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(7) Abstract:

With respect to Global Patent Practice in a Time of Cost Containment, a questionnaire survey has been conducted over corporations that are members of Japanese and US groups of PIPA. The results are reported herein.

As a result of analyses of the survey, it has been found that the Japanese corporations make a positive internal investment in order to establish and develop coordinative work-division relation with outside agents, to thereby reduce the outside cost. This tendency is more remarkable in corporations that file a larger number of applications.

In comparison between Japanese and US corporations, there are several interesting differences. For instance, the ratio of the number of the foreign (Japanese) applications to the domestic application number is relatively high in US, and there is a significant difference in priority of purpose of the foreign applications between Japan and US.

1. Introduction

In correspondence with the recent global economic development, it becomes important more and more to obtain a patent on a valuable invention and to use the invention in foreign countries as well as a domestic area. Even for corporations that take production and sales activities mainly in the domestic area as well as corporations that take global business activities with production and sales bases in foreign area, it is necessary to obtain foreign patents because of technical export, grant of license to other foreign corporations and the like.

However, on the other hand, due to the recent international economical recession, patent departments of corporations suffer from increased restriction on patent budgets. Accordingly, also the corporations that are members of Japanese and US groups of PIPA would confront a task as to how the consolidation of global patent practice should be attained under the severe budget restriction.

Under such a status as a background, Committee #1 of PIPA in this year has a plan to hold a panel discussion on "Global Patent Practice in a Time of Cost Containment" as a key note theme which has been proposed by American Group. As a result of preliminary studies between Japanese Group and American Group, the discussion was concentrated on the subject as to "how to make it possible to file a foreign application with cost effectiveness" and the following two discussion items were selected. These items are very interesting in the patent practice and are factors that would largely affect cost.

i) Relationship between Policy in Filing Foreign Applications and the Number of the Foreign Applications

ii) Coordination with Patent Agents Leading to Cost Effective Coordination

This report introduces the results of the questionnaire

survey that has been conducted by the first committee of the Japanese Group and American Group, respectively, over the corporations that are the members of PIPA, for the purpose of using the results as basic information for the panel discussion on the above-listed items and also introduces the contents of analyses made by the panel discussion group of the first committee on the results.

In International Congress which will be held at Cincinnati in this fall, interesting comparison between Japanese member corporations (hereinafter referred to as Japanese corporations) and US member corporations (hereinafter referred to as US corporations), between Japanese corporations or between US corporations will be discussed on Global Patent Practice in view of Cost Containment.

2. Analyses of Survey Results

On the Japanese side, questionnaires shown in Appendix 1 were distributed for member corporations of the Japanese Group and 71 corporations made replies on time. The business fields to which the corporations pertain are as follows:

Machine/Metal:
(which will hereinafter be referred simply to Machine)
17 corporations

Electric/Electronic Instrument:
(which will hereinafter be referred simply to Electric)
17 corporations

Chemical: 35 corporations

Other: 2 corporations

On the American side, questions Nos. I-1 to I-9 and II-13 to II-20 of questionnaires shown in Appendix 1 were distributed for member corporations of the American Group and 32 corporations

made replies on time. The business fields to which the corporations pertain are as follows:

Machine: 6 corporations

Electric: 7 corporations

Chemical: 17 corporations

Other: 2 corporations

With respect to the results of questionnaire survey, the Japanese results are shown in Tables 1 and 2 and the US results are shown in Table 3 in Appendix 2. In Tables 1-3, the vertical column indicated by C/Q represents serial numbers of the reply-corporations and the horizontal row indicated by I-1 to II-20 represents question numbers of the questionnaire. The contents of the tables will be explained. With respect to a single reply type question, the number represents which reply item has been checked. With respect to a plural reply type question, the numbers represent which reply items have been checked.

With respect to a plural reply type question in which reply items are prioritized, the numbers show checked items in the priority order.

When Table 3 is referred to, please pay your attention to the following. In the table, a hyphen (-) denotes no reply in the item. In the answers to question I-7, numeral 7 denotes "monopoly" or "exclusion of competitors". In the answers to I-9, numeral 6 denotes "covers a replacement part". In answers to question II-14, numerals 10, 11, 12 and 13 denote, in this order, "ability of agents", "public evaluation", "one agent for one field" and "agents who give advice of local laws or regulations", respectively.

Appendix 3 shows the results of the analyses in a visual representation by using a pair of graphs in comparison of the analysis results between Japan and US. In Figures of Appendix 3, Figs. 7(1) and 7(2) show results calculated by weighing so that

three points are given to the first priority reply of the three replies, two points are given to the second priority reply thereof and one point is given to the third priority reply, Figs. 5, 6, 13(1), 13(2) 14(1) and 14(2) show ratio of the number of the replies to the total number with respect to each item, and Fig. 8 shows the results obtained by counting only the number of the first priority reply of the three replies.

2-1. Analysis Results of Japanese Corporations According to Business Field

2-1-1. Analyses of Application Cost

The reply corporations were classified into three groups, i.e., Machine (17 corporations), Electric (17 corporations) and Chemical (35 corporations) (the data of two corporations which could not be classified in any of the groups have been omitted). The average value (see QI-4, Fig. 1(1)) of the cost per one standard domestic application in each group and the average value (see QI-5, Fig. 2(1)) of the cost per one standard US application are represented by graphs. As shown in Figs. 1(1) and 2(1), in either case of one domestic application cost and one foreign application cost, the cost relation was as follows:

Electric>Machine>Chemical

In consideration of this fact, we first thought that the difference in application cost would be due to the outside agents' work (i.e., necessity of the agent fees).We thus analyzed a rate of the outside agents' work (see QII-1, Fig. 3) first with respect to the domestic applications. Then, the outside agents' work rate is also under the relation as follows:

Electric>Machine>Chemical

However, with respect to the outside agents' (demestic agent) work for the foreign applications (see QII-8, Fig. 4), it

has been found that the outside agents' work rate of Electric is lowest. In view of these facts, it is not always said that the outside agents' work rate itself would be a determinative factor to increase the application cost.

By our inference, one of the significant factors which would determine the application cost would be whether or not the load imposed on the agents is high during the prosecution. In the chemical field, since experimental results or data in writing to be supplied to the agents from the applicants occupy a large portion of the contents of a specification or remarks, the burden imposed on the agents thereafter would be small, which would lead to containment of the agents fee and would reduce the application cost. This inference is based upon the fact that many chemical corporations in comparison with the other business fields reply that the applicant himself prepares a draft specification and draft remarks for reply to an office action as a service for the agents (see Fig. 5).

Incidentally, the reply groups were classified into a group having a small budget (700,000 yen or less) for one US application (see QI-5), a group having an intermediate budget (700,000 yen to 1,000,000 yen) and a large budget (1,000,000 yen or more), and the obligation items (see QII-11) to the domestic agents for preparing a foreign application have been analyzed (see Fig. 6). It has been found that many corporations grouped into the large budget group demand the domestic agents to review an office action and to prepare a draft amendment. This fact also supports our inference described above.

The analyses of this item involves an interesting suggestion. For instance, since the US attorney fee is based upon an hour rate, if the load to be imposed on the agents would be reduced, the total charge (outside agents' cost) may be directly reduced. However, in correspondence with the reduction of load to be imposed on the agents, personnel expenses for the applicants (i.e., internal cost) would be increased. In order to reduce the cost while keeping a quality of patents at a certain level, there is raised a question as to which balance between the internal cost and the external cost is preferable. On the other

hand, the Japanese agent fee is based upon items as well as a basic fee system, and hence simple reduction of burden to be imposed on the agents would not lead to the reduction of fee. However, a part of the Japanese corporations could successfully reduce the agent fee by various efforts as will be described later.

2-1-2. Purpose of Foreign Applications

The items (see QI-7) with a priority order for the purpose of the foreign applications by the reply corporations are classified according to a business field (see Fig. 7). In any business field, it was commonly found that the first priority is "to ensure free sales in the countries in which the applications are to be filed", and the second priority is "to ensure free production in the countries."

However, there is the following difference in the third priority between the Machine/Electric corporations and the Chemical corporations. The third priority of the M/E corporations is to acquire rights for cross-licensing, whereas the third priority of the Chemical corporations is to export technology. This is because, in M/E field in Japan, many corporations take global business activity and the working of the invention is basically planned in the foreign countries, whereas a relatively large number of the chemical corporations mainly take domestic manufacture and sales activities and file the foreign applications for the purpose of licensing income through exporting technology. The analysis results which indirectly support this tendency is that the chemical corporations has a recognition that the invention which reaches the international or worldwide level (see QI-9, Fig. 8) is to be filed in the foreign countries.

2-2. Analysis Results According to Number of Applications Filed by Japanese Corporations

2-2-1. Analysis Results According to Number of Domestic Applications

With respect to behavior taken by the Japanese corporations upon payment of agent fee for domestic applications, the reply corporations are grouped according to the number of domestic applications per one year into three groups, i.e., a group (19 corporations) having the number less than 300, a group (25 corporations) having the number in the range of 300 to 1,000 and a group (27 corporations) having the number more than 1,000.

Of the analysis results, Fig. 9 shows the filing fee (refer to QII-7(1)), and Fig. 10 shows the post-filing fee for preparing remarks, amendments, requests for examination and the like (refer to QII-7(2)). As is apparent from Figs. 9 and 10, the corporate group having the small number of the applications paid the fee in accordance with the fee standardized by Japanese Patent Agent Association or the fee which was called for by the agents without any discount negotiation. On the other hand, in a large number of cases, it has been found that the corporate group having the large number of the applications negotiates with the agents or firms about the fee for each application and makes efforts to reduce the agent fee. Actually, many corporations belonging to the latter group added to the questionnaire an explanation about their successful reduction of the agent cost.

From the same point of view, the results of the questionnaire survey of QII-7(1) and QII-7(2) have been analyzed in accordance with a business field (see Fig. 11). It has been found that a very large number of the electric and mechanical corporations which file a large number of applications negotiates the agent fee for each application in comparison with the chemical corporations.

What would be considered important as a basic condition in such a negotiation is the intimate coordination between the corporations and the agents. Namely, many Japanese corporations

check draft specifications, draft remarks and draft amendments proposed by agents before filing them to the Patent Office (see QII-5), or the corporations advise the agents of the drafts prior to the preparation of the drafts or sometimes prepare parts of the drafts by themselves (see QII-6). On the basis of such coordination, the corporate group having the large number of application would successively reduce the agent fee within a reasonable range.

2-2-2. Analysis Results According to Number of Foreign Applications

The reply corporations were grouped according to the number of foreign applications per one year into through groups, i.e., a group (35 corporations) having applications less than 50, a group (20 corporations) having the number in the range of 50 to 200 and a group (16 corporations) having applications more than 200, and the status of payment to outside agents for their work (see QII-12) has been analyzed. As a result, it has been found that about 80% of the corporate groups having the applications less than 50 paid the local agent fee exactly in accordance with its charged amount, whereas about 80% of the corporate groups having the applications over 200 negotiated the fee with the local agents (see Fig. 12(1)). Thus, there is the same tendency as in the analysis results of the domestic applications.

The reason for dissatisfaction with local agents (see QII-19) has been analyzed for each corporate group and it has been found that the corporate group having the applications over 200 hardly feel difficulty in communication and many corporations in the corporate group point out the "slow response" (see Fig. 13(1)). From this, it is understood that the corporations having the large number of applications are demanding a high level to the local agents.

The status of staff in charge of the foreign applications in patent departments has been analyzed. Any corporate group demands the ability of language to the staff and take positive posture to educate the staff on the local language and local patent law or

to locate the local staff in foreign countries (see Fig. 14(1)).

The Japanese corporations' efforts to reduce the domestic agent fee has been described in the foregoing paragraph 2-2-1. In the same way, we would like to point out another interesting feature as to the local agent fee. Namely, as a matter of fact, the Japanese corporations actively invest internal costs as shown in Fig. 14(1) in order to reduce the local agent fee (external costs). As a result, for instance, from Fig. 15 graphically showing the answers to QII-16 of the questionnaire, it is apparent that about one third of the Japanese corporations internally make translations into local languages. Also, Fig. 16 graphically shows the questionnaire result of QII-17, i.e., that the language used in the communication between the local agents and almost all the Japanese corporations is not Japanese but English. In this case, the translation cost may be saved to a considerable amount.

2-3. Comparison in Analyzed Results between Japanese and American Corporations

2-3-1. Analyses of Application Cost for Respective Business Fields

American corporations were grouped into Machine, Electric and Chemical groups according to a business field (Two corporations which do not belong to any field have been omitted from the analyses). An average value of each group in costs for a standard domestic application (see Fig. 1(2)) and an average value of each group in costs for a standard Japanese application (see Fig. 2(2)) are shown in graphs.

The order of the costs of the American Corporations for one domestic application is as follows:

Machine>Electric>Chemical.

This is the same as that of the Japanese corporations. However, the order of the costs of the American Corporations for

one Japanese application is as follows:

Chemical>Electric>Machine.

This order is quite different from the order of the Japanese corporations, i.e., Electric>Machine>Chemical. The reason for this would be that the difference in type of the specification between Japan and US is remarkable unlike the other fields and the change or modification of such a style would be authorized to Japanese agents to thereby increase the translation fee or the specification preparation and study fee.

However, there is a general tendency that the domestic application cost and the Japanese application cost by the American corporations would be lower than the domestic application and US application by the Japanese corporations. This would be based upon the fact that in general, the American corporations do not use the domestic agent or firm and the American corporations would pay their careful attention to the costs.

2-3-2. Analyses of Purpose of Foreign Applications for Each Business Field

Analyzing the priority order items relating to the purpose of the foreign applications by the American corporations (see Fig. 7(2)) in comparison with the purpose of the Japanese corporations shown in Fig. 7(1), many American corporations aim to enjoy "monopoly" or "exclusive right against competitors". In contrast, a relatively large number of the Japanese corporations aim "ensuring the free production" and "ensuring the free sales". This tendency is remarkable in the replies from the chemical corporations in both Japan and US. This may be the case in Japan and US as a whole. However, in the electric field, such a tendency is not so remarkable. We think that the above-described difference would be based upon the fact that the American corporations recognize that the effect of patent would be aggressive but the Japanese corporations recognize that the

effect would be protective.

2-3-3. Analyses of Application Number

As shown in Tables 1 and 2, in Japan without exception, the number of the domestic application is greater than the number of the foreign application. However, in the American corporations, there are seven corporations which have the larger number of the foreign applications than that of the domestic application, and there are several corporations which have almost the same number of the foreign application as that of the domestic application. This result shows an important difference in patent recognition, and we are rather surprised at the result. In Japan, it would be an almost common sense that a corporate first file an invention mainly for the protection of the technology to be worked by the corporate, and will file a foreign application by selecting the important invention from the domestic applications. However, in US, a relatively large number of the corporations would think it important to obtain a license income.

2-3-4. Analysis According to Number of Applications

Grouping the reply corporations into three groups according to the number of the foreign application per one year also in the American corporations in the same manner as shown in Fig. 12(1) in case of the Japanese corporations, the status of payment of the agent fee has been analyzed (see Fig. 12(2)). However, in order to analyze the status relating to the Japanese agents, Fig. 12(1) is directed to the domestic (Japanese) agents' fee for the foreign applications and Fig. 12(2) is directed to the local (Japanese) agents' fee for the foreign applications. In both Japan and US, many corporations which are classified into the group having the large number of foreign applications negotiate the agents' fee for each case and have a high attention to the costs. It is also not negligible that the special demands or requests to the agents are increased by the scale power, i.e., the increased number of the applications. This would not make any

difference between Japan and US as a whole.

Classifying the reply corporations into three groups in accordance with the number of the foreign applications per one year also in the American corporations in the same manner as in Fig. 13(1) in case of the Japanese corporations, the contents of the dissatisfaction with the local agents have been analyzed for each corporate group (see Fig. 13(2)). The most significant difference between Japan and US is that many American corporations has dissatisfaction with too passive service and poor leadership in professional work, and many Japanese corporations has dissatisfaction with the slow response. This difference is interesting and would be caused by difference in nationality between Japan and US. Namely, in US, the expect that the agents should be specialists and in Japan, a quick response is highly required due to the feeling that the slow activity would be "gross negligence".

Classifying the reply corporations into three groups in accordance with the number of the foreign applications per one year also in the American corporations in the same manner as in Fig. 14(1) in case of the Japanese corporations, the status of the staff in charge of the foreign applications in the patent department has been analyzed (see Fig. 14(2)). In general, it is said in comparison between the Japanese and American corporations that many Japanese corporations are very earnest over the staff education on the languages and local patent law including sending liaisons or trainees. Also, in US, almost all the American corporations educate the staff for the foreign applications but also in this case the ability of the local languages would not be a necessary condition. There are few cases that the liaisons or trainees are sent to the local places.

3. Summary of Questionnaire Results

Classifying the reply corporations into three groups in accordance with several parameters for analyzing the questionnaire results, the characteristic policy and behavior taken by the respective groups were compared and observed by the

questionnaire results. Further, with respect to the part of questions relating to the coordination with agents, the grouping according to the parameters as mentioned before was not effected, and the policy and behavior between the Japanese and American corporations were reviewed. The results were explained before but several interesting facts will be again summarized as follows:

Classifying the Japanese reply corporations into three groups in accordance with a business field, it has been found that in either domestic or foreign applications, the difference in application cost for one application is remarkable among the business fields. However, it has been also found that the application cost is not always corresponding to the outside agents' work rate, i.e., a frequency of filing domestic application or foreign applications through outside domestic agents. Next, it has been found that there is the difference in priority order of the purpose of filing the foreign applications among the business fields. In Japan, this would be due to the fact that the electric and mechanical fields are quite different from the chemical field in the extent of the global business development.

Classifying the Japanese reply corporations into three groups in accordance with a parameter, i.e., the number of the application, either in the domestic application number or the foreign application number, the group having a large number of applications very reasonably controls the agents and is earnest over the education or training of the staff in charge of the foreign applications. The corporations belonging to this group would aim the reduction in application costs, particularly, agent fee and translation fee through such efforts. Accordingly, in order to effectively reduce the cost for the patent applications, it is necessary to review not only the external cost such as agent fee but also the internal costs such as education costs and personnel expenses for patent department staff as the "cost concept".

The remarkable characteristics recognized through the Japanese reply corporations as a whole are a cooperative work share relationship, between the corporations and the agents, such

as finely managing the agents for filing applications and responses to office actions or providing agents with constant services case by case. Also, in order to keep such a relationship with the local agents, the patent department staff or liaisons mainly in charge of the foreign applications have been quite often sent to the local places.

In comparison of the questionnaire results between Japan and US, it has been found that in both domestic and foreign applications, the application cost for one application in US corporation is somewhat lower than that in Japanese corporations. This is mainly because no work is made by the outside domestic agents. However, in the case where a large number of domestic applications and foreign applications are filed by the Japanese corporations, the "outside agents' work" system would be effective. With respect to the purpose of the foreign applications, there is a remarkable and basic difference between Japan and US, which would be due to a difference in recognition of the patent right. The difference in recognition would correspond to a difference in ratio in number between the domestic applications and foreign applications. With respect to the staff education for coping with the foreign applications, the Japanese corporations are much more earnest than the US corporations. This would cause a difference in internal costs between Japan and US. It is however not negligible to see the background that English is actually almost an international common language.

QUESTIONNAIRE

This questionnaire consists of two parts. Part I has questions relating to general matters and patent policy and Part II relates to agents for patent filing.

[Attention should be paid to the following points (1) - (4) when answering questions below.]

(1) The term "application" means a patent application or utility model application.
(2) The term "filing cost(s)" means all cost for filing through registration to be disbursed outside, including agent's fee.
(3) The term "agent" means a general attorney, patent attorney or patent agent who belongs to an outside patent or law firm. The term "domestic agent" means an agent who lives in the US, and the term "local agent" means an agent who lives in a foreign filing country.
(4) In answering questions having an item "◇ Others (Specify: _____)", please write your specific answer within the parenthesis if other items are not applicable to your situation.

I. General Matters and Patent Policy

I-1 Please identify industrial category of your company.

◇ 1. Machinery/Metal ◇ 2. Electronics
◇ 3. Chemicals ◇ 4. Others (Specify: _____)

I-2 How many domestic applications did your company file in 1992?

◇ 1. Less than 100 cases ◇ 2. 100-199 cases

◇ 3. 200-299 cases ◇ 4. 300-399 cases

◇ 5. 400-499 cases ◇ 6. 500-999 cases

◇ 7. 1000 cases or more

I-3 How many foreign applications did your company file in 1992? (Count application themes regardless of the number of foreign filing countries)

◇ 1. Less than 20 cases ◇ 2. 20-49 cases

◇ 3. 50-99 cases ◇ 4. 100-199 cases

◇ 5. 200-299 cases ◇ 6. 300 cases or more

I-4 How much on the average does your company pay in filing costs per domestic application?

◇ 1. Less than US$2,000 ◇ 2. US$2,000-2,999

◇ 3. US$3,000-4,999 ◇ 4. US$5,000-6,999

◇ 5. US$7,000 or more

I-5 How much on the average does your company pay in filing costs per foreign application in Japan?

◇ 1. Less than US$5,000 ◇ 2. US$5,000-6,999

◇ 3. US$7,000-9,999 ◇ 4. US$10,000 or more

I-6 If you have the impression that the filing cost for filing a foreign application in Japan is expensive, what do you think the main cause of the expensiveness is? (Check all applicable items)

◇ 1. Translation fee at filing

◇ 2. Domestic agent's fee at filing

◇ 3. Local agent's fee at filing

◇ 4. Translation fee during prosecution

◇ 5. Domestic agent's fee for prosecution

◇ 6. Local agent's fee for prosecution

I-7 What are your purposes in filing a foreign application? (Check the major three items and prioritize them.)

◇ 1. To insure free production in the foreign country

◇ 2. To insure free sale in the foreign country

◇ 3. To obtain royalties for licensing

◇ 4. To acquire a right for cross-licensing

◇ 5. To improve the image of your company

◇ 6. To export technology

◇ 7. Others (Specify: _____)

I-8 What are the criteria for selecting countries for foreign-filing? (Check the major three items and prioritize them.)

◇ 1. A country where covered products are manufactured or expected to be manufactured

◇ 2. A country to where covered products are exported or expected to be exported

◇ 3. A country where a strong competitor exists

◇ 4. A country having a big marker for covered products

◇ 5. A country to where technology is to be exported

◇ 6. Previously chosed standard country

◇ 7. Others (Specify: _____)

I-9 What kind of inventions are selected for filing foreign applications? (Check the major three items and prioritize them.)

◇ 1. Basic invention

◇ 2. Invention to be applied to products in the foreign country

◇ 3. Invention which technical level is leading in the world

◇ 4. Clearly patentable invention

◇ 5. Invention based on which licensing royalty can be counted on

◇ 6. Others (Specify: _____)

II. Agent

The following questions, II-1 to II-7, relate to your use of outside agents in filing domestic applications.

II-1 What percentage of your domestic applications are filed by an outside agent?

◇1. 100% ◇2. over 80% ◇3. over 50% ◇4. under 50%

◇5. 30% ◇6. under 20% ◇7. under 10% ◇8. 0%

II-2 Currently, how many outside agents (patent attorneys) are you using?

◇1. 0 ◇2. 1 to 5 ◇3. 6 to 10

◇4. 11 to 30 ◇5. 31 to 50 ◇6. over 50

II-3 Indicate the three main criteria which you use when choosing an outside agent (patent attorney).

◇ 1. field of technological expertise

◇ 2. location of agent's office

◇ 3. agent's experience

◇ 4. personal contacts

◇ 5. choose big agent

◇ 6. choose cheap agent

◇ 7. agent prepared to go extra mile

II-4 Have you ever switched agents (patent attorneys)?

◇ 1. Yes

Reasons

◇ 2. High fees

◇ 3. Poor performance

◇ 4. Your 'usual man' there became unavailable

◇ 5. You were making fewer applications

◇ 6. No

II-5 Do you have outside agents do any of the following? (multiple answer)

◇ 1. Meet with inventors to formulate specifications

◇ 2. Send you specifications before application (for checking by inventors and/or patent department)

◇ 3. Analyze rejection notifications and send you recommendations

◇ 4. Send you arguments (proposals) and/or amendments (proposals)

◇ 5. (_____)

II-6 Do your inventors and/or patent department provide your outside agents with any of the following? (multiple answer)

◇ 1. Advice/clarification concerning subject matter of invention

◇ 2. Outline specification

◇ 3. Draft specification

◇ 4. argument/amendment proposals for response to notification of reasons for rejection

◇ 5. (_____)

II-7 How are your outside agents' fees determined (in ordinary cases)?

(1) Filing Applications

◇ 1. According to Japan Patent Attorney Association standard fees

◇ 2. Agreed case-by-case with agent using Japan Patent Attorney Association standard fees for reference

◇ 3. usually pay more
◇ 4. less than Japan Attorney Association standard

◇ 5. No particular process - just pay what agent bills us

(2) Prosecutions (arguments, amendments, examination requests)

◇ 1. According to Japan Patent Attorney Association standard fees

◇ 2. Agreed case-by-case with agent using Japan Patent Attorney Association standard fees for reference

◇ 3. usually pay more
◇ 4. less than Japan Attorney Association standard

◇ 5. No particular process - just pay what agent bills us

(3) When both arguments/amendments are submitted

◇ 1. pay the sum of the fees for the argument and the amendment

◇ 2. pay for just the argument

◇ 3. pay for just the amendment

◇ 4. pay half the sum of the fees for the argument and the amendment

◇ 5. no particular process - just pay what agent bills us

(4) Examination request associated with an amendment

◇ 1. pay the sum of the fees for the examination request and the amendment

◇ 2. pay for just the examination request

◇ 3. pay half the sum of the fees for the examination request and the amendment

◇ 4. no particular process - just pay what agent bills us

The following questions, II-8 to II-20, relate to your use of agents in filing foreign applications.

II-8 What percentage of your foreign applications are filed through a domestic agent?

◇ 1. 100% ◇ 2. over 80% ◇ 3. over 50% ◇ 4. under 50%

◇ 5. 30% ◇ 6. under 20% ◇ 7. under 10% ◇ 8. 0%

II-9 Currently, how many domestic agents are you using to file foreign applications?

◇ 1. 0 ◇ 2. 1 to 5 ◇ 3. 6 to 10 ◇ 4. 11 to 15 ◇ 5. over 16

II-10 Indicate the three main criteria which you use when choosing a domestic agent to file a foreign application. Please also indicate your order of priority.

◇ 1. An agent who has handled domestic applications for you

◇ 2. An agent who will do translations themselves (English Ability)

◇ 3. Agent's experience (no. of years)

◇ 4. Agent's size

◇ 5. Choose agent having connections with a well-known firm (a local agent) in the foreign country

◇ 6. Cheap

◇ 7. Agent willing to go extra mile

◇ 8. (_____)

II-11 Do you have domestic agents filing foreign applications for you do any of the following? (multiple answer)

◇ 1. Meet with inventors to formulate specification

◇ 2. send you specifications in Japanese before application (for checking by inventors and/or patent department)

◇ 3. Analyze rejection notifications and send you recommendations

◇ 4. Send you arguments (proposals) and/or amendments (proposals)

II-12 How are your domestic agents' fees for foreign application work determined (in ordinary cases)?

◇ 1. Agreed with agent case-by-case

◇ 2. No particular process - just pay what agent bills us

◇ 3. (_____)

II-13 How many local agents (firms) do you use for filing foreign applications?

(1) in Japan

◇1. 0 ◇2. 1-5 ◇3. 6-10

◇4. 11-15 ◇5. 16 or more

(2) in Europe

◇1. 0 ◇2. 1-5 ◇3. 6-10

◇4. 11-15 ◇5. 16 or more

II-14 What are the criteria for selecting local agents for filing foreign applications? (Check the major three items and prioritize them.)

◇ 1. Specialty in technical field

◇ 2. Firm's location

◇ 3. Agent's career

◇ 4. Existence of US branch

◇ 5. Human connection

◇ 6. Good command of English (or an native English speaker is employed)

◇ 7. Regular visit to US

◇ 8. Inexpensive charge

◇ 9. An unreasonable demand is sometimes filled

◇10. Others (Specify: _____)

II-15 What kind of job do you ask agents to do regarding filing and prosecution? (Check all applicable items.)

◇1. To check Japanese Specification and Claims before filing

◇2. To analyze Official Action (Reason of Refusal) and report the result

◇3. To make proposed amendment and/or brief (rebuttal opinion)

◇4. Others (Specify: _____)

II-16 When asking a local agent to file a foreign application, who translates an English original specification into Japanese?

◇1. Your company

◇2. An outside translation service (including patent firm) in the US

◇3. Local agent

◇4. Others (Specify: _____)

II-17 How do you communicate with a local agent handling your foreign application?

(1) Language:

◇1. English

◇2. Japanese

◇3. Agent's native language other than English or Japanese

(2) Method of communication:

◇ Meeting

◇2. Telephone

◇ 3. Facsimile

◇ 4. Mail

◇ 5. Others (Specify: _____)

II-18 In case of asking a local agent to file foreign applications, how do you decide the agent's fee?

◇ 1. By negotiation with an individual agent

◇ 2. Accept agent's charging

◇ 3. Others (Specify: _____)

II-19 Do you have any dissatisfaction with a local agent?

◇ 1. Slow response

◇ 2. Too active, charging agent's fee for uninstructed excessive work

◇ 3. Too passive, little professional advice or recommendation

◇ 4. Difficulty in communicating with an agent, due to difference in native language

◇ 5. Cost is expensive because a local agent frequently charges translation fee.

◇ 6. Others (Specify: _____)

II-20 Regarding foreign-filing, what activities among the followings does your company do?

◇ 1. Patent staff in charge of foreign-filing is demanded to have a command of local language of filing country.

◇ 2. Educating or training patent staff in charge of foreign-filing to have a command of local language of filing country

◇ 3. Educating or training patent staff in charge of foreign-filing to have knowledge of local patent law of filing country

◇ 4. Having resident(s) in Japan who handle Japanese applications

◇ 5. Educating or training the above resident(s) in Japan to have knowledge of the Japanese Patent Law

〔 Appendix 2〕

Table 1

C/Q	I-1	I-2	I-3	I-4	I-5	I-6	I-7	I-8	I-9	II-1	II-2	II-3	II-4	II-5	II-6	II-7.1	II-7.2	II-7.3	II-7.4	II-8	II-9	II-10	II-11	II-12	II-13.1	II-13.2	II-14	II-15	II-16	II-17.1	II-17.2	II-18	II-19	II-20
1	1	1	1	2	2	1	213	124	531	1	3	134	1.23	2	1234	2.2	2.2	5	4	2	3	135	3	2	2	1	135	1	13	1	234	1	14	13
2	1	2	1	1	2	125	214	231	231	1	3	147	1.4	234	14	2.2	2.2	1	1	4	2	125	3	2	2	2	753	2	12	1	34	2	7	345
3	1	2	1	2	3	16	123	124	123	1	2	123	1.2	23	14	1	1	1	1	2	2	234	15	2	2	1	123	1	12	1	1234	2	1	1
4	1	2	1	5	4	1356	214	214	214	1	3	147	2	24	134	1	1	5	2	1	2	371	345	2	1	1	11	5	5	4	6	4	14	6
5	1	2	1	3	2	13	231	234	251	1	3	157	1.23	1234	1234	2	2	1	1	1	2	137	2345	1	1	1	11	5	5	4	6	4	7	6
6	1	3	2	2	3	12	214	214	231	2	3	235	2	124	14	2	2	13	1	2	4	167	23	1	2	1	519	123	12	1	34	2	4	12345
7	1	3	2	1	3	6	124	213	213	4	3	124	1.4	1234	12	2.2	2.2	4	1	4	3	312	3	1	2	2	152	1	1	1	34	2	6	12345
8	1	3	3	3	4	126	214	243	324	2	4	137	1.23	2	124	2.2	2.2	1	1	2	4	183	3	1	2	2	159	5	24	1	34	23	16	13
9	1	3	3	2	1	26	734	342	123	2	3	157	1.2	1235	145	2.2	2.2	1	1	2	3	312	36	2	2	2	319	2	2	1	34	2	14	145
10	1	4	1	3	4	12	214	312	312	2	3	123	2	1	15	2.2	2.2	1	1	2	2	183	234	2	1	1	615	2	3	2	4	2	1	35
11	1	4	2	3	3	6	216	243	231	1	4	147	1.2	234	24	2	2	4	3	5	3	124	2345	2	2	3	315	23	2	1	34	2	14	23
12	1	4	4	3	4	14	126	426	253	3	3	147	1.4	234	124	2.2	2.2	1	1	2	3	715	2345	1	2	3	152	123	1	1	34	1	7	123
13	1	4	4	3	4	246	432	432	514	2	4	138	1.23	234	1234	2.2	2.2	1	1	1	2	231	345	1	1	1	11	5	5	4	6	4	6	23
14	1	4	4	1	4	125	214	213	215	3	3	167	1.2	124	1	2.2	2.2	1	1	4	2	671	345	1	2	1	812	123	2	1	34	2	14	2345
15	1	5	3	3	2	12	216	231	253	2	4	134	2	3	34	2.2	2.2	1	1	1	2	835	4	1	1	1	11	5	5	4	6	4	7	6
16	1	5	4	2	3	1	214	431	321	2	5	134	1.5	34	24	2.2	2.2	1	1	2	2	237	345	1	2	2	315	1	1	1	34	1	3	134
17	1	5	4	2	3	12	214	213	213	2	4	158	1.25	24	124	2.1	2.2	1	1	1	4	812	35	2	1	1	11	5	5	4	6	4	1	3
18	2	1	1	2	2	1	413	123	234	3	2	125	1.2	12	14	1	1	1	1	8	1	9	7	4	5	4	11	3	1	1	123	4	7	1
19	2	1	1	3	4	124	214	215	243	2	4	134	1.2	2	34	2	2	1	1	2	3	135	34	1	2	1	135	12	2	1	34	2	13	1
20	2	3	1	2	3	13	216	421	132	1	4	134	1.23	24	124	2	2	1	1	1	3	163	235	1	2	2	147	13	2	12	34	1	145	6
21	2	4	1	3	4	256	241	234	251	2	3	145	2	124	34	2.2	2.2	1	1	1	2	142	235	1	1	1	11	5	5	4	6	4	4	13
22	2	4	2	1	4	25	214	246	321	2	4	134	1.24	1245	134	2	2	1	1	3	2	386	34	2	2	2	531	1	2	1	34	2	7	4
23	2	4	2	1	2	36	623	523	152	3	4	138	1.2	2	14	2	2.2	4	1	2	2	725	23	1	2	1	132	1	1	1	34	2	7	3
24	2	4	3	4	4	1256	214	216	214	3	3	134	1.2	12	124	1	1	1	2	4	2	327	34	2	2	2	531	2	2	1	34	2	236	1345
25	2	4	3	2	3	16	216	315	235	2	4	123	1.2	123	2	2.2	2.2	1	1	3	3	316	34	1	2	1	361	12	23	12	34	2	6	13
26	2	4	4	5	3	6	24	2	134	1	4	137	1.2	1234	12	1	1	1	1	3	2	123	12345	1	2	1	123	123	2	1	34	1	2	123
27	2	4	4	2	3	12	214	213	231	2	4	245	2	2	3	1	1	1	1	3	2	437	3	1	2	1	125	4	2	1	4	2	1	12345
28	2	4	4	3	3	136	241	321	253	2	4	147	2	2	14	2.2	2.2	1	1	2	4	176	34	2	2	2	159	2	2	1	4	2	13	12345
29	2	5	2	3	4	16	347	453	541	2	5	123	2	3	124	1	1	3	1	1	3	817	12345	3	1	1	11	5	5	4	6	4	7	13
30	2	5	5	3	4	126	243	432	325	3	5	123	1.5	123	134	2	1	2	1	2	5	124	34	1	3	3	5110	2	12	1	4	2	13	23
31	2	5	5	2	2	8	713	421	531	3	4	18	1.2	124	14	2.2	2.2	1	1	2	3	189	12345	1	3	2	182	23	1	1	234	2	16	12345
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34	2	5	5	5	4	136	214	214	215	2	4	123	1.2	23	124	2	2	4	3	1	4	134	345	1	1	1	11	5	5	4	6	4	1	1345

