Despite that situation, the related articles in the Patent Law were partly amended at the time when the patent term-extending system was introduced into the Patent Law (in 1987) without satisfactory recognition and discussion on this problem, which would now be the essential ground for having produced the problem.

On the other hand, the generic medicine manufacturers association in the United States of America (National Association of Pharmaceutical Manufacturers) have shown their comments on this problem, which are such that the Japanese system with no rule corresponding to the U.S. Bolar Provision (Art. 271(e)) is unfair.

With the recent increase in research and development costs and with the recent severe situation surrounding medicines, the discussion on the present theme will be more and more active. In order to obtain any definite solution of this problem, the Patent Law must be interpreted objectively in careful consideration of the conformity of the Patent Law with the system for official approval for manufacturing medicine that is governed by the Ministry of Health and Welfare, on the premise of the objective interpretation of the Patent Law.

Reference Material 1: Related rules in Japan, European Countries and the United States of America

1-1. Related Articles in the Japanese Patent Law:

·Article 68:

A patentee shall have an exclusive right to commercially work the patented invention.

·Article 69 paragraph 1:

The effects of the patent right shall not extend to the working of the patent right for the purposes of experiment or research.

2-1. Related articles in European Countries:

·Article 60(5)(b) of the Patent Law of England

(5) An act which, apart from this subsection, would constitute an infringement of a patent for an invention shall not do so if -

(b) it is done for experimental purposes relating to the subject- matter of the invention.

·Article 11-2 of the Patent Law of Germany:

The effects of the patent shall not extend to:

acts done for experimental purposes relating to the subject matter of the patented invention.

·Article 30(b) of the Patent Law of France:

The rights conferred by the patent shall not extend to:

(b)acts done for experimental purposes relating to the subject matter of the patented invention.

·Article 30(3) of the Patent Law of Holland of 1978:

The sole right shall not extend to acts exclusively done for experimental purposes relating to the subject matter of the patented invention, including the product obtained directly as a result of applying the patented process.

3-1. Related article in the United States of America:

·35 U.S.C. §271(e)(1):

It shall not be an act of infringement to make, use offer to sell, or sell within the United States or import into the United States a patented invention .... solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.

Reference Material 2: Related cases in Japan

2-1. Glyphosate Case (herbicide case):
Sho-60(wa)-7463, Sho-60(wa)-6428, Sho-61(wa)-671
In the Tokyo District Court
Court decision rendered on July 10, 1987

"The spirit of the provision of Art. 69, Par. 1 of the Patent Law is such that "experiment or research is not intended for making and selling the patented product but essentially for progressing technology to the higher stage, and therefore, if the effects of patent right extend to experiment or research, the progress of the technology would be hindered." In view of that spirit, the tests in this case for obtaining registration of the herbicide, that is necessary for selling herbicides, are not for the progress of the technology but is only for the sale of the defendant's herbicide."

2-2. Gramalil Case
Hei-7(yo)-769, Hei-7(yo)-770, Hei-7(yo)-771
In the Nagoya District Court
Court decision rendered on March 6, 1996

One of disputed points in this case is whether tests for obtaining official approval for manufacturing a medicine infringe a patent right or not.
Regarding Art. 69, Par. 1 of the Patent Law:

"Manufacturing the medicine to perform various tests for obtaining official approval for manufacturing the medicine in this case is not intended for progressing technology but for selling the defendant's medicine, thus, manufacturing the medicine in this case should not be said to be the working of the patent right for the purposes of experiment or research as regulated in Art. 69 of the Patent Law. Accordingly, the provision of that Article shall not apply to manufacturing the defendant's medicine."
Regarding Art 68 of the Patent Law:

"Since manufacturing the medicine to perform various tests for obtaining official approval for manufacturing the medicine was effected for the defendant's business, it should be said that the defendant commercially worked the patented invention as regulated in Art. 68 of the Patent Law."

2-3. Baccidal Case

Hei-7(yo)-760, in the Nagoya District Court

Court decision rendered on August 28, 1996

Like in Gramalil Case, one of disputed points in this case is whether the clinical trials for obtaining official approval for manufacturing a medicine infringe a patent right or not.

Regarding Art 69, Par. 1 of Patent Law:

"It is recognized that manufacturing and using the medicine in this case is intended for fixing the know-how of making tablets of the medicine and for obtaining the data which verify the fact that the defendant's tablets are equivalents of the plaintiff's tablets, where such data are necessary for obtaining official approval for manufacturing the medicine. Therefore, the tests performed by the defendant should not be said to be intended for progressing technology, and it should be said that the defendant's acts are not the working of the patent right for the purposes of experiment or research as regulated in Art. 69, Par. 1 of the Patent Law."

Regarding Art 68 of the Patent Law:

"It is recognized that manufacturing and using the tablets of the medicine for obtaining official approval for manufacturing the medicine was effected as a part of the defendant's business so that the defendant would be able to commercially manufacture and sell the tablets in future. Therefore, the defendant's acts were not within the scope of any personal or household acts, and it is recognized that the defendant commercially worked the patented invention as regulated in Art. 68 of the Patent Law."

2-4. Baccidal case

Hei-7(yo)-2213, Hei-7(yo)-2812

In the Osaka District Court

Court decision rendered on February 7, 1997

Regarding Art. 69, Par. 1 of the Patent Law:

"Since the defendant's acts were not intended for progressing technology but only for obtaining official approval for manufacturing the defendant's medicine, it must be said that the defendant's acts should not be the working of a patent right for

purposes of experiment or research as regulated in Art. 69, Par. 1 of the Patent Law."

Regarding Art 68 of the Patent Law:

"The defendant made an extremely small amount of samples of the defendant's medicine and performed various tests for preparing necessary documents for applying for obtaining official approval for manufacturing the medicine · · · the defendant's acts were intended for obtaining official approval for manufacturing the medicine in accordance with the provision of Pharmaceutical Affairs Law, thereby making it possible for the defendant to commercially sell the defendant's medicine after expiration of the term of the plaintiff's patent right. To that effect, the defendant's act should be said to be a part of the defendant's business, and it should be said that the defendant commercially worked the patented invention."

Regarding substantial illegality:

"Even though the defendant's acts were formally the working of the patented invention as a business as regulated in Art. 68 of the patent Law, it should be said that the defendant's acts come under "the preparation for business of working of the patented invention" as regulated In art. 5, Par. 2 of the Supplementary Provision of the revised Patent Law, and that they do not yet come under the "business of working of the patented invention". In addition, it should be said that the defendant's acts lack any substantial illegality as infringement of the patent right. · · · Even though the defendant's manufacturing and using such an extremely small amount of samples of the medicine to perform various tests, where the amount is limited to only the amount necessary in various tests, come under the working of the patented invention as a business, · · · the defendant's acts do not jeopardize at all the legal position of the plaintiff who has exclusive right to commercially work the patented invention."

2-5. Gramalil Case

Hei-7(yo)85, Hei-7(yo)-92, Hei-7(yo)-84, Hei-7(yo)-86

In the Toyama District Court

Court decision rendered on January 12, 1996

"Since a patent right shall not extend to the working other

than the working of the patented invention as a business (Art. 68 of the Patent Law), it should be said that the tests falling within the scope the patent right and manufacturing the medicine to be used for such tests do not fall under the working of the patented invention if those acts were not performed as a business and even if the provision of Art. 69, Par. 1 is applicable to such acts. Since the plaintiff has presented no prima facie evidence enough to verify the fact that the defendant's tests for obtaining official approval for manufacturing the medicine were to commercially work the patented invention, the plaintiff's assertion (that the defendant's tests infringe the plaintiff's patent right) is not reasonable.

2-6. Gramalil Case
Hei-8(ra)-4, Hei-8(ra)-5
In the Nagoya Higher Court
[Preliminary Court: Hei-7(yo)-85, Hei-7(yo)-92, Hei-7(yo)-84, Hei-7(yo)-86, in the Toyama District Court; reference material 2-5]
Court decision rendered on March 18, 1996

Since the defendant's tests and manufacturing the medicine are intended for selling the defendant's medicine, it is obvious that the defendant commercially worked the patented invention. Therefore, it is recognized that the defendant's acts illegally infringe the plaintiff's patent right.

2-7. Baccidal case:
Hei-9(ra)-137, in the Osaka Higher Court
[Preliminary Court: Hei-7(yo)-2213, In the Osaka District Court; reference Material 2-4]
Hei-9(ra)-138, in the Osaka Higher Court
[Preliminary Court: Hei-7(yo)-2812, In the Osaka District Court; reference Material 2-4]
Court decision rendered on April 15, 1997

From the formal position, there would be some room for interpreting the defendant's acts as working of the patented invention as a business as regulated in Art. 68 of the Patent Law.

However, the defendant's acts, that are to manufacture and use an extremely small amount of samples of the medicine for obtaining official approval for manufacturing the medicine, were intended for manufacturing and selling the defendant's medicine after the expiration of the term of the plaintiff's patent right which fall within the technical scope of the plaintiff's patent right. Therefore, the defendant's acts themselves did not yet substantially reduce the plaintiff's exclusive benefit derived from the plaintiff's patent right within the term of the patent right, and there was not great possibility that the defendant's acts would reduce the plaintiff's benefit.

Reference Material 3: Related cases in Europe

[England]

3-1. Monsanto Co. vs. Stauffer Chemical

Court: Court of Appeal

Date of judgment: Jul. 31, 1984

Subject: herbicide

The court found that the defendant's act of carrying out the field test for the defendant's herbicide for the purpose of obtaining official approval for the stability of the herbicide is the act that is directed to the enlargement of the scope of the subjects to which the herbicide is targeted (with utilizing the plaintiff's patented product), and that the defendant's act constitutes patent infringement.

The court found that the scope of the exemption of experimental use according to the Section 60(5)(b) of the Patent law shall limitatively apply to only the experiments which are directly targeted to a patented subject matter itself. In other words, this judgment is such that the exceptional rules as stipulated in this Section of the Patent law shall not apply to any experiments that are effected for the purpose of commercially embodying a patented invention or for the purpose of stretching it.

3-2. Upjon Co. vs. Thomas Kerfoot & Co., Ltd., Arthur H. Cox and Co., Ltd., and Evans Medical Ltd.

Court: Court of Appeal

Date of judgment: Oct. 20, 1987

Subject: sedative

The court confirmed as follows: In general, it is recognized that the application for obtaining official approval for manufacturing a medicine is for the purpose of commercial utilization of the invention of the medicine. However, if the application is based on the data obtained in experiments carried out in foreign countries, this shall not be the patent infringement as stated in Section 60(1)(a) of the Patent law.

The plaintiff's appeal was rejected for the following reasons: "An application for obtaining official approval is considered to utilize an invention for commercial purpose.

However, an application for the approval, if based on the experiments performed in foreign countries, does not constitute patent infringement. In the present case, the experiments were performed abroad, and the plaintiff presented no evidence enough to verify when and which experiment was performed in this country and when the application for the approval was filed. The plaintiff appealed to the low only with doubt.

3-3. Smith Kline & French Laboratories vs. Evans Medical Ltd.
Court: Patent Court
Date of judgment: Aug. 11, 1988
Subject: antiulcer (cimetidine)

The defendant, of which the application is now pending for official approval for licensing for two of plaintiff's three patents, the two having been opened for free working of the patented inventions. The defendant used the two basic patents for performing tests for obtaining arguments in opposition proceedings against the third patent. In the present case, the defendant's experiments were disputed as to whether or not they infringed the plaintiff's two patents.

Referring to the Monsanto Case in which it was decided that the objects of experiments as stated in 60(5)(6) indicate those of exemption of experimental use covers acts done for purposes with a "real and direct" relations between the purpose of the experiments and the subject matter of the patent, the court found that the defendant could not assert the legality of the defendant's experiments, which were directed to the patent different from the two patents as discussed herein about patent infringement (that is, the defendant's experiments which were effected for the purpose of obtaining arguments in opposition proceedings against the plaintiff's third patent), on the basis of 60(5)(6).

[France]

3-4. Science Union et Compagne vs. Les Laboratories Servier, Corbier RMDP Recherche Medicale, Development Pharmaceutique, and Laboratorie Roger Bellon
Court: Court of Appeal
Date of judgment: Nov. 27, 1984

Subject: (blank)

In France, the act for obtaining official approval for manufacturing and sale of a medicine was considered as a act for commercialization, and it was confirmed that the act constitutes patent infringement.

In the present case, however, since the official approval was granted 8 years before the expiration of the patent term, it was recognized that the defendant, of which the patent infringement was admitted herein, would have made considerable efforts for the commercialization of the medicine in France.

Therefore, it is worth mentioning that, if the official approval for the manufacturing the medicine had been granted just before the expiration of the patent term, the court decision would have been in a different way.

[Germany]

3-5. Bayer AG vs. Unannounced

Court: The Berlin District Court

Date of judgment: Sept. 9, 1984

Subject: coronary vasodilative (nifedipin)

The Court found infringement by the Defendant's act for manufacturing the medicine and clinical trials performed before expiration of the patent term in order to obtain the official approval.

It is to be noted that the defendant withdrew its appeal (so that the court decision is now valid), and that the court recognized any and every use of patented medicines in experiments as patent infringement with no exceptions even when the term of the patent was just before its expiration.

3-6. SCh AG vs. S.P. GmbH

Court: The Federal Supreme Court

Date of judgment: Feb. 21, 1989

Subject: herbicide (ethofumesat)

The court confirmed that the field test conducted by the defendant for obtaining a required official approval for the patented active ingredient prior to the expiration of the patent constituted infringement of that patent.

However, if the experiments for obtaining the regulatory admission for manufacturing such a patented substance shall be started only after the expiration of the term of the patent right, any generic chemical manufacturer could not start the manufacturing and sale of the patented substance just after the expiration of the patent, whereby the exclusive right of the patentee shall be extended over the legal term of the patent right.

In the present case, considering the fact that the defendant had already performed the experiments using the patented invention and the fact that the patentee would have such a contradictory benefit, the court obliged the defendant to remedy the injury by refraining from using the test results obtained through the infringement until the time the field test would have been completed if they had commenced only after expiration of the patent.

3-7. Boehringer Ingelheim vs. Dr. Rentschler Arzneimittel et al.
Court: The Federal Supreme Court
Date of judgment: Jul. 11, 1995
Subject: (γ-IFN)

This is the first published ruling concerning experimental use of patented substance for further diseases based on the present Patent law of 1981. The Supreme Court's decision for the interpretation of Art. 11, Par. 2 of the German Patent Law is that the subject for an experiment of a patented substance must be limited to only the subject matter of the patented substance itself, suggesting that any and every act for experiments shall be exempted from the responsibility as stipulated in this Article so far as it is to obtain information, or that is, it contributes to the scientific research relating to the subject matter of the patented invention (including its use of the invention).

In the present case, the Supreme Court concluded that any clinical trials to be made for the purpose of confirming whether or not γ-IFN is suitable to treatment of or relief from specific diseases, and, if suitable thereto, which administration and how dose are employable for the medicine does not constitute any patent infringement. A continuation of the former German case law denying the exemption of the experimental use, if market oriented purposes are involved or dominate, was explicitly rejected by the Supreme

Court. The Supreme Court emphasizes that it is not the intention of patent law to impede technical progress by preventing the full exploration of the subject matter of patents and their improvement.

[The Netherlands]

3-8. ICI vs. Medicopharma

Court: The Supreme Court

Date of judgment: Dec. 18, 1992

Subject: β-blocker (atenolol)

The Supreme Court confirmed patent infringement based on Art. 30 (3) of the Dutch Patent law, arguing that the exemption of experimental use is limited by this statute to acts done exclusively for experimental purposes which related to the subject matter of the patent. Since the acts done by the defendants had been done to comply with the regulatory requirements during the term of the patent, in order to be able to put a pharmaceutical covered by the patent on the market immediately after expiration of a patent, the Court confirmed patent infringement. In other words, the court decision is such that any generic maker can neither start the procedure for obtaining official approval for manufacturing of a patented substance nor start any commercial announcement for publicizing the expected potency of the medicine prior to the expiration of the patent which covers the medicine. Therefore, if a generic maker intents to have a clinical trials before the expiration of the patent, they have to make an license agreement with the patentee.

[Note: NAFARMA, which is an association of new medicine manufacturers, has given a favorable reception to this court decision, while generic maker insisted, referring to a newly-introduced system of SPC (supplementary protection certificate) for Pharmaceutical patents, that some rules should be accepted for approving any "preparations for business" to support the direct manufacturing and sale of generic medicines immediately after SPC.]

3-9. Kirin-Amgen vs. Boehringer Mannheim

Court: The Hague I Court of Appeal

Date of judgment: Feb. 3, 1994

Subject: erythropoietin

Boehringer Mannheimper performed Tests covered by the patent of Kirin-Amgen for screening and isolation of recombinant DNA coding for a human hormone (Erythropoietin). The tests were made partially for obtaining official approval and partially for evaluating potential further indications. The Court of Appeals held that the tests done for obtaining the official approval did not constitute exempted experimental use, but that the tests done for finding further indications constituted experimental use and were exempted from patent infringement.

3-10. Applied Research Systems vs. Organon International

Court: The Hague Court of Appeal

Date of judgment : Feb. 3, 1994

Subject: follicle Stimulation Hormone

The court held that the experiments do not follow purposes which are exclusively scientific or comply with the purpose of the Patent law such as further development of technology or the examination whether the invention is operable or can be improved. The court affirmed to grant a preliminary injunction.

3-11. Generics B.V. vs. Smith Kline & French Laboratories Limited

Court: The Supreme Court

Date of judgment: Sept. 29, 1995

Subject: antiulcer (cimetidine)

(i) Decision in the District Court (rendered on Oct. 13, 1993):

The court held that the act of the submission of samples as a required supplement to the request of Drug Registration Authorities, prior to the expiration of SFK's patent, constitute patent infringement. As a consequence, Generics was enjoined from relying on the registration obtained by infringing the patent for a time period corresponding to the time which would have been necessary to obtain the registration if the request had been filed only after the expiration of the patent. Specifically, the court decision was to prohibit the use of the experimental data for 14 months for the following reasons: "The injunctions were intended to prevent Generics from profiting by patent infringement and to

bring SFK in the same position in which it would have been if there had been no patent infringement."

(ii) Judgment of the Court of Justice (May 19, 1994):

The Court of Justice upholds the judgment forming the subject of this appeal.

(iii) Decision in the Supreme Court (rendered on Sept. 29, 1995):

Prior to giving any further decisions, the Supreme Court requests the Court of Justice of the European Communities to give preliminary rulings on the questions of interpretation of Community law, and defers all further decisions until the preliminary ruling of the Court of Justice will have been received.

Reference Material 4: Related cases in the United States of America

Roche Products, Inc. vs. Bolar Pharmaceutical Co., Inc.; 733F. 2d 858 (Fed. Cir. 1984)

The defendant, Bolar used a limited amount of a patented medicine for experiments necessary for FDA approval for a modified pharmaceutical composition. The plaintiff, Roche appealed to the law, asserting that the defendant's use infringes the plaintiff's patent right. Against the plaintiff's assertion, the defendant, Bolar argued, saying that the defendant's act is to use the patented medicine for experiments and therefore does not infringe the plaintiff's patent right. CAFC recognized that the Bolar's act infringes the plaintiff's patent right for the following reasons: "The assertion for the experimental use shall be limitatively applicable and should not apply to the experiments to be made only for the purpose of judicial approval."

Reference Material 5: Related cases in countries other than Japan, the United States of America and the European countries

5-1. In Canada:

[Like in the United States of America, the assertion for experimental use against patent infringement has been accepted in judicial cases also in Canada.]

• Micro Chemicals Ltd. vs. Smith Kline & French Inter-American Corp. (1971):

The defendant worked the plaintiff's patented invention on a small scale, for the purpose of obtaining the compulsory license right to the patent in accordance with the Canadian Patent Law. The Canada Supreme Court said as follows: "It is required that one who applies for a compulsory license right to a patent is proved to have the ability to work the patented invention. Therefore, the manufacturing of a small amount of the patented product for that purpose corresponds to experimental use of the patent even though it may produce any commercial benefits."

5-2. In New Zealand:

• Eli Lilly & Co. vs. Douglas Pharmaceuticals, Ltd.

In this case, the court judge, saying that "it is important that a patentee shall be adjacent to a strong position or can be on that position even after the lapse of its exclusive patent right in the market", accepted the injunction against the defendant's application for sales before the expiration of the term of the plaintiff's patent right.

• Monsanto Co. vs. Stauffer Chemical Co.

The defendant sold a patented herbicide product for field tests. The plaintiff appealed to the law, insisting that the defendant infringes the plaintiff's patent right. Against this, the defendant asserted that the defendant's act is to use the patented product only for experiments and does not therefore infringe the patent right. The court decided against the defendant, concluding that the defendant's assertion is unacceptable. The court further said as follows: "Even though for limited sales in the first, the defendant's act is completely the

preliminary step directed to a commercial start. If such sales are admitted, the defendant could offer substances that might be unavailable before certain future days, to customers to be in future. Therefore, the defendant's act infringes the plaintiff's exclusive right."

5-3 In Israel:

In Israel, it is ruled that "the utilization of an invention neither on a commercial scale nor with commercial character is not patent infringement as stipulated in the Patent Law."

Teba Pharmaceutical manufactured a certain amount of a patented product of Welcome, for the purpose of preparing official documents necessary for filing an application for approval for the manufacturing of the product in the health authorities and of preparing those necessary for applying for a compulsory license right to the patent. The patentee, Welcome appealed to the law, insisting that the Teba's act infringes the Welcome's patent right. The District Court concluded that "though being not on a commercial scale, the Teba's act has commercial character and therefore infringes the Welcome's patent right". It is said that the background of this court decision in Israel would be based on the absence of the rule of extending the term of a patent right.

After this court decision, however, the current tendency is toward the amendment to the Patent Law to the effect that the experiments for obtaining official approval for manufacturing a generic medicine after the expiration of the term of a patent right to the medicine might not be patent infringement.

UPDATE ON PROPOSED U.S. LEGISLATION

PIPA ANNUAL MEETING
TORONTO, CANADA

SEPTEMBER 25, 1997

Frederick T. Boehm, Esq.
Assistant General Counsel
IBM Corporation

The 104th Congress, which ended in 1996, was very active for IP legislation. While several pieces of legislation were enacted into law, a number of bills died short of actually passing. These were explained in detail in my 1996 PIPA paper. Since 1996 was the second and concluding year of the 104th Congress, the bills that failed to pass had to be re-introduced from scratch in 105th Congress which began in January 1997. As we shall see below, a number of bills have been re-introduced and are moving along toward passage.

I would like to begin by thanking the Intellectual Property Owners (IPO) for giving me their permission to excerpt from IPO material especially from IPO President Bud Barrier's testimony on H.R.400 given before the House Judiciary Subcommittee on Courts and Intellectual Property on February 26, 1997.

PATENT RELATED BILLS

In its first hearing of the 104th Congress, the House Subcommittee on Courts and Intellectual Property began consideration of a number of bills that would make major reforms to the US patent system. The most important of these was H.R.400, entitled "The Twenty First Century Patent System Improvement Act" which was sponsored by Rep. Howard Coble (R-NC). This is an "updated" version of

H.R.3460 which was approved by the Judiciary Committee in 1996. The major sections of the bill as first introduced are as follows:

1. Title I

This Title would convert the Patent and Trademark Office to a government corporation under the guidance of the Secretary of Commerce. Management of the PTO would be performed by a director appointed by the president and approved by the Senate. A management advisory board would advise the director on PTO operations. Serving under the director would be two top subordinates -- a Commissioner for Patents and a Commissioner for Trademarks.

A number of important advantages would flow from the conversion of the USPTO to a corporation:

- o Operating Flexibility - The USPTO as a corporation would have flexibility similar to that enjoyed by private businesses with regard to personnel systems, employee compensation, number of employees, management of contracts and office space, streamlined decision making, and ability to inject entrepreneurial spirit into its operations. By exempting the USPTO from government ceilings on the number of employees, the bill will allow the director to hire an many employees as the demand for services

requires. By exempting the corporation from several statutes, the bill gives the new corporation flexibility to manage its own contracts, office space and printing when it chooses. However, as a government corporation, the USPTO is not a private company, and Title 1 of H.R.400 does not "privatize" the PTO. The employees of the corporation would continue to be government employees. The corporation and its Director would be under the policy direction or oversight of the President, the Secretary of Commerce, the Congress, and Comptroller General of the United States and the corporation would have its own Inspector General.

o Borrowing Authority - authority for the USPTO to borrow money, subject to appropriate limits. The bill gives the USPTO authority to issue bonds or other debt instruments to assist in financing the corporation's activities. For example, borrowing authority will enable the USPTO to build its own buildings, if that option is determined to be more economical than leasing. Borrowing authority, coupled with the exemption from statutes such as the Federal Property and Administrative Services Act of 1949, will allow the Director to make decisions on office space without the involvement of the General Services Administration.

Borrowing authority also is needed in order to finance other large, one-time capital improvements such as automating the search files. In the past decade the PTO has spent several hundred million dollars of current user fee income on search file automation that has been of benefit primarily to future users of the Office. Borrowed money is a better source of funding for such future improvements.

o Voice for Users - A statutory advisory/committee of private sector experts to advise the head of the corporation and members would be created. It would be subject to Congressional oversight but would also provide a mechanism to give private sector fee payers a voice in how the corporation is managed. The board will provide valuable information through an annual report transmitted to the Committees on the Judiciary of the House and the Senate and to the President.

2. TITLE II

Title II would amend Section 122 of Title 35 to provide for publication of patent applications 18 months after filing. A new section would also create pre-issuance "provisional rights," which would permit a patent owner to collect a

reasonable royalty for the period of infringement that began after publication but before the date the patent issued. Moreover, patent term extensions for delays due to interferences, secrecy orders, appellate review, or "unusual administrative delay" by the USPTO in issuing the patent would be provided. (Title II was significantly modified by amendment prior to passing - see pages 12-13).

The current U.S. patent system, which requires that applications be kept confidential until the patent is granted, causes uncertainty about the status of rights in new technology and unreasonably delays dissemination of technological information. U.S. manufacturers who invest in technology development and new product design are entitled to an early warning that their design or approach may be blocked by a patent.

H.R.400 strikes balance between, on the one hand, the interest of U.S. patent applicants in keeping applications confidential and, on the other hand, the interest of the general public in being able to obtain early access to information in patent disclosures. Once a technology owner elects to seek patent protection, the public needs to know of the possibility of patent rights within a reasonable time. Every other major industrialized county in the world has supported its manufacturing base by striking this balance and publishing patent applications 18 months after filing.

A small minority of interested parties have opposed publication of patent

applications, calling the bill the "Steal American Technologies" act. Anyone who believes that we can stop foreign competitors from using American inventions by avoiding publication of patent applications is misinformed. The only way American inventors can stop competitors from manufacturing abroad for foreign markets is to obtain patents abroad. U.S. patent law reaches only U.S. activity, whether under existing law or under H.R.400. Inventions are being made public today when a U.S. patent is granted or a U.S. inventor files abroad and the application is published, and anyone can use the invention in a country where no patent exists.

Under the publication system proposed in H.R.400, U.S. manufacturers will benefit particularly from early English language access to application filed in the U.S. Patent Office that are of foreign origin (which now comprise 45 percent of all applications). H.R.400 measures the 18-month publication period from the earliest claimed patent application priority date. Since foreign-origin applications typically are filed abroad about 12 months before they are filed here and they claim that early priority date, those applications will be published about 6 months after they are filed here, a year earlier than domestic-origin applications. This will level the playing field with foreign countries that already are publishing U.S. applications in their language within 6 months after our applications are filed abroad.

The general goal set by Title II is that the Patent and Trademark Office should issue an initial report on patentability of applications no later than 15 months after filing, and publish every application no later than 18 months after filing. This would give the applicant 3 months to decide whether to withdraw the application to preserve secrecy of inventions that do not qualify for patent protection. Since PTO workloads will not always allow patentability reports to be issued within 15 months, however, an exception to 18 month publication is provided in Title II that allows deferral of U.S. publication of applications that are not being filed abroad until three months after the patentability report.

A key part of Title II is section 204, which creates provisional rights to royalties in published applications. Existing law does not give any right to a royalty for use of an invention covered by a patent application. H.R.400 establishes a provisional right to a royalty beginning with the date of publication of the application. The right to a royalty for the period between publication and the date of patent grant complements the full patent rights (rights to damages and injunctions) that run from date of patent grant until 20 years after filing.

Also, this title expands the authority of the PTO to extend patent terms that otherwise would expire in 20 years after filing of the application. The 20 year patent term (which came into effect in June 1995) had previously, removed the

incentive for delay by applicants and created an incentive future patent owners to commercialize inventions promptly. It closed a loophole in our patent system that allowed applicants to abuse the system by intentionally delaying the issuance of patents and unfairly extending the effective period of patents far into the future. The 1995 law provided for extension of the term for up to 5 years when the grant of the patent is delayed due to an interference proceeding, a secrecy order, or an appellate review, but does not provide for an extension of the term in other situations where substantial delay may occur that is beyond the control of the applicant.

Section 208 of H.R.400 provides additional term extensions in appropriate cases -- extensions of up to 10 years in the case of appellate review or unusual administrative delay, and unlimited extensions for delays caused by secrecy orders and interference proceedings. The bill also automatically extends the term day-for-day whenever the Patent and Trademark Office takes either more than 14 months to reach an application initially, or more than four months to reply to correspondence from the patent applicant or for other action on the application.

3. TITLE III

This Title would add a new Section 273 to Title 35, creating a limited "prior user" infringement defense for parties who independently developed and used a patented technology at least one year before the patent application was filed. Prior users would get a royalty-free license to practice the invention and any variations and improvements that do not infringe additional claims of the patent.

Title III strikes a balance between the rights of patent owners and the rights of prior domestic commercial users of patented inventions. This is particularly important for processes used in U.S. industry where a manufacturer does not file a patent application. Without a prior user right, such a manufacturer might find itself blocked from using manufacturing equipment and processes upon which its business had been based for many years. Manufacturers should not be required to file patent applications on all aspects of their manufacturing processes to assure future quiet enjoyment of their investment.

Foreign countries already are providing manufacturers in their countries the advantage of a prior domestic use right and H.R.400 recognizes that it is time that the U.S. does the same.

4. TITLE IV

This Title creates a new Section of Title 35 to curtail the fraudulent practices of invention development companies. It requires disclosure of the firm's track record and allows an inventor to withdraw from contracts for such services within a reasonable time. It also prohibits improper practices by invention development firms, making knowingly providing any false or misleading statement or omission of material fact by an invention development firm a misdemeanor that can result in a fine of up to $10,000 per offense.

5. TITLE V

This Title refines and improves the patent reexamination law that was passed by Congress in 1980. In 1980, patent reexamination law was intended as a quick and inexpensive alternative to court litigation on issues of patentability involving earlier patents or printed publications. However, that the present reexamination process has not delivered on this expectation, primarily because it is an **ex parte** proceeding.

Title V strengthens the reexamination process by giving third parties greater participation in patent reexamination proceedings. For example, the bill gives third part requesters a right to comment in writing on each response filed by the patent

owner. This added opportunity for participation in the proceedings will encourage use by third parties.

One of the most important changes in patent reexamination proceedings made by Title V is to give third party requesters a right of appeal for the first time. Third party requesters will be able to appeal to the Board of Patent Appeals and Interferences and to the Court of Appeals for the Federal Circuit.

Other improvements in the reexamination process made by Title V include expanding the issues that can be reexamined to include section 112 of the patent code (except for the "best mode") and consolidating the order for reexamination and the first office action.

Title V seeks to avoid duplication of effort in court litigation and Patent and Trademark Office reexamination. The bill estops third party requesters that participate in a reexamination from later asserting patent invalidity in another forum if the party raised or could have raised the issue in the reexamination.

Title V does not give challengers a new avenue to initiate actions against patent owners, but merely improves an avenue that already exists. The PTO will continue to order a reexamination of a challenged patent only if it determines that the challenges has raised a "substantial new question of patentability." If this condition is not met, then no reexamination is declared, and the patent owner does

not need to get involved or spend money. The Office's decision that there is no substantial new question of patentability is not appealable.

The above describes H.R.400 as it was first introduced by Rep. Coble in January 1997. As we shall see, significant changes were made before the bill was actually passed by the Sub-Committee, Committee and Full House.

The legislation was amended and favorably reported by the Subcommittee on Courts and Intellectual Property on March 5. The subcommittee consolidated into H.R.400 the text of H.R.673 (see below) to prevent Congress from diverting PTO user fees to the general treasury. Several amendments, primarily for clarification, were also made.

At the March 12 markup of H.R.400 by the full Judiciary Committee, the panel agreed to a group amendment offered by Rep. Bob Goodlatte (R-Va), before approving the legislation on a voice vote. The most significant change was the addition of a new Section 124 calling for a General Accounting Office study of "the feasibility and desirability of making the trademark operations of the Patent and Trademark Office a separate Government corporation or agency" (thus separating the PTO's patent and trademark functions). Several other largely technical amendments were also agreed to by the committee.

On April 23, the full House passed H.R.400, including an amendment offered by Coble and one offered by Kaptur.

The Kaptur amendment narrrows the scope of the bill's early publication provisions. It prohibits mandatory pre-grant publication of patent applications filed by small businesses, universities and independent inventors unless: the application has either been pending for more than five years from filing; or it has been previously published by the PTO; or it is not under PTO appellate review, in an interference proceeding, or under any secrecy order, and it is not being diligently pursued by the applicant or has been abandoned.

The Kaptur amendment also completely eliminated Title V from H.R.400 which would have reformed reexamination procedures.

The Coble amendment makes adjustments to the bill's provisions on reorganizing the PTO as a government corporation. Essentially, the PTO's mandate would be limited to the day-to-day operational functions of patent examination and trademark registration, while policy matters would be handled within the Commerce Department.

During the April 23 floor debate, the lawmakers defeated two other amendments. The first would have narrowed the scope of the bill's prior use

defense. The other would have allowed publication of a patent application only after two PTO office rulings pertaining to the patentability of the invention.

It should also be noted that, a Rohrabacher substitute amendment was defeated on April 17 by a vote of 178 to 227. It would have established a 17-year patent term beginning from grant, or a 20-year term from filing, whichever is greater.

H.R.673

H.R.673, which was introduced on February 11 by Rep. Coble, would curtail Congress' is ability to redirect to the general treasury user fee surcharges collected by the PTO under the 1990 Omnibus Budget Reconciliation Act (OBRA). It would amend OBRA by reclassifying the patent fee surcharges as "offsetting collections" rather than "offsetting receipts" so that they, like other PTO fees, would be "collected by, and available only to the USPTO".

This bill is important because the 1997 appropriations bill for the Commerce, Justice and State Departments withheld a record $54 million of USPTO surcharges. This withholding already has caused the PTO's patent examining operations to curtail staffing and already has contributed to a rise in the pendency time of patent

application in the PTO that is expected to further increase if the withholding continues.

On February 6, the Clinton Administration sent to Congress its 1998 budget request that proposes even more drastic withholding of fee surcharges. The budget proposes to withhold $92 million in 1998, which is nearly 20 percent of the PTO's patent examining budget. The Administration also is recommending withholding the full amount of the patent fee surcharge fund - $119 million - in each of fiscal years 1999-2002. It has been estimated that this level of withholding will cause the average pendency time of patent applications in the PTO to increase from the current level of about 21 months to about 42 months by 2003.

If the withholding of fee surcharges continues, the only alternative to allowing pendency time of applications to increase to 42 months or more will be to enact into law a large increase in the fees that are paid to the PTO to file, issue, and maintain U.S. patents. An across-the-board increase in patent fees on the order of 20 percent, in addition to the annual cost of living adjustment, may be required this October to offset the loss of income to the Patent and Trademark Office from the planned withholding and diversion patent fee surcharges.

U.S. inventors and industry are still adjusting to the long-term effects of several large increases in patent fees that were put into place in the 1980s and early

1990s. Only recently have owners of U.S. patents felt the full impact of the maintenance fees that came into effect gradually on portfolios of existing patents. Moreover, in the past two years, U.S. industry and the U.S. government have undertaken a campaign to persuade the major trading partners of the U.S. to reduce the cost of obtaining and maintaining patents in their countries. If we are to be successful in convincing other governments to reduce fees, we will have to avoid raising our own. Thus, the only solution is for Congress to stop the withholding and diversion of patent fee surcharges at once. H.R.673 is designed to eliminate the withholding and diversion beginning in 1999 by reclassifying patent fee surcharges as "offsetting collection collections," a category of government funds that is unlikely to be diverted in the same way as existing fee surcharges, which are "offsetting receipts."

On March 5, 1997, H.R.673 was approved by the Subcommittee and its contents were subsequently incorporated into H.R.400.

H.R.811

As he did in the last Congress, Rep. Dana Rohrabacher emerged again as the major opponent of US patent law reform. On February 25, he introduced H.R.811,

entitled "Patent Term Restoration Act of 1997" which is very similar to his 1996 bill (H.R.359) which was defeated last May.

This bill would amend Section 154 of Title 35 of the United States Code to change the patent term so that it ends on the **later** of 17 years from the date of grant of the patent or 20 years from the earliest effective filing date on which the application was filed in the United States. The bill also would permit publication of patent applications only when the application has been published abroad through the filing of a foreign patent application or when the application has been in the system for more than five years due to dilatory delays by the applicant.

Consequently, this bill would overturn the GATT Implementation Law enacted in December 1994, which had changed the patent term so that it ends no more than 20 years from the earliest effective filing date. This GATT implementation provision had gone beyond the strict requirements of GATT for the purpose of expressly preventing submarine patents. A submarine patent is obtained by an applicant legally manipulating the patent system to prevent it from issuing until many years after the original filing date. The 20 year term was also passed to implement a bilateral agreement with the Government of Japan. In exchange, Japan agreed to accept Japanese patent applications in the English language, with a

translation to be submitted 2 months later, and to allow the correction of translation errors.

Fortunately, at least in my view, this bill was tabled by the Sub-committee on March 5, 1997. It remains to be seen however, how Rohrabacher will resurrect H.R.811 after the Senate passes S.507 (its version of H.R.400 discussed below) and the House/Senate conference attempts to reconcile the two versions.

S.421

Senator Frank Lautenberg (D-NJ) on March 11 introduced S.421 to reorganize the Patent and Trademark Office as a government corporation under the policy direction of the Department of Commerce. This bill which is a updated version of a proposal Lautenberg sponsored in the last Congress resembles a pending H.R.400 and since it is so similar, its contents will not be covered again here.

S.507

On March 20, Senator Orin Hatch (R-Utah) introduced S.507 entitled "The Omnibus Patent Act of 1997. It is the Senate counterpart of the recently passed H.R.400.

S.507 would transform the Patent and Trademark Office into a government corporation that is independent in its day-to-day management of personnel, procurement and other matter but takes policy guidance from the Commerce Department. It would be headed by a "director" who is appointed by and serves at the pleasure of the president. A Patent Office and a Trademark Office would be established as separate units of the PTO -- each headed by its own commissioner who would be appointed by the director.

S.507 also contains a number of patent law reforms very similar to those in H.R.400. These include 18-month publication of patent applications, patent term extensions for unusual administrative delays by the PTO, and a limited infringement defense for prior users of an invention.

Unlike the final House bill, however, S.507 does not contain protection for inventors from invention promoters but does contain expanded third party participation in reexamination proceedings. Under S.507, anyone who requests reexamination must identify the real party in interest and reexamination is not commenced unless the PTO makes an unappealable threshold determination that a "substantial new question" is raised. Grounds are limited to earlier patents and printed publications -- matters that the PTO handles well and matters that can be

settled by material found on the face of the prior art itself (no testimony needed). Finally, either the third party or patent owner can appeal the outcome.

S.507 also does not include the provision in H.R.400 to end the diversion of the user fee surcharge for deficit reduction.

On May 22, the Senate Judiciary Committee amended and passed S.507 by voice vote with only a dissenting vote by Senator Thompson (R-TN). As a result of the amendments, mandatory publication is limited to applicants who also file abroad (i.e., not different treatment for small or large applicants). However, as an inducement for everyone to a publish, the amended bill calls for the patent to issue as soon as one claim is allowed. After it is issued, examination will continue and additional claims will be automatically added to the issued patent by the USPTO as they are allowed. Finally, under the amended S.507, parties are estopped from raising issues in other proceedings that they raised, or could have raised in the reexamination.

After passage by the full Committee, Senator Hatch attempted to have the bill taken up by the full Senate but was unsuccessful because of opposition from a small group of Senators including Senator Helms. In an attempt to break this impasse, Senator Hatch proposed to accelerate Senate passage of S.507 by adding it as an amendment to the Commerce, Justice, State Appropriations bill.

After consulting with the Senate leadership, however, he withdrew his amendment. In exchange, the Senate leadership agreed to work with Senator Hatch on bringing S.507 to the Senate floor in the fall (hopefully in early October) as a separate measure.

H.R.1197

On March 20, 1997, Rep. Smith (R-ORE) introduced H.R.1197 to protect owners of plant patents from the unauthorized sale of plant parts taken from illegally produced plants by making plant patent provisions more consistent with the Plant Variety Protection Act. This new provision removes an ambiguity in Title 35 and is particularly aimed at the import of such illegal plant parts.

COPYRIGHT RELATED BILLS

H.R.672

H.R. 672, introduced Feb. 11 by Coble, makes certain technical amendments to several copyright law reforms enacted by the 103rd Congress to permit more effective administration of those statutes.

Specifically, the bill would amend provision dealing with: the Copyright Royalty Tribunal with Copyright Arbitration Royalty Panels; satellite TV

compulsory license; and the Uruguay Round Agreements Act which restored copyrights in certain foreign works that have fallen into the US public domain. The bill was approved March 5 by the House Subcommittee on Courts and Intellectual Property and was approved by the full house on March 18, 1997.

S.505 & H.R.604

These two bills would amend Section 301(c) of the Copyright Act to extend for an additional 30 years the minimum term of protection for pre-February 15, 1972 sound recordings. For works in general, including joint works, which currently enjoy protection for the life of the author plus 50 years, Section 302(a) and (b) of Title 17 would be amended to set the copyright term at life of the author plus 70 years for works created after January 1, 1978.

The copyright statute would also be amended to add 20 years to the current terms of anonymous works, pseudonymous works and works made for hire. For Section 303 works that were unpublished before January 1, 1978, but which are published before December 31, 2002, the earliest expiration date would be changed from December 31, 2027, to December 31, 2047.

The bills would also make changes to renewal terms and would also amend the infringement exemptions for libraries at Section 108 of the Copyright Act.

Under a new provisions, libraries, archives and nonprofit educational institutions could reproduce and distribute copies of works for preservation, scholarship or research during the last 20 years of the copyright, if the works are not being commercially exploited and cannot be obtained at a reasonable price.

Finally, another provision in S.505 would clarify that the public distribution of phonorecords prior to 1978 did not constitute publication of the underlying musical composition as had been held by the Ninth Circuit's ruling in *La Cienega Music Co. v. ZZ Top*, 44 F3d 813, 333 USPQ2d 1437 (CA 9 1993).

H.R.672/S.506

The House of Representatives on March 18, passed H.R.672 to permit more effective administration of several copyright law reforms enacted by the 103rd Congress. The bill adjusts statutory language on satellite compulsory licensing, copyright restoration and copyright fees, sound recording performance rights, jukebox licenses, certain rules having to do with notice to infringers of live broadcasts and digital audio recording royalty rules. The Senate Committee approved a similar bill, S.506, on April 17.