Table 2

C/Q	I-1	I-2	I-3	I-4	I-5	I-6	I-7	I-8	I-9	II-1	II-2	II-3	II-4	II-5	II-6	II-7.1	II-7.2	II-7.3	II-7.4	II-8	II-9	II-10	II-11	II-12	II-13.1	II-13.2	II-14	II-15	II-16	II-17.1	II-17.2	II-18	II-19	II-20
35	3	1	1	1	1	2	634	432	325	7	3	147	2	24	134	3	3	5	4	1	3	725	35	2	1	1	11	5	5	4	6	4	1	3
36	3	1	1	1	4	16	642	642	253	7	2	134	1.34	2	34	3	3	5	4	8	1	9	7	4	2	2	135	2	123	1	234	2	1	123
37	3	1	1	2	3	6	243	426	315	4	2	145	1.3	2	3	3	3	5	4	3	2	123	34	2	1	2	153	13	2	1	3	2	3	3
38	3	1	1	1	3	12	213	243	432	4	2	147	1.24	24	134	1	1	1	1	2	2	134	235	2	2	2	157	1	2	1	3	2	4	13
39	3	1	1	3	3	8	213	243	314	5	3	124	2	234	1	3	3	5	4	7	2	1	34	2	2	5	15	2	1	1	34	2	7	13
40	3	1	1	2	4	2	216	352	213	1	3	123	1.3	24	1234	1	1	1	1	1	2	153	35	2	1	1	11	5	5	4	6	4	3	13
41	3	1	1	1	4	1	216	243	213	5	3	137	2	24	34	1	1	1	1	1	2	257	35	2	1	1	11	5	5	4	6	4	7	13
42	3	1	1	2	3	7	213	415	465	1	3	123	2	23	34	1	2	1	1	2	3	534	3	2	2	1	125	123	123	12	34	2	7	2345
43	3	1	1	2	2	13	123	123	123	7	2	134	1.12	24	34	3	3	5	4	6	2	137	35	2	2	2	138	1	2	1	4	2	7	3
44	3	1	1	2	4	12	234	423	351	2	4	137	1.2	234	134	3	3	1	1	1	3	315	345	2	3	2	136	123	2	1	134	2	4	1
45	3	1	1	1	1	8	243	243		5	3	14	1.3	2	134	3	3	5	4	3	3	126	235	2	2	2	153	23	13	1	34	2	7	6
46	3	1	1	2	4	136	236	254	351	5	2	123	1.2	2	124	3	3	5	4	2	2	157	3	2	2	2	123	1	1	1	34	2	1	123
47	3	1	2	2	3	36	124	342	321	3	2	134	1.13	2	14	3	3	5	4	4	2	135	3	2	2	2	513	1	1	1	4	2	4	13
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50	3	2	1	1	2	156	231	243	253	7	3	147	2	2	34	3	3	5	4	2	2	347	3	2	2	2	517	12	2	1	34	2	4	1
51	3	2	1	2	4	1245	216	234	251	3	3	137	1.2	2	34	2.2	2.2	1	1	2	2	34	34	2	2	1	135	1	2	1	34	2	7	4
52	3	2	1	3	4	16	214	321	623	3	2	147	2	24	3	3	3	5	4	2	2	1	3	2	2	2	571	1	2	1	6	2	2	45
53	3	2	3	3	2	7	763	425	231	5	3	134	1.23	2	3	3	3	5	4	5	2	153	3	2	2	2	153	12	2	1	3	2	7	12345
54	3	3	1	4	3	36	241	243	321	6	3	123	1.34	24	24	2.2	1	1	1	1	3	134	3	2	1	1	11	5	5	4	6	4	12	13
55	3	3	1	2	4	6	261	253	325	6	4	13	2	1234	124	1	1	1	1	1	2	652	345	1	1	1	11	5	5	4	6	4	2	13
56	3	3	1	2	4	12	236	254	235	2	4	147	1.3	234	24	2.2	2.2	1	1	1	3	143	2345	2	1	1	11	5	5	4	6	4	7	13
57	3	3	1	1	3	24	243	243	354	7	2	134	1.3	2	23	3	3	5	4	2	2	325	235	2	2	2	153	123	3	1	3	2	4	1
58	3	3	1	3	4	245	214	123	213	4	2	147	1.4	234	34	12	12	2	1	1	2	437	3	2	1	1	11	5	5	4	6	4	7	13
59	3	3	2	4	4	567	216	435	314	6	3	146	1.2	234	234	12.2	12.2			2	3	187	345	1	4	1	1024	23	24	12	34	3	7	5
60	3	3	2	4	4	26	264	243	123	1	4	147	1.3	24	34	2	2	2	1	2	3	137	35	2	2	2	123	12	1	1	3	2	1	13
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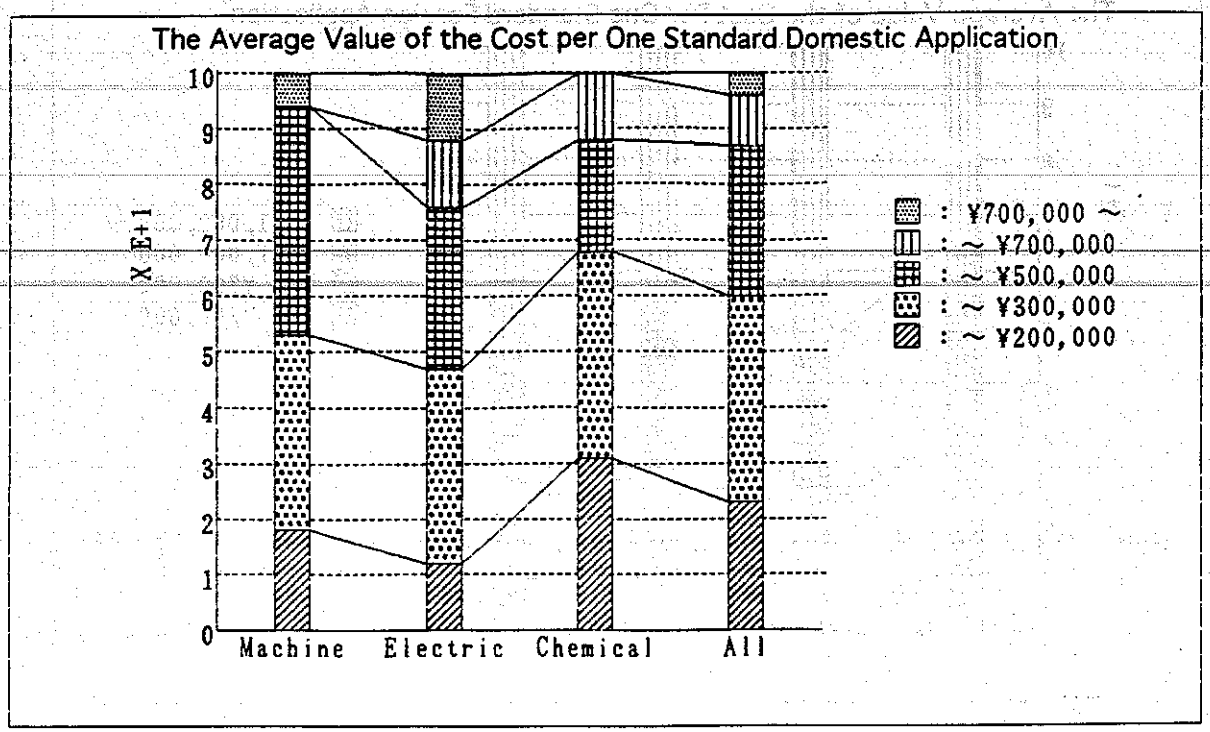
63	3	3	3	1	2	123	216	215	325	7	3	134	1.2	24	234	1	1	1	1	1	3	541	3	1	1	1	11	5	5	4	6	4	7	6
64	3	3	3	4	3	16	216	2145	231	2	3	147	2	24	34	2.2	2.2	1	1	2	3	157	35	1	2	2	516	1	1	1	34	2	4	345
65	3	4	1	1	3	36	261	254	321	6	4	126	1.3	24	14	2.2	2.2	1	1	1	4	167	35	2	1	1	11	5	5	4	6	4	3	3
66	3	4	1	1	3	1	261	415	325	5	4	134	1.2	2	12	2.2	2.2	1	1	2	4	371	3	2	2	2	153	1	2	1	34	2	1	13
67	3	4	2	3	2	7	216	214	213	7	3	124	1.2	2	24	2.2	2.2	1	1	1	3	167	23	1	1	1	11	5	5	4	6	4	14	3
68	3	4	4	1	4	1	234	432	215	4	3	167	1.24	124	23	2.2	2.2	4	1	7	2	863	3	1	2	2	1082	2	12	1	34	1	7	13
69	3	5	5	3	4	125	124	134	316	3	4	135	1.2	24	234	2.2	1	1	1	1	5	145	3	1	1	1	11	5	5	4	6	4	7	13
70	4	1	1	4	4	17	736	757	651	3	4	178	1.123	2	5	3	3	5	4	3	4	148	3	2	2	2	1025	5	2	1	34	2	1234	1345
71	4	1	1	2	3	2	345	324	523	1	2	147	1.15	1234	3	1	1	5	4	1	2	157	134	2	1	1	68	2	3	2	4	2	46	1

Table 3

C \ Q	I									II								
	1	2	3	4	5	6	7	8	9	13	14	15	16	17	18	19	20
1	1	1	6	1	2	136	743	142	213	23	368	123	3	1 234	2	2	–
2	1	2	6	1	1	13	217	213	234	22	236	12	3	1 34	2	134	3
3	1	2	4	3	1	1	127	341	621	2–	6108	2	3	1 4	2	3	3
4	1	4	4	3	1	14	37–	235	125	23	3610	123	3	1 3	1	–	3
5	1	1	6	2	2	13	412	413	213	23	568	123	3	1 3	2	15	3
6	1	4	4	4	1	134	24–	213	241	23	856	123	3	1 4	2	35	–
7	2	1	2	3	3	13	124	241	351	23	136	123	3	1 234	12	235	–
8	2	1	4	1	2	1	721	231	143	22	162	12	3	1 4	2	–	4
9	2	1	1	3	1	3	234	413	152	22	158	123	3	1 34	2	34	3
10	2	7	6	1	1	125	124	134	125	44	110–	123	3	2 1234	1	–	4
11	2	5	5	4	1	–	124	134	231	22	286	12	12	1 234	1	–	23
12	2	2	2	1	2	136	243	432	123	22	617	123	3	1 34	2	35	3
13	2	1	2	3	2	1346	423	145	135	22	165	123	3	1 234	1	3	3
14	3	3	4	1	2	1	216	245	213	23	158	12	3	1 234	1	5	3
15	3	6	4	1	2	1	2––	427	214	21	1610	12	3	1 34	2	–	3
16	3	1	3	3	3	1	241	412	125	22	138	12	2	1 4	1	3	3
17	3	1	2	1	–	1	76–	432	241	22	162	123	3	1 14	2	–	345
18	3	4	6	1	1	1	721	124	123	25	165	123	3	1 13	2	3	34
19	3	1	1	3	1	1	2––	243	213	22	18–	12	3	1 4	2	–	3
20	3	2	6	1	4	1	126	124	123	22	168	23	3	1 34	12	–	34
21	3	7	6	1	2	13	473	134	124	21	516	123	3	1 23	1	13	3
22	3	5	6	3	–	1346	124	123	124	22	156	123	23	1 34	12	13	3
23	3	2	4	1	3	13	723	412	125	22	135	12	1	1 1234	2	–	34
24	3	6	6	1	1	136	762	341	123	24	1061	12	3	1 34	2	3	3
25	3	6	6	1	2	13	721	143	124	22	1161	12	3	1 34	1	35	3
26	3	2	6	1	1	13	126	123	125	25	1212	123	3	1 34	12	–	–
27	3	3	4	1	3	1236	21–	213	213	25	315	123	3	12 1234	2	3	23
28	3	2	3	1	1	1	124	413	125	22	128	23	3	1 34	1	–	3
29	3	2	3	1	3	1	7––	135	14–	2–	16–	12	3	1 3	1	3	3
30	3	2	3	1	1	1	74–	143	2––	24	1018	123	3	1 34	2	–	3
31	4	1	1	1	1	1	721	412	213	22	6113	12	3	1 3	2	34	3
32	4	2	6	3	1	123	246	413	251	23	196	123	3	1 234	2	–	–

Fig. 1 (1)


The Average Value of the Cost per One Standard Domestic Application
X E+1
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9
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Machine
Electric
Chemical
All
: ¥700,000 ~
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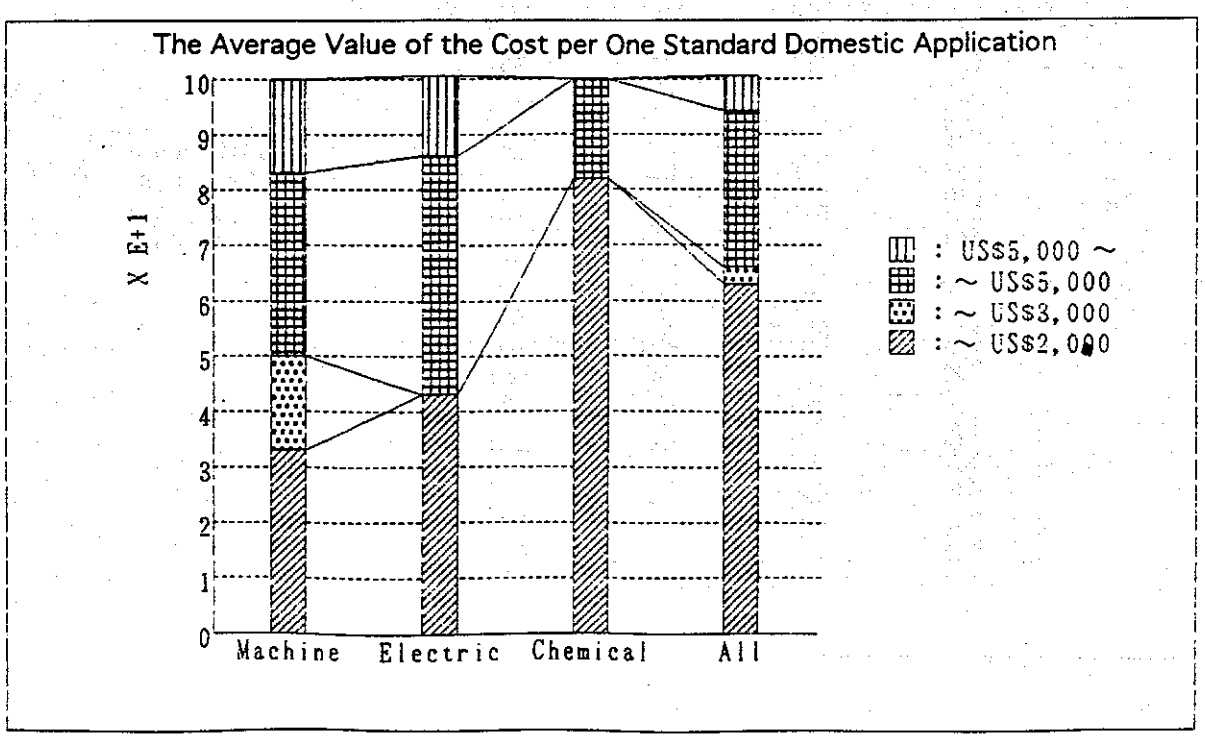
: ~ ¥500,000
: ~ ¥300,000
: ~ ¥200,000

Fig. 1 (2)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Electric
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: ~ US$5,000
: ~ US$3,000
: ~ US$2,000

Fig. 2 (1)

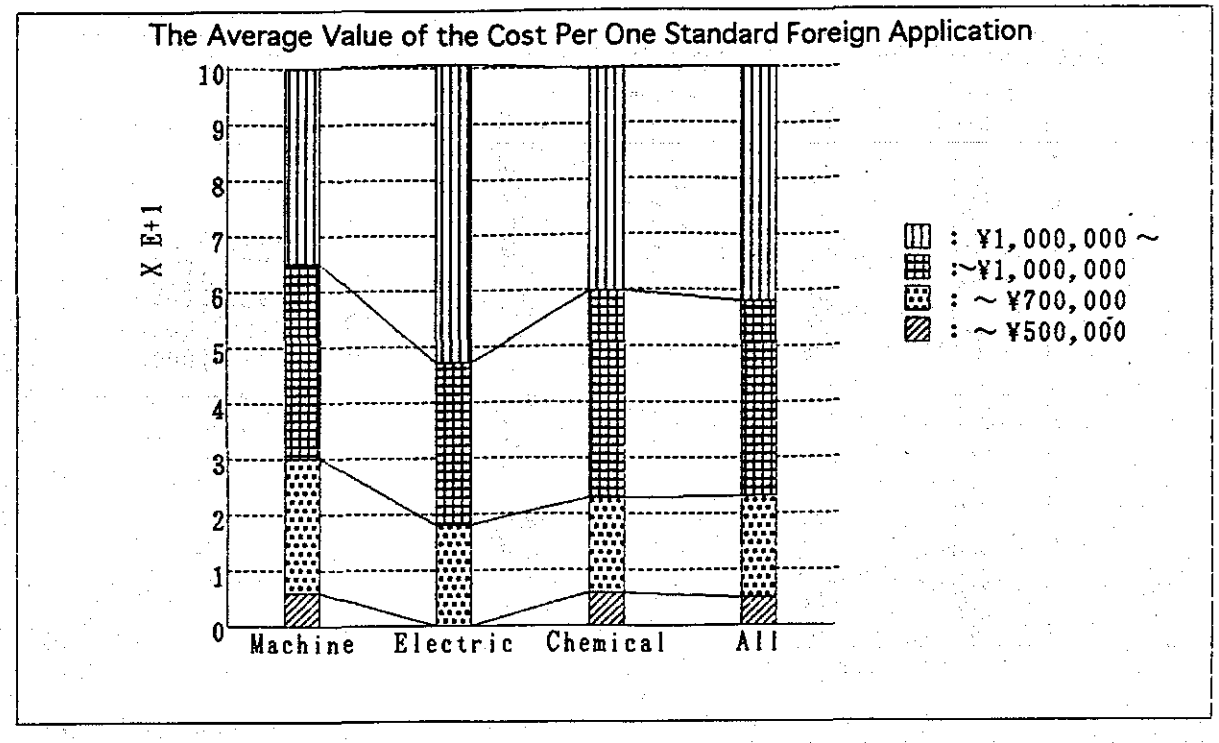

The Average Value of the Cost Per One Standard Foreign Application
X E+1
0
1
2
3
4
5
6
7
8
9
10
Machine
Electric
Chemical
All
: ¥1,000,000 ~
:~¥1,000,000
: ~ ¥700,000
: ~ ¥500,000

Fig. 2 (2)

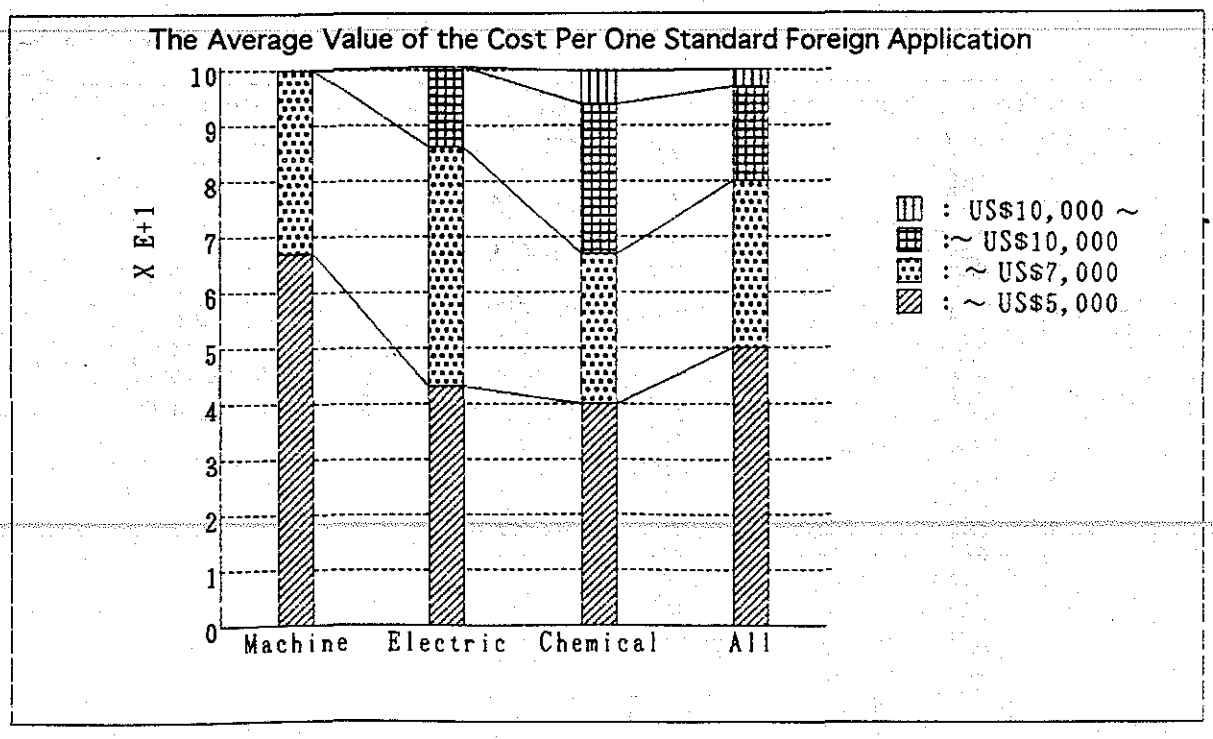

The Average Value of the Cost Per One Standard Foreign Application
X E+1
0
1
2
3
4
5
6
7
8
9
10
Machine
Electric
Chemical
All
: US$10,000 ~
:~ US$10,000
: ~ US$7,000
: ~ US$5,000

Fig. 3

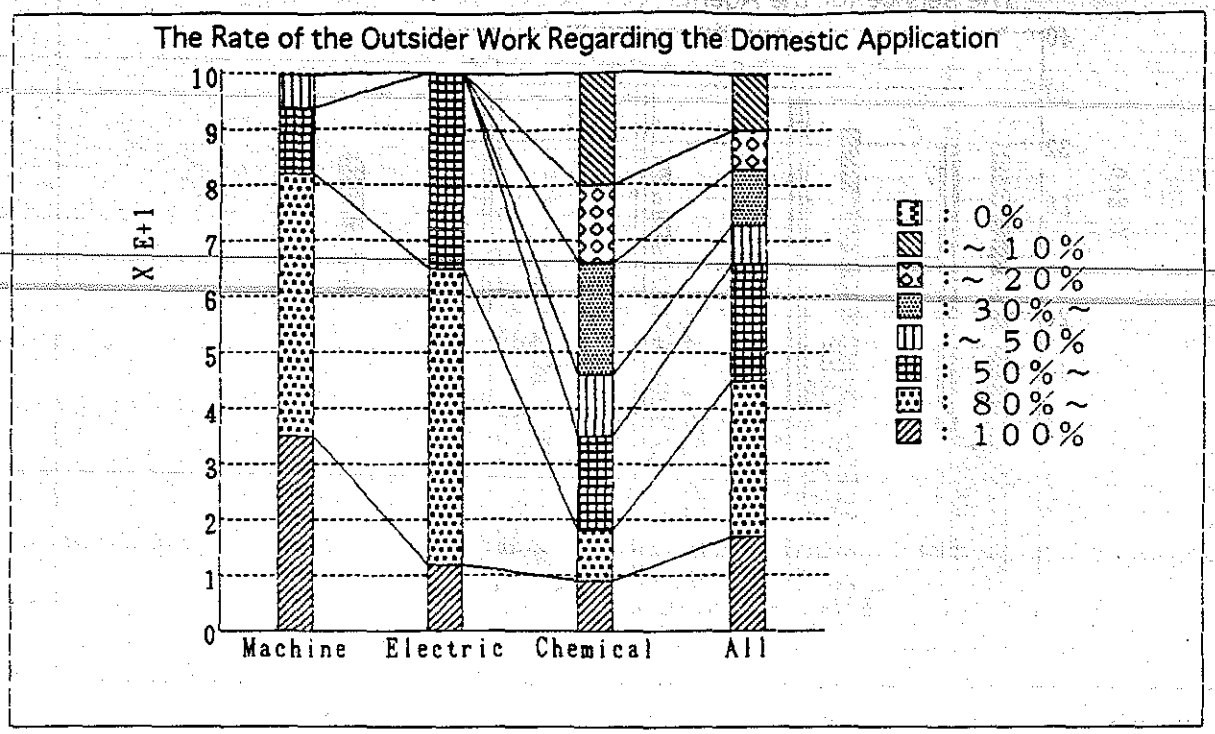

The Rate of the Outsider Work Regarding the Domestic Application
X E+1
0
1
2
3
4
5
6
7
8
9
10
Machine
Electric
Chemical
All
: 0%
: ~ 10%
: ~ 20%
: 30% ~
: ~ 50%
: 50% ~
: 80% ~
: 100%

Fig. 4

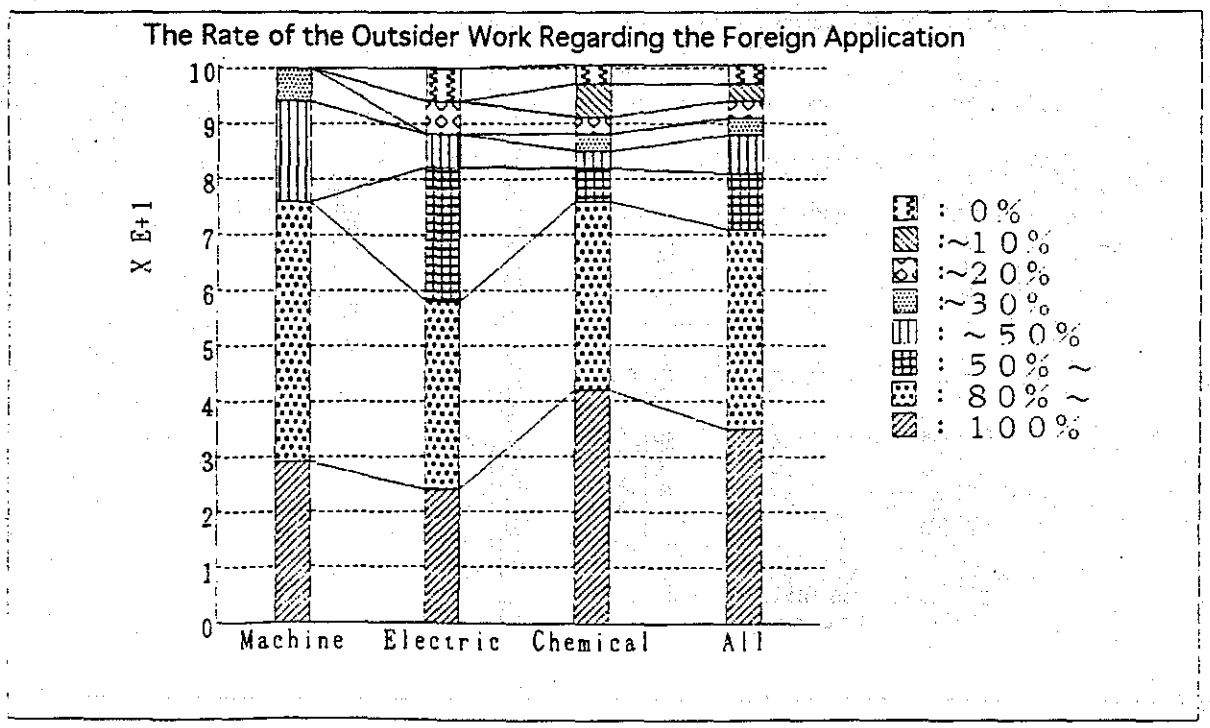

The Rate of the Outsider Work Regarding the Foreign Application
X E+1
0
1
2
3
4
5
6
7
8
9
10
Machine
Electric
Chemical
All
: 0%
:~10%
:~20%
:~30%
: ~ 50%
: 50% ~
: 80% ~
: 100%

Fig. 5

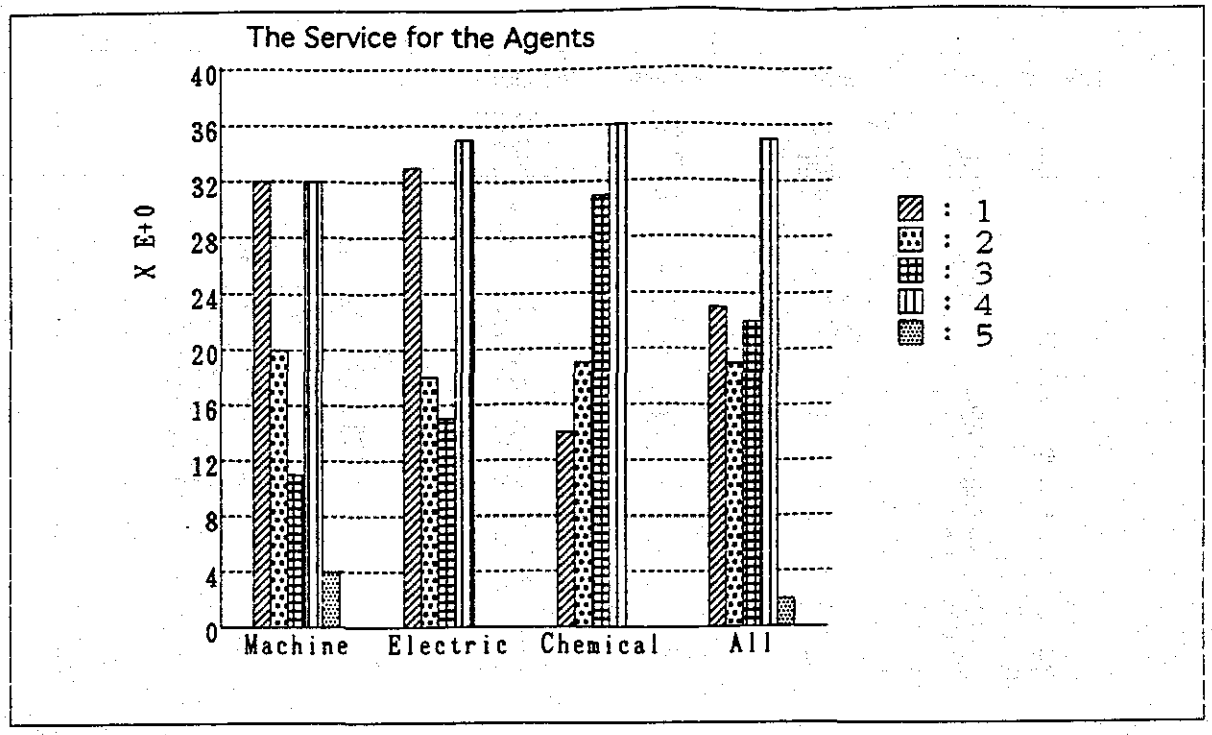

The Service for the Agents
X E+0
40
36
32
28
24
20
16
12
8
4
0
Machine
Electric
Chemical
All
: 1
: 2
: 3
: 4
: 5

Fig. 6

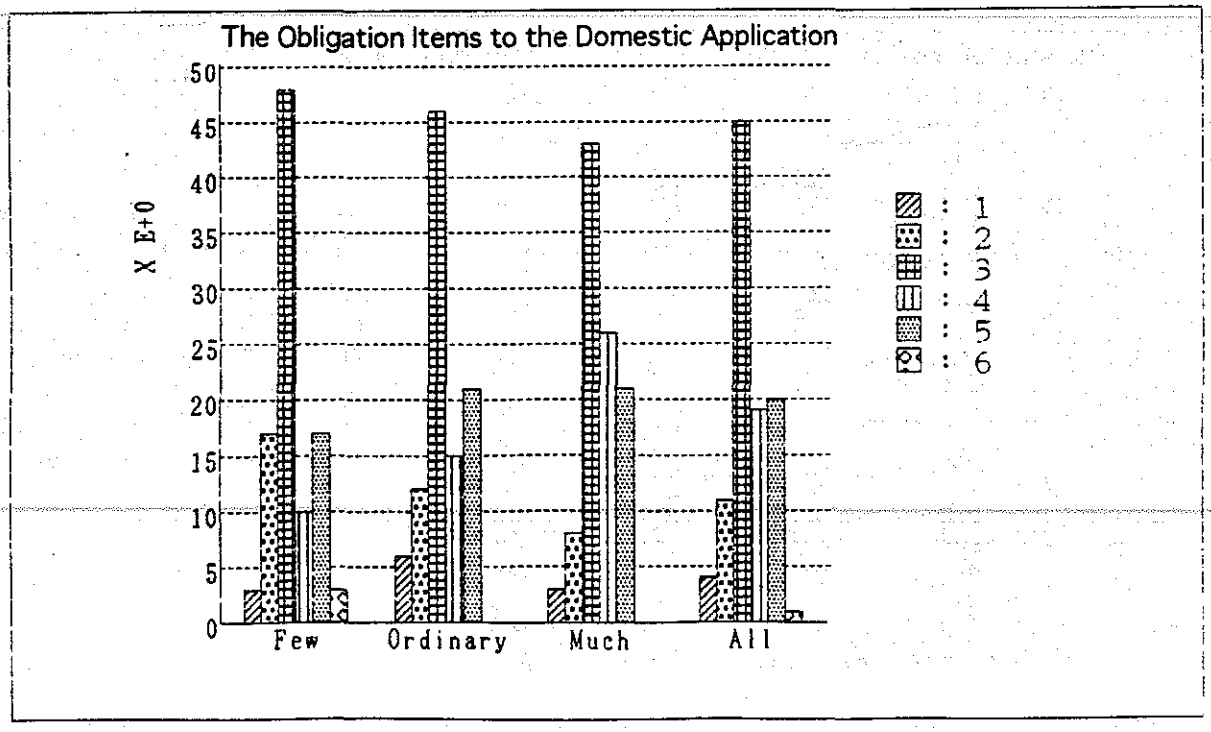

The Obligation Items to the Domestic Application
X E+0
50
45
40
35
30
25
20
15
10
5
0
Few
Ordinary
Much
All
: 1
: 2
: 3
: 4
: 5
: 6

Fig. 7 (1)

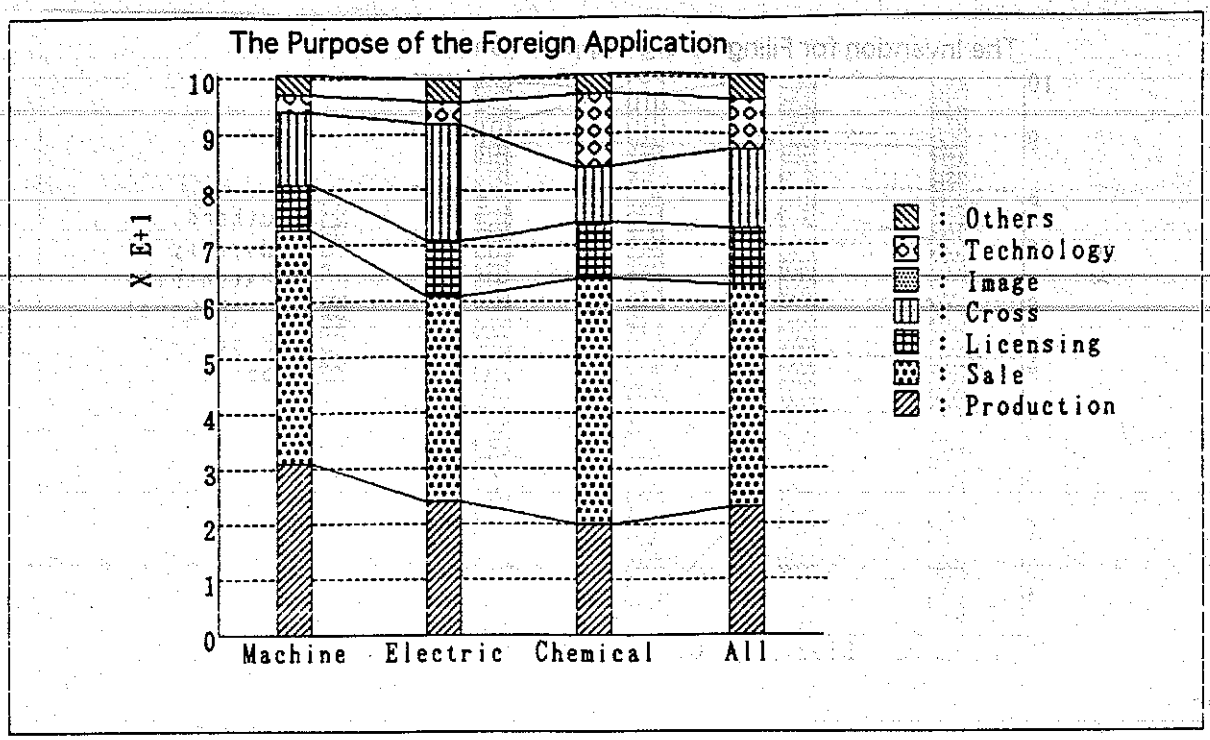

The Purpose of the Foreign Application
X E+1
0
1
2
3
4
5
6
7
8
9
10
Machine
Electric
Chemical
All
: Others
: Technology
: Image
: Cross
: Licensing
: Sale
: Production

Fig. 7 (2)

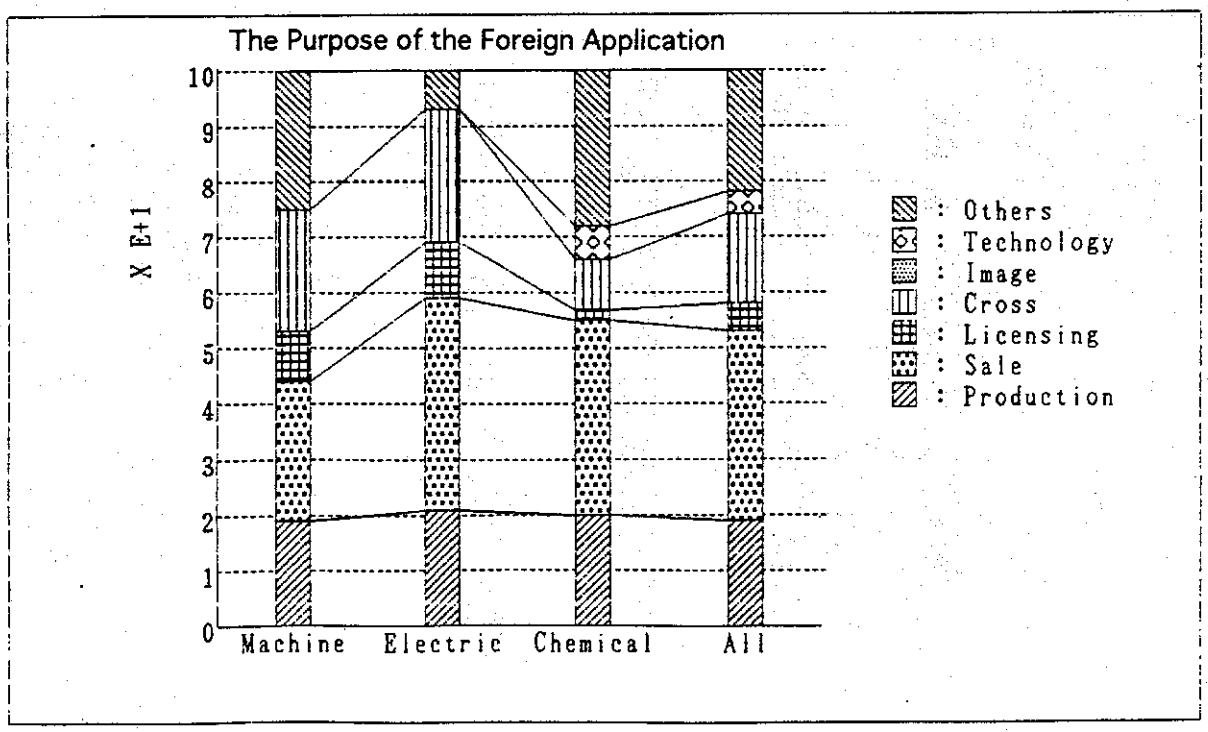

The Purpose of the Foreign Application
X E+1
0
1
2
3
4
5
6
7
8
9
10
Machine
Electric
Chemical
All
: Others
: Technology
: Image
: Cross
: Licensing
: Sale
: Production

Fig. 8

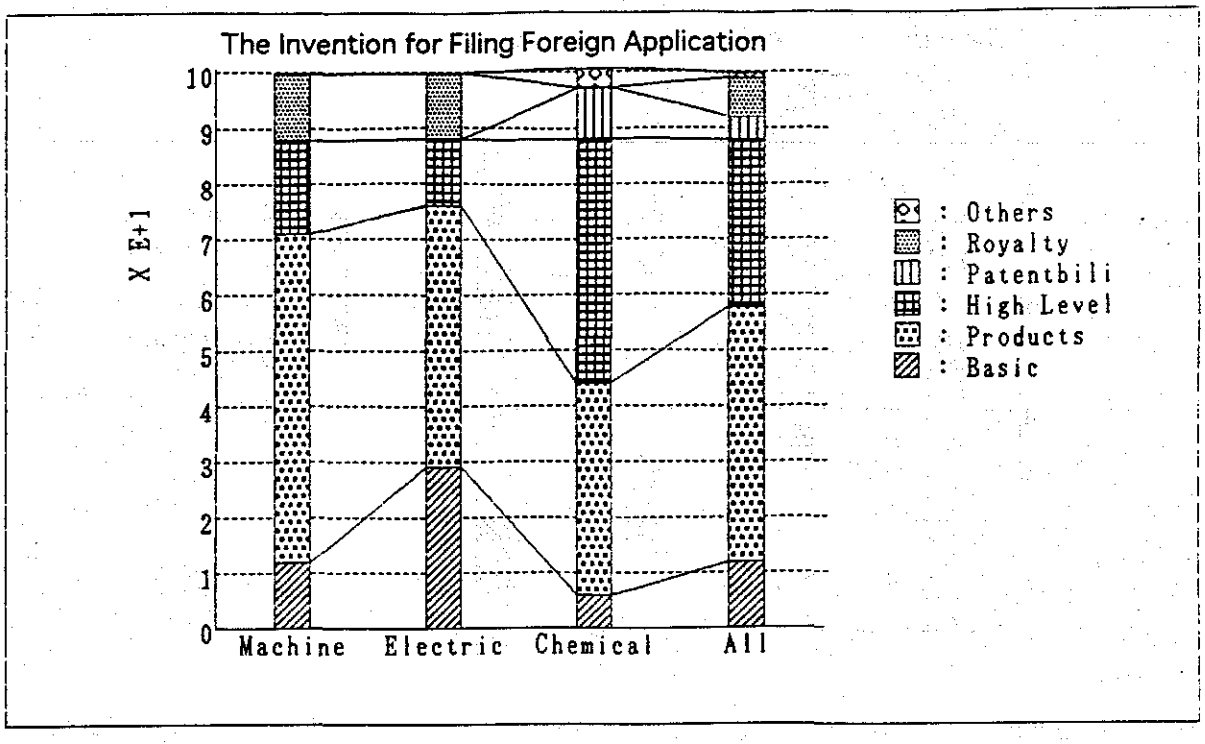

The Invention for Filing Foreign Application
X E+1
0
1
2
3
4
5
6
7
8
9
10
Machine
Electric
Chemical
All
: Others
: Royalty
: Patentbili
: High Level
: Products
: Basic

Fig. 9

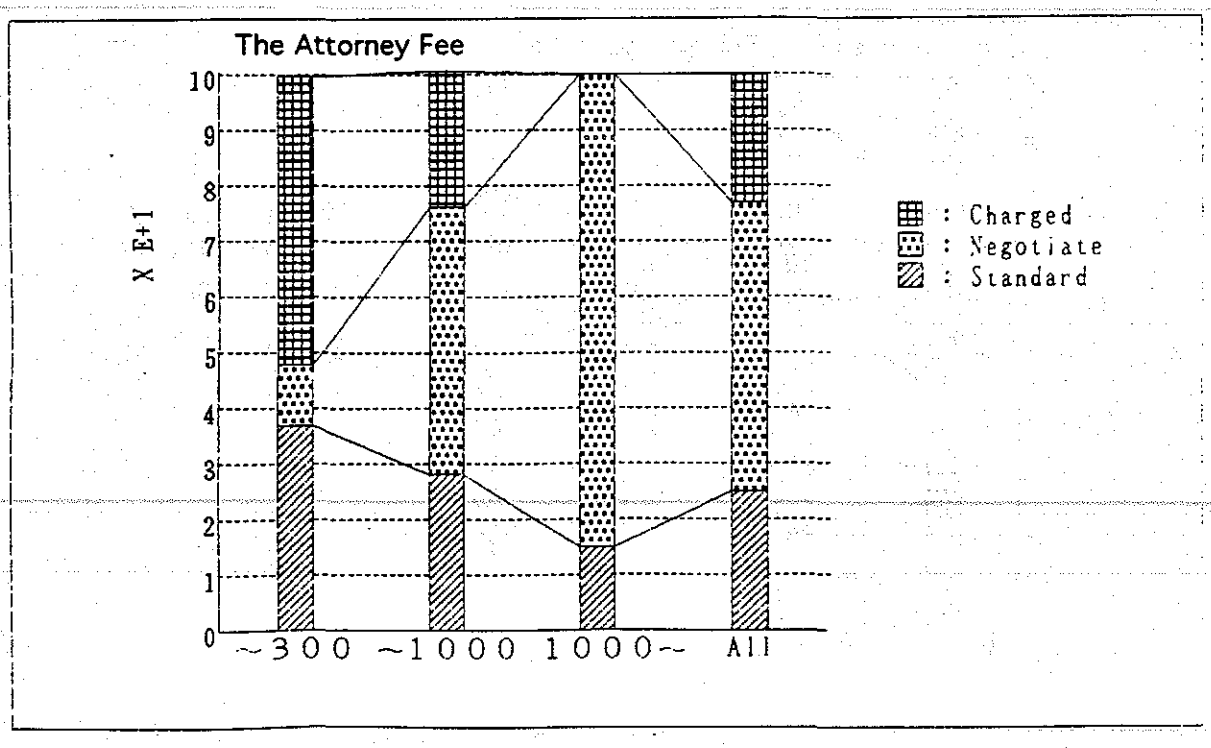
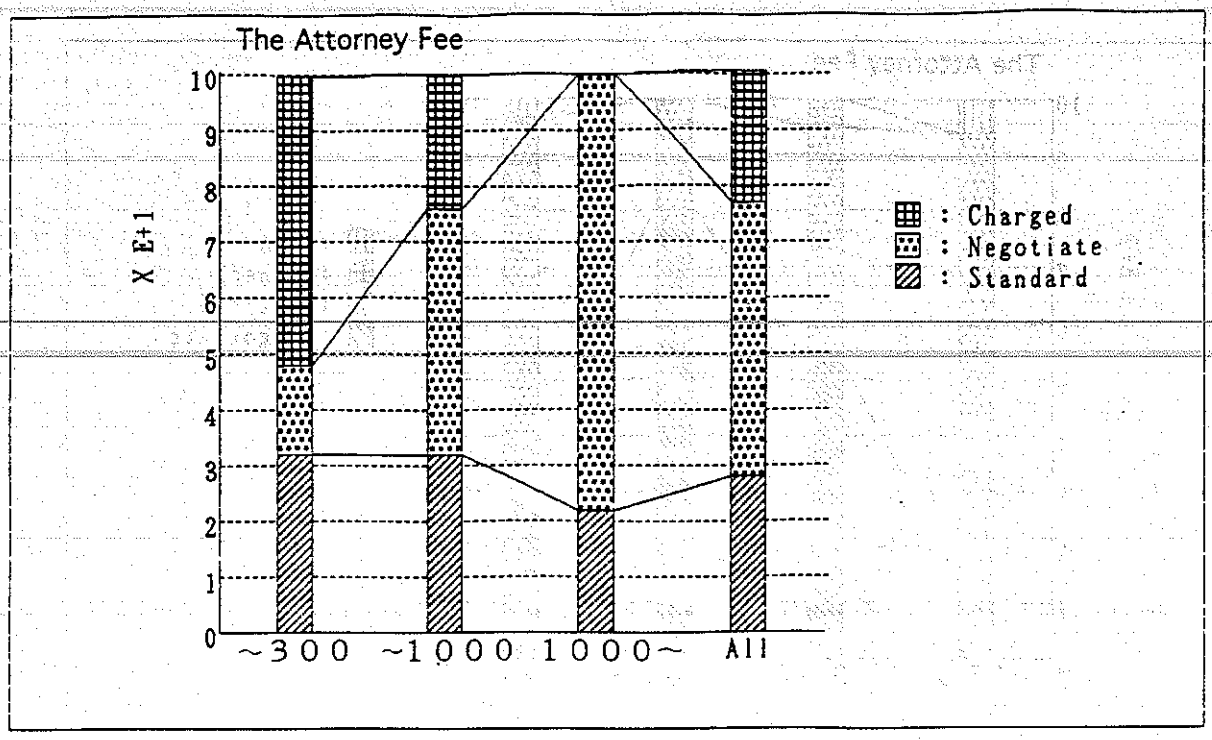

The Attorney Fee
X E+1
0
1
2
3
4
5
6
7
8
9
10
~300
~1000
1000~
All
: Charged
: Negotiate
: Standard

Fig. 10


The Attorney Fee
X E+1
10
9
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6
5
4
3
2
1
0
~300
~1000
1000~
All
: Charged
: Negotiate
: Standard

Fig. 11

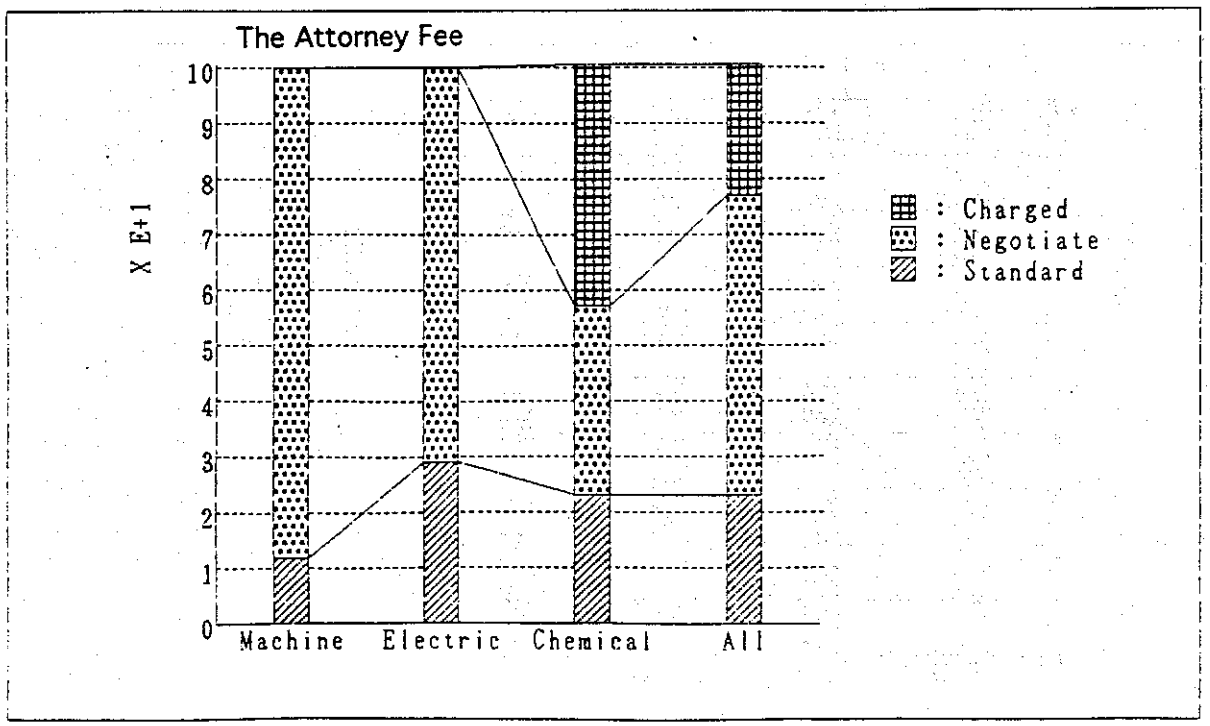

The Attorney Fee
X E+1
10
9
8
7
6
5
4
3
2
1
0
Machine
Electric
Chemical
All
: Charged
: Negotiate
: Standard

Fig. 12 (1)

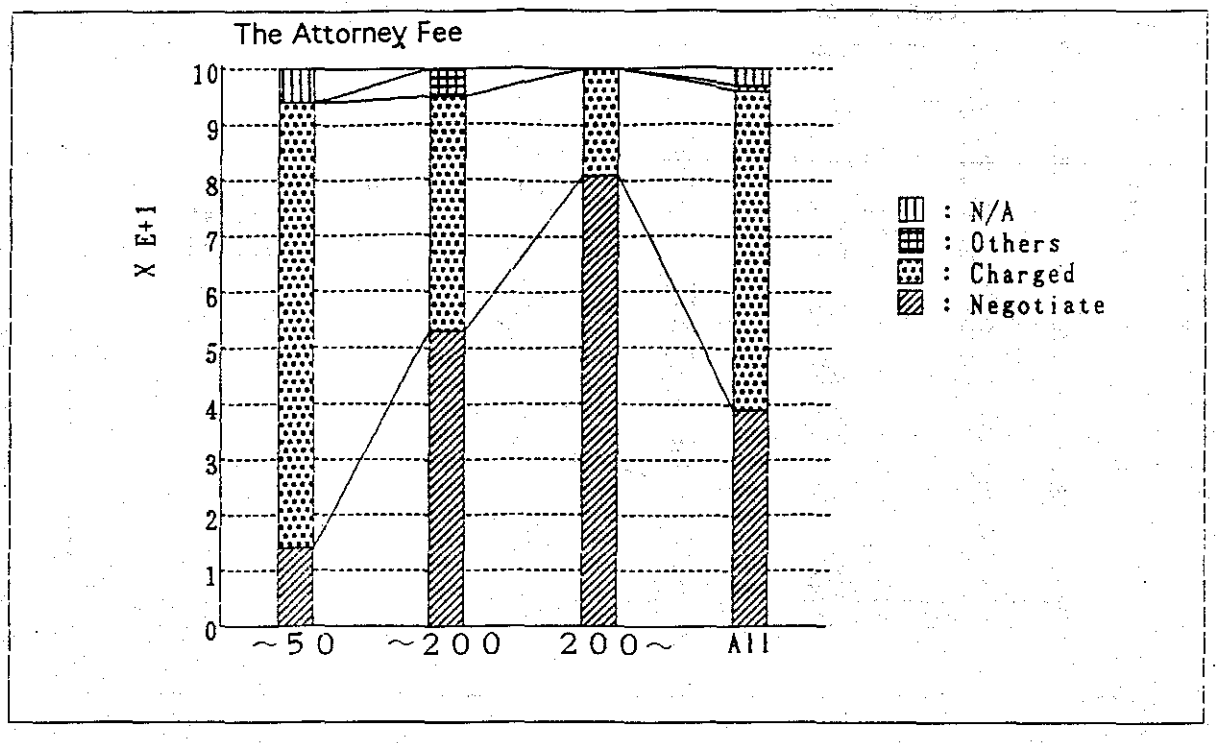


Fig. 12 (2)

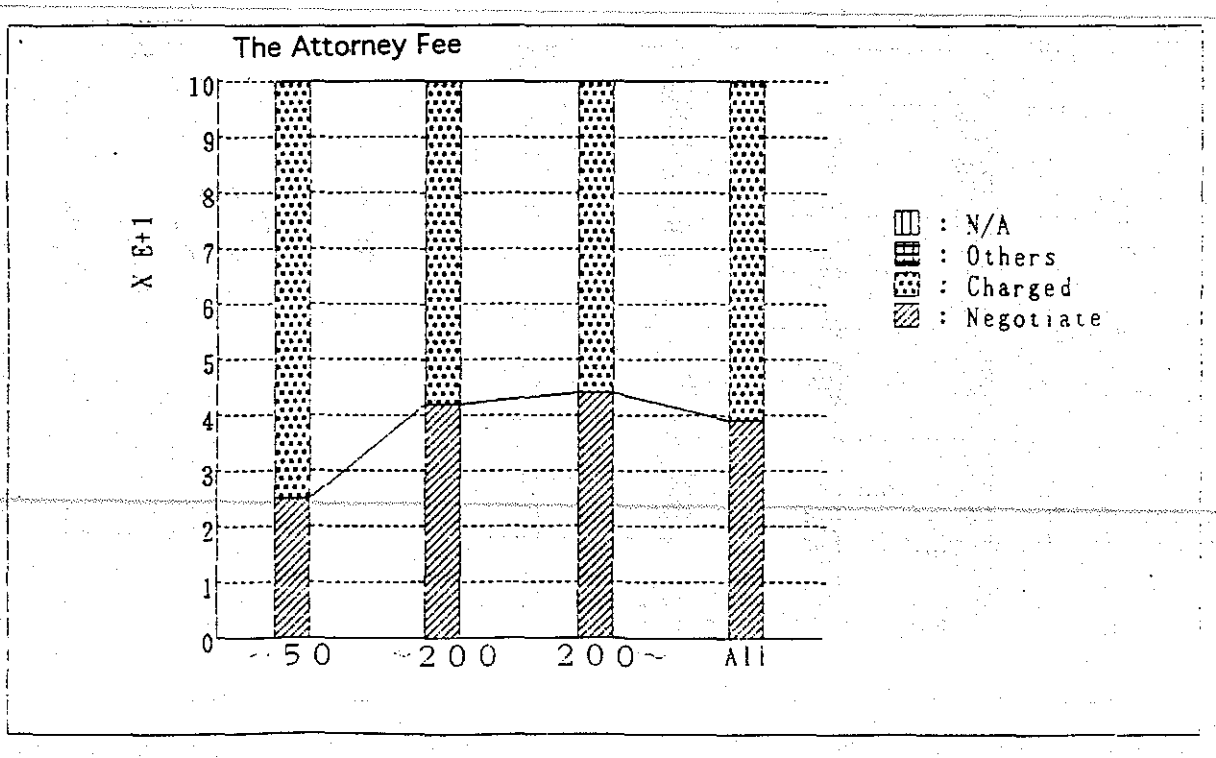


Fig. 13 (1)

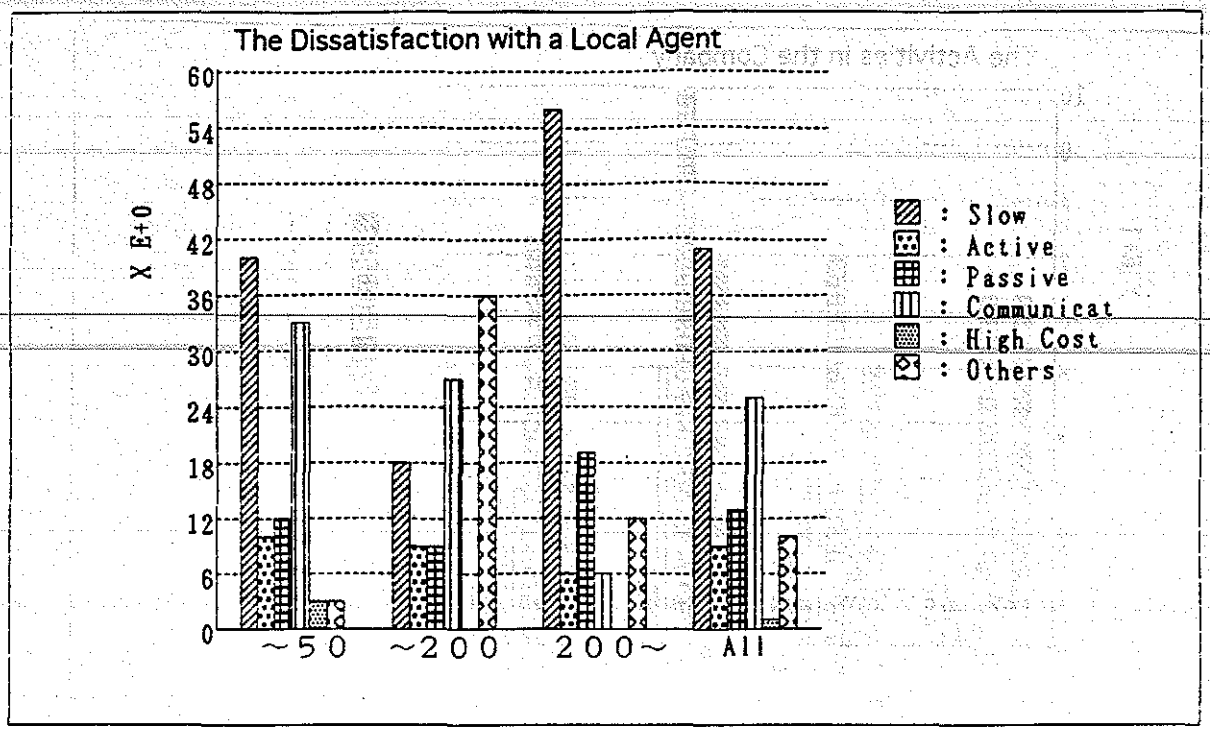


Fig. 13 (2)

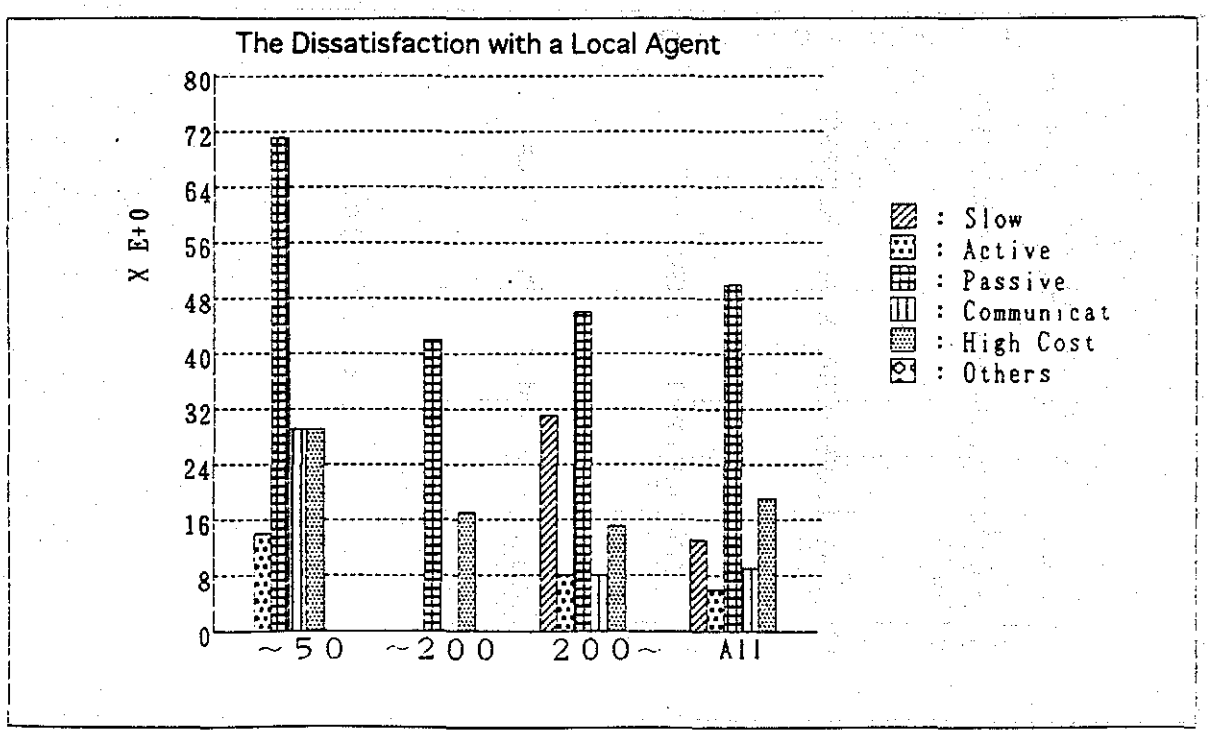


Fig. 14 (1)

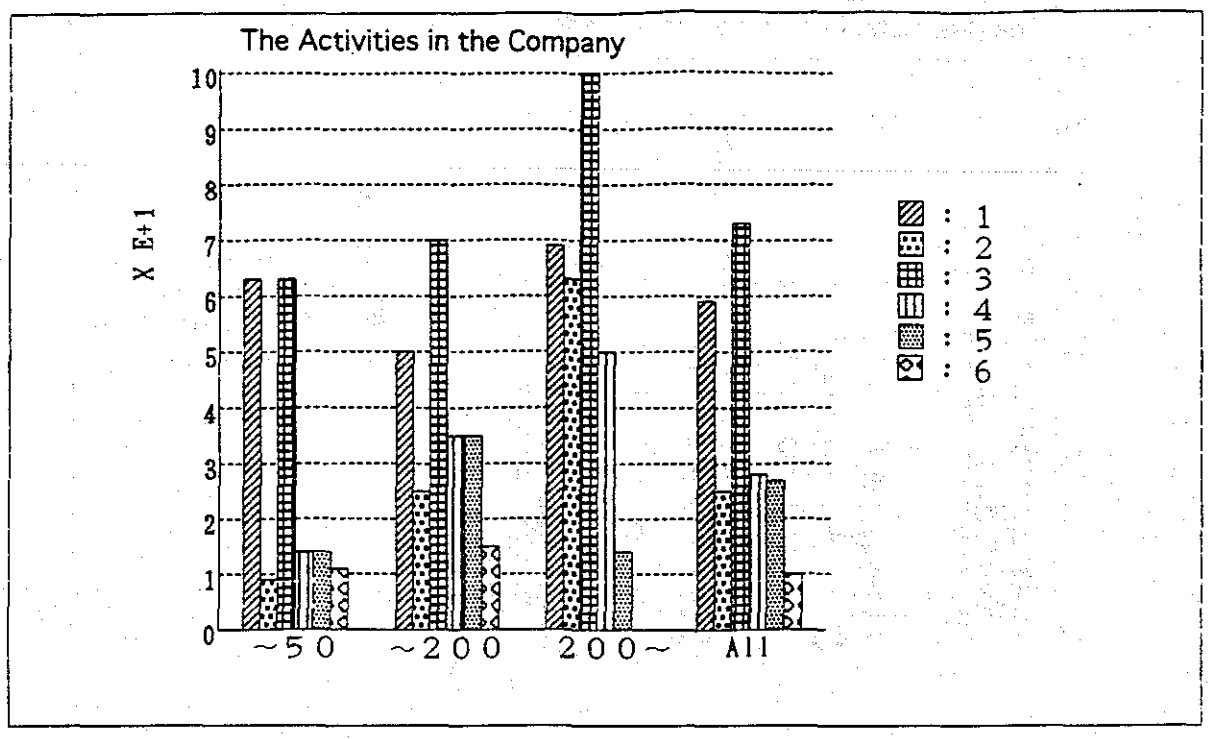


Fig. 14 (2)

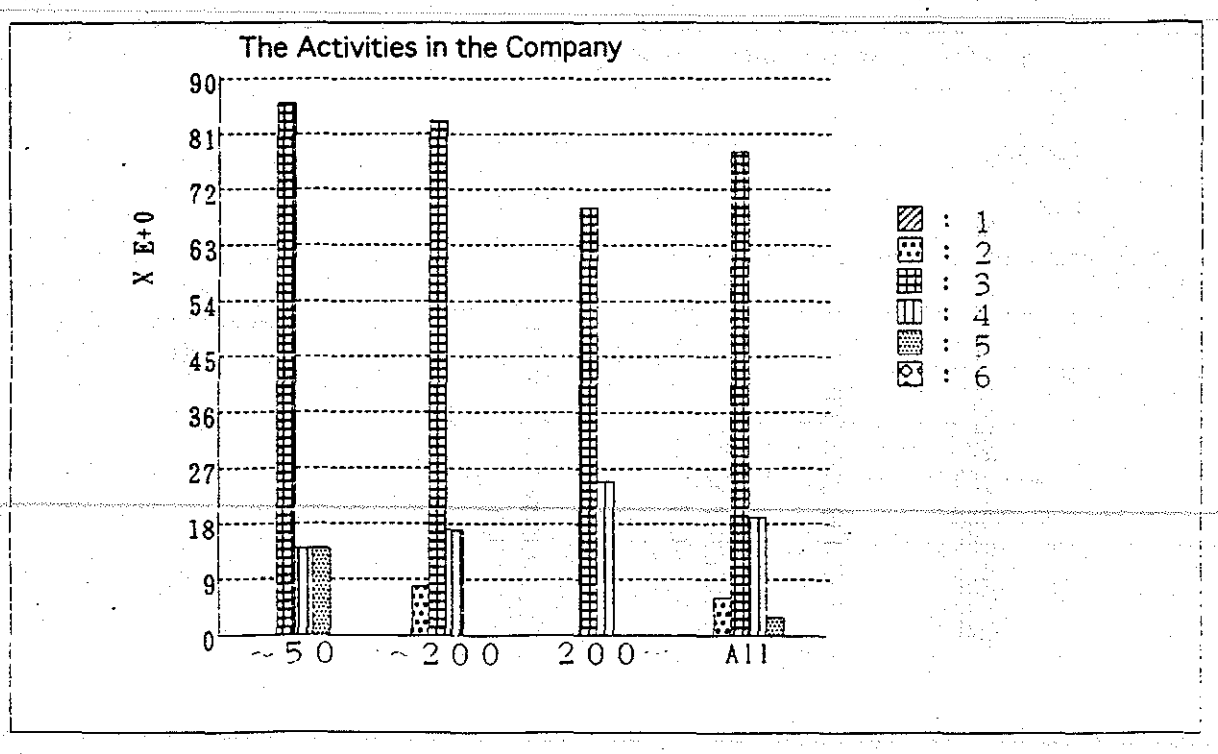


Fig. 15

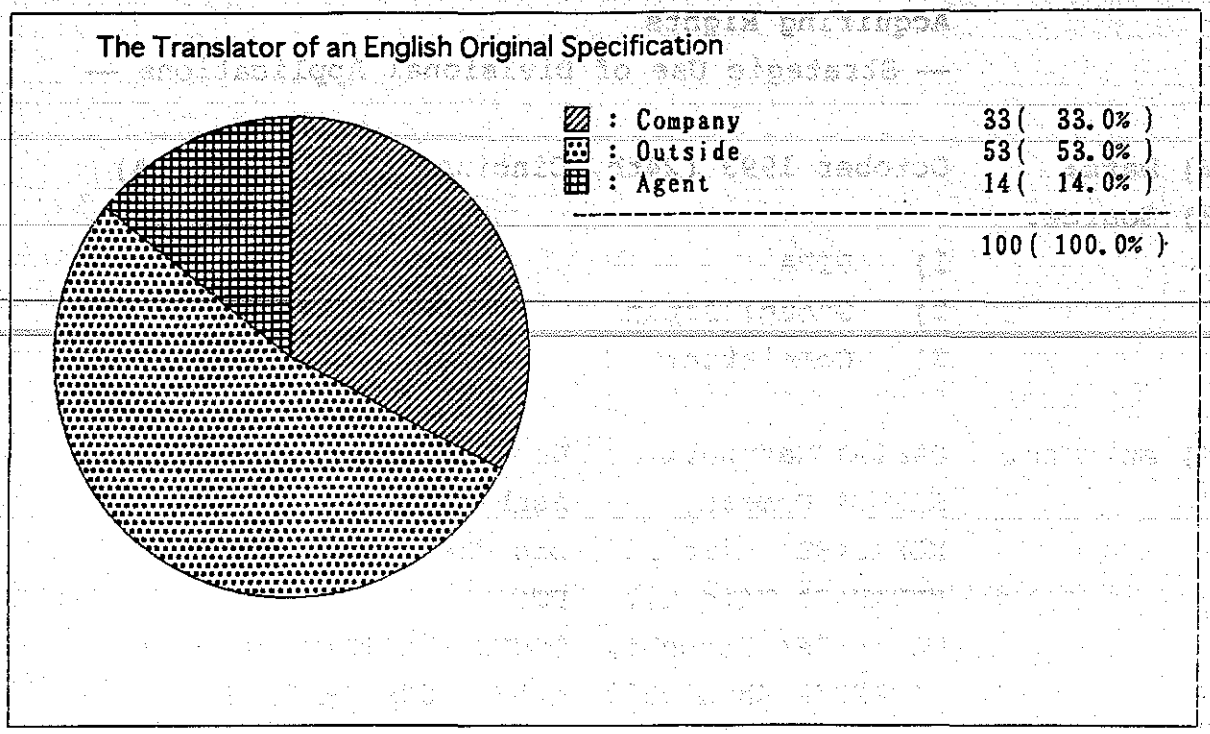
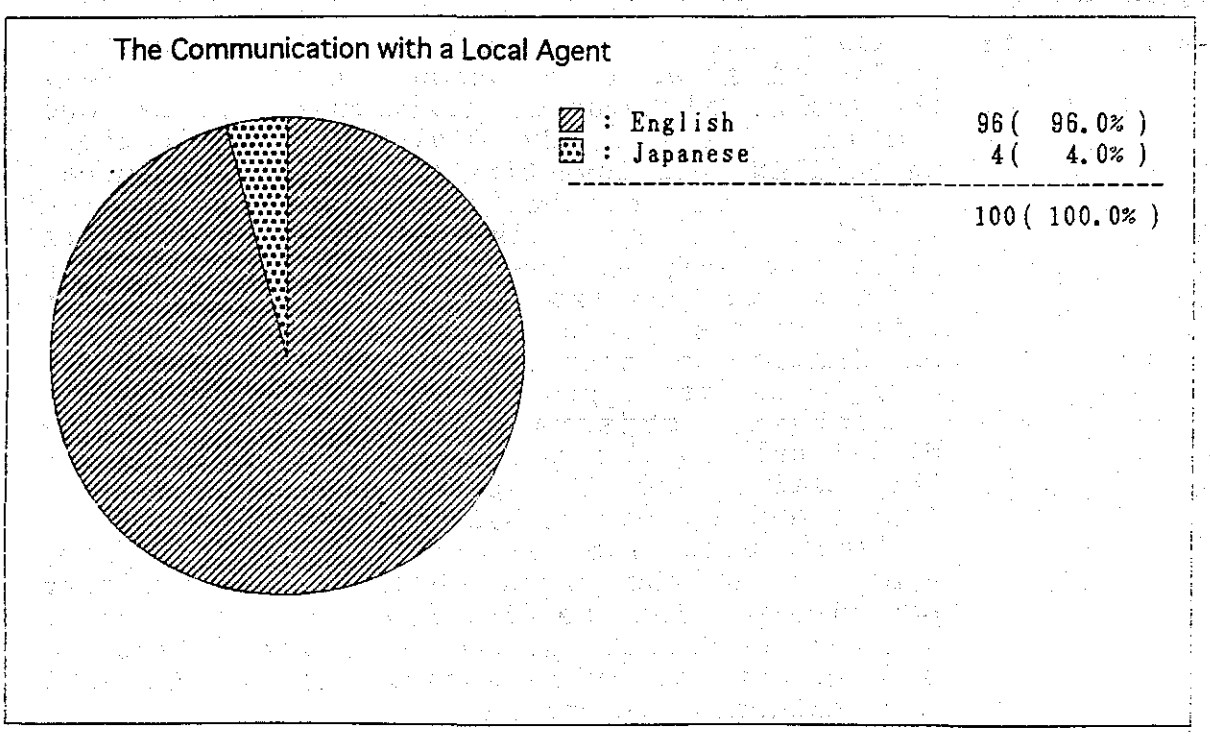

The Translator of an English Original Specification
: Company 33(33.0%)
: Outside 53(53.0%)
: Agent 14(14.0%)
100(100.0%)

Fig. 16


The Communication with a Local Agent
: English 96(96.0%)
: Japanese 4(4.0%)
100(100.0%)

(1) Title: Strategic Method for Filing Applications and Acquiring Rights
— Strategic Use of Divisional Applications —

(2) Date: October 1993 (24th, Cincinnati, Ohio, U.S.A)

(3) Source:

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

(4) Authors:

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MORISHIMA Hiroshi,	TOKYO ELECTRIC CO., LTD.
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OOGA Katsumi,	TOSOH CORP.
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(5) Keywords: Patent; Divisional Application

(6) Satutory Provisions: Article 44 of the Japanese Patent Law

(7) Abstract: Among the patent applications which were published after examination (Kokoku) in 1992, the number of those by divisional applications and the time when the divisional applications were filed were investigated for each technical field. The result of the investigation revealed that the divisional applications were filed not only at the stage of receiving the official actions from the JPO but also rather often at the stage of filing a request for examination and also at the stage of submitting a reply against opposition.

Further, objects and methods of the divisional applications were analyzed out of the claims and the specifications for the parent and the divisional applications.

Based upon the result of the analysis, examples of the cases wherein the applicant positively filed the divisional applications in view of licensing opportunities are introduced and strategic utilization of divisional applications is proposed.

I. Introduction

In recent years, the importance of intellectual property right in business scene is more and more increasing. As a result thereof, an object of filing patent applications has changed from preventing other companies from obtaining patent and protecting one's own technology, to monopolizing one's own technology and licensing to others. Thus, strategic filing of patent applications and obtaining patents which are directly connected to business are becoming more and more important.

Patent applications are classified in terms of object of the application as follows.

- Strategic
  - Offensive: Its object is not only to protect one's own technology but also to exclude the sharing-in of others (i.e. prohibition of use) and to give a license. Many pioneer inventions are within this category.
  - Defensive: Its object is to protect the technology used in one's own company. Many peripheral technologies surrounding the pioneer invention are within this category.

In Japan, applications with an offensive object are not so many as yet but the applications with a defensive object still constitute a mainstream. Even the application with an object of protecting one's own technology is very important for that enterprise to carry out the business with a sense of security. Thus, we believe that such an application has a strategic factor with a viewpoint that how the developed technology is protected by patent rights. Accordingly, in this paper, both offensive and defensive applications are defined to be strategic applications.

As a part of a big theme, "strategic method for filing applications and obtaining rights", this paper focuses on divisional applications and investigates their strategic

utilizations. In this paper, the divisional applications are chosen as our theme for the following two reasons:

① The patent right obtained even by means of divisional applications would be important to the applicant and therefore, strategic factor may be contained in drafting claims; and

② A primary object of divisional application in the patent system is to retrieve an invention which does not meet the legal requirement for incorporating plural inventions in a single application. However, there is a possibility that the invention which was not originally claimed may be newly claimed whereby strategic claims meeting the market movement may be added.

This paper has an object of contributing to the strategic corporate activity for obtaining patent rights, introduces the actual state of utilization of divisional applications and proposes the strategic method of utilization. More specifically, we analyzed timing of filing the divisional application and the relation between the parent and the divisional applications which were published in 1992. Based upon the result of the analysis, we introduce the examples of strategic utilization of divisional applications and propose the strategic means for utilizing those.

II. Divisional Application System

II-1 Regulations in the Japanese Applications

(1) Significance of Divisional Applications

Division of an application is to file a new application for one or more inventions when the already-filed application describes two or more inventions in its specification or drawing(s) (Patent Law, Article 44). When a divisional application is appropriately filed in accordance with the provisions of Article 44 of the Patent Law, said divisional application is regarded as being filed on the filing date of the parent application. Accordingly, it is advantageous that

no drawback is found in judging patentability. A divisional application may be filed when the applicant wishes but, in many cases, it is filed against the official action in which the Examiner pointed out the lack of unity of invention.

(2) Possible Applicant for Divisional Application

The applicant for the parent application at the time of divisional application can do that. If the parent application was assigned before the divisional application, said assignee is capable of filing the divisional application. In case of application filed by two or more applicants, it is necessary that divisional application be filed by all of such co-applicants.

(3) Subject Matters for Divisional Application

Principally, divisional application can be filed on an invention which is described in the original specification, claims or drawing(s) of the parent application. Accordingly, it is possible to file a divisional application for a part of two or more inventions described in the original claim(s) in the parent application and also to file a divisional application for an invention described in the part other than the claims of the parent invention, i.e. in the specification (detailed description of the invention) or in the drawing(s).

In the past, the Japanese MPEP regulated that, once a Notice of Publication of the Application is issued from the Examiner, only the invention which was described in the claims can be divided out. However, at present, it is possible to file a divisional application for an invention which was not described in the claim even after the above Notice is issued (cf. Decision Sho-58[Gyo-tsu]140 issued from the Supreme Court on 13th March, 1981). It should, however, be noted that the part which was deleted from the specification by an Amendment filed before the publication cannot be basis for a divisional application after the above Notice is issued. (cf. Decision

Sho-57[Gyo-ke]225 issued from Tokyo High Court on 23rd May, 1984).

(4) Applicable Time Period For Filing Divisional Application

A divisional application may be filed when the specification can be amended (cf. Article 44 of the Patent Law). Thus, it is possible to do that during the following time periods.

- within one year and three months from the filing date;
- upon filing of a request for examination by the applicant;
- within 3 months from the date of receipt of notification that the request for examination from the third party was filed;
- within a period when a reply can be filed against the official action;
- within 30 days from the date of filing an appeal trial against the rejection of the application; and
- within a period for filing a reply against the opposition.

(5) Procedures for the divisional Application

① New specification and drawing(s) should be attached to the application document and filed with the JPO. The parent application is to be indicated in this application (cf. Form 13; Patent Enforcement Regulations, Article 23). Omission of drawings by mere referring thereto is not allowed.

② Claiming of priority on Paris Convention, claiming of domestic priority and request of application of grace period should be freshly conducted.

③ Filing of power of attorney, assignment, nationality certificate, priority certificate (convention document), certificate for grace period, etc. may be omitted by referring to those of the parent application.

④ When the parent application is to be amended, that should be done together with the filing of the divisional application (cf. Patent Enforcement Regulations, Article 30).

⑤ Request for examination for the divisional application should be conducted independently from that for the parent application. When the divisional application is filed seven years or more after the parent application was filed, a request for examination for the divisional application may be filed within 30 days from the filing date of the divisional application.

(6) <u>How the Divisional Application is regarded</u>

① Due divisional application is regarded as being filed on the filing date of the parent application (cf. Article 44 of the Patent Law). Claiming the priority for the parent application may be regarded to be effective as well.

② In an undue divisional application, the above-mentioned retroactivity of filing date is not allowed but such divisional application is regarded to be filed on its actual filing date. In that case, it is usual that the Laid Open Gazette of the parent application is taken into consideration in judging the novelty and the inventive step of the divisional application.

II-2. Comparison with Divisional Application System in Other Countries

For better understanding of the Japanese divisional application system, it will be compared with those in other countries. U.S.A. and EPC were taken as examples of other countries. Result of the comparison is given in Table 1. So

far as the United States are concerned, comparison was made including the continuation applications (i.e. both CA and CIP) because of the following reasons.

CA is primarily a system for relieving additions and amendments of claims while CIP is that for relieving addition of new matters and their objects seem to be different from that of divisional application system. However, in those continuation applications, it is possible to add and amend claims depending upon the content disclosed in a part of the parent application like the divisional application system whereby the continuation applications can be used in the same way as the divisional one. Accordingly, our comparison was made including CA and CIP as well.