H.R.1621

Rep. Sonny Bono (R-Calif) on May 15 introduced legislation (H.R.1621) to extend most copyright terms by 20 years. Two other term extension bills (H.R.604 and S.505) are also currently pending (discussed above). Like those bills, the Bono bill would amend Section 301(c) of the Copyright Act to add an additional 20 years to the minimum term of protection for pre-February 15, 1972 sound recordings. For post-January 1, 1978 works in general, which currently enjoy protection for the life of the author plus 50 years, the three bills would amend Section 302(a) and (b) to set the copyright term at life of the author plus 70 years. Other provisions of this bill are similar to previously discussed bills and are not repeated here. H.R.1621 has been referred to the Judiciary Committee.

H.R.72

H.R.72 was introduced on January 7 to ensure that authorized computer repair services may activate the software in a computer during servicing without incurring infringement liability. The same legislation was incorporated into an omnibus copyright reform passed by the House last June.

Section 117 of the Copyright Act currently provides an infringement exemption for the owner of a computer program to copy the program as an

"essential step" in its utilization. It is generally agreed that this provision permits the loading of a program into the computer's random access memory of RAM.

However, the Ninth Circuit in 1993 held that a computer service company's loading of copyrighted software into a computer's RAM for servicing purposes was an infringement because the Section 117 right is limited to owners of the software, and does not extend to licensees.

H.R.72 would amend Section 117 to provide a specific infringement exemption for "the owner or lessee of a machine to make or authorize the making of a copy of a computer program if such copy is made solely by virtue of the activation of a machine that contains an authorized copy of the computer program, for purposes only of maintenance or repair of that machine."

S.1044

On July 21, 1997 Senator Leahy (D-VT) introduced S.1044 to reinforce sanctions for criminal copyright infringement of works worth $5,000 or more even if the infringer did not seek or obtain any commercial gain.

Currently, Section 506(a) of the Copyright Act provides criminal penalties when a copyright is willfully infringed for purposes of "commercial advantage or private financial gain". The bill would define financial gain at 17 USC 101 to

mean the "receipt of anything of value, including the receipt of other copyrighted works." Under this new definition, criminal copyright infringement would include the trading of pirated software. The bill would also add a new offense prohibiting willful copyright infringement by reproduction or distributing, including by electronic means, during a 180 day period of 10 or more copies of one or more copyrighted works when the total retail value of the copyrighted work or the total retail value of the copies of such work is $5,000 or more. The bill makes clear that to meet the monetary threshold either the infringing copies or the copyrighted works must have a total retail value of $5,000 or more. The penalty would be a misdemeanor if the total retail value of the infringed or infringing works is between $5,000 and $10,000, and up to 3 years' imprisonment if the total retail value is $10,000 or more.

TRADEMARK RELATED BILLS

The House Subcommittee on Courts and Intellectual Property on June 10 approved bills H.R.567 and H.R.1661 to implement two international trademark treaties that the United States is expected to join. The bills make the adjustments needed to bring U.S. trademark law into conformity with the 1989 Madrid Protocol and the 1994 Trademark Law Treaty.

H.R.567, the Madrid Protocol Implementation Act, would amend the Lanham Act to clear the way for U.S. accession to a 1989 protocol supplementing the 100-year old Madrid Agreement for the international registration of trademarks. The legislation would allow U.S. applicants to obtain registration of their U.S. trademarks abroad by filing a single international application with the Patent and Trademark Office.

Amendments to H.R.1661 would also permit functionality to be grounds for canceling and defending against an incontestable trademark.

ANTITRUST RELATED BILLS

H.R.401 was introduced on January 9 to prohibit courts that are hearing antitrust cases from presuming "market power" merely from the existence of intellectual property rights.

Market power is the ability to determine the overall market price of a product or to exclude competitors from the market. Two Supreme Court decisions have suggested that patents and copyrights may automatically give the intellectual property owner market power. While several courts have refused to apply the market power presumption despite the comments by the Supreme Court, the Ninth

Circuit did adopt the presumption in *Digidyne Corp. v. Data General Corp.*, 734 F2d 1336 (CA 9 1984), 28 PTCJ 292. This bill would legislatively overturn that result.

COPYRIGHT INFRINGEMENT LIABILITY IN ON-LINE SERVICES

A number of parties are involved in the provision of on-line service such as the Internet. In these services, the basic communication facilities are typically provided by common carriers such as AT&T; computers, storage and programs are provided by the on-line service provides such as AOL or Prodigy; and content is typically provided by yet another party such as libraries, universities and a myriad of other copyright owners. When infringing materials are transmitted over such on-line services, it has not been clear which of the above parties are liable for such copyright infringement. While case law has started to address this issue, on-line service providers have sought greater certainty through legislation and have argued that they can not be expected to monitor and control everything that is transmitted over their service.

On July 17 Rep. Coble introduced H.R.2180 entitled the "On-line Copyright Liability Limitation Act." The bill exempts entities from liability for direct

infringement or from vicarious liability for the infringing acts of others "based solely on transmitting or otherwise providing access to material on-line if the person:

a) does not initially place the material on-line;
b) does not generate, select, or alter the content of the material;
c) does not determine the recipients of the material;
d) does not receive a financial benefit directly attributable to a particular act of infringement;
e) does not sponsor, endorse, or advertise the material; and
f) (i) does not know, or is not aware by notice or other information indicating, that the material is infringing, or
(ii) is prohibited by law from accessing the material..."

(In direct infringement, the defendant himself causes the infringement to occur. Vicarious liability occurs where the defendant, (1) has the right and ability to control the infringer's acts, and (2) receives a direct financial benefit from the infringement).

An entity is also exempted from liability, except for injunctive relief, for any contributory infringement based solely upon any conduct in (a) through (f) above which is exempt from liability for direct infringement. Even injunctive relief is not applicable if it is not "technically feasible and economically reasonable to carry out." (Contributory infringement occurs when one, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another).

Finally, the legislation provides that there is no duty on the part of the entity to seek out information about whether infringing activity is occurring -- I.e., there is no duty to police or monitor content. There is also to be no liability imposed upon an entity which removes or blocks access to material in response to information "by notice, or otherwise... indicating... that the material is infringing, whether or not the material is infringing." However, material mispresentation of allegations of infringement will potentially render that person liable for damages and attorneys' fees arising from removing or blocking access to material, whether or not actual infringement did occur.

If a person making use of copyrighted material on-line does not qualify for the exemption because of a failure to fall within one or more of the criteria above, that does not mean that the person is necessarily able for infringement. If the exemption does not apply, the doctrines of existing law will come into play, and liability will only attach to the extent that the court finds that the requirements for direct infringement, contributory infringement or vicarious liability have been met, and the conduct is not excused by any other exception or limitation such as fair use.

CONCLUSION

As of the writing of this paper in mid August, the above is the status of all significant intellectual property legislation known to the author. Obviously, it will be an interesting Fall as we see how much of this is actually passed into law.

(1) Title: A Study on the WIPO Draft of Patent Law Treaty (PLT/CE/IV)

(2) Date: September, 1997 (The 28th International Congress in Toronto)

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

(4)Authors: Masayoshi Urayama, FUJI XEROX CO., LTD.
Tohru Kirino, RICOH COMPANY, LTD.
Teturo Tanaka, ASAHI CHEMICAL INDUSTRY CO., LTD.

(5) Key words: WIPO, Harmonization Treaty, Patent Law Treaty and PLT

(6) Statutory Provisions:
Patent Law Treaty Draft (PLT/CE/IV), Articles 4, 5, 13, 14 and 15

(7) Abstract:

The Patent Law Treaty aims to realize an international harmonization in the form or contents of application and a procedure in view of "improving the convenience of users", three sessions of the Committees of Experts were held between 1995 and 1996, and the Treaty drafts (PLT/CE/I to III) prepared by the International Bureau of WIPO were discussed in respective committees.

Taking into account the views expressed in the sessions, the International Bureau prepared a new Treaty draft (PLT/CE/IV). This new draft of Treaty was discussed in the fourth session of the Committee of Experts held between June 23, 1997 and June 27, 1997.

We herein express our basic stand on this new draft of Treaty and also report an result of our consideration with respect to Article 4 (Filing Date), Article 5 (Application), Article 13 (Extension of a Time Limit Established by the Office), Article 14 (Extension of a Time Limit Established by National Legislation or Regional Treaty) and Article 15 (Belated Claiming of Priority).

A Study on the WIPO Draft of Patent Law Treaty (PLT/CE/IV)

I. Introduction

In order to consider the harmonization of a patent system, 10 sessions of the WIPO Committee of Experts had been held from 1985 to 1990, the views expressed therein were worked up into the Basic Proposal (PLT/DC/3), which was submitted to the first session of the Diplomatic Conference held in June 1991. However, since the United States of America declared to suspend adoption of so called First-to-file provision in 1994, it was difficult to continue the Diplomatic Conference.

In order to break the above situation, the Advisory Committee Conference for WIPO Patent Harmonization Treaty was held in May 1995, however, in this session, no agreement was reached for the Patent Harmonization Treaty on the Basic Proposal. Then, in order not to loose momentum for substantive harmonization, it was advised to hold at least two times of sessions of the Committee of Experts for promoting the patent harmonization limiting to formal matters before the WIPO General Assembly in 1997. In accordance with this advice, four times of sessions were held from 1995.

In the fourth session of experts, the Delegation of the United States of America declared that it was still not in a position to discuss substantive patent law harmonization, that accordingly, the distinction between formal and substantive matters is important, that while "the issue of unity of invention" was not explicitly included in any of the Articles, implicit inclusion in the form or contents reference in Article 5 raised some concerns for the United States of America, and that however, it is important to harmonize formal matters. The Delegation of Japan said that it is important to successfully conclude the treaty for harmonization of formalities and stressed the importance of harmonizing substantive matters. The Delegation of Canada expressed that it would preferable to include more substantive matters such as, for example, a grace period, that it is hoped that it would be possible to resume discussions of substantive matter harmonization in the not too distant future, and that even if only in respect of formalities issues, harmonization would still be significant benefit for patent offices and users of the system.

As mentioned above, predicting the prospect of the substantive matter harmonization is difficult, however, it seems that aims of every states are basically common in view of simplifying formal matters to be required by every states with respect to filing application and making the system friendly for users. We express

our basic stand on the Treaty draft (PLT/CE/IV) here and also report an result of our consideration with respect to each of Articles.

II. Our basic stand

We basically support this Patent Law Treaty since formal matters harmonization simplifies procedures of the patent applicant and also reduces the application costs. Further, we strongly desires that provisions with respect to "unity of invention" in every states are harmonized to the provisions with respect to "unity of invention" in the Patent Cooperation Treaty. Because it is a significant burden for the applicant to combine or divide the applications of one country in the other country.

We also basically support Article 13 (Extension of a Time Limit Established by the Office), Article 14 (Extension of a Time Limit Established by National Legislation or Regional Treaty) and Article 15 (Belated Claiming of Priority). Because these provisions are for the purpose of relieving the loss of the protection of the invention due to no action within the predetermined time period.

We desire early conclusion of the formal matters since the formal matters themselves are important and we believe that the real harmonization is not realized until the substantive matters harmonization as well as the formal matters harmonization are realized. Accordingly, we expect that the real harmonization will be concluded in the near future by discussing the substantive matters harmonization in the sessions of the Committee of Experts after this Patent Law Treaty has been concluded.

III. Study of Each Provision

We have studied this draft of Patent Law Treaty and the minutes of the fourth session of the Committee of Experts (dated June 27, 1997). The result of study will be reported below in the form of table.

Table 1

Problems and Suggestions with respect to the draft of the Patent Law Treaty (1) (Article 4)

Article or Rule	Problem	Opinion or Suggestion
Article 4 Filing Date		
(3) [Subsequent Compliance with Requirements]	No problem	None
(a) Where the application as initially filed does not comply with one or more of the requirements referred to in paragraph (1) and all of the requirements referred to in paragraph (1) are subsequently complied with within the time limit prescribed in the Regulations, the filing date shall be the date on which all those requirements are complied with. Otherwise, the application shall be regarded as not having been filed.		
(b) Where drawings referred to in the application but in fact not included are furnished to the Office within the time limit prescribed in the Regulations, the filing date shall be the date on which the Office has received those drawings or the date referred in subparagraph (a), whichever is later. Otherwise, any reference to said drawings shall be considered non-existent. However, the Office shall be free to consider the date of the receipt of the elements referred to in paragraph (1)(a); or, where applicable, the date on which all of the requirements referred to in paragraph (1) are subsequently complied with under subparagraph (a), as the filing date where the later furnished drawings do not contain new matter.	Under the Patent Cooperation Treaty, when the applicant files drawings after application, a date on which the Office has received the drawings is regarded as an application date. In accordance with the above treatment by the Patent Cooperation Treaty, although the drawings do not include a new matter, the application date is delayed to a date on which the drawings were filed so that there is a lack of protection for the applicant.	We agree with this sub-paragraph (b). This is because it can solve the problems under the Patent Cooperation Treaty.

Table 2-1

Problems and Suggestions with respect to the draft of the Patent Law Treaty (2) (Article 5)

Article or Rule	Problem	Opinion or Suggestion
Article 5 Application (1) [Requirements] (a) No Contracting Party shall, except if otherwise provided for by this Treaty, require compliance with any requirement relating to the form or contents of an application which is different from or additional to any requirement applicable under the Patent Cooperation Treaty to an international application.	The Delegation of the United States of America stated that it could not accept any obligation relating to unity of invention (refer to Minutes No. 76).	We desires that articles or regulations with respect to the unity of invention in each of the countries harmonize with the articles or regulations of the Patent Cooperation Treaty. We understand that "the form of an application" in this paragraph includes "the unity of invention". We desire that this paragraph is approved in accordance with our understanding.
(b) The Regulations shall provide for the rights and obligations of the Contracting Parties as regards the use of paper or of electronic or other means for the filing of application. In particular, the Regulations may (i) oblige any Contracting Party to accept the electronic filing of applications with its Office, (ii) allow any Contracting Party which accepts the electronic filing of applications with its Office to exclude the filing of applications with its Office in writing on paper.	The Delegations of the United States of America, Japan and Denmark and the Representative of the EPO expressed support for this paragraph as proposed. However, a large number of delegations expressed the view that applicants should have the right to file applications in paper form and that no office should be obliged to accept electronic filings. After some discussion, it was agreed that the paragraph (1) (b) should be redrafted so that the Regulations could not oblige any Contracting Party to accept the electronic filing of applications with its Office (refer to Minutes No. 77).	It seems to be impossible to oblige the electronic filing of applications to developing countries. It is preferable to gradually increase the countries which accept the electronic filing of applications.

Table 2-2

Problems and Suggestions with respect to the draft of the Patent Law Treaty (3) (Article 5)

Article or Rule	Problem	Opinion or Suggestion
Article 5 Application		
(5) [Information Concerning Corresponding Foreign Applications and Grants] The provisions of this Article shall be without prejudice to the rights of a Contracting Party under Article 29.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights.	It was agreed that this paragraph should be omitted and that the Notes should make it clear that the requirements under the omitted paragraph were not requirements as to "the form and content" of the application for the purposes of Article 5(1) (a). It was also agreed that the Notes would make it clear that requirements for duty of disclosure under the law of the United States of America were also not requirements as to the "form and contents" of an application under Article 5(1) (a), and would thus not be restricted under the draft Treaty (refer to Minutes No. 85).	We consider that it is proper to exclude the procedure of filing the Information Disclosure Statements (IDS) from "the form or content" of the application because whether or not it is material to patentability of the invention is a substantive matter of the patent law.
(6) [Priority]		
(b) Any Contracting Party may, where the earlier application is not in the language or in one of the languages of or admitted by the Office and the priority claim is relevant to the determination of whether the invention concerned is patentable, require that a translation, in the said language or in one or the said languages, of the earlier application be furnished, upon invitation by the Office, within the time limit prescribed in the Regulations.	It was agreed that the International Bureau should consider whether a Contracting Party should be permitted to require a translation of the priority document where the validity of the priority claim of the application was relevant to the determination of whether it was comprised in the state of the art with respect to another application (refer to Minutes No.90).	Since the priority is claimed for the purpose of not only obtaining a patent of the present application but also securing a position of the prior art against the other applications, it is unavoidable that the translation is required if the validity of the priority affects the determination whether or not the present application becomes to the prior art against the other applications.

Table 3

Problems and suggestions with respect to the draft of the Patent Law Treaty (4) (Article 13)

Article or Rule	Problem	Opinion or Suggestion
Article 13 Extension of a Time Limit Established by the Office		
(2) [Request Made After the Expiration of the Time Limit] (a) Where an applicant or owner, or a third party concerned, requests, in a communication to the Office, the extension of a time limit established by the Office for an action before the Office after that time limit has expired, such extension shall be granted, provided that the request is made, and all the requirements in request of which the said time limit applies are complied with, within the time limit prescribed in the Regulations.	(A) It was agreed that this paragraph related to restoration, not extension, and should be transferred to Article 14 (refer to Minutes No. 187).	(A) Agree.
(b) Where the applicant or owner, or a third party concerned, failed to comply with the time limit for making the request under subparagraph (a), subparagraph (a) shall apply, mutatis mutandis, in respect of that time limit, provided that the requesting party may be required to provide evidence that the said time limit was not complied with in spite of all due care required by the circumstances.	(B) It was agreed that the reference to "a third party concerned" should be deleted but that the Notes should explain that a Contracting Party would be permitted to provide for an extension at the request of a third party (refer to Minutes No. 185).	(B) Agree.
	(C) It was agreed that the concept "in spite of due care required by the circumstances" should be replaced by the concept "the failure to comply was unintentional" (refer to Minutes No. 188).	(C) Agree (because it is sufficient to prove fault so that burden of the applicant for proving is lightened).
(6) [Intervening Rights] (c) Where an application had been refused or considered withdrawn or abandoned or a patent had been revoked following failure to comply with a time limit and an extension of the time limit is granted under paragraph (2), the application of patent shall not be invoked against any person who, in good faith, during the period between the expiration of the time limit for the action before the Office and the date on which all the requirements in respect of which the said time limit applies were complied with, has used or made effective and serious preparations for using the invention.	It is suggested that the period referred to in sub-paragraph (a) should terminate on the date on which the public was informed that the patent application had been restored (refer to Minutes No. 195).	Agree (it is difficult for the public to know that "all the requirements are complied". Therefore, the period should terminate on the date on which the public was informed that the patent application had been restored from the Office).

Table 4

Problems and Suggestions with respect to the draft of the Patent Law Treaty (5) (Article 14)

Article or Rule	Problem	Opinion or Suggestion
Article 14 Extension of a Time Limit Established by National Legislation or Regional Treaty (1) [Request for Restoration] (a) Where a communication to an Office has been refused or considered withdrawn or abandoned following failure to comply with a time limit established by national legislation or under a treaty providing for the grant of regional patents applicable to a Contracting Party for an action before the Office, the Office shall, upon request made within the time limit prescribed in the Regulations by the applicant or owner, or a third party concerned, treat the said action as having been done within the former time limit, provided that all the requirements in respect of which the former time limit applies are complied with within that time limit prescribed in the Regulations and that the requesting party may be required to provide evidence that the former time limit was not complied with in spite of all due care required by the circumstances. (2) [Exceptions] No Contracting Party shall be required to grant an extension under paragraph (1) in respect of (i) a time limit for an action before a board of patent appeal; (ii) a time limit for a payment of fees where the said extension would go beyond the period of grace for maintenance fees prescribed under Article 5 bis (1) of the Paris Convention; (iii) a time limit or period referred to in Article 15; (iv) a time limit for lodging an opposition; (v) a time limit for filing a request for search or examination.	It was agreed that the concept "in spite of due care required by the circumstances" should be replaced by the concept "the failure to comply was unintentional" (refer to Minutes No. 188). (i) It was suggested that this item be broadened to read "a time limit for action before a board of appeal, tribunal, or other disputes body (refer to Minutes No. 203).	Agree (because it is sufficient to prove fault so that burden of the applicant for proving is lightened). (i) Agree.

Table 5
Problems and Suggestions with respect to the draft of the Patent Law Treaty (6) (Article 15)

Article or Rule	Problem	Opinion or Suggestion
Article 15 Belated Claiming of Priority		
(1) [Delayed Submission of Priority Claim] (a) Where an application could have claimed the priority of an earlier application but, when filed, did not contain such priority claim, the applicant shall have the right to claim such priority in a separate declaration submitted to the Office within the time limit prescribed in the Regulations. (b) Any Contracting Party may require that the delayed submission of priority claim under subparagraph (a) be subject to a declaration by the applicant stating that such delay in submitting the priority claim was not intentional.	No problem. It was approved as the draft is.	Agree.
(2) [Delayed Filing of the Subsequent Application] (a) Where an application ("the subsequent application") which claims or could have claimed the priority of an earlier application has a filing date which is later than, but within two months from, the date on which the priority period expired, the Office shall restore the right of priority, upon request made in a communication to the Office before the expiration of the said two-month period and before any technical preparations for publication of the subsequent application have been completed, if the request states and the Office finds that, in spite of all due care required by the circumstances, the subsequent application was not received by the Office within the priority period. The request for restoration shall state the grounds on which it is based, and the Office may require that evidence be furnished to the Office.	It was agreed that the concept "in spite of due care required by the circumstances" should be replaced by the concept "the failure to comply was unintentional" (refer to Minutes No. 188). It was suggested that the proposed limitation regarding "before any technical preparations for publication" was unnecessary. The International Bureau explained that a proposal for a similar provision would be submitted to the PCT Assembly (refer to Minutes No. 217). It was agreed that the International Bureau should revise this paragraph in accordance with the decision of the PCT Assembly (refer to Minutes No. 218).	Agree (because it is sufficient to prove fault so that burden of the applicant for proving is lightened). We believe that the proposed limitation regarding "before any technical preparations for publication" is necessary. Because it is necessary to consider conveniences of searching by a third party.

International Trade Mark Laws and Trade Secrets

Prepared by:

Bidyut K. Niyogi

Harris Corporation
1025 West Nasa Boulevard
Melbourne, Florida 32919

August 1997

International Trade Mark Laws & Trade Secrets

This paper has two separate and distinct facets. The first relates to trade marks, brand names or the like and the other to some aspect of trade and business secrets. You will appreciate that one of the most interesting things in intellectual property matters is a trade mark, and essentially it touches the lives of nearly everybody. Trade marks, trade names, brand names, a depiction of a device, a brand, heading or label, a name, a significant word, letter, numeral or any such combination including packaging shapes as well as color, and a mixed combination of colors are popularly known in the business as a trade mark. There are different facets of trade marks such as a registered trade mark which is essentially adapted to distinguish the goods registered in a Registry of Trade Marks and others which are capable of distinguishing the goods generally in a different section of the same Register. All countries maintain such a Trade Mark Register.

Trade marks are generally symbols applied to the goods offered for sale in the market place, and it identifies them with a particular business entity. It is immaterial if the goods are imported or bought from other systems, repackaged and sold as long as there is a business connection with the origin of this product. There are other forms of trade marks besides goods that are sold, such as certification trade marks which are intended to certify a particular quality of product coming from a group of manufacturers selling the same product to a particular standard. Then you have what is known as a defensive trade mark to protect the trade mark irrespective of use. Trade marks sometimes can be in different shapes, forms, and colors. The most famous shape is that of a Coca Cola bottle which is of a fluted design. Packaging in any distinctive form is also regarded as a form of trade mark. Then there is what is regarded as Service Trade Marks, used for specialty services.

It would not be out of place to mention the foundation upon which the law relating to trade mark and trade names was and is developing. The public gets accustomed through trade mark and trade names so that they are used to a particular standard of a particular product for the offer of a particular sale of goods as typically the same condition to a particular merchandise. For example, everyone knows of Ford Motor Company's car quality and the beverage coming out of a Pepsi Cola bottle. These are universally known. It is well known in law that no person or corporation or business group is entitled to represent his goods as being goods of another party, and no one is permitted to use any trade mark, sign, symbol, or device without making a direct reference to a trade mark and its origin. This is a comprehensive understanding of the law with respect to businesses that own trade mark or trade name designations.

One of the interesting features of a trade mark and its international appeal is that it has an indefinite life unlike a patent or an industrial design which are of a

limited monopoly whereas an unregistered trade mark can continue forever and registered trade marks can be renewed every seven or ten years depending on the country.

Another very interesting aspect of trade marks is licensing of trade marks or permitted use of trade marks to others. This use can either be registered or unregistered, and its use is commonly referred to as a registered user agreement. There are statues in different countries governing registered user agreements, and such permitted use requires several conditions specifically as to quality, and required inspections so that no dilution of registered trade marks, trading areas, etc., occurs. Moreover, the trade marks can be licensed for different terms in exchange of royalties which are agreed to between the different parties. Licensing of trade marks is very universal and is carried out virtually in all countries of the world. Multinational corporations regularly license their trade marks through their subsidiary or joint ventures associated on a regular basis in return for continuing revenue.

In the international arena trade marks are gradually becoming regionalized, and the first step has been the creation of one of the most interesting trade mark activities by the creation of the European Community Trade Mark (CTM). The objective of the CTM is to fulfill the recognized need for an arrangement for Trade Marks whereby undertakings can, by means of one procedural system, obtain a single Registration to which uniform protection is given and which has effect throughout the entire area of the European Union now comprising fifteen countries (Austria, Belgium, The Netherlands, Luxembourg, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Portugal, Spain, Sweden and the United Kingdom).

The Regulation governing the CTM has been long in the offing. On October 29, 1993, the EU Council of Ministers decided that the CTM's Office or to give it its correct but cumbersome name, the Office for Harmonisation in the Internal Market (OHIM) would be located in Spain, and later the Spanish authorities decided on establishment of this office in the city of Alicante in south-east Spain.

The CTM Regulation was adopted on December 20, 1993 and was effective in Member States of the EU from April 14, 1994. The OHIM has accepted CTM Applications from January 1, 1996. All Applications filed between January 1, 1996 and March 31, 1996 will be deemed to have been filed on the effective date which is April 1, 1996.

The CTM Regulation does not replace national Trade Mark laws nor the various national systems for the registration of Marks in the various EU countries. It provides an alternative to national Trade Mark filings in the EU.

Principal Features of the CTM

Unitary Character

Article 1(2) - "A Community Trade Mark shall have a unitary character. It shall have equal effect throughout the Community; it shall not be registered, transferred or surrendered or be the subject of a decision revoking the rights of the proprietor or declaring it invalid, nor shall its use be prohibited, save in respect of the whole Community". It is thus not possible to hold a CTM Registration excluding one or more EU countries. It is all or nothing. A single prior conflicting Trade mark on the national Register in one EU country can form the basis for opposition against the entire CTM Application. If an opposition is successful, an Applicant must abandon the Application or alternatively may convert into a series of national Applications and enjoy the same date of filing and priority or seniority of the CTM Application.

The CTM has one very interesting characteristic, and it has no restrictions about who may apply. Article 5 of the CTM is as follows:

Article 5 - Unlike the limitations of the Madrid (International) Agreement or Protocol, an Applicant may be a national of any State party to the Paris Convention. Also included are nationals of all EU countries and those who are domiciled or who have a real and effective industrial or commercial establishment within the EU or in a State party to the Paris Convention. There is also provision allowing Application by nationals of countries exercising reciprocal agreements with EU countries.

Registration can be in respect of goods and services and includes a very broad definition and does include slogans, sounds, smells, and gestures. The CTM has five official languages which are English, French, German, Spanish and Italian. However, an Application for a CTM may be filed in any one of the eleven official EU languages, i.e., English, French, German, Spanish, Italian, Dutch, Danish, Greek, Portuguese, Finnish, and Swedish. Moreover, the Applicant must indicate a second language which must be one of the five official languages of the OHIM. This second language may then be used as a possible language of opposition, revocation or invalidity proceedings.

The CTM has an initial life of registration for a period of ten years from the date of filing and may be renewed indefinitely for additional ten-year periods. No evidence of use is ever required for renewal. It may be licensed for some or all of the goods of services for which is registered and the license may be exclusive or non-exclusive. The advantages of the CTM are:

1. A single Application with a single examination resulting in a single Registration covering the fifteen countries of the EU namely Austria, Belgium, The Netherlands, Luxembourg, Denmark, Finland, France, Germany Greece,

Ireland, Italy, Portugal, Spain, Sweden, and the United Kingdom. This involves a substantial cost saving over national filings.

2. Easier administration. Only one renewal is required and recordals of assignments, changes of name, licenses, etc., can all be done centrally before the OHIM.

3. In the case of national Registrations, it is necessary to use the Trade Mark in each EU country to protect against a revocation action in that EU country. A CTM Registration only requires use in one EU country.

4. In some instances, a CTM Registration may provide an option as to the country in which to institute infringement proceedings.

That covers some parts of Europe as we move eastward to Japan. Japan has acted very quickly to amend their 1994 trade mark law treaty and provide amendments in 1996 to the trade mark act. There are certain specific changes made to the trade mark act in order to implement the trade mark treaty. But other measures are entering in to facilitate the removal of trade marks from the Register so that there would be room for new marks to come into the system.

1. Changes Made to the Trade Mark Act in Order to Implement the Trade Mark Law Treaty:

(a) Extension of Protection Under the Paris Convention to contracting parties to the Trade Mark Law Treaty

2. Measures to Facilitate Removal of Unused Trade Marks from Registry:

a) Improvement of Procedure for Trial hearing to Cancel Registration of Unused Trade Marks

b) Availability of Option to Pay Registration Fees in Two Installments

c) Abolition of Associated Trade Marks System

One of the most drastic changes has been the abolition in the Associated Trade Mark System which has a legacy acquired by Japan from the British Trade Mark Act of 1938.

The 1996 amendment makes one serious or significant change and that is in the acceleration of granting trade mark rights and also at the same time providing for protection of well known trade marks.

It would not be out of place to mention that the Japanese system of rights from their government does provide for protection of famous and well-known trade marks, and also for protection of Armorial Bearings and Other State Emblems of Contracting parties to TLT.

The relevant provisions of the Trade Mark Act are items (ii) and (v) of Article 4(1), which lists unregistrable trade marks on the ground of public interest or for the purpose of protecting private interests or the consuming public. Items (ii) and (v) after the amendment respectively provide as follows:

> (ii) A trade mark which is identical or similar to the armorial bearing or other State emblem of any of the countries of the Union of the Paris Convention, any Member of the World Trade Organization, or *any Contracting party to the Trad Mark Law Treaty* (other than the national flag of any of the countries of the Union of the Paris Convention, any Member of the World Trade Organization, or *any Contracting Party to the Trade Mark Law Treaty*), and designated by the Minister of International Trade and Industry;
>
> (v) A trade mark which is identical or similar to the supervision or certification stamp or symbol of the government or a municipal body of Japan or any of the countries of the Union of the Paris Convention, any Member of the World Trade organization, or *any Contracting party to the Trade Mark law Treaty* designated by the Minister of International Trade and Industry and is to be used for goods or services identical or similar to the goods or services for which such stamp or symbol is used; (*Emphasis added.*)

As mentioned above one of the acute problems under the Trade Mark Act is the accumulation of unused trade marks in the Registry. The Trade Mark Act provides two measures to encourage the use of the registered trade marks and thereby to remove unused trade marks from the Registry: (1) Article 40 provides the procedure for a trial hearing to cancel the registration of a trade mark which is not in use for more than three consecutive years; and (2) Article 19(2) disqualifies for renewal registration a trade mark which is not in use for more than three years before the filing of an application for renewal registration.

Turning from Japan to the large land mass of the Peoples Republic of China, it is interesting to note that the Peoples Republic of China has promulgated temporary regulations on the identification and administration of well-known trade marks. On August 14, 1996 the "Temporary Regulations on the Identification and Administration of Well-known Trade Marks" were formally promulgated by the Chinese State Administration for Industry and Commerce and came into force on the same day.

These Chinese laws and regulations on the protection of well-known trade marks have the following special features:

(1) The well-known trade marks shall be valid trade marks already registered in China;

(2) After a well-known trade mark is identified, the Chinese Trade Mark Office will publish the identification result and issue a certificate;

(3) An identified well-known trade mark shall be valid for three years;

(4) No matter if it is because of trade mark disputes (including oppositions, disputes and cancellations) or of the needs of trade mark infringement cases, the requests for identification of well-known trade marks must be put forward separately with the Well-Known Trade Mark Identification Commission under the Chinese Trade Mark Office.

(5) The protected scope of the well-known trade marks identified in accordance with the Regulations can be expanded to the goods of different classes and can also apply to the procedures of opposition, cancellation and infringement.

(6) Once a well-known trade mark has been identified, such act as naming an enterprise with a name which imitates the well-known trade mark shall be prohibited by law.

The Peoples Republic of China also has wide spread use of trade mark licensing specifically an important mode by using regulated trade marks so as to provide joint ventures and other international corporations to enter into extensive use of trade marks. The Trade Mark Office of the State Administration for Industry and Commerce of China suggests that a trade mark license should have defined contents.

Now we come to China's neighbor known as Taiwan. On April 15, 1997 newly amended acts of the Patent and Trade Mark Laws were passed by the Legislative Yuan. The most important change was to extend the application of claiming right of priority to those applicants from the countries which reciprocally grant priority to the R.O.C. applicants. Thus, national treatment will be claimed and applied as soon as the R.O.C. becomes a member of WTO.

The only important feature has been the principles of a cancellation. A cancellation based on non-use within the previous three years must be filed in respect of all the similar goods designated for use with the registered mark.

This is somewhat different from non-use principles of most other major industrial countries of the world and should be referred to where one is seeking registration for a similar or identical mark in Taiwan.

Briefly, within the British Commonwealth, essentially covering the United Kingdom, Australia, New Zealand, Canada, South Africa, and India, the countries generally follow the British Trade Mark Act and Rules of 1938. However, in view of the recent European Unified European Trade Mark, the British government will be compelled to revise the Trade Mark Act of 1938 soon to meet the European Unified standards. It is not certain, however, how the rest of the British Commonwealth countries will adapt to these changes.

Singapore has just decided to update its trade mark laws and the following are the changes proposed or suggested:

1. Priority Claim Based on Community Trade Mark ("CTM") Application Possible

The Registrar of Trade Marks Singapore has confirmed that an application in Singapore may claim priority based on a CTM application provided the CTM applicant is from a state to which convention applications are extended under the relevant provision in the Trade Marks Act. Currently all member countries of the Paris Convention may claim priority. Therefore, where applicable please provide particulars of the CTM application number, the applicant's state, the date, month and the year of filing *within 6 months* from the date of the CTM application.

2. Applications Based on Benelux

The Registrar has also confirmed that an application filed in Singapore may claim priority based on a Benelux application. Therefore, such application should also be filed in Singapore within 6 months from the date of filing the Benelux application.

3. Changes to Trade Mark Act Expected

At a press conference held in late March 1997, the government announced that in line with making changes to various legislations, top of the agenda would be a new Trade Marks Act to replace the current one which has been in force since 1938. It is expected that major changes will be put in place by the end of next year. While no further information is available, the changes may be in line with the laws now existing in the United Kingdom and/or Australia.

Nothing would be complete without a reference to Hong Kong. This former British Crown Colony which was annexed to the Peoples Republic of China on July 1, 1997 has already issued rules, regulations and guide lines for its patent system and registered design laws. However, it has been silent with respect to trade marks, and it is expected that the trade mark laws of the Peoples Republic of China will have to be the guiding line for the trading public.

Now we turn to what is happening in Indonesia. The Indonesian Trade Mark Office is apparently denying the processing of trade mark applications

because of a new requirement imposed suddenly. This requirement stipulates that all trade mark renewal applications should be supported by a statement, from the authority in charge of the relevant business sector, certifying that the marks are in use.

Before we proceed to trade secrets, we should consider one other aspect of trade mark law which is closely linked to what is popularly known as passing off. No party or individual is allowed to pass off one classification of manufactured goods of a superior nature as his own goods. The law does not tolerate this sort of passing off of famous names even if the trade mark or trade names are not registered. Since trade marks have an indefinite life, one of the things which one should always look out for when acquiring a company is whether the rights to the trade marks or trade names or similar property rights are transferable to the new owners because some have considerable good will and monetary value.

Since this paper also covers trade secrets, it has to no doubt incorporate confidential information. This is a subject we all meet with every day, especially with respect to ordinary products, such as food, beverage, medicine, and a host of household products. Of course, the most popularly known trade secret is the famous trade name beverage "Coca Cola". All over the world re-engineering or re-inventing the trade secret formula has been generally attempted with little or no success.

The most important thing to note is that a trade secret is and must be a trade secret of a "specific and particular" product that is novel and of inventive nature belonging to an individual or a corporation or party and not just general secrets of the trade.

The principle purpose of trade secret law is to maintain utmost secrecy of the product, or process being protected. It is essential to inform and regulate the secrecy through strict notification and control over all employees who may have access to this specific and particular information. Plant tours should be fully regulated so as not to permit persons skilled in the particular secret product area to duplicate manufacturing processes after even visual inspection. Adequate protection must be implemented to effectively maintain a trade secret. It is stressed that unprotected disclosure will soon nullify and terminate a trade secret. Every attempt should be made to protect loss of secrecy when displaying, circulating goods that embody a trade secret.

It goes without saying that any form of data or disclosure in a patent specification available to the public will generally harm the effective protection of a trade secret. Consequently, filing of patent applications have to be very carefully detailed with the absolute minimum information disclosed on the trade secret aspect of the "specific and particular" product that contains the trade secret.

Trade secrets that utilize methods and technical know-how, specifically machines that are used to make the product, are the most difficult ones to safeguard and those that have been acquired from third parties. Such third parties must enter into binding agreements to protect and safeguard any secret information directly and indirectly that they have acquired in their vendor status.

Trade secrets cover numerous areas such as business, lists, pricing and cost structures, names of international trading partners, and their fiscal and marketing arrangements.

Licensed consultants and advisors who may be allowed to have access to trade secrets must be carefully appraised and agreements entered into with bondable financial liability clauses, specifically with respect to their relationship with competing parties.

In any business transaction, whether domestic or international, there must be contractual arrangements and clarifications with respect to trade secret confidential status. All such international agreements must be protected by the type and choice of law, if the contract is suddenly terminated and things go wrong, leading to an uncertain protection of the trade secret. The need for unreasonable restraint also can be a dangerous pitfall.

Most industrial countries have considerable protection laws for trade secrets and confidential relationships. The venue for disputes and arbitrations should be settled preferably at a court of law and using language suitable to the trade secret owner.

The areas where problems generally arise are between employers and employees, including the definition of an employee, or against outside consultants and third party employees. Others involved are special purpose machine suppliers and vendors with specific knowledge provided in the use of the trade secret, as well as Directors of different companies who serve on several Boards of Directors who may inadvertently give out information. Partners in joint ventures are one of the worst problem areas in such confidential relationships. Turn-key projects are indeed the worst places for trade secrets because when the turn-key project is handed over to the new owner, there can be a real problem if there are no special enforcement clauses for leakages and misuse of trade secrets.

Trade secrets, as noted, are limited to specific and particular trading matters but extend themselves into the realm of confidential information, and third parties may at times be very honest concurrent discoverers by their own technical and research staff. Consequently, grant-back clauses with parties entitled to confidential information is a way to protect and safeguard such confidential information.

Of course, no discussion on trade secrets and confidential information is complete without a reference to industrial espionage. Such espionage can start from within and extend rapidly to ex-employees along with lawyers who are entrusted to write patent applications and those drafting licenses and joint-venture agreements. Even accountants and financial advisors who are asked to evaluate the financial terms of trade secrets and confidential information have their impact on licenses, joint ventures, etc., and are to be carefully selected to prevent espionage.

The important thing to consider is that both trade secrets and confidential information can be marketed like any other form of property, particularly trade secrets, in a licensed form or outright sale. The only likely situation when this fails is when unpatented, novel products are not protected through normal channels of intellectual property or in disclosures of patent applications that are laid open to public inspection, and others reverse engineering to obtain the missing data for their personal benefit. One will always find in most corporate settings equipment and devices belonging to competitors which are stripped down for analysis and investigations for technical information and infringement studies.

Before concluding on trade secrets, please note that on October 11, 1996, President Clinton signed into law the Economic Espionage Act of 1996 (the "Act"), which for the first time made the misappropriation of trade secrets a federal crime. This resulted in part from the famous Volkswagen vs. General Motors (Jose Lopez case) on international trade secrets misappropriates.

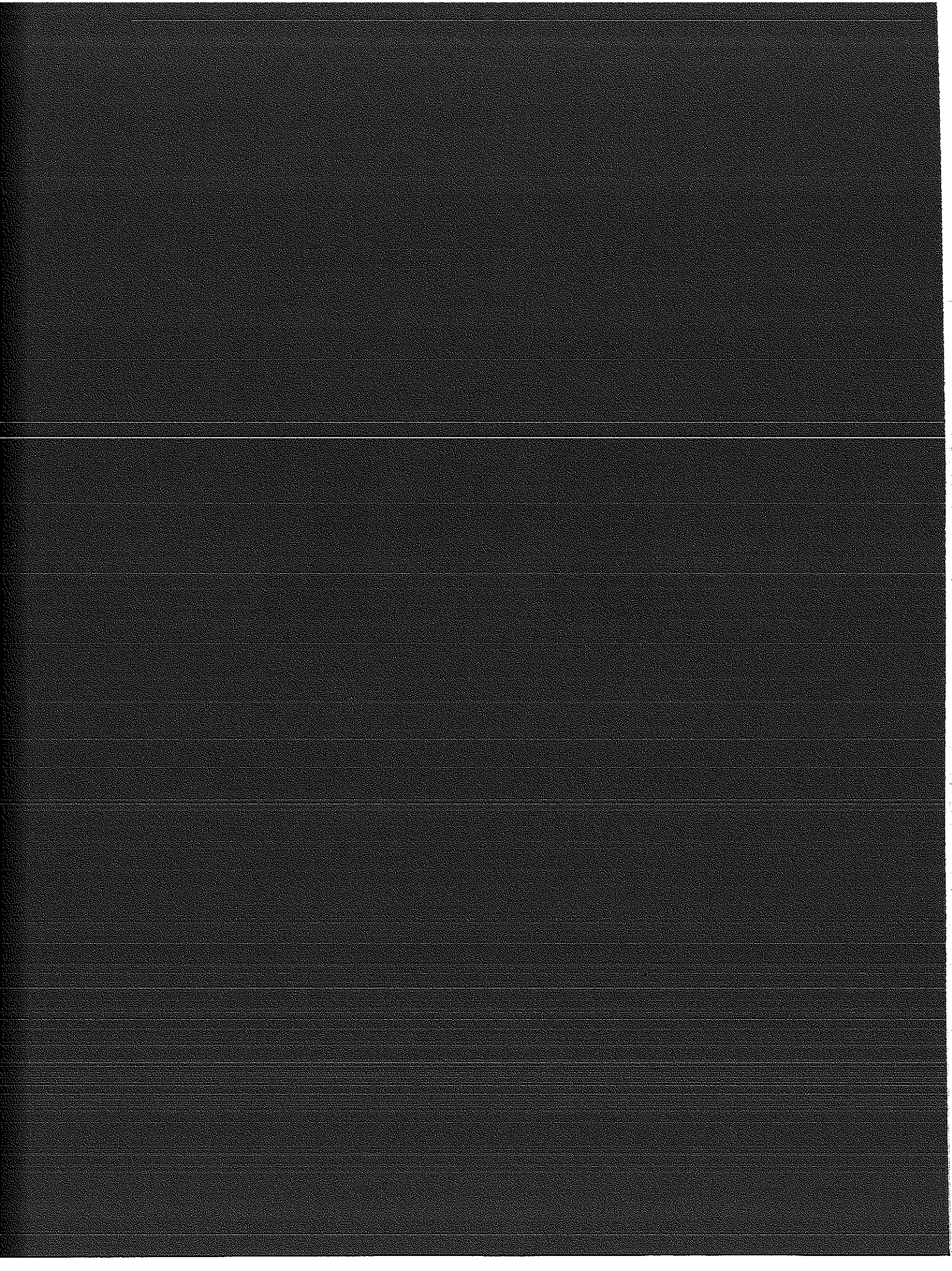
At least three major driving forces behind the passage of the Act can be identified. One is the growing recognition that the future of the American economy lies in technology, and growing outrage over the extensive involvement of foreign governments in industrial espionage. The new "Cold War" revolves around the battle for technology. A second is the onslaught of numerous well-publicized and notorious cases of international trade secrets misappropriation, including the Jose Lopez case, which was recently settled by General Motors but which is still the subject of criminal prosecution in Germany. A third is the burgeoning use of computers and the Internet to facilitate the theft and transmission of confidential databases and technology.