One of the differences in the divisional application system in Japan from those in U.S.A. and EPC is the term allowed for filing divisional application. In U.S.A. and in EPC, divisional application may be filed at any time until the application is issued/patented or is abandoned while, in Japan, divisional application can be filed during the limited period only when certain action can be carried out from the applicant such as, for example, at the time of filing a request for examination or within a period for filing a reply against the official action if one year and three months have elapsed since the filing date. For example, in the United States, it is possible that the claims canceled during a period for requirement of restriction can be subjected to a divisional application even after the notice of allowance is issued. However, in Japan, when an official action for the lack of unity of invention is issued, the parent application can be amended to cancel some claims. But if said application is published and, without any opposition, patented, the applicant has no longer an opportunity of filing a divisional application. Accordingly, in Japan, it is necessary for the applicant to decide whether a divisional application is to be filed when the applicant is going to carry out each of actions. It is especially important for the applicant to consider whether the divisional application is to be filed to

deep extent when the request for examination is filed with the JPO. This is because that might be the last chance for filing the divisional application if the application is allowed receiving neither official action nor opposition.

Then, we shall refer to the countermeasure when the rejection is issued from the JPO to the effect that the parent application and the divisional one claim substantially the same invention. If such a rejection is issued and if the parent application is withdrawn, the divisional application is regarded to be contrary to the legal requirements (cf. chapter 6.4 "Division of Application" in MPEP of JPO). As a result, said divisional application will be regarded to be filed upon filing of the divisional application. In that case, there may be no problem if said date is prior to the laid-open date of the parent application. However, in many cases, said date will be after the laid-open date of the parent application when the divisional application is rejected in view of "substantially same" whereby there is a big possibility that the divisional application is rejected in terms of novelty and inventive step depending upon the content of the parent application which has been laid open already. Consequently, when the rejection is issued because of the reason that both parent and divisional applications are substantially the same, the measure that will be taken by the applicant is either one of those applications is amended so that they are not substantially the same any more or the divisional application is withdrawn.

III. State of Utilization of Divisional Application

III-1. Rate of divisional Applications in All of Published Applications

(1) Method for the Search

With an object how divisional applications are utilized in each of technical fields, all of patent applications which were published (after examination) during 1992 (from January 1 to December 31) were checked and total publication numbers

(A), numbers (B) of divisional applications in A and their rate (i.e. B/A) were searched in accordance with the IPC (only the first-given IPC was checked).

The search was conducted using PATOLIS which is a database of JAPIO (Japan Patent Information Organization) and the numbers of total publications and of divisional applications were checked according to sections A to H of the IPC. Only the first-given IPC was searched so that duplication of the search result was avoided.

(2) Result of the Search

The search result for each section of the IPC is given in Table 2. From Table 2, it is apparent that, almost independently of the technical field, the rate of the divisional applications to the total publications is around 2 to 4%. Most of the patent applications searched are the applications which were filed before January 1, 1988 when the Amended Multi-Claim system was adopted by the JPO.

III-2. When the Divisional Applications were Filed

(1) Method of the Search

If there are many "strategically divided" applications, it is presumed that there are many voluntary divisions when the request for examination was filed and also many divisional applications after publication (after examination). Therefore, we checked when the divisional applications were filed. The search was conducted as follows. Thus, among the divisional applications which were published from January 1 to December 31 of 1992, the following (sub)classes were chosen in which the numbers of divisional applications are relatively many (50 cases or more).

* Chemical: A61F (pharmaceuticals), C01 (inorganic), C07 (organic) and C08 (organic polymers);

* Mechanical: F01 to F04 (machines or pumps);

* Physical: G02 (optical), G03 (photography) and G06 (calculators); and

* Electrical: H01 (electric elements) and H04 (electric communications)

PATOLIS was also used for the search and the search was conducted in accordance with the following steps.

i) filing number, filing date, laid-open number, publication number and publication date for each divisional application were searched for each classification;

ii) filing number of the related application (parent application) was searched out of the filing number of the divisional application;

iii) case history of the original application during examination was searched; and

iv) time when the division was made was decided out of the case history of the original application and also of the filing date of the divisional application.

The stage of filing divisional application was roughly classified into before and after publication and the numbers were counted for further classifications as given below.

A. Before Publication

A1: within one year and three months from the date of filing (Article 17)

A2: together with the request for examination (no. 1 of Article 17 bis)

A3: within three months when the official notice advising of request for examination from the third party was received (no. 2 of Article 17 bis)

A4: within a term from the receipt of the official action (no. 3 of Article 17 bis)

A5: within 30 days from the date of filing an appeal trial against the rejection (no. 4 of Article 17 bis).

B. After Publication

B1: within a term from the receipt of opposition (Article 64)

B2: within a term from the receipt of official action (no. 3, Article 17 bis)

B3: within 30 days from the date of filing an appeal trial against the rejection (no. 4 of Article bis)

The reason why we classified the cases into before and after publication is as follows.

The divisional application after publication is those after receiving opposition and, since the degree of importance of said application in that particular technical field can be speculated as a result of being opposed, it is well presumed that such a divisional application is with claims in which multifacial protection of technology of one's own company is taken into consideration or is with claims in which the possibility of licensing to others is taken into consideration as a result of being conscious of developed products of other companies.

With regard to the divisional applications filed after receiving the official action (i.e. A3 and B2), the cases both during examination and during appeal trial were included.

(2) Result of the Search

The result of the search on the timing for divisional applications is given in Fig. 1 in which the numbers of the divisional applications to total publications for each classified area are given in ribbon graphs. It is clear from

whole graphs that there are many divisional applications filed within a term from receipt of official actions prior to the publication. However, with regard to the rate for each divisional timing, there are considerable differences among the technical fields.

Thus, in a chemical field, divisional applications after the receipt of official action are as much as around 70 to 80% of total divisional applications but those together with request for examination and those after publication are relatively in small numbers. On the other hand, in mechanical, physical and electrical fields, the result is that, though there are some difference among the fields, the numbers of divisional applications within a term after receipt of official action before publication is considerably less (around 30 to 40%) as compared with the case in the chemical field while divisional applications upon filing an appeal trial are as many as around 20 to 30%. Further, with regard to the divisional applications made after publication, the numbers are around 10 to 20% except in G02.

Discussions will be made for each technical field as hereunder.

(3) Discussions

(a) Chemical Field

Numbers of divisional applications within a term upon receipt of official action before publication are as many as around 70 to 80% of total cases. The reason will be that, in chemical field, the rate of applications filed by foreign enterprises in the total divisional applications is very high as compared with other fields as shown in Fig. 2.

Thus, when foreign enterprises filed their applications with the JPO, it is likely that many of them are based upon the claims filed in their home countries. It seems that, though such claims meet with the requirements for unity of invention in their own countries, many of them do not satisfy

the regulations for the same in Japan. Thus, most of the applications were filed in 1987 or before that year prior to the enforcement of amended multi-claim system in Japan and, since the conditions were rather severe as compared with other countries, their claims do not seem to meet with such old requirements. Therefore, it seems to us that, when they received official action from the Examiner, they checked the content of the specification so as to meet with the Japanese requirements and took a measure of filing a divisional applications for the claims which did not satisfy the regulation whereby the rate of divisional applications within a term after receipt of official actions before publication is high. For example, in C07, there are many cases wherein claims for intermediates which were not allowed under the old regulation are subjected to the divisional application.

In addition, the numbers of divisional applications filed on a voluntary basis such as those together with the request for examination are small as compared with other technical fields. In the chemical field, an invention clearly corresponds to working examples, and it is difficult to find a different invention from the same working examples to file a divisional application. For example, when a divisional application for an invention on use is intended to be filed from an application having no working examples concerning such use, it will be rather difficult to do that without addition of an examples corresponding to such use.

On the other hand, in electrical and mechanical fields, there may be plural potential inventions which can be extracted from examples and drawings and it will be relatively easy to file a divisional application based thereon. Consequently, it is likely that, in chemical field, the cases wherein divisional applications are filed in early stage such as together with the request for examination from a strategical viewpoint paying attention to the movement of other companies are small as compared with the fields of physics, electricity and machinery.

(b) Physical, electrical and Mechanical Fields

While the timing for filing divisional applications are concentrated to within a term after receipt of official actions in chemical field, the timing is relatively diversed rather uniformly in physical, electrical and mechanical fields. The reason will be as follows.

① There are many cases where different invention(s) is/are included in the detailed description of the invention or in drawings; and

② In the case of application in which the invention is taken in a device as a whole, the element per se which constitutes the device may be considered as another invention. Thus, different invention can be easily extracted.

Therefore, it is likely that there is a big freedom in terms of division and that divisional application may be filed rather easily at any stage during the examination.

In addition, there are many divisional applications on a voluntary basis, as compared with the chemical field, that are filed within one year and three months from the filing date or together with filing the request for examination. The reason seems to be that there are many cases wherein different inventions are included in the detailed description of the invention or in drawings. Also, there is a strong tendency for the applicant that the specification which was once prepared is to be utilized for various purposes taking the product development status in other companies into consideration. That will be supported by the fact that, in H01 for example, about 75% of the parent applications were patented. Thus, it is clear that patents obtension for both parent and divisional applications is aimed.

In the mechanical field (F01 to 04), the rate of divisional applications after publication is high. In the products in mechanical field, the product per se is visible and, moreover,

instructions for repairmen in which the structure of the product is fully illustrated are available in market. Therefore, detection of similar technology is easier than that in chemical and electrical fields. Therefore, drafting the claims covering the products of other companies is easier. Accordingly, it is likely that there are many cases wherein, when the application is opposed, divisional application is filed with claim(s) covering the product of other companies in addition to that of one's own after checking the products of other companies in the same business line.

IV. How to Utilize the Divisional Applications

IV-1. Objects for Utilizing Divisional Applications

Divisional applications may be classified into the following three categories in view of the objects for utilization.

① the case wherein the parent application does not satisfy the requirement for lack of unity of invention and, therefore, such unallowable part is divided out. This is an inherent object for the divisional application. In this category, there are many cases of filing divisional applications after receiving the official action from the JPO;

② the case where an invention which can be surely patented is extracted and filed as a divisional application so that said invention will be surely granted. There are many cases where the granting of the parent application is in a gray area;

③ the case where the invention which exists between the lines of the specification or in drawings is extracted and filed as a divisional application so that the new or modified invention can be patented. There are many cases where the technology which is or will be used either by one's own or other companies, is disclosed in the filed specification and is divided with an

object of protection of technology of one's own company or of licensing to others.

IV-2. Patterns for Utilizing Divisional Applications

When divisional applications are classified from a standpoint of relation between the invention of the parent application and that of the divisional application, five patterns as shown in Fig. 3 will be given.

① Pattern I: In this pattern, some of the plural inventions are subjected to division. For example, an invention B is canceled from the parent application covering two inventions (A and B) and the canceled invention (B) is to be covered by a divisional application. The object or the reason for this pattern is that the plural inventions do not meet the requirement for the unity of invention, and further that, though they meet the requirement, divisional application is still filed. The objects for the division in the latter case will be the following two:

- to surely obtain patent for A since patent obtention for B is difficult; and
- to divide into a licensable unit taking the licensing into consideration.

② Pattern II: In this pattern, plural inventions covered in an invention of generic concept are divided out. For example, the generic concept (C) covering two inventions (A and B) is restricted to A in the claims while the remaining invention B is to be covered by a divisional application. Objects of division are that, since the generic concept C is hardly patented, it is necessary to limit the coverage to A and B only though they do not meet the requirement of the unity of invention. Thus, a divisional application is filed.

Also, like in Pattern I, they meet the requirement but, still, a divisional application may be filed.

③ Pattern III: In this pattern, an invention covered by an invention of generic concept is divided out though the parent application is not restricted but is still within the generic concept. For example, out of the generic concept (C) containing an invention (A), the invention A is to be covered by a divisional application. A main object for this pattern is that the generic concept C is important, but is difficult to obtain patent and, therefore, the coverage of the parent application is not altered and only A is divided so that a part of the right is surely obtained. In that case, if the parent application is patented, the divisional application will be no longer necessary and, therefore, it may be abandoned or withdrawn.

④ Pattern IV: In this pattern, an invention which is not claimed, but implied or described, in a latent manner, in the specification or the drawings, is filed as a divisional application. For example, out of the parent application claiming an invention (A), another invention (B) described in the specification is filed as a divisional application. Objects for the division are mostly strategic that, after filing the case, obtaining a patent for the invention B is judged to be effective in business and monopoly in market or license is aimed.

⑤ Pattern V: In this pattern, an invention for a concept which is higher than the invention of the parent application is filed as a divisional application. For example, a generic concept C containing the invention A is divided out. Objects for filing the divisional application are mainly strategic. When it was found after filing that the invention A is with rather narrow coverage and the generic concept C

covering the invention A is preferred in view of business situations but, because of limitation on amendments since it was published already, the generic concept C is subjected to a divisional application. Thus, the object is to protect the technology in wider range as a result of diversification of technology of one's own company and also is to achieve a monopoly for market and license. In that case, there may be a possibility that rejection is issued because of the parent and the divisional applications are substantially the same. Consequently, in the divisional application in this pattern, claims are usually prepared with care to avoid double patenting situations. Accordingly, there are many cases of achieving substantially wider coverage.

IV-3. Examples of Utilization of Divisional Applications

Some examples of strategically filed divisional applications are illustrated as Reference 1 together with brief case history and its coverage. More specific methods for utilization obtained from those examples will be given as follows.

① <u>Chemical Field:</u>

- From the parent application disclosing inventions for starting materials, synthetic method thereof and intermediates, divisional applications for the intermediates and the synthetic methods were filed (case 1).

- From the parent application relating to a use invention, specific compounds in the use invention were filed as a divisional application (case 2).

- From the parent application relating to a process invention, a divisional application claiming the intermediates prepared during the process was filed as product patent (case 3).

- From the parent application claiming products, a process for manufacturing said products which was not claimed but disclosed in the specification was filed as a divisional application (case 4).

- From the parent application relating to a use patent, another use patent was filed as a divisional application (case 5).

② <u>Physical Field:</u>

- When the parent application was rejected in accordance with the provision of Article 29 bis of the Patent Law, plural inventions different from the prior art were filed as divisional applications (case 6).

- When it was difficult in obtaining a patent in its generic concept, divisional applications were filed for each use supplemented by specific requirements (case 7).

- When the parent application claimed on invention for multipurpose constituting elements applicable to various devices, divisional applications were filed in diversed manner by adding different elements to such constituting elements (case 8).

③ <u>Electrical Field:</u>

- When it was necessary to reduce the claims in the parent application because of amendment after publication, some constituting elements were added for restriction and other constituting elements were described in terms of generic concept in the divisional application whereby substantially wide coverage was achieved (case 9).

- Inventions meeting the present market trends were extracted from the parent application and filed as divisional applications (case 10).

④ **Mechanical Field:**

- Inventions corresponding to examples were extracted from the parent application and filed as divisional applications (case 11).

IV-4. A Matrix Table illustrating the Method of Utilization of Divisional Applications

Based upon the above-mentioned utilization examples, each of the divisional patterns is summarized in Table 3 classified by objects. Representative utilization examples thereof are also illustrated in Table 3.

V. Conclusions

In this paper, investigations were made on the utilization status of divisional applications as method of utilization thereof. As a result, it has been found that the numbers of divisional applications are around 2 to 4% of all of the Kokoku published applications. With regard to the timing of filing the divisional applications, it has been found that, though there are many cases which were filed after receipt of the official action before Kokoku publication, there are still many cases filed on a voluntary basis such as that together with request for examination while, in some other cases, they are filed together with filing of reply against opposition after publication and accordingly that divisional applications are not always utilized as countermeasures against the official action from the JPO regarding the lack of unity of invention.

Further investigation on a method of utilization of divisional applications revealed that, besides the case wherein (1) the part which does not satisfy the unity-of-invention requirement in the parent application is divided out, there are some other cases. For example, there are some cases wherein (2) a part of the inventions which can be surely patented is extracted and filed so that said part can be surely patented and (3) the invention existing in a latent

manner is extracted and filed so that inventions which become important after the filing date can be patented. Particularly in the case of (3), there are cases wherein new claims are prepared with care to avoid a double patenting situations whereby substantially wide claims are obtained or those wherein intermediates which are not claimed in the parent application are newly filed by a divisional application. Thus, it has become clear that many companies utilize the divisional applications with a strategic view with an object of diversified protection of their own technology and of licensing to other companies.

It should, however, be noted that the cases checked by our investigation are the applications published in 1992 and most of them are the applications filed in 1987 or before, i.e., before the Improved Multiple-Claiming System was introduced in Japan. Therefore, among those divisional applications, there were some cases which will meet the unity-of-invention requirement if they are filed under the new practice. Especially in chemical field, there are many cases meeting the requirement, and the numbers of divisional applications will decrease after enforcement of the Amended Multiple-Claiming System. On the other hand, in the electrical and mechanical fields, there are many applications from Japanese companies. Since they are supposed to investigate the requirement more or less at the filing stage, objects of their filing the divisional applications are thought to be (2) and (3) given above. After enforcement of the Amended Multiple-Claiming System, the object of (3) can be achieved for amending the parent applications in some cases. Thus, it is presumed that the numbers of divisional applications will be decreased to some extent. However, in electrical and mechanical fields, the parent applications include a considerable number of inventions and, like in the applications in the United States, it is supposed that the divisional applications with an object of (2) in which a part of claims are divided out will considerably increase. Accordingly, it is expected that, even after the enforcement of the Amended Multiple-Claiming System,

numbers of divisional applications will increase though the objects therefor will considerably change.

Incidentally, our patent system will be further revised in the next year whereby amendments will be restricted. As a result thereof, it is supposed that there will be increase in numbers for the cases in which claims which are not firstly described will be newly filed as divisional applications with an object of (2) and (3). Moreover, because of restriction in amendments, it is supposed that each company will check their specifications more fully at the stage of filing and that the importance of each application is increasing. Consequently, it is presumed that the consciousness that the application once filed is to be patented by all means will become stronger whereby much more divisional applications will be filed. Accordingly, in the practice of filing patent applications and obtaining a patent thereon in each company, the role of divisional applications will become more and more important.

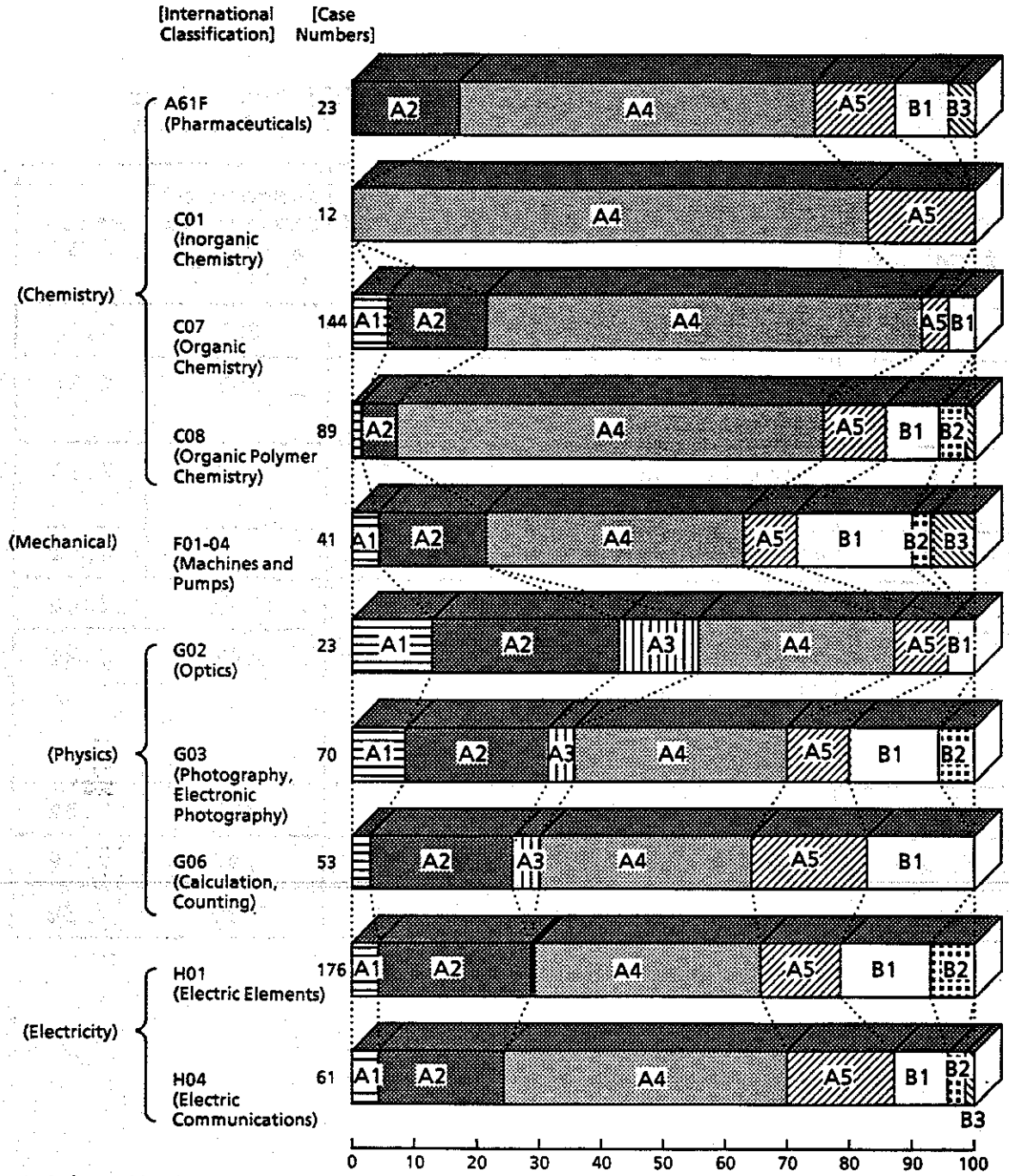
Table 1 Comparison of Divisional Application Systems in Some Countries

Items compared	Japan	U.S.A.		EPC
		Division	CA and CIP	
Period when Division is possible	The principle is that when the parent application can be amended. * within one year and three months from the filing date (Article 17) * together with the request for examination filed by the applicant (Article 17 bis) * within three months from the receipt of the Notification that request for examination was filed by the third party (Article 17 bis) * within a period for filing a Reply against the official action (Article 17 bis) * within thirty days from the date of filing an appeal trial against the rejection (Article 17 bis and tris) * within a period for filing a Reply against the opposition (Article 64)	(Before the earlier application is either abandoned or issued or proceedings are terminated.) (35 USC120)		(Up to approval of the text, in accordance with Rule 51(4), in which patent is to be granted.)
Objects which are Divided	First-filed specification (including claims) and drawings of the parent application. * Once official notice of publication is issued, the part which was canceled as a result of amendment before that notice can be no longer divided.	First-filed specification (including claims) and drawing of the parent application	* CA - same as Division * CIP - new matter may be added.	First-filed specification (including claims) and drawings of the parent application
Countermeasure when Parent and Divisional Applications are substantially same	* Cancellation of the duplicated part by filing an Amendment * Withdrawal of the divisional application	Submission of terminal disclaimer		same as in Japan
Method of Utilization	* as a countermeasure for rejection in view of lack of unity of invention * utilizable when other claims cannot be maintained in the same application as a result of amendment of claims in the parent application * when rejection is issued, narrower claims are filed as a divisional application for security while, in the parent application, appeal trial against rejection is filed with still broad claims	same as in Japan though U.S.A. has a system of restriction requirement	* CA - after rejection, category of claims is changed * CIP - new matter is added and the invention in the parent application in a latent manner is claimed	same as in Japan
Handling of the Divisional Application	Filing date of the parent application is effective retroactively.	Filing date of the parent application is effective retroactively.	* CA - same as Division * CIP - Filing date of the parent application is partly effective retroactively.	Filing date of the parent application is effective retroactively.

Table 2

Numbers of Divisional Applications Published (after Examination) in 1992 classified by Technical Fields

Classi-fication	Technique	Total published Numbers (A)	Numbers of Divisional Applica-tions (B)	Ratio of B/A
A	Daily Necessities	7675	262	3.4%
B	Treating Operations and Transportation	16779	387	2.3%
C	Chemistry and Metallurgy	14127	408	2.9%
D	Fibers; Paper	1180	48	4.1%
E	Fixed Constructions	4120	82	2.0%
F	Machine Technology; Illumination; Heating; Weapons; Explosion	6692	147	2.2%
G	Physics	17520	402	2.3%
H	Electricity	13813	294	2.1%
TOTAL		81906	2030	2.5%



A: Before Publication

- A1 within one year and three months from the date of filing (Article 17)
- A2 together with filing a request for examination (Article 17 bis, no. 1)
- A3 within three months after receipt of notification advising of request for examination from the third party (Article 17 bis, no. 2)
- A4 within a term after receipt of official action (Article 17 bis no. 3) (Article 17 bis, no. 2)
- A5 within thirty days from the date of filing an appeal trial against the rejection (Article 17 bis, no. 4)

B: After Publication

- B1 within a term after receipt of opposition (Article 64)
- B2 within a term after receipt of official action (Article 17 bis, no. 3)
- B3 within thirty days after filing an appeal trial against rejection (Article 17 bis, no. 4)

Fig. 1 Divisional Timing of the Divisional Applications published (after Examination) in 1992

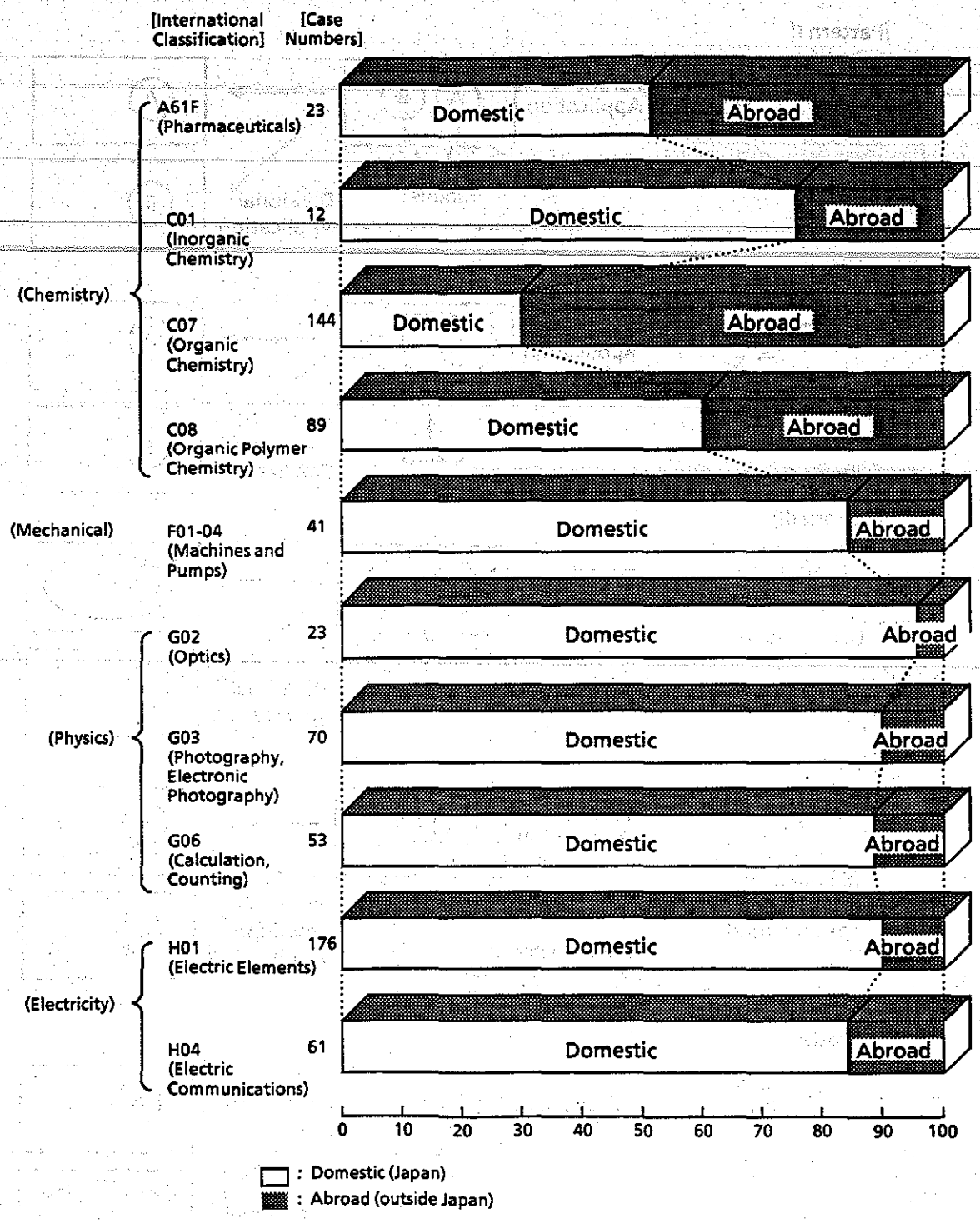


Fig. 2 Nationality of the Applicants for the Divisional Applications published in 1992

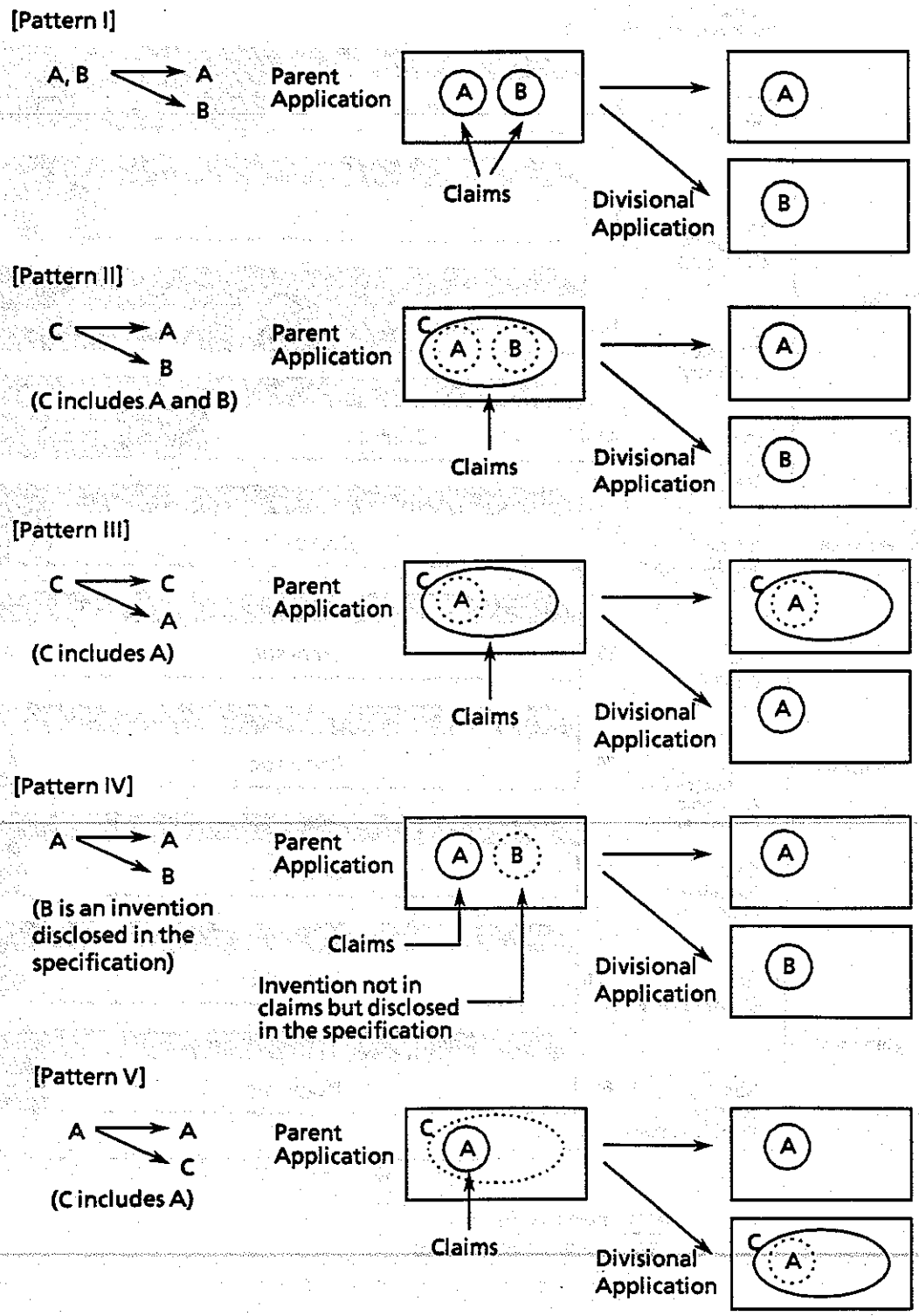


Fig. 3 Patterns for Division in Divisional Applications

Table 3 How to Utilize the Divisional Applications

(Matrix Table showing the Relation between object of Utilization and Divisional Pattern)

Items: \ Divisional Pattern		Pattern I (A, B → A; B)	Pattern II (C → A; B) (C includes A and B)	Pattern III (C → C; A) (C includes A)	Pattern IV (A → A; B) (B is an invention disclosed in the specification)	Pattern V (A → A; C) (C includes A)
Object	(1) When the parent application does not satisfy the requirement for lack of unity of invention	● Since the plural claims A and B described in the parent application do not meet the requirement, B is canceled from the parent application and said B is filed as a divisional application. This is done together with the request for examination in case of voluntary basis while, in case as a result of actions from the JPO, this is done within the term from the receipt of the official action.	● When a parent application is filed with a broad claim C covering plural inventions, it becomes inevitable to decrease to plural claims A and B which do not satisfy the requirement during the examination. In order to satisfy the requirement, the parent application is limited to A while B is filed as a divisional application.	–	–	–
	(2) When the applicant wishes that a part of the invention can be surely patented	● With regard to the plural claims A and B meeting the requirement, acquirement of patent for A does not seem to be so easy during the course of the examination. Therefore, B which may be surely patented is canceled from the parent application and is filed as a divisional application. One of the typical examples will be that A is a product while B is a process for manufacturing that.	● When a parent application with a broad claim C covering plural examples is filed and, during the course of examination, it is judged that, though limitation to plural claims A and B satisfying the requirement will be necessary, patenting of A does not seem to be so easy whereby the parent application is limited to A while a divisional application is filed for B.	● During the course of examination, patenting of the claim C in the parent application does not seem to be so easy. Therefore, taking the prior art into consideration, A which is a result of limitation of C is filed as a divisional application so that sure patenting will be expected. Incidentally, every effort is made for obtaining a patent for the invention C which is, in fact, wanted to be patented.	● During the course of examination, patenting of the claim A in the parent application does not seem to be so easy. Therefore, another invention B which is described in the specification and will be surely patented in view of the prior art is filed as a divisional application. Incidentally, every effort is made for obtaining a patent for the invention A which is, in fact, wanted to be patented.	–
	(3) When the applicant wishes that right(s) to be obtained is/are added/modified. (Coping with the modification of one's own technique to be practiced and also for licensing)	● Business fields for licensing the inventions A and B are different. Therefore, those inventions A and B are voluntarily divided.	● Inventions A and B are important as objects for licensing. Therefore, the inventions A and B covered by the claim c in the parent application are voluntarily divided.	● The invention A is important as an object for licensing. Therefore, the invention A covered by the claim C in the parent application is voluntarily divided.	● At the stage of filling, an object was that the invention A is to be patented. However, it has been later found upon consideration in market trend that patenting of another invention B described in the specification is important as well. Accordingly, a divisional application is filed for B.	● At the stage of filling, an object was that the invention A is to be patented. However, it has been later found upon consideration in market trend that patenting of a broad claim C covering the invention A is important in terms of business. Unfortunately, the application has been published already and, therefore, amendment of the claim is difficult whereby a divisional application is filed for C. In that case, with regard to C, attention is paid so that a double patenting will not be resulted and claim(s) with substantially broader coverage is/are usually prepared.

Table 3 (continued)

Divisional Pattern / Items:	Pattern I (A, B → A; A, B → B)	Pattern II (C → A; C → B) (C includes A and B)	Pattern III (C → C; C → A) (C includes A)	Pattern IV (A → A; A → B) (B is an invention disclosed in the specification)	Pattern V (A → A; A → C) (C includes A)
Examples of Utilizations	• In chemical cases, the case wherein A is polymer while B is a method of manufacture, molding, etc. therefor. • In chemical cases, the case wherein A is a composition while B is an intermediate thereof (case 1). • In physical and electrical cases, the case wherein A is a measuring device while B is a method for measurement. • In electrical cases, A is a transmitter while B is a receiver.	• In chemical cases, the case wherein C is an invention for compounds in which the chemical formulae are expressed by a general formula while, in A and B, the chemical formulae are expressed using substituents. • In physical cases, the case wherein C is an illumination device using a scattering plate at the outlet of light while, in A, the place where the thickness of the scattering plate is thin is limited and, in B, the shape of the scattering plate is limited (case 6). • In electrical cases, the case wherein C is a semiconductor element while A is a memory and B is a flip-flop. • In mechanical cases, the case wherein C is a connecting device while A is an oil pan connecting structure for the internal combustion engine and B is a head cover connecting structure for the internal combustion engine.	• In chamical cases, the case wherein C is a method of manufacturing polymers while A is that in which the material components and manufacturing conditions (e.g., temperature) are restricted. • In electrical cases, the case wherein C is a communication device while, in A, its constituting elements are partially added and functions are restricted. • In mechanical cases, the case wherein C is a connecting structure for the internal combustion engine while A is an oil pan connecting structure for the internal combustion engine.	• In chemical cases, the case wherein A is polymer while B is use thereof. • In chemical cases, the case wherein A is final products while B is intermediates thereof (case 3). • In chemical cases, the case wherein A is a use invention while B is a specific compound for said use invention. • In electrical cases, the case wherein A is a device using a logical circuit while B is a device in which the function of the logical circuit is treated with CPU. • In electrical cases, the case wherein A is a digital telephone for ISDN while B is a telephone having shortened dials. • In mechanical cases, the case wherein A is an oil pan connecting structure of the internal combustion engine while C is a cooling structure for the oil pan.	• In electrical cases, the case wherein A relates to compressed symbolization of picture/image in which patterns of compressed object for specific two values are shown while, in B, the patterns of compressed object are generalized and the two values are made black and white.

(Material 1)

(Case 1)

Field: C07D (Organic Chemistry)

Summary: An object of this application was to offer a method of synthesizing the compound V (= 6,6-dimethyl-4-hydroxy-3-oxabicyclo[3,1,0]hexan-2-one) which is useful as an intermediate for highly active insecticides by means of simple steps starting from a compound which is easily available.

Besides the synthetic method of the compound V, this application included starting materials, synthetic method thereof and intermediates as well. Therefore, an official action was issued to the effect that this application did not satisfy the requirement of consolidated application as provided for in the Article 38 of the (old) Patent Law. Accordingly, divisional applications were filed for each of starting materials, synthetic method thereof and intermediates so that each of them were planned to be patented.

[Intention of the Applicant upon the Stage of Filing the Parent Application]

1. Case History of the Application

(1) At the stage of filing, the parent application (75690/80) included the following four inventions:

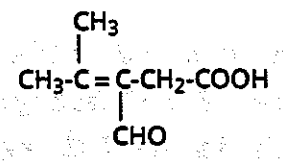
① compound I which is a starting material for the compound V (group I);

② synthetic method for the compound I (group II);

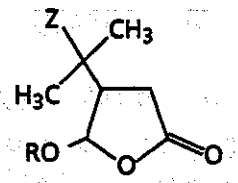
③ synthetic method for the compound V from the compound I (group III); and

④ the compound IV which is an intermediate in the synthesis of the compounds I and also the compound VI

which is an intermediate for synthesizing the compound V from the compound I (group IV).