In June 1996, legislation to reform the civil procedure in Japan was passed by the Diet which provides for the Examination of Documents by judges in secrecy. Moreover, under Article 92 of this new law, provisions exist which would limit access to case records only to the parties thus abolishing the old rule that any person can inspect all case records.

That is all for the present on trade secrets and confidential information which is indeed a vast subject and concludes these two subjects.

COMMITTEE NO. 4

TORONTO CONGRESS
CANADA



(1) Title:

Study Concerning the Disclosure of Evidence in Japan and the United States
-In Connection with the New Japanese Code of Civil Procedures

(2) Date:

September 1997 (28th General Meeting in Toronto)

(3) Committee, etc.:

Group: PIPA, Japan
Committee: #4

(4) Authors:

KIKUCHI, Yasuhisa, Sapporo Breweries Limited
KOYAMA, Takahiro, Daicel Chemical Industries, Ltd.
OKUMURA, Yoichi, Takeda Chemical Industries, Ltd.
SUDO, Hiromi, Nippon Telegraph and Telephone Corporation
IIDA, Masanori, The Yokohama Rubber Co., Ltd.

(5) Keywords:

Evidence disclosure, concerned-party inquiries, technical or business-related secrets, self-usage documents, in camera, questioning of witnesses, profit-relationship documents, legal-relationship documents, one-sided possession of evidence, discovery, interrogatory, deposition, document production, protective order

(6) Statutory Provisions:

(1) Current Code of Civil Procedures: Section 281, 312
(2) New Code of Civil Procedures: Section 92, 163, 164, 168, 175, 190, 191, 196, 197, 204, 220, 223, 224, 231, 234, 235
(3) Others: Patent Law Section 105, Constitution Section 82

(4) U.S. Civil Rule: Rule 25, Rule 27, Rule 33, Rule 34

(7) Abstract:

In the new Japanese Code of Civil Procedures, which is to take effect from 1 January 1998, at the opportunity when the legal procedures regarding the evidence collection methods are completely consolidated, the study was made on the evidence disclosure methods in the revised law and the like in comparison with the discovery procedures in the United States.

In the current civil code, regardless of the plaintiff or defendant, thorough evidences are not provided from the counter party, and therefore, it has been said that the trial proceeds without sufficiently clarifying the suit facts. Thus, the related-persons greatly expect the present revision of the law.

Now, while particularly paying an attention to the range of the evidence disclosure, we studied how to interpret the range of the evidence disclosure in the revised law, while referring to judicial precedent and made comparison with the range of disclosure in the United States such as the deposition, interrogatory and document production.

As the practice in the revised law does not start yet, we can not conclude definitely, but we can report that there may be a possibility found through this study that we would have a revised system of code of civil procedures in which we may obtain effective disclosure of evidence in Japan, without massive time or labors needed comparatively in the U.S. procedures.

Study Concerning the Disclosure of Evidence in Japan and the United States

—In Connection with the New Japanese Code of Civil Procedures

1. Introduction

Many of our colleagues have already published reports concerning the new Japanese Code of Civil Procedures, which is to take effect from 1 January 1998. This is not only because this constitutes the first major revision of the Code of Civil Procedures in 70 years—since 1926—but also no doubt because Japanese society was looking forward with great anticipation towards this revision.

A major goal of the revision was to "make the Code of Civil Procedures easier for citizens to use and to understand, and to make the procedural rules concerning legal suits conform to the demands of contemporary society." It is thought that the amendments made to accomplish this goal, and the actual implementation of these new laws, will make the Code of Civil Procedures itself a more solid and readily usable part of the daily lives of our citizens. This revision is also expected to foster a judicial system that will have a positive impact on citizen lives.

In this current revision of the Code, many provisions have either been amended or newly added. An overall evaluation and interpretation of these new items can be found in the above-mentioned reports of our colleagues. The present report will focus on the revision of provisions regarding methods of collecting evidence, a topic which surely has a major impact on ourselves as business people.

In fact, provisions regarding evidence-collection methods were among the items that were revised in a major way in the current amendments. In cases which can be considered as typical "modern"-type lawsuits, often only one of the two parties possesses the lion's share of the evidence. For example, in product liability (PL) lawsuits such as those concerning pollution or chemical-related damages, most of the evidence exists within the alleged polluting company, while the plaintiff who claims to be the victim has little access to that evidence, making it difficult for the plaintiff to clarify the facts in the suit. Under such current laws, the disadvantages of plaintiffs—commonly referred to as the "weaker party"—cannot be denied. Therefore, an attempt has been made to create a

legal environment where, in such suits, forced disclosure of evidence is to be provided, in order for the facts to be sufficiently clarified and adjudicated upon.

Although not directly related to this "strong party-weak party" scenario, in company vs. company disputes such as patent infringement suits, it is also often the case that one party possesses most of the evidence needed to clarify the facts of the case. Please note, however, that the provisions in the new Code of Civil Procedures will be applied regardless of the nature of the case. Thus, business people like ourselves who become involved with intellectual property law cannot overlook this latest revision of the Code.

Under the current legal system, both plaintiff and defendant alike are unable to make sufficient investigation of the evidence possessed by the other party. As a result, since the facts in a case are often unclear, the party without the evidence frequently loses the case, or is forced to make a settlement that includes disadvantageous conditions. It is not rare either for such a party to hesitate bringing a case to court for exactly this reason.

Thus not only Japanese citizens and corporations, but also foreign citizens and corporations alike, share the same frustrations. Especially foreigners and foreign corporations probably experience the greatest dissatisfaction, since they are faced with unaccustomed aspects due to the fact that the system applied is not that of their own countries.

Therefore, in the following sections of the present report, we will examine exactly how provisions regarding evidence collection methods have been revised, how such revisions are likely to be implemented, and how such revisions should be implemented.

Conversely, the U.S. system of Discovery can be pointed to as a rare system around the globe for determining methods of collecting evidence. In this system, other than specially provided "confidential" information, all information relating to a law suit possessed by both parties must be disclosed to the opposing party. This is a system in which the facts of the case are readily made clear, the points of the dispute are

narrowed and specified, and public adjudication can be performed in a concentrated fashion. Also, since the facts in a case are thus clarified, it can be expected that many cases will not be brought to trial, but will instead be settled among the opposing parties themselves.

Yet although in theory, Discovery is a wonderful and highly effective system in terms of clarification of the facts in dispute, etc., it is true that the system also contains many problematic aspects. For example, suit-related expenses become unconscionably high, and the system is unproductive in that it eats up both the time and labor of many of the involved parties. These and similar complaints have recently begun to be heard not only by foreigners and foreign corporations, but also by American and American corporations, too.

The present report contains a comparison of the latest revisions regarding evidence-collection methods in the new Japanese Code of Civil Procedures with the actual state of affairs in the U.S. Discovery system. Further, the problematic aspects of both of these systems will be examined from the perspective of business persons. Finally, it is hoped that this report will offer some concrete advice regarding legal amendments which should be made in the future by both countries, as well as advice concerning how present or future revisions should best be implemented.

2. Overview of Evidence Collection Methods in Revised Code of Civil Procedures

In the pre-revised Japanese Code of Civil Procedures, there were no statutes that made the submission of documents, etc., by concerned parties a specific prerequisite. And in practice as well, such submission has not been considered a prerequisite. Under the current Code, Article 312 provides the following concerning the obligation to submit documents:

Current Civil Code Article 312:
The possessor of documents cannot refuse their submission in the following cases:

1. When the party itself possesses documents that are to be quoted in the lawsuit;
2. When the party on which the burden of proof lies has obtained the right to demand to the possessor the delivery of such documents or the examination of such documents.
3. When the documents were created for the benefit of the party on which the burden of proof lies, or when the documents were created as a result of a legal relationship between the party on which the burden of proof lies and the possessor of the documents.

In other words, if the documents are not those provided in Items 1-3 above, the possessor has no obligation to submit such documents.

In the current revision of the Code, the same provisions have been made law in Civil Code Article 220.

Civil Code Article 220
In the following cases, the possessor of documents cannot refuse their submission:
1. When the party itself possesses documents that are quoted in the lawsuit;
2. When the party on which the burden of proof lies has obtained the right to demand to the possessor the delivery of such documents or the examination of such documents.
3. When the documents were created for the benefit of the party on which the burden of proof lies, or when the documents were created as a result of a legal relationship between the party on which the burden of proof lies and the possessor of the documents.
4. In addition to the cases stated in the previous three items, when the following cases are not applied to the documents (with the exception of documents preserved by a public official or a former public official in the course of his or her official duties, or documents possessed by such persons):

a. Concerning the possessors of documents or parties in a relationship with the possessor of documents as stated in each

item of Article 196, documents in which the particulars provided in the same Article are contained.

b. Documents in which the particulars contained therein are contents which are not excluded from the nondisclosure obligation as found in the facts provided in Article 197, Paragraph 1, Item 2, or in the particulars provided in Item 3 of the same paragraph.

c. Documents which exist for the exclusive usage of the possessor thereof.

Thus, in the revised Code, each of the items in 1-3 are identical to the respective items in Article 312 of the current Code. Basically, therefore, it is appropriate to understand the law as one in which the obligation to submit documents is limited. However, in the newly established Item 4, other than each of the exceptions provided in a-c, all documents with the exception of those listed in the first three Items—in other words, basically all documents—are considered documents for which an obligation to submit exists. Therefore, with the latest revision, one can definitely state that the obligation to submit documents has been imposed on the possessor of documents. Still, careful attention must be paid to how the scope of the exceptions listed in Items a-c is interpreted in the actual implementation of the law.

Below is an overview of provisions in the revised Code concerned evidence collection.

(1) Concerned-party inquiries (Civil Code 163, etc.)

One of the chief objectives of the revised Code is to provide for quick and appropriate resolution of lawsuits. To accomplish this, along with new and revised provisions concerning such things as preparatory oral proceedings (Civil Code 164), argument preparation procedures (Civil Code 168), and document-based preparatory proceedings (Civil Code 175), etc., new procedures regarding concerned-party inquiries have also been added.

Such concerned-party inquiries can now be performed "concerning particulars necessary for the preparation of claims

or the demonstration of proof," and "among parties concerned with the law suit." Since such inquiries are performed without the intervention of a court, this system is one that appears to be similar to Interrogatory in the United States: however, there are no provisions providing sanctions for failure to respond. Also, such inquiries cannot be made of third parties.

Thus, in actuality, a major factor will be to what extent the lawyers acting as the agents for the two concerned parties will make such inquiries. Hitherto, the party which has facts that it must prove has gathered its own evidence, and performed all of the procedures required for claims and the demonstration of proof. Therefore, although designed to clarify the factual relationships, it is thought that it will be difficult for lawyers currently practicing to readily accept and practice this new item. Also, it cannot be expected that a concerned party will submit its own information to the opposing party simply because the submitting party wants to see how the other party will react, etc. In the final analysis, as one preparatory procedure, such inquiries will have to wait until actual submission orders are issued by a court as a result of its own deliberation and judgment.

(2) Documentary evidence (Civil Code 220, etc.)

a) Scope of document-disclosure obligation

Provisions in the actual Article are as stated above. In actual practice, however, the most meaningful interpretation will be the so-called "self-usage documents" and "particulars concerning technical or business-related secrets" (Civil Code Article 197, Paragraph 1, Item 3).

For example how will such documents as manufacturing standards created for the convenience of a company itself, or its own test or experiment notes, etc., be treated? How these and other items are actually handled in the implementation of the new law will all have a major impact on how companies will preserve and handle documents within their own firms.

As for the interpretation of "self-usage documents," as well as the definition of technical and trade secrets, the following

sections of the present report will examine such issues while introducing some representative previous cases.

Also, the newly revised laws list as preparatory documents drawings, photos, recording tape, video tape, and other means of displaying information, and clearly provide that such shall be handled in the same way as written documentation (Civil Code 231).

b) Confidentiality privilege

In regards to the particular items concerning which Civil Code Article 196 and Article 197 provide a right to refuse testimony, there is also no obligation to submit documents which contain such information. Here, items which correspond to the attorney-client confidentiality privilege in the United States are specified. This provision is also identical to that found in the current Article 281.

c) Sanctions against obligation violations (Civil Code Article 224)

Under the current Code, even if a document-submission order is issued, sanction-related provisions for non-submission are generally weak, and only facts supposed to have been described in such documents are assumed to be legal presumptions. However, the newly revised Code goes one step further: in those cases where it is difficult to prove with other evidence the claim that was to be proved by the party which requested the document submission, it is now permissible to consider such as a true legal presumption. It goes without saying, however, that implementation could go either way depending on how the statement "cases where it is difficult to prove" is interpreted. Considering the spirit of the new law—i.e., the fact that it seeks to clarify at the appropriate time factual relationships—there is a possibility that the provision will be applied in a large number of cases.

d) in camera (Civil Code Article 223, (3))

As described above, although the scope of the document-submission obligation has been expanded by Civil Code Article

220, on the other hand, a newly added provision states that a judge shall determine, in camera, whether or not documents subject to a submission order fall under the exclusionary provisions of Civil Code Article 220, Item 4. In the actual words of this provision, this does not constitute a provision for the non-public opening of evidence searches; rather, it goes no farther than being a simple determination as to whether or not documents fall under the exclusionary provisions. It has been pointed out, however, that in civil cases—which are based on the principle of trial in open court—in camera review of documents could have a major impact on a judge's decisions.

Yet for parties requesting document submission, the fact that it is left up to the judge to determine whether or not such documents fall within the scope of the submission obligation is indeed a great step forward.

(3) Questioning of witnesses (Civil Code 190, etc.)

Although there are many minor revisions, the major changes from the current Code concern the scope of testimony regarding public officials (Civil Code Article 191) and the questioning of witnesses in remote regions. It will also now be possible to use TV conferencing systems (Civil Code Article 204) as well as facsimiles.

However, there is no change in the fact that these are not evidence searches performed between the concerned parties themselves, as in U.S. depositions, but rather examinations performed on the basis of court intervention.

(4) Other methods (Civil Code 234: Preservation of evidence, etc.)

There are no major changes, other than the new provision that states that pleas to preserve evidence must be performed within the court of suit (Civil Code Article 235).

3. Definition of "Self-Usage Documents"

(1) "Self-usage documents" exempted from disclosure obligation

As stated above, there have been no changes between the new law and the old law in the language of the articles that provide a limited document-submission obligation; i.e., only documents which are expressly limited fall under the submission obligation. Under the revised Code, however, document submission itself has been singled out as a subject for general provisions (Civil Code Article 220, Item 4). Further, in order to control a broadening of the interpretative scope of profit-relationship documents and legal-relationship documents, within actual implementation of the current Code Article 312, Item 3—which corresponds to Civil Code Article 220, Item 3—there is a trend to gradually expand the scope of self-usage documents to conform with actual practice, and to limit the scope of the submission obligation for such documents.

Conversely, in the revised Code, the concept of self-usage documents that has been permitted by actual practice is now clearly specified in Civil Code Article 220, Item 4 c. Naturally, self-usage documents have been specified as documents for which there is no submission obligation.

However, it should be carefully noted that some critics have stated that the scope of self-usage documents in the revised Code will be slightly different from the scope of such documents that has emerged from actual practice under the current Code. Still, since the revised Code is deemed to be an extension of the current Code, the concept of self-usage documents under the current Code will no doubt impact to a certain degree how such documents will be interpreted in the actual practice of the revised Code. Therefore, below follows an attempt to outline the current scope by referring to some actual previous cases.

(2) Relationship with Current Code Article 312, Item 3

Below follows an overview of actual cases ruled under the current Code that concern the definition of "self-usage documents." Through this review, we can determine the scope of such documents that are considered to be exceptions to the submission obligation.

1) Internal-company circulating drafts (so-called "Ringi-sho")
o Sendai High Court Judgment 29 November 1956 (??Lower Civil Collection, Vol. 7, No. 11, p. 3460)

When one party, as part of a claim that the party had purchased and received land from possessor A, brought a lawsuit requesting to the party with the burden of proof acknowledgment of possession of land and registration of the transfer of ownership, the burden-of-proof party disputed this claim. In order to clarify the date of sale and the seller, the burden-of-proof party requested a document submission order for the "internal-company circulating draft concerning the fee payment sent from the Koriyama factory of the party to its head office." In the original judgment, the Court denied this request, upon which the burden-of-proof party made an immediate appeal of its dissatisfaction. This case is the judgment regarding this appeal.

The High Court stated that the internal-company circulating draft for the opponent party's head office was documentation that stopped at an internal relationship within the opponent party, and that this was a document that was not created as a result of a legal relationship between the burden-of-proof party and the possessor of the document. Even if that document was actually shown to fall within the position of the concerned party, this could not be said to be a document that was quoted in a lawsuit by the concerned party as stated in Civil Code Article 312, Item 1. Therefore, this judgment regarding the internal-company circulating draft stated that this was a self-usage document, and that there was no obligation to submit such a document.

2) Survey report created by a nonlife insurance company
o Takamatsu District Court Judgment 17 September 1986 (Hanrei Jihou No. 1214, p. 123)

X initiated a law suit requesting payment of damages for damages sustained in a rear-end collision from person A who caused the alleged damages, and the insurance company Y with which A had signed an automobile insurance contract.

With Y as the opponent, X requested a document-submission order for X's medical certificate and for the detailed statement of medical treatment remuneration, etc., all possessed by Y.

As the reason for this request, it was claimed that the obligation for submission stemmed from the fact that A and Y were in a contractual relationship for automobile insurance, that X was in a position whereby X could directly request from Y payment of damages, and that the above-stated documents were materials which could provide fundamental support to the amount of damages sustained by Y. Further, since such documents were created as a result of the legal relationship between X and Y in terms of the right to request payment of damages, these documents were thus documents for which an obligation to submit existed as defined in the last section of Item 3 in Article 312 of the Code of Civil Procedures.

The Court ruled that the documents defined in the last section of Item 3 in Article 312 of the Code of Civil Procedures were originally intended to be documents that proved a contractual relationship. However, even if there were no contractual relationship, depending on the history of such document creation and the document contents, etc., it was also appropriate that an analogous application be made for such documents that could prove a close legal standing with the concerned party. Therefore, the Court ruled that these types of documents were self-usage documents, and therefore documents for which there was no submission obligation.

3) Loan-related internal-company circulating draft and attached documentation of a financial institution

o Tokyo High Court Judgment 8 May 1986 (Hanrei Jihou No. 1199, p. 75)

In order to secure a monetary loan debt concerning the credit union (Y) of the chief debtor (A), X signed a settlement of root mortgage contract with Y, and had such registered. The surety liable jointly and severally (X) filed a lawsuit in which X claimed that since it had been deceived by an employee (B) of Y into signing the above-mentioned contract so that B

could fraudulently receive a cash amount from Y, that this joint and several liability on guarantee contract had been thereby annulled. X's lawsuit demanded, among other things, that Y acknowledge the non-existence of a guaranteed debt, and that it cancel and annul the registration of the root mortgage rights.

During the proceedings of this lawsuit, X requested for the below-stated claimed reasons a document-submission order be made to Y for the following documents: the loan-related internal-company circulating draft and attached documentation (possessed by Y), the ordinary deposit account book in the name of the chief debtor (A) possessed by the financial institution (Y), and the promissory note discount request document and the ordinary deposit payment request document created by the chief debtor (A). X claimed that all of these documents were documents conforming to the last section or to the first section of Civil Code Article 312, Item 3. Further, the guarantor (X) stated that it could make the request for the document submission order because it could utilize the demurrer rights of the chief debtor (A).

Since the initial judgment (by the District Court) denied X's request, X immediately filed an appeal.

The High Court stated that the ordinary deposit account book in the name of the chief debtor (A) possessed by the financial institution (Y), and the promissory note discount request document and the ordinary deposit payment request document created by the chief debtor (A), were not documents that conformed to the last section or to the first section of Civil Code Article 312, Item 3, in light of the relationship with the guarantor (X). Further, the loan-related internal-company circulating draft and attached documentation (possessed by Y) were to be perceived as documents created and/or collected in order to adjudicate internally the suitability of the loan request of the chief debtor (A). Therefore, such documents were not documents that conformed to the last section of Civil Code Article 312, Item 3. Therefore, since these were self-usage documents, there was no related obligation of submission.

4) Product claim report

o Fukuoka District Court, Kurume Branch 13 July 1976 (Hanrei Jihou No. 845, p. 101)

The purchaser (X) of an adhesive instigated a law suit against the manufacturer and seller (Y) because of alleged damages sustained from a defective product. With the purpose of clarifying the facts of the case, X requested a document submission order for the "purchaser-claim report" possessed by Y.

The Court, however, ruled that this type of a claim report was an internal document, and therefore could not be recognized as a legal-relationship document. Further, it was possible to prove the information sought for in the claim report by other means. This was thus a self-usage document, and there was no related obligation of submission.

5) Meeting minutes

o Tokyo High Court 28 May 1979 (Hanrei Jihou No. 936, p. 67)

This was a case in which X took the superintendent of a revenue office to court, claiming that profits obtained from the public sale of stocks and from the transfer of priced stocks were not taxable. In this case, X requested a document-submission order for "Minutes of the ??Associated Exchanges Joint Policy Committee Consultation Meeting" (a consultation group comprised of representatives from the Ministry of Finance and the securities industry) possessed by the Japan Securities Industry Association, a corporation not involved in the lawsuit, inasmuch as the facts claimed by X were thought to be recorded in these minutes.

The Court ruled, however, that since the said meeting minutes were a record of an informal consultation meeting between the securities industry and the Ministry of Finance, they constituted an internal-industry secret, and was thus a document that was created exclusively for the purpose of self-usage. The Court could not find that this was a legal-relationship document, and therefore there was no obligation of submission.

6) Documents concerning a nuclear power station

o Sendai District Court 12 March 1993 (Hanrei Jihou No. 1452, p. 3)

This was a case in which local citizens (X) requested of an electrical power company (Y), which was to build a nuclear power plant, suspension of operations. In this case, X requested a document submission order for documents possessed by Y, including accident reports for machinery, etc., operational procedures manuals, safety regulations, etc.

The Court ruled, however, that these were not documents created in order to clarify particulars concerning the backing up of, nor the instigation of, a lawsuit regarding the right of the plaintiffs to request a suspension. Rather, these were documents created for mutual information exchanges between institutions, etc., involved in nuclear power generation, and were thus self-usage documents. Therefore, there was no obligation to submit such documents.

7) Wage ledgers

o Osaka District Court 31 May 1979

In this case, X claimed that, due to unfair discrimination by Y, compared with persons of the same age as X and persons who had worked approximately the same number of continuous years as X, X had been treated in a discriminatory fashion in regards to such things as wage increase amounts, etc. In order to prove the existence and extent of such wage differences, as a means of evidence preservation, X requested the submission of the relevant wage ledgers. The District Court ordered Y to not only submit the wage ledgers concerning X, but also the wage ledgers of 62 of X's colleagues.

The wage ledgers of this case could be said to be documents created in the course of a legal relationship between the complainant and the opponent. Therefore, there was an obligation to submit such documents.

8) Order slips of a securities company

o Fukuoka High Court 9 March 1995

No. 1 Civil Affairs Division Judgment: Denial of Appeal: Court of Origin: Fukuoka District Court 1994 ("mo") No. 2055 Decided: 27 September 1994

X had signed a credit transaction contract with Y. However, X alleged that it had sustained damages due to the fact that an employee of Y had violated the obligation to provide explanation, had performed an act of illegal transaction solicitation, and had performed unannounced trading, etc.

The Court affirmed the relationship between order slips and the claim that, in regards to a series of transaction acts, Y had violated its obligation to provide good and careful management. Further, although these order slips were not records of a legal relationship per se between X and Y, at the very least, these were documents that recorded particulars which were closely related to such a legal relationship, and thus they were in fact legal-relationship documents. Therefore, the Court ruled that there was an obligation to submit such documents.

9) Job diary

o Osaka High Court 21 February 1995 (Hanrei Jihou No. 1543, p. 132)

This was a case where X filed suit against a trading company (Y) to force payment of damages stemming from a commodity trading commission contract. X sought the submission of a work diary kept by a salesperson of Y, and petitioned the Court for a document-submission order. The District Court, however, denied this request.

However, the High Court ruled that the said work diary of the salesperson was a document that salespersons were obligated to create by the Commission Work Guidelines and Standards of the National Federation of Commodity Traders. Therefore, the diary could not be considered to be similar to documents such as memoranda, etc., created by a salesperson solely for memory-enhancement purposes; therefore, there was an obligation to submit such a document.

Each of the above-described cases were examined by the attorney Hideki Matsui in his analysis of the definition of "self-usage documents" in NBL No. 605 (15 November 1996).

The documents examined in each of the above cases 1)-6) were considered to be self-usage documents, and not profit-relationship or legal-relationship documents, and therefore there was no obligation to submit such documents.

Conversely, the documents in 7)-9) were not found to be self-usage documents, and thus were documents for which a submission-obligation existed.

In the next issue (NBL No. 606, 1 December 1996), the same attorney Mr. Matsui presented his considerations concerning the scope of self-usage documents in the revised Code Article 200, Item 4 c. He argued that it was unclear whether claim reports and other documents, found under current law to be exempt from the submission obligation because they constituted self-usage documents, would in fact be similarly considered as falling under the exclusionary provisions in the revised Code. Further, Mr. Matsui wrote that under the current law, "self-usage documents" were defined as documents for which there were no plans to disclose externally, but were instead created exclusively for the purpose of usage within the group itself.

As shown in the above-described cases, even in regards to documents which appear at first sight to be self-usage documents, if such documents are considered to be necessary to clarify the facts of a case, then these documents will not be excluded from the submission obligation. Such documents necessary for the clarification of facts may also be documents that involve the nation itself, and therefore, such documents will also fall under the submission obligation. As an example, we introduce in 10) below the decision in a related previous case.

10) Official documents (National)

o Tokyo High Court Judgment 7 August 1975 (??Lower Civil Collection, Vol. 26, Nos. 5-8, p. 686)

In this case, the Court ruled that when the Japanese nation is the defendant, since it is in a position to realize justice

and to protect its citizens, even when it becomes a concerned party in a civil suit, unlike ordinary concerned parties, it should proceed in a progressive fashion to submit all materials which will be of assistance in clarifying the facts of a case, and should provide full cooperation in the discovery of the truth. The nation could not even refuse to submit legal-relationship documents, so long as their submission would not lead to especially grave damage to the public interest.

The present suit involved a request for damages from the nation as a result of an airplane accident involving the Self-Defense Forces. The Court ruled that an accident investigation report was the only document which could clarify the true facts of the accident, and that since there was no danger that the disclosure of this document would damage the public interest, that this report was in fact a legal-relationship document.

Therefore, it was decided that an accident investigation report was a document for which there was an obligation of submission.

4. Exceptions to the Obligation to Submit Documentary Evidence for Technical and Trade Secrets

(1) "Documentary evidence concerning technical and trade secrets" exempted from the submission obligation

Under the current law, this exceptional provision is one of the items concerning which a refusal to testify is already permitted in Article 281, Paragraph 1, Item 3. This is also stated, without any textual changes, in the revised Code Article 197, Paragraph 1, Item 3. Further, under current practice, documentary evidence regarding technical and trade secrets is exempted from the submission obligation, and this practice has been clearly stated in the text of the revised Code, in Article 220, No. 4 b. Considering, however, the spirit under which the revised Code was made law, it is unclear at the current stage whether or not documentary evidence of the same scope as under the current law will actually be exempted from the submission obligation in practice under the revised Code.

To help in the study of this question, interpretations under the current law are examined below for reference purposes.

(2) Technical and trade secrets under current law

1) Labor expense and sale expense amounts required for production

o Osaka High Court Judgment 12 July 1973 (Hanrei Jihou No. 737, p. 49)

This was a case involving witness questioning that had been consigned to the Osaka District Court by the United States (X) in a spirit of judicial cooperation. The District Court decided to permit the refusal of testimony by the Witness (Y) for the reason that such testimony involved secrets of Y's company. The claims of X and Y in this case were as follows.

X stressed that even if the witness's testimony concerning direct labor expenses and sales expenses were to be made known, all that a third party would be able to estimate would be the entire value of electrical tubes used for communications reception, but not the unit price of each electrical tube. Y argued that labor and sales expenses could naturally be considered sales secrets, or, in other words, trade secrets. The District Court decided to permit the latter interpretation, whereupon X immediately appealed.

The High Court ruled that monetary amounts regarding direct labor and sales expenses required for the production of receiver electrical tubes, when added together with the already known materials and general operating expenses rates, would provide sufficient information for a considerably accurate estimate of manufacturing and sales costs. Therefore, these constituted company secrets that were worth protecting. By permitting this refusal of testimony, the Court thus limited company secrets concerning which testimony could be refused as provided in the revised Code Article 281 Paragraph 1 Item 3, to those secrets which are worth protecting. Such "secrets worth protecting" are thus interpreted as secrets that, if made known, could result in grave and severe damage to the company.

Therefore, it is necessary to avoid such a result, even if the fairness of the judicial proceedings is thereby sacrificed.

2) Name of a person who withdrew a petition for desired retirement due to the dissuasion of that person's company

o Tokyo District Court, Hachioji Branch Judgment 28 July 1976 (Hanrei Jihou No. 847, p. 76)

This case concerned a petition for provisional injunction for provisional payment of wages and provisional acknowledgment of title and position, in that the plaintiff claimed that a dismissal by designation of one's company was invalid. In this case, witness A of the debtor (user) side refused to testify in response to the following inquiry, claiming that such a request involved a "trade secret" as defined by the Code of Civil Procedures Article 281, Paragraph 1, Item 3. The inquiry from the legal representative of the creditor side: "Clarify the names of those persons who, among those persons who expressed a desire to retire as a result of a canvas for such persons that was performed by the debtor side, were later persuaded to withdraw their petition for retirement." This case was a decision concerning whether or not such a refusal of testimony could be permitted.

The Court ruled that a "trade secret" was one that, if made public, would make it difficult for the practice of that trade to be sustained. Such a "trade secret" also included particulars concerning internal-company personnel management or operational management that could not be omitted in the sustained practice of that trade. The Court decided that there was reason for A, who was involved with personnel for the debtor, to refuse testimony, and to state that the clarification of the above-described names of persuaded persons involved a trade secret.

3) News sources of a newspaper reporter

o Sapporo High Court 31 August 1979 (Hanrei Jihou No. 937, p. 16)

This was a suit instigated by a preschool teacher (X) against a newspaper company which had published a report concerning the

ill-treatment of children at the preschool. Witness (Y) of the newspaper side refused to testify about the "names, addresses, and work responsibilities of the persons involved" in the reporting activities.

The District Court sanctioned this refusal. The High Court also ruled that the news sources of a newspaper reporter could be considered a trade secret in light of the need to secure the freedom of the press, and that since there was no need to submit such information to ensure the fairness of the judicial proceedings, there was also no obligation of submission.

4) Nuclear power-generation related application and attached documents

o Urawa District Court 27 January 1972 (Hanrei Times No. 272, p. 215)

This is a case where a group of neighboring citizens (X) sought the removal of a nuclear reactor that had been built by a company (Y). X sought a court order for document submission, as it desired the submission of application forms and attached documents that had been submitted to the Japanese Prime Minister, on the grounds that such documentation was necessary to foster a sense of safety.

Y refused the submission of such documentation on the grounds that such constituted technical and trade secrets (current Code Article 281, Paragraph 1, Item 3). However, the Court determined that since the plaintiff X side possessed no other materials, etc., to prove the facts of the case, and since the company side had an obligation to ensure the safety of the plaintiffs X, that such documents did not fall under the exceptional provisions, and there was thus an obligation to submit such documents.

5) Measurement results within a thermal power generation plant

o Osaka High Court 6 March 1978

In this case, in order to prove a causal relationship between sustained damages and polluting-materials discharge data at a thermal power plant, group X requested a submission order for the magnetic tape on which Y had recorded, for the purposes of

investigating damages caused by sulfurous acid gas discharged by the thermal power plant, environmental densities and the per-hour output of the thermal power plant.

Y refused the submission order, claiming that if the magnetic tape were to be submitted, not only would this constitute a grave obstacle to the performance of its daily work, but it would also involve the public disclosure of data that was a trade secret.

The Court ruled, however, that the magnetic tape in this case could be considered to conform to a document which had a connection with a legal relationship, specifically the illegal act of causing harm and damage as a result of air pollution. Further, the mere fact that the submission of a document might cause, merely in the abstract, an obstacle to the performance of work, or the fact that the document included a trade secret or trade secrets, did not constitute sufficient reason for refusing the submission of such a document. This was thus a case where a balance with the public interest was taken under consideration.

6) Loan ledger of a financial institution

o Tokyo High Court Judgment 7 June 1984 (Hanrei Jihou No. 1129, p. 99)

In a financial transaction with a credit union (Y), A established and registered a root mortgage for property possessed by A. Following the death of A, A's heir B sold that property to X et al. Claiming that the secured creditor rights for the said root mortgage had already been discharged, X et al. instigated court proceedings against Y for, among other things, the cancellation of the registration of the root mortgage.

In the course of the proceedings of this case, X et. al [sic: "A"] petitioned that a document-submission order be presented to Y for the following reasons. X et al. claimed that the loan ledger created and possessed by Y as a result of a transaction between A and Y constituted a legal-relationship document. Y claimed, however, that this loan ledger was nothing more than an internal document for self-usage, and that, from the perspective of the unique business of a financial institution,

there was an obligation to protect the secrecy of such a document.

In the initial ruling (by a District Court), X's petition was granted. Y, however, filed for immediate appeal.

The High Court ruled that the loan ledger of the person related to this case created and possessed by a financial institution conformed to the last section of Item 3 in Civil Code Article 312 (legal-relationship document), and that this document therefore was subject to a document-submission order.

7) Documents concerning nuclear power generation

o Sendai High Court Judgment 12 May 1993 (Hanrei Jihou No. 1460, p. 38)

This case concerns the appellate judgment for the case described above in the "Self-Usage Documents" section, case 6).

The District Court had ruled that the documents in the case were "self-usage documents," and that therefore there was no obligation to submit such documents. However, the High Court ruled that even if these were self-usage documents, considering the balance that must be preserved between the benefits obtained by maintaining these types of technical and trade secrets, and the achievement of justice within a court founded upon the discovery of truth, such documents did not constitute secrets that could tip this balance, and therefore an obligation of submission existed.

8) Documents submitted to the Ministry of Health and Welfare

o Osaka District Court Judgment 29 June 1995

The plaintiff sued for infringement by the defendant of the plaintiff's patented invention rights, which concerned a method of measuring Kallikrein (a pharmaceutical), a method required for the quality-standard authorization of this pharmaceutical.

The plaintiff requested submission of evidence from the defendant concerning the configuration of the measurement method, item a. The defendant, however, refused submission of this evidence, claiming that it was a trade secret.

Also, the Court requested the Ministry of Health and Welfare to take charge of an investigation concerning the defendant's

authorization method, but the Ministry did not respond, as this was a "secret that could be known within the trade."

[The Court ruled that] since the plaintiff had the burden of proof regarding the specification of the authorization method of the defendant, there was no proof that the defendant was using the invention of this case.

Each of the above-described cases 1)-7) were also listed by the attorney Mr. Matsui in his study of the scope of technical and trade secrets (NBL No. 609, 15 January 1997). According to Mr. Matsui, there are almost no differences between the current Code and the revised Code, and this scope will be determined through balancing the benefits of secret preservation with the need for fairness within a court. 8) refers to a pubic document, in that it involves a demand for disclosure of documents preserved at the Ministry of Health and Welfare. In the revised Code, the fact that documents possessed by public officials are exempted from the submission obligation is clearly stated within Article 220, Item 4. This, however, appears to be a provision that goes against the recent trend towards increased public disclosure of documents and information possessed by official (governmental) organizations. There are also portions of the revised Code that are not clear concerning such things as official documents and the testimony of public officials; careful attention will have to be paid to how such items are actually implemented.

(3) Hypothetical relationship with Civil Code Article 220, Paragraph 4 c

The text of the revised Code clearly describes self-usage documents that constitute documents exempt from the submission obligation. Some critics are of the opinion, however, that the scope of self-usage documents under the new Code will differ from that approved under actual practice of the current Code, as described in the case studies above and in earlier pages of this report.

For example, in those cases involving pollution, PL, and other typical suits where one-sided possession of evidence

exists—i.e., suits which were the main objective of the Code revision—if all types of technical information possessed by companies are found to be self-usage documents as provided in Civil Code Article 220, Paragraph 4 c, then there will have been little meaning in revising the law.

Conversely, in patent-infringement suits—which can be considered as inter-company disputes—if all types of technical information similarly possessed by concerned parties are not found to be self-usage documents, and submission is thereby required, then there is a danger that trade secrets will be completely unprotected within the courts.

The original goal of the establishment of this provision excluding self-usage documents from the submission obligation was to exempt from submission documents such as personal memos or diaries, etc. Since that is the case, should technical information possessed by companies be considered to fall under the exclusionary provision based on the right to refuse testimony (Civil Code Article 197) that is provided within Civil Code Article 220, Paragraph 4 b? If that is true, then one can find no difference between the current Code and the revised Code.

On the other hand, as shown in each of the cases introduced in the earlier pages of this report, the scope of "self-usage documents" and "technical and trade secrets" has already been determined within these types of cases. No matter how precious a secret may be to a company, if, for example, there is a preponderance of one-sided information possession, or if the particulars in the case involve human lives, then it is right to consider it fair that such secrets not be exempted from the obligation submission. Especially in the case where it is thought to be difficult to prove the facts of the case without that specific document, or when the document or secrets are necessary to clarify the facts in a suit involving a dispute between companies, then of course, and in the same way, it is fair to judge that such not be exempted from submission.

Therefore, one is forced to believe that the scope of documents excluded from the submission obligation will be swayed in a broad way on a case-by-case basis, depending on the

judgment of the judge in each case. One must only hope for repeated precedents and appropriate application of the laws within courts that are all based upon the spirit of the revised Code.

Further, be it noted that according to a supplementary provision established as a temporary measure, the new Code will be applied to particulars that occurred prior to the promulgation of the new Code. Also, cases pending at the time of promulgation will be judged under the revised Code, with the exception of those cases which have already come into effect under the regulations of the current Code.

5. Potential Problems of the New Code of Civil Procedures

(1) Which cases require a demand for evidence disclosure?

Cases involving one-sided evidence possession—the major target of the Code revision—naturally are cases requiring a demand for evidence disclosure, as the plaintiff in such cases is by default the weaker party, such as an individual, etc.

Even in company vs. company disputes, there are naturally cases where one side possesses the preponderance of evidence. For example, in patent infringement suits concerning inventions of methods of producing goods, all of the information concerning the manufacturing methods exist on the defendant's side. Another item particularly difficult to prove by the plaintiff is evidence of illegal actions taken for patent acquisition (??falsely approved applications, etc.).

Further, important evidence such as materials necessary to prove damage amounts exist chiefly on the infringing side. Under current law, it has been possible to demand submission of these types of documents from the opponent side (Patent Law Article 105). Yet under the new Code, there has been a relaxing to a certain extent of current-law provisions regarding the specification of documents that must be specified in a demand for document submission. Under the new Code, if one specifies to a certain extent the documents being requested, it will be possible to successfully petition for a submission order.

Even in the case of claims made regarding illegal actions by the opponent side (for example, ??falsely approved applications, applications based on falsehoods, etc.), since in general, most of the evidence is possessed by this opponent, under current laws it has been difficult to prove such claims. Under the new Code, however, there is a possibility that such proof will now become possible.

(2) Potential problems

As described above, hitherto there have been many limited-type provisions regarding evidence disclosure, and the way each court will actually apply such limitations will have a major impact on future conditions. If a situation occurs whereby in between-company disputes, just as in pollution-related lawsuits, etc., a company is unable to refuse the submission of documents which can be considered trade secrets, although this may be welcomed from the perspective of improved evidence collection, company secrets will thus be unfairly disclosed to the opponent party. In other words, companies should be prepared to be forced to hand over to an opponent all information regarding the facts of a suit.

On the other hand, if the scope of evidence disclosure is limited to the same extent as under current law *because* these are inter-company disputes, the Code revision will have been completely meaningless. At any rate, actual practice based on the deliberation of each judge will surely have a significant import. If, however--as shown in the above-described cases--whether or not such documents, etc., are required to clarify the facts of the case remains a major standard of judgment, it is likely that civil disputes will be resolved at an early stage. It is still not clear, however, whether under the revised Code the submission obligation will be extended to documents such as, for example, experimental/test notes or memos in the possession of individuals such as test researchers, etc.

Further, under the revised Code, one has practically no recourse in the case of evidence in the possession of third parties. A system like the subpoena system in the United States

is desirable. Certainly, even under the current Code, when necessary, a court may issue orders such as a document-submission order or a summons for a person to appear to court as a witness. Even this, however, cannot be considered to be sufficiently effective, especially in light of the existing punitive provisions.

In terms of protecting company secrets, it is true that a provision forbidding the perusal by parties other than the concerned parties in a suit has actually been established (Civil Code Article 92). However, this is a prohibition against disclosure to a third party; even if the concerned party in the suit happens to be a competitor, a company could still be forced to disclose all of its information to that competitor. Yet if one seeks to protect trade secrets themselves through a civil suit, if such trade secrets are not specified, no progress will be made in the suit, and further, since the Japanese Constitution states that trials shall be conducted publicly (Constitution, Article 82), practical and concrete protective effects are surely not attainable. Instead, by instigating a lawsuit, one can expect to see one's trade secrets disclosed in a broad way to the public.

As opposed to an era when the benefits of publicly conducting trials and the specific provision of such trials was extremely important, in current lawsuits, consideration must be made to balance the benefits of public trails with the importance of protecting trade secrets within companies. However, an actual amendment of the constitution would be a particularly complex and thorny issue. In camera procedures are also currently determined only by formal conditions related to the submission obligation; the giving of court decisions, except in open court, is not permitted. It will also surely be necessary to consider a more flexible application of this provision. A system like the protective order system used within U.S. lawsuits is desirable.

Further, as a result of the newly revised Code, effective ways of getting an opponent to surrender evidence such as documentary evidence, etc., will become an important part of the argument preparation procedure stage. In these cases, the

role of legal representatives in Japan is expected to undergo sweeping changes. Under the current law, a legal system exists whereby the creation of preparatory documents and similar procedures are performed in consultation with the concerned party. Although perhaps not to the same extent as in the United States, under the revised Code, law offices must become more systematically active, and even the work of collecting and arranging documentary evidence, for example, is sure to involve back-breaking amounts of labor. Please note that it will become necessary to take this point under sufficient consideration when selecting one's legal representative.