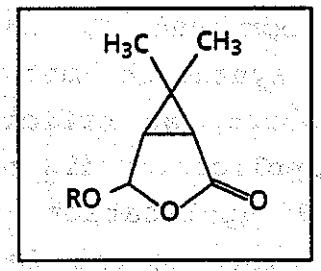


Compound I

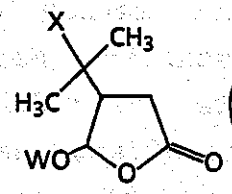


(Z is NO_2, OH, aryl, sulfonyl, halotriaryl or phosphonyl) (R is a residue of ROH)

Compound IV



Compound V



(X: halogen
W: H or R^1 of chiral alcohol group)

Compound VI

(2) An official action was issued to the above parent application that it did not satisfy the requirement of Article 38 and, therefore, the applicant amended the parent application restricting to the inventions of groups I and II. Together with this amendment, the applicant filed divisional applications for the group III (4211/87) and the group IV (4112/87).

(3) One of the divisional application filed as such (4212/87) included, in its initial stage, both compounds IV and VI and, therefore, an office action was issued to the effect that the claims are ambiguous. Against said office action, the applicant restricted the coverage of the 4212/87 to the compound VI and filed a divisional application for the compound IV (303825/90).

2. Intention of the Applicant

(1) It is likely that the object of the invention was to offer an easy and simple synthetic method for the compound V which is very useful as an intermediate for highly-active

insecticides. (cf. page 18, lines 7 to 12 of the parent application at the stage of filing).

(2) The invention of group III relates to a synthetic method of the compound V and is thought to be an invention which is most closely related to an object of the invention.

It is therefore likely that the applicant filed a divisional application for the invention III when an office action was issued for the parent application so that said invention will be patented.

(3) On the other hand, the invention of group IV relates to the compound VI (which is an intermediate for the invention of group III [synthetic method for the compound V]) and the compound IV (which is an intermediate for the invention of group II [synthetic method for the compound I]). Accordingly, if the invention for group IV is patented by others, it is thought to be diicult to reduce the inventions of groups II and III to practice, even when those inventions are patented by the applicant.

Consequently, it is likely that each of the compounds VI and IV in the group IV was planned to be patented by means of filing divisional applications.

(Case 2)

Field: C07C (Chemistry)

Summary: While the parent application was filed as a use patent, certain specific compounds in the use patent were filed as a divisional application before laying-open with an aim of acquiring a patent for said compounds.

Explanations:

(Parent Application)

Application No.	067520/73 (April 16, 1983)
Laid Open No.	59/192594 (October 31, 1984)
Publication No.	056755/92 (September 9, 1992)

(Divisional Application)

Application No.	132296/83
Laid Open No.	59/193869 (November 2, 1984)
Publication No.	003386/92 (January 23, 1992)

1) Parent Application

[Title] Heat-Sensitive Recording Material

[Claim] (as laid open)

"Heat-Sensitive recording material in which a color reaction between leuco dye and a developer therefor is utilized, the heat-sensitive recording material which is characterized in using a phenolic compound of the general formula

HO-Ph-S-R-S-Ph-OH

(in which R is alkylene having at least one hydroxyl group) is used as the developer."

[IPC] B41M 5/18

2) <u>Divisional Application</u>

[Title] Phenolic Compound

[Claim] (as laid open)

"Phenolic compound represented by a formula

$$OH-Ph-S-CH_2CH(OH)CH_2-S-Ph-OH"$$

[IPC] C07C 149/36, B41M 5/18

<u>Comments:</u> This is an example of filing a divisional application for product patent from the application for use patent. When a search for patents of chemical compounds is conducted, use patents are apt to be overlooked. Therefore, if the patent of this type is found after judgment was issued to the effect that no pertinent patent was found, it will cause a big difficulty. In view of that, this case will be a strategic divisional application.

(Case 3)

Field: C07C (Chemistry)

Summary: The parent application was filed as a process patent and, within a term for replying the official action, a divisional application for the intermediate (which is prepared during the steps of the manufacturing method) was filed with an object of being patented therefor as well.

Explanation:

Application No. 182024/81 (November 12, 1981)
Laid Open No. 58/083652 (May 19, 1983)

↓

Official Action issued (May 23, 1989)

↓

Amendment filed → Application No. 154230/89
(June 17, 1987) Laid Open No. 02/042042 (Feb 13, 1990)

↓ ↓

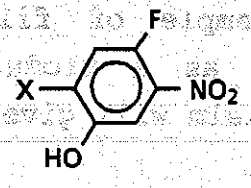
Publication No. 061099/89 Publication No. 023340/92
(December 27, 1989) (April 24, 1992)

1) Parent Application

[Title] 4-Fluoro-5-nitrophenol Derivatives and a process for producing thereof

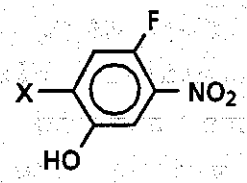
[Claims] (as laid open)

(1) 4-Fluoro-5-nitrophenol derivative expressed by the general formula



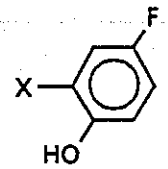
(wherein X is chlorine or bromine)

(2) A process for producing 4-fluoro-5-nitrophenol derivative of the general formula



(wherein X is same as given later)

characterized in conducting a selective nitration of halophenol represented by the general formula



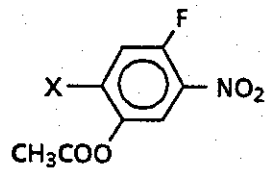
(wherein X is chlorine or bromine)

2) Divisional Application

[Title] Carbonates

[Claim] (as laid open)

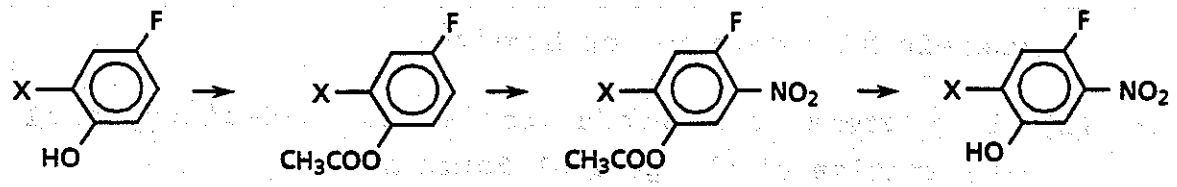
(1) Carbonate represented by the general formula



(wherein X is chlorine or bromine)

[IPC] C07C 205/43

Comments: This is an example of filing a divisional application for intermediates as a product patent from a process patent. The process claim will given as follows.



One of the intermediates was filed as a divisional application. It is true that the intermediates disclosed only in the text of the specification are apt to be overlooked in searching the patents and, in view of the same reason as in case 2, this divisional application is a strategic one.

(Case 4)

Field: C08 (Organic Polymer Compounds)

Summary:

An example in which the parent application was amended, upon receipt of the official action, to the content that will be easily patented (i.e. the category was changed from "catalyst" to "method of polymerization using said catalyst") and, at the same time, important constituting factors of elements were successively filed as divisional applications from different points of view starting from the factor which will be patented easier so that multifacial protection of the parent invention is aimed.

Application No. 114836/76
(A Method of Polymerization of alpha-Olefins)

Application No. 114836/76 (filed on September 27, 1976)
"Catalyst for Polymerization of alpha-Olefins"

↓

Request for examination filed (November 10, 1977)

↓

Official Action issued (September 2, 1980)

↓

Reply/Amendment filed (January 5, 19081) amending to "A Method of Polymerization of alpha-Olefins" while a divisional application filed (cf. division-1 given later)

↓

Decided to be Published (June 2, 1981)

↓

Five oppositions (with supplementary reasons/evidences) filed

↓

Five replies/amendments filed (September 13, 1982)

↓

Five counterreplies filed

↓

Further official action issued (February 7, 1984)

↓

Reply/Amendment filed (May 4, 1984)

↓

Still further official action issued (December 1, 1987)

↓

Reply/Amendment filed (March 1, 1988)

↓

Decision for the oppositions and Rejection issued (June 21, 1988)

↓

Appeal Trial against the rejection filed together with amendment (September 19, 1988) while another divisional application filed a little later (cf. division-2 given later)

↓

Decided to be examined at the Board of Appeals (March 27, 1989)

↓

Decision issued (January 29, 1991) ··· allowed

↓

Patented (Patent No. 1,612,306) (July 30, 1992)

Division-1

Application No. 000051/81 (January 5, 1981)
"A Method of Manufacturing Solid Catalytic components for Polymerization of alpha-Olefins"
...
Request for examination filed (September 21, 1983)
Official action issued (August 9, 1988)
Appeal trial against the rejection filed (September 29, 1988)
Sent to the Examining Department from the Board of Appeals (April 3, 1989)
Official action issued (June 27, 1989)
Reply/Amendment filed (December 27, 1989)
Decided to be examined at the Board of Appeals (June 26, 1990)
Decided to be published (October 26, 1990)
Published (Publication No. 010645/91)
Two effective oppositions filed
Replies filed (March 27, 1992)
Decision issued (allowed) (July 7, 1992)

Patented (Patent No. 1,720,599) (December 14, 1992)

Division-2

Application No. 242633/88 (September 29, 1988)
"Solid Catalytic Components for Polymerization catalyst for alpha-Olefins"
Request for examination filed (September 23, 1988)
...
Decision for Rejection issued (April 2, 1991)
Appeal trial against the rejection filed (July 1, 1991)
Decided to be published (May 22, 1992)
Published (Publication No. 052282/92)
Two oppositions filed

↓

(The oppositions are still pending)

(Technical Field)

Achievement of high catalytic efficiency by an improvement in a cocatalyst containing aluminum trialkyl and titanium-containing component; and manufacture of alpha-olefins (particularly polypropylene) with high stereoregularity.

(Comments)

According to the claim of the parent application, it relates to "catalyst for polymerization of olefins containing a catalytic product of (A) aluminum trialkyl, (B) electron donor and (C) titanium-containing solid catalytic component having specific shape" and the claim is a rather restricted one which is near the practical mode of use of the final users. However, when the first official action was issued, its category was changed to "Method of polymerization of alpha-olefin" which will be easily patented. At the same time, a divisional application (division-1) was filed for C which seems to be an important constitution of this invention in terms of a method of preparing a catalyst (a method of

manufacturing titanium-containing solid catalytic components) which was not claimed in the parent application but disclosed in the specification only.

Furthermore, at the stage of fling an appeal trial against the rejection of the parent application, another divisional application (division-2) was filed for acquiring a patent for the titanium-containing solid catalytic component per se of C which is a so-called upper concept of the content of the division-1.

It is likely from the above that this invention is important and that the applicant has a strong wish to acquire several patents for the single idea of the inventions.

(Case 5)

Field: C08 (Organic Polymer Compounds)

Summary:

In the parent application, use of certain compositions for molding was broadly claimed. At the stage of filing a request for examination, the parent application was restricted to specific composition while, with regard to the whole compositions, divisional applications were filed for each use (parts). Thus, it is aimed to acquire patents covering all of the original claims.

Application No. 054374/81 (Underhood Parts for Automobiles)

Application No. 054374/81 (April 13, 1981)

↓

Request for examination and Amendment filed (April 14, 1988) while divisional applications were filed (given later).

↓

Official action issued (July 25, 1989)

↓

Amendment filed (September 18, 1989)

↓

Rejection issued (June 26, 1990)

↓

Appeal trial against rejection filed (July 26, 1990)

↓

Amendment filed
Sent to the Examining Department from the Board of Appeals
Decided to be examined at the Board of Appeals (July 29, 1992)

↓

Official action issued
Amendment filed (January 29, 1992)

↓

Decided to be published (February 28, 1992) → Published (Publication No. 033820/92)

↓

Decision for allowance issued (January 19, 1993)
(expected to be patented soon)

<u>Divisional Applications</u>:

①	Application No.	090631/88	(April 13, 1988)	
②	"	090632/88	(")	
③	"	090633/88	(")	
④	"	090634/88	(")	
⑤	"	090635/88	(")	and
⑥	"	090636/88	(")	

①: "Top and base of radiators for automobiles"
Request for examination filed (April 14, 1988)
...
Appeal trial against the rejection filed (April 22, 1992)
Decided to be published (May 28, 1993) --- pending

②: "Cooling fan for automobiles"
Request for examination filed (April 14, 1988)
...
Rejection issued (March 24, 1992)

③: "Cylinder head cover for automobiles"
Request for examination filed (April 14, 1992)
...
Decided to be published (March 3, 1992)
Published (Publication No. 0410706/92)
Opposition filed
Supplementary Reasons/Evidences filed (December 25, 1992)
--- pending

④: "Oil pan for automobiles"
Request for examination filed (April 14, 1992)
...
Decided to be published (March 31, 1992)
Published (Publication No. 0410707/92)
Opposition filed

Supplementary Reasons/Evidences filed (December 25, 1992)
--- pending

⑤: "Piping tubes for automobiles"
Request for examination filed (April 14, 1988)
...
~~Rejection issued (March 24, 1992)~~

⑥: "Parts for exhaust gas system for automobiles"
Request for examination filed (April 14, 1988)
...
Rejection issued (March 24, 1992)

(Technical Field)

Underhood parts for automobiles in which nylon 11, 12, etc. are mixed with nylon 6 and/or nylon 66 whereby improvements are made on heat resistance, rigidity, toughness and resistance against the antifreezing agents for roads.

(Comments)

Claim of the parent application reads "Underhood parts for automobiles prepared by molding a compounded product of the following three components in certain amounts: (A) polyamide mainly comprising nylon 6 and/or nylon 66; (B) polyamide mainly comprising nylon 11, 12, etc.; and (C) inorganic reinforcing agent". At the stage of filing a request for examination, the applicant restricted (A) to nylon 6 and filed six divisional applications as given under ① to ⑥ as hereinabove for the original constitution of the claims of the parent application, i.e. (A), (B) and (C), for limited uses (restriction in uses).

It is likely that, with reference to the parent application, the applicant wants to acquire patent in sure manner covering whole underhood parts by restricting (A) to nylon 6 only and further that divisional applications for several parts are filed without restriction of (A) to nylon 6

whereby acquisition of patents substantially covering the right nearly the same as that of the claim in the parent application is aimed.

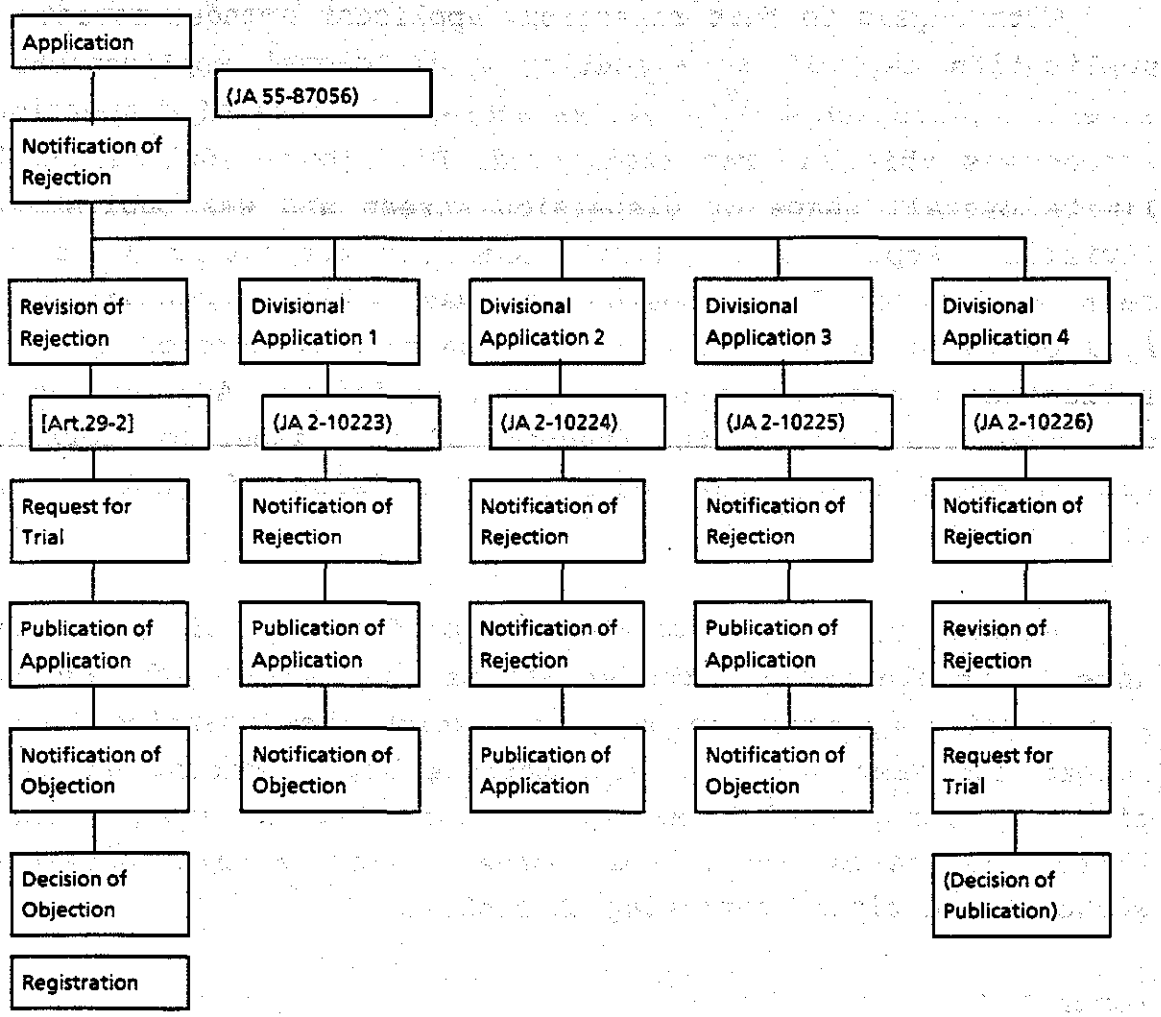
The result is that the parent application will be soon patented after the examination at the Board of Appeals while, though all of the six divisional applications were aimed to be patented by restricting (A) to nylon 66 upon receipt of official actions, ③ and ④ were published and are being opposed, ① will be expected to be published soon and ②, ⑤ and ⑥ were finally and irrevocably rejected.

Incidentally, examples concerning the use as claimed were added when divisional applications were filed for ①, ③ and ④ though there is no corresponding example in the parent application.

(Case 6)

(1) An example wherein, having received a rejection under Article 29, Paragraph 2, a number of divisional applications to be distinguished from prior applications were carried out.

(2) Particulars of Applicationsa



(3) Explanation

Relates to an illuminating device using a dispersion screen on the illuminating side in order to equalize light strength. Parent application claims relate to making thickness of dispersion screen ends thinner. With respect to this, Patent Office issued Notification of Rejection. Same as prior applications, therefore falls under Article 29, Paragraph 2.

With regard to this rejection, applicant amended parent application as well as executing 4 divisional applications. Parent application limits places where thickness of dispersion screen was thin and was registered. Divisional Application 1 limits overall shape of dispersion screen and was published. Divisional Application 2 limits shape of reflecting plate of rear surface of light source and was published. Divisional Application 3 is, finally, an addition to structure of special reflecting plate, and was published. Divisional Application 4 was submitted limiting the function of the dispersion screen, was rejected once, and received a decision of publication after trial.

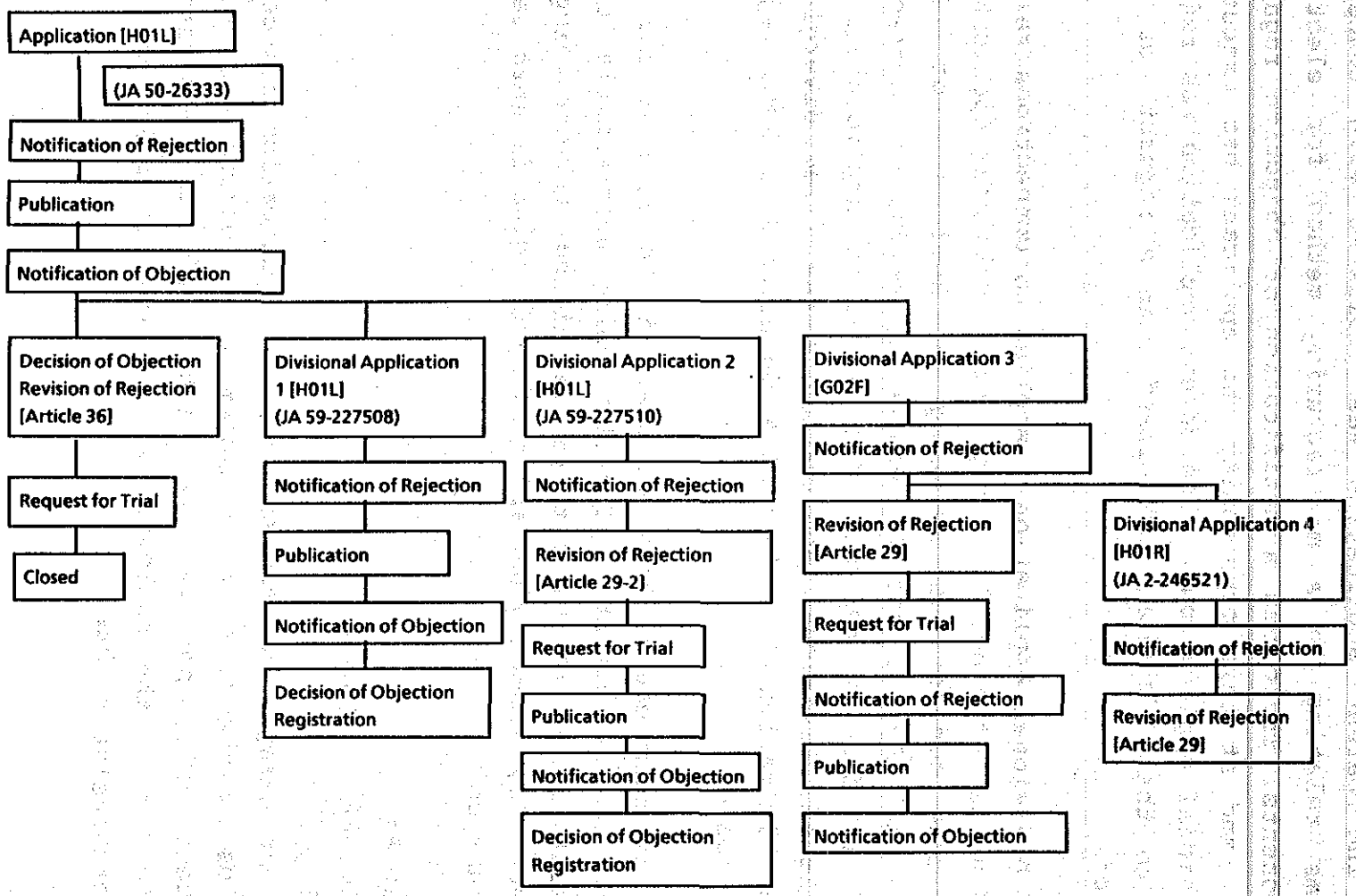
Generally, upon receiving a notification of rejection under Article 29-2, registrations by means of adding structural components to an extent where the invention is no longer the same as prior applications are numerous. At this time, by using divisional applications, it is thought that there are cases where comprehensive rights are possible without essentially narrowing therights.

(Case 7)

(1) Outline

Although published with conceptual claims, an objection was received, and this example is seen as having been divided along the lines usage distinctions and each intended to gain a right.

(2) Application Particulars



(3) Explanation

An application relating a conductive connection method or structure for electrical components.

The parent application was published with conceptual claims relating to a manufacturing method for electrical components. There was a notification of objection regarding this, and at this opportunity the applicant has executed 3 divisional applications. The parent application was rejected due to the objection, and closed when a request for trial failed.

Divisional Application 1 applies to connections relating to a number of electrical components. Divisional Application 2 concerns connections relating to semiconductor chips. Divisional Application 3 relates to conductive connections used in display devices. All of these applications were published. Divisional Application 4 was filed diverging in usage limitation to Divisional Application 3, but was rejected and closed.

In this manner this example, in the case of the broad right of the parent application being unattainable in its present form, is thought to be aiming at attaining the essentially broad rights afforded by dividing it into each of its usages.

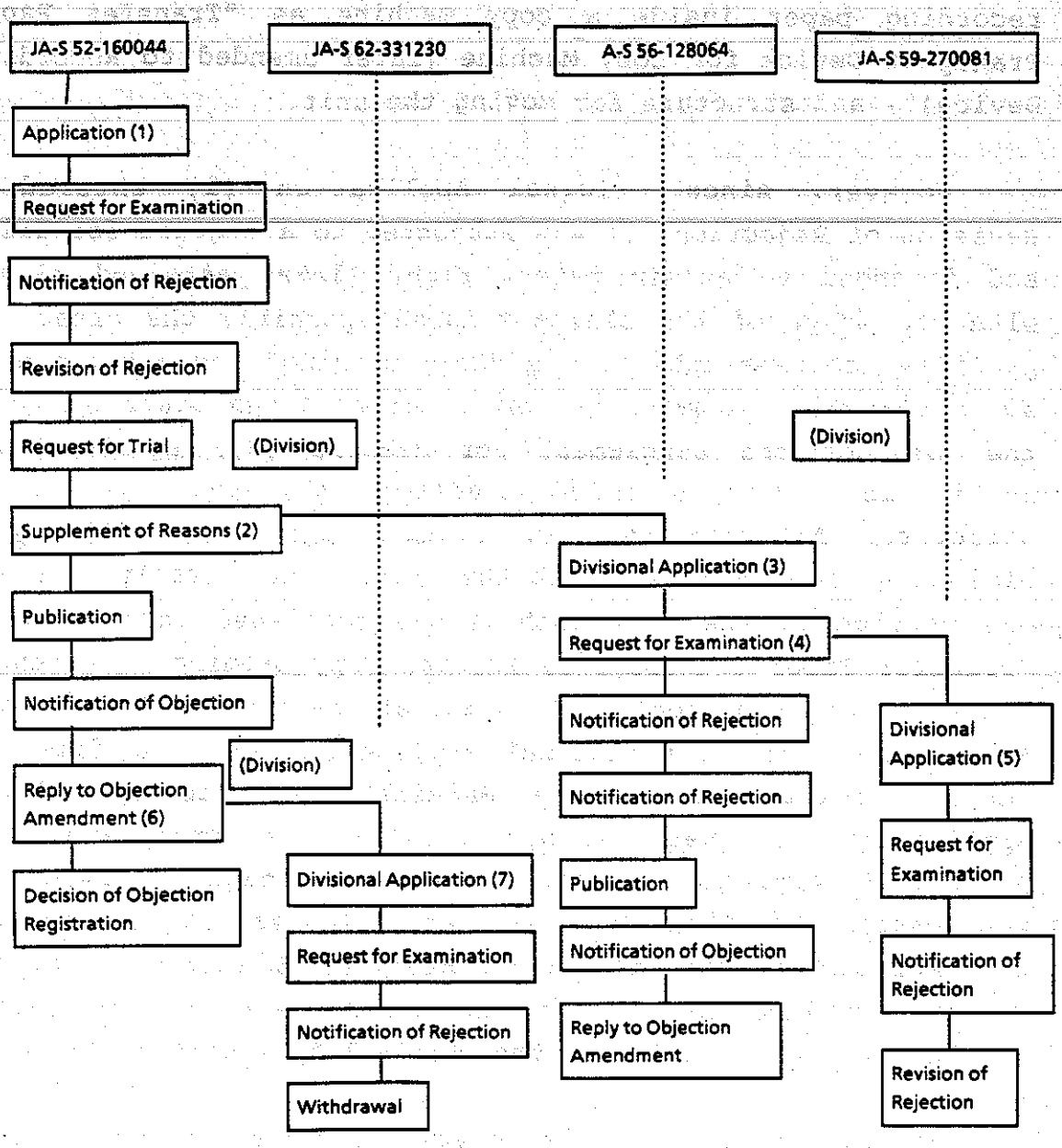
(Case 8)

Field: G03 (Physics)

Outline:

An example wherein the original application reduced the claims at the time of a supplement of reasons for revision protest trial and attained right, and was simultaneously divided into the following applications in order to attain comprehensive rights.

(1) Particulars



(2) Comments

Original Application (1) claims a unit for transferring recording paper inside a copy machine as "Transfer Paper Transport Device for Copy Machine (later amended to Recording Device)", and structure for moving the unit.

However, since Original Application (1) entered a Revision of Rejection, it was subjected to a Request for Trial and intended to attain patent right (later attained right) with the scope of the claims reduced (possibly the effect of publicly known examples) to a "Copy Machine" including a unit and a structure to move the unit, while on the other hand, at the time of the Supplement for Reasons (2), a Divisional Application (3) was filed claiming only the unit as a structure. Although this Divisional Application (3) again claimed a "copy machine" with the claims considerably reduced, one portion of the copy machine was published thereafter as "Transfer Paper Transport Device for Copy Machine" (currently awaiting objection decision). Also, at the time of Request for Examination (4), a Divisional Application (5) was filed as "Copy Machine". The "Copy Machine" of this Divisional Application (5) was claimed from a different angle to Divisional Application (1). Further, although a Divisional Application (7), "Copy Machine", was filed simultaneously with the amendment at the time of the Reply to Objection (6) of the Original Application (1), it was closed due to its similarity to the registered claims of the Original Application (1).

In this manner, this is an example wherein although after this case was filed with one portion of the inside of the copy machine as the structural requisite of the claims, by dividing each of the copy machine itself and all components, an attempt was made to attain the right for the invention inherent in the original application, were this to attain rights in its entirety, it is thought that it was intended to attain rights comprehensively by adding differing peripheral structures in each application with the unit of the original application as the center to the extent that the possibility of the first

case of a copy machine with the unit as the structural requisite infringing a number of rights is high.

(Case 9)

Field: H04

Outline:

An example wherein, in a case which is required to reduce the claims in orginal application because of amendment after Kokoku publication, in the divisional application, some constituting elements are added for restriction and other constituting elements are described in terms of generic concept whereby substantially wide coverage was achieved.

Particulars:

(Original Application)
JA-S 52-72431 (6/17/1977) and JA-S 54-6714 (1/19/1979)

↓

Notification of Rejection (11/1/1983), Amendment, Opinion (12/13/1983)
Notification of Rejection (2/26/1985), Amendment (4/9/1985)
Revision of Rejection (11/19/1985), Request for Trial (12/20/1985), Amendment (1/6/1986)

↓

Publication Laid Open Japanese Patent Application S61-33299 (8/1/1986)

↓

Notification of Objection 1 case (9/30/1986), submission of Reply (6/15/1987)

↓

Notification of Rejection (10/6/1987)
Amendment, Opinion (12/7/1987)

→ Division JA-S 62-307885 (12/4/1987), JA-S 63-190475 (12/4/1987)

↓

Decision of Objection, Examination Decision (conclusion of claims) (2/26/1988)

↓

Registration 1439091 (5/19/1988)

↓

* Notification of Rejection (2/21/1989), Amendment, Opinion (4/24/1989)
* Notification of Rejection (8/8/1989), Amendment, Opinion (10/9/1989)
* Notification of Rejection (1/23/1990), Amendment, Opinion (3/27/1990)
* Notification of Rejection (10/2/1990), Opinion (12/3/1990)
* Revision of Rejection (4/16/1991), Request for Trial (5/18/1991), Amendment (6/15/1991)
* Notification of Rejection, Amendment (6/17/1992)

↓

Publication Laid Open Japanese Patent Application H4-70823 (11/12/1991)

↓

?

(1) Original Application

Claims (at time of publication):

Claim 1: An image signal processing method wherein, by comparing 2 value information of a pixel pattern around a given pixel with 2 value information of a predetermined pixel pattern, the suitability of replacing the 2 value information of the given pixel is judged, and in the case of replacing, the 2 value information of the given pixel is replaced by the 2 value information inherent to the pixel pattern around the gven pixel.

Claim 2: Device claim describing a structure realizing the image signal processing method of Claim 1.

Claim 3: Claim describing embodiment of Claim 2.

Detailed Description of the Invention (at time of Kokoku publication):

Embodiment explains in detail image processing method of Claim 1 and further describes specific device structure realizing that method.

Claims (Amendment due to notification of rejection after opposition):

Limits number of pixels of perimeter when 2 value information of given pixel is determined to 8 and clarifies and limits all pixel patterns of all predetermined perimeters when 2 value information is determined. Also, claims after Claim 2 were cancelled. Together with this, title of invnetion was changed to "Image Signal Processing Method".

(2) Divisional Applications

Title of Invention:

As Image Signal Processing Method, was limited to method.

Claims (at time of disclosure):

Comparing to claims of original application amended at time of rejection, removed wording limiting comparing pixel information to 8 on the perimeter, returns to generalized wording of original application at time of publication.

Claims (at time of Kokoku publication):

This invention adds previous processing of compression encoding, further, 2 value information is limited to white information and black information, and replacement method is limited to when pixel pattern around a given pixel is white information and when pixel pattern is black information, but whereas in the registered original application the comparing pixel information is limited to 8 on the perimeter, in the divisional application this is generalized.

Detailed Description of the Invention:

Adds effect of case where replacement method is limited to replacement method of cases where pixel patterns of the perimeter are white information and cases where they are black information.

(3) Comments

Original application, due to the rejection after being subjected to the opposition, gave priority to attaining the right for the limited portions. Meanwhile, in the divisional application, even when essentially reduced, unproblematic areas are reduced; conversely, by generalizing those portions which were overly limited in the original application and widening the scope of the claims, it is thought that maintaining essentially expansive rights was intended.

(Case 10)

Field: H04

Outline:

An example of a divisional application which extracts an invention adapted to current market trends from the original application.

Particulars

(Original Application)
JA-S 60-257016 (11/15/1985), JA-S 62-116052 (5/27/1987)

↓

Request for Examination (7/14/1987) → Division JA-S 62-174207 (7/13/1987), JA-S 63-119352 (5/24/1988)

↓ ↓

Notification of Rejection (3/26/1991) Revision of Rejection (9/17/1991) | Publication JP-H 4-3145 (1/22/1992)

↓

X

(1) Original Application (at time of publication)

Title of Invention:

Incoming Call Selectable Telephone

Claims:

Claim 1 An incoming call selectable telephone comprising a send/receive amplifier, a demultiplex circuit to separate sound signals and control signals from receiving signals, a control signal send/receive circuit, a CPU, a memory for memorizing previously entered telephone numbers, a call tone control circuit, and a call tone generator, wherein a telephone number of a person originating a call, sent from the send/receive amplifier, is separated into tone signals by the demultiplex circuit, input into the CPU via the control signal send/receive circuit and compared to entered telephone numbers recorded in the memory, and the call tone

generator is driven by the call tone control circuit to output a normal call tone only where the two telephone numbers match.

Detailed Explanation of the Invention:

The circuti structure of most of the content of the claims is described. There is also a description of an intention to utilize the content memorized in a telephone which memorizes abbreviated dialling as a method for memorizing enetered telephone numbers.

(2) Divisional Application 1

Title of Invention:

Automatic Dial Telephone

Claim:

Comparing with the original application, it is lmited to an automatic dial telephone by "An automatic dial telephone having an autimatic dial function which sends a dial signal by calling a telephone number memorized in a memory, wherein..." The "send/receive amplifier" and "demultiplex circuit" were deleted.

(3) Comments

The original application, although it does not limit the type of telephone, requires the send/receive amplifier and demultiplex circuit, and in actuality claims a right limited to a digital telephone for use with ISDN. The divisional application limits the telephone to an automatic dial telephone, omits the send/receive amplifier and demultiplex circuit portions, is not limited to an ISDN digital telephone, and the claim thereof broadly covers an automatic dial telephone which can receive outgoing telephone numbers. Possibly, at present, there are no problems with this limitation, since telephones which can store outgoing telephone numbers are limited to automatic dial telephones, and since ISDN digital telephones have not been sufficiently distributed, it is thought that unnecessary portions can be deleted and a right extending also to a normal telephone

claimed, and an essentially wide right secured. Consequently, when a notification of rejection was issued with regard to the original application, a revision of the rejection would possibly eventuate without any opposition.

(Case 11)

Field: F04 (Pump)

Outline:

An example wherein, since wide calims were filed and a Notification of Rejection received, while the original application was sufficiently narrowed and a reliable attainment of right intended, 4 divisional applications filed on the basis of the three embodiments, and in total 5 publications were obtained.

[Original Application]

JUM-S 59-136912 (9/10/1984)
Title: Ejector Device
Laid-Open S 61-51500 (4/7/1986)

↓

Notification of Rejection (4/10/1990)

↓

Opinion, Amendment (6/13/1990)

↓

Published H 3-11440 (3/19/1991)

↓

Registered 1889436 (2/25/1992)

Division 1
JUM-H 2-61764 (6/11/1990)
↓
Laid-Open H 3-59497 (6/12/1991)
↓
Published H 4-41277 (9/28/1992)
↓
?

Division 2
JUM-H 2-61765 (6/11/1990)
↓
Laid-Open H 3-59498 (6/12/1991)
↓
Published H 4-41278 (9/28/1992)
↓
?

Division 3
JUM-H 2-61766 (6/11/1990)
↓
Laid-Open H 3-59499 (6/12/1991)
↓
Published H 4-41279 (9/28/1992)
↓
?

Division 4
JUM-H 2-61767 (6/11/1990)
↓
Laid-Open H 3-59500 (6/12/1991)
↓
Published H 4-41280 (9/28/1992)
↓
?

(1) Original Application

Claims (at time of disclosure):

Claim 1: A ejector device comprising a plurality of vacuum generators including nozzle portions and diffuser portions, and a manifold having integral fluid supply and fluid exhaust ports connected in common with the plurality of vacuum generators.

Claim 2: The ejector device according to Claim 1, wherein the vacuum generators are attached to the outside of the manifold.

Claim 3: The ejector device according to either of Claim 1 and Claim 2, wherein the manifold is formed separated into a plurality of blocks corresponding to the vacuum generators.

Claim 4: The ejector device according to Claim 3, wherein individually separate fluid supply ports and fluid exhaust ports are formed for each individual vacuum generator in each block.

Claim 5: The ejector device according to Claim 3, wherein a plurality of vacuum ports are opened on a number of surfaces in each block.

Claims (at time of publication):

An ejector device comprising:

a plurality of vacuum generators, including nozzle portions, vacuum generating portions and diffuser portions, each provided independently and in series; and

a block-shaped manifold integrated with the vaccum generators and having an air supply common port and an air exhaust common port, wherein

a filter is provided in an air passage communicating between vacuum generating portions of the vacuum generators; and

a first hole portion communicating between the nozzle portion of each vacuum generator and the air supply common port and a second hole protion communicating between the diffuser portion and the air exhaust common port are provided such that a direction of flow of air inside each of the vacuum generators and each port respectively directly intersect.

Claims 2 to 5: No amendments.

(2) Divisional Application #1
Claim (time of disclosure to time of publication):

An ejector device comprising:

a plurality of vacuum generators each independent and including a nozzle portion, a vacuum generating portion and a diffuser portion; and

a manifold fixing the plurality of vacuum generators in series, and having an air supply common port communicating with the nozzle portion of each vacuum generator, a common vacuum port communicating with the vacuum generating portion, and an air exhaust common port communicating with the diffuser portion,

wherein a means for selectively closing each vacuum generator and ports of the manifold is provided.

Divisional Application #2
Claim (time of disclosure to time of publication):

An ejector device comprising:

a plurality of vacuum generators each independent and including a nozzle portion, a vacuum generating portion and a diffuser portion; and

a manifold fixing the plurality of vacuum generators in series, and having a fluid supply port communicating in common with the nozzle portion of each vacuum generator and a fluid exhaust port communicating with the diffuser portion,

wherein a silencing means is provided in a fluid passage for exhausting a fluid from the diffuser portion to the exterior.

Divisional Application #3
Claim (time of disclosure to time of publication):

An ejector device comprising:

a plurality of vaccum generators including a nozzle portion, a vacuum generating portion and a diffuser portion; and

a manifold having a fluid supply port and a fluid exhaust port common to each of the plurality of vacuum generators as well as joining vacuum generators together,

wherein the manifold is recriprocally multi-layered with the vacuum generators.