6. Comparison with U.S. Discovery--especially in regards to scope of disclosure

(1) Interrogatory (Rule §33)

The spirit of the U.S. Interrogatory system differs considerably from so-called "concerned-party inquires" under the revised Japanese Code. For example, so long as they fall within the limits permitted by the U.S. Discovery procedure, the scope of the contents of questions is completely unlimited (Rule §26(b)(1)). Everything is permitted, as long as such questions are concerned in some way with the facts of the lawsuit.

Conversely, concerned-party inquires in the revised Code are limited to particulars necessary to prepare claims or proof. Matters concerned merely with the facts of the case are not permitted.

(2) Deposition (Rule §27, etc.)

Depositions are completely different from so-called "witness questioning" under the revised Japanese Code. Depositions are considered one method of evidence collection, and are performed between the concerned parties themselves. Further, it is possible to inquire of a witness any information, so long as that information is concerned in some way with the suit. Deposition is also a means of selecting, from among several witnesses, the persons who will actually be called to witness

in court. And by videotaping Depositions, a legal representative can select the portions which appear to best support their position, and actually use such as evidence within a public court by showing the tape to the judge or jury. Therefore, this is truly one method of evidence collection, and all of the testimony made in a Deposition will not be subjected to an actual court ruling.

Conversely, under the Japanese Code of Civil Procedures, as described above, after the evidence and the items have dispute have been determined, only necessary witnesses testify through the intervention of the judge. Further, all such testimony will have an impact on the formation of the judge's decision.

(3) Document Production (Rule §34)

Document production corresponds to so-called "document submission" in Japan. In form, these two systems appear to be highly similar; however, the scope of applicable disclosure is completely different. In the United States, there is no concept of "self-usage" documents. Personal diaries and notebooks, telephone memos, desktop calendars, etc.—all of these fall under the scope of the submission obligation. Even such things as personal computer hard-disks and electronic mail servers are treated in the same way.

Conversely, although the document-submission obligation in Japan has certainly been expanded in scope, as described above, personal memos, test notes, and the like still fall within a gray, undetermined area. Further, many limiting particulars continue to exist, and there is a danger that in some cases, even necessary information will still not be disclosed.

(4) Protective Order (Rule §26(c))

There is absolutely no system in Japan which conforms to Protective Orders. In the United States, lawsuits can proceed while the company secrets, etc., of concerned parties are protected by such protective orders.

7. Problems concerning Discovery in the United States

It is a commonly heard complaint that the scope of application of Discovery in the United States is too broad, and that even documents which are mostly unrelated to the facts of a case are forced to be submitted. As a result, the system requires huge amounts of unnecessary labor, time, and expenses. It is certainly difficult to say that all of these constitute productive activities. Unless the scope of Discovery becomes somewhat more limited, a state exists whereby a concerned party with little capital is unable from the very beginning to win a lawsuit.

The creation of document copies especially requires an enormous amount of work. It is also common knowledge that in so many cases, depositions are demanded even though the contents of an opponent's documentary evidence obtained through Document Production, as well as the actual details of the case, have only been partially examined. This leads of course to the questioning of witnesses who have practically no concern whatsoever with the case. As a result, in actual practice, Depositions go beyond the goal of simply being a means of collecting evidence regarding the facts of a case; rather, they are used in many cases with the goal of influencing the formation of a decision within the judge. There are especially so many battles over items which are really far removed from the chief issues of the case: "Did the opponent cooperatively submit all of the documents in the case?", or "Are there any documents being hidden?", or "Were all of the documents submitted, and did all of the witnesses testify, within the demanded time period?" These and a host of similar questions are continuously squabbled over.

Certainly U.S. PIPA members have a plethora of experiences with U.S. suit-related procedures. Japanese companies, therefore, have no other recourse then to follow the advice of U.S. attorneys (representatives) who state that this is simply the way that suit-related procedures are handled in the United States. We would rather like to request the advice of U.S. members, by asking exactly how U.S. members handle such procedures.

8. Considerations

In civil suits in both Japan and the United States, the side that raises an issue must either clarify or prove the related facts of that issue. For example, it is true of both countries that when a party believed to be infringing a patent claims the invalidity of the patent rights, it is up to that party itself to prove its claim. (However, in Japan, it is the Patent Office that has the right to make the initial judgment concerning the validity or invalidity of patent rights. Yet as this system involves a completely separate issue from that of the present report, it will not be further discussed herein.)

There is a great difference, however, between Japan and the United States concerning the means of searching for and uncovering the facts that are the prerequisites for such claims or proof of suit-related facts.

The so-called "clean hands" principle in the United States is truly a wonderful means of clarifying the facts of civil suits. However, as stated above, in order to dirty the clean hands of their opponents, the lawyers who are the legal representatives of the concerned parties will sometimes raise problems unrelated to those of the case. That such large amounts of time and expenses are wasted in such bickering can be said to undermine the idea that this system helps to clarify the facts. It cannot be denied, too, that these issues completely unrelated to the facts of the case sometimes have an influence on the judgment of juries, and that in some cases, decisions are made based on these judgments.

Yet on the other hand, with the U.S. procedures, before a case is even brought to trial, it is true that concerned parties do exchange evidence between themselves in a fair fashion ("clean hands"), and without the intervention of a court. Since the discovery of facts can be performed in this way, it makes it easier to reach a settlement before the actual trial begins.

Still, within lawsuits under the current laws of Japan, it is a problem that there is a danger that sufficient evidence cannot be collected, that the facts of a case will not be made clear, and that parties will be unable to receive a completely

fair trial. Our wish is that the new procedures within the Civil Code that will soon make its appearance in Japan will foster a middle ground between the need to clarify the facts of a case and the need for a fair trial. We also hope that these new procedures will enable concerned parties in a suit to quickly ascertain factual relationships, and to collect evidence that will conclusively prove such relationships. Finally, we hope that such will not require large amounts of unnecessary time and expenses. It is our belief that such will be possible only through the manner in which judges make their deliberations under the new Code.

9. In Conclusion

Thus concludes our report. Aware, however, that we the authors are a group of fallible scholars, we realize that our report surely contains items which cannot be sufficiently understood as stated, and also that our report may foster misunderstandings, etc. We ask that our inadequacies be pardoned, and that our feeble attempts may rather spur many of our readers to present us with their own criticisms, ideas, opinions, and enlightenment. If our report accomplishes this, then we shall be truly pleased.

(1) Title: Controlling Cost of Outside Legal Services

(2) Date: September 23-26, 1997

(3) Source:
- (1) Source: PIPA
- (2) Group: American
- (3) Committee: No. 4

(4) Author: Terence P. Strobaugh, Rohm and Haas Company

(5) Key words: Costs, Legal Fees, Engagement Letters

(6) Statutory Provision: -

(7) Abstract: Controlling outside legal costs is a major objective for all companies. This paper presents what attorneys charge, samples of engagement (retainer) letters, a list of ways to keep costs under control and some general advise.

This paper addresses some of the issues involved in controlling the outside cost of legal services. The materials presented are not limited to just intellectual property matters. I have divided the areas into 4 categories.

I. Engagement Letters
   a) Report on Engagement Letters for Legal Services and a Model Letter (New York State Bar Association)
   b) Guidelines for Retention of Outside Counsel (Union Pacific)
   c) "Client Friendly Retention Agreement" (from the web)
   d) Sample Letter (General Dynamics)

II. Attorney's Fees
   a) Definitions of Different Billing Methods (American Bar Association, 1989)
   b) "Attorney's Fees" (from the web)
   c) Examples of Hourly Rates (from "Of Counsel" July 1997)

III. Cost Control
   a) 101 Ways to Control Outside Legal Costs by Irving B. Levinson (Corporate Legal Times)
   b) Memorandum to Outside Counsel Regarding Cost Containment (Rockwell).

IV. General Comments

THE CORPORATE COUNSEL SECTION
OF THE
NEW YORK STATE BAR ASSOCIATION

May 7, 1993

I a REPORT ON ENGAGEMENT LETTERS FOR LEGAL SERVICES AND A MODEL LETTER

The Corporate Counsel Section of the New York State Bar Association issues this report on the subject of engagement letters for legal services. The Section includes in this report, and recommends use of, a model letter for corporate engagements that can be tailored as appropriate for specific cases.

Engagement letters have traditionally been used by law firms and by some corporations as a means of communicating the scope and terms of a law firm's representation. Many large corporations have written policies and procedures which govern their relationships with outside counsel. Rule 1.5(b) of the ABA Model Rules of Professional Conduct states that "[w]hen the lawyer has not regularly represented the client, the basis or rate of the fee shall be communicated to the client, preferably in writing, before or within a reasonable time after commencing the representation".

The Corporate Counsel Section believes that more corporations should consider using engagement letters. Particularly given the magnitude and cost of certain representations, a corporation's engagement letter provides outside counsel with a better understanding of the client's expectations and enables the corporation to exercise more control over the engagement.

The Corporate Counsel Section believes that increased use of engagement letters will foster better communications and more productive relationships between corporations and their outside counsel. The Section also recognizes from experience that a corporation's relationship with its outside counsel can become strained due to misunderstandings over the manner in which outside counsel has handled a particular matter. Indeed,

different law firms and corporate counsel may have widely divergent views as to the nature of an attorney/client relationship. Areas of potential misunderstandings and conflicts include the scope of the engagement, the allocation of work and responsibility between outside and in-house counsel, hourly rates and total fees charged by a law firm, the number of hours which should be devoted to the matter, the professional staffing of a matter, and disbursements incurred in connection with the engagement.

Misunderstandings concerning these and related subjects can be reduced through improved communications. A written agreement reduces the possibility of misunderstandings or disagreements with outside counsel. The need is greater when a client engages outside counsel for the first time, but it may also be necessary when familiar law firms are engaged to work on different types of matters.

An engagement letter serves the function of setting forth the method of determining fees and expenses, waiving or otherwise handling conflicts of interest, and describing the scope and terms of services to be rendered. Engagement letters can also benefit the corporation in other less obvious ways. For example, because an engagement may last a number of years, different in-house attorneys may be the lead liaison with outside counsel over the course of a particular matter. Documenting the corporation's expectations of its outside counsel will lead to fewer misunderstandings under such circumstances. In addition, the process of creating an engagement letter and discussing it with outside counsel tends to focus thought on the elements involved in the proposed relationship and can therefore minimize any disagreements, complications or ill feelings that might otherwise arise.

The Corporate Counsel Section recommends that corporate counsel discuss with outside counsel the contents of the engagement letter in advance. Not only will such discussion make the outside counsel more comfortable about use of a written engagement letter, but it may also raise questions which can be addressed in the letter. An important objective of the

letter is to confirm the outside counsel's understanding of the scope and the terms of the engagement. This process is especially important when a corporation engages a law firm for the first time to act on its behalf.

There is no single correct type of engagement letter for all corporations. The style and content of each corporation's letter will vary depending on the particular needs and types of legal work contemplated. Nevertheless, there are certain basic aspects of any engagement that the Corporate Counsel Section recommends be covered. They are:

1. The scope of the law firm's services -- i.e., the matters covered by the engagement and the types of work that it is anticipated that the law firm will provide;

2. the client's involvement in the engagement -- i.e., the role which the corporation and/or corporate in-house counsel intend to have in the particular law firm services and any exercise of control over law firm use of personnel and incurring of expenses;

3. fees and disbursements -- i.e., the types of fees which it is anticipated will be charged by the law firm, as well as permissible disbursements;

4. billing procedures -- i.e., the frequency of law firm billing, as well as the information that it is expected will be provided on law firm bills;

5. termination rights for both the law firm and the corporation; and

6. dispute resolution mechanisms.

The Section notes that it is aware that some clients and law firms use highly complex engagement letters which cover many aspects of the attorney/client relationship in minute detail. The Section also recognizes that some use different types of engagement letters for different types of services (perhaps the most common differentiation of engagement letters is between litigation and transactional services). In many cases, the client requires the firm to estimate what its services will cost and to work within an agreed-upon budget. Also, the client may wish to make clear that all

strategic decisions and filings must be approved by the client. Additional complications addressed in some engagement letters are presented by such modifications of traditional billing arrangements as flat fees, "value" billing, and contingent-fee agreements.

The Section believes that complex, detailed, and specialized engagement letters may be entirely appropriate in various circumstances. Nevertheless, it is the Section's goal in this report to recommend a basic engagement letter which is likely to be adequate for the majority of corporate engagements and which is not so lengthy or complex as to discourage its widespread use. The Section believes that the most useful model engagement letter the Section can propose is not one which addresses every conceivable issue and dispute which may arise in the attorney/client relationship; instead, the Section has proposed a model letter which touches on the more common potential problem areas. For the same reasons, the Section has limited the scope of this report and has refrained from lengthy annotations and footnotes for its model engagement letter.

In drafting its model engagement letter, the Section has sought to strike a fair balance between the interests of corporate clients and of law firms. The Section believes that a productive and cooperative relationship between attorney and client is most likely to be engendered by a reasonable and fair engagement letter.

Corporate lawyers who are considering using the model engagement letter set forth in this report should carefully consider whether it would be desirable for them to include additional provisions which more fully describe the manner in which they wish the engagement to proceed. For example, some corporate lawyers may wish to describe in considerable detail in their engagement letters the services to be provided by outside counsel and the work to be done by in-house counsel. Indeed, some engagement letters, especially those dealing with litigation or other projects involving extensive factual investigation, contain mechanisms for allocating work between

outside counsel and the corporate client which address use of paralegals, accountants, experts, consultants, clerical workers, and various others, as well as how many law firm attorneys attend depositions, hearings, and trials.

The model engagement letter which the Corporate Counsel Section recommends in this report does not address such issues because the Section believes that there are many different acceptable ways of handling such matters and that each corporation must determine which way is best for it. In this connection, the same corporation may use different types of engagement letters for different matters, depending on the services to be rendered, the prior relationship with the particular outside counsel, the complexity and magnitude of the work, and other factors.

The model engagement letter set forth in this report is generally recommended for use by corporations throughout the United States, subject to state law and ethical rules and local customs and practices. Although the Section is not aware of any ethical rules violated in any state by the model letter, it is important to check on such matters when using engagement letters.

One area of the relationship between corporations and their outside counsel which sometimes causes difficulties and disagreements is the manner in which outside counsel charge their corporate clients for expenses. Some law firms believe that it is appropriate to not only add charges to their out-of-pocket costs to cover overhead directly attributable to those specific costs, but also to use disbursements charges as additional profit centers.

In response, some corporations now refuse to reimburse their outside counsel for certain types of expenses or impose a ceiling for such charges (for example, ten cents per page for photocopying) which may be less than their outside counsel's actual costs. Although law firms may acquiesce in such billing arrangements to obtain or maintain sources of business, some law firms which incur losses in one area may be inclined to ultimately try to make up the losses in other areas (such as higher hourly billing rates).

Nevertheless, some corporations may feel that they can impose strict limits on the hourly billing rates they are willing to pay, particularly in the current highly competitive economic climate, and therefore that they are in a position to insist that no overhead costs whatsoever may be passed on by the law firm to the corporation.

There is no one solution to these issues which is appropriate and fair for all situations. While law firms may seek to recover certain reasonable overhead costs directly attributable to certain disbursements, the law firms should not profit from disbursement charges to clients.

Perhaps the best way to insure this result is to provide in the engagement letter that the law firm may recover reasonable costs at prices which are competitive with other sources of the same products or services. For example, if a law firm's cost for photocopy paper is ten cents per page and the cost of the photocopy machine rental and the space for the copying room is another five cents per page, it might be acceptable for the law firm to charge the client fifteen cents per page for photocopies as long as commercial photocopying services in the same city charge about fifteen cents per page. If the prevailing rate for commercial photocopying is only ten cents per page, the law firm's photocopying charges should not exceed ten cents per page.

The model engagement letter set forth in this report offers some suggestions relating to disbursements which may be helpful for some corporations. The inclusion in the letter of specified expenses is not necessarily an endorsement of their appropriateness as separate, chargeable items, but rather a recognition that they are often included in billings. The important thing is that the corporation and its law firm communicate and reach an understanding so that resentment and suspicion over disbursements is minimized.

Another potential source of difficulty in the billing process is whether the law firm must obtain prior approval from the corporation before incurring certain expenses and charging them to the corporate client. Some

corporations want to retain the right to approve many expenses in advance while others are content to let their law firms exercise reasonable professional judgment as to when prior approval is necessary. The Section's model engagement letter contains optional provisions determining these issues which a corporation may include if it thinks they are appropriate.

Finally, another issue which engagement letters may address is increases by law firms in their hourly billing rates during the course of an engagement, particularly questions of prior or adequate notice to the corporation of the increase. Many professional engagements last for a number of years and it may be unreasonable to expect a law firm to provide services throughout the entire engagement without increasing its hourly rates. On the other hand, corporations resent and sometimes reject substantial increases which they did not bargain for at the time the engagement commenced. The worst difficulties arise when the increase in hourly billing rates is not only perceived to be excessive but also has not been disclosed to the corporate client. Once again, the Section provides suggestions as to how to deal with these issues in its model engagement letter but each corporation must decide what is most appropriate for it.

Thus, after studying the question of engagement letters, the Corporate Counsel Section of the New York State Bar Association sets forth the following model letter which is intended to be used, in whole or in part, by a corporation as particular circumstances dictate:

[Company Letterhead]

[Date]

[Name and Address of Law Firm]

Re: _____

Dear _____:

We are pleased that [name of law firm] has agreed to provide legal services to [name of company] (the "Company") with respect to [detailed description of engagement]. The Law Department of the Company expects outside law firms to provide high quality services in a cost efficient manner. We wish to reach agreement with you in advance as to the conditions and guidelines that will govern our relationship, consistent, of course, with the rules of professional responsibility that apply to all attorneys.

First, to protect both of us and to comply with professional obligations, we have already discussed with you and have resolved any potential conflicts of interest with present or former clients of your firm. We expect that you will inform us of any additional potential conflicts which you may discover prior to commencing work for the Company, if possible, so that we can evaluate whether engaging your firm's services is appropriate. Moreover, we assume that if, during the course of your firm's services to the Company, your firm becomes aware of other potential conflicts of interest that may arise, we will be immediately provided all necessary information.

The services which your firm will provide shall be in accordance with the following terms and conditions:

A. Professional Fees. We understand that your fees will be based upon the reasonable value of your services as determined in accordance with

the American Bar Association Model Code of Professional Responsibility and the New York State Code of Professional Responsibility. Your firm's fees will be based on the hourly billing rates charged by each attorney. We understand that you [or another specified partner], as a partner in your firm, will have primary responsibility for your firm's services. Your rate is $_____ per hour. [Optional: We appreciate that you will also use (list other attorneys) whose billing rates are $_____.] We understand all billing rates may be reasonably adjusted from time to time, but not more frequently than annually. Notice of any such adjustments must be given to us within a reasonable time. We further understand that during the course of your engagement, it may be necessary or advisable to delegate various portions of this matter to other firm attorneys. [Optional: If this is the case, you will inform us in advance of the identity of the attorneys and of their hourly billing rates.]

In an effort to reduce legal fees, we expect your firm to assign tasks as among partners and associates in a manner commensurate with the level the expertise required. Similarly, we expect your firm will utilize paralegal personnel where appropriate. We understand that paralegal time will be charged at billing rates ranging from $_____ to $_____ per hour, which also may be reasonably adjusted from time to time. We also understand that it may be necessary on occasion to utilize clerks from your firm's managing attorney's office to serve or file court papers. The billing rates for such clerks range from $_____ to $_____ per hour.

No fees shall be paid separately for secretarial or clerical services. Any additional agreements regarding fees must be set forth in writing and signed by the responsible Company attorney.

B. Costs and Expenses. We understand that in the course of your representation, it may be necessary for your firm to incur certain costs or expenses. Our Company will reimburse your firm for certain costs or expenses actually incurred and reasonably necessary for completing the

assigned matter, as long as your charges for costs and expenses are competitive with other sources of the same products or services. More particularly, our Company will reimburse your firm in accordance with the following guidelines:

1. Computer-Related Expenses. We will reimburse you for [optional: pre-authorized on-line] computerized research and research services. [Optional: However, any charges over $_____ per month will require our approval.] We also encourage your firm to utilize computer services, such as coding of documents or computerized depositions, which will enable your firm to more efficiently manage this matter. [Optional: However, any such type of expense must first be approved by a Company attorney.]

2. Travel. We will reimburse your firm for expenses in connection with out-of-town travel. However, we will only reimburse for [specify] class travel and, where necessary, for the reasonable cost of a rental car [Optional: of a size appropriate to the number of persons using it]. All related travel expenses; i.e., lodging and meals, must be reasonable under the circumstances.

We expect that your firm will advance all such travel expenses and submit bills for reimbursement.

3. Court Costs. We will reimburse for expenses incurred, but will not be responsible for sanctions or penalties imposed by a Court due to the conduct of your firm.

4. Transcription. We will reimburse for expenses of an original transcript at reasonable rates. [Optional: Expedited transcripts may not be ordered without our prior approval.]

5. Photocopying. We will reimburse at a maximum of ___ cents per page for normal photocopying. [Optional: Expedited photocopying or oversized document photocopying may be reimbursed at a higher rate only with our prior approval.]

6. Telephone. We will reimburse for long-distance telephone service at actual expenses to your firm.

7. Postage/Courier. We will reimburse for postage at your firm's actual costs and for expenses of overnight courier or by-hand couriers only when such services are necessary or are requested by a Company attorney.

8. Miscellaneous Expenses. [Optional: We will not reimburse for the cost of office equipment, books, periodicals or other office expenditures unless approval was obtained from us.]

C. Billing. Bills should be submitted to the responsible Company attorney. We expect to be billed [select time period - monthly, quarterly, etc.] unless an alternative agreement has been approved by the Company. All bills should include a summary statement of the kinds of services rendered during the relevant period and be accompanied by a detailed statement in computerized or equivalent form describing the services performed, the time expended each day and for the entire period by each attorney or paralegal, and the hourly rates charged therefor. Reimbursable expenses included on each bill should also be broken down by category. We expect that your firm will maintain back-up documentation for all expenses for our review as may be necessary. In the event that your firm forwards invoices for certain expenses to be paid directly by the Company, we expect such invoices to be accompanied by any additional back-up documentation and a letter explaining the purpose of such expense. [Optional: Invoices for any individual disbursement which exceeds $_____ either should be billed directly to the Company or should be forwarded by you to it for payment].

[Optional: In addition, in order to allow us to properly monitor your firm's ongoing services, we request that your firm work with us to create quarterly (or some other specified time period) budgets describing the services that your firm anticipates will be performed during each upcoming quarter. Such budgets should include a breakdown of the estimated number of hours and fees for each attorney who will be working on this matter.]

[Optional: We reserve the right to audit your firm's bills or to employ an auditing or other firm to do so. Your firm will make available in connection with any such audit any documents which may be reasonably necessary to enable a meaningful audit to be performed.]

D. Involvement of the Company. We expect to be kept closely involved with the progress of your firm's services in this matter. Your firm will keep us apprised of all material developments in this matter, and, in the case of litigation or administrative proceedings, provide sufficient notice to us to enable a responsible Company attorney to attend meetings, discovery proceedings and conferences, hearings and other proceedings. A copy of all correspondence in the course of your firm's services should be forwarded to the responsible Company attorney. [Optional: Copies of all internal memoranda and other attorney work-product should be forwarded as well.]

During the course of your engagement, [specify name of in-house attorney] will have primary responsibility for working with you. That attorney will also have authority to communicate to you whatever approvals may be required for decisions affecting our interests.

There may be times when your firm will need to obtain information from the Company; i.e., documents or information from past and/or current employees. All requests for access to documents, employees, or other information shall be made to the responsible Company attorney. At the conclusion of this matter, all documents obtained from our files shall be returned to the Company.

E. Termination. We have the right to terminate your firm's engagement by written notice at any time. Your firm has the same right to terminate this engagement, subject to an obligation to give the Company reasonable notice to permit it to obtain alternative representation or services and subject to applicable ethical provisions. Your firm will be expected to provide reasonable assistance in effecting a transfer of responsibilities to the new firm.

F. Disputes. The laws of the State of New York shall govern the interpretation of this agreement, including all rules or codes of ethics which apply to the provision of services. [Optional: All disputes between us arising out of this engagement which cannot be settled shall be resolved through binding arbitration in (location) in accordance with the rules for resolution of commercial disputes, then in effect, of the American Arbitration Association, and judgment upon the award may be entered in any Court having jurisdiction thereof. It is further agreed that the arbitrators may, in their sold discretion, award attorneys' fees to the prevailing party.]

Please review this agreement carefully, and if you have any questions concerning the foregoing conditions, do not hesitate to contact me. If this agreement is acceptable to you, please acknowledge that you have reviewed it, understand it, and desire to represent the Company on the basis of the terms of this letter by signing and delivering to me the enclosed copy. We recommend that you keep a copy of this letter in your file.

We look forward to working with your law firm on this matter.

Sincerely yours,

[signature of corporate counsel]

THE ABOVE AGREEMENT IS
ACCEPTED AND AGREED TO
[Name of Law Firm]

By: _____

[Name]

Date: _____

I b) Guidelines for Retention of Outside Counsel

Introduction. One of the realities of today's oil and gas industry is intense competition. It is essential to our success in this environment that we control our costs while maintaining a high level of productivity. The need to maximize efficiency while minimizing costs extends to every area of our business, including the Law Department and its outside counsel. We value the excellent relationships we have enjoyed with our outside counsel and believe that, by following these guidelines, we can achieve cost effectiveness without sacrificing the excellence of the legal product that we have come to expect.

Engagement and Staffing. For each matter referred to your firm by UPRC, appropriate staffing should be agreed upon in advance. We will expect a matter to be handled exclusively by the attorney to whom it is referred unless additional staffing is approved by the managing UPRC attorney. Hourly rates for all personnel for whom we will be billed must also be approved in advance.

Unless special circumstances require, UPRC does not expect personnel changes and should not be billed for attorneys or paralegals other than the individuals identified above without the prior approval of the managing UPRC attorney. Invoices which include billings for attorneys or paralegals not previously approved may be delayed in payment or subject to adjustment at UPRC's request.

Additionally, UPRC will not accept any increase in hourly rates charged during the pendency of a matter unless the managing UPRC attorney agrees in advance to the requested rate increase We understand all billing rates may be reasonably adjusted from time to time, but not more frequently than annually. Written notice of any such adjustments must be given within a reasonable time prior to their effectiveness.

Staffing of assignments should be handled as efficiently as possible. UPRC will not pay for multiple representation at meetings, depositions and court appearances unless it has been approved in advance by the managing UPRC attorney. Similarly, UPRC does not expect to be billed for intra-office conferencing or work by more than one attorney on the same matter without prior approval.

Retention of experts, consultants or other advisors shall require the prior approval of the managing UPRC attorney.

Budgeting and Planning. UPRC asks you to use innovative methods to provide high quality legal services in a cost efficient manner. We believe that strategic planning is integral to that process and that the hallmark of any plan is a budget. In this connection, please adhere to the following:

1. While we do not ask for a budget on every matter, we require that a budget be prepared at any time that you reasonably anticipate that we will spend in excess of $50,000 in legal fees and expenses in any 12 month period with respect to a single case or project. In this regard, you should not wait for a request for a budget from the UPRC attorney responsible for a matter. The budget should be initiated at any time that you anticipate the above threshold being reached.

2. The budget, at a minimum, should:

   a. Set forth major assumptions.
   b. Identify specific phases of the litigation or project.

Union Pacific Resources Company
P O Box 7
Fort Worth, Texas 76101-0007
817 / 877-6000
TWX 910 893 5024

c. Estimate the costs associated with each phase.
d. Be structured so that actual costs can be readily compared to budgeted costs.

3. Once a budget has been prepared for a matter, we require that it be updated every six months or at any time that a significant change in the budget is anticipated.

4. The budget does not constitute a firm fixed fee and a variance therefrom will not, in and of itself, result in the withholding of fees. However, we believe that a budget is an important tool in planning effective and cost effective legal representation. Therefore, we may request you to voluntarily adjust your fees in certain instances, such as when the above procedures are not followed or when a budget fails to anticipate a substantial and foreseeable event.

5. In addition to the foregoing, no single activity (eg. deposition, research project, etc.) that is expected to cost $5,000 or more should be commenced in any matter without prior approval.

Fees and Expenses. Unless otherwise agreed upon in writing, UPRC will be charged for services rendered on its behalf on an hourly basis appropriate to the partners or associates performing the service and consistent with the rates we have agreed upon for such personnel, which we expect to be the rates generally charged by your firm to other clients. However, UPRC is open to exploring other fee arrangements (eg. flat fee, discounts for volume, incentives for early settlement at low cost, contingent fees) in appropriate circumstances. Any proposal you may have will be carefully considered.

All travel time between the hours of 8:00 a.m. and 6:00 p.m. shall be billable at the full hourly rate. All travel time after 6:00 p.m. shall only be billable at half the hourly rate. (The foregoing assumes, of course, that the attorney is not working on non-UPRC related matters while traveling.) UPRC will reimburse outside counsel for reasonable expenses, including hotel, meal and related expenses; coach plan travel; and charges for commercial transportation or rental cars. First class and business-class air transportation, luxury hotel accommodations and similar expenses are not appropriate.

UPRC has established corporate rates with preferred hotels in many cities. Please check with UPRC personnel, or directly with the hotel, to see if a corporate rate is available. When traveling to Fort Worth, please make reservations with the Worthington, which offers UPRC a corporate rate.

UPRC will also reimburse funds disbursed by the firm on UPRC's behalf for necessary filings, fees, bonds, etc. In addition, UPRC will reimburse the firm for the usual and ordinary disbursements or expenses necessary to perform the services rendered, such as mail or special deliveries, copying, printing, telephone calls, etc. when such charges are detailed on each billing. UPRC does not consider user fees for computerized legal research or word processing as properly billable charges. Employee overtime charges should be approved in advance by UPRC; otherwise, they too shall be considered not billable to UPRC.

Billing. Invoices for services rendered should be submitted to the UPRC attorney responsible for the matter. An invoice should contain sufficient detail to identify by attorney (or paralegal) the work performed on a matter on a daily basis during the period covered by the invoice. There should be one invoice per matter for each month. Invoices should be submitted within thirty days following the end of each month in which the services are rendered. It is not necessary to attach the receipts for expenses to the invoice. However, it is required to itemize all expenses. To minimize any delays in payment, invoices should contain all of the information shown on the example attached to these guidelines.

FIRM NAME
Address
City, State Zip
Telephone Number
Telecopier Number

Union Pacific Resources Company
Attn: [UPRC Attorney]
P. O. Box 7
Fort Worth, Texas 76101

[Date]
[Invoice Number]

RE: [Matter Name or Style of Litigation]

Attorney Fees:

Date	Attorney	Description	Hours	Amount
4/5/93	ABC	Telephone conference with LLP	.50	75.00
4/6/93	XYZ	Revise Motion to Amend Exhibit list and conference with DJG regarding same.	.75	75.00
	Total Attorney Fees		1.25	150.00

Expenses:

4/4/93	Airline Ticket - Corpus Christi	178.00
4/4/93	Meals - Corpus Christi	45.90
4/7/93	Reproduction	32.20
4/8/93	Postage	5.50
	Total Expenses	261.60

TOTAL FEES and EXPENSES **411.60**

I
c)

Home Page

Client Friendly Retention Agreement

I suggest that clients never sign the standard retention or billing agreements offered by many law firms. Too often these are lop-sided in favor of the firm. This is hard to reconcile with the lawyer's fiduciary and professional duties to the client, which may therefore come back to haunt the firm if a dispute later arises. (One way for the firm to minimize ethical and legal restrictions on dealing with clients is to insist that their agreement be signed before they are retained--any changes after that would be scrutinized more closely by courts and bar authorities.) This phenomenon is part of a larger pattern in which many lawyers effectively segregate their relationship with the client as customer (the business aspect) from their relationship with the client as client (the professional aspect).

As a fee arbitrator as well as a consultant to clients, I have seen, for example, terms attempting to waive in advance future conflicts of interest, terms specifying that the firm may add any staff it wants (at whatever rates it wants), no limitations or details regarding hourly rates and expenses (including law firm expenses that may truly be overhead), terms limiting the client's ability to contest a bill to a very short period of time, and advance agreements to allow the firm to withdraw with no advance notice, even in the midst of trial. Some of these terms, rather than giving the firm more comfort, could actually be unethical per se or as enforced. It seems that the firms, however, make these agreements even more aggressive each time they have a major write- off or problem with some other client.

Because some ethical protections can be waived by the client, especially if the waiver is obtained in writing, at the threshold of the representation, some firms seem to be overreaching at the very moment when the client is typically most vulnerable. At the threshold, clients are vulnerable because they are focussed not on the business relationship with the lawyer and whatever problems they may have down the road, but on the problem that sent them to the attorney in the first place. Often the lop-sided retention agreement gets the relationship off to a bad start. Even if the client signs the agreement without voicing any objection and the firm never has to enforce it, it sends the client the signal that this is just another relationship in which he or she may be taken advantage of--the client's ability to trust the lawyer is the immediate victim.

Our standard agreement is thus designed to create a more level relationship, one in which neither side is securing waivers or imposing terms that would seem unfair. Yet, because the attorney is the professional, subject to ethical duties, and bound to have the best ability to control fees and know what is going on day-to-day as the matter progresses, the arrangement is designed to give the client the upper hand in the event of a billing dispute. Subject to ethical restrictions, the attorney's option is to withdraw to cut his or her losses. No matter how one writes the agreement, there is no written substitute for attorneys screening their clients (and clients their attorneys) in the first place, including doing some "due diligence" on the matter itself, and in deciding at the first sign of trouble (not the day before trial) that it is time to withdraw.

The agreement can be modified, e.g., to provide for fixed or contingent fees. This agreement is merely a sample--you should seek appropriate legal advice to insure that this agreement meets all your needs, in whatever jurisdiction you may be.

We welcome your comments and suggestions on this draft. Our number is 703/684-6996.

Legal Services Agreement (Hourly-Litigation)

_____ ("Client") and _____ ("Attorney") hereby enter into this agreement regarding the retention of Attorney by Client to provide legal advice and services:

A. Client: The client is _____. To the extent ethically permissible, its officers, directors, employees, and agents should also be treated as clients, unless Client advises Attorney otherwise. In the event that Attorney cannot ethically represent individuals in addition to Client, Attorney shall advise Client of that fact immediately.

B. Attorney: The Attorney is _____, who is licensed to practice law in all jurisdictions relevant to this matter. If Attorney practices with others who may also provide services to Client, he or she understands that Client expects that Attorney will be responsible for managing the representation, assuring compliance of others with the terms of this agreement and ethical requirements, preparing and substantiating all bills, and communicating with Client.

C. Matter: Attorney has been retained by Client in connection with: _____ [description of matter]. Attorney represents that he or she is competent and available to handle that matter. In the event that additional matters are assigned by Client to Attorney, this agreement shall apply to those matters as well.

1. Review of ethical obligations before initiating representation: Attorney has conducted a thorough investigation and determined that neither Attorney nor his or her firm has any ethical impediment, real or potential, to representing Client. (For conflict of interest purposes, "Client" shall include all existing and future affiliates of Client. To effectuate this provision, Attorney should keep apprised of all changes in Client's corporate family.) To the extent that any ethical impediment, real or potential, ever arises, Attorney shall immediately inform Client of the impediment (regardless of whether Attorney believes he or she has taken all steps necessary to avoid the impediment and regardless of whether Attorney believes that the impediment is insubstantial or questionable), make full disclosure of the situation to Client, obtain Client's consent to continue the later representation, and take all steps requested by Client to avoid or mitigate the impediment. In particular, for example, Attorney has informed Client of all past contact between Attorney and Client's competitors, opposing counsel, potential opposing parties, and any relevant court or tribunal, regardless of whether that contact might be considered a conflict of interest. Attorney understands that, if a direct or indirect conflict of interest arises, e.g., under Model Rule of Professional Conduct 1.7(a) or (b), Client may, in its discretion, obtain reimbursement from Attorney for all fees and expenses paid to Attorney in this matter, cancellation of all amounts allegedly owed by Client to Attorney, and reimbursement for consequential expenses incurred by Client, including the cost of replacement counsel.
2. Limitations to scope of representation: [Include any limitations on scope of the representation, e.g., local counsel only, co-counsel, portion of case being handled in-house.]
3. Term of representation: This representation is effective _____ [Insert date--need not be date agreement is signed.] The representation shall continue until terminated by either party in accordance with ethical requirements.
4. Client expectations and goals: [In some instances you may wish to specify the purpose or goal of

4. Client expectations and goals: [In some instances you may wish to specify the purpose or goal of the matter, e.g., to draft a particular agreement, secure a license, or whatever. This is a good way to spell out from the start such things, for example, as the client's desire to resolve a matter quickly by settlement, if reasonable, rather than litigating it at all costs or, conversely, to emphasize how important the principle behind a case may be.]

D. Attorney Fee (Hourly): Attorney will be paid for his or her services based on the number of hours expended on behalf of Client (rounded to the nearest tenth hour for each time entry), not to include time billable to or compensated by other clients, multiplied by the Attorney's hourly rate of $ _____. Details regarding bills, documentation, and time-keeping are provided below and are a condition precedent to payment by the Client.

☐ [Note: Alternative fees, such as fixed fees, contingent fees, and so on may be substituted where appropriate. Those arrangements generally reduce the administrative burden and some requirements below, e.g., with respect to bills, would become irrelevant.]

1. Non-billable time: Attorney will bill client only for time reasonably and necessarily incurred to render professional services on client's behalf in accordance with this Agreement. Time attributable to billing questions is not billable, for example. Time expended by time-keepers who have not been approved by Client is also not billable.
2. Changes to hourly rates: Attorney will charge no more than the hourly rate quoted above throughout the duration of the matter, unless otherwise agreed in a writing signed by Client.
3. Discounts to other clients: The rates Attorney will charge Client represent the lowest rates charged for the same persons to other clients. In the event that lower rates or discounts are provided to other clients, Attorney will also provide them on the same basis to Client. [This is a so-called most favored nations clause, providing that a client should be given the "best rates" especially where the firm provides discounts to other clients. This may be reserved for only a few clients, but the firm should then be careful not to misrepresent to other clients that they are receiving its only or best rates.]
4. Additional time-keepers: Additional billing staff may not be added to the matter without advance approval from Client. In the event that additional time-keepers are added to the staff, with Client approval, then their hourly rates shall be provided to Client in advance, and their rates and billing practices shall comply with the requirements of this Agreement.
5. Existing work product: To the extent the Attorney makes use of existing work product, e.g., in the form of research previously performed for another client, then Attorney may bill only that time expended in using that work product for Client. In other words, no premium, markup, or other adjustment may be made to bill Client for time spent on work already performed.
6. Travel: Travel restrictions, including restrictions on billing time during travel, are discussed below.

E. Billing of Fees and Expenses: Attorney shall comply with the following requirements as to billing fees and expenses as a condition precedent to Client's obligation to pay each bill:

1. Monthly bills: Unless otherwise agreed in a writing signed by the Client, bills shall be issued monthly by Attorney within 15 days after the close of each month. Attorney understands that Client requires prompt bills in part to facilitate effective management of the representation and fees.
2. Bill format: Attorney shall provide detailed, itemized bills which shall, at a minimum:
   - clearly identify each person performing services (i.e., time-keepers) in conjunction with each entry,
   - record the time expended by each time-keeper separately,
   - state the amount of time expended by each time-keeper daily (and, within each day, broken down by task where more than one project or task was worked upon within the same day),
   - describe within each itemized daily task entry, in sufficient detail to readily allow the Client

- ☐ describe within each itemized daily task entry, in sufficient detail to readily allow the Client to determine the necessity for and reasonableness of the time expended, the services performed, the project or task each service relates to, the subject and purpose of each service, and the names of others who were present or communicated with in the course of performing the service,
- ☐ in a summary at the beginning or end of the bill, provide the current hourly rate for each time-keeper, the total time billed by each time- keeper in that bill, the product of the total time and hourly rate for each time-keeper, the total fees charged, and a reconciliation between the amount charged and any applicable estimated or budgeted amount, by task.
- ☐ [This should cause the firm to generate so-called task-based bills. For more information, and a list of standard codes, consult the ABA's recent Uniform Task-Based Management System, available by calling 312/988-5522.]

3. Expenses: Client will pay the actual, reasonable cost of the following expense items if incurred in accordance with the guidelines below and promptly itemized in Attorney's monthly bill:
   - ☐ Reimbursable expenses: Actual cost for necessary long distance telephone calls, telecopying (___¢/outgoing page), overnight or expedited delivery, couriers, photocopying (___¢/page), postage, court fees, and other expenses approved in advance by Client or as listed below:
     - ■ Expedited or emergency services: Attorney is expected to avoid using expedited or emergency services, such as express delivery services, couriers, telecopying, overtime, and so on, unless necessary because of unexpected developments or extremely short deadlines. Client may refuse to pay for any such expenses when incurred routinely or because of Attorney's failure to manage the matter efficiently.
     - ■ Computerized research: Attorney is expected to use computerized research services cost-effectively to reduce time spent on research, for example, while closely-monitoring computerized research to insure that the charges are reasonable and necessary. Attorney is expected to pass through to Client any discounts or other arrangements that reduce the cost of computerized services.
     - ■ Photocopying: Attorney is encouraged to use outside copying services to reduce the cost of copying, provided that these expenses are incurred and billed in accordance with this Agreement. Attorney is responsible for insuring that all copying complies with copyright obligations.
     - ■ Transcripts: Transcripts should not be ordered without prior approval from Client. Transcripts should not be ordered on an expedited basis unless necessary and approved in advance by Client. Attorney should obtain computerized copies of transcripts when available at a reasonable cost to avoid charging for time spent digesting or indexing transcripts.
     - ■ Travel: Travel expenses within the firm's local or metropolitan area will not be reimbursed if the time spent in transit is billed. Travel outside the metropolitan area may only be reimbursed if the travel was approved in advance by Client. Time spent in transit, locally or otherwise, may be billed only if (a) Attorney is unable to avoid travelling by using other forms of communication and (b) Attorney is unable to bill time in transit to other clients. Travel by more than one person at the same time to the same destination is not allowed without prior approval from Client. Reimbursable travel expenses, if approved in advance, are the cost of transportation by the least expensive practicable means (e.g., coach class air travel, rail travel to nearby destinations), the cost of reasonable hotel accommodations, and the cost of transportation while out of town (e.g., by cab or rental car, whichever seems reasonable, at the lowest available rate).
   - Non-reimbursable expenses: The following expenses will in no event be reimbursable, unless specifically agreed to in advance in a writing signed by Client:
     - ■ Meals, overtime, word processing or computer charges, personal expenses, expenses

- Meals, overtime, word processing or computer charges, personal expenses, expenses that benefitted other clients, expenses for books, temporary employees, periodicals or other library materials, filing or other document handling charges, clerical expenses, stationery and other supply expenses, utilities, and any other expense that is either unreasonable or unnecessary. (The fact that the firm charges other clients or that other firms charge their clients for an expense does not make it reasonable or necessary.)
- Experts, consultants, support services, etc.: Attorney is not authorized to retain experts, additional counsel, consultants, support services, or the like without prior written approval signed by Client. Attorney will be responsible for selecting and managing the services of others so that their services and expenses will be rendered in accordance with the terms of this Agreement, including terms applicable to Attorney. Attorney will manage others to obtain cost-effective services for Client. Unless otherwise agreed in writing, Attorney shall obtain a written retainer agreement, in a form specified by Client, from each service provider, with bills from each provider being sent to both Attorney (for management purposes) and Client (for review and payment).
- Expenses passed through at actual cost: Client will not pay any markup for expenses. Client will only reimburse the Attorney for their actual out-of-pocket cost.
- Overhead not charged to Client: Client will not pay for any "expense" items that are in fact part of Attorney's overhead which should be included within Attorney's fee.
- Advance approval of expenses: In addition to the items noted above, Attorney shall obtain advance approval from Client before incurring any expense in excess of $ _____ if Attorney expects to be reimbursed for that expense. Client may refuse to pay any expense for which advance approval is not obtained by Attorney.
- Copies of receipts for expenses: Attorney shall include copies of receipts for all expenses in excess of $ _____ with the itemized monthly bill. Client may refuse to pay any expense item for which documentation is not provided by Attorney.
- Expenses (and fees) after termination: Upon termination of the representation, Attorney shall promptly bill Client for any remaining reimbursable expenses and fees. Client may refuse to pay any fees or expenses not billed within 45 days of termination of the representation. Attorney is also expected to cooperate promptly with all aspects of termination and transition to other counsel. Payment for fees and expenses is contingent upon prompt, full cooperation.