Divisional Application #4
Claim (time of disclosure to time of publication):

An ejector device comprising:

a plurality of generators including a nozzle portion, a vacuum generating portion and a diffuser portion; and

a manifold having a fluid supply port and a fluid exhaustport; and

an installation plate interposed between the vacuum generators and the manifold and having a sealing effect, wherein the nozzle portions and diffuser portions of the vacuum generators communicate with the fluid supply port and fluid exhaust port of the manifold via the installation plate.

(1) Title : Revised Patent Law and Utility Model Law, and New Examining Standard: How To Deal with New Laws

(2) Date : October, 1993 (the 24th Cincinnati)

(3) Source

1) Source : PIPA
2) Group : Japan
3) Committee: No. 1

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(5) Keywords: Amendment, Trial, Utility Model Law, Examining Standard.

(6) Statutory Provisions

Japanese Patent Law : Sections 17, 17-2, 17-3, 40, 49, 53, 54, 64, 123, and 126.

Japanese Utility Model Law: Sections 2-2, 2-3, 6-2, 7, 10, 12, 13, 14, 15, 29-2, 29-3, 31, 32, and 40-2.

(7) Abstract:

This report describes the revised portion of the Patent Law and and the Utility Model Law which will be enforced in 1994 and also provides the future patent applicant with the information on how how to deal with the new system of limited amendment. In addition, this report outlines the recently-published new examining standard with a number of practical reminders for the applicant.

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I. INTRODUCTION

In order to achieve harmonization with international practices in the system of intellectual property rights and to facilitate the patent examination process to meet our globalizing economic activities, the amendments to the Patent Law and the Utility Model Law were promulgated on this past April 23. These amended Laws will enter into force within one year from the date of promulgation.

The latest revision of the Patent Law newly imposes a limitation on the allowable scope of amendment, and changes the trial system, while the filing of oppositions to grant of patent is untouched even though it has been a long-standing agenda. The Utility Model Law will introduce what is called the "non-employment of examination" system. The guideline for the operation of the revised Law is scheduled for publication in coming autumn. On the same date these amendments were promulgated, the Patent Office published the Examining Standard for application under the current Law. This paper will describe the revised portion of the Patent Law and the Utility Model Law, along with reminders for patent applicants in conjunction with the latest amendment. Also Presented is the new Examining Standard for patent application under the current Law and the information on how to deal with the new Standard. The readers interested in how to utilize the new Utility Model Law are advised to refer to the paper prepared by the Committee No. 4 of PIPA, Japan. As of today, no specific date of enforcement has been announced for the new Patent Law and Utility Model Law. The revised Law will be applied as follows:

(1) New Patent Law

- "Improved system of amendment" and "Abolition of the trial against ruling to decline amendment" will apply to any application filed on and after the date of enforcement of the new Law.
- "Correction of patent during the procedures for trial for invalidation of patent", "Abolition of the publication of request and the trial for invalidation of correction", and "Disapproval of any correction to add new matter" will apply to the trial for correction demanded on and after the date of enforcement of the new Law.

(2) New Utility Model Law

The new Law will apply to any application filed on and after the date of enforcement of the revised Law.

The new Examining Standard on patent application under the current Law is applicable to any application filed on and after January 1, 1988.

II. REVISION OF PATENT LAW

A. IMPROVEMENT OF SYSTEM OF AMENDMENT

1. General Description

In 1988, the Japanese Patent Law adopted the system of multiple claims to harmonize with European and American patent systems. Nevertheless, the patenting process at the Patent Office are not facilitated enough due to a considerable amount of time required to process amendments which is still permitted quite extensively to applicants until the publication of application. Moreover, the system which pays equal attention to an application with excessive amendments and an application without amendments seems to be unfair to the latter. So long as an applicant has such an extensive freedom of making amendments, the specification of a patent application will never have the quality high enough to fully reflect the results of R&D efforts, and advanced and innovative technologies will not adequately be protected.

Thus, the following revisions has become necessary for the system of amendment: a) Prohibition of an amendment to add new matter; b) Addition to the bases for refusal, invalidation (or filing of opposition) of illegal amendment to add new matter; and c) Improvement of the system of amendment to patent claims made after the notification of reasons for refusal. These revisions are necessary in achieving swift, adequate and fair patenting of inventions, and fully protecting the results of R&D efforts. In formulating revisions, amendment-related provisions and their operations in major countries were taken into account. The following subsections will explain the revision on the system of amendment in detail.

(1) Amendment To Add New Matter

Under the current Law, amendments may introduce new matter into the specification or the drawings, if before the publication of application, so long as the gist of the specification or the drawings is unchanged. However, the current system invites such an application that fails to fully disclose the invention at the time of filing, thus resulting in inadequate and slow grant of patent.

Moreover, the system may be unfair to an application that fully discloses the invention at the time of filing. If amendments to add new matter are permitted, a patent can be granted to the matter undisclosed at the time of filing. As a result, such a patent may cause unexpected damages to a third party. Major countries do not allow such amendments as to add new matter.

In the latest revision, amendments to add new matter are

prohibited in consideration of accomplishment of harmonization with the international patent system, the need for swifter patenting process, and the need to maintain fairness in the processing of applications.

(2) Handling of Illegal Amendment To Add New Matter

Under the current Law, any amendment made before the publication of application to change the gist of the specification is, in principle, declined. In connection with the ruling to decline the amendment, the applicant may demand a trial. Once the trial is initiated, the examination will be suspended until the trial decision has become final and conclusive. The above proceedings sometimes interfere with the purpose of patenting an invention in a swift and adequate manner.

In major countries, there are statutory provisions stipulating that an application for patent shall be refused if the applicant illegally amended the application to add new matter. Based on the need for harmonization with the international patent system and the purpose of patenting inventions in a prompt and adequate manner, any illegal amendment to add new matter has been included as the bases for refusal, filing of opposition and invalidation.

(3) Improvement of System of Amendment to Patent Claims

Under the current Law, an applicant may make amendments in any number of instances even after notification of reason for refusal, and may change the scope of the invention by amendments, if before the publication of application, so long as the gist of the invention is unchanged. As a result, more than one examination procedures have to be taken for a single application.

Amendments to change the scope of invention have been said to delay the examination. Such an amendment will also interfere with swift patenting process, will be unfair to applications without amendments, and will increase the burden of monitoring by third paties.

On the other hand, major countries adopt the system of multiple claims, and amendments are adequately controlled. In those countries once a response to the first office action is made by an applicant, further amendments are practically restricted.

Based on the above situations, the revised Law limits amendments made after the response to the first office action.

2. Details of Revision

Amendments are examined as shown in the attached Chart II-1, "Flow Chart of Examination Procedures for Amended Application 1 and 2". This section will be based on this Chart II-1.

(1) Amendment made within one year and three months from the filing date of a patent application, and Amendment made before the designated time limit associated with the first notification of reasons for refusal

It must be noted that this subsection applies to those amendments marked "A" and "B" on the Chart II-1.

① Time Limitation

Time limitation for those amendments are the same as under the current Law:

(i) Amendments may be made within one year and three months from the filing date of a patent application (Sec.17(1));

(ii) After the above period has expired, an amendment may be made, if before the transmittal of the ruling on the publication of application, so long as the amendment is made at the time of request for examination (Sec.17-2(1)(i)), or within three months from the receipt of the notification of the request for examination by a third party (Sec.48-5(2) and 17-2(1)(ii)), or before the designated time limit associated with the first notification of reasons for refusal (Sec.17-2(1)(ii)). In addition, the application to which said amendment is made must be pending before the Patent Office. Any amendment failing to fulfill the above conditions will not be accepted.

② Restrictions on Amendable Scope

(i) Section 17(2) has been added to limit amendments made under Section 17(1) to "the matters stated in the specification or the drawings originally attached to the request." Hereinafter the "amendment to add new matter" will mean the "amendment on matters other than those stated in the specification or the drawings originally attached to the request."

(ii) Amendments made under Section 17-2(1)(i) through (iii) must not be amendments to add new matter (Sec.17-2(2)).

③ Handling of Amendment to Add New Matter under the Revised Law

(i) Any amendment of the applicant found to add new matter (violation of Sec.17(2) or 17-2(2)) made before the examiner's decision of grant of patent will be the reason for refusal (Sec.49(1)(i)), the basis for filing of opposition if after the publication of application (Sec.55), and the basis for

invalidation of patent if after grant of patent (Sec.123(1)(i)).

(ii) Since Section 40 of the current Patent Law has been deleted, no patent application shall be deemed to have been filed at the date when an amendment to add new matter in writing was submitted. Amendments to add new matter will, if made after grant of patent, be the basis for invalidation of patent without exceptions (Sec.123(1)(i)). As a result, the patent right will be deemed never to have existed.

(iii) Amendments will not be declined.

(2) Amendment made in response to the final notification of reasons for refusal

Please note that this subsection applies to the amendment marked "C" on the Chart II-1.

① Time Limitation

An amendment may be made before the designated time limit associated with the final notification of reasons for refusal (Sec. 17-2(1)(iv)). The application to which said amendment is made must be pending before the Patent Office. Any amendment failing to fulfill the above conditions will not be accepted.

② Restrictions on Amendable Scope

(i) No amendment must be designed to add new matter (Sec.17-2(2)).

(ii) An amendment to patent claims includes:

1) Deletion of a claim or claims (Sec.17-2(3)(i))

2) Restriction on the scope of a claim or claims (Sec.17-2(3)(ii))

- An amendment must be made to introduce limitations on the whole or part of the features indispensable to the constitution of the pre-amended invention, and further, such an amendment must be made within the scope of the features indispensable to the constitution of an invention of which the industrial applicability and the problem to be solved are the same as those of the pre-amended invention. (The limitation to be introduced on the whole or part of the features indispensable to the constitution of the pre-amended invention will be hereinafter referred to as the "Internal Limitation").
- The invention constituted by the features described in the amended claims must be one which could have been patentable independently at the time of filing of the patent application therefor (Sec.17-2(4)).

3) Correction of errors in the description (Sec.17-2(3)(iii))

4) Clarification of an ambiguous description (Sec.17-2(3)(iv))

- Clarification must relate to only the matters mentioned in the reasons for refusal.

③ Handling of Illegal Amendment under the Revised Law

(i) Unless an amendment is declined for the reasons as stated in (iii) below (in proviso to Sec.50), any amendment of an applicant found to add new matter and made before the examiner's decision of grant of patent will be the reason for refusal (Sec.49(1)(i)), the basis for filing of opposition if after the publication of application (Sec.55), and the basis for invalidation of patent if after grant of patent (Sec.123(1)(i)).

(ii) No patent application shall be deemed to have been filed at the date when an amendment to add new matter in writing was submitted, for Section 40 of the current Patent Law has been deleted. An amendment to add new matter, if made after grant of patent, will be the basis for invalidation of patent without exceptions (Sec.123(1)(i)). As a result, the patent right will be deemed never to have existed. However, the above shall not be applied to amendments which are declined for the reasons as stated in (iii) below (in proviso to Sec.50).

(iii) Any amendment under Section 17-2(1)(iv) will be declined if:

(a) the amendment is designed to add new matter to the specification or the drawings (Sec.17-2(2));

(b) the amendment is found to have a purpose other than deletion of a claim or claims (Sec.17-2(3)(i)), restriction on the scope of a claim or claims by adding internal limitations (Sec.17-2(3)(ii)), correction of errors in the description (Sec.17-2(3)(iii)) and clarification of an ambiguous description (Sec.17-2(3)(iv));

(c) the invention constituted by the features described in the claims amended by adding internal limitations is not found to be one which could have been patentable independently at the time of filing of the patent application (Sec.17-2(4)).

In any of the above cases, the finding must be made before the transmittal of the ruling on the publication of application (Sec.53(1)).

Under the current Law, if an amendment made before the publication of application is found, after the transmittal of the ruling on the publication of application but prior to the examiner's decision of grant of patent, to change the gist of invention, said amendment is declined by statute (Sec.53). Under the revised Law, however, an amendment made before the transmittal of the ruling on the publication of application and found, after the transmittal of the ruling on the publication of application but prior to the examiner's decision of grant of patent, to add new matter will not be declined (Sec.53(1)). Instead, the applicant will be notified of the reason for refusal (Sec.50). However, an amendment made before

the publication of application and found, after the transmittal of the ruling on the publication of application but prior to the examiner's decision of grant of patent, to relate to the claim scope changes but made in violation of Section 17(3)(i) through (iv) and 17(4) will still be upheld.

A person demanding a trial against examiner's decision of refusal (Sec.121) may also appeal the examiner's finding in the declining of an amendment (in proviso to Sec.53).

(3) Amendment at the time of demanding a trial against examiner's decision of refusal before the transmittal of the ruling on the publication of application

This subsection applies to the amendment marked "D" on the Chart II-1.

① Time Limitation

After the period of one year and three months from the filing date of the patent application has expired, an amendment may be made within 30 days from the demand for a trial against examiner's decision of refusal, if it is before the transmittal of the ruling on the publication of application (Body of Sec.17-2(1) and Sec.17-2(1) (v)). In addition, the application to which said amendment is made must be under examination by the Patent Office. Any amendment failing to fulfill the above conditions will not be accepted.

② Restrictions on Amendable Scope

Same as (2) ② above.

(i) No amendment to add new matter is allowed (Sec.17-2(2)).

(ii) An amendment to patent claims is allowed only if the purpose is to:

1) delete a claim or claims (Sec.17-2(3)(i));
2) restrict the scope of a claim or claims by adding internal limitations;
3) correct errors in the description (Sec.17-2(3)(iii));
4) clarify an ambiguous description (Sec.17-2(3)(iv)).

③ Others

Reminders for applicants making amendments and handling of illegal amendments under the revised law are the same as (2) above. However, any illegal amendment related to this subsection will not be declined in the course of examination. Instead, said amendment will be declined by the trial examiner in a trial (Sec.163(1)).

(4) Amendment made after the transmittal of the ruling on the publication of application

This subsection applies to the amendment marked "E" on the Chart II-1.

① Time Limitation

(i) If an applicant has received a notification of the examiner's decision of refusal after the publication of application, the applicant may make an amendment within 30 days from the demand for a trial against said decision (Sec.17-3(1)).

(ii) If the notification of reasons for refusal is made or the opposition to grant of patent is filed after the publication of application, the applicant may make amendment within the designated time limit (Sec.64). The application to which said amendment is made must be pending before the Patent Office. Any amendment failing to meet the above conditions will not be accepted.

② Restrictions on Amendable Scope

The restrictions are unchanged from the current Law except that the revised Law limits amendments to "the matters stated in the specification or the drawings attached to the request" (Sec.17-3(2)). In this paper, the "amendment to add new matter to the pre-amended specification or the drawings (hereinafter referred to as the "Standard Specification") will mean the "amendment on matters other than those stated in the specification or the drawings attached to the request."

③ Handling of Illegal Amendment under the Revised Law

(i) Any amendment found to violate Section 17-3(2) through (4) and Section 64(2) through (4) before the examiner's decision of grant of patent will be declined as in the current Law (Sec.54(1)).

(ii) After the grant of patent, any amendment in violation of Section 17-3(2) and Section 64(2) will be the basis for invalidation (Sec.123(1)(1)). On the other hand, any amendment in violation of Section 17-3(3) and (4) and Section 64(3) and (4) will be permissible.

(5) Table II-1 (Restrictions on Amendment)

The revisions described above are summarized in the attached Table II-1 (Restrictions on Amendment).

(6) Comparison with the Current Law

The attached Table II-2 (Improvement of Amendment: Comparison of Current and Revised Laws) compares the current and the revised Laws in terms of restrictions on the amendable scope and violation of said restrictions for each step of application.

(7) Comparison with Systems of Other Countries

The attached Table II-3 (Comparison with Systems of Other Countries) compares our revised Law with the European Patent Convention and the US Patent Law in terms of restrictions on amendments to add new matter, legal treatment of said amendments, restrictions on amendments to patent claims after the notification of reasons for refusal.

3. Recommended Actions and Reminders for Applicant

(1) Amendment made within one year and three months from the filing date of a patent application, and Amendment made before the designated time limit associated with the first notification of reasons for refusal

① Amendment-related reminders

(i) An application must well describe the invention for which a patent is sought at the time of filing since no amendment is allowed to add new matter (Sec.17(2), 17-2(2)) and the extent of remedial measures for insufficient description has been narrowed down.

(ii) Applicants need to take quick and appropriate actions according to the purpose of application. The current Law allows, if before the publication of application, any amendment to broaden or alter the scope of invention pertinent to the application, so long as the gist of the invention is unchanged (current Law Sec.17-2). Under the revised Law, however, no applicant can make amendment to newly include an invention, even though it has been described in the specification or the drawings attached to the original application, to the patent claims in order to broaden or alter the scope of invention (Sec.17-2(3)). Thus, applicants need to take actions more promptly and more adequately under the new Law. Each applicant should take full advantage of the system of multiple claims from the time of filing an application, and prepare a specification to obtain comprehensive protection for the results of R&D efforts without omission.

② Recommended actions for applicant when amendment to add new matter is held as the reason for refusal, or the basis for opposition or invalidation

(i) If an applicant cannot accept the decision that his amendment is made to add new matter and therefore falls within the reason for refusal, etc:

The applicant may submit a statement of arguments for the reason for refusal (Sec.50) and a written reply for the filing of opposition to grant of patent (Sec.57), and may demand a trial against examiner's decision of refusal (Sec.121) and submit a written reply for demand of trial for invalidation (Sec.134 (1)).

In these responses, the applicant should argue that said amendment is not designed to add new matter. The following is the samples of possible argument:

(a) If the amendment changes the elements of the invention, the applicant should argue that such change is within the scope of the matters stated in the specification or the drawings attached to the original application;

(b) If the amendment eliminates the second process of the two -process invention, the applicant should argue that the remaining first process in the patent claims has been stated as an independent and complete invention in the original specification or drawings;

(c) The applicant should argue that the advantageous effect of addition resulted from said amendment is within the scope of the matters stated in the original specification or drawings.

(ii) If an applicant accepts the decision that his amendment is made to add new matter and therefore falls within reason for refusal, etc:

The applicant may:

(a) make an amendment to the specification or the drawings within the designated time limit for submission of a statement of arguments or for a written reply for the filing of opposition to grant of patent (Sec.17-2(1)(v), 64), and delete the new matter added by the amendment which is held as the reason for refusal, etc;

(b) demand a trial for correction of the specification or drawings attached to the request (Sec.134(2)) within the designated time limit for submission of a written reply for demand of trial for invalidation (Sec.134(1)), or within the designated time limit for stating an opinion on the results of the trial examination ex officio (Sec.153(2)), and delete the new matter added by said amendment.

(iii) No applicant can demand a trial against the ruling to decline amendment. (Section 122 of the current Law will be deleted.

The amendment to add new matter cannot even be declined.)

(2) Amendment made in response to the final notification of reasons for refusal

① Amendment-related reminders

(i) Section 17-2(2) which prohibits addition of new matter applies, as in (1) 1. above.

(ii) Amendment to patent claims

- Section 17-2(3)(i): In the event of deleting a claim or claims under this paragraph, each applicant is reminded that it is virtually impossible to reinstate the deleted claim or claims in the application.
- Section 17-2(3)(ii): In the event of restricting the invention stated in the patent claims under this paragraph, each applicant should see to it that such an amendment falls within amendment to add internal limitations and that the invention constituted by the features described in the amended claims must be one which could have been patentable independently at the time of filing of the patent application.
- Section 17-2(3)(iv): Since amendments with the purpose stipulated in Section 17-2(3)(iv) are limited to "the matters mentioned in the reasons for refusal (parenthesized portion of Sec.17-2(3)(iv)" after the revision, each applicant is reminded that any unrelated amendment to capitalize on a allowable amendment to patent claims is totally illegal.

② Recommended actions for applicant when his amendment has been held as the reason for refusal, or the basis for opposition or invalidation

(i) If the amendment has been refused, etc., on the ground that it is being an amendment to add new matter, the applicant may submit a statement of arguments or make other responses to argue that said amendment is not designed to add new matter, as in (1) ② above.

(ii) Each applicant is reminded that he cannot demand a trial against the ruling to decline amendment even when said amendment has been declined in accordance with Section 53.

(3) Amendment at the time of demanding a trial against examiner's decision of refusal before the transmittal of the ruling on the publication of application

Both ① Amendment-related reminders and ② Recommended actions for applicant when his amendment has been held as the reason for refusal, or the basis for opposition or invalidation are the same as (2) above.

(4) Amendment made after the transmittal of the ruling on the publication of application

① Amendment-related reminders

(i) Although the same applies under the current Law, each applicant is reminded that an amendment to add new matter to the standard specification will be declined if before the examiner's decision of grant of patent, and will be held as the reason for invalidation of patent if after the grant of patent (Sec.17-3(2), 64(2), 123(1), 54).

(ii) Each applicant is also reminded that there is an additional requirement for amendment when compared with those for amendment before the ruling on the publication of application; An amendment must not substantially broaden or alter the scope of claims. Any amendment in violation of this requirement will be held as the reason for invalidation of patent.

② Recommended actions for applicant when his amendment has been held as the reason for refusal, or the basis for opposition or invalidation

(i) If an amendment has been refused, etc., on the ground that it is being an amendment to add new matter, the applicant may submit a statement of arguments or make other responses to argue that said amendment is not designed to add new matter, as in (1) ② above.

(ii) If an amendment is found illegal on the ground that it has substantially broadened or altered the scope of claims, the applicant should make the following arguments in the statement of arguments, the written reply, etc:

(a) Said amendment is the deletion of alternative expression;

(b) Said amendment is the serial addition of elements;

(c) Said amendment is the change from genus to species;

(d) Said amendment is designed to correct errors apparent from the specification or the drawings, or to clarify an ambiguous description.

(e) Said amendment is designed to clarify the functions stated in the patent claims on the basis of embodiments.

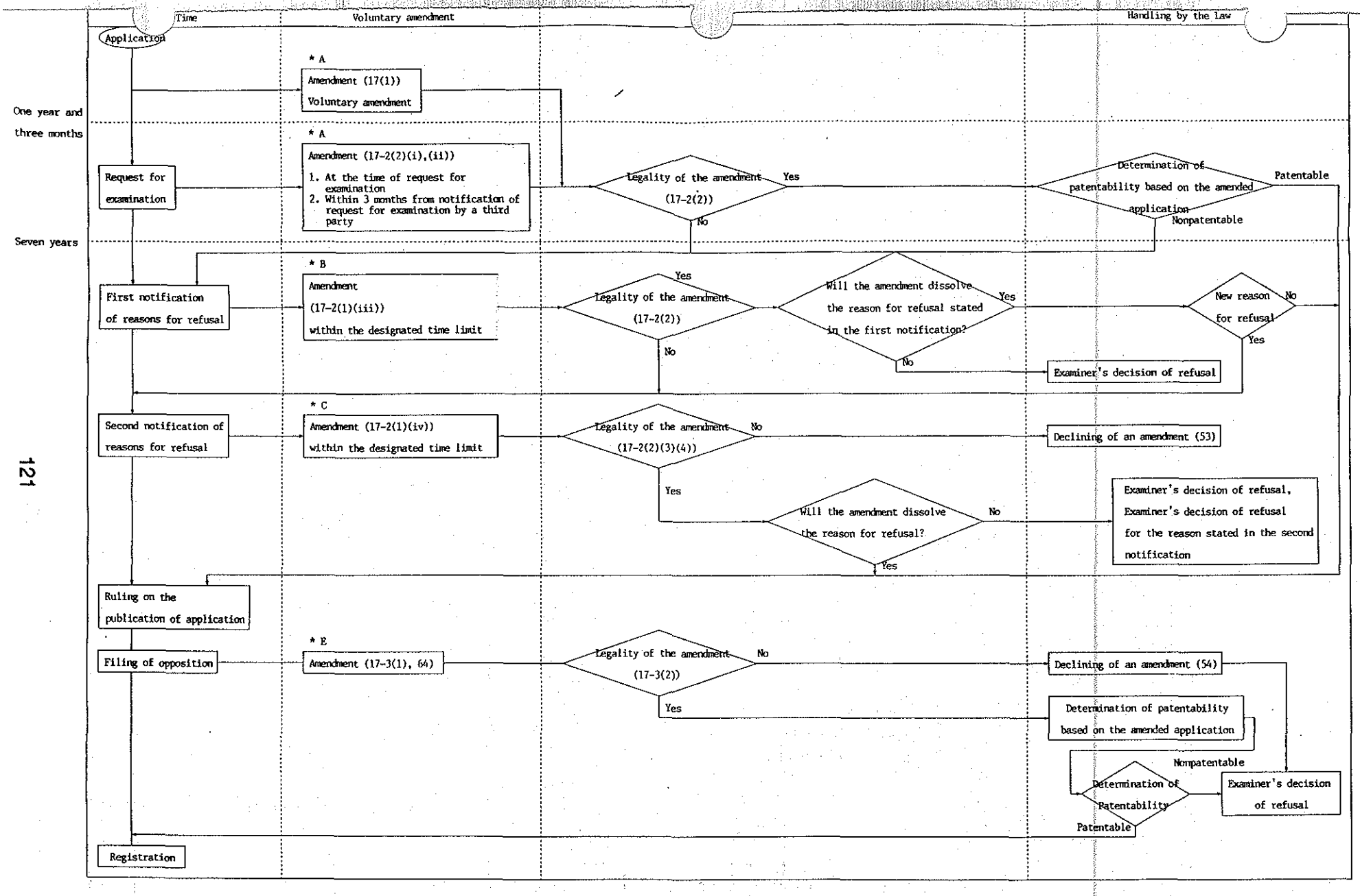

Time
Voluntary amendment
Handling by the Law
Application
One year and three months
Seven years
Request for examination
First notification of reasons for refusal
Second notification of reasons for refusal
Ruling on the publication of application
Filing of opposition
Registration
* A
Amendment (17(1))
Voluntary amendment
* A
Amendment (17-2(2)(i),(ii))
1. At the time of request for examination
2. Within 3 months from notification of request for examination by a third party
Legality of the amendment (17-2(2))
Yes
No
Determination of patentability based on the amended application
Patentable
Nonpatentable
* B
Amendment (17-2(1)(iii)) within the designated time limit
Legality of the amendment (17-2(2))
Yes
No
Will the amendment dissolve the reason for refusal stated in the first notification?
Yes
No
New reason for refusal
No
Yes
Examiner's decision of refusal
* C
Amendment (17-2(1)(iv)) within the designated time limit
Legality of the amendment (17-2(2)(3)(4))
No
Yes
Declining of an amendment (53)
Will the amendment dissolve the reason for refusal?
No
Yes
Examiner's decision of refusal, Examiner's decision of refusal for the reason stated in the second notification
* E
Amendment (17-3(1), 64)
Legality of the amendment (17-3(2))
No
Yes
Declining of an amendment (54)
Determination of patentability based on the amended application
Determination of Patentability
Nonpatentable
Patentable
Examiner's decision of refusal

Chart II-1 Flow Chart of Examination Procedures for Amended Application 2

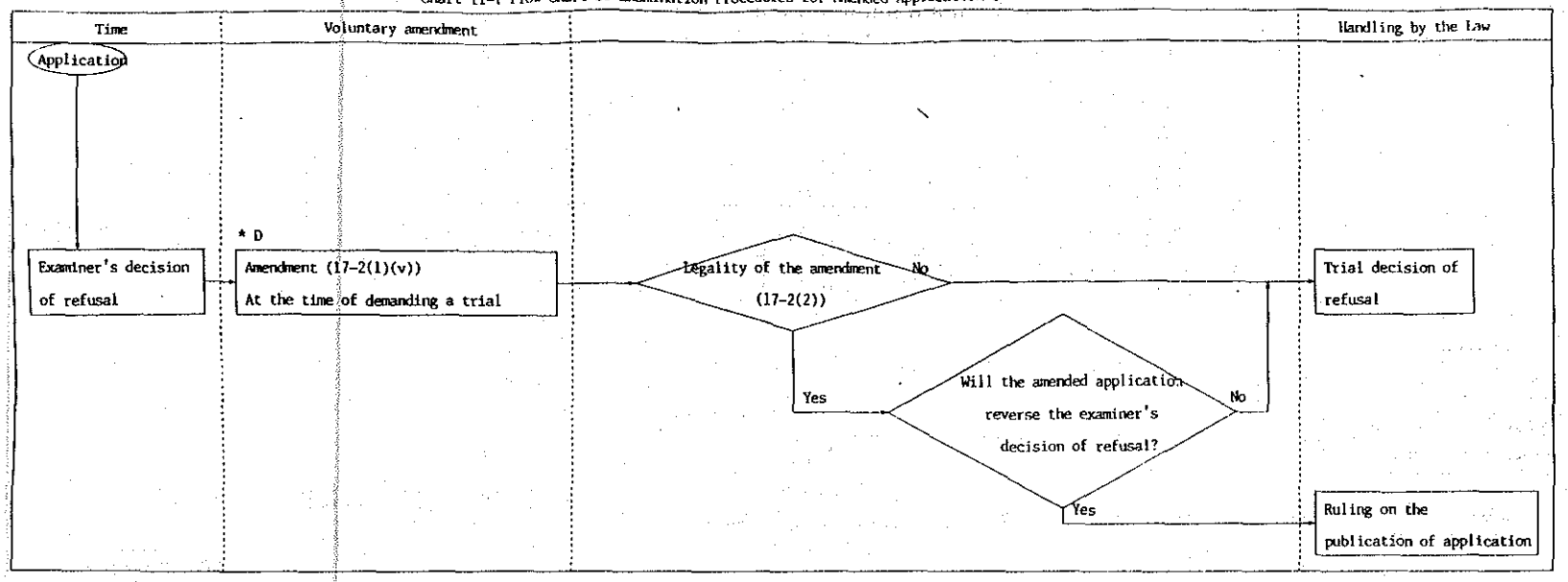


Table II-1 Restrictions on Amendment

	Time Limitation	Restrictions on Amendable Scope	Handling of illegal Amendment
Application 1 year and 3 months	Amendments can be made at any time (Sec.17(1)). (1) Simultaneously with the request for examination (2) Within three months from the receipt of the notification of the request for examination by a third party (3) Before the designated time limit associated with the first notification of reasons for refusal (Sec.17-2 (1)(i) through (iii)).	1. (Specification, Drawings) An amendment is limited to the matters stated in the specification or the drawings originally attached to the request (Sec.17(2) and 17-2(2)).	[If illegality is found before registration...] Reason for refusal or basis for opposition (Sec.40(1)(i)) [If illegality is found after registration...] Basis for invalidation (Sec.123(1)(i))
	(4) Before the designated time limit associated with the second notification of reasons for refusal (5) Within 30 days of the demand for a trial against examiner's decision of refusal (Sec.17-2 (1) (iv) and (v)).	① (Specification, Drawings) An amendment is limited to the matters stated in the specification or the drawings originally attached to the request (Sec.17(2) and 17-2(2)). ② (Patent Claims) i) Deletion of claim/s ii) Restrictions on the scope of a claim or claims (an amendment must be made within the scope of the features indispensable to the constitution of an invention of which the industrial applicability and the problem to be solved are the same as those of the pre-amended invention.) iii) Correction of errors in the description iv) Clarification of an ambiguous description (only on those matters mentioned in the notification of reasons for refusal) (Sec.17-2(3)) * The amendment mentioned in ② ii) is permissible only when the amended invention is independently patentable. (Sec.17-2(4))	[If illegality is found before transmittal of a copy the ruling on publication of application...] Declining of the amendment (Sec.53) → The ruling to decline an amendment can be contested by a trial against examiner's decision of refusal. (The trial decision to decline the amendment can be contested by an action against trial decision.) * However, if an amendment made before the demand for trial is found to be illegal while the trial is in progress, said amendment will not be declined, but subject to following treatments (parenthesized part of Sec.159(1)): ① in the box at left: Reason for refusal (Sec.49 (1)(i)) ② in the box at left: Permissible. [If illegality is found after transmittal of a copy ruling on publication of application...] ① in the box at left: Reason for refusal or basis for opposition (Sec.49(1)(i)); Basis for invalidation (Sec.123(1)(i)). ② in the box at left: Permissible (amendment not declined)
Transmittal of a copy of the ruling on publication of application Examiner's decision or trial decision becomes final and conclusive	(1) Before the designated time limit associated with the notification of reasons fo refusal (Sec.64(1)). (2) Before the designated time limit for reply associated with the filing of opposition to grant of patent (Sec.64(1)). (3) Within 30 days of the demand for a trial against examiner's decision of refusal (Sec.17-3 (1)).	(Specification, Drawings) Standard specification (the latest prior to the amendment) ① An amendment is limited to the matters stated in the specification or the drawings attached to the request (Sec.17-3(2) and 64(2)). ② i) Restrictions on the scope of a claim or claims ii) Correction of errors in the description iii) Clarification of an ambiguous description (Sec.17-3(3), 64(3)) * All of above amendments are limited to the matters mentioned in the notification of reasons for refusal or in the written opposition. ** The amendment mentioned in ② must not substantially broaden or alter the scope of the patent claims (Sec.17-3(4), 64(4)).	[If illegality is found before registration...] Declining of the amendment (Sec.54) → The ruling to decline an amendment can be contested by a trial against examiner's decision of refusal. (The trial decision to decline an amendment can be contested by the action against trial decision.) [If illegality is found after registration...] ① in the box at left: Reason for invalidation (Sec.123(1)(i)) ② in the box at left: A patent is deemed to have been granted w.r.t. the application without such illegal amendment (Sec.40).

Table II-2 Improvement of Amendment: Comparison of Current and Revised Laws

Current Law	Revised Law
1. Amendment before transmittal of a copy of the ruling on publication of application [Restrictions on Amendable Scope] - No amendment must change the gist of the invention (Sec.41). [Handling of Illegal Amendment under the Law] - Any amendment found to change the gist, if made before the examiner's decision of grant of patent, will be declined (Sec.53). - If the amendment is found to change the gist after the grant of patent, the patent application will be deemed to have been filed at the time the written amendment was submitted (Sec. 40). [Means to Appeal] - A trial against ruling to decline amendment may be demanded (Sec.122).	1. Amendment before transmittal of a copy of the ruling on publication of application [Restrictions on Amendable Scope] - No amendment must add new matter (Sec.17(2), 17-2(2)). - Any amendment to patent claims to be made in response to the final notification of reasons for refusal must have the purpose of (i) deletion of a claim or claims; (ii) restriction on the scope of a claim or claims (only by adding internal limitations; and the amended invention must be independently patentable), (iii) correction of errors in the description, or (iv) clarification of an ambiguous description (related only to those matters mentioned in the final notification of of reasons for refusal) (Sec.17-3(3)). [Handling of Illegal Amendment under the Law] - Any amendment to add new matter will be the reason for refusal, and the basis for filing of opposition to grant of patent or for invalidation (Sec.49, 55, 123). - If an amendment made in response to the final notification of reasons for refusal is found to be illegal (in violation of Sec.17-2(2), (3) or (4)) before the publication of application, said amendment will be declined (Sec.53). - If an amendment made in response to the final notification of reasons for refusal is found to be related to patent claims and illegal (in violation of Sec.17-2(3)) after the publication of application but before the examiner's decision of grant of patent, said amendment will receive no sanctions. If an amendment to the specification, etc. is found to add new matter after the publication of application but before the examiner's decision of grant of patent, said amendment will be the reason for refusal and the basis for filing opposition. [Means to Appeal] - The declining of amendment may be appealed in a trial against the examiner's decision of refusal.
2. Amendment after transmittal of a copy of the ruling on publication of application [Restrictions on Amendable Scope] - Any amendment must relate to the matters stated in the notification of reasons for refusal, opposition filed, or the examiner's decision of refusal and must have the purpose of: i) restriction of the scope of a claim or claims; ii) correction of errors in the description; or iii) clarification of an ambiguous description (Sec.64, 17-3). - No amendment must substantially broaden or alter the patent claims (Sec.64, 17-3). [Handling of Illegal Amendment under the Law] - Any amendment found to violate the specified statutory restrictions before the examiner's decision will be declined (Sec.54). - If an amendment is found to violate the specified statutory restrictions after the examiner's decision, a patent is deemed to have been granted w.r.t. the application without said amendment (Sec.42). [Means to Appeal] - The declining of amendment may be contested in a trial against examiner's decision of refusal (Sec.121).	2. Amendment after transmittal of a copy of the ruling on publication of application [Restrictions on Amendable Scope] - Almost the same as under the Current Law except that any amendment to add new matter is not allowed, as in an amendment before the publication of application (Sec.17-3(2)). [Handling of Illegal Amendment under the Law] - Any amendment found to be illegal before the examiner's decision of grant of patent will be declined (Sec.54). - Any amendment found to add new matter after the grant of patent will be the basis for invalidation (Sec.123). [Means to Appeal] - The declining of amendment may be contested in a trial against examiner's decision of refusal (Sec.121).

Table II-3 Comparison with Systems of Other Countries

	Japan	European Patent Convention (EPC)	US Patent Law
Amendment To Add New Matter	- Amendments to the specification or the drawings are limited to the matters stated in the specification or the drawings originally attached to the application (Sec.17(2), 17-2(2), 17-3(2), 64(2))	- A European patent application ... may not be amended in such a way that it contains subject-matter which extends beyond the content of the application as filed (EPC Article 123(2)).	- No amendment shall introduce new matter into the disclosure of the invention (35USC132, 37CFR1.53).
Handling of Amendment To Add New Matter under the Law	- Any amendment to add new matter will be the reason for refusal (Sec.49(1)), and basis for filing opposition to grant of patent (Sec.55), or for invalidation of patent (Sec.123).	- Any application with the amendment to add new matter will be refused (EPC Article 96(2)).	- Any application, if new matter has been introduced, shall be rejected (37CFR1.118).
Improvement of Scope of Patent Claim	- No amendment made in response to the final notification of reasons for refusal may add new matter. The addition of external limitations to the patent claims is treated as an illegal amendment (Sec.53).	- After receipt of the first communication from the Examining Division the applicant may, of his own volition, amend once the description, claims and drawings ... (Implementing Regulations Rule 86(3)).	- If an amendment made in the course of the first examination on the merit creates a new basis for rejection of a claim or claims, the rejection of the claim or claims will finalize (MPEP706.07(a)). Thereafter, no amendment shall be allowed (37CFR1.116).

4. Recommendations for Company in Preparing and Managing Specifications

Since the revised Patent Law has focused on Improvement of the System of Amendment (or restrictions on amendment), each company is required to extensively examine a draft specification prior to filing a patent application.

Under the current Law, many applicants first secure the scope of patent claims as broadly as possible. If the applicant is notified of the reason for refusal which includes citation of prior art, the applicant *makes an amendment which would not change the gist of invention,* in order to distinguish the claimed invention from the prior art. Moreover, in an impatient attempt to file an application as quickly as possible, some applicants *submit the specification on apparently incomplete invention* without clarifying the features of the invention and specifying the elements that were indispensable to the constitution of the invention.

As the new Law is set for enforcement, each company is recommended to devote as much energy as possible to preparation of high-quality specifications fully reflecting the results of its R&D efforts for the initial stage of patenting its inventions. The following is our recommendations on preparation and management of specifications. In developing the recommendations, the time limits intrinsic to our first-to-file system have also been taken into consideration.

(1) Recommendations on Preparation of Specification

In this section, case studies in mechanical/electrical and chemical engineering are presented to emphasize the newly introduced prohibition on addition of new matter which calls for greatest attention. In each of the case studies, the desirable specification is studied.

① Case Study #1 (Mechanical/Electrical Engineering)

An extensive search for prior art is the prerequisite for filing an application on an invention. In our opinion, (a) distinguishing the invention from the prior art, (b) clarifying the indispensable elements and (c) developing from species into genus should be the major points in preparing the claims.

In the case where a notification of reasons for refusal has necessitated an amendment, the amendment will mostly result in the claim changes. Each applicant should conduct a thorough prior investigation, thereby preparing an application which does not call for any amendment to the claims.

Presented in this case study is an example of a claim which is deficient in the above points (a) through (c) respectively and as a

result cannot be recovered by amendments after the notification of reasons for refusal due to the new matter prohibition.

2. Case Study #2 (Chemical Engineering)

In the chemical engineering field, applicants often find difficulties in listing a sufficient number of embodiments in the specification at the time of filing an application. Now that the Law and the Examining Standard are revised, it is important that each applicant secures the scope of patent claims as broad as possible, so long as the applicant is capable of expressing novelty and inventiveness of the invention, instead of narrowing down the claims in fear of the revised Law and Examining Standard.

The case chosen for study indicates that a broader claim is obtainable and the advantage of the invention over the cited prior art is demonstrable by utilizing a lab certificate.

(2) Recommendations on Management of Specification

This section will examine the recommendable way for a company to manage a specification in order to deal with the improved system of Amendment in the revised Law.

The desirable specification management in a company is also presented to enable each company to deal with the improved system of Amendment and prepare the specification without having difficulties with the improved amendment system. This section will feature the useful "Checklist for Specification" (Table II-6) and "Points in Preparation of Specification To Deal with the 'Improved System of Amendment'" (Table II-7) which describes the roles to be played by the patent department, the engineering department and the patent agents and attorneys.

① Utilization of Checklist

Since the revised Law restricts amendments to the specification if once the patent application is filed, it is essential that the inventor (and the exterior patent attorney if the application is farmed out) follows the attached Checklist to examine the invention and improve the content of the specification prior to filing on application.

Each check point will be explained according to the "Checklist for Specification"(Table II-6).

Indicated in rows are the check points on the subparts of the specification listed in the same order as in the specification: Claims, Purpose of the Invention, Description of the Invention, Embodiments (and Compound). Indicated in columns are: Points related to the content and Points related to management.

The following is the brief description for each check point:

i. Claims

Check each claim for distinguishablity from the prior art, inclusion of unnecessary limitations, omission of necessary limitations, accuracy of numerical limitations, and sufficient utilization of the System of Multiple Claims. Then, check each claim according to such management points as confirmation of novelty and inventiveness, confirmation for presence of pioneer patents, understanding of the invention, establishment of a patent right as an effective tool in patent litigations, prevention of refusal by insufficient description, and possibility of filing a package application on related inventions.

ii. Purpose of the invention

Check the descriptive portion of the purpose of the invention for whether or not appropriate prior art is cited in the part of describing the prior art and whether or not the invention is fully distinguishable from the prior art cited. Then, check that portion according to such management points as consistency of the prior art cited and special considerations in preparation of IDS for a US patent application.

iii. Description of the invention

Check the portion which describes the invention for confirming that it sufficiently describes the invention in graded steps (from broad expression to medium, narrow expression), that the reason for numerical limitations is appropriately explained, and that the uniformity in terms and expressions is totally achieved. Then, check that part in view of such management points as establishment of sufficient grounds for adding limitations to the prior art, and prevention of refusal by insufficient description.

iv. Embodiments (Working examples)

Check each embodiment for confirming that the advantageous effects of the invention are proved through comparative tests with the closest prior art, and that the number and the mode of embodiments are sufficient to cover the scope of claims. Then, check each embodiment description according to such management points as establishment of grounds for patentability of the invention over the prior art, and prevention of refusal by insufficient description.

v. Compound

Check the part describing the chemical compounds, if any, for confirming that a sufficient number and variety of examples of compounds are listed, and that it adequately and fully describes the functional group, substitution, carbon number, molecular weight, formation of polymer, physical property values, method of

synthesis, and the amount of additive. Then, check each part according to such management points as establishment of grounds for adding limitations to the prior art, and prevention of refusal by insufficient description.

② Roles To be Played by Patent Department, Engineering Department and Patent Agents and Attorneys

In order to file an application accompanied by closely examined specification, the engineering department, the patent department and the patent agents and attorneys all have their roles to play, and their activity must be concerted.

While, the existence of third parties must be kept in mind when preparing the specification. Various actions are necessary not only in connection with the Patent Office but also with the court, competitors, and the infringer.

In this subsection these matters to be attended to are presented by using the "Points in Preparation of Specification To Deal with the 'Improved System of Amendment'" (Table II-7). This table lists the points which should always be remembered as well as the points related to the "improved system of amendment".

i. Actions required of inventors (Engineering department)

- In order to obtain a patent, each inventor is required to study the substance of his invention, totally understand the technology that is the closest to that invention, and thereafter to include the best mode of carrying out the invention, and prepare a written suggestion disclosing the completed invention.
- In order to distinguish the product or process performance attained by the invention from the prior art, each inventor should conduct a study to distinguish the invented device or process specifically from the competitive products or process particularly in terms of effect.
- In terms of enforcement of the patent right, each inventor shall study the scope of easy analogical inference, eliminate any unnecessary limitations, and study the development into various categories of the invention.

ii. Handling of application (Patent department)

- In order to obtain a patent, the stuff of the patent department should retrieve the information on the prior art from the data base, evaluate the degree of perfection of the suggested invention, decide the feasibility of filing a patent application, and discuss the policies in utilizing the System of Multiple Claims.
- In order to distinguish the product or process performance from the prior art, the stuff of the patent department should obtain the information on competitive products or process, confirm the difference between the suggested invention and the existing

competitive products or process, and study the possibility of filing a package application on related inventions.

- In terms of enforcement of the patent right, the stuff of the patent department should try to expand and develop the invention and study the scale of competition with other companies.

iii. Preparation of specification (Patent agents and attorneys)

- In order to obtain a patent, each agent or attorney should sort out the claims according to the level of inventive concept ranging from genus to species, and prepare a measure including deletion of a particular claim to respond to the examiner's refusal by citation of prior art.

- In order to distinguish the product or process performance from the prior art, each agent or attorney should point out the deficiencies of the competitive products or processes in the description of the prior art (without mentioning the particular names of the competitors) in order to emphasize the advantage of the product or process developed on the basis of the invention.

- In terms of enforcement of the patent right, each agent or attorney should try to develop the substantially identical invention into other categories, describe various embodiments, eliminate unnecessary limitation in order to prevent infringement by third parties.

(3) Reminders in Patent Practices

The following is what every practitioner should do and should not do after the enforcement of the revised Patent Law in view of the improved system of amendment and the revised Examining Standard.

① Submission of lab certificate

Each practitioner should not make an amendment to add embodiments in order to demonstrate the advantage (unexpected effect) of the invention over the prior art, or to demonstrate that another working example of the invention falling within the patent claims has the same effect of the embodiment already included in the specification. Instead, a lab certificate should be submitted.

Note: In the US patent examination practices, such a lab certificate is usually submitted in the form of "Rule 132 declaration". The "compound of the invention" mentioned in a lab certificate can be used to demonstrate the advantage (unexpected effect) of the invention even if said compound is not specifically described in the specification, provided that the compound is included in the patent claims. The treatment is similar in Japan. The "compound of the invention" stated in the lab certificate can be any compound included

in the patent claims even if said compound is not specifically stated in the specification.

② Utilization of national priority institution

It is advisable to file an application claiming the national priority institution to correct insufficient description in the specification, to further improve the invention, or to add (another compound or embodiment) for the purpose of preventing later applications on similar inventions (selective invention).

However, the application claiming the domestic priority may be unnecessary when the submission of lab certificate will suit the purpose of demonstration of the advantage of the invention over the prior art, or demonstration of the effects attained by the invention claimed, as shown in ① Note above.

③ Utilization of System of Multiple Claims and divisional application

The System of Multiple Claims should fully be utilized to claim as many "multi-sided" claims as possible in the specification at the time of filing a patent application. "Multi-sided" claims include various claims ranging from generic claim to species claim, claims expressed in diverse perspectives, claims on material, claims on manufacturing process and claims on usage.

When the first refusal is received, it is recommended to study the reason for refusal including the prior art cited by the examiner, in order to find a new claim that can be relied on in the future argument over patentability. To add multi-sided claims, if any, is an effective measure to prepare for the final refusal. If there is no suitable claim to counter the final refusal, but there is a new invention found in the specification, discuss the divisional application.

Note: In the US patent examination practices, the applicant may file a divisional application claiming another compound not found in the description of the embodiments (working examples) of the parent application, provided that said compound is specifically mentioned in the specification of the parent application, and said compound operates equally under the same conditions for the embodiments described in the parent application. Based on the same practices, a divisional application is permissible in Japan.

(4) Conclusion

If a company is to deal with the new Law with the improved system of amendment, the engineering department, the patent department and the patent agents and attorneys need to adopt a new idea according to their respective positions.

In order to do so, the patent department should first understand the latest revision of the Patent Law and form countermeasures for the company as quickly as possible. Since the system of amendment has been improved (or restricted), the countermeasure should focus on how to prepare a high-quality specification which fully reflects the results of the R&D efforts prior to filing a patent application.

As part of specification management, each company will be required to intensify (1) extensive investigation of prior art, (2) improved understanding of the invention, (3) confirmation of novelty and inventiveness over the closest prior art, and (4) promotion of package application to capitalize on the System of Multiple Claims from now on. "Checklist for Specification" and "Points in Preparation of Specification To Deal with the 'Improved System of Amendment'" provided herein may help facilitate the specification management at each company.

Table II-4 [Case Study #1]

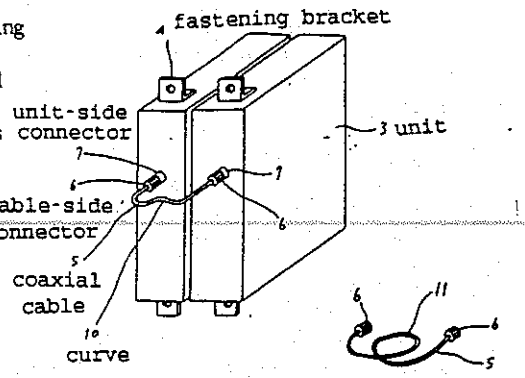
A detailed example of an inadequately described claim. (Mechanical/electrical engineering field)

(Claim)

A coaxial cable connecting method for connecting placed in parallel units, characterized in that the breadth of the coaxial cable (5) is provided with slack in the form of a curve or coil, and that the cable-side connectors (6), at both ends of the breadth of the cable (5), are connected to each of the unite-side connectors (7), which are located in proximity and parallel to each other.

(Advantage)

By providing flexibility to the coaxial cable, this method allows the axial center of the cable-side connector to easily match the axial center of the unit-side connector.



[Study points]

① Is there a clear description of how the features of this invention differ from those of the prior art?

② Are the features of this invention described by using indispensable elements to the invention?

③ Are the elements described in a generic expression?

[Study details]

① Difference from the prior art:

"A method using an extremely common electrical cord that dangles by its own weight, on which connecting the units" is publicly known.

(Problem points)

It is difficult to assert how this invention is technically distinguishable from the prior art, if the description only covers how the cable is connected. Although the purpose of this invention is a coaxial cable which has a flexible external conductor with a metallic conduit, this fact is not clearly described in the patent claim.

(Countermeasure)

Although an amendment to include "a coaxial cable which has an external conductor with metallic conduit" as well as a counterargument stating "A coaxial cable which has an external conductor with metallic conduit is practically non-flexible in a short-length from, it cannot provided an extended portion unless such an extended portion is intentionally preconfigured." may be necessary, if such information is not initially provided in the specification or the drawings originally attached to the request, it will be considered as adding new matter. Hence, such matters must be provided, starting with the original patent application.

② Absence of indispensable elements:

(Problem points)

An element indispensable to this invention, "a coaxial cable formed in such a way as so make the axial centers of the connectors at both ends of the cable parallel," as well as "grasping the coaxial cable and shaping its extended portion as desired, and thus match the axial centers of the cable-side and unit-side connectors," are absent.

(Countermeasure)

The aforementioned element (sequence of procedures) is that would normally be included in the "advantages" or the "embodiments" subpart of the specification.

Hence they will not be considered as new matters; however, it is desirable to include them in the original patent application.

③ Development into genes:

(Problem points)

After filing the application, it has become evident that "an optical fiber cable provided with metallic conduit" should have been included in the claim of this invention.

(Countermeasures)

Amendments and additions making Claim 1 as that for a genus which includes the optical fiber cable, and Claim 2 as the coaxial cable, and Claim 3 as the optical fiber cable, may be considered adding new matter which had not been described in the original specification or drawing. Hence, such matters must be provided in the original application.

Table II-5 [Case Study #2]

A detailed example of inadequately described embodiments. (Chemical engineering field)

(Claim)

Cosmetic emulsifying liquid characterized by the presence of both the ultraviolet ray absorbing agent and the emulsifying dispersant consisting of vinyl polymer which is insoluble in water and soluble in organic solvent.

(Advantage)

In comparison to the singular use of the ultraviolet ray absorbing agent, the usage of the emulsifying dispersant in which the aforementioned polymer is included, prevents the ultraviolet ray absorbing agent itself from becoming damaged by the ultraviolet rays, thus enhancing its effectiveness against ultraviolet rays in a superior manner and increasing its sunburn prevention capability to a level that has not been heretofore anticipated.

(Description of the invention)

As for the ultraviolet ray absorbing agent (hereafter UV agent) for use in this invention, examples such as the 2- (2'-hydroxyphenyl) benzotriazole type UV agent or the benzophenon type UV agent can be cited. Their detailed examples are given below.

Benzotriazole type UV agent : A_1, A_2, A_3, A_4, A_5

Benzophenon type UV agent : B_1, B_2, B_3, B_4, B_5

As for the vinyl polymer, which is insoluble in water and soluble in organic solvent, for use in this invention, examples such as the acrylic acid type polymer, methacrylic acid type polymer, and acrylamide type polymer can be cited. Their detailed examples are: P_1, P_2, P_3, P_4, and P_5.

(Embodiments)

Emulsifying liquid	UV agent	Polymer
①	A_1	P_1
②	A_2	P_3
③	B_1	P_4
④	B_2	P_1

(Examination stage)

Even in case of chemical compounds not described as the UV agent or vinyl polymer examples in the original specification, provided that they fall into such a category, and that the applicant establishes that the advantages of the invention are achieved by using these chemical compounds (e.g., by submitting a "lad certificate"), a broader scope of claim including such chemical compounds can be obtained. The advantages of the invention over the prior art cited by the examiner can similarly be supported by a lab certificate.

(Example of chemical compound combinations in the "lab certificate")

Emulsifying liquid	UV agent	Polymer
⑤	A_2	P_4
⑥	B_3	P_3
⑦*1	A_{10}	P_8
⑧*1	B_{10}	P_{10}
⑨*2	C	P_{10}
⑩*2	A_{10}	Q

*1. Although none of the following, UV agent A_{10}, B_{10}, Polymer P_8, P_{10}, are given as detailed examples in the original specification, they are chemical compounds which fall into the categories of being a 2- (2'-hydroxyphenyl) benzotriazole type UV agent, a benzophenon type UV agent, an acrylic acid type polymer, or a methacrylic acid type polymer, respectively.

*2. Although the UV agent C dose not correspond to the benzotriazole type UV agent or the benzophenon type UV agent, it falls within the category of UV agents. Moreover, although Polymer Q does not correspond to the acrylic acid type polymer, methacrylic acid type polymer, or acrylamide type polymer, it falls within the category of vinyl polymer which is insoluble in water and soluble in organic solvent.

(Observation)

It is permissible to assert the patentability of the invention, within the scope of the patent claim in the original application, based on emulsifiers ⑤ and ⑥ specified in the aforementioned lab certificate.

It is also permissible to assert the patentability based on emulsifiers ⑦ and ⑧. Furthermore, it is understood that it is permissible to assert the patentability based on emulsifiers ⑨ and ⑩, from the perspective of harmonizing with USPTO and EPO examination practices.

Table II-6 Checklist for Specification

Check Points	Points Related to the Content	Points Related to Management
1. Claims	- Is each claim distinguishable from the prior art?	- Confirmation of novelty and inventiveness. - Prevention of self-conflict under the EPC. - Prevention of rejection under 35USC102(e).
	- Does each claim include unnecessary limitation or omit necessary limitation?	- Confirmation of pioneer patent. - Understanding of invention.
	- Does each claim include parameters which will help find the infringement by others?	- Establishment of patent right as a effective tool in patent litigations.
	- Does the numerical limitation employed in the patent claims have the upper and lower limits?	- Prevention of refusal by the reason of insufficient description (Sec.36).
	- Does the specification include multi-sided claims by utilizing the improved system of multiple claims? 1. Various claims ranging from generic claim to species claim. 2. Various claims illustrating the invention from different angles. 3. Claims for material, manufacturing process and usage.	- Package application on related inventions.
2. Purpose of the Invention - Technical field of the invention - Prior art - Problem to be solved by the invention	- Is the prior art closest to the invention cited, and the problem of the prior art specified?	- Extensive search for prior art.
	- Does the description of the prior art include excessive citation of references or citation of references that are irrelevant (immaterial) to the claims? - Are necessary prior art references cited to explain the difference from the invention?	- Care must be taken so that the volume of copied references comprising IDS for a possible US patent application will not excceed a reasonable level.
3. Description of the Invention	- Are the elements of each claim defined and then described in detail? *- Is the invention described in graded steps (from broad expression to medium, narrow expression)?* *- If the numerical limitation is introduced as an element of a claim, is the reason for such a limitation stated?* - Is the uniformity maintained in terms and expressions used in the claims and the detailed description?	- Establishment of grounds for adding limitations to the prior art. - Prevention of refusal under Section 36.
4. Embodiments	- Is the comparative test conducted with the closest prior art as a reference example? - Does the comparative test sufficiently demonstrate the difference between the invention and the prior art? - Do the test results fully demonstrate that the invention has an unobvious advantage over the prior art? - Are embodiments sufficiently diversified to cover the full scope of the claims or the scope necessary to obtain a patent?	- Establishment of grounds for patentability of the invention over the prior art. - Prevention of refusal by Section 36.
5. Compound	- Are the examples of compounds sufficient in number and diversity? - Are there descriptions on functional group, substitution, desirable carbon number, molecular weight and formation of polymer? - Are there descriptions on physical property values, method of synthesis (procurement), the amount of additive, the method of addition, and the position of addition?	- Establishment of grounds for adding limitations to the prior art. -Prevention of refusal by Section 36.

Table II-7 Points in Preparation of Specification To Deal with the "Improved System of Amendment"

Process \ Target	(1) Patent Office/Court (to obtain a patent)	(2) Competitor (to distinguish the product performance)	(3) Infringer (in enforcing the patent right)
Actions required of the inventor (Engineering department)	- Idea → Specific object of the developed technology → Specific invention (Study for the substance of the invention) - Extensive search for prior art. (Grasping of the prior art closest to the invention) - Sufficient description of embodiments. (Addition of the best mode of the invention) - Development into related art. - Accurate description of technical terms.	- Understanding of advantages/ disadvantages of other competitive products or process to the product or processbased on the invention. - Acheiving of distinguishability from the competitive products. (Especially specific distinguish-ability in effect) - Use of embodiments to emphasize the difference from the competitive product.	- Study of the scope of analogical inferenc based on the initial idea. - Broadening of the inveniton, elimination of unnecessary limitation. - Study on specific modes of the invention. (Development of the invention into various categories) - Probe into the category (bonding, substitution, numerical limitation, etc.) of the invention.
Handling of application (Patent department)	- Retrieval of information on related inventions (using the database on the patent applications filed by the company and its competitors and on technical literatures.) - Evaluation of the written suggestion on the invention. 1. Description on the applicable field. 2. Relationship between the applicable field and the invention. 3. Prior art and its problems. 4. Constitution and functions of the invention - Evaluation on the feasibility of filing a patent application on the invention. 1. Difference from the prior art and the others' patent applications. 2. Malfunctioning/Insufficient data/ Immaturity of the content. 3. Public use in Japan. - Decision on the policy in utilizing the system of multiple claims.	- Obtaining the product catalog/ manual of the competitor. - Confirmation of distinguish-ability from the competitive product or process. - Determination of the feasibility of filing a patent application on the suggested invention. (Deter-mination of novelty and inventive-ness of the product or process.) - Discussion on the possibility of filing a package application on the related inventions. (Promotion of utilization of the system of multiple claims/domestic priority.)	- Try to expand/develop the invention in order to secure effective protection of the invention. - Study the invention to find out whether it is future-oriented or matured, the size of potential market, and the degree of competition with other companies. - Closely examine the relationship between the developed technology and the invention sought to be patented.
Preparation of specification (Patent agents and attorneys)	- Form a claim using appropriate elements. - Form claims for the invention at various levels from genus to species (to be ready to counter the refusal with the citation of prior art by deleting the claim of a certain level.) - For those inventions technically related: 1. Extract the common elements to develop a claim. 2. Form individual claims if each of these inventions have offered different solutions to the common technical goal. - Elimination of ambiguous description (by confirming technical terms and functioning.)	- Describe the competitor's technology and its drawbacks in the description of the prior art. - Emphasize the advantage of the product or process based on the invention in the subpart describing the invention.	- If it is predicted that a single claim cannot define the scope of the invention enough to enforce a patent right or to obtain a sufficient patent protection when considering the use of similar inventions by a third party, try to develop a substantially identical invention into different categories. - Add various embodiments to reinforce the claim. - Eliminate unnecessary limitation. - Keep in mind the limitations of functional/abstract expression in the claims. (Functional/Abstract expression generally expands the scope of the right, but such expression may be construed as ambiguous. As a result, the technical scop may be narrowed down to what the mere embodiment demonstrates.)

B. SIMPLIFICATION OF PROCEDURE IN TRIALS

I. Introduction

(1) Necessity for Revising the Patent Law

A trial system, including the following items, is provided in the Patent Law of Japan for the purpose of avoiding a defective administrative disposition for a patent application, or invalidation or correction of a defective patent:

1) Trial against examiner's decision of refusal (Article 121),
2) Trial against ruling to deny amendment (Article 122),
3) Trial for invalidation of patent (Article 123),
4) Trial for correction (Article 126), and
5) Trial for invalidation of correction (Article 129).

However, the Japanese trial system has the following problems:

1') Before a ruling for the publication of a patent application is rendered, an amendment is allowed which may even enlarge or modify the scope of claim(s). Therefore, if such an amendment is made at the time of demanding a trial against the examiner's decision of refusal, there is a possibility that the object of the trial examination will be changed. It is then difficult to promptly conduct the trial examination. In addition, it is also difficult to maintain fairness between a patent application in which the claim(s) has been modified and one in which the claim(s) has not been modified.

2') When a trial against a ruling to deny an amendment is demanded, the examination of the patent application is suspended until a trial decision has become final and conclusive. It is therefore difficult to promptly conduct the examination for the patent application.

Further, in a trial for invalidation of a patent, any amendment or correction cannot be made to the patent

specification or claim(s) in the trial proceedings and, in order to make any amendment it is necessary to separately demand a trial for correction. In this case, there is a possibility that the object of the trial for invalidation will be changed depending on the result of the examination in the trial for correction. It is then difficult to promptly conduct the examination for the trial for invalidation. This is also the same in such a case where the propriety of a correction is being litigated in a trial for invalidation of correction.

It is, therefore, necessary to reconsider the present system in view of the above-described problems and also in the light of international harmonization.

(2) Outline of Revision

Chief points in the revision are as follows:

1) To improve the system of amending claim(s) at the time of demanding a trial against an examiner's decision of refusal which is made before a ruling for the publication of a patent application is rendered.

2) To regard an amendment that introduces a new matter as a reason for refusal, a ground for opposition or a ground for demanding a trial for invalidation of a patent. Consequently, the item "trial against ruling to deny amendment" is canceled (the justice of a ruling to deny an amendment is litigated in a trial against examiner's decision of refusal or in an action against a trial decision).

3) To allow corrections to the patent specification or claim(s) in the course of the procedure of a trial for invalidation of a patent, and not to allow demanding a trial for correction independently.

4) To regard an illegal correction as a ground for demanding a trial for invalidation of a patent. Consequently, both the system of the publication for

opposition in a trial for correction (including the system of opposition to correction) and the system of a trial for invalidation of correction are abolished.

2. Details of Revision

(1) Amendments made at the time of demanding a trial against the examiner's decision of refusal, which decision is made before the transmittal of a ruling that the application is to be published:

1) Amendments can be made in accordance with Art. 17bis (3) and (5) of the Patent Law.

2) The term during which amendments can be made is within 30 days from the date of filing a demand for a trial against the examiner's decision of refusal.

3) Only amendments having any of the following objects can be made, and this is the same as in the case of amendments that can be made in response to the "final notification of reasons for refusal":

i. the cancellation of claim or claims,

ii. the restriction of claim or claims

(limited only to a restriction of, within the essential features of an invention in which the industrial applicability and the problems to be solved are the same as those in the claimed invention before amendment, all of or a part of the essential features of the claimed invention before amendment),

iii. the correction of errors, and

iv. the clarification of an ambiguous description

(limited to such description that is made a reason for refusal).

It is noted that the above item ii can be applied only to a case where an invention as defined in the amended claim(s) can be independently patented.

4) The following are applied if an illegal amendment is made:

i. Same as in the case of the "final notification of reasons for refusal" (Art. 159(1), Art. 49(1)(i), Art. 123(1)(vii)). However, the propriety of a ruling to deny an amendment is litigated in an action against a trial decision; and

ii. In an examination as provided in Article 161bis of the Patent Law, the amendment filed is not denied except when a ruling for the publication of the application is rendered (Art. 164(2)).

5) The reasons why the revision is necessary are as follows:

i. According to the current law, an extensive amendment including even enlargement or modification of the scope of claim(s) is allowed at the time of demanding a trial against the examiner's decision of refusal which is made before a ruling for the publication of the patent application is rendered. In the case where such an amendment is filed at the time of demanding the trial, the application is subjected to reexamination by the examiner who was in charge of the examination of the application now in question.

The purpose of this system is to save time required to understand the invention and to make a search, by assigning the examiner, when an amendment is made at the time of demanding the trial, to conduct a reexamination in advance of a trial examination to be conducted by the Board of Trial, by making use of the results of the search and the knowledge regarding the application obtained in the course of the examination thereof.

However, according to the above system provided in the current law, even such an amendment that enlarges or modifies the scope of claim(s) is allowed, so that if an amendment of this type is made, a reexamination (or a trial examination) is to be conducted by the examiner (or the trial examiners) with respect to the subject matter of claim(s) different from that which has been refused by the

examiner. For this reason, there are cases where the examination (or trial examination) is done over again from the beginning. It is then difficult to promptly conduct the trial examination.

ii. Further, if an amendment which enlarges or modifies the scope of claim(s) is filed at the time of demanding the trial, not only the fairness cannot be maintained while the trial is proceeding, between the application in which the above amendment is made and one in which only an amendment for deleting the claim(s) is made by making use of the system of multiple claims of which use is now being expanded under the current law, but also the trial examination for the latter application is delayed because of the presence of the former application.

iii. For these reasons, and in consideration of the systems and practices in the main countries regarding amendments in a trial against the examiner's decision of refusal, it is necessary to improve the system of trial against examiner's decision of refusal made before a ruling for the publication of an application is rendered, by limiting the purpose of the amendment made at the time of demanding the trial to the deletion of the claim(s), the correction of errors, or the clarification of an ambiguous description, in order to promptly, properly and fairly correct the defection in the examiner's decision of refusal which is an administrative disposition.

(2) Trial against ruling to deny amendment:

1) Article 122 of the current Patent Law is deleted, thereby abolishing the system of trial against ruling to deny amendment.

2) The propriety of an amendment is litigated in a trial against the examiner's decision of refusal or in an action against a trial decision.

3) The reasons why this revision is necessary are as follows:

i. According to the current law, if such an amendment that changes the gist of the specification is illegally made before a ruling that the application is to be published is rendered, the amendment is denied. If the applicant is dissatisfied with this disposition, he or she may demand a trial.

In the case where a demand for a trial against the ruling to deny the amendment is filed, the object of the examination can be changed depending on the result of the trial examination. Therefore, the examination of the application is suspended until a trial decision has become final and conclusive. It is thus difficult to promptly grant the patent right.

ii. In order to promptly grant a patent right, an illegal amendment is to be regarded as a reason for refusal to the application, a ground for opposition, or a ground for demanding a trial for invalidation of the patent, and the propriety of an amendment is to be litigated during the examination of the application. It is therefore proper to abolish the system of trial against ruling to deny amendment (if the system of trial against ruling to deny amendment is abolished, an applicant can submit a written opinion or a written amendment in response to the reason for refusal that the amendment filed is illegal; and the applicant can demand a trial against the examiner's decision of refusal when he or she has received such decision).

(3) Correction to be made during procedure in trial for invalidation of patent or in trial for correction:

1) A defendant in a trial for invalidation of a patent can demand for correction and make corrections in accordance with Article 134, paragraphs 2, 3 and 5 of the Patent Law.

Further, the patentee can demand a trial for correction in accordance with Article 126, paragraphs 1 to

4 of the Patent Law except when a trial for invalidation of the patent is pending at the Patent Office.

2) The terms for demanding correction and for making corrections in a trial for invalidation of a patent are as follows:

i. A demand for correction can be made only within the time limit for filing a written answer or a written opinion (in the case where a trial examination ex officio has been conducted).

ii. Corrections can be made by attaching the corrected specification or drawings to a form for demanding correction; or when the time limit for filing a written answer or a written opinion has been expired, corrections can be made within the time limit for filing a response to a notification of the reasons for refusal for correction, or within the time limit for filing a response to a notification of the result of the trial examination ex officio.

3) Correction is allowed only in the following cases:

i. A correction which introduces no new matter.

ii. Corrections having any of the following objects:

(a) the restriction of the claim or claims,

(b) the correction of errors, and

(c) the clarification of an ambiguous description.

It is noted that corrections to the specification or drawings must not be such as to substantially enlarge or modify the scope of claim(s). Further, the item (a) can be applied only to such a case where the claimed invention can be independently patented after the correction has been made.

4) The following are applied when an illegal correction is made:

i. Decision (trial decision) of not admitting the correction is rendered.

ii. Such a correction is regarded as a ground for demanding a trial for invalidation of a patent (Art. 123(1)(vii)).

5) The following items are newly added to the reasons for invalidation of a patent.

i. An amendment or correction which introduces a new matter (Art. 123(1)(vii)).

ii. Besides corrections introducing a new matter, corrections having none of the following objects (a) to (c):

(a) the restriction of the claim or claims,

(b) the correction of errors, and

(c) the clarification of an ambiguous description.

It is noted that corrections to the specification or drawings must not be such as to substantially enlarge or modify the scope of claim(s). Further, the item (a) can be applied only to such a case where the claimed invention can be independently patented after the correction has been made (Art. 123(1)(vii)).

6) With respect to the relation between a trial for correction and a trial for invalidation of a patent, a trial for correction cannot be independently demanded while a trial for invalidation of a patent is pending at the Patent Office (Art. 126(1)).

(4) System of publication for opposition in a trial for correction, system of opposition to correction, and system of trial for invalidation of correction:

1) Article 164, paragraph 2 of the current Patent Law is deleted, thereby abolishing the system of publication for opposition in a trial for correction.

Article 165 of the current Patent Law is deleted, thereby abolishing the system of opposition to correction.

Articles 129 and 130 of the current Patent Law are deleted, thereby abolishing the system of trial for invalidation of correction.

2) An illegal correction is regarded as a reason for invalidation of a patent. The propriety of a correction is litigated in a trial for invalidation.

3) In consequence of the abolition of the system of publication for opposition in a trial for correction, the corrected specification or drawings are printed in the Official Gazette together with the trial decision reached in a trial for invalidation of a patent or in a trial for correction (Art. 193(2)(vii)).

4) The reasons why the above revision is necessary are as follows:

i. After the registration of establishment of a patent right has been made, there is a possibility that the patentee undergoes an unexpected disadvantage due to any of the following reasons:

(a) the claim(s) is (are) so broad that the whole patent right including a part which is valid is made invalid;

(b) a question is raised in terms of the validity of the patent or the interpretation of the claim(s) because of the errors or ambiguous descriptions existing in the specification or drawings; and the like.

Therefore, a system for protecting the invention is provided, within a scope not causing unexpected damage to a third party, by giving the patentee an opportunity to make corrections of the patent specification or drawings.

In general, correction of a patent is often made as a protective action against a demand for a trial for invalidation of the patent. However, according to the current law, correction of a patent is not allowed in the proceedings of a trial for invalidation of the patent. Therefore, in the case where a trial for invalidation of a patent and a trial for correction are pending at the same time, there are cases where the object of the examination in the trial for invalidation of the patent is changed depending on the result of the examination in the trial for

correction. For this reason, there is a possibility that the trial examination which has been conducted until then becomes in vain, and there is thus a possibility that the trial examination for the validity of the patent cannot be promptly conducted.

ii. Further, according to the current law, the propriety of a correction is examined in an opposition to correction and/or a trial for invalidation of correction. When a trial for invalidation of a patent and a trial for correction (or an opposition to correction) are pending at the same time, the object of the examination in the trial for invalidation of patent is changed depending on the result of the trial examination in the trial for correction. For this reason, there are cases where the trial examination which has been conducted until then becomes in vain, and there is thus a possibility that the trial for invalidation of the patent, which is a trial examination for the validity of the patent, cannot be conducted promptly.

iii. Therefore, in order to promptly conduct the trial examination, it is proper to make the following revisions in consideration of the systems in the main countries:

(a) In the case where a trial for invalidation of a patent is pending, correction of the patent, which is limited as in the current law, is allowed in the proceedings of the trial, and the propriety of a correction can also be litigated in this trial. Instead, it is not allowed to demand a trial for correction independently.

(b) With respect to the propriety of a correction, a trial examination is conducted in a trial for invalidation of a patent. Instead, the systems of the publication for opposition in a trial for correction and of a trial for invalidation of correction are abolished.

(5) Relation between trial for invalidation of patent and trial for correction provided in international applications:

Since it is made possible to make correction of a patent in the proceedings of a trial for invalidation of the patent, the current provision (the current Patent Law, Article 184^{quindecies}, Paragraph 2) "when a trial for invalidation of a patent provided in international applications has been demanded and when a trial for correction is demanded, the trial examiners shall not render a trial decision that the patent is to be invalidated until after a trial decision in respect of the trial for correction has been rendered" is abolished.

(6) Comparison with the current law:

The comparison in the procedure in trials between the new law and the current law is shown in Table II-8 (Simplification of Procedure in Trials).

It is noted that "restriction with limitation" in the table means that the restriction of the claim(s) is limited only to a restriction of, within the essential features of an invention in which the industrial applicability and the problems to be solved are the same as those in the invention before amended, all of or a part of the essential features of the invention before amended.

Table II-8 (Simplification of Procedure in Trials)

○ Amendment of claim(s) at the time of demanding trial against examiner's decision of refusal, which decision is made before ruling for publication of application is rendered. (Application: applied to patent applications filed after enforcement of the new law)	
New Law ・① No new matter shall be introduced. (§17bis②) ・② Only deletion of claim(s), restriction with limitation, correction of errors and clarification of ambiguous description are allowed. Note that the above can be applied only to a case where the claimed invention after amendment can be independently patented. (§17bis③④) ・ Illegal amendment → Denial of amendment (§159), Refusal (§49) → Action against trial decision Note that an amendment is not denied and an application not refused if an infringement on ② is found after the transmittal of a ruling for the publication of the application.	Current Law ・ The scope of claim(s) can be enlarged, modified or restricted within the original disclosure in the specification or drawings. (§41) ・ Illegal amendment → Denial of amendment (§53) → Trial against ruling to deny amendment (§122)

○ Trial against ruling to deny amendment (Application: applied to applications filed after enforcement of the new law)	
New Law · The system of trial against ruling to deny amendment is abolished.	Current Law · Trial against ruling to deny amendment (§122) · Examination (trial examination) is suspended until a trial decision (judgment) is settled. (§53④, §159① §161^{ter}①)

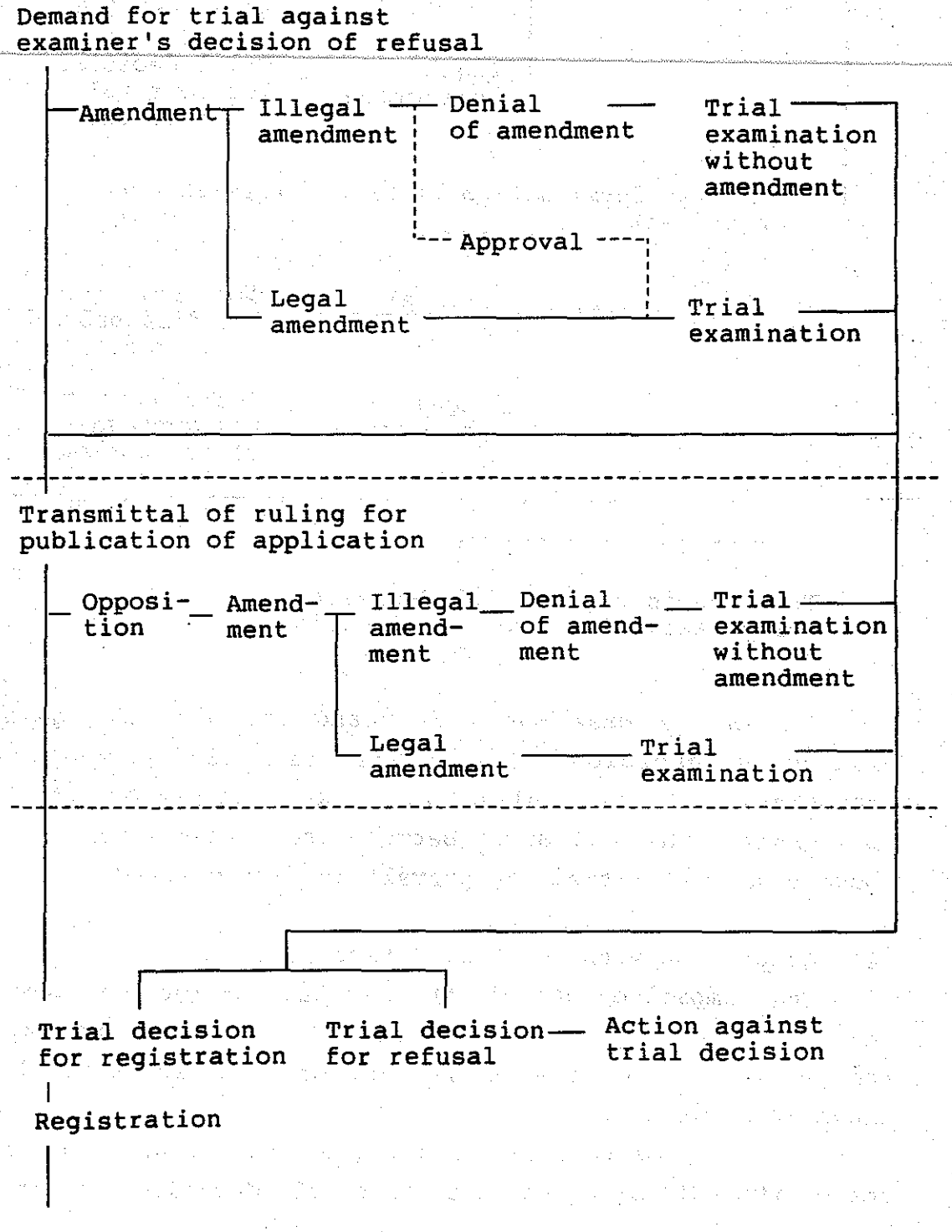
○ Trial for invalidation of patent and trial for correction (Application: applied to cases filed after enforcement of the new law)	
New Law · Illegal amendment or correction is added to the reasons for invalidation of patent. (§123①) · Correction can be made in the proceedings of a trial for invalidation of patent. (§134②) · When a trial for invalidation of patent is pending at the Patent Office, a trial for correction cannot be demanded independently. (§126①)	Current Law · Trial for invalidation of patent (§123) · Trial for correction (§126) · Correction can be made only in a trial for correction. The above two trials are not linked. · Publication for opposition in a trial for correction (§164②) · Opposition to correction (§165) · Trial for invalidation of correction (§129)

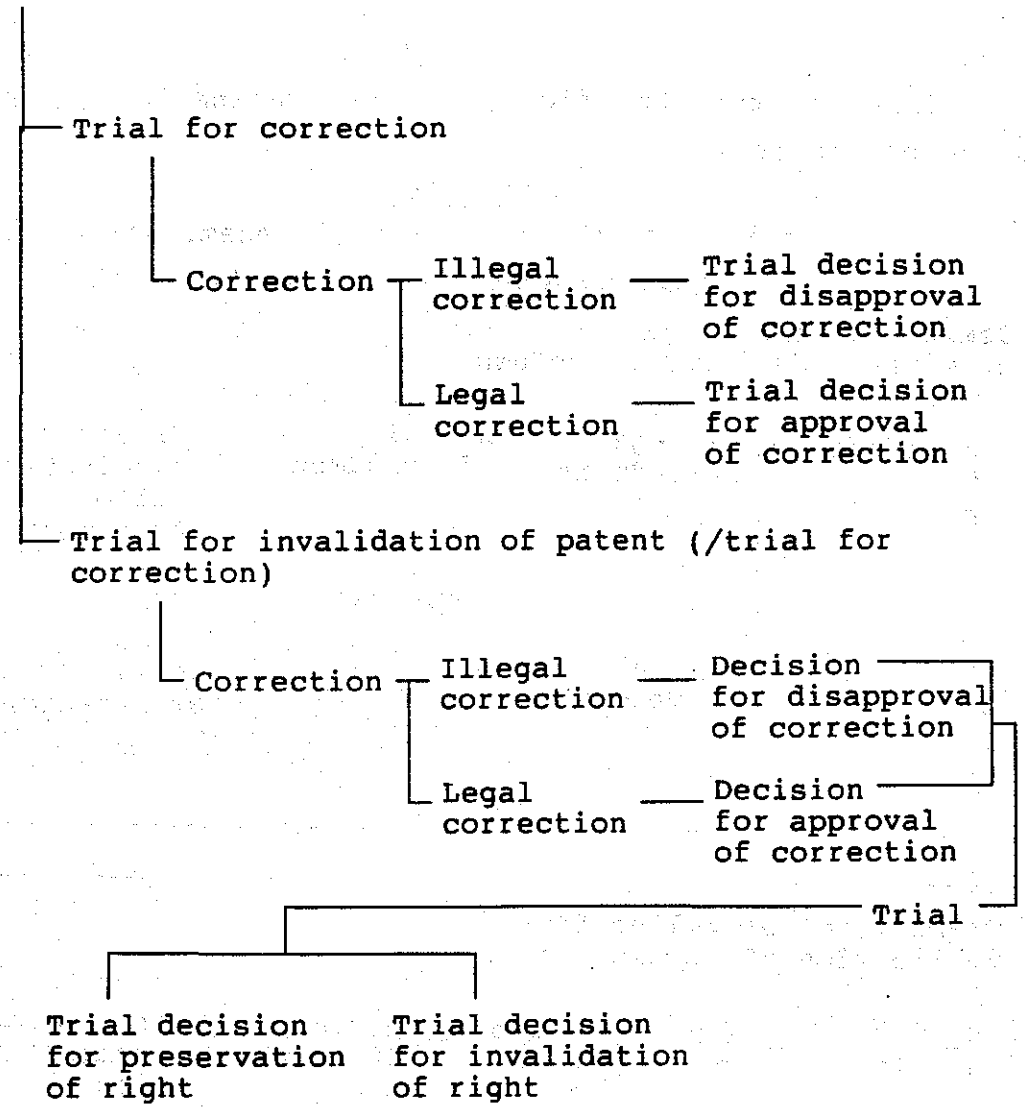
• The system of publication for opposition in a trial for correction and the system of opposition to correction are abolished (the propriety of a correction is litigated in a trial for invalidation of patent). • Trial for invalidation of correction is also abolished (the propriety of a correction is litigated in a trial for invalidation of patent).	