4. Bill and expense documentation: Attorney understands that he or she must have documentation to support all aspects of each bill, including fees and expenses, and must maintain that documentation until at least one year after the termination of the representation. This documentation shall be made promptly available by Attorney to Client (or Client's designated representative, including an accountant or legal bill auditor) upon Client's written request. Attorney agrees to cooperate with any examination of this documentation and Attorney's fees and expenses, e.g., by responding promptly and completely to any questions Client or its designated representative may have. Attorney shall notify Client in writing at least 60 days in advance of destroying any such records and, in the event that Client requests that they be preserved, shall preserve them at least one additional year (with Client responsible for paying the actual cost of storage). This documentation shall include, for example, original time records, expense receipts, and documentation supporting the amount charged by Attorney for expense items generated by the Attorney or his or her firm. Client reserves the right not to pay any fee or expense item for which sufficient documentation is not available to determine whether the item was necessary and reasonable.
5. Billing system requirements: Attorney should discuss the capabilities of his or her billing system with Client before rendering the first bill. Client should receive a computerized version of each bill, together with a paper copy, to facilitate bill review

F. Payment terms: Attorney bills complying with this Agreement are due and payable upon receipt. If the bill materially fails to comply with the requirements of this Agreement, then it is not due and payable until its deficiencies are remedied by Attorney. Client is entitled to a 1% prompt payment discount if a bill is paid within 15 days of receipt by Client or correction of deficiencies by Attorney, whichever is later, (or if the bill is satisfied by funds held by Attorney, e.g., in a trust account). Client shall not be liable for interest or other late charges unless specifically agreed to in advance in a writing signed by Client.

G. Advance fee (so-called retainer) payment: [Retainers are often abused, but because they are so common, a standard term is included here.] An advance payment against fees (sometimes called a "retainer") of $_____ has been paid by Client to Attorney. The retainer is to be held in Attorney's trust account and applied to Attorney's bills, both fees and expenses, as earned by Attorney in accordance with this Agreement. Payment of the retainer does not, for example, release Attorney from the obligation to provide detailed bills and itemized expenses, which Client may dispute, or to obtain advance Client approval as required by this agreement. In the event of a dispute as to any amount paid from the retainer, Attorney shall retain the disputed amount in trust until the dispute is finally resolved.

H. Budgets: Attorney has (or will by _____ [date or number of days]) prepared an estimate or budget of the likely cost, by task, of this matter, including fees and expenses, and a plan for handling the matter. Attorney will update the budget and plan at least once every three months. In the event that Attorney obtains information indicating that the budget (or any line item) may be exceeded by more than five percent, he or she will notify Client of that immediately. In a written statement accompanying each bill, preferably in tabular form, Attorney will reconcile the budget with each month's bill, e.g., by explaining whether the billed amounts, by task, are more or less than the amounts budgeted therefore. Client shall have the right not to pay any amounts that are over budget or not included within the budget.

I. Staffing and matter management: Attorney has been retained specifically because he or she, personally, is understood by Client to be able to handle this matter. Employment of additional individuals, whether attorneys, paralegals, or others, who will bill time to Client is not permitted without the advance written approval of Client.

1. Staff changes: Changes in staff, e.g., replacement of an attorney as well as increases or decreases in the size of the staff, must have the advance written approval of Client. Client expects to receive discounts or other concessions so that any increases or changes in staff will not result in unnecessary or unreasonable charges to client, e.g., for training, internal conferences, and management.
2. Duplication of effort: Unless advance Client approval is obtained, Attorney will not have more than one time-keeper bill for court appearances, attendance at depositions and meetings, including meetings with clients, and internal conferences. In the event that more than one person attends, only the time of the person with the lowest rate will be billable. Attorney is not permitted to use this matter to provide on the job training for personnel without Client's advance approval.
3. Matter management: Attorney is responsible for managing the matter cost- effectively and competently, e.g., by insuring that additional personnel are competent, properly supervised, efficient, and in compliance with the terms of this Agreement as well as ethical obligations.
4. Communications: Client will expect that all communications between Attorney and Client will be reviewed by Attorney and that Attorney will serve as the point of contact for this matter, including billing questions. The point of contact for this matter at Client is _____ [name].
5. Case monitoring: Client will be advised promptly by Attorney of all significant facts and developments in the matter so that Client may manage the matter effectively and make informed decisions about strategy, tactics, settlement, scheduling, and so forth. Client will promptly receive

from Attorney copies of all orders, opinions, pleadings, briefs, memoranda (internal and external), correspondence, and any other document material to this matter. As to discovery materials or exhibits that are lengthy, Attorney should discuss them with Client before providing a copy. Documents available in computerized form should be provided in that form as well as on paper.

6. Case control: Attorney shall discuss all significant issues of strategy and tactics, including motions, discovery, pleadings, briefs, trial preparation, experts, and settlement, with Client before implementation. Attorney is expected to exercise independent professional judgment, but to implement the decisions of Client.
7. Attorney cooperation: Attorney will cooperate with Client or Client's representatives to provide promptly all information Client requests or needs about the matter or Attorney's bills.
8. Client cooperation: Attorney should consult with Client about all opportunities for Client to save money or make use of Client's expertise to assist in, e.g., responding to discovery, preparing for trial, locating experts, and the like. Client may also have personnel and facilities available to reduce the expense of litigation.

J. Confidentiality and public relations: Attorney is not authorized to waive or release any privilege or other protection of information, confidential, secret, or otherwise, obtained from or on behalf Client. Attorney is to keep all confidential, privileged, or secret information confidential. This requirement is perpetual, i.e., it will continue even after the termination of the relationship and this Agreement. This requirement is also intended to prohibit Attorney from using information obtained from or on behalf of Client, including work product prepared at Client's expense, for other clients of Attorney or his or her firm, without Client's advance written approval. Attorney is not authorized to identify Client as a client, e.g., for purposes of marketing or advertising, without Client's prior approval. Upon termination of the representation, Attorney agrees to return promptly all information obtained from or on behalf of Client to Client. Attorney is not authorized to communicate with the public, including the press, about Client or this matter without the advance approval of Client.

K. Ownership of Attorney work product: Attorney understands that all work product prepared by Attorney or his or her firm at the expense of Client (or for which Client is otherwise billed) is the property of Client. This work product may not be used by Attorney or his or her firm nor disclosed by Attorney or his or her firm to others, except in the normal course of Attorney's representation of Client in this matter, without Client's prior written approval. Attorney agrees that Client owns all rights, including copyrights, to materials prepared by Client or by Attorney on behalf of Client.

L. Dispute resolution: Attorney and Client agree that all disputes regarding Attorney's fees or expenses are to be resolved by binding arbitration, pursuant to the commercial rules of the American Arbitration Association, by a single arbitrator appointed in accordance with those rules, located in _____. [Whether you want to use this term may depend upon your feeling about binding arbitration. Firms should also be aware that in some jurisdictions, including the District of Columbia, certain disclosures must be made or there are other ethical restrictions on mandating fee arbitration for clients. Some bar authorities offer fee and other types of arbitration that may cost less than AAA or other commercial arbitration options.]

M. Governing law, modification of this Agreement, entire agreement: This Agreement is to be interpreted in accordance with the laws of _____ and with the ethical requirements of that jurisdiction. The Agreement may not be modified in any way without the express, written agreement of both parties. This represents the entire agreement of the parties.

[Make provision for authorized signatures on behalf of Attorney and Client. For particularly large engagements, consider having a managing partner sign for the Firm, so that the Firm may not

later claim that Attorney acted without authority.

For more information, contact our Marketing Director, Elizabeth McGee

The Devil's Advocate
400 North Columbus Street, Suite 250
Alexandria, Virginia 22314

(703) 684-6996
FAX (703) 684-6998

dvladvc8@aol.com

Back to Home Page

GENERAL DYNAMICS

I
d)

John Smith, Esquire
123 Maple Street
Suite 703
St. Louis, Missouri

Dear Mr. Smith:

A. Pursuant to our telephone conversation of today enclosed please find the following:

1. A summons and first amended complaint.

2. A complete copy of everything in our file.

B. It is the policy of General Dynamics to employ outside counsel to handle litigation on a basis whereby our management can readily grasp the status of the matter and on a basis whereby our stockholders are assured of getting their moneys' worth. Toward this end, I am writing you this retention letter with regard to the above piece of litigation upon which you have agreed to represent General Dynamics. As soon as possible, but no later than three weeks from now, would you please send me a report on the following matters:

1. The dispositive issues involved in the case.

2. Any business implications involved in the litigation.

3. General Dynamics' range of possible financial exposure and the factors used in determining this range.

4. An initial recommendation with regard to how you think we should proceed in this litigation.

We fully realize that in the first three weeks of representing us it may be difficult or impossible to make a conclusive report on the above matters. However, it has been our experience that your early, considered opinion on these matters will be helpful in charting the course for the rest of the litigation. Obviously, as the case proceeds we encourage you to update and amend your early report to us.

C. As soon as possible, but no later than two months from now, please send us a written litigation plan including but not limited to the following items:

1. Your intentions with regard to motions, discovery and other pre-trial matters.

2. A projected schedule for the litigation.

3. A projected budget broken down by hours and dollars for professional firm members, paraprofessionals and clerical support, experts, other consultants, discovery cost and direct expenses such as travel, communication expense, and copying.

4. The feasibility of employing alternative dispute resolution techniques.

5. The advisability of exploring settlement possibilities.

D. General Dynamics expects to be billed monthly and to pay its bills monthly. Bills should be supported by detailed records of hours spent, by whom, doing what and the dates upon which the services were rendered. Direct expenses should be similarly broken out and supported. In your initial report to us, please include a list of the attorneys you expect will work on the matter and their hourly rates.

I will be your in-house liaison for the purposes of this litigation. Please feel free to call or write me at any time on any matter concerning this case. We are pleased to have you representing General Dynamics and look forward to a speedy and successful resolution.

Very truly Yours,

II

a) Definitions of Different Billing Methods

ABA Journal

November, 1989

75 Nov. ABA J. 38

'ITLE: Billing Choices

.UTHOR: Paul Marcotte

'EXT:
Law firms commonly use at least nine different methods of billing, according :o Richard Reed, chair of an ABA Law Practice Management Section task force that :xamined various billing practices.

These methods, which vary by the nature of the practice, include:

Hourly Rate. Can be unbundled, where various charges are broken out :eparately, or bundled, where overhead is included in hourly rate.

Fixed Fee. A flat fee for services.

Full Contingent Fee. A percentage of recovery, based on outcome, as in :ersonal-injury cases.

Hourly Plus Fixed Fee. An hourly rate is used until the nature and scope of :he problem are defined, and a fixed fee is used thereafter.

Hourly Reduced or With Contingent. A discounted hourly rate sometimes :ombined with a contingent fee.

Blended Hourly Rate. One rate is set depending on the mix of partners and .ssociates working on the matter.

Lodestar. A mathematical formula used by federal and some state courts. It .ses a multiplier and relies on hourly rates and various other factors.

Value Billing. An attempt is made, often retrospectively, to determine the 'alue of the services rendered.

Percentage Fee. The fee is tied to responsibility and value of the :ransaction such as in a bond issue or real-estate closing.

.ANGUAGE: ENGLISH

II b) ATTORNEY'S FEES

This chapter explains various types of attorney fees, and how those fees are often determined. Some helpful tips to the consumer on how to keep their legal costs down are also included.

DETERMINATION OF FEES

An attorney bases fees on such factors as the degree of difficulty of a particular legal task, the amount of time involved, the experience, and skill of the attorney in the particular area of law and the attorney's cost of doing business. The cost of doing business, referred to as overhead, usually includes rent, equipment, salaries, maintenance of a library, and costs associated with maintaining the lawyer's level of professional skills and education. A lawyer's overhead normally comprises 35 to 50 percent of the legal fees charged.

A lawyer's services normally involve research, investigation and case preparation. Most of the work is done after the client leaves the lawyer's office and it can be very time-consuming. As a result, the client is often unaware of the amount of time a given legal matter will actually take.

A client should always discuss the prospective charges at the first meeting with the attorney. At the initial meeting, the attorney and the client should discuss the time anticipated to resolve the case, the difficulties likely to be encountered, and the complexity of the legal issues in the particular case. An early agreement concerning fees will prevent surprises and misunderstandings for both the client and the attorney. A client should be prepared to decide how much money he or she can afford to invest in the resolution of the problem. The attorney/client relationship involves a mutual commitment. Both parties have a need from the outset to have a full and complete understanding of the commitment.

COST DEPOSITS AND RETAINERS

Under the Rules of Professional Conduct for the legal profession, lawyers are prohibited from engaging in frivolous lawsuits. Therefore, many lawyers require a cost deposit or retainer before they will take a case.

A retainer is an advance on legal fees to be charged in the future. A cost deposit is different from the attorney's fees to be charged in a case. If a lawsuit is filed and certain court costs are charged, your lawyer may ask for additional monies if the costs incurred exceed the original deposit. In the initial conferences with your lawyer you should ask for an estimate of total costs for your type of lawsuit. Whether a retainer and/or a cost deposit is refundable in the event that your case is not filed is a matter that may vary from case to case and should be discussed with your lawyer.

Upon receipt of a retainer or a cost deposit, your lawyer will ordinarily deposit the funds into a special bank account called a trust account. A trust account is a separate account that a lawyer maintains specifically for clients' funds. A record of the costs in your case will be kept by your lawyer and is available to you for examination.

TYPES OF ATTORNEYS' FEES

There are several distinct types of legal fees. As stated above, a client must realize when considering a lawyer's fee that many factors, such as time, ability and experience, may determine an attorney's fee.

Fixed Fees: For frequently performed services such as drafting an uncomplicated will or assisting with an uncomplicated real estate transaction, many lawyers may charge a fixed fee that can be readily quoted to you. The lawyer's fee may be set to average out all costs for such uncomplicated services handled by the

you. The lawyer's fee may be set to average out all costs for such uncomplicated services handled by the attorney.

Hourly Charge: Many lawyers establish a fixed hourly charge for their services. The lawyer's fee is computed by multiplying the fixed hourly charge by the number of hours the lawyer spends working for his client. The final fee may still include other direct out-of-pocket expenses, such as court filing costs, photocopying charges, long
distance telephone charges, travel costs or other expenses directly related to a particular case.

When retaining an attorney on an hourly basis, you may wish to ask for an estimate of the costs for the requested service. Also, you should understand what complications might arise in your case and the effect they will have on your fee. Hourly rates of lawyers will vary depending upon a lawyer's experience and involvement in a particular area of the law. No set hourly rate for lawyers or services exists. Rates do vary among lawyers.

Contingent Fees: In certain types of lawsuits--such as personal injury, collections and auto damages--the lawyer who represents the person suing may agree to accept a part of the money the client recovers as the fee for services. Such an arrangement is called a contingent fee. Under the lawyer's ethics rules, the lawyer and client must enter into a written fee agreement at the outset of the representation, stating what portion of the recovery the lawyer will receive. The fee is generally fixed at a percentage of the recovery. An additional percentage may be added if the matter is tried again or appealed to a higher court. Customarily, the attorney does not receive any contingent fee when the lawsuit is unsuccessful, but the client is expected to reimburse the attorney for out-of-pocket expenses such as court filing fees or expenses paid to witnesses. If the client wins the suit, these same expenses may be deducted from the client's share of the recovery.

In a contingency fee contract, you and your lawyer agree that the lawyer will not get paid any fees unless you win your case. However, even if you do not win your case, you will have to pay your attorney costs unless your contract specifically says that you do not have to.

The contingency fee contract must be in writing and signed by the client and any attorney or law firm who will be paid under the contract. The contract must state what percentage of the recovery the attorney may keep, other expenses which will be deducted from the recovery and how these expenses will be deducted.

How much the attorney will be able to keep as a contingency fee (remember this does not include costs) will depend on what stage of the case you are in and how much is recovered.

The following limitations are contained in the Rules of Professional Conduct and only apply in cases involving personal injury or property damage that occurred as a result of tortious conduct such as auto accident, medical malpractice or products liability cases.

- if you and your attorney settle your case before the filing of an answer or demand for appointment of arbitrators or, if no answer is filed or no demand for appointment of arbitrators is made, the expiration of the time period provided for such action, the fee is 33 1/3 percent of any recovery up to $1 million;
- if the case is concluded at any point after the filing of an answer or demand for appointment of arbitrators or, if no answer is filed or no demand for appointment of arbitrators is made, the expiration of the time period provided for such action, through the entry of judgment, the maximum fee is 40 percent of any recovery up to $1 million;

- ☐ in addition to the above fee, if you and your attorney settle your case for an amount between $1 million and $2 million, or if you win at trial and your recovery is between $1 and $2 million, the fee is 30 percent of the recovery between $1 million and $2 million;
- ☐ in addition to the above fees, if you and your attorney settle your case for an amount above $2 million, or if you win at trial and your recovery is above $2 million, the fee is 20 percent of the recovery above $2 million;
- ☐ At times, the person you are suing may admit that they are liable but may disagree with you on the amount of damages that they owe you. If all of the defendants admit liability when they file their answers and only want a trial on the question of damages, the fee is 33 1/3 percent of any recovery up to $1 million, 20 percent of any recovery between $1 and $2 million, and 15 percent of any recovery in excess of $2 million;
- ☐ if after the trial or settlement your case is appealed or your attorney has to seek post-judgment relief or file an action to help you collect your judgment, an additional 5 percent of the recovery may be added to the fee.

You and your attorney may agree to a lesser percentage than those listed above. However, if you want the fee to be greater, you must go to court before your case is filed or at the same time that your complaint is filed to get the
percentages increased.

At times, the attorney that you hired will hire an attorney in another firm to help with the case. You must agree to the association of this other attorney. If that happens in a case involving personal injury or property damage resulting from tortious conduct, the attorney with primary responsibility over the case is entitled to a minimum of 75 percent of the fee and the attorney with secondary responsibility is entitled to a maximum of 25 percent of the fee. If the attorneys of the different firms participated equally in the case, they will have to go to court to determine how the fee will be split. The splitting of fees between the law firms should not affect the amount of money that you receive.

In addition to fees, you may be responsible for paying costs and expenses if this is what your agreement requires. These will have to be paid even if you lose your case and your attorney does not collect a fee. At the end of your case, your attorney should give you an itemized bill showing all of the costs and expenses and, if you have won, the fees. This statement must be signed by you and all of the attorneys who represented you. If you have any question on any of the charges, ask your attorney.

Fees Set by a Judge: There are more than 200 Florida Statutes which allow for an award of attorney's fees in certain legal actions. In most instances, such a fee would be set by a judge.

In all probate matters, which includes guardianships, fees are either set by the court or are subject to review and approval by the court either periodically or at the time the matter is finalized.

The amount of attorney's fees set by a judge can vary greatly, depending upon various factors. The guidelines for the judge setting such fees are provided by the attorney's Code of Professional Conduct, Rule 4-1.5(b):

1. The time and labor required, the novelty, complexity, and difficulty of the questions involved, and the skill required to perform the legal service properly;
2. The likelihood that the acceptance of the particular employment will preclude other employment by the lawyer;
3. The fee, or rate of fee, customarily charged in the locality for legal services of a comparable or similar nature;

your lawyer to know, rather than be surprised later.

Discuss legal fees and related costs during your initial consultation:

- ☐ There are several ways in which legal fees can be computed. It is not always possible for attorneys to give you an estimate of their fees since they cannot control the other side of an issue. However, you should be prepared to discuss how much you are willing to invest in the resolution of your problem.
- ☐ In addition to the fee charged by your lawyer, there will probably be certain associated costs, such as costs paid to the court for filing fees, sheriff fees and costs for a court reporter. Most of these costs cannot be controlled by your lawyer, if the attorney is to be an effective advocate on your behalf.
- ☐ If your lawyer requests a fee deposit, sometimes called an "advance" or "retainer," ask whether or not any part of it will be refunded if you do not proceed. Money accepted for the payment of costs will be placed into your lawyer's trust account and any unused portion will be refunded to you. Fee retainers can be refundable or nonrefundable. Be sure you understand this point. On occasion, some lawyers may refund the unused portion of an advance or retainer after reimbursing themselves for any services actually performed.
- ☐ If the fee your lawyer will be charging is going to be substantial, suggest a monthly payment arrangement. This will allow you to spread out the expense over a period of time. Few people can afford one very large fee, but can afford the fee when it is broken into monthly payments. If your lawyer agrees, inquire if interest will be added to the outstanding balance. This practice varies from lawyer to lawyer, but you have the right to know up front what the policy is. Lawyers can accept payment by major credit card-- inquire whether your attorney offers that payment option.

FEE ARBITRATION

In spite of efforts to understand a lawyer's legal fee or billing practices, some disagreements may arise. In such case, you should first discuss the matter with the attorney. Most complaints specifically regarding attorneys' fees are not addressed by the lawyers' Rules of Professional Conduct and are therefore not within the scope of The Florida Bar's disciplinary authority. When a client indicates that a dispute involves an illegal or clearly excessive fee, the Bar may investigate that claim through its regulatory system. Otherwise, The Florida Bar provides a statewide, uniform Fee Arbitration Program to resolve disputes between attorneys and clients over legal fees. The arbitration program is voluntary and cannot be put into effect unless both parties agree to arbitrate. The arbitration process can be initiated by either the client or the attorney. Once an Agreement to Arbitrate form has been signed by both parties and returned to the applicable circuit committee chairperson, both parties are legally bound to arbitrate the dispute and to accept the decision of the arbitrator(s).

The circuit committee chairperson will assign the matter to a sole arbitrator if the matter involves $2,500 or less, or to a three-member panel, made up of at least one attorney and at least one non-attorney, if the amount in controversy exceeds $2,500. The arbitration hearing has only one purpose-- to decide what the fair and reasonable value is for the legal services performed. The decision of the arbitrator(s) will be rendered, in writing, within 10 days after the close of the hearing. If arbitration is not an option, a fee dispute may require resolution through the courts.

The material in this pamphlet represents general legal advice. Since the law is continually changing, some provisions in this pamphlet may be out of date. It is always best to consult an attorney about your legal rights and responsibilities regarding your particular case.

11
c)

Hourly Rates

Vol. 16 • No. 12 • July 7, 1997

OF COUNSEL

Aspen Law & Business

In this Issue

From the *Of Counsel 700*

1997 Billing Rates. 1997 and 1996 hourly rates for highest- and lowest-billing partners and associates in primary and secondary markets throughout the country. The stagnation is even deeper than might have been expected as rates show negligible or no increases at all. . . . . **Page 13.**

Also in this Issue

New Threat. Ernst & Young recently opened a law practice in Toronto that has particular relevance to possible Big-6 plans for the U.S. market. Effective law firm response will demand ever more specialized niche marketing. . . . . **Page 2.**

Rising Star. It was Shelley Lanza's own staff at Starbucks that fought to win her ACCA's first GC of the Year award. Amid in-house downsizing everywhere else, she's grown this legal department and implemented basic policies to increase productivity and morale. . . . . **Back Page.**

1997 Billing Survey...

Most Hourly Rates Advance at Glacial Pace Nationwide

The numbers speak for themselves.

In 1997, the highest-billing partners in *Of Counsel's* annual billing rate survey charged an average $329 per hour. In last year's survey, that average was $328. Low-billing partners at participating firms charged $175, compared to $181 in the 1996 survey.

Among associates, the average high rate is $193. Last year, it was $185. The lowest associate average rate is $99, only $2 more than last year.

The fact that rates aren't going up, and that corporate clients have been exerting cost-control pressures over the past few years, should come as no surprise to anyone who's been observing the legal profession. Yet the nearly total stasis suggested by this year's numbers may be unprecedented.

At the same time, firms are reporting stellar profits for last year, suggesting that lawyers have succeeded in wringing profits from other sources, including more effective leverage, better realization, and increased efficiency overall. Significantly, though, interest in comparative billing rates remains keen among leaders throughout the country, as firms are anxiously waiting to see if, in fact, it's still possible to buck this profession-wide trend toward lower hourly rates.

Participating firms included 158 mainstream law firms of diverse sizes and practice orientations, located in 37 cities throughout the United States. (*See chart, page 13.*) These cities represent all the major markets along with selected smaller ones like Manchester, N.H., and Birmingham, Ala. Numbers were supplied by the firms themselves as part of their response to this year's *Of Counsel 700*, published in June.

One caveat: as is often the case with billing rate surveys, fewer of the largest firms, especially the New York megafirms, were willing to provide hourly rates, although some market leaders, like Chicago's Kirkland & Ellis and Dallas' Akin, Gump, Strauss, Hauer & Feld, are included this year. Typical among midsized participants, firms like St. Louis' Gallop, Johnson & Neuman held fast in just about every lawyer category. Gallop, Johnson raised its high end partner rate by a mere $5 while it billed identical hourly rates for low end partners

Continued on page 9

Continued from page 1

as well as high- and low-end associates in both 1996 and 1997.

"We were not comfortable raising rates, not this year," says firm chair Donald Gallop. "There were no changes in our cost structures, so we didn't feel comfortable going to our clients to ask for higher rates just to [raise] more revenue."

Running in Place

The best indication of the profession-wide freeze on rates may be found in Morristown, N.J. Neither of that city's two highly regarded law firms—Pitney, Hardin, Kipp & Szuch and Riker, Danzig, Scherer, Hyland & Perretti—raised a single billing rate in the four lawyer categories. Their decisions to hold the line across the board seem especially noteworthy in a market like Morristown which continues to be one of the nation's hottest corporate boom towns. One might have expected considerably more room for billing rates to move up.

It's additionally interesting that Riker hasn't tried to hike its rates even though such a hike might have been justified as bringing the firm in line with Pitney. At Riker, the lowest-billing associates and partners charge $15 less than at Pitney. (Highest-billing associates are $15 more than at Pitney.) A spokesman for Riker did not return a call to comment.

Among the firms that did raise rates, most report moderate, steady advances. At Chicago's Arnstein & Lehr, for example, high-end associates increased by $5 while lawyers in the other three categories were up $10—just about what the market can bear, according to executive committee chairman Louis Lehr. Yet Lehr says he doesn't really see clients rate-shopping in RFPs or beauty contests to any significant degree. The reluctance to boost rates stems rather from a general perception by many law firms of what is acceptable.

That general perception was apparently shared by other firms in Chicago, where, for example, Vedder, Price, Kaufman & Kammholz increased rates by $5 in three of the four timekeeper categories. Vedder's lowest-billing partners charged $5 less in 1997; as we've seen, this was the one category where average billings actually decreased last year. In many cases, that's probably because lawyers just promoted to partner, both equity and non-equity, aren't yet billing at more standard higher partner levels.

These moderate increases in Chicago were common in other major markets as firms like Washington, D.C.'s Beveridge & Diamond raised both low-end and high-end associate rates by $10, while not raising partner rates at all. Of course, as in most years, 1996-97 also saw a few conspicuous rate hikes sprinkled around the country. San Francisco's Lillick & Charles reports aggressive increases: the lowest-billing associate jumped from $95 to $125, and the highest-billing associate from $205 to $225. Lillick partners boosted rates by $40 on the low end and by $20 at the top. A spokesman for the firm did not return a call to comment.

In D.C., Wiley, Rein & Fielding, a leading telecommunications practice now reaping the additional benefits of that sizzling practice area, raised associate rates by $20 and $15 on the low and high ends, respectively. The top-billing partner charges $10 more per hour in 1997 and the low-billing partner jumped $25.

Yet the total lack of upward movement among average rates in our sample suggests that these hikes are being offset by comparable individual or aggregate decreases. The page 13 chart does indeed show a number of such decreases. At D.C.'s Miller & Chevalier, for example, the lowest-billing associate charged $15 less than last year (although the firm did increase hourly rates in its other attorney categories).

Especially conspicuous, Chicago's Hopkins & Sutter reported $10 decreases for both low-and high-end associates, while the lowest-billing partner was also down $5. There's a perception in Chicago that Hopkins is a firm in trouble—it's certainly been shrinking in recent years—and that these billing rate decreases are in response to its ongoing problems. Marketing director Michael Ralston calls that an inaccurate, unfortunate perception.

Ralston attributes the rate decreases to happenstance of staffing; the scenario he suggests is not, in fact, an uncommon one among billing rate survey participants. The $190 associate is now a partner, for example, still billing a few dollars below last year's lowest number for that category. Meanwhile, the next-highest-billing associate still charges $180, giving the impression of a $10 reduction in that category as well. There's certainly been an effort to "hold the line," adds Ralston, but certainly no purposeful rate-slashing after what he describes as the partners' most profitable year in 1996.

Movement Below

Traditionally, the most significant numbers in any billing rate survey have been the low-end associate rates. That's still true to a certain extent, although the importance attached to this rate seems more a throwback to the highly leveraged markets of the 1980s when many law firms over-lawyered matters with first- and second-year attorneys. Costs could mount up: an extra $5 per hour loomed large if apprentice lawyers were working in teams and taking a lot of time to get the job done.

Today, firms are less afraid to raise these rates—or at least there's less preoccupation with the numbers at these lower levels—particularly among midsized firms that don't have such populous first- and second-year classes to bill out. In some instances, higher first-year billing rates are even being used as a marketing tool because firms are ostensibly recruiting better young lawyers. Los Angeles' Manatt, Phelps & Phillips, for example, raised its low-end rate by $15, to $120, as part of what marketing director Denis Campbell describes as a major change in the firm's approach to associate compensation "that is shaking up the [Los Angeles] market."

Manatt no longer fixes static salaries for specific years. There are instead three overall levels, and advancement from one to another is not a given but, rather, merit-based. First-level pay starts at $85,000, which is the going rate for New York firms, and anywhere from $2,000 to $7,000 more than what most other firms pay in Los Angeles. Second-level Manatt associates get $95,000, with bonus potential up to $25,000.

The higher billing rates at the lower associate levels are thus touted as covering the overhead for better quality performance. Yet, while associate compensation at Manatt may now exceed most others in town, the firm's billing rates do not, even with the recent hike. That hike brings Manatt in line with a top competitor like Munger, Tolles & Olson, where low-end associates also bill $120 but, as of this writing, are paid $5,000 less. $120 isn't even the highest billing rate for a low-end associate in Los Angeles; Buchalter, Nemer, Fields & Young charges $130 with a starting salary of only $70,000, according to data provided by the firm.

In some instances, higher first-year billing rates are being used as a marketing tool because firms are ostensibly recruiting better young lawyers.

Just as low-end rates were traditionally scrutinized because it was the tier deemed least efficient, so too were high-end rates often accepted without much comment because these partners were perceived to deliver the highest possible service in the least amount of time. Interestingly, though, we've also seen top-end rates hold pretty steady over the last few years, even for prestigious lawyers like Larry Sonsini.

Sonsini, of Palo Alto, Calif.'s Wilson, Sonsini, Goodrich & Rosati, charges $400 an hour. This is not chicken feed, perhaps, but it is relatively low considering his national reputation for complex bet-the-farm transactional work, and considering too the surprising fact that the highest-billing partners at 20 other law firms charge more. (Ten other top partners in the survey also bill $400.) Even on Sonsini's own Silicon Valley turf, partners at Fenwick & West and Cooley Godward bill out higher than he does.

As Wilson, Sonsini CFO Harvey Schloss explains, the firm continues to do high-volume start-up work in which Sonsini himself remains very

much involved. Those kinds of clients usually can't support astronomical billing rates at their delicate stage of growth.

Meanwhile, adds Schloss, there is "great reluctance" to go to a two-tier billing schedule, one for start-ups and another for more institutional clients. Such bifurcation often creates disruptive cultural divisions among partners with widely varied clientele. By staying in what Schloss calls a "median" billing range, the firm maintains internal coherence while having to deal with practically no "push-back" pressure on rates from clients.

There's not quite the rate uniformity one might expect among the high-tech start-up and venture capital firms. At Fenwick & Davis, the top partner is $25 higher, and the top associate $15 higher, than at Wilson, Sonsini; the low-end partner and associate both charge $5 less per hour. This disparity in associate rates would have been greater, except that Fenwick & Davis played a little catch-up last year.

Fenwick is another law firm in this year's sample that significantly bumped up its bottom associate rate, and rather substantially, from $90 to $120. As at Manatt, Phelps, the firm says this hike also reflects an intensified search for quality and greater client service. According to hiring partner Mark Ostrau, Fenwick now "demand[s] more in the lawyers we're looking for." It isn't just trying to stay level with Wilson, Sonsini.

Presumably, the marketing works here too so that venture-type clients who might balk at a $450 or $500 rate from a top partner are willing to pay $15 or $20 more for blue-chip service at junior levels. Ostrau cannot cite any conspicuous bump-up in compensation as a recruitment lure for such top performers, but Fenwick may not need one. A Manatt, Phelps re-engineers compensation as a way to distinguish itself in a teeming market like Los Angeles, while in Silicon Valley it's probably enough for Fenwick to match Wilson, Sonsini at $81,000 for a new associate.

There's somewhat greater rate variance between the Silicon Valley firms and their East Coast counterpart, Boston's Testa, Hurwitz & Thibeault. In 1997, this perennial growth dynamo billed a little higher at $250 on the low-end partner side; that rate was up $25 over last year. But Testa's lowest-billing associates charge only $100, significantly lower than their counterparts in California. Managing partner Richard Testa has emphasized his firm's low overhead strategy—relatively modest digs outside of Boston's high-rent district, and no branch offices—as a stabilizing factor that allows for reasonable rates as well as rapid growth.

Practice-Based Barometers

No doubt, staffing vagaries did explain some anomalous rate increases and decreases as last year's high-billing associates were elevated to partner. Firms like Philadelphia's Saul, Ewing, Remick & Saul mirrored the national trend of lower low-end partner rate averages amid moderate raises in the other categories. Saul, Ewing's lowest-billing partners billed $10 less in 1997 even as its top associate was up $25. The top partner and low-end associate both raised rates by $10.

There is 'great reluctance' to go to a two-tier billing schedule, one for start-ups and another for more institutional clients, says Harvey Schloss.

It should also be emphasized that even firms that do not consider themselves two-tier partnerships still have non-equity partners on staff, and those lawyers' rates are generally lower than, say, senior associates on a fast partnership track. These non-equity billing rates appear in the survey but are not necessarily illustrative. Saul, Ewing, for one, is not a two-tier firm, but does report having four non-equity partners.

Yet the fact that, all told, high-end associates at participating firms billed an average $18 per hour more than low-end partners suggests that something else besides staffing and equity status is at play. Practice area is certainly a major factor as well, determining who can charge how much for what—irrespective of partnership status or seniority.

A look at one regional market, Akron, Ohio, shows how. At that city's Roetzel & Andress, the top associate billed a whopping $75 more per hour than the low-end partner, mainly because those two

lawyers practice on nearly opposite ends of the practice area spectrum. According to executive director John Kelleher, the partner bills $100 for medical malpractice and insurance defense work. The associate bills $175 for sophisticated real estate and securities work.

Roetzel's rate range is considerably greater than at either of its two main competitors, Brouse & McDowell and Buckingham Doolittle & Burroughs, while the disparity in the size of those rates is also significant; Roetzel is much higher in some lawyer categories and much lower in others than its competitors. The highest-billing partner at Roetzel charges $50 more than his counterparts at Brouse and Buckingham because, says Kelleher, he practices a particularly complex form of public law. Yet Roetzel is $15 lower than Brouse on the low-end associate side (as is Buckingham) because, Keleher adds, the firm also does a lot of insurance work.

As such, two of the four lawyer categories at Roetzel bill unusually low, and two bill unusually high, mainly because of the practice areas involved. Variety's the proverbial spice of life, no doubt, but it's always interesting to watch firms try to balance such opposing practice area economics. Sometimes they succeed; very often, they come to a point in the road where they have to go one way or another.

—Larry Smith

COMING SOON

The billing rate survey in this issue is only the first in a series of special survey reports drawn from the data supplied by law firms for this year's *Of Counsel 700*. Here are the others that subscribers will enjoy in upcoming months:

JULY:

- Salaries. First-year associate salaries, as well as compensation for senior lawyer classes, in all primary and selected secondary markets.

AUGUST:

- Branches. Domestic and foreign offices opened and closed by U.S. firms last year.
- Hiring. Numbers and percentages of first-year hires compared to lateral associates and partners.

SEPTEMBER:

- Paralegals. Staff sizes and billing rates for highest- and lowest-billing paralegals at diverse law firms throughout the country.
- Partnership Track. Length of time to make partner at both equity and non-equity firms, featuring changes in reported track lengths from 1996 to 1997.

ALSO IN UPCOMING ISSUES:

- Hypertext briefs may soon revolutionize appellate practice, particularly if Boston's Fish & Richardson has its way. The current innovations promise changes in case and practice area management as well.
- Pittsburgh's economy has been steadily growing amid expanded high-tech investment. Law firms have generally kept pace and enjoyed the buoyant ride—with one or two exceptions.
- Want to learn how to run your law practice? If you're in California, just pick up the phone and ask.

Billing Rates for Firms in 37 Cities

Included below is a summary of 1997 and 1996 billing rates for law firms throughout the country. All information is adapted from the 1997 Of Counsel 700 *Survey.*

Firm	1997 High Partner	1997 Low Partner	1997 High Assoc.	1997 Low Assoc.	1996 High Partner	1996 Low Partner	1996 High Assoc.	1996 Low Assoc.
ALABAMA (Birmingham)								
Bradley Arant	275	150	95	150	na	na	na	na
Lange, Simpson, Robinson & Somerville	220	120	125	85	na	na	na	na
Maynard, Cooper & Gale	265	170	145	95	na	na	na	na
ARIZONA (Phoenix)								
Fennemore Craig	290	160	160	90	290	160	155	85
Gallagher & Kennedy	250	165	200	130	na	na	na	na
Lewis and Roca	300	130	150	95	na	na	na	na
O'Connor, Cavanagh, Anderson, Killingsworth & Beshears	300	130	175	80	300	160	200	80
CALIFORNIA (Los Angeles)								
Bonne, Bridges, Mueller O'Keefe & Nichols	250	110	175	100	na	na	na	na
Buchalter, Nemer, Fields & Younger	335	250	255	130	na	na	na	na
Manatt, Phelps & Phillips	500	200	225	120	500	200	225	105
Munger, Tolles & Olson	350	225	220	120	330	220	210	115
Richards, Watson & Gershon	325	205	185	120	325	205	190	115
CALIFORNIA (Palo Alto)								
Fenwick & West	425	225	250	120	400	210	225	90
Wilson, Sonsini, Goodrich & Rosati	350	230	235	125	350	230	220	125
CALIFORNIA (San Francisco)								
Cooley Godward	450	225	250	140	350	230	215	125
Heller Ehrman White & McAuliffe	390	185	310	110	na	na	na	na
Lillick & Charles	325	235	225	125	305	195	205	95
Thelen, Marrin, Johnson & Bridges	350	215	205	110	340	235	220	110
Townsend and Townsend and Crew	325	235	220	135	310	215	215	125
CONNECTICUT (Hartford)								
Robinson & Cole	350	190	240	110	300	180	200	110
Shipman & Goodwin	280	195	185	110	275	175	185	110

Firm	1997 High Partner	1997 Low Partner	1997 High Assoc.	1997 Low Assoc.	1996 High Partner	1996 Low Partner	1996 High Assoc.	1996 Low Assoc.
DISTRICT OF COLUMBIA								
Arent Fox Kintner Plotkin & Kahn	375	220	230	100	350	210	200	100
Beveridge & Diamond	315	225	225	120	300	225	215	110
Covington & Burling	390	250	240	110	350	na	na	100
Dickstein, Shapiro & Morin	400	150	225	100	400	210	215	110
Howrey & Simon	360	225	205	105	350	225	206	105
McKenna & Cuneo	450	170	225	100	360	185	225	90
Miller & Chevalier	400	225	250	100	390	220	225	115
Patton Boggs	550	170	190	95	525	195	185	105
Shaw, Pittman, Potts & Trowbridge	395	250	250	125	335	220	250	100
Shea & Gardner	330	215	185	110	320	215	185	105
Verner, Liipfert, Bernhard, McPherson and Hand	400	200	210	110	375	195	190	100
Wiley, Rein & Fielding	400	225	215	120	390	200	200	100
FLORIDA (Jacksonville)								
Mahoney Adams & Criser	210	150	145	75	210	130	140	75
Rogers, Towers, Bailey, Jones & Gay	220	160	175	90	220	145	130	90
FLORIDA (Miami)								
Greenberg Traurig	500	230	260	130	500	210	275	140
Jorden Burt Berenson & Johnson	375	205	160	100	na	na	na	na
GEORGIA (Atlanta)								
Powell, Goldstein, Frazer & Murphy	350	205	200	100	na	na	na	na
Smith, Gambrell & Russell	310	170	175	100	295	160	160	95
Troutman Sanders	350	200	195	100	na	na	na	na
ILLINOIS (Chicago)								
Arnstein & Lehr	385	150	140	105	375	140	135	95
Bell, Boyd & Lloyd	350	190	195	125	350	190	210	125
Brinks Hofer Gilson & Lione	450	200	195	100	na	na	na	na
Holleb & Coff	330	210	200	115	355	205	205	110
Hopkins & Sutter	400	185	180	95	400	190	190	105
Kirkland & Ellis	410	220	245	125	na	na	na	na
Lord, Bissell & Brook	325	131	226	88	312	125	203	83
Mayer, Brown & Platt	500	235	300	100	500	225	250	90
McDermott, Will & Emery	395	180	200	105	395	180	270	105
Querrey & Harrow	190	95	150	75	na	na	na	na
Ross & Hardies	350	165	200	100	325	170	165	95
Seyfarth, Shaw, Fairweather & Geraldson	420	170	250	110	na	na	na	na
Ungaretti & Harris	375	185	190	110	325	175	170	110

Firm	1997 High Partner	1997 Low Partner	1997 High Assoc.	1997 Low Assoc.	1996 High Partner	1996 Low Partner	1996 High Assoc.	1996 Low Assoc.
Vedder, Price, Kaufman & Kammholz	275	200	200	110	270	205	195	105
Wildman Harrold Allen & Dixon	310	150	180	105	300	140	170	100
Williams & Montgomery	350	125	190	85	325	125	190	85
Winston & Strawn	425	200	260	120	425	200	260	120
INDIANA (Indianapolis)								
Baker & Daniels	260	165	165	95	250	155	160	95
Ice Miller Donadio & Ryan	250	110	170	95	na	na	na	na
KENTUCKY (Louisville)								
Brown, Todd & Heyburn	260	115	156	92	na	na	na	na
Wyatt, Tarrant & Combs	250	95	170	80	250	135	135	80
MARYLAND (Baltimore)								
Gordon, Feinblatt, Rothman, Hoffberger & Hollander	300	170	170	90	na	na	na	na
Ober, Kaler, Grimes & Shriver	275	160	160	90	275	150	150	80
Piper & Marbury	375	190	270	110	350	190	200	100
Venable, Baetjer and Howard	400	200	205	100	400	180	190	95
Weinberg and Green	285	170	170	90	275	130	170	95
MASSACHUSETTS (Boston)								
Goodwin, Procter & Hoar	425	260	295	130	na	na	na	na
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo	425	240	225	120	na	na	na	na
Palmer & Dodge	390	270	260	100	380	250	240	100
Peabody & Brown	340	210	200	100	330	200	205	95
Testa, Hurwitz & Thibeault	400	250	250	100	400	225	225	100
MICHIGAN (Detroit)								
Bodman, Longley & Dahling	260	160	180	90	245	170	150	90
Butzel Long	265	160	155	90	265	160	155	90
Clark Hill	250	160	160	100	na	na	na	na
Dickinson, Wright, Moon, Van Dusen & Freeman	350	160	165	100	350	160	160	100
Dykema Gossett	260	185	185	105	250	155	185	95
Jaffe, Raitt, Heuer & Weiss	295	175	150	95	285	15	14	95
Miller, Canfield, Paddock and Stone	320	160	185	105	300	155	195	95
MINNESOTA (Minneapolis)								
Leonard, Street and Deinard	340	160	190	95	265	155	160	95
Oppenheimer Wolff & Donnelly	300	175	195	95	300	160	200	95

Firm	1997 High Partner	1997 Low Partner	1997 High Assoc.	1997 Low Assoc.	1996 High Partner	1996 Low Partner	1996 High Assoc.	1996 Low Assoc.
MISSOURI (Kansas City)								
Blackwell Sanders Matheny Weary & Lombardi	275	90	130	65	na	na	na	na
Polsinelli, White, Vardeman & Shalton	250	140	130	95	240	130	130	95
MISSOURI (St. Louis)								
Armstrong, Teasdale, Schlafly & Davis	250	160	165	90	240	160	165	90
Bryan Cave	385	175	250	65	350	178	220	75
Evans & Dixon	150	85	120	80	na	na	na	na
Gallop, Johnson & Neuman	250	155	155	85	240	155	155	85
Husch & Eppenberger	330	115	135	75	225	110	135	65
Lashly & Baer	225	115	125	75	na	na	na	na
Lewis, Rice & Fingersh	270	125	195	70	260	120	195	65
Thompson Coburn	335	135	170	75	na	na	na	na
NEW HAMPSHIRE (Manchester)								
McLane, Graf, Raulerson & Middleton	220	140	125	90	na	na	na	na
Wiggin & Nourie	225	105	125	75	na	na	na	na
NEW JERSEY (Morristown)								
Pitney, Hardin, Kipp & Szuch	360	215	200	110	360	215	200	110
Riker, Danzig, Scherer, Hyland & Perretti	325	200	215	95	325	200	215	95
NEW JERSEY (Newark)								
Crummy, Del Deo, Dolan, Griffinger & Vecchione	325	200	195	90	300	185	185	95
McCarter & English	350	215	210	85	335	195	210	95
Sills Cummis Zuckerman Radin Tischman Epstein & Gross	425	200	200	95	425	195	200	95
NEW MEXICO (Albuquerque)								
Keleher & McLeod	185	110	100	80	na	na	na	na
Rodey, Dickason, Sloan, Akin & Robb	210	125	115	75	200	110	105	75
NEW YORK (Buffalo)								
Damon & Morey	225	80	150	70	185	140	125	105
Hodgson, Russ, Andrews, Woods & Goodyear	285	100	175	85	275	115	150	90
NEW YORK (New York City)								
Anderson Kill & Olick*	395	110	na	na	350	100	na	na

*Firm does not have associates

Firm	1997 High Partner	1997 Low Partner	1997 High Assoc.	1997 Low Assoc.	1996 High Partner	1996 Low Partner	1996 High Assoc.	1996 Low Assoc.
Christy & Viener	450	280	300	150	na	na	na	na
Cullen & Dykman	295	220	220	85	na	na	na	na
Curtis, Mallet-Prevost, Colt & Mosle	450	285	275	115	450	285	275	115
Epstein Becker & Green	375	160	240	110	365	175	235	105
Kelley Drye & Warren	430	285	270	90	400	210	255	90
Rogers & Wells	475	280	295	115	na	na	na	na
Rosenman & Colin	450	195	290	115	450	195	275	110
NEW YORK (Rochester)								
Harris, Beach & Wilcox	275	195	175	95	225	195	175	95
Harter, Secrest & Emery	250	160	150	75	250	160	150	75
OHIO (Akron)								
Brouse & McDowell	200	145	140	95	195	145	145	85
Buckingham Doolittle & Burroughs	200	130	145	80	200	125	140	75
Roetzel & Andress	250	100	175	80	na	na	na	na
OHIO (Columbus)								
Bricker & Eckler	260	155	185	100	260	145	185	100
Schottenstein, Zox & Dunn	290	150	150	85	na	na	na	na
Vorys, Sater, Seymour and Pease	275	170	180	90	265	165	175	90
PENNSYLVANIA (Philadelphia)								
Cozen and O'Connor	350	100	220	85	350	100	220	85
Duane, Morris & Heckscher	395	235	140	125	340	220	225	110
Fox, Rothschild, O'Brien & Frankel	340	190	215	100	325	190	210	100
Marshall Dennehey Warner Coleman & Goggin	175	115	160	95	200	100	175	75
Mesirov Gelman Jaffe Cramer & Jamieson	325	220	195	105	300	235	195	105
Obermayer, Rebmann, Maxwell & Hippel	350	205	230	95	350	195	210	85
Pepper, Hamilton & Scheetz	340	190	195	95	325	190	195	95
Post & Schell	175	105	150	75	175	105	150	75
Saul, Ewing, Remick & Saul	325	190	225	100	315	200	200	90
Schnader, Harrison, Segal & Lewis	330	160	230	100	320	210	205	100
White and Williams	350	100	180	85	300	100	190	80
PENNSYLVANIA (Pittsburgh)								
Klett Lieber Rooney & Schorling	315	185	185	85	na	na	na	na
Thorp, Reed & Armstrong	255	170	160	100	na	na	na	na
RHODE ISLAND (Providence)								
Edwards & Angell	375	200	215	110	340	180	210	100
Hinckley, Allen & Snyder	350	200	200	110	350	196	250	110

Firm	1997 High Partner	1997 Low Partner	1997 High Assoc.	1997 Low Assoc.	1996 High Partner	1996 Low Partner	1996 High Assoc.	1996 Low Assoc.
TEXAS (Austin)								
Brown McCarroll & Oaks Hartline	320	110	200	100	na	na	na	na
Small, Craig & Werkenthin	300	150	190	100	300	175	180	110
TEXAS (Dallas)								
Akin, Gump, Strauss, Hauer & Feld	400	175	260	85	na	na	na	na
Cowles & Thompson	195	125	125	95	225	115	125	85
Gardere & Wynne	365	180	195	95	na	na	na	na
Hughes & Luce	350	210	210	95	350	200	195	95
Jackson Walker	325	170	170	90	300	125	165	85
Jenkens & Gilchrist	350	175	200	110	350	185	195	90
Locke Purnell Rain Harrell	330	190	205	110	325	180	195	85
Strasburger & Price	295	135	160	95	295	140	170	95
TEXAS (Houston)								
Arnold, White & Durkee	360	220	245	110	330	215	230	110
Brown, Parker & Leahy	350	170	175	90	na	na	na	na
Sheinfeld, Maley & Kay	360	175	180	110	340	150	175	95
VIRGINIA (Richmond)								
Christian & Barton	230	160	155	90	210	145	140	90
Hunton & Williams	450	205	295	100	400	190	270	90
Mays & Valentine	350	150	160	95	260	140	135	95
WASHINGTON (Seattle)								
Bogle & Gates	275	160	170	95	na	na	na	na
Davis Wright Tremaine	370	180	200	90	350	160	215	80
Lane Powell Spears Lubersky	310	145	185	100	250	120	180	90
Perkins Coie	400	175	280	106				
WISCONSIN (Milwaukee)								
Davis & Kuelthau	220	175	160	120	na	na	na	na
Foley & Lardner	400	na	na	90	350	na	na	90
Michael, Best & Friedrich	300	175	170	95	na	na	na	na
Reinhart, Boerner, Van Deuren, Norris & Rieselbach	350	200	220	100	na	na	na	na

III
a)

101 Ways to Control Outside Legal Costs

by Irving B. Levinson
Corporate Legal Times

WHETHER TO USE OUTSIDE COUNSEL

1. Use outside counsel less. Make a conscious decision as to what specific types of matters are more effectively handled by outside counsel. Outside counsel costs more and generally knows less about your business. Bring as much work inside as your legal staff can effectively and efficiently handle.

2. Avoid work force reductions in your legal department that force you to turn to outside counsel where you would not otherwise do so.

3. For smaller legal departments, consider employing part-time, in-house counsel. Even a part-timer may be a more efficient provider of legal services than outside counsel.

4. Consider "renting" an attorney at favorable terms for a day or a week from a cooperative law firm. The firm should be pleased with the opportunity to have its lawyer become a closer part of your working environment. You, on the other hand, should benefit from the flexibility of part-time counsel at a lower than usual billing rate.

5. Plan to increase the expertise of your in-house legal staff. Apart from the unique requirements for outside litigation counsel, the primary reason for resorting to more expensive outside counsel is the lack of particular in-house expertise.

6. Use a law department survey to explore your needs for outside counsel and your in-house expertise, and to develop ideas for more effective retention and utilization of outside counsel.

7. Experience has proven that litigation (for a number of reasons) is particularly difficult to handle in-house. Therefore, the greatest benefit is obtained by increasing your department's ability to handle non-litigation, transactional matters. However, in-house counsel who have had some law firm litigation experience should be employed, so that your staff counsel can effectively manage your litigation efforts.

8. When deciding to use outside counsel, you should also decide what the scope of their work should be. On most matters, including corporate, labor and litigation matters, a substantially increased role for inside counsel can save money.

CHOICE OF OUTSIDE COUNSEL

9. Choose less expensive rather than more expensive outside counsel -- assuming, of course, equal expertise and service. The old paradigm that the more an attorney charges, the better the lawyer must be, is simply wrong.

10. Choose talented lawyers, rather than "big name" law firms. Law firms can only render services through their individual lawyers.

11. Hire based upon expertise and ability to render services effectively, efficiently and professionally. Discard old-time relationships that are not working.

12. Hire lawyers and firms who will make your legal matters their highest priority. Some law firms have been notorious for having "favored, important" clients and less favored, less important clients. You are entitled to have your lawyers handle each of your matters as if it is the single most important assignment in the firm. The priority that outside counsel will give your work can be evaluated by in-depth pre-engagement interviews and by giving limited, test assignments to new counsel.

13. Interview the lawyers who will actually handle your work, not just the partner who will supervise the work. Like the trial lawyer obtaining a commitment to "do justice" from a prospective juror, you should obtain the unwavering commitment from your prospective outside counsel to handle your matters efficiently and expeditiously.

14. Determine whether the counsel you are retaining have taken advantage of current, state-of-the-art technology.

15. Inquire as to the experience and expertise of the firm's paralegals and how these paralegals are employed. The manner in which a firm uses paralegals is indicative of how it will manage your matters. Rapid turnover of paralegal staff may reflect an inefficient law firm. Asking to interview paralegals will clearly send the message that you do care about the value you will be receiving.

16. Competition is indispensable. Seek detailed proposals that delineate how services will be provided, how matters will be staffed and how matters will be billed. Comparison shop. The quality, service and pricing of law firms is highly variable.

17. Choose counsel whom you trust to work closely with you in achieving both your business and cost objectives. Good, interpersonal relationships

ensure that counsel will work with you, and for you, and that they will do everything possible to achieve your objective. Like the "local sheriff," you also should support your outside counsel -- but only if they are entirely supportive of your objectives.

18. Inquire about the firm's policies, practices and structures for ensuring delivery of the highest quality of professional services. For example, a law firm that uses "total quality service" techniques will work with you to quantify the value of its services through your eyes and will measure its performance to ensure that you are satisfied.

19. Inquire about the firm's alternative billing practices. Negotiate. It is hard to believe that corporations have paid $400 an hour for an attorney without asking whether an agreement can be made as to some other billing arrangement. Place an especially high premium on those firms that express an eagerness to work with you in controlling costs. The old paradigm that fees and costs are not discussed, and certainly not negotiated, is wholly unacceptable.

20. Seek references from attorneys that you may retain, and make in-depth inquiries of the references.

21. Inquire whether the firm will offer "satisfaction guaranteed," that is, money back if not satisfied after 30 days or 60 days. Your startling request for "satisfaction guaranteed" should quickly tell you if a law firm is serious about delivering the highest quality service.

22. Ask your would-be litigators what their approach is to litigation. Do you really want to pay for the "scorched earth" approach employed by the "SOB Litigator"? Do you really want the "dollars saved at all costs" approach of some defense counsel?

23. Determine how soft costs will be billed, that is what charge, if any, for photocopying, word processing, secretarial overtime, messengers, faxes, e-mail, computerized research, etc.

24. Obtain a sense of the prospective firm's people and culture. Brochures do not usually offer much information. Extensive interviewing, attending the firm's continuing legal education programs and reviewing its newsletters may be more informative.

25. Determine if someone else will pay your outside counsel's legal fees. The two most likely sources for picking up the tab are your insurer and third parties who have indemnified you. Be wary, however, of the free ride. Make

sure you are not being provided a free defense, with a tremendous exposure ensuing from reservation of rights by the insurer or indemnitor.

26. Determine if your insurance coverage provides you with the right to choose counsel. If you have that right, exercise it. If you do not, negotiate for it. The right to choose your own, independent counsel is critical on legal matters of great significance and exposure.

GROUND RULES FOR RETAINING OUTSIDE COUNSEL

27. Agree at the outset on the billing format and invoice information that will be required of outside counsel.

28. Agree on the rules to be employed when travel is required. Adopt law department policies on these matters to give you leverage in obtaining the desired arrangements from law firms.

29. Agree at the outset on what actions require prior approval by inside counsel. Outside counsel should know what pleadings and legal strategies must be approved in advance, as well as what expenses must be approved before being incurred.

30. Formalize your agreements and working relationships into a balanced, comprehensive retention letter. Many companies use identical, or at least similar, fill-in-the-blank retention letters on all engagements. Often separate engagement letters will be used on litigation and non-litigation assignments.

31. Meet early with your outside counsel and make them part of your team. Discuss your goals, strategies and special business needs.

Litigation is especially likely to give rise to a wide variety of approaches and strategies. Your outside counsel may be your "quarterback," but you should remain the coach. Formulate team goals and make sure your players are taking action to meet them.

32. Budgets are an idea whose time has come. Litigation costs can, and must, be managed. The budget "estimate" is an indispensable planning tool.

Be willing to pay for budgets and updates. Be flexible when genuinely unanticipated events necessitate budget changes. Consider efficiency incentives by rewarding good performance against budget, just as your corporate business counterparts do.

BILLING ARRANGEMENTS

33. Give extremely careful thought to what billing arrangements suit your purposes the best. Prioritize the following billing objectives: limiting total expense, discouraging excessive time charges, encouraging thoroughness and top-quality work, encouraging efficiency, risk sharing with outside counsel and meeting specific business needs. Tailor your billing arrangements to meet your priorities.

34. The traditional hourly fee arrangements may be particularly useful when there is much at stake, for example "bet the company" litigation over products liability, patent infringement or class action litigation. The hourly rate has the advantage that you only pay for time expended, but you must carefully monitor that time.

35. The hourly fee can be negotiated based on a number of factors that address value and efficiency. For example, discounts may be negotiated for large volumes of business, and reduced rates may be negotiated when certain efficiency goals are not achieved.

36. Use task-based billing to understand where your legal dollar is being spent and how to adjust your billing arrangement to reflect the task pattern established.

37. Blended hourly rates may be negotiated to encourage delegation. (Needless to say, the $400-an-hour partner should be converted to a blended fee.)

38. Fixed or flat fees are especially useful where the services required are well-defined and unforeseen difficulties are unlikely. Consider negotiating fixed or flat fees with opt-out provisions to cover the situation where unforeseen difficulties arise.

Fixed or flat fees can be negotiated based upon known experience. If a firm has provided repetitive services over a period of time, determine from its profitability data and your cost data what a reasonable fixed fee per service would be. Re-evaluate periodically the fixed fees that you have negotiated.

39. Value billing can be established which recognizes certain quantifiable goals and rewards their achievement economically. This is somewhat comparable to paying the athlete based on production. Production goals must be agreed upon and rewarded.

40. Some businesses have negotiated relative value billing, where charges or

rates vary based on the type of service. For example, if you want to provide outside counsel incentives to communicate with you, a higher billing rate could apply to meetings and communications with you than is applied to outside counsel's interoffice communications. Higher billing rates for court time are amore traditional example of relative value billing.

41. With regard to conferences between lawyers of a firm, some businesses have sought specific restrictions, which provide for either a reduced billing rate or no charge. This would appear to be industry reacting to the practice of some firms' excessive overstaffing of matters. A more effective control on overstaffing is simply to inform your outside counsel that you will not use firms that overstaff.

42. Consider using a contingent fee -- the ultimate risk sharing device. Outside counsel only gets paid for producing positive results. This billing method has traditionally been used in personal injury cases where the plaintiff is unable to afford legal fees, where liability and damages are relatively less difficult to estimate and where counterclaims are extremely unlikely.

Commercial and defense litigation are more difficult to put on a contingent fee. The "easy" case that the law firm would be willing to take on a contingent fee arrangement is just the case that you should prefer to pay for by the hour. The difficult case, on the other hand, for which you would like the law firm to share the risk, is the case they will least likely take on a contingent fee. Nevertheless, you should inquire as to whether outside counsel will consider a contingent fee arrangement.

43. A useful and flexible variation of the contingent fee is an arrangement whereby outside counsel cap their fee in exchange for a smaller contingent fee. This provides you with an assured maximum expense and gives counsel an incentive to obtain good results.

44. Several variations to contingent fee arrangements may make this a viable fee alternative. For example, the amount of the contingent fee may be reduced in consideration for an additional non-contingent, greatly discounted hourly fee. This permits the law firm to "cover its costs," while greatly reducing your expense if the litigation turns out to be unsuccessful.

Another useful contingent fee variation is a low hourly rate combined with a contingent fee that fluctuates based upon the result achieved. Hourly fees paid can be deducted from the amount of the contingent fee ultimately earned.

45. Depending on the amount of legal work that you have to refer out, law firms may offer "loss leader" arrangements to get in the door and establish their value to you. Lower rates, capped fees and contingent fees are all possible loss leader arrangements.

PREVENTIVE LAW APPROACHES

46. Use preventive law techniques designed to reduce legal and business expenses by addressing and minimizing legal problems before they occur. Corporate legal "wellness programs" can help ward off huge punitive damages lawsuits, employee class actions and other avoidable corporate catastrophes.

47. Begin by exploring all areas of your business that could result in huge losses and legal expenses. Typical areas of exposure include environmental, products liability, antitrust, patent law and other intellectual property law areas, and labor and employment law.

48. After identifying areas of significant exposure, review existing company policies and practices designed to minimize risk, and begin to develop new policies and procedures to prevent loss. Include business people and outside counsel in brainstorming changes that will reduce risks.

49. Undertake a review of your company's commonly used forms and contracts.

Commercial lawsuits are often avoided, and sometimes won, because of inside counsel's careful preventive analysis of the company's standard forms of legal documentation. For example, the leverage that can be obtained by a simple provision of awarding your company its reasonable attorneys fees should a dispute arise is enormous.

50. Adopt and implement a comprehensive policy on conflicts of interest and disclosure of potential conflicts.

51. Obtain outside patent counsel's validity and infringement opinions before making what could be avoidable cost decisions regarding new product development and release. At the least, these opinions may help in defeating treble damage claims of willful infringement.

52. Similarly, the mere fact that you have sought (and followed) outside counsel's views on issues such as advertising approval, product instructions and product warnings may provide protection against punitive damages claims for negligent or reckless corporate misconduct.

53. Obtain outside counsel's input in employment policies and practices. An active "wellness program" in this area can help ward off expensive and risky discrimination and sexual harassment litigation. Again, even the mere fact that outside assistance was sought can provide protection against claims of negligent or reckless corporate misconduct.

PREVENT EXPOSURE FROM DAY ONE

54. Carefully consider the advisability of employee manuals and have them reviewed by outside counsel. Document the receipt of employee manuals and their written acceptance by new and existing employees as a condition of employment. Basic provisions should be reviewed on the first day of employment.

55. Work with your human resources department in establishing workable programs and practices that address areas of significant legal exposure, such as employment discrimination, sexual harassment, and compliance with disability laws and the Family and Medical Leave Act.

56. Areas that require special preventive assessment are confidentiality and trade secret policies and practices, and utilization of restrictive covenants. Outside counsel should carefully review restrictive covenants because their enforceability is highly situational and dependent on draftsmanship.

57. Work with your risk management department to assess coverage for environmental dangers, product risk, employee dishonesty and similar corporate exposures.

AVOIDING LITIGATION THROUGH ADR

58. Since litigation can be very costly, extra effort should be given to resolving disputes short of litigation.

59. Formal, comprehensive litigation risk analysis, which is undertaken with the assistance of an experienced litigator, should be conducted during pre-litigation efforts to resolve disputes. You should know, and quantify, the range of expected litigation results and expenses while you are engaged in litigation negotiations. This should help ensure that you resolve those matters early that reasonably can be resolved and that you do not overpay in settling disputes.

60. Consider mediation, arbitration and other means of alternative dispute resolution as less expensive, less time-consuming methods of resolution. Consider adopting a corporate policy that requires good-faith effort to initiate alternative means of dispute resolution for specific types of issues.

61. Consider the desirability of defining non-litigation dispute resolution methods in your contractual dealings with third parties.

62. If you are wary of having certain types of disputes resolved without the rigor and safeguards of litigation, at least consider non-binding forms of dispute resolution. Mediations have a relatively high success ratio without foreclosing a fully litigated adjudication of your dispute.

63. Parties may be more willing to arbitrate if they agree to high/low results that provide greater certainty to the arbitration process. There is an open issue, for example, as to when and whether arbitrators may award punitive damages. Parties may agree to eliminate punitive damages as a permissible arbitration award.

64. Hire litigators who have mediation and arbitration experience, and who also have the temperament and ability to achieve resolution of disputes without litigation. Minimize the risk of undesired ADR results by using a trial lawyer who is skilled at persuasion but adept at fostering conciliation. The most persuasive litigator may also be the most effective in persuading the parties that it is in their best interests to settle disputes.

65. Have a neutral, trained mediator invite your adversary to the mediation table. This approach is sometimes successful even where a great deal of hostility exists between the parties.

66. Consider committing to associations, such as the CPR Institute for Dispute Resolution, whose members agree to attempt ADR with other members.

67. Involve your business people in your efforts at ADR. They are uniquely well-positioned to evaluate the business issues and to fashion creative solutions.

68. Minimize the disadvantages of ADR by agreeing to carefully delineated discovery and disclosure of positions and defenses. If testimony or documents of key non-parties is essential, you may agree with your adversary to a few months of discovery limited to third-party subpoenas, followed by an agreed-upon ADR procedure.

69. ADR is particularly appropriate for resolving emotional issues that can result in out-of-control litigation. For example, employee issues, slander actions and unfair competition issues are good candidates for binding or non-binding mediation or arbitration.

70. Other issues, however, may require litigation. Parties may refuse conciliation because they want to establish a precedent or because their "down side" to litigation is minimal. In such cases, cost-sensitive litigators should be retained.

SETTLEMENT AND RECONCILIATION EFFORTS AFTER LITIGATION BEGINS

71. Even after lawsuits are initiated, broad settlement/reconciliation strategies should be planned and implemented.

72. Involve the court in settlement/reconciliation efforts to get the serious attention of an obstinate adversary. Seek court-supervised efforts to initiate mediation, arbitration or "one-day trial" of certain pivotal issues, such as statute of limitation defenses or amount of damages.

73. Place a price on your adversary's refusal to settle by making reasonable offers of judgment pursuant to Rule 68 and similar state provisions.

74. Negotiate contracts that shift the expense of attorneys' fees to the losing party. This will discourage frivolous lawsuits and will produce fairer results when litigation ensues.

75. Propose and seek creative settlements that achieve structured settlements and favorable tax treatments beneficial to the parties' best interests.

76. Consider settlements that provide different results based on adjudication of limited issues. For example, the parties may agree to dispense with adjudication of time-consuming, thorny liability issues and to conduct a limited, one-day damages trial. The defendant in this hypothetical settlement might agree to pay 60 percent of that damages verdict.

KEEP PUSHING FOR SETTLEMENT

7. Recognize when your adversary appears litigation-weary and mount a campaign to show that adversary that you are serious about going forward. Serve deposition notices, subpoenas on third parties, document requests and interrogatories. At the same time, however, initiate direct, meaningful settlement discussions.

78. Seek the assistance of third-party peacemakers who are trusted by all the litigants.

79. Encourage settlement of litigation by touching your adversary's most

sensitive business concerns. The necessary depositions of key customers or CEOs might be taken earlier, rather than later, in the litigation. Your expert's "audit" of the other side's business records might also be commenced early in the litigation.

LITIGATION MANAGEMENT

80. Litigation does not have to result in billing excesses and surprises. Litigation expenses should be reviewed, monitored and, in some cases, audited. Where appropriate, question some item on the first bill sent to you by outside counsel so that they realize their bills will be carefully reviewed.

81. Forge a partnership with your litigation counsel. Meet often, discuss strategy and make certain that litigation is being approached by outside counsel with your business needs in mind. Litigation counsel should not be driven by fear of client criticism for "not turning over the last stone" in discovery to obtain additional information. If you and your litigation trial lawyers agree that the marginal benefit of additional discovery is outweighed by the cost, that discovery should not be undertaken. The scope of discovery is almost limitless. Prioritize discovery so that you conduct the most effective discovery.

82. Hire trial lawyers willing and able to go to trial -- who have real trial experience and who can win a case with relatively thin discovery. The universe is full of high-priced "litigators" who do not have the trial skills and experience necessary to obtain results.

83. Use a cost/benefit analysis on all major litigation decisions. Advise litigation counsel that expensive discovery disputes and motion practice should be avoided on all but really critical issues.

84. Where you have a choice of jurisdiction in which to file a case, investigate the court calendar backlog. A case that gets tried within a year of filing will inevitably be less expensive than a case that takes five years to get to trial.

85. Agree with your adversary to limit the number and length of depositions to be taken. A seven-hour time limitation can provide great cost savings, save witnesses from harassment and force litigation counsel to focus on what really matters.

86. Require regular strategy meetings with outside counsel, or alternatively, require written litigation plans. Litigation value is best obtained by conscious, careful planning and strategy.

87. Use interrogatories primarily to learn the identity of the key witnesses, and then depose only those witnesses.

88. If the other side identifies dozens of secondary witnesses as having "relevant" information, where appropriate, follow suit and do the same. Then negotiate an agreement that the secondary witnesses will not be called at trial, in exchange for the mutually beneficial agreement that they not be deposed. Alternatively, you can agree that secondary witnesses may not be called at trial without prior notice and their submission for deposition at least three weeks prior to trial.

89. Take subpoenaed depositions of your adversary's embittered ex-employees, or better yet, interview these employees and make them your key witnesses. This is discovery that provides real impact at relatively minimal expense. (There are unresolved ethical issues regarding the interviewing of an adversary's ex-employee that must be carefully examined.)

90. Seek out smoking gun documents that can win a case by asking the right questions, for example did you keep a diary, did you record board meetings or other conversations or do you maintain the computer files that you were using at the time of the transaction. Probably 95 percent of the "litigation punch" comes from 5 percent of the documents. To obtain real value, your outside counsel should pursue the "hot documents" 91. Evaluate with experienced litigation counsel the feasibility and desirability of cost-saving joint defenses for similarly situated defendants. At the very least, certain joint discovery should be undertaken with similarly situated defendants.

92. Effective experts are critical in many lawsuits. Uncontrolled experts can be the most expensive part of litigation. Obtain your experts early in the litigation, utilizing similar cost savings techniques on choosing and retaining counsel. Try to retain local experts to cut down on travel costs, increase accessibility and impress local juries. Litigation experts should be required to prepare budget estimates. Agreements should be reached on staffing and billing rates. Hourly rates and fixed rates are feasible. However, no billing arrangement may be used that provides your expert an incentive to give favorable testimony.

93. Consider the use of in-house experts very cautiously. In-house experts can be very qualified and very inexpensive but very biased in the eyes of the jury. The dollars saved by using in-house experts is, in some cases, costly and far surpassed by the possibly adverse results.

94. Consider retaining coordinating counsel where products liability, environmental or other litigation springs up across the country. Coordinate

national and local counsel so that costs are minimized and learning curves are shared.

95. Know when to hold them; know when to fold them. By settling cases that have proven to be weak through discovered information you will be economizing on legal fees that should not be incurred.

USE OF NEW TECHNOLOGIES

96. New technologies can greatly increase the value that you receive for your litigation dollar. Use outside counsel that is comfortable and experienced with new technology. Maintain computerized tracking of all significant factors associated with the management of a case, such as key issue analysis, case event scheduling, billing and expense data, and performance against budget.

97. Today, court reporter services offer exhaustive indexes of key words and names appearing in transcripts and mini-transcripts. These services are well worth their nominal cost and can produce real economies. Make certain that your litigation counsel has negotiated discount rates from the court reporter transcribing the depositions. Large sums of money can be saved.

98. Become familiar with your outside counsel's use of database technology to search and retrieve those documents that meet defined criteria (for use at depositions, at trial and in preparing key motions). Money can be saved by indexing the depositions by issue, key word and subject matter, and having the capability of full-text retrieval of depositions with annotation and search capabilities.

99. Westlaw, Lexis, Dialog, D&B searches, etc. are relatively inexpensive ways to obtain current factual and legal information. Shephardizing manually is an expensive, out-of-date function.

100. Determine if your outside counsel maintains brief and pleading banks. Reinventing the wheel on repetitive issues can be avoided. Maintain your own brief bank of matters researched over the years that are germane to your business. Provide your outside counsel with an index to your brief bank so particular briefs may be requested.

101. To ease communication with outside counsel, make certain their computer can "communicate" with your computer so that you can easily receive and revise contracts, briefs, etc. without requiring fax or mail. Give your outside counsel a line on your corporate voicemail system so that, where appropriate, company employees can have direct, efficient access to leaving your outside counsel messages.

III b) MEMORANDUM TO OUTSIDE COUNSEL REGARDING COST CONTAINMENT

Rockwell's Office of the General Counsel supervises all legal matters for which outside legal counsel is retained to represent the Company. This Office is composed of a General Counsel, two Associate General Counsel, a Corporate Patent Counsel, and a number of Assistant General Counsel and Patent Counsel.

Either an Assistant General Counsel or a Patent Counsel ("Assigned Counsel") will usually assume routine supervision of a matter for Rockwell. The Assigned Counsel will be your liaison for contacts with other Rockwell employees, for status reports, and for requests for approval of actions requiring our approval. Of course, you may contact the General Counsel, Associate General Counsel, or the Corporate Patent Counsel whenever you believe it appropriate.

Hourly Rates

You should charge us for services at your firm's standard hourly rate for the person providing services. This rate should be the lowest rate currently charged by your firm to commercial clients for such person's services. Please advise the Assigned Counsel promptly of any change in the billed hourly rates.

Staffing and Disbursements

The Assigned Counsel and outside counsel will jointly select a lead attorney from the firm for each matter. We expect the lead attorney to be actively involved in all decisions affecting the conduct of the matter and to try the matter personally if it is litigated. The Assigned Counsel must approve any change in the lead attorney.

The lead attorney should select the team of attorneys and paralegals who will work on the matter and should provide their names and hourly billing rates to us promptly after the case begins. We believe that continuity in personnel is an important factor in a successful representation and that we should not be billed for time spent educating replacement personnel. Except in an emergency you should not assign different or additional staff to the matter without our permission.

In general, we believe that only one attorney should represent us at any deposition, witness interview, hearing, or client meeting. If you believe additional staffing is appropriate in a particular situation, please discuss it with us in advance. We will not pay invoices for the expense of additional staffing incurred without our prior approval.

Please consult with the Assigned Counsel before beginning any support activity that may involve significant expense. We may have in-house resources available for such tasks,

including, for example, file searches in discovery, automating a data base, or copying or microfilming large amounts of material.

We expect you to work closely with us to identify situations where necessary tasks can be done more inexpensively or efficiently with our in-house resources.

Travel

We will pay for attorney and paralegal time spent in transit and in providing legal services away from the office; time otherwise spent while away from home or office will not be reimbursed. If travel time involves work for other clients, please allocate your bill to us proportionately.

While attorneys and paralegals are entitled to good hotel accommodations and meals while traveling, the expense should be reasonable. Please check with us for the availability of our corporate discount rates in your destination city or use other available professional discounts for hotels and car rentals.

As far as air travel is concerned, our company policy requires almost all of our employees, including executives, to travel coach class, or on overseas travel, business class. We expect our counsel to do likewise unless otherwise authorized by us. Similarly, we expect taxies, not limousines, to be used from and to airports or for local travel.

Billing

Please invoice us monthly for your services and disbursements, not later than the end of the month following the month in which services are rendered. If you are invoiced directly by a consultant, court reporter, or other independent provider, please review the invoice, and if you find it appropriate, forward it to us for payment. Invoices for relatively minor amounts, however, should be paid directly and included in disbursements.

Your invoices should show the total number of hours charged to the matter by each attorney and paralegal and the total dollar amount invoiced for that time. Please provide sufficient description of the services provided to allow us to know what was done and by whom. We strongly encourage you to provide the detail in summary form (such as a computer billing sheet) rather than a lengthy narrative.

Litigation

Rockwell's management is very concerned with controlling the spiraling cost of litigation. Success in controlling costs and using resources efficiently is a major factor in our evaluation of outside counsel.

We believe that an effective working relationship between inside and outside counsel is based on the free flow of information. Please provide the Assigned Counsel with copies of all

correspondence and memoranda of law prepared in connection with the matter. Drafts of briefs, pleadings, and discovery responses, should be delivered to the Assigned Counsel in ample time to allow review and discussion with you. You should direct all requests for information or interviews with our employees to the Assigned Counsel.

We expect you to obtain the approval of the Assigned Counsel before retaining experts or other consultants and before beginning any of the following activities:

- Preparation of discovery materials, including interrogatories, requests for admission, document production requests or motions, and depositions.
- Preparation of responsive pleadings and responsive discovery materials.
- Preparation of other pleadings, motions, stipulations, and briefs.
- Major legal research projects.

Litigation Risk Assessment

We seek to resolve all contested cases as quickly and economically as possible. Our practice is to evaluate the case as soon as possible after it begins with a view to determining defense strategy and the desirability of settlement. We expect to receive a risk assessment for the case as soon as practicable after it is received. The risk assessment should include your opinion of the probability of our prevailing on each of the claims against us, the probable dollar exposure for liability on each claim, your estimate of costs to litigate the case, and

your evaluation of the likelihood and range of potential cost of settlement. The cost estimate should include a detailed plan for defense of the case and your itemized budget for that defense.

We will expect you throughout the case to evaluate, explore, and discuss settlement opportunities with us and, if we authorize, with the other parties. We also encourage you to consider and discuss with us the use of alternative dispute resolution to resolve the case. Whenever a dispute can be resolved at or about the cost of continued litigation, and we have advised you that we do not believe a matter of principle or precedent is at stake, settlement is normally the better choice. In consultation with the lead attorney, the Company will decide whether and on what terms to settle a dispute.

C. H. Harff
Senior Vice President,
General Counsel and Secretary

H:\wpdata\forms\services\RETAIN.LTR

6/8/90

(Form)

Dear [Counsel]:

This letter will confirm our conversations regarding Rockwell's retention of your firm to represent it in the matter of _____. We look forward to working closely with you to assure a successful result in this matter. In an effort to control our outside legal expenses, we have found it helpful to explain our expectations as to how our General Counsel staff and outside counsel ought to work together to assure that litigation is handled in the most cost-effective manner consistent with the goals we seek to accomplish.

Our expectations are set forth in the attached memorandum to outside counsel. Please read the memorandum and let me know if you wish to discuss any of the matters it contains. Otherwise, I will assume that the terms of retention set forth are acceptable to your firm and that you will be guided by them.

Please make sure that each attorney and paralegal in your firm who is assigned to work on any matter for Rockwell receives a copy of the memorandum and fully understands our expectations.

Attached is a form that we have found useful in making the cost estimate requested in the memorandum.

Yours very truly,

_____

Assistant General Counsel

Attachment

Rockwell International

H:\wpdata\forms\services\COSTEST.FRM
4/6/92

PENDING CASE ACTIVITY ESTIMATE

CASE CAPTION:_____

Firm:_____

Partner-in-charge:_____

Estimate for period of first 6 months ending as of _____, 19____

COURT:_____

Date: _____, 19____

ESTIMATED HOURS TO BE BILLED DURING PERIOD BY:

ACTIVITY	PARTNER	ASSOCIATE	PARALEGAL	TOTALS
Answer/Counterclaims				
Prelimin. Motions*				
Witness Interviews				
Legal Research				
DISCOVERY (Opponents)				
Interrog. Responses				
Document Production				
Depositions*				
DISCOVERY (Rockwell)				
Interrog. Prep.				
Document Requests				
Depositions*				
Pretrial Motions*				
Trial Preparation				
Trial/Hearings				
Other*				
TOTAL ESTIMATED HOURS				
X HOURLY RATE	$	$	$	
= EST. FEES	$	$	$	$

	Travel	Experts*	Other*	
ESTIMATED DISBURSEMENTS:	$	$	$	$

TOTAL ESTIMATED FEES AND DISBURSEMENTS FOR PERIOD: $_____

* Identify Deponents, Describe Proposed Motions and indicate subject matter of proposed research, interrogatories and document requests and other details (below or on back of this form):

IV General Comments

The following is my advice as to what you should do before bringing an infringement lawsuit and what to do after bringing suit.

1) Determine what the business objective is - What will the lawsuit accomplish for the business?

2) Know your patent. Is it "weak"? Is it strong? Should outside counsel review the patent?

3) Do a prelitigation review. Are there "smoking guns" in your files? (Remember at this stage you can't destroy documents.)

4) Risk analysis - what's at stake? What outcome do you want? What if you lose?

5) Know the Business. Analyze the sales data, look at profits, where is the product sold? Is it worth a lawsuit?

6) Make fact based decisions. Be objective i.e., have a good business reason for bringing lawsuit. Keep emotions out of the decision making.

7) Can the matter be settled by mediation, negotiations, arbitration? Make an effort to settle. Use your business people.

8) If you've decided to go forward with the lawsuit you now need to choose an attorney (not a firm), experienced, team oriented, to work with you.

9) Determine possible costs - work with outside counsel on fees.

10) Develop initial strategy with outside lawyer. Stay informed. Hold at least monthly meetings with outside lawyer.

11) Pick experts early.

12) Try to settle.

PIPA Database Cover Sheet

(1) Title: U.S. International Trade Commission Section 337 Activities Update (Tariff Act of 1930, as Amended)

(2) Date: September 1997

(3) Source:

(1) Source: PIPA
(2) Group: American
(3) Committee: 4

(4) Author: David H. Fifield, The Dow Chemical Company

(5) Key Words: Section 337 of U.S. Tariff Act of 1930

(6) Statutory Provisions: 19 U.S.C Section 1337; 35 U.S.C. Section 271 (g); 28 U.S.C. Sections 1368, 1446 & 1659

(7) Abstract:

Report on status of recent actions under Section 337 for "Unfair Practices in Import Trade", at the U.S. International Trade Commission ("ITC"). Information about complaints since 1988 are reviewed statistically, to see if any significant change in the number of filings has occurred. Changes to the U.S. law since 1990 are reviewed briefly, certain relevant sections of the law are reproduced in Annex, and a selected Bibliography of more detailed papers on the topic is presented.

I. Introduction

At the PIPA 21st International Congress held in October 1990 at Niigata, a report was presented by Japanese Committee No. 4 (T. Kuboyama et al.), Title: "Proposed Amendments to Section 337 of Tariff Act of 1930 and Some Comments Thereon". That report concerned the non-compliance of Section 337 of the U.S. Tariff Act of 1930 (19 U.S.C. Sec. 1337) with Article III:4 of the General Agreement on Tariffs & Trade ("GATT"). The observations were that the U.S. was required to amend this law to come into conformance with the GATT panel finding of a violation. The GATT panel report was un-blocked by the U.S. in November 1989. A number of comments on this situation were made. One comment was that it may take considerable time for the U.S. to amend the laws. Amendments had just been made in 1988 which, if anything, brought tougher provisions to the U.S. law, but didn't bring the law into conformance with the 1988 GATT panel findings.

Also in the 1990 JP Committee No. 4 paper, a timeline summary of the history of U.S. tariff and trade law was presented in Chart 1, showing how economic conditions in the U.S. have dictated trade and tariff law changes. In Chart 2 of that same paper, a statistical review of the number of "litigations" at the ITC was presented for the time period from 1983 through July 1990.

In the present paper, the number of actions before the ITC since 1988 through July 1997 are reviewed and summarized, in Table I. The format is similar to that used in the 1990 paper, with a more detailed breakdown presented of the kinds of actions taken by the ITC. Since the methodology of the data analysis was not explained in the

1990 paper, it is not clear whether the number of "investigations" mentioned there apply investigations completed in the year noted. However, perhaps that report employed data from later years to relate back only to the cases filed during the calendar year indicated. Because of this uncertainty, the numbers reported in the present paper for 1988 and 1989 are similar to, but do not exactly correlate with, the numbers in Chart 2 of that 1990 paper.

The data available for the present paper was collected from the U.S. ITC Annual Reports for 1988 through 1996. Information for 1997 through 31 July 1997 was obtained by telephone from the ITC administrative offices. Additionally, from the reports, it was not possible to determine the "Number of Japanese companies" as was detailed in that category of Chart 2 of the 1990 paper. Only the complainant names are listed in the current ITC reports, and actions are directed against specified imported goods. This limited review of the data in ITC annual reports did not (as apparently was done in preparation of the 1990 paper) include examination of the docket of each of the filed actions from '88 to '96, so the names of the respondents in each case have not been considered. However, the reports name the complainants, and thus reveal that some of the complaints were filed by Japanese companies and by other non-U.S. based concerns. That information is presented in Table I.

To summarize the findings of Table I of this paper, and from viewing the data in Chart 2 of the 1990 paper, it is clear that there has been ***no appreciable increase*** in the number of complaints filed under Section 337 since 1990. The number of complaints filed per year since 1990, has averaged roughly one per month. There was a high of 17 in both '92 and '93 and a low of 5 in '94. This year through July, seven

new complaints have been filed according the ITC administrator's office. This seems to indicate a continuation of that same trend.

Can reliable conclusions therefore be drawn from these statistics ? It is difficult to say that any conclusions can be drawn, other than to indicate that there has not been a significant variation in the amount of activity in the last six and a half years. The readers may draw their own conclusions. The discussion below mentions some of the events which have occurred since 1989 which might have influenced the number and types of complaints being filed at the ITC.

II. Background and History

At the PIPA 20th International Congress held in October 1989, at Tucson, American Committee No. 4 (V.L. Fabiano) presented a paper, Title: "Conflict of ITC Procedures and the GATT" which reviewed the initial GATT panel report of December 1988. That initial report of the GATT panel resulted from the European Community's complaint to the GATT council. The EC complaint was prompted by a Section 337 action, by E.I. duPont de Nemours & Company against Akzo N.V., based on offshore patent infringement that concerned certain polyaramid fibers.

At the 1990 Niigata Congress, American Committee No. 4 (J.W. Blumenshine) presented a paper, Title: "U.S. Response to the GATT Panel Report on Section 337 of the 1930 Tariff Act". That paper reviewed what actions the United States might take in response to the GATT report. It concluded that a debate within the U.S. government and industry was ongoing and a variety of options were being

presented by the U.S. Trade Representative ("USTR") for public review and comment. Among such proposals were a variety of possible changes to Section 337. As history reflects, the U.S. government maintained the position that: until the GATT negotiations of the Uruguay Round on Trade-Related Aspects of Intellectual Property ("TRIPS") were completed, the U.S. would hold any amendment to its "unfair trade" laws in abeyance.

In 1994 after the successful conclusion of the GATT Uruguay Round, the U.S. Congress passed legislation amending Section 337 the Tariff Act of 1930. Congress made related amendments other parts of the law. The relevant provisions of interest are found in the Annex. (Note: 28 U.S.C. contains the Federal Code of Civil Procedure.)

- **28 U.S.C. Section 1368** - provides jurisdiction over a Section 337 respondent's counterclaims at the Federal District Court.

- **28 U.S.C. Section 1446(f)** - contains a procedure for removal of a respondent's counterclaim to the Federal District Court, as provided for in Section 337(c) of the Tariff Act

- **28 U.S.C. Section 1659(a)** - provides for an automatic stay, on motion of a Section 337 respondent, of a parallel Federal District Court action pending completion of the ITC investigation.

- **28 U.S.C. Section 1659 (b)** - provides that after dissolution of any stay ordered under Sec. 1659 (a), the ITC proceeding record will be transmitted to the Federal District Court and may be admitted there in the civil action, subject to the usual rules of evidence and any protective order.

Of course, the grant of exclusive jurisdiction at the Court of Appeals for the Federal Circuit to review all U.S. ITC's final Section 337 determinations is found in 28 U.S.C. Section 1295 (a)(6). This provision was not affected by the 1994 amendments.

Familiar changes to the Patent Law, required by the TRIPS accord (for example the 20 year term from filing date and proof of inventions made abroad), were likewise instituted in 1994. Minor amendments to subparagraph (g) of 35 U.S.C. Section 271 were completed at the same time .

III. Discussion

With the 1994 changes to Section 337, and the related civil procedure changes, most observers believe that the basis for the 1988 GATT panel objections have been essentially eliminated.

- The 1 year (and 18 month, for more complicated cases) **time limits for conclusion** of ITC investigations have been removed from Section 337(b)(1) of the Tariff Act. However, the law as amended still instructs the ITC to "... conclude any such investigation and make its determination under this section

at the earliest practicable time after the date of publication of notice of such investigation ." In practice, the ITC is proceeding to implement its Section 337 investigations within guidelines that mirror the 1 year/18 month mandate of the previous statutory language.

- **Counterclaims by respondents** are now provided for in 28 U.S.C. Section 1368.

- **The choice of fora** option remains alive for complainants, but is effectively countered by permitting counterclaims by respondents in Federal District Court. (Of course, a potential defendant in a patent infringement case has long been permitted to institute a suit for Declaratory Judgment, when proof would establish threats or a reasonable apprehension in the alleged infringer of suit for infringement by the patent owner).

- **Defense of simultaneous, dual, parallel actions** has been effectively eliminated by the provisions found in 28 U.S.C. Section 1659. This Section mandates an automatic stay at the Federal District Court of a parallel infringement action, on request of the Section 337 respondent, until the ITC action results in a final determination.

- **General exclusion orders and automatic execution** have NOT been eliminated, but in the case of such orders the GATT panel recognized they are necessary for effective enforcement against infringing imports. However, Section 337(d)(2) now provides that an "exclusion from entry of articles" order will be limited to persons found by the ITC to be violating the Section, unless the ITC determines

that: *A)* a general order is necessary to prevent circumvention of an exclusion order limited to products of named persons; OR *B)* there is a pattern of violation of this Section and it is difficult to identify the source of infringing products.

An excellent review and detailed analysis of the 1994 changes, and a practitioner's view of what the changes might be expected to mean in the day-to-day operations of Section 337, are found in two articles in the Summer/Fall 1994 AIPLA Quarterly Journal (see the Bibliography, below). One author (Schwartz) perceives that the availability, in the Eastern District of the Federal District Court for Virginia and elsewhere, of accelerated trial docketing procedures (the so-called "Rocket Dockets") coupled with the availability of large damage awards, may result in less attraction to Section 337 actions for U.S. companies, in the future. Since large damage awards are absent in ITC actions, this last factor may be the deciding one, when personal jurisdiction over an infringer can be established.

Both authors consider that Section 337 actions remain viable, and indeed the only real remedy, where a number of unidentifiable importers of infringing products exist. However, the authors of the first article (Mittelberger et al.) point out a number of uncertainties in the law that now exist as a result of new language in the amended statutory provisions which has not yet received interpretation by the courts. The authors' practical experience and perspective provide valuable insight to persons having only a passing knowledge of Section 337.

Some of the more recent court and ITC decisions, noted in those articles, are also of more than casual interest to those who wish to learn more about Section 337 ITC proceedings and appellate review. In fact, one recent ITC decision reviewed by Schwartz in the second AIPLA article, suggests to that author that ITC actions are not limited to articles of foreign manufacture citing *Sputtered Disks*, USITC Pub. 2701, at 4-5, Investigation No. 337-TA-350 (Nov. 1993) and perhaps indicates that the ITC considers itself a "nationwide trial-level tribunal" for resolution of domestic intellectual property disputes. He also notes the availability of Section 337 action by "foreign" companies who own U.S. intellectual property rights, in an action by Ricoh against Samsung: *Certain Facsimile Machines*, Investigation No. 337-TA-367. (Schwartz, in *AIPLO Quarterly Journal*, Summer/Fall 1994, at pages 501-502). For those interested, these AIPLA articles will prove invaluable.

Recent Court Decisions

A review of the listing of cases cited in 19 U.S.C. Annotated (West, 1997 Supp.), under Section 1337, revealed that not many cases from the ITC have gone to the Federal Circuit since 1990. In fact, only seven such CAFC appellate decisions were found. Some interesting developments since the 1990 PIPA papers are found in several recent decisions of the CAFC and noted briefly, below. However, this review of recent CAFC decisions was only superficial, not exhaustive. Moreover, the more current changes in direction in Section 337 actions can be found in the ITC proceedings which are reviewed in much greater depth in the second AIPLA article, noted above

The Federal Circuit in *Texas Instruments Inc. v. U.S. International Trade Commission*, 988 Fed. 2d 1165, 26 USPQ 2d 1018, 1030-1031 (Fed. Cir. 1993) decided that Section 337 applies even to members of the affected domestic U.S. industry, if their acts complained of fall within the scope of Section 337 - contrary to the arguments of the appealing complainant.

In a related case, *Texas Instruments Inc. v. Cypress Semiconductor Corp.*, 90 Fed. 3d 1558, 39 USPQ 2d 1492 (Fed. Cir. 1996) the CAFC reviewed a decision from the patent infringement action in Federal District Court in Texas, that paralleled the ITC action of the above-noted CAFC decision. The CAFC stated, in review of the Texas case, that an ITC finding of infringement by the same defendants using the same process as issue, would not have a collateral estoppel (issue preclusion) effect on the District Court action. In its opinion, the CAFC also noted a recent earlier decision by a panel consisting of 2 of the same judges which reached the same conclusion. *Bio-Technology General Corp. v. Genetec Inc.*, 80 F.2d 1553, 38 USPQ 2d 1321, 1330 (Fed. Cir. 1996).

In the *Bio-Technology* opinion, the Court noted that the reverse is not true - that a Federal District Court decision resolving a patent infringement claim does have issue preclusion effect on a subsequent ITC Sec. 337 investigation based on the same assertion of infringement. The CAFC cited for this proposition: *Young Engineers Inc. v. U.S. International Trade Commission*, 721 F.2d 1305, 219 USPQ 1142 (Fed. Cir. 1983).

Other Factors

An important amendment to 35 U.S.C. Section 271 was made in the 1988 legislation, when the provisions of subparagraph (g) - (the subparagraph on infringement by importation of or offer to sell goods made offshore by a process patented in the U.S.) was first added to the Patent Law. This at last brought the infringement remedy in U.S. Patent Law into conformity with the law of other major industrial nations, like Japan.

Perhaps that 1988 amendment to the Patent Law, as much as any other development, has influenced the current level of activity at the ITC. However, it has limitations. It applies only to importers and not to the offshore manufacturer himself, unless he is also the importer. If one can prove that the importer is only acting as the agent or alter ego of the offshore manufacturer, however, it may be possible to bring that manufacturer into a Federal District Court patent infringement action as a defendant. This assumes that minimum contacts jurisdictional requirements can be met. If that jurisdictional test cannot be met, and if the recoverable damages are not expected to be significant, then a proceeding before the ITC under Section 337 may still be an attractive option for firms whose United States intellectual property rights are being infringed. This remains true even with the 1994 changes to the law which render it more fair and balanced to the respondent.

For reference, the language of 28 U.S.C. Section 271(g) is set out below.

Section 271. Infringement of Patent

.....

(g) Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after –

(8) it is materially changed by subsequent processes; or

(9) it becomes a trivial and nonessential component of another product.

.....

IV. Conclusions

It can be concluded that the level of activity at the U.S. International Trade Commission since 1988 for actions under Section 337 of the Tariff Act of 1930 as amended most recently in 1994, has not exhibited a rise. If anything, the level has maintained fairly steady with an average of about one new complaint being filed per month. Whether this trend will continue is impossible to predict, but it appears that Section 337 may be receiving an expanded reading by the ITC since the amendments of 1994. Accordingly, Section 337 may still present an interesting option for pursuit of imported infringing goods, both to domestic and "foreign" holders of U.S. intellectual property rights. A follow-up review of this law several years from now, in a future PIPA International Congress, would be warranted.

V. BIBLIOGRAPHY *

In addition to those previous PIPA Committee No. 4 papers cited above, the following publications are noted for those who wish to more fully investigate the subject of this paper.

1. ***Annual Report of the United States International Trade Commission***, 500 E Street SW, Washington, DC 20436

2. AIPLA Quarterly Journal, ***GATT SYMPOSIUM ISSUE*** , Vol. 22, Numbers 3&4 - Summer/Fall 1994. *Articles*: Changes in Section 337 as a Result of the GATT-Implementing Legislation by Ralph A. Mittelberger & Gary M. Hnath, page 465; Beyond the Amendments: Federal and ITC Case Law Developments That May Determine the Long-Term Future of Section 337 Litigation by Bryan A. Schwartz, page 491.

3. AIPLA ***SELECTED LEGAL PAPERS*** , Vol. V, Number 2, December 1987, *Article*: Is there a Role for the Administrative Law Judge at the ITC ? by Janet D. Saxon Chief Admin. Law Judge (Former) U.S. ITC, page 254.

4. ***CCM*** • The American Lawyer's Corporate Counsel Magazine, June 1996, *Article*: Section 337 Offers Significant Advantages When Facing Unfair Competition From Imports, by V. James Adduci & Tom M. Schaumberg, page 44A.

5. *JOURNAL OF THE PATENT AND TRADEMARK SOCIETY*, March 1995
Article: A Revitalized Section 337 to Prohibit Unfairly Traded Imports by Tom M. Schaumberg, page 259

(*The assistance of G. J. Nicholas in collecting Annual reports and information from the U.S. International Trade Commission is gratefully acknowledged).

VI. COURT OF APPEALS FOR THE FEDERAL CIRCUIT - Decisions

A selected list of the Federal Circuit opinions cited under 19 U.S.C.A. under Section 1337, and elsewhere, published from 1990 onward are found below:

1. *Texas Instruments Inc. v. Cypress Semiconductor Corp.*,
90 Fed. 3d 1558, 39 USPQ 2d 1492 (Fed. Cir. 1996)

2. *Texas Instruments Inc. v. U.S. International Trade Commission*,
988 Fed. 2d 1165, 26 USPQ 2d 1018 (Fed. Cir. 1993)

3. *Farrel Corp. v. U.S. International Trade Commission*, 949 Fed. 2d 1147,
20 USPQ 2d 1912 (Fed. Cir. 1991) cert denied 112 S. Ct. 1947, 504 U.S. 913

4. *Biocraft Laboratories, Inc. v. U.S. International Trade Commission*,
947 Fed. 2d 483, 20 USPQ 2d 1446 (Fed. Cir. 1991)

5. *Rosemont, Inc. v. U.S. International Trade Commission*, 910 Fed. 2d 819, 15 USPQ 2d 1569 (Fed. Cir. 1990)

6. *Amgen Inc. v. U.S. International Trade Commission*, 902 Fed. 2d 1532, 14 USPQ 2d 1734 (Fed. Cir. 1990)

7. *Hyundai Electronics Industries Co., Ltd. v. U.S. International Trade Commission*, 899 Fed. 2d 1204, 14 USPQ 2d 1396 (Fed. Cir. 1990)

TABLE I and ANNEX follow on separate pages

TABLE I

Year	'88	'89	'90	'91	'92	'93	'94	'95	'96	Total	%	'97 thru 31 July
Case No. 337-TA-xxx	281-289	290-309	310-323	324-334	335-346	347-363	364-368	369-379	380-392			393-399
Number Filed	9	20	24	11	17	17	5	11	13	127		7
Investigation completed or terminated (during year)	21	12	19	11	13	12	16	10	11	125		na
Final ITC decision on merits	11	10	10	7	6	5	7	7	8	71	55%	na
Violation	6	7	8	5*	7*	4	4	4	7*	52	70%	na
LEO/CD	2	1	5	3*	3	2	1	2	5*	24		na
GEO	2	3	0	1*	1*	0	1	1	1*	10		na
CO	2	3	3	1	3*	2	2	1	1	18		na
No violation	5	3	2	3	0	1	3°	3*	2	22	30%	na
Terminated before final on merits (withdrawal of complaint, moot, settlement, other)	10	2	9	4	8*	7	9	4*	4*	57*	45%	na
Completed investigations with Japanese or other non-US complainant (JP/other)	0/1	0/0	0/2	0/0	0/1	0/0	0/0	2/0	1/0 plus 1 US sub of Japanese Co. (New complaints: 1/1 in '96)			na

LEO/CD = Ltd. Exclusion Order + Cease & Desist Order
GEO = General Exclusion Order
CO = Consent Order

* = more than one action ordered in some investigations
° = One Summary Judgment - Patent Invalid and One Collateral Estoppel - D. Ct. Judgment

ANNEX

Text of Selected Relevant Sections of the U. S. Code and C.F.R.

such direction as it may

1984, Pub. L. 98-622, §205, 12 Stat. 1156; Nov. 19, 1988, ub. L. 102-572, §102(c), 106

C. INTELLECTUAL PROPERTY AND INTERNATIONAL TRADE

19 U.S.C. § 1337 Unfair practices in import trade

(a) *Unlawful activities; covered industries; definitions.*—

(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 Untied 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.

(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.

(b) *Investigation of violations by Commission.*—

(1) The Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative. Upon commencing any such investigation, the Commission shall publish notice thereof in the Federal Register. The Commission shall conclude any such investigation and make its determination under this section at the earliest practicable time after the date of publication of notice of such investigation. To promote expeditious adjudication, the Commission shall, within 45 days after an investigation is initiated, establish a target date for its final determination.

(2) During the course of each investigation under this section, the Commission shall consult with, and seek advice and information from, the Department of Health and Human Services, the Department

of Justice, the Federal Trade Commission, and such other departments and agencies as it considers appropriate.

(3) Whenever, in the course of an investigation under this section, the Commission has reason to believe, based on information before it, that a matter, in whole or in part, may come within the purview of this Act or of part II of subtitle IV of this chapter, it shall promptly notify the Secretary of Commerce so that such action may be taken as is otherwise authorized by such subtitle. If the Commission has reason to believe that the matter before it (A) is based solely on alleged acts and effects which are within the purview of section 303, 671, or 673 [§1303, 1671, or 1673], or (B) relates to an alleged copyright infringement with respect to which action is prohibited by section 1008 of title 17, United States Code, the Commission shall terminate, or not institute, any investigation into the matter. If the Commission has reason to believe the matter before it is based in part on alleged acts and effects which are within the purview of section 1303, 1671, or 1673 of this title, and in part on alleged acts and effects which may, independently from or in conjunction with those within the purview of such section, establish a basis for relief under this section, then it may institute or continue an investigation into the matter. If the Commission notifies the Secretary or the administering authority (as defined in section 1677(1) of this title) with respect to a matter under this paragraph, the Commission may suspend its investigation during the time the matter is before the Secretary or administering authority for final decision. Any final decision of the Secretary under section 1303 of this title or by the administering authority under section 1671 or 1673 of this title with respect to the matter within such section 1303, 1671, or 1673 of this title of which the Commission has notified the Secretary or administering authority shall be conclusive upon the Commission with respect to the issue of less-than-fair-value sales or subsidization and the matters necessary for such decision.

(c) *Determinations; review.*—The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of an agreement between the private parties to the investigation, including an agreement to present the matter for arbitration, terminate any such investigation, in whole or in part, without making such a determination. Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of title 5. All legal and equitable defenses may be presented in all cases. A respondent may raise any counterclaim in a manner prescribed by the Commission. Immediately after a counterclaim is received by the Commission, the respondent raising such counterclaim shall file a notice of removal with a United States district court in which venue for any of the counterclaims raised by the party would exist under section 1391 of title 28, United States Code. Any counterclaim raised pursuant to this section shall relate back to the date of the original complaint in the proceeding before the Commission. Action on such counterclaim shall not delay or affect the proceeding under this section, including the legal and equitable defenses that may be raised under this subsection. Any person adversely affected by a final determination of the Commission under subsection (d), (e), (f), or (g), of this section may appeal such determination within 60 days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit for review in accordance with chapter 7 of title 5. Notwithstanding the foregoing provisions of this subsection, Commission determinations under subsections (d), (e), (f), or (g), of this section with respect to its findings on the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of title 5. Determinations by the Commission under subsections (e), (f), and (j) with respect to forfeiture of bonds and under subsection (h) with respect to the imposition of sanctions for abuse of discovery or abuse of process shall also be reviewable in accordance with section 706 of title 5, United States Code.

(d) Exclusion of articles from entry.—

(1) If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provi-

sion of this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry.

(2) The authority of the Commission to order an exclusion from entry of articles shall be limited to persons determined by the Commission to be violating this section unless the Commission determines that—

(A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or

(B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products.

(e) Exclusion of articles from entry during investigation except under bond.—

(1) If, during the course of an investigation under this section, the Commission determines that there is reason to believe that there is a violation of this section, it may direct that the articles concerned, imported by any person with respect to whom there is reason to believe that such person is violating this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry, except that such articles shall be entitled to entry under bond prescribed by the Secretary in an amount determined by the Commission to be sufficient to protect the complainant from any injury. If the Commission later determines that the respondent has

violated the provisions of this section, the bond may be forfeited to the complainant.

(2) A complainant may petition the Commission for the issuance of an order under this subsection. The Commission shall make a determination with regard to such petition by not later than the 90th day after the date on which the Commission's notice of investigation is published in the Federal Register. The Commission may extend the 90-day period for an additional 60 days in a case it designates as a more complicated case. The Commission shall publish in the Federal Register its reasons why it designated the case as being more complicated. The Commission may require the complainant to post a bond as a prerequisite to the issuance of an order under this subsection. If the Commission later determines that the respondent has not violated the provisions of this section, the bond may be forfeited to the respondent.

(3) The Commission may grant preliminary relief under this subsection or subsection (f) of this section to the same extent as preliminary injunctions and temporary restraining orders may be granted under the Federal Rules of Civil Procedure.

(4) The Commission shall prescribe the terms and conditions under which bonds may be forfeited under paragraphs (1) and (2).

(f) *Cease and desist orders; civil penalty for violation of orders.*—

(1) In addition to, or in lieu of, taking action under subsection (d) or (e), the Commission may issue and cause to be served on any person violating this section, or believed to be violating this section, as the case may be, an order directing such person to cease and desist from engaging in the unfair methods or acts involved, unless after considering the effect of such order upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such order should not be issued. The Commission may at any time, upon such notice and in such manner as it deems proper, modify or revoke any such order, and, in the case of a revocation, may take action under subsection (d) or (e) of this section, as the case may be. If a temporary cease and desist order is issued in addition to, or in lieu of, an exclusion order under subsection

(e), the Commission may require the complainant to post a bond, in an amount determined by the Commission to be sufficient to protect the respondent from any injury, as a prerequisite to the issuance of an order under this subsection. If the Commission later determines that the respondent has not violated the provisions of this section, the bond may be forfeited to the respondent. The Commission shall prescribe the terms and conditions under which the bonds may be forfeited under this paragraph.

(2) Any person who violates an order issued by the Commission under paragraph (1) after it has become final shall forfeit and pay to the United States a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order of not more than the greater of $100,000 or twice the domestic value of the articles entered or sold on such day in violation of the order. Such penalty shall accrue to the United States and may be recovered for the United States in a civil action brought by the Commission in the Federal District Court for the District of Columbia or for the district in which the violation occurs. In such actions, the United States district courts may issue mandatory injunctions incorporating the relief sought by the Commission as they deem appropriate in the enforcement of such final orders of the Commission.

(g) *Exclusion from entry or cease and desist order; conditions and procedures applicable.*—

(1) If—

(A) a complaint is filed against a person under this section;

(B) the complaint and a notice of investigation are served on the person;

(C) the person fails to respond to the complaint and notice or otherwise fails to appear to answer the complaint and notice;

(D) the person fails to show good cause why the person should not be found in default; and

(E) the complainant seeks relief limited solely to that person;

the Commission shall presume the facts alleged in the complaint to be true and shall, upon request, issue an exclusion from entry or a cease and desist order, or both, limited to that person unless, after

considering the effect of such exclusion or order upon the publ health and welfare, competitive conditions in the United States eco omy, the production of like or directly competitive articles in tl United States, and United States consumers, the Commission fin that such exclusion or order should not be issued.

(2) In addition to the authority of the Commission to issue a gene exclusion from entry of articles when a respondent appears to conte an investigation concerning a violation of the provisions of th section, a general exclusion from entry of articles, regardless of tl source or importer of the articles, may be issued if—

(A) no person appears to contest an investigation concerning violation of the provisions of this section,

(B) such a violation is established by substantial, reliable, an probative evidence, and

(C) the requirements of subsection (d)(2) are met.

(h) *Sanctions for abuse of discovery and abuse of process.*—The Commissio may by rule prescribe sanctions for abuse of discovery and abuse process to the extent authorized by Rule 11 and Rule 37 of the Feder Rules of Civil Procedure.

(i) *Forfeiture.*—

(1) In addition to taking action under subsection (d), the Commissio may issue an order providing that any article imported in violatio of the provisions of this section be seized and forfeited to the Unite States if—

(A) the owner, importer, or consignee of the article previousl attempted to import the article into the United States;

(B) the article was previously denied entry into the United State by reason of an order issued under subsection (d); and

(C) upon such previous denial of entry, the Secretary of th Treasury provided the owner, importer, or consignee of the articl written notice of—

(i) such order, and

(ii) the seizure and forfeiture that would result from any fur ther attempt to import the article into the United States.

(2) The Commission shall notify the Secretary of the Treasury of any order issued under this subsection and, upon receipt of such notice, the Secretary of the Treasury shall enforce such order in accordance with the provisions of this section.

(3) Upon the attempted entry of articles subject to an order issued under this subsection, the Secretary of the Treasury shall immediately notify all ports of entry of the attempted importation and shall identify the persons notified under paragraph (1)(C).

(4) The Secretary of the Treasury shall provide—

(A) the written notice described in paragraph (1)(C) to the owner, importer, or consignee of any article that is denied entry into the United States by reason of an order issued under subsection (d); and

(B) a copy of such written notice to the Commission.

(j) *Referral to President.*—

(1) If the Commission determines that there is a violation of this section, or that, for purposes of subsection (e), there is reason to believe that there is such a violation, it shall—

(A) publish such determination in the Federal Register, and

(B) transmit to the President a copy of such determination and the action taken under subsection (d), (e), (f), (g), or (i), with respect thereto, together with the record upon which such determination is based.

(2) If, before the close of the 60-day period beginning on the day after the day on which he receives a copy of such determination, the President, for policy reasons, disapproves such determination and notifies the Commission of his disapproval, then, effective on the date of such notice, such determination and the action taken under subsection (d), (e), (f), (g), or (i) with respect thereto shall have no force or effect.

(3) Subject to the provisions of paragraph (2), such determination shall, except for purposes of subsection (c), be effective upon publication thereof in the Federal Register, and the action taken under subsection (d), (e), (f), (g), or (i), with respect thereto shall be effective as provided in such subsections, except that articles directed to be excluded from entry under subsection (d) or subject to a cease and

desist order under subsection (f) shall, until such determination becomes final, be entitled to entry under bond prescribed by the Secretary in an amount determined by the Commission to be sufficient to protect the complainant from any injury. If the determination becomes final, the bond may be forfeited to the complainant. The Commission shall prescribe the terms and conditions under which bonds may be forfeited under this paragraph.

(4) If the President does not disapprove such determination within such 60-day period, or if he notifies the Commission before the close of such period that he approves such determination, then, for purposes of paragraph (3) and subsection (c) such determination shall become final on the day after the close of such period or the day on which the President notifies the Commission of his approval, as the case may be.

(k) *Period of effectiveness; termination of violation or modification or rescission of exclusion or order.*—

(1) Except as provided in subsections (f) and (j), any exclusion from entry or order under this section shall continue in effect until the Commission finds, and in the case of exclusion from entry notifies the Secretary of the Treasury, that the conditions which led to such exclusion from entry or order no longer exist.

(2) If any person who has previously been found by the Commission to be in violation of this section petitions the Commission for a determination that the petitioner is no longer in violation of this section or for a modification or rescission of an exclusion from entry or order under subsection (d), (e), (f), (g), or (i)—

(A) the burden of proof in any proceeding before the Commission regarding such petition shall be on the petitioner; and

(B) relief may be granted by the Commission with respect to such petition—

(i) on the basis of new evidence or evidence that could not have been presented at the prior proceeding, or

(ii) on grounds which would permit relief from a judgment or order under the Federal Rules of Civil Procedure.

(l) *Importation by or for United States.*—

Any exclusion from entry or order under subsection (d), (e), (f), (g), or (i), in cases based on a proceeding involving a patent, copyright, or mask

work under subsection (a)(1), shall not apply to any articles imported by and for the use of the United States, or imported for, and to be used for, the United States with the authorization or consent of the Government. Whenever any article would have been excluded from entry or would not have been entered pursuant to the provisions of such subsections but for the operation of this subsection, an owner of the patent, copyright, or mask work adversely affected shall be entitled to reasonable and entire compensation in an action before the United States Court of Federal Claims pursuant to the procedures of section 1498 of title 28, United States Code.

(m) *Definition of "United States".*—

For purposes of this section and sections 1338 and 1340, the term "United States" means the customs territory of the United States as defined in general note 2 of the Harmonized Tariff Schedule of the United States.

(n) *Disclosure of confidential information.*—

(1) Information submitted to the Commission or exchanged among the parties in connection with proceedings under this section which is properly designated as confidential pursuant to Commission rules may not be disclosed (except under a protective order issued under regulations of the Commission which authorizes limited disclosure of such information) to any person (other than a person described in paragraph (2)) without the consent of the person submitting it.

(2) Notwithstanding the prohibition contained in paragraph (1), information referred to in that paragraph may be disclosed to—

(A) an officer or employee of the Commission who is directly concerned with—

(i) carrying out the investigation or related proceeding in connection with which the information is submitted,

(ii) the administration of a bond posted pursuant to subsection (e), (f), or (j),

(iii) the administration or enforcement of an exclusion order issued pursuant to subsection (d), (e), or (g), a cease and desist order issued pursuant to subsection (f), or a consent order issued pursuant to subsection (c),

(iv) proceedings for the modification or rescission of a temporary or permanent order issued under subsection (d), (e), (f), (g), or (i), or a consent order issued under this section, or

(v) maintaining the administrative record of the investigation or related proceeding,

(B) an officer or employee of the United States Government who is directly involved in the review under subsection (j), or

(C) an officer or employee of the United States Customs Service who is directly involved in administering an exclusion from entry under subsection (d), (e), or (g) resulting from the investigation in connection with which the information is submitted.

(June 17, 1930, ch. 497, §337, 46 Stat. 703; Aug. 20, 1958, Pub. L. 85-686, §9, 72 Stat. 679; Jan. 3, 1975, Pub. L. 93-618, §341, 88 Stat. 2053; July 26, 1979, Pub. L. 96-39, §§106, 1105, 93 Stat. 193, 310; Oct. 10, 1980, Pub. L. 96-417, §604, 94 Stat. 1744; Apr. 2, 1982, Pub. L. 97-164, §§160, 163, 96 Stat. 48, 49; Nov. 8, 1984, Pub. L. 98-620, §413, 98 Stat. 3362; Aug. 23, 1988, Pub. L. 100-418, §§1214, 1342, 102 Stat. 1157, 1212–15; Nov. 10, 1988, Pub. L. 100-647, §9001, 102 Stat. 3807; Oct. 29, 1992, Pub. L. 102-563, §3, 106 Stat. 4248; Dec. 8, 1994, Pub. L. 103-465, §321, 108 Stat. 4943; Oct. 11, 1996, Pub. L. 104-295, Title II(12), 110 Stat. 3527.)

19 U.S.C. § 1526. Merchandise bearing American trademark

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

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

(c) *Injunction and damages.* — Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or

U.S. INTERNATIONAL TRADE COMMISSION
RULES OF PRACTICE AND PROCEDURE

19 C.F.R.
PART 200-299

WITH CHANGES THROUGH
AUGUST 1996

(ONE COVER PAGE, ONLY)

CHAPTER 26—OWNERSHIP AND ASSIGNMENT

§ 261 Ownership; assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a 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, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.

An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

(July 19, 1952, ch. 950, §1, 66 Stat. 810; Jan. 2, 1975, Pub. L. 93-596, §1, 88 Stat. 1949; Aug. 27, 1982, Pub. L. 97-247, §14, 96 Stat. 321.)

§ 262 Joint owners

In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States without the consent of and without accounting to the other owners.

(July 19, 1952, ch. 950, §1, 66 Stat. 810; Dec. 8, 1994, Pub. L. 103-465, §533, 108 Stat. 4988.)

CHAPTER 27—GOVERNMENT INTERESTS IN PATENTS

§ 266 [Repealed] (July 24, 1965, Pub. L. 89-83, §8, 79 Stat. 261.)

§ 267 Time for taking action in Government applications

Notwithstanding the provisions of sections 133 and 151 of this title, the Commissioner may extend the time for taking any action to three years, when an application has become the property of the United States and the head of the appropriate department or agency of the Government has certified to the Commissioner that the invention disclosed therein is important to the armament or defense of the United States.

(July 19, 1952, ch. 950, §1, 66 Stat. 811.)

CHAPTER 28—INFRINGEMENT OF PATENTS

§ 271 Infringement of patent*

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

*Ed. Note: Pub. L. 103-465 §533(a), which expanded the definition of infringement to include offers to sell patented inventions and importation into the U.S., became effective as of Jan. 1, 1996.

The remedies prescribed by subparagraphs (A), (B), and (C) are the only remedies which may be granted by a court for an act of infringement described in paragraph (2), except that a court may award attorney fees under section 285.

(f) (1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(g) Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after—

(1) it is materially changed by subsequent processes; or

(2) it becomes a trivial and nonessential component of another product.

(h) As used in this section, the term "whoever" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

(i) As used in this section, an "offer for sale" or an "offer to sell" by a person other than the patentee, or any designee of the patentee, is that in which the sale will occur before the expiration of the term of the patent.

(July 19, 1952, ch. 950, §1, 66 Stat. 811; Sept. 24, 1984, Pub. L. 98-417, §202, 98 Stat. 1603; Nov. 8, 1984, Pub. L. 98-622, §101, 98 Stat. 3383; Aug. 23, 1988, Pub. L. 100-418, §9003, 102 Stat. 1563–64; Nov. 16, 1988, Pub. L. 100-670, §201, 102 Stat. 3988-3989; Nov. 19, 1988, Pub. L. 100-703, §201, 102 Stat. 4676; Oct. 28, 1992, Pub. L. 102-560, §2, 106 Stat. 4230; Dec. 8, 1994, Pub. L. 103-465, §533, 108 Stat. 4988.)

§ 272. Temporary presence in the United States

The use of any invention in any vessel, aircraft or vehicle of any country which affords similar privileges to vessels, aircraft or vehicles of the United States, entering the United States temporarily or accidentally, shall not constitute infringement of any patent, if the invention is used exclusively for the needs of the vessel, aircraft or vehicle and is not offered for sale or sold in or used for the manufacture of anything to be sold in or exported from the United States.

(July 19, 1952, ch. 950, §1, 66 Stat. 812; Dec. 8, 1994, Pub. L. 103-465, §533, 108 Stat. 4989.)

CHAPTER 29—REMEDIES FOR INFRINGEMENT OF PATENT, AND OTHER ACTIONS

I. REMEDIES FOR INFRINGEMENT OF PATENTS AND TRADEMARKS AND OTHER ACTIONS

A. FEDERAL DISTRICT COURTS—JURISDICTION, VENUE AND SERVICE OF PROCESS; ITC-RELATED PROVISIONS

28 U.S.C. § 1338 Patents, plant variety protection, copyrights, mask works, trademarks, and unfair competition

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17 to the same extent as such subsections apply to copyrights.

(June 25, 1948, ch. 646, §1, 62 Stat. 931; Dec. 24, 1970, Pub. L. 91-577, §143, 84 Stat. 1559; Nov. 19, 1988, Pub. L. 100-702, §1020, 102 Stat. 4671.)

28 U.S.C. § 1368 Counterclaims in unfair practices in international trade

The district courts shall have original jurisdiction of any civil action based on a counterclaim raised pursuant to section 337(c) of the Tariff Act of 1930, to the extent that it arises out of the transaction or occurrence that is the subject mater of the opposing party's claim in the proceeding under section 337(a) of that Act.

(Dec. 8, 1994, Pub. L. 103-465, §321, 108 Stat. 4943.)

28 U.S.C. § 1391 Venue generally

(a) A civil action wherein jurisdiction is founded only on diversity of citizenship may, except as otherwise provided by law, be brought only in (1) a judicial district where any defendant resides, if all defendants

reside in the same State, (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated, or (3) a judicial district in which any defendant is subject to personal jurisdiction at the time the action is commenced, if there is no district in which the action may otherwise be brought.

(b) A civil action wherein jurisdiction is not founded solely on diversity of citizenship may, except as otherwise provided by law, be brought only in (1) a judicial district where any defendant resides, if all defendants reside in the same State, (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated, or (3) a judicial district in which any defendant may be found, if there is no district in which the action may otherwise be brought.

(c) For purposes of venue under this chapter, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced. In a State which has more than one judicial district and in which a defendant that is a corporation is subject to personal jurisdiction at the time an action is commenced, such corporation shall be deemed to reside in any district in that State within which its contacts would be sufficient to subject it to personal jurisdiction if that district were a separate State, and, if there is no such district, the corporation shall be deemed to reside in the district within which it has the most significant contacts.

(d) An alien may be sued in any district.

* * *

(June 25, 1948, ch. 646, §1, 62 Stat. 935; Oct. 5, 1962, Pub. L. 87-748, §2, 76 Stat. 744; Dec. 23, 1963, Pub. L. 88-234, 77 Stat. 473; Nov. 2, 1966, Pub. L. 89-714, §§1, 2, 80 Stat. 1111; Oct. 21, 1976, Pub. L. 94-583, §§3, 5, 90 Stat. 2721, 2897; Nov. 19, 1988, Pub. L. 100-702, §1013, 102 Stat. 4669; Dec. 1, 1990, Pub. L. 101-650, §311, 104 Stat. 5114; Dec. 9, 1991, Pub. L. 102-198, §3, 105 Stat. 1623; Oct. 29, 1992, Pub. L. 102-572, §902(a), 106 Stat. 4516; Oct. 3, 1995, Pub. L. 104-34, §1, 109 Stat. 293.)

28 U.S.C. § 1400 Patents and copyrights

(a) Civil actions, suits, or proceedings arising under any Act of Congress relating to copyrights or exclusive rights in mask works may be instituted in the district in which the defendant or his agent resides or may be found.

(b) Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.

(June 25, 1948, ch. 646, §1, 62 Stat. 936; Nov. 19, 1988, Pub. L. 100-702, §1020, 102 Stat. 4671.)

28 U.S.C. § 1446 Procedure for removal

* * *

(f) With respect to any counterclaim removed to a district court pursuant to section 337(c) of the Tariff Act of 1930, the district court shall resolve such counterclaim in the same manner as an original complaint under the Federal Rules of Civil Procedure, except that the payment of a filing fee shall not be required in such cases and the counterclaim shall relate back to the date of the original complaint in the proceeding before the International Trade Commission under section 337 of that Act.

(Dec. 8, 1994, Pub. L. 103-465, §321, 108 Stat. 4943.)

28 U.S.C. § 1498 Patent and copyright cases

(a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. Reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States. Nothwithstanding the preceding sentences, unless the action has been pending for more than 10 years from the time of filing to the time that the owner applies for such costs and fees, reasonable and entire compensation shall not include

1960, Pub. L. 86-726, §§1, 4, 74 Stat. 855, 856; Oct. 19, 1976, Pub. L. 94-553, §105, 90 Stat. 2599; Apr. 2, 1982, Pub. L. 97-164, §133, 96 Stat. 40; Nov. 19, 1988, Pub. L. 100-702, §1020, 102 Stat. 4671; Oct. 29, 1992, Pub. L. 102-572, §902(a), 106 Stat. 4516; Oct. 19, 1996, Pub. L. 104-308 §1(a), 110 Stat. 3814.)

28 U.S.C. § 1659 **Stay of certain actions pending disposition of related proceedings before the United States International Trade Commission**

(a) *Stay.*—In a civil action involving parties that are also parties to a proceeding before the United States International Trade Commission under section 337 of the Tariff Act of 1930, at the request of a party to the civil action that is also a respondent in the proceeding before the Commission, the district court shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission, but only if such request is made within—

(1) 30 days after the party is named as a respondent in the proceeding before the Commission, or

(2) 30 days after the district court action is filed,

whichever is later.

(b) *Use of Commission record.*—Notwithstanding section 337(n)(l) of the Tariff Act of 1930, after dissolution of a stay under subsection (a), the record of the proceeding before the United States International Trade Commission shall be transmitted to the district court and shall be admissible in the civil action, subject to such protective order as the district court determines necessary, to the extent permitted under the Federal Rules of Evidence and the Federal Rules of Civil Procedure.

(Dec. 8, 1994, Pub. L. 103-465, §321, 108 Stat. 4943.)

28 U.S.C. § 1694 **Patent infringement action**

In a patent infringement action commenced in a district where the defendant is not a resident but has a regular and established place of business, service of process, summons or subpoena upon such defendant may be made upon his agent or agents conducting such business.

(June 25, 1948, ch. 646, §1, 62 Stat. 945.)

28 U.S.C. § 1928 **Patent infringement actions; disclaimer not filed**

Whenever a judgment is rendered for the plaintiff in any patent infringement action involving a part of a patent and it appears that the patentee, in his specifications, claimed to be, but was not, the original and first inventor or discoverer of any material or substantial part of the thing patented, no costs shall be included in such judgment, unless the proper disclaimer has been filed in the Patent Office prior to the commencement of the action.

(June 25, 1948, ch. 646, §1, 62 Stat. 957.)

B. Courts Of Appeal—Jurisdiction—U.S. Court Of Appeals For The Federal Circuit

28 U.S.C. § 44 **Appointment, tenure, residence and salary of circuit judges**

(a) The President shall appoint, by and with the advice and consent of the Senate, circuit judges for the several circuits as follows:

Circuits	Number of judges
District of Columbia	12
First	6
Second	13
Third	14
Fourth	15
Fifth	17
Sixth	16
Seventh	11
Eighth	11
Ninth	28
Tenth	12
Eleventh	12
Federal	12

tion of the litigation, the United States Court of Appeals for the Federal Circuit may, in its discretion, permit an appeal to be taken from such order, if application is made to that Court within ten days after the entry of such order.

(3) Neither the application for nor the granting of an appeal under this subsection shall stay proceedings in the Court of International Trade or in the Claims Court, as the case may be, unless a stay is ordered by a judge of the Court of International Trade or of the Claims Court or by the United States Court of Appeals for the Federal Circuit or a judge of that court.

(4)(A) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction of an appeal from an interlocutory order of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, granting or denying, in whole or in part, a motion to transfer an action to the United States Claims Court under section 1631 of this title.

(B) When a motion to transfer an action to the Claims Court is filed in a district court, no further proceedings shall be taken in the district court until 60 days after the court has ruled upon the motion. If an appeal is taken from the district court's grant or denial of the motion, proceedings shall be further stayed until the appeal has been decided by the Court of Appeals for the Federal Circuit. The stay of proceedings in the district court shall not bar the granting of preliminary or injunctive relief, where appropriate and where expedition is reasonably necessary. However, during the period in which proceedings are stayed as provided in this subparagraph, no transfer to the Claims Court pursuant to the motion shall be carried out.

(e) The Supreme Court may prescribe rules, in accordance with section 2072 of this title, to provide for an appeal of an interlocutory decision to the courts of appeals that is not otherwise provided for under subsection (a), (b), (c), or (d).

(June 25, 1948, ch. 646, §1, 62 Stat. 929; Oct. 31, 1951, ch. 655, §49, 65 Stat. 726; July 7, 1958, Pub. L. 85-508, §12(e), 72 Stat. 348; Sept. 2, 1958, Pub. L. 85-919, 72 Stat. 1770; Apr. 2, 1982, Pub. L. 97-164, §125, 96 Stat. 36; Nov. 8, 1984, Pub. L. 98-620, §412, 98 Stat. 3362; Nov. 19, 1988, Pub. L. 100-702, §501, 102 Stat. 4652; Oct. 29, 1992, Pub. L. 102-572, §101, 106 Stat. 4516.)

28 U.S.C. § 1294 Circuits in which decisions reviewable

Except as provided in sections 1292(c), 1292(d), and 1295 of this title, appeals from reviewable decisions of the district and territorial courts shall be taken to the courts of appeals as follows:

(1) From a district court of the United States to the court of appeals for the circuit embracing the district;

(2) From the United States District Court for the District of the Canal Zone, to the Court of Appeals for the Fifth Circuit;

(3) From the District Court of the Virgin Islands, to the Court of Appeals for the Third Circuit;

(4) From the District Court of Guam, to the Court of Appeals for the Ninth Circuit.

(June 25, 1948, ch. 646, 62 Stat. 930; Oct. 31, 1951, ch. 655, §50, 65 Stat. 727; July 7, 1958, Pub. L. 85-508, §12, 72 Stat. 348; Mar. 18, 1959, Pub. L. 86-3, §14, 73 Stat. 10; Aug. 30, 1961, Pub. L. 87-189, §5, 75 Stat. 417; Nov. 6, 1978, Pub. L. 95-598, §237, 92 Stat. 2667; Apr. 2, 1982, Pub. L. 97-164, §126, 96 Stat. 37.)

28 U.S.C. § 1295 Jurisdiction of the United States Court of Appeals for the Federal Circuit

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;

(2) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the

jurisdiction of that court was based, in whole or in part, on section 1346 of this title, except that jurisdiction of an appeal in a case brought in a district court under section 1346(a)(1), 1346(b), 1346(e), or 1346(f) of this title or under section 1346(a)(2) when the claim is founded upon an Act of Congress or a regulation of an executive department providing for internal revenue shall be governed by sections 1291, 1292, and 1294 of this title;

(3) of an appeal from a final decision of the United States Claims Court;*

(4) of an appeal from a decision of—

(A) the Board of Patent Appeals and Interferences of the Patent and Trademark Office with respect to patent applications and interferences, at the instance of an applicant for a patent or any party to a patent interference, and any such appeal shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35;

(B) the Commissioner of Patents and Trademarks or the Trademark Trial and Appeal Board with respect to applications for registration of marks and other proceedings as provided in section 21 of the Trademark Act of 1946 (15 U.S.C. 1071); or

(C) a district court to which a case was directed pursuant to section 145 or 146 of title 35;

(5) of an appeal from a final decision of the United States Court of International Trade;

(6) to review the final determinations of the United States International Trade Commission relating to unfair practices in import trade, made under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337);

(7) to review, by appeal on questions of law only, findings of the Secretary of Commerce under U.S. note 6 to subchapter X of chapter

*Ed. Note: Pursuant to the Court of Federal Claims Technical and Procedural Improvements Act of 1992, §902(b)(2), Pub. L. 102-572, 106 Stat. 4516, statutory references to the U.S. Claims Court are deemed to refer to the U.S. Court of Federal Claims.

98 of the Harmonized Tariff Schedule of the United States (relating to importation of instruments or apparatus);

(8) of an appeal under section 71 of the Plant Variety Protection Act

(9) of an appeal from a final order or final decision of the Merit Systems Protection Board, pursuant to sections 7703(b)(1) and 7703(d) of title 5;

(10) of an appeal from a final decision of an agency board of contract appeals pursuant to section 8(g)(1) of the Contract Disputes Act of 1978 (41 U.S.C. 607(g)(1));

(11) of an appeal under section 211 of the Economic Stabilization Act of 1970;

(12) of an appeal under section 5 of the Emergency Petroleum Allocation Act of 1973;

(13) of an appeal under section 506(c) of the Natural Gas Policy Act of 1978; and

(14) of an appeal under section 523 of the Energy Policy and Conservation Act.

(b) The head of any executive department or agency may, with the approval of the Attorney General, refer to the Court of Appeals for the Federal Circuit for judicial review any final decision rendered by a board of contract appeals pursuant to the terms of any contract with the United States awarded by that department or agency which the head of such department or agency has concluded is not entitled to finality pursuant to the review standards specified in section 10(b) of the Contract Disputes Act of 1978 (41 U.S.C. 609(b)). The head of each executive department or agency shall make any referral under this section within one hundred and twenty days after the receipt of a copy of the final appeal decision.

(c) The Court of Appeals for the Federal Circuit shall review the matter referred in accordance with the standards specified in section 10(b) of the Contract Disputes Act of 1978. The court shall proceed with judicial review on the administrative record made before the board of contract appeals on matters so referred as in other cases pending in such court, shall determine the issue of finality of the appeal decision, and shall, if appropriate, render judgment thereon, or remand the matter to any

(1) Title:

PROPOSED IMPROVEMENTS TO INVENTION REWARD SYSTEMS OF JAPANESE COMPANIES AS A MEASURE TO ENCOURAGE EMPLOYEES TO MAKE MORE INVENTIONS

(2) Date:

September, 1997 (The 28th PIPA Congress at Toronto)

(3) Source:

1) Source : PIPA
2) Group : Japan
3) Committee : 4

(4) Authors:

ICHIHASHI, Nobuhiro,	AISIN SEIKI CO., LTD.
KUSUMOTO, Yasushi,	Oki Electric Industry Co., Ltd.
SAGAE, Hiroyuki,	Teijin Limited
TORII, Masahiko,	Toshiba Corporation
MURAKAMI, Satoshi,	RICOH COMPANY, LTD.
WADA, Koichi,	Sony Corporation

(5) Keywords:

Employee Inventions and Reward

(6) Statutory Provisions:

Article 35 of Japanese Patent Law

(7) Abstract:

Article 35 of the Japanese Patent Law provides the fair division of the interests and benefits arising from employee inventions between an employer and an employee. Based on this provision Japanese companies have established their own internal systems to appraise inventions and reward their inventors.

This paper focuses on such invention reward systems especially as a measure to encourage employees to make more inventions and proposes some improvements to the current invention reward systems.

CONTENTS

1. Introduction

The environment of the management of intellectual property surrounding Japanese companies has largely changed recently, due to such factors as the improvement in protecting intellectual property rights in the United States, the increase of disputes on intellectual property rights, the new change in the awareness of the value of intellectual property, in addition to technological development, active research and development activities, the participation in the fields of new businesses, and the changed corporate activities such as overseas deployment.

Under these circumstances, invention management policy is now required a conversion from a quantitative expansion to a qualitative improvement, in order to obtain useful and competitive patents through the strict selections of the patent applications. In other words, it is earnestly sought at present to improve and strengthen the corporate patent management, by laying emphasis on the number of inventions, the appraisal of inventions and the positive utilization of patents rather than on the mere number of patent applications.

It is important for the company to produce effective inventions and to obtain new patent rights by promoting inventions by giving each of the researchers and engineers a motivation for inventing. This policy would eventually lead to building up the overall corporate competitiveness in intellectual property rights.

We would like to advise the member companies to review their present corporate invention reward systems, and to propose certain methods to offer incentives to invent more effectively to the researchers and engineers.

2. Summary of Invention Reward System

Article 35 of the Japanese Patent Law provides the fair division of the interests and benefits arising from employee inventions between an employer and an employee. The employer is entitled by law to have a non-exclusive license on the patent rights based on its employee inventions. An

arrangement such that the employer shall succeed the right to obtain a patent or the patent rights based on employees future inventions is also permitted.

The employee is entitled to have the right to a reasonable remuneration upon such transfer to the employer of the rights with respect to the employee invention. The article provides some factors to be taken into account in the computation of such remuneration. The amount of such remuneration is to be decided by reference to the profits that the employer will receive from the invention and to the amount of contribution the employer made to the making of the invention.

Many Japanese companies set own internal systems which defines that actual profits obtained by the employer from the employee invention is deemed to be the profits that the company receives from the invention. In the case that no actual profit is made from the invention, the fixed amount of reward paid by the company at a certain time such as the time of the registration of the patent is deemed to be the profits.

On the other hand, since the Japanese pay systems are still heavily dependent on so-called lifetime employment system - although this system is gradually subject to change recently - the appraisal of employee inventions does not seem to be directly linked to a promotion and a pay raise. In the United States, generally apart from a lifetime employment system, the researchers and engineers are assigned to an appropriate duty in accordance with his or her abilities and are paid consistently with the duty, and if an employee utilizes his or her skill to complete an invention and makes a good contribution to the company, such employee would be rewarded by a promotion and/or a pay raise. This fact may also be considered in reviewing the current corporate invention reward systems of Japanese companies to offer more incentives to invent more effectively to the researchers and engineers of Japanese companies.

3. Present Situation of Invention Reward Systems in Japanese Companies

The employee obtains the right to request a reasonable remuneration, when he or her has transferred the right to obtain a patent or the patent

right with respect to his or her invention to the employer or has given the employer an exclusive right to such invention. However, in fact, it would be extremely difficult to estimate the profits that the employer will make in future at the time of the transfer of the invention.

Therefore, the Japanese companies, in general, divide rewarding for employee inventions into three stages, that is, at the time of the patent application (application reward), at the time of the registration of the patent right (registration reward) and finally when the company utilizes the invention in actual products (utilization reward), which is a reward given to the inventor in accordance with the degree of contribution of the invention to the company. In this paper, the focus is placed on the stage of "utilization reward" for which the largest amount of reward is granted to the inventor.

We conducted interviews with some Japanese member companies and obtained examples of the invention reward system for the utilization reward. Here are some representative examples of those collected from the members as follows:

The examples are basically classified into the following two types based on the method of reward computation.

(1) Sales (Royalty Income) Linkage Type
(2) Type of Aggregate Points Based on each Factor

3.1 Type of Sales (Royalty Income) Linkage System

The amount of a reward is obtained by such method that a net profit is first computed from an annual gross sales and then the profit thus obtained is multiplied by the rate of contribution of the invention.

One example of the computation formula is shown below:

$P = A + B + C$

wherein,

P : Annual valuation of reward
A : Annual sales amount

B : Rate of return on sales
C : Rate of contribution of invention

3.2 Type of the System of Aggregate Points Based on Each Factor

The patent is rated in terms of points on the basis of each factor, and the amount of reward is computed based on aggregate points. One example is shown below:

$p = a + b + c$
p : Aggregate points

	Rating points:	High	Middle	Low
a :	Contribution to results	3	2	1
b :	Controlling power over others (Predominance of right over others)	3	2	1
c :	Effect of "utilization of the patent"	3	2	1

In either case of the above representative models, the reward is paid after the registration of the patent, according to the degree of the contribution as a result of the utilization of the patent.

However, there are at least two problems involved in such invention reward system on the basis of utilization of the patent. One is how to evaluate patents in the case of a cross license, and another is the timing of rewarding for the utilization reward.

In case of cross-licensing agreements, a free of royalty charge arrangement may be made between the parties, or the royalty might be charged only for the balance after offsetting each other the value of the patents included in the license. This might cause a concern among the inventors of the patents included in the cross-license that the inventions might be evaluated without the company clearly calculating the value of each patent in cross-licensing, as compared with a license under a single patent where a royalty is expressly specified. If the reward system might cause such concern, such system may not be considered to be good enough as

a system in terms of motivation given to inventors to make better inventions.

With respect to the timing of rewarding for the utilization rewarding, since it takes comparatively long time until the registration of the patent from the application in Japan, during such time the inventors may move to other section of the company, and are often unlikely to remain in the same duty any more. Therefore, the grant of the reward to the inventors is often deemed to be the rewarding for the invention long time ago.

This kind of invention reward system would not promote inventive motivations of the researchers and engineers. Thus, we would like to make proposals especially focusing on these two problems.

4. Proposal: Appraisal of Cross-license

4.1 Summary of Cross-license Appraisal

One example of our proposed method of appraisal of the patents covered by the cross-license is shown in the Chart 1 attached to this paper.

Such appraisal is to be made at the time of the conclusion of a new license agreement or the renewal of the license agreement, because at this time, there is a good possibility that representative patents (so-called "proud patents") covered by the cross-license are evaluated, and such appraisal would be useful for the appraisal of the invention reward for "utilization reward". At the above time of making an appraisal, patents subject to the appraisal are picked up as the first step. If the patents covered by the cross-license are not so many, this process is not difficult, but if the covered patents are too many, a selection process may be needed as the second step. If the representative patents are specified at the time of the conclusion of the license agreement, these patents necessarily are chosen as the subjects for the appraisal.

After the patents subject to the appraisal are determined, the appraisal of the individual patent is made to the payment of the invention reward for "utilization reward". However, in view of the particular nature of the cross-license, it would be hard to adapt to the formerly conducted method of cross-license appraisal with respect to the individual patent, therefore, a

new method of evaluation of the individual patent covered by the cross-license may be required now.

This paper will discuss below laying emphasis on the above-mentioned method of selection and the method of individual appraisal.

4.2 Selection

4.2.1 Necessity for Selection

From the standpoint that the objective of the reward system is to determine a remuneration for the value of an invention, it would be desirable to appraise the individual invention specifically. However, factors such as the effect and the efficiency of the reward system are also required to be taken into consideration. Therefore, it would be most important to keep good balance of those factors of proper evaluation, effective motivation and the efficiency of the appraisal work. In particular, since the number of patents covered by a cross-license sometimes would be large, it is necessary to narrow down the number of the patents for the appraisal.

4.2.2 Significance of Selection

The selection of patents is to be conducted in the preliminary stage of the strict individual appraisal of the patents. In many cases of inclusive cross-licenses, a few comparatively valuable patents and quite many patents of comparatively less value are included as one package. Based on this analysis, it would be possible to choose the group of a few comparatively valuable patents, distinguishing from the group of patents of comparatively less value, and to assume the former group as one representing the entire value of the patents covered by the cross-license as a whole. This assumption suits the purpose of the efficiency of the appraisal as well. If we lay stress on the motivation aspect of the reward system, it would be preferable to allocate the reward to important patents on priority basis. Because it is deemed more effective for the purpose of inventive motivation to bestow a larger amount of reward to a few excellent inventors rather than to distribute a small amount of reward to many inventors.

In summary, the most effective way for giving motivation is

(1) to give a large amount of reward to a few selected inventors,
(2) to eliminate the feeling of unfairness in the way of selection, and
(3) to simplify the procedure of selection from a standpoint of efficiency.

4.2.3 Method of Selection

Aggregate Point System or Monetary Evaluation System may be used as a method of selection.

(1) Aggregate Point System

* In this method, appraisal factors are set up and rating points are assigned to these factors, and the points marked at on the basis of each factor through rating are summed up. The same factors used for the appraisal after the selection may also be used for the selection.
* To minimize the number of the appraisal factors is desirable.
* The main purpose of this selection method is to narrow down the number of patents to be appraised in the next stage as much as possible for the purpose of labor saving. In this method, the appraisal of inventions and rewarding is regarded as the measures to give an inventive motivation rather than the means to give a reward for the individual invention.
* The appraisal factors and the points assigned to these factors may vary with the type of industry and may also vary with the department, because the requirements for inventions as results of research and development vary according to the industry. Therefore, the appraisal factors and the points may be set up in accordance with the surrounding environments .

The following factors may be used as selection factors:

* Size of business (sales and net profit)
* Degree of contribution of patent
* Easiness to prove infringement
* Resistance against the trial of invalidity
* Easiness to design around.

(2) Monetary Valuation System

This method aims at appraising the value of patents in terms of monetary amount. It is typical to value patents based on the relevant products covered by the patent. This method enables to evaluate each patent by each relevant product. Specifically, the value of the patent is obtained by converting the extent of the contribution of the patent to the relevant product into a monetary value on the basis of sales amount and net profit of the relevant product that are deemed as the results of utilization of the patent. The total value of the patents thus obtained is allocated to each individual patent taking into account the weight of each patent among the patents covered by the cross-license. This allocation of the results is made on the basis of the estimated degree of the contribution of the patents to their relevant products. With respect to the results of products covered by the patents, the data of both own company and other companies are utilized.

(3) Examples of Combination

We can select patents suitable for the purpose by the proper combination of the appraising organization and the method of selection. If we lay stress on the efficiency of the invention reward appraisal, it is desirable for a development department and a line operating department to make this selection of patents. For instance, if a development department (in charge of invention) takes charge of the appraisal and adopts the method of aggregate point system of selection, it can conduct an efficient selection reflecting the policy of its research and development very well. And if a line operating department takes charge of the selection and chooses the patents on the basis of monetary valuation method taking the size of the company into consideration, it can select efficiently the patents that match the trend of the present world and contribute to the results of the company.

4.3 Individual Appraisal (Appraisal of Selected Patents)

4.3.1 Nature of Individual Appraisal

There are various forms of cross-license, ranging from no royalty charge agreement that the potentials of the licensed patents of the both

parties are equally matched to a royalty bearing agreement that the royalty payment is required to compensate for the balance of the potentials of the both parties' patents. The patents covered by a cross-license can be considered to be those for which royalty could have been paid by the opposite party to the agreement.

A method to appraise individually the cross-licensed patents the royalties for which are not ascertained due to the off-setting of the cross-license is now proposed, in order to obtain a "final valuation" of each individual patent covered by the cross-license, taking into account the estimated "royalty equivalent" and the appraisal factors.

4.3.2 Method of Appraisal

(1) Computation of "Royalty Equivalent"

There are cases where in an actual negotiation of license agreement considerations are given to the market share or other various coverage of the product covered by the individual patent in order to calculate the amount of royalty. On the other hand, there is a case that the amount of royalty of the patent on components is computed from the finished products in which such components are incorporated. Therefore, it is advisable that the methods of the selection and appraisal of the patents covered by the cross-license be adopted flexibly case by case, depending on the circumstances such as the above-mentioned points in each cross-license, the primary objective of the reward appraisal system, the budget of implementing the system as well as the special circumstances of each industry and company.

The following two cases are considered in computing the "royalty equivalent" of each patent covered by the cross-license. One is the case where the "royalty equivalent" by patent is already computed, or it is easy to make a survey of the data of the sales results of each product covered by the patent and to compute the "royalty equivalent" from this data. Of course, the above "royalty equivalent" already computed can be used as it is. Likewise, the data of "royalty equivalent" already computed may also be adopted, if the "royalty equivalent" was computed on the basis of the results of mutual evaluation of the representative patents (proud patents) determined by the mutual

agreement of the both parties to the agreement, which mutual evaluation was made in the course of a preliminary negotiation before the conclusion of the cross-license agreement.

Another is the case that it is impossible to calculate the "royalty equivalent", because in the course of the license negotiation, the "royalty equivalent" was not calculated by patent, and further that it is difficult to conduct a survey of the sales results of the products covered by the patents. In this paper, the method of computing the "royalty equivalent" in the above second case is explained below.

Firstly, the representative patents of our own company (hereinafter called "our company's representative patents") and the representative patents of the opposite party to the cross-license agreement (hereinafter called "opposite party's representative patents") are selected by using the above methods of selection. Secondly, the total amount of the "royalty equivalent" that the opposite party could have obtained from their representative patents will be calculated.

Specifically, the aggregate amount computed by the following method is deemed as total "royalty equivalent" which the opposite party could have obtained from their representative patents - that is, the "royalty equivalent" of each of the "opposite party's representative patents" is valued based on the data including our own sales results, and each of the "royalty equivalent" is summed up to obtain the aggregate "royalty equivalent" of "opposite party's representative patents". In the case of a royalty free cross-license, the aggregate "royalty equivalent" of "opposite party's representative patents" can be considered to be the aggregate "royalty equivalent" of "our company representative patents". This means that we can calculate the aggregate "royalty equivalent" of "our company representative patents", even if we cannot conduct a survey of the sales results of the products covered by the patent.

Further, even with respect to the cross-license bearing a royalty payment, we can obtain the aggregate "royalty equivalent" of "our company representative patents", in the case of the payment of the royalty by us, by deducting the royalty payment from the above aggregate value, and in the case of our receipt of the royalty payment, by adding the royalty payment to

the above aggregate value.

Finally, we calculate the "final valuation" of each patent of "our company representative patents", by allocating the above aggregate "royalty equivalent" of "our company representative patents" obtained to each patent, taking into consideration of the allocation by the opposite party of the representative patents based on the utilization as well as the appraisal factors written below.

Chart 2 and Chart 3 are attached to this paper to help understand the above explanation by means of illustration. In Chart 2, SA and SB represent the sales amount of our company (A) and that of the opposite party (B), respectively. PA and PB represent their group of representative patents, respectively. And RA and RB represent their aggregate "royalty equivalent", respectively. In the case that the cross-license is free of charge agreement, the equation of RA = RB applies, and in the case of the cross-license bearing royalty payment, RB varies plus or minus according to the royalty payment by either party as compensation for the balance of aggregate values of the both parties. Chart 3 shows that the "final valuation" of each representative patent is obtained from the aggregate "royalty equivalent" of "opposite party's representative patents" that the opposite party could have obtained, which is at the same time the aggregate "royalty equivalent" of "our company representative patents" that our company could have obtained.

(2) Computation of "Final Valuation"

The appraisal factors to be considered for computing the "final valuation" of the representative patent and a brief explanation of those appraisal factors will be explained. However, note that the list of appraisal factors shown below would not apply to every case, but is nothing but one example. The "final valuation" of each representative patent is obtained by multiplying the "royalty equivalent" of each representative patent by the factors converted to numerical value of the following appraisal factors.

< Appraisal Factors >

(a) Remaining term of each patent: as a matter of course, the longer the better rating.

(b) Easiness to prove infringement: the degree of easiness to be able to prove patent infringement is to be rated in terms of numerical value. This appraisal must be made on the basis of a comparative appraisal instead of an absolute appraisal.

(c) Resistance against invalidity materials: if any material challenging the validity of the patent exists, the degree of resisting power is to be rated in terms of numerical value. As in the item above, this appraisal must be made on the basis of a comparative appraisal instead of an absolute appraisal.

(d) Easiness to design around: Based on the existence of the technology to design around, the degree of this easiness is to be rated in terms of numerical value. As in the above (b) (Easiness to prove infringement) and (c) (Resistance against invalidity materials), this appraisal must be made on the basis of a comparative appraisal instead of an absolute appraisal.

By this method, the patents covered by a cross-license will receive rewards for the utilization of the patent, if they satisfy the necessary appraisal criteria, or meet appraisal requirements.

5. Proposal (2) : Best 10 Selection System

5.1 Timing of Rewarding and its Advantage and Disadvantage

The following is one example of our proposal with respect to the timing of giving a reward for utilization of the patent in order to improve motivation for the researchers and engineers to make inventions, as well as to fortify the overall competitiveness of corporations in the field of intellectual property. Although some Japanese companies have already established similar rewarding systems, this proposal is an example to further improve such rewarding system.

It is desirable for the department in charge of inventions to give rewards to inventors for the selected inventions (for instance, 10% of all) soonest after making patent applications in respect of the inventions. In addition, at the time of the registration of the patent, the inventions rewarded early are reviewed and if the previous rewards are found insufficient the difference in reward may be made up for. It is needless to say that at the stage of the registration of patents the appraising department may newly select the inventions which were omitted from the early selection and give appropriate rewards for them.

5.2 Timing of Payment and Inventive Motivation Considered from a Standpoint of Corporate Strategy

(1) Rewarding at the Time of Making Patent Applications

Advantage:

Will encourage the increase of invention proposals in number.

Disadvantage:

* Likely that qualitatively inferior proposals only aiming at rewards will increase.
* Qualitatively superior proposals may decrease, because some inventors may abstain from making proposals to avoid the misunderstanding that the inventors make proposals only aiming at the rewards .
* Create a mood that inventors prepare their invention proposals overtime because they consider it outside the scope of their normal duty due to such rewarding.

(2) Rewarding at an Intermediate Time

Advantage:

* Can expect good cooperation of inventors in responding to the notice of rejection (office action) from the examiners and in requesting for an appeal for a trial during the prosecution of a patent application, and as a result, good quality of patent claims can be obtained.

Disadvantage:

* No clear difference in effect is found compared with rewarding at the time of registration or utilization of the invention. Thus, labor may be doubled.

(3) Rewarding at the Time of Registration

Advantage:

* Can expect to obtain a patent right tenaciously with the cooperation with the inventors.

Disadvantage:

* Even after the significance to obtain a patent on an application lessens, inventors tend to hide this fact, as a result, this tendency leads to the acquisition of unnecessary patents.

(4) At the Time of utilization of the invention (reward for utilization)

Advantage:

* Since accurate information such as sales results for the related product is available, a correct appraisal can be made.

Disadvantage:

* Due to the long elapse of time from the registration, such late rewarding would not promote an incentive to make an invention proposal.

Since the inventor can obtain a reward if the patent is rendered to practice by the company, the inventor tends to be reluctant to abandon unnecessary patents that are not needed to keep an exclusive right due to the existence of substitute products in the market or its benefit does not deserve registration fee.

It may be true that under the system of reward for utilization of the invention, we can make an accurate appraisal and can give substantially large amount of reward to inventors, whereby this system may promotes inventive motivation and the resultant valuable inventions may contribute

to the profit of the company. However, in reality, it does not seem that this system is working effectively as expected, because the timing for rewarding to the inventors under this system is generally too late. In view of this situation, the following system is proposed so as to enable us to reward the inventors within two to three years from the relevant patent applications on the same budget for the rewards for utilization of the invention.

5.3 Proposal: Rewarding Within 2 to 3 Years from the Application

In this example, here an ordinary corporate organization is introduced in which a large size of organization unit is called a "division", a medium size of organization unit is called a "department" and a small size of organization unit is called a "section"

(1) The best ten inventions are selected by each section from among the inventions that are within two to three years from their patent application. The standard of appraisal for the selection is "the inventions considered to contribute to the company now and in future". Although this standard seems to be vague, we can expect that the technical staff can make a comparatively accurate selection of the inventions, since they have a common understanding and awareness. Further, due to this broad standard of appraisal, even the difficult inventions to evaluate such as those covered by the inclusive cross-license will have a good possibility of being chosen for rewards.

(2) The best ten inventions of a department are selected likewise by each department after collecting all best ten inventions selected by each of the sections under the department.

(3) The best ten inventions of a division are selected likewise by each division. And finally the best ten inventions of the company as a whole are selected among all of those selected by the divisions. The steps of selection may be changed according to the size of the company. And the number of selected patents may be changed for instance to three from ten. With respect to appraisers at each step, it is deemed appropriate if technical staff conduct a primary appraisal and the staff in charge of patents conduct a secondary appraisal. The idea of this method of selection is illustrated in Chart 4

attached hereto.

(4) The corporate best ten patents are presented at an annual meeting as a corporate event, where commendations and awards on the level of rewards are bestowed.

(5) On this occasion, a special budget of expenditures may be granted for the project related to the commended inventions.

5.4 Expected Effect

(1) This much earlier rewarding compared with the rewarding for utilization of the invention will lead to the encouragement of superior patent proposals in quality.

(2) According to this method, the inventions can be selected on the basis of the potential future utilization of the invention instead of an actual utilization. The inventions covered by inclusive cross-license can be appraised as well. In general, "inventions deemed excellent", which is a technical staffs' common concept, are appreciated and selected.

(3) Since the special budget may be allocated to the project of the commended invention, the inventing is recognized as a part of company job, and the awareness of patents is strengthened in the working places. The corporate commendation will be a direct help for the recognition and propaganda of the project in the company. In addition, the commendation will help the technical staff to understand what kind of invention the company seeks by having a chance to know the commended inventions.

(4) Further, if the commended invention is given priority in following up its patent application, it will be easy to make a quick judgment as to a request for a trial or bringing a suit against the Patent Office for the revocation of their decision.

(5) If the division commends the best ten inventions selected within the division, it will contribute to building up a division's strategy. On this occasion, the rewards less than the corporate rewards may be granted.

5.5 Budgeting

A budgeting policy for implementing this best ten appraisal system will be proposed.

(1) In order to make the inventors aware that making patent proposals is a part of a company job, we propose that the rewards granted at the time of making applications be not so large amount.

(2) We propose to reduce the rewards given at an intermediate time and at the time of registration, because the difference in effect between those rewards and the rewards offered for utilization reward is a little.

(3) If the aggregate amount of rewards to be paid for utilization reward is lower than the total amount paid for the best ten inventions, no rewards for utilization of the invention are not to be paid. On the other hand, if the aggregate amount of rewards to be paid for utilization of the invention exceeds the total amount paid for the best ten inventions, the difference of these amounts is to be paid.

6. Summary

Whatever excellent invention an employee may make, it will not become the company's intellectual property, unless it is converted to a patent right. A patent right is obtained only if the employees realize their own invention and make patent applications. Companies must improve their employees' awareness and actions in obtaining patents in order to further strengthen their corporate intellectual property right.

In Japan every company establishes an invention reward system, in accordance with the provisions of the Japanese Patent Law. In this paper, we present our ideas and examples to further improve an invention reward system as a measure to encourage employees to make more inventions. We also added our ideas which would fit with the current situations surrounding Japanese companies.

Systems presented here are only examples and may vary from

company to company. It is our great pleasure if our ideas and examples presented to you in this paper would furnish you with some information and guidance.

Flow chart of Appraisal of Patents Covered by a Cross-license

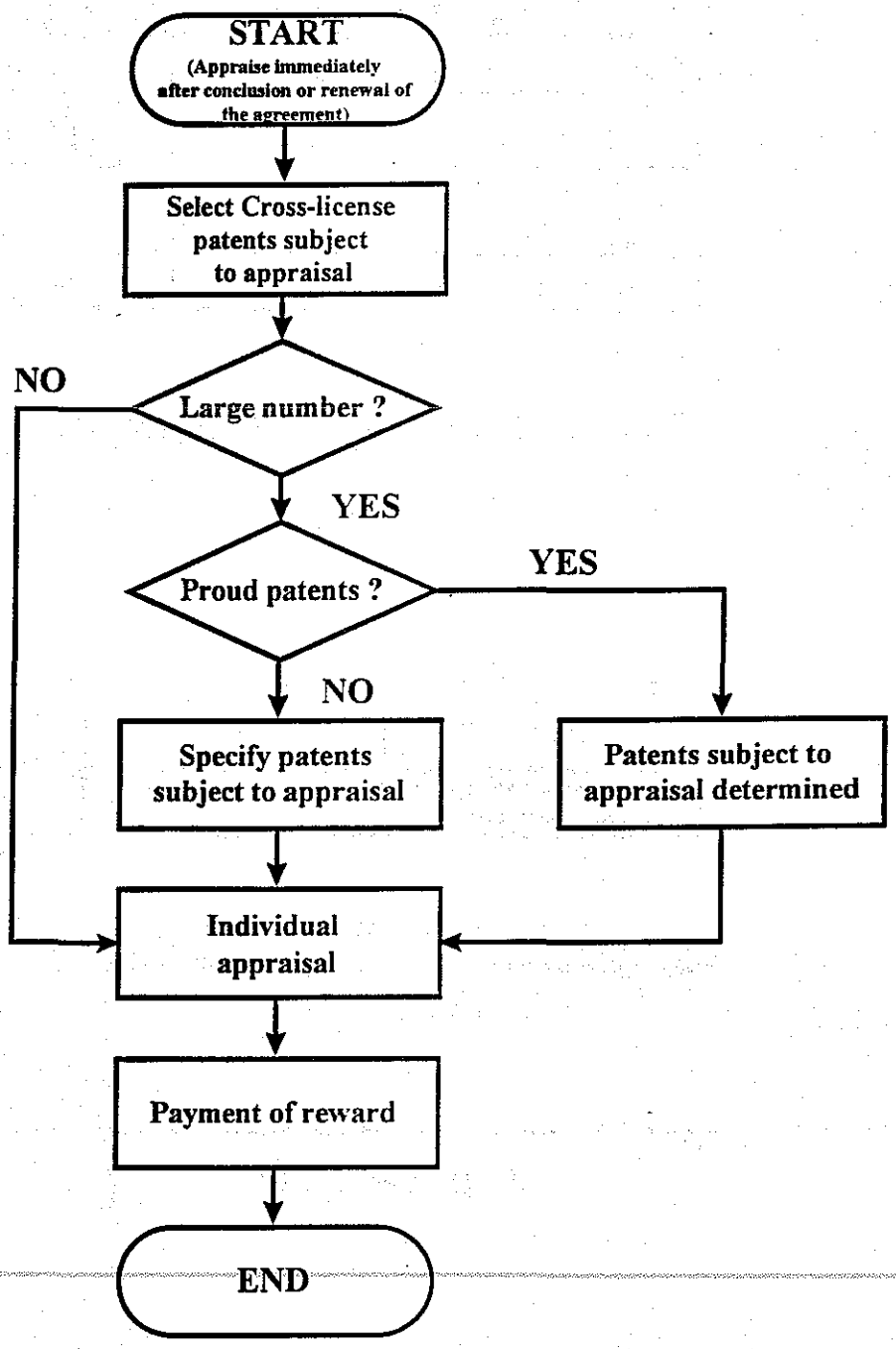


Chart 1

	Company A	Company B
Sales Amount	S_A	S_B
Patents	P_A	P_B
Patents Use Fee	$S_A \times P_B$	$S_B \times P_A$
Royalty	R_A	R_B

Chart 2 Computation of "Final Valuation" of Each of

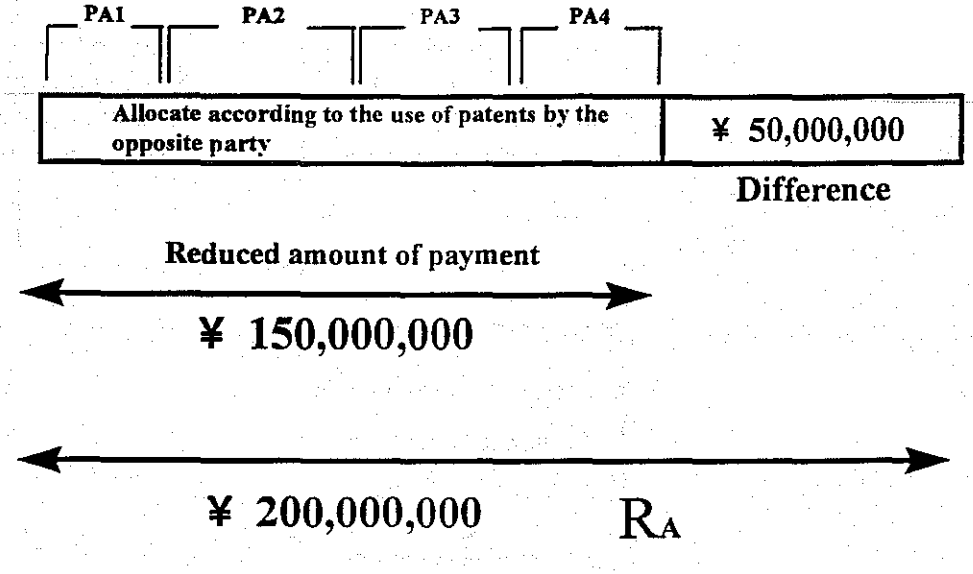


Chart 3 Computation of Valuation of a Cross-License

Our Own Company's Representative Patents

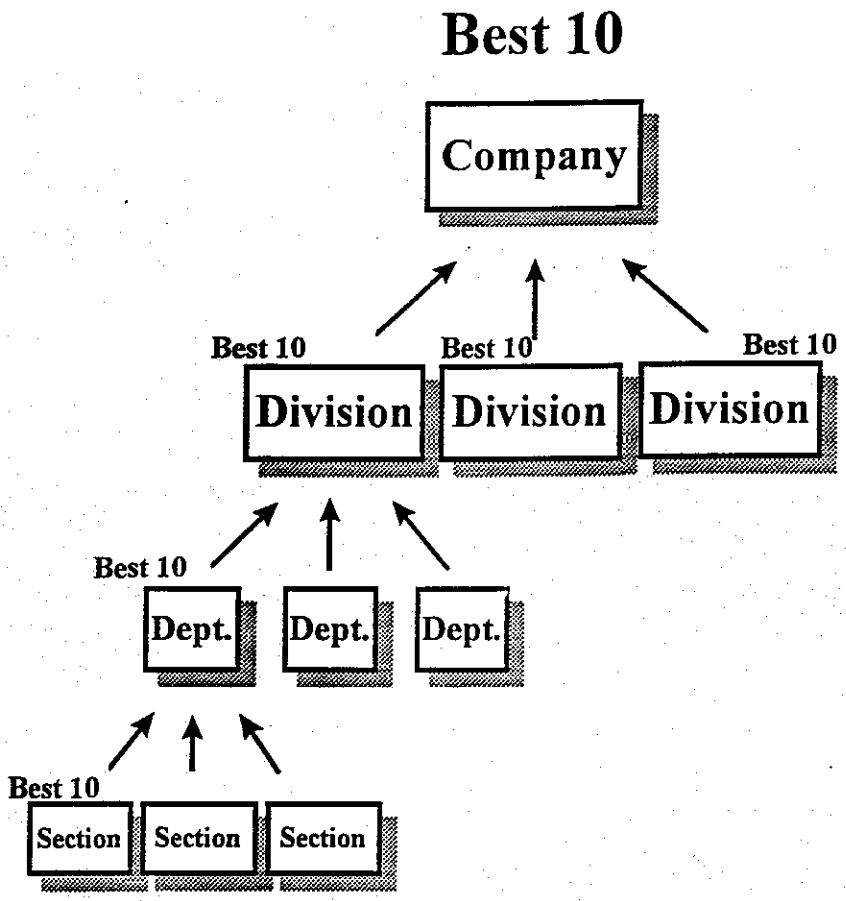


Chart 4 Selection of Best 10 Patents

(1) Title:

Introduction of judicial precedent regarding parallel imports of patented products or goods

Supreme Court Ruling in BBS Case (Adjudicated: 1 July 1997; Supreme Court 1997 ("o") No. 1988)

(2) Date:

Further news of October, 1995 (26th General Meeting in San Francisco)

(3) Committee, etc.:

Group: PIPA, Japan
Committee: #4

(4) Authors:

Takahiro Koyama, Daicel Chemical Industries, Ltd.
Hiromi Sudo, Nippon Telegraph and Telephone Corporation

(5) Keywords:

Parallel imports, genuine products or goods, exhaustion of patent rights

(6) Statutory Provisions:

Japanese Patent Law Section 1, Paris Convention Section 4(2)

(7) Abstract:

This is a further news of the article reported in the 26th General Meeting in San Francisco and is to introduce the long-waited Supreme Court Ruling in this article.

Supreme Court Ruling in BBS Case (Adjudicated: 1 July 1997; Supreme Court 1997 ("o") No. 1988)

• Appelant: BBS A.G. (Germany); automobile maker which possesses German and Japanese patents for aluminum automobile wheels (hubcaps).
Appellee: 2 companies, including Jap Auto Prodcts K.K. (parallel importers) and Lacimex Japan K.K. (sale agent of parallel importers).

• Reason for Appeal

BBS sought suspension of imports, etc., of its products that were being parallel imported by the above-noted defendants without the intervention of authorized BBS dealers. BBS claimed that its Japanese patent was thus being infringed.

• Adjudication History

* First Judgment (Tokyo District Court): Parallel imports are a patent infringement (decision in favor of BBS).

* Second Judgment (Tokyo High Court): This ruling approved, for all intents and purposes, the international exhaustion of patent rights, with the condition that a single opportunity be guaranteed to the patent right holder to obtain an equivalent price for such rights as well as profits (decision in favor of parallel importers).

• Supreme Court Ruling

The Supreme Court ruled as follows: "The appellant has not claimed nor proved that, in the sale of the products of this case, an agreement was made with the party receiving transfer of these products that Japan would be excluded from the area of sales or the region of use, nor that there was a statement to that effect clearly displayed on each of the products of this case. Therefore, the demand by the appellant, on the basis of the patent rights of this case, for suspension of imports of each of the products of this case, as well as the demand for reparations on the basis of those same rights, should not be allowed."

In other words, in the case where the patent holder has sold, with no attached conditions, the patented products in a foreign country, the purchaser thereof may freely import those products into Japan. However, this does not extend to cases where the region

of use or the area of sales has been specifically limited. In the present case, a suspension of imports, etc., was not approved for the reason that there were no claim nor proof of a specific limitation of use-region or sales area.

• Comments

In its conclusions (decision), the Supreme Court upheld the decision of the above second judgment. The Court explained that this ruling enabled the protection of widespread international trade and of the freedom of distribution of goods. Further, this ruling also conformed with the legal purpose of the Patent Law to contribute to the development of industry. Therefore, the Court has approved in principle of the following: A party that has acquired, whether in Japan or abroad, and in a matter consistent with existing laws, a patented product that has been widely distributed has, as far as those products are concerned, also acquired all of the rights and privileges regarding the use of such patent rights.

In other words, the Supreme Court has clearly stated that the international exhaustion of patent rights should be recognized.

However, the Court adding the following condition: In the case where an agreement has been made between the patent holder, etc. and the party receiving transfer of the patented product to limit the region of usage and the area of sales of those products (and in the case where a statement to that effect has been clearly displayed on each of the patented products), then a parallel import will not be allowed.

In other words, even though the international exhaustion of patent rights has been recognized in principle, conversely, whether or not there will be an exception to that principle resolves itself into a question of the contractual relationship between the concerned parties. The Court has thus argued from an identical vantage point the validity of a private contract between concerned parties, and the validity of patent rights as found in the spirit and interpretation of the Patent Law. Thus the Supreme Court's stated reasons lack a clear-cut, distinctive nature.

An international consensus has not yet been reached in regards to parallel imports. As a result, this appears to be a conclusion

that has been swayed by considerations of public opinion in the developed nations of Europe and North America. The result: a ruling that, like the iridescent carapace of a brightly-colored insect, shows a different hue depending on the angle in which it is viewed.

Further, since parallel imports are not to be allowed under certain specific conditions, in the future, we can expect to see various problems arise depending on how such "specific conditions" are interpreted and implemented, as well as on other related factors.

Supreme Court Ruling in BBS Case (Adjudicated: 1 July 1997; Supreme Court 1997 ("o") No. 1988)

Keywords	Details of Ruling (Conclusions)	Details of Ruling (Stated Reasons)	Comparison with Original Ruling
Principle of Patent Independence Territoriality	In regards to Japanese patent rights, in the case where the patent holder is using those rights within Japan, exactly what considerations are necessary for a judgment concerning the use or non-use of patent rights by the patent holder in circumstances resulting from a transfer by the patent holder, etc., of those products to outside of Japan, should be a question that exclusively concerns Japanese Patent Law only.	In cases where there are fixed, unchanging circumstances, the question as to whether or not a patent right holder is allowed to use its patent rights does not fall under the stipulations of Article 4(2) of the Paris Convention. "Territoriality" is the stipulation by the laws of each separate country of the validity, etc., of that country's patent rights, and such stipulations are recognized only within that specific territory.	Same principle stated in original ruling.
International Exhaustion of Patents	In the case where a holder, etc., of a Japanese patent right has transferred its patented products outside of Japan, it is fair that this holder, etc., of the Japanese patent right not be allowed to use the patent rights for those products within Japan, except in the case where the said patent holder has entered an agreement with the party receiving the transfer that this party-receiving-transfer shall exclude Japan from the area of sales and/or the region of use of these products.	In light of the state of international trade within current society, even in the case where a patent holder has transferred patented products outside of Japan, it is natural to assume that the party receiving this transfer will, for business purposes, import to Japan and use within Japan, etc., these products.	The original ruling approved, for all intents and purposes, the international exhaustion of patent rights, with the condition that a single opportunity be guaranteed to obtain an equivalent price for such rights as well as profits.
Suspension of Imports and Reparations	The demand by the appellant, on the basis of the patent rights of this case, for suspension of imports of each of the products of this case, as well as the demand for reparations on the basis of those same rights, should not be allowed.	The appellant has not claimed nor proved that, in the sale of the products of this case, an agreement was made with the party receiving transfer of these products that Japan would be excluded from the area of sales or the region of use, nor that there was a statement to that effect clearly displayed on each of the products of this case.	In the original ruling, for the reasons stated above, the suspension of imports of each of the products of this case on the basis of the patent rights of this case, as well as the demand for reparations on the basis of those same rights, was not allowed.