(7) Chart showing the flow of trial examination regarding amendment in trial:

Chart II-2

(Chart showing the flow of trial examination regarding amendment in trial)





[Note] In the case where a demand for a trial against examiner's decision of refusal is filed after the transmittal of the ruling for the publication of the application, the part shown between the dotted lines in the above chart is omitted ("Approval" is also omitted).

(8) Comparison with the U.S. Patent Law:

The comparison between the new law and the U.S. Law in terms of the limitation placed upon an amendment (correction) to be made at the time of demanding a trial is shown in Table II-9.

It is noted that it is not possible to substantially amend the claim(s) at the time of demanding a trial

· Trial for correction can not be independently demanded when a trial for invalidation of patent is pending at the Patent Office. (§126①②③, §134②⑤) * Correction can be made while a trial for invalidation of patent is proceeding. (§134②) * An illegal amendment is regarded as a reason for invalidation of patent. The propriety of correction is litigated in a trial for invalidation of patent. (§123) [*System of publication for opposition in a trial for correction, system of opposition to correction, and system of trial for invalidation of correction are abolished.]	

according to the U.S. Patent Law. However, there is a way to substantially make an amendment by filing a continuation application.

Table II-9
(Limitation placed upon amendment (correction) to be made at the time of demanding a trial)

[Japan]	[U.S.A]
○ Amendment to be made at the time of demanding a trial against examiner's decision of refusal * No new matter shall be introduced. (§17bis②, 17ter②) * [before ruling for publication of application]: only deletion of claim(s), restriction with limitation, correction of errors and clarification of ambiguous description are allowed. Note that this is applied only to a case where the claimed invention after amendment can be patented independently. (§17bis③④) * Illegal amendment → Denial of amendment (§159) Refusal (§49) → Action against trial decision	○ Amendment to be made at the time of demanding a trial * Substantially no amendment of claim(s) is allowed. (Rule 1.116) * Illegal amendment → refusal (Rule 1.118)

Note that an amendment is not denied and the application not refused if an infringement on ② is found after the transmittal of the ruling for the publication of the application. * [after ruling for publication of application]: Only restriction of claim(s), correction of errors and clarification of ambiguous description are allowed. Note that correction of the specification or drawings is limited only to one that does not substantially enlarge or modify the scope of claim(s). (§17^{ter}③④) * Illegal amendment → Denial of amendment (§159), Refusal of application (§49) → Action against trial decision Note that if an infringement on ② is found after the registration of establishment of patent right, it is considered	

that the claimed invention before amendment has been patented. (§40)	
○ Trial against ruling to deny amendment *[abolished]	* There is no system of "denial of amendment".
○ Trial for invalidation of patent and trial for correction * Trial for correction · No new matter shall be introduced, and only restriction of claim(s), correction of errors and clarification of ambiguous description are allowed. Note that correction of the specification or drawings is limited only to one that does not substantially enlarge or modify the scope of claim(s), and it is needed that the claimed invention after correction can be independently patented. (§126)	○ Reissue, disclaimer and reexamination * Reissue of a defective patent (§251) ① No new matter shall be introduced. ② Enlargement of the scope of claim(s) is limited in a reissued application which had been filed within 2 years after the issue of the original patent. * Disclaimer (§253) * Citation of the prior art, and request for reexamination (§301, §302) * Presumption of validity: defenses (§282)

III. NEW UTILITY MODEL LAW

1. Purpose of Latest Revision

Because of recent advancement and acceleration of technological innovation, many of the technologies applied for the utility model registration involve early working and shorter life cycle. The system of utility model is preferably simpler than the patent system since the former is designed to supplement the latter in order to prevent the creative zest from subsiding while maintaining the quality of invention at a fairly high level.

Unfortunately, under the current system of utility model in which the examination comes before the utility model registration, an enormous amount of time required between the application and the registration leaves the applied device outdated or with an expired product life by the time the utility model right is established.

Thus, the latest revision of the utility model system is implemented to meet the needs for more prompt registration while clearly distinguishing the system from the patent system.

2. Major Features of the Revision

This chapter is divided into the following sections to give an overall view on the latest revision: (1) Utility model registration procedures; (2) System of written evaluation; (3) Trial for invalidation of utility model registration; (4) Provisions related to infringement; (5) Comparison with the existing system; (6) Comparison with German utility model system.

(1) Utility Model Registration Procedures

Chart III-1 shows the flow of procedures from application to registration under the new utility model system.

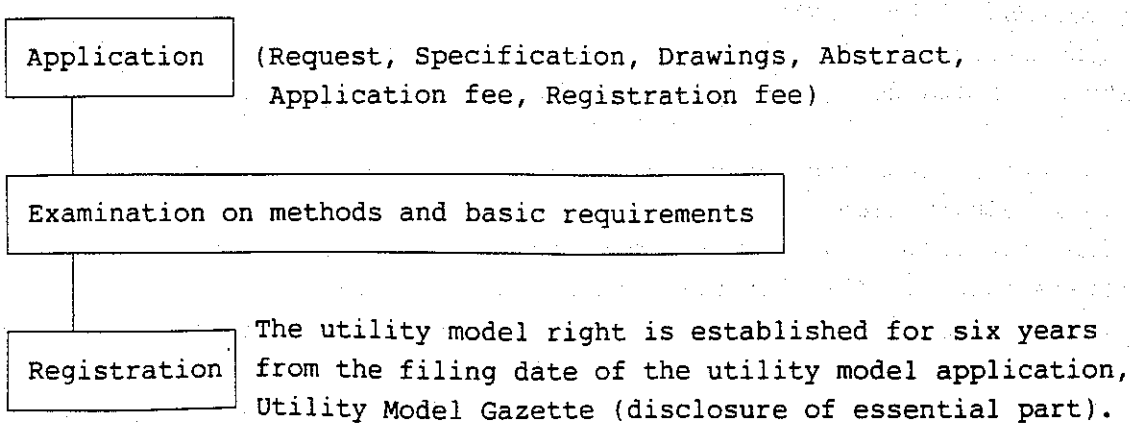


Chart III-1 Flow Diagram of New Utility Model System

The procedures will be described according to the flow chart above.

① Substantial Non-Examination System, Formal Examination

No substantial examination will be conducted before registration. Only the examination on forms and specific requirements (hereinafter referred to as "basic requirements") will be carried out. Thus, lack of any substantial protection requirements currently examined prior to registration will generally be held as the reason for invalidation.

Basic requirements are as follows:

- The device shall concern the shape, construction and assemblage of the article (Sec.6-5(1)).
- The device shall not contravene public order, morality or public health (Sec.6-5(2)).
- The device shall fulfill the unity of application (Sec.6-5(3)).
- The specification or the drawings shall contain necessary items, and the description shall not be extremely vague (Sec.6-5(4)).

When the examination on forms and basic requirements finds that these requirements are fulfilled, the utility model application is registered and the utility model right is granted. If any of the requirements are not fulfilled, the invitation to amendment will be issued (Sec.2-2(3), 6-2). The application will be invalidated if no response is made within the adequate time limit or the response is insufficient (Sec.2-3). The applicant may file an objection to the invalidation under the Administrative Appeal Law.

② Amendment

Amendments to the specification, the drawings or the abstract may be made within the time limit to be set forth by a Cabinet Order (Sec.2-2(1)) after the filing of application but before the registration. Any matter not stated in the specification or the drawings submitted at the time of application (new matter) may not be added (Sec.2-2(2)).

③ Conversion of Applications

Conversion of applications between patent and utility model, or utility model and design is allowed within the period specified below:

i. Conversion from the patent (design) application to the utility model application

The conversion may be made except for after 30 days from the transmittal of the examiner's first decision that the patent (design) application is to be refused or after 5 years and 6 months from the filing date of the patent (design) application (Sec.10(1),(2)), so long as the application is pending in the Patent Office.

ii. Conversion from the utility model application to the patent application

The conversion may be made so long as the application is pending in the Patent Office (Sec.46 of Patent Law).

iii. Conversion from the utility model application to the design application

The conversion may be made so long as the application is pending in the Patent Office (Sec.13(2) of Design Law).

④ Registration, Registration Fee

The establishment of an utility model right shall be registered unless the application has been surrendered, withdrawn or invalidated (Sec.14(2)). It will take 6 months for an application filed to be registered. The registration fee for the first three years shall be paid in a lump sum along with the application fee at the time of filing an application (Sec.32(1)). The registration fee may be refunded within the specified period if the application has been invalidated, the utility model right has been invalidated or said fee has been paid by mistake or in excess (Sec.34), but will not be refunded in the case of withdrawal or surrender.

⑤ Term and Effects of Utility Model Right

The utility model right shall come into force upon registration of its establishment (Sec.31(11)). The term of the utility model right shall be six years from the filing date of the application (Sec.15). An utility model right is an exclusive right like a patent. Remedy for infringement includes injunctions, the right to claim for damages, etc.

⑥ Correction of Specification or Drawings

Even after the application is registered, the specification or the drawings may be corrected at any time except after the notification of the conclusion of trial examination in the trial for invalidation (Sec.14-2(1)). The specification may be corrected even after the utility model right is lapsed (Sec.14-2(2)). However, said correction is only for deletion of claims. Correction of errors in description or correction for clarification of ambiguous description is not permitted (Sec.14-2)). Thus, the applicant is advised to prepare as many claims as possible at the time of filing an application.

⑦ Others

i. Handling of the same device, etc.

(a) Applications on different dates

If two or more utility model applications relating to the same invention are filed on different dates, only the first applicant may obtain a utility model registration (Sec.7(1)). If an utility model application and a patent application relating to the same invention are filed on different dates, the applicant for a utility model registration may obtain

the registration only when his utility model application was filed before the filing date of the patent application. (Sec.7(3)) It is regardless of whether or not those applications are filed by the same applicant (Sec.7(1),(3)). Juniority of a patent application may be held as the reason for refusal or invalidation (Sec.39 of Patent Law) and juniority of an utility model application may be held as the reason for invalidation (Sec.37(1)(ii)).

(b) Applications on the same date

Since there will be no substantial examination before the utility model registration, the order for consultations prescribed under the current Law will not be issued. Co-existence of the patent application and the utility model application relating to the same invention or the same device will be held as the reason for refusal or invalidation for the patent application and the reason for invalidation for the utility model application (Sec.7(6), 37(1)(ii)). Two or more utility model applications relating to the same device filed on the same date will be held as the reason for invalidation (Sec.7(2), 37(1)(ii)).

ii. Relationship with the patent system

Determination as to whether or not the claimed invention in a junior application is substantially the same as that disclosed in the specification or the drawings of a senior application is also made even between a patent application and an utility model application (Sec.3-2, Sec.29-2 of Patent Law). An applicant may also declare a national priority claim in the case involving both patent and utility model applications (Sec.8, Sec.41 of Patent Law). However, an applicant may not claim a priority based on the utility model application that has already been registered (Sec.8(1)(v), Sec.41(1)(v) of Patent Law).

iii. Status of prior art

Since the early publication system is abolished, an utility model application is first published after it is registered (after about 6 months following the filing of application). Thus, utility model applications will function as prior art to others' applications quicker than they do now under the current Law. The revised Law may work advantageously to a company which owns a technology requiring earlier publication. On the other hand, an applicant who intends to file an application relating to improvement invention later on should exercise care.

iv. Non-exclusive license due to working prior to registration of demand for invalidation trial

Under the current Law, a person holding the utility model right, etc. who is being involved in the business operation in Japan based on the working of a device related to the utility model

registration prior to the registration of a demand for a trial without knowing that the utility model registration has been invalidated shall have a non-exclusive license on other patents within the purpose of the device being worked and the purpose of its business operation (tentative license). Under the new Law, the tentative license based on the utility model registration is abolished (Sec.20, Sec.80 of Patent Law).

(2) System of Written Evaluation of Utility Model

① Purpose of the new system

Under the new system designed to swiftly grant a right without examining substantial requirements, the parties concerned generally assume the task of determining whether or not the registered rights actually fulfill such requirements. However, since the determination of the validity of the right requires expertise in the pertinent technical field, the concerned parties will have difficulties in making such determination, and third parties may receive unexpected disadvantage by the enforcement of the right. A system of trial for confirmation of validity may be suggested for the cases where determination on validity is required. However, such a system is inconsistent with the revised Law designed to accomplish early protection of utility model rights. Thus, the new system of written evaluation on the utility model registration to provide a material to be used for making objective determination on validity has been introduced to meet the goal of early protection of rights and securing a balance between the right holder and the third party.

② Description of the system

i. Request for evaluation of utility model technology

The written evaluation shall be prepared upon request (Sec.12(2)).

(a) Eligible person for request

Anyone can file a request for written evaluation (Sec.12(1)).

(b) Object of the request

A request for written evaluation may be filed before or after the registration of the pertinent application (Sec. 12(1)). Requests may be filed in any number of times. For two or more claims, a separate request may be filed for each of these claims.

(c) Time frame for the request

A request may be filed at any time once the application is filed (after completing the specified procedure or after the specified period in the case of international utility model application.) A request may even be filed after the utility model right has been extinguished (Sec.12(3)).

(d) Effect of the request

A request may not be withdrawn (Sec.12(5)). Any request will be published in the Utility Model Gazette (Sec.13).

ii. Written evaluation on utility model technology

(a) Preparation of written evaluation

The written evaluation is prepared after the examiner of the Patent Office makes the determination on certain protection requirements (Sec.12). Said determination will be made on the following items:

- Novelty (to be determined with a consideration to whether or not the device is made publicly known by a prior printed publication.) Sec.3(1)(iii)
- Inventiveness (to be determined with a consideration to whether or not the device is obvious from a prior printed publication.) Sec.3(2)
- Confirming that the claimed device is not present in the specification or the drawings of a prior application (and determining if the claimed invention is not substantially the same as that disclosed in a senior application.) Sec.3-2
- Confirmation of being the first application. Sec.7

Appropriateness of the amendment which may be held as a reason for invalidation, and public knowledge or public working (Sec.3(1)(i), (ii)) are not examined. It should be noted that the confirmation of priority between two or more applications (Sec.3-2) may not be made if the junior application/s are not published and held in confidence by the Patent Office at the time when the request for written evaluation is filed.

(b) Role of written evaluation

In order to avoid misuse of right, the owner of an utility model right is required to show a written evaluation when enforcing its right, in particular, when charging infringement (Sec.29-2). However, a written evaluation is only one kind of materials used for making objective determination on the validity of the right, and does not bind the parties concerned.

(3) Trial for Invalidation of Utility Model Registration

Validity of a right will be determined in a trial.

① Reason for invalidation

In addition to those reasons stipulated by the current Law (including lack of novelty), addition of new matter is the reason for invalidation (Sec.37). Thus, the reasons for invalidation are the same as those under the patent system except for the reasons for invalidation involving the scope of protection (i.e., the claimed

device in an utility model application must relate to the shape, etc. of an article) and the standard for inventiveness ("unobviousness").

② Amendment to the request for trial

Any amendment to change the gist of the purpose of the request as well as the amendment to change the gist of the reason shall not be permitted (Sec.38(2)).

(4) Provisions Related to Infringement

As in the case of patent infringement, remedies for infringement of an utility model right include a right to request injunctions, a right to claim for compensation of damages, a right to demand reimbursement of undue profits, etc. (Sec.27, Sec.709, 703, 704 of the Civil Law). However, balanced protection of the own er of the right and the third party should be considered since there is no substantial examination before the registration. Thus, the provisions relating to the presumption of the negligence of the infringer and the relationship with litigation has been revised as follows.

① Negligence and liability of parties concerned in enforcement of right

i. Negligence of infringer

The current Law provides that the infringer of an utility model right is deemed to have negligently been infringed the right as in the case of patent infringement. If such a provision is left unchanged, however, the revised Law virtually adopting the non-examination system will overburden third parties since they will have to conduct an overall inquiry including the determination of validity of a right by itself. As a result, the provision to presume the infringer's negligence has been deleted. Therefore, the owner of a right needs to prove the infringer's willfulness or negligence when claiming for compensation of damages (Sec.709 of Civil Law).

ii. Liability of owner of utility model right

The owner of an utility model right is held responsible for compensation of damages caused on other parties (accused infringers) as a result of its enforcement of the right once the right he has enforced turns out to be invalid or if such enforcement of the right exceed the scope of due protection afforded to the claimed device after correction (Sec.29-3(1)). This provision is designed to prevent misuse of a defective right, and restrain the enforcement of right in want of reasonable care. However, if the owner of an utility model right enforces its right based on a written evaluation (except for that indicating that the device is not registrable) and

otherwise exhibits reasonable care in enforcing the right, he shall be exempted from the responsibility for compensation of damages incurred on other parties (in proviso to Sec.29-3(1)). Since the coverage of investigation made for a written evaluation is limited, there are some questions as to the handling of technology commonly used by persons with ordinary skill in the art to which the device pertains but not present in printed matters. The "Report on the Revision of Patent Law and Utility Model Law" issued by the Industrial Property Council says: "If a new evidence enough to invalidate an utility model right has been discovered and presented as a result of an investigation made for a written evaluation, negligence is no longer presumed except under a special circumstance, for example, in which the owner of the right has been aware of that evidence before it is presented. On the other hand, in the cases where the invalidity of an utility model right is shown by a literature, publicly-known or publicly-used technology outside the coverage of an investigation made for a written evaluation, whether or not the owner of the right has fully exercised the reasonable care will be individually judged with a consideration to whether or not an investigation is made to the necessary extent on said literature, publicly-known or publicly-used technology and whether or not the parties have obtained expert opinions on these matters."

② Suspension of litigation proceedings

If a request for suspension of the infringement litigation (including provisional disposition and provisional attachment) proceedings is filed in the course of said proceedings on the grounds that a trial for invalidation has been demanded, the court must suspend said proceedings until a trial decision is made unless the court definitely finds said suspension unnecessary (Sec.40-2(1)). This right to file a request for suspension has been added to the ex officio suspension already provided by the current Law to prevent misuse of a defective right and to give balanced protection to the owner of a right and the third party.

(5) Comparison with the Current Law

Major items in the latest revision have been described in the preceding sections. Table III-1 below compares the revised Law with the current Law.

Table III-2. Comparison of Japanese and German Utility Model Systems

	Japan	Germany
Statutory subject matter	Device related to the shape, etc. of an article (No devices related to pharmaceuticals or chemical substances are protected.)	All devices except for the device related to method [1]. (Devices related to pharmaceuticals and chemical substances are protected.)
Substantial examination	No	No
Conversion of application [1: from utility model application to patent application][2: from patent application to utility model application] Time limit for conversion of application	1: Allowed. 2: Allowed. Until the registration of patent application or the examiner's decision of refusal has become final and conclusive. (There are additional restrictions on time limits.)	1: Not allowed. 2: Branch application. Within the specified period after the registration of patent application or invalidation (and within 10 years from the filing date.)
Major differences from the patent system	- Statutory subject matter. - Substantial examination. - Standards for inventiveness (less strict). - Term of utility model right (short).	- Statutory subject matter. - Substantial examination. - Standards for novelty (Public knowledge in Germany). - Standards for inventiveness (less strict). - Term of utility model right (short).
Term of utility model right	6 years from the date of application.	3 years from the filing date of application (can be extended to 10 years [2])
Description of utility model right	The right to claim for damages, the right to request injunctions, etc.	The right to claim for damages, the right to request injunctions, etc.
Liability of the owner of the right who has exercised an invalid right	No-fault liability for compensation (may be exempted under certain conditions,)	No-fault liability for compensation (may be exempted under certain conditions.)
Procedure to cancel the utility model registration	Trial for invalidation.	Trial for invalidation.
System of written evaluation	Yes	Search report.

[1] The restrictive expression "relating to the three-dimensional profile" was eliminated in the revision of 1990.
[2] The term was extended from 8 years to 10 years in the revision of 1990.

(6) Comparison with German Utility Model Law

① Background

The Utility Model Law of Germany was enacted in 1891 with the purpose of protecting small-scaled invention and protecting and nurturing small business entities including individual inventors. The Law underwent subsequent revisions in 1968, 1986 and 1990. Evolution of the German utility model system is quite different from that of the Japanese counterpart. The German utility model system adopts the non-examination system from the beginning. When compared with the patent system, the utility model system is quite different in terms of the procedure to grant the utility model right and the power of the granted right. Moreover, the principle that "the utility model system is designed to supplement the patent system and thus the utility model may not be protected as strongly as the patent" has been maintained from the day of enactment. Under this consistently-upheld concept, the Utility Model Law has undergone several revisions (including expansion of the scope of statutory subject matters and reinforcement of the utility model right) to make the system more attractive to small business entities while keeping it distinct from the patent system.

② Comparison of utility model systems in Japan and Germany

Table III-2 compares the new utility model system in Japan and the utility model system in Germany. With the latest revision, the Japanese utility model system came closer to the German system in terms of the procedure for granting of the right (through adoption of the virtual non-examination system), the system of written evaluation, and the liability of the owner of the right who has exercised an invalid right. Nevertheless, these two systems are still different in their relationship with the patent system.

i. Handling of utility model application and patent application filed on different dates

Under the German Utility Model Law, a patent application will preclude any utility model application filed later, but no utility model application will preclude patent applications with a later filing date. Thus, an applicant may file an application for both patent and utility model at the same time to obtain broader protection. Under the Japanese Utility Model Law, a patent application will preclude any utility model application filed later, and likewise an utility model application will preclude any later-filed patent application. Thus, it is meaningless to file applications for both patent and utility model at the same time.

ii. Conversion of application and branch application

In Germany, the system of branch application was introduced into the utility model system in the revision of 1986. An applicant may file a branch (abzweigung) application for an

utility model on the basis of the filing date of a patent application of the same applicant so long as the patent application is held valid in Germany. Such an application may be filed within 10 years from the filing date of a patent application and before the date of grant or within the specified period from the rejection of the patent application (Sec.5). If a branch application is filed before the grant of patent, said application will be treated as a concurrent application for utility model in addition to that for patent, thereby the same invention of the same applicant is protected by both systems of patent and utility model. Thus, an applicant may first file an application for patent and then file a branch application for utility model as necessary before the grant of patent. Conversion of application from utility model to patent is not allowed.

On the other hand, the Japanese Utility Model Law allows conversion of application between patent and utility model (Sec.10(1), Sec.46(1) of Patent Law). However, the conversion will exclude the possibility of concurrent application since the original application is deemed to have withdrawn.

Table III-1. Comparison of Current and Revised Utility Model Laws

	Current Law	Revised Law
Statutory subject matter	Device related to shape, etc. of an article.	Same as the box at left.
Substantial examination	Yes	No
System of publication of unexamined application	Yes	No
Amendment to the specification or the drawings	An amendment is allowed (before publication) so long as the gist of the specification, etc. of the original application is unchanged.	Addition of new matter is not allowed.
System of national priority	Available	Available
Conversion of applications between patent and utility model	Possible	Possible
Determination on the priority between patent and utility model	Available	Available
Period for payment of registration fee	Generally, within 30 days from the date of transmittal of the examiner's decision that the utility model registration is to be effected.	Upon application
Term of utility model right	10 years from the date of publication of application (but not exceeding 15 years from the date of application.)	6 years from the filing date.
Correction of the specification or the drawings	Permissible to a certain extent which includes narrowing of the utility model claim.	Only the correction to delete claims is allowed.
Reason for invalidation	Lack of novelty, etc.	Lack of novelty, etc. + illegal amendment.
System of written evaluation	No	Yes

IV. OUTLINE OF NEW EXAMINING STANDARDS AND RECOMMENDED ACTIONS

1. General Description

The Examining Standards have been published on the description requirement of the specification, novelty and inventiveness, the amendment to the specification, and examinations in specified technical fields. The Standards on the unity of application and special applications (divisional application and conversion of application) are scheduled to be published in the coming fall. This chapter will focus on those items in the published Examining Standards which are considered to be of great importance to people involved in patent application. Such items include the description requirement of the specification, inventiveness, the amendment to the specification, and the examining standard on the invention related to computer software. These items will be first described and then recommended actions for applicants will be discussed.

(1) Background

The current Examining Standards were enacted in 1964 and subsequently added and revised in a number of instances. The latest revision is made to respond to rapidly advancing technology and the global trends.

(2) Characteristics

The latest revision has the following characteristics:

① The scope of patent protection has been expanded and stronger protection will be conferred for a pioneer invention related to a basic principle (pioneer patent).
- Examiners will not generally ask the applicant to narrow the scope of the applied patent.
- Broader patent protection may be afforded to an application with a small number of embodiments.

② More universal, not technical field-oriented, standard has been established for the inventiveness requirement.

③ A new examining standard has been established on biotechnology. A new examining standard has been established on the validity of the invention on computer software.

(3) Effective Date

The new Standards are applicable to any application filed under the current Law (on and after January 1, 1988 when the improved system of multiple claims was enforced.) The examining standards on the specification and on inventiveness are expected to be applied to

the application under the new Law scheduled for enforcement in the next fiscal year.

2. Description of General Examining Standards

(1) Examining Standards on Specification and Recommended Actions

It is understood that the standard is designed to obtain broader and stronger patent protection.

① Characteristics

Table IV-1 compares the old Standards and the new Standards.

Table IV-1

	Old Standards	New Standards
Bases for grasping of the scope of invention	The scope of invention is grasped with reference to the parts describing the the purpose of the inventi on, the constitution and effects. If the scope of invention as grasped from the patent claims is broader than that as grasped from the description of the purpose, the constitution and effects, the applicant has been requested to limit the patent claims.	The scope of invention is grasped with reference to the patent claims.
Relationship between embodiments and patent claims	If there are too few embodiments, such a patent application is refused because of undue breadth of the patent claims, or submission of additional embodiments is ordered.	Even if the patent claims are broader than the disclosure of the embodiments, such an application is not refused unless the examiner proves that the invention is inoperative, so long as one or more embodiments is disclosed. Pioneer inventions can obtain broader scope of claims.
Description of effects	The effects of the claimed invention must be stated. The failure to formally state such effects results in refusal.	An application is held valid if the effects of the claimed invention are at least implied. Formal statement of such effects is not required. (This will validate the U.S. specification which has no description of advantageous effects.)

② Excerpts from New Standards

(i) Constitution of Invention

- List as many types of embodiments that produce the best results as possible.
- If the means to solve the given problem is expressed by the function or the act of said means rather than specific description of said means, the specification will only be acceptable if a person with ordinary skill in the art to which the invention pertains can easily reduce the invention into practice on the basis of the description. Although the function or the act of the means to solve the problem can be considered as the "effect of the invention", it will be considered as the "constitution of the invention" since the expression based on the function or the act is designed to state the means to solve the problem.

(ii) Effect of Invention

- For the "Effects of Invention", state the effects intrinsic to the invention as specifically as possible.
- The advantageous effects of the applied invention over the "most relevant prior art" is an important factor in the determination of inventiveness. However, the "most relevant prior art" is sometimes found after the examination of inventiveness, thus making it difficult for an applicant to state such a prior art in the specification of an original application.

  If an applicant receives a notification of reasons for refusal holding the lack of inventiveness as the reason for refusal, the applicant may amend the advantageous effects without changing the gist of the specification. However, an application, even if it does not contain the comparison with the "most relevant prior art" in terms of effect, may not be deemed as being in violation of Section 36(4) of the Patent Law, so long as there is a description of effects of the invention elsewhere.
- If the constitution of the invention facilitates understanding of the effect of the invention for a person with ordinary skill in the art to which the invention pertains, and does not interfere with the ease of reducing the invention into practice, absence of formal description or insufficient description of the effect of the invention will not constitute violation of Section 36(4) of the Patent Law.

(iii) Reminders

- Absence of formal description or insufficient description of the effects of the claimed invention will not constitute violation of Section 36(4) of the Patent Law in the following case:

  The claims contain a matter belonging to the generic group, some of the embodiments belonging to this generic group is

stated in the detailed description of the invention, and the purpose, constitution and effects of the invention are not sufficiently stated to facilitate a person with ordinary skill in the art to which the invention pertains to easily reduce another portion of the invention belonging to the generic group into practice.

- If an applicant is notified that the effect of the claimed invention stated in the detailed description of the invention is not obtainable, the applicant may refute or clarify its position with a statement of arguments or a lab certificate.

③ Recommended Actions for Applicant

When compared with the old Standards, the new Standards have generally relaxed the disclosure requirements to be met by the specification and the drawings. Thus, it can be concluded that broader and stronger patent protection can be obtained more easily. However, so long as the obtaining of an exclusive right and the exclusion of junior applications on related inventions remain as the purpose of a patent application, the actions recommended to the applicant also remain basically the same as under the old Standards. It is thus appropriate to consider that the new Examining Standards will merely provide additional remedial measures in the examination stage.

- Since the invention is grasped on the basis of the patent claim, the applicant should try to prepare a claim that helps adequate grasping of the invention.
  - Describe the invention specifically and clearly in the specification.
    In making the necessary amendment to the claim, the applicant cannot prepare a claim that helps adequate grasping of the invention if the expression on which the amendment is based is ambiguous. In order to expand the freedom of amendment, any ambiguous expression should be avoided throughout the specification.
  - Use the expressions "preferably" and "more preferably" frequently.
    These expressions facilitate appropriate amendment and preparation of necessary dependent claim.
- If the embodiments is insufficient in number, the patent claims is not fully supported by the embodiment, and sufficient evidence found by the examiner indicates that said part is inoperative, the refusal is likely to result without submitting a lab certificate demonstrating the operability or pointing out a problem in logic in the examiner's conclusion from the evidence. In order to avoid refusal, applicants should provide an adequate number of embodiments with adequate description so that they will support the entire patent claims, or make preparations to adequately narrow down the claims.

- List the embodiment that is close to the best mode in the specification.
  See to it that the claims does cover and sufficiently support the embodiments even after they are narrowed down.
- List the embodiment corresponding to the dependent claim of the lowest class.
  Same as above.
- List the embodiment corresponding to the constitution of higher priority in the Markush claims.
  Same as above. (See Appendix.)

- The specification is permissible if the effects of the invention is at least implied. The effect needs not be formally stated. However, in order to help the examiner in understanding the effects attained by the claimed invention, applicants should try to formally state, as in the practice under the old Standard, as many effects as possible to distinguish the claimed invention from the prior art.
  - List as many effects that can be asserted as clear effects as possible and clearly in the embodiment.
    The above action will facilitate claiming of the effect and inventiveness. In some cases, the effect can be used as the ground for amendment.

(2) Examining Standards on Inventiveness and Recommended Action

① Characteristics

Table IV-2 compares the old and the new Standards.

Table IV-2

	Old Standards	New Standards
Inventiveness	Inventiveness is judged primarily on the basis of the effect. Thus, any invention without significant effect is denied of its inventiveness.	The inventiveness requirement is fulfilled if a person with ordinary skill in the art to which the invention pertains can easily derive the claimed invention from a prior art reference. What effect the claimed invention achieves is not of primary importance to the determination of inventiveness. Thus, there will be a case where an invention is held inventive even if it is inferior in effect.

② Excerpts from New Standards

(i) Basic Concept

- Determination of inventiveness is made with a consideration to whether or not a person with ordinary skill in the art to which the claimed invention pertains can easily derive said invention from the disclosure of a prior art reference.
- This determination is made primarily by finding out possible cause or opportunity (motive) of the claimed invention from the disclosure of a prior art reference. The advantageous effects over the prior art will also be taken into consideration.
- An invention found under the old Standards to be inventive because of its significant effect will generally be judged as inventive under the new Standards because it means that the invention has advantageous effects over the prior art.
  The finding of inventiveness will not change if possible cause or opportunity (motive) of the claimed invention is found in the prior art reference. Thus, the inventiveness requirement is more easily be fulfilled under the new Standards since the patent claims without possible motive may also be found to be inventive.

(ii) Technique

(a) Possible Cause or Opportunity (Motive)

- Suggestion in the referred invention.
- Common problem.
- Common function and act.
- Relevance to technical area.

(b) Advantageous Effect

An "advantageous effect" is the effect produced by the features indispensable to the constitution of the invention (intrinsic effect) that has an advantage over the prior art.

- Taking into consideration the advantageous effects
  If the advantageous effects are found, the determination will be made with a consideration to these effects.
  Inventiveness will be found with regard to an invention having superior effects even if the invention may appear to be easily attainable.
- Taking into consideration the assertion of effect by the statement of arguments, etc.
  In case the specification does not describe the effect, the examiner may take into consideration the effect stated in the statement of arguments, etc. if a person with ordinary skill in the art to which the invention pertains can construct the effect from the purpose and constitution of the invention.

(iii) Reminders in Citing Reference

- A prior art, even if it may appear similar in part to the claimed invention, does not qualify as suitable reference so long as the prior art contains any expression that

interferes with the cause or the opportunity (motive) of the claimed invention.

- Pay attention to the relevancy, problem and function in citing reference pertaining to other technical fields.
- Excessive citation of reference is likely to produce discrepancy in logic.
- If the applicant itself admits that the cited prior art is publicly known in his specification, the prior art may be relied on as it indicates the state of the art as of the filing date of the application.

(iv) Inventiveness of Selective Invention

A "selective invention" is the invention expressed by using a subgeneric group falling within a generic group disclosed in a prior art reference but clearly pointing another element or feature not disclosed in said prior art reference as indispensable to the constitution of the invention.

- The invention will be found to have inventiveness if there is an advantageous effect of a different nature or of the same nature with extreme superiority not disclosed in a prior art reference.

(v) Inventiveness of Numerically-Limited Invention

- An invention will be found to be inventive within the numerical limitations if there is an advantageous effect of a different nature or of the same nature with extreme superiority not disclosed in a prior art reference.

(vi) Other Reminders

- A prior art should be understood in the context of the reference where it is disclosed.
- If the claimed invention is based on the probe into a problem, and the solution can be easily formed once the cause of the problem is unearthed, inventiveness will be judged on the basis of the state of the art with consideration to the cause of the problem.
- The fact that the elements of the claimed invention is separately disclosed in more than one prior art reference cannot be relied on as a reason for denying the inventiveness of the invention.
- It a product that embodies the claimed invention itself is inventive, an invention on the manufacturing process or new field of use will generally be considered inventive.
- Commercial success may be taken into consideration as a fact to constitute inventiveness of an invention (if the commercial success is based on the characteristics of the invention.)

③ Recommended Action for Applicant

- Argue as vigorously as possible the difficulties in conceiving the applied invention from the prior art.

Such an argument will be the argument for inventiveness for the principal portion of the logical process under the new Examining Standards for determination of inventiveness.

- Describe conspicuous effects with embodiments.
  Although the conspicuous effect does not directly affect the inventiveness of the invention, the effect with an conspicuous advantage over the prior art will be taken into consideration in the determination of inventiveness as an advantageous effect over the prior art.

(3) Examining Standards on Amendment in relation to Change in Gist of Specification and Recommended Action

① Characteristics

Table IV-3 compares the old Standards and the new Standards.

Table IV-3

	Old Standards	New Standards
Amendment before Transmittal of Ruling on Publication of Application	Amendment is allowed within the scope of the specification or the drawings submitted upon application. Even the amendment to add new matter is permissible as long as the scope of the applied patent is unaffected.	Amendment is allowed within the scope of the specification or the drawings submitted upon application. The amendment to add new matter will be declined as the action to influence the scope of the applied patent.
Amendment after Transmittal of Ruling on Publication of Application	Only the following amendment is allowed: - Restriction of the claim or claims. - Correction of errors in the description. - Clarification of an ambiguous description.	Same as the old Standards.

② Excerpts from New Standards

Amendment before Transmittal of Ruling on Publication of Application No amendment to add new matter will be allowed.

- Determination of the change in the gist of the specification by the amendment will be based on "the technical matter related to the constitution of the invention stated in the specification or the drawings." Any amendment to remove the "technical matter related to the constitution of the invention" outside the scope of the original specification will be found to change the gist of the specification.
- Those items self-evident to a person with ordinary skill in the art to which the invention pertains at the time of application on

the basis of the description of the original specification are considered to be "within the scope of the items stated."

- Among the "constitution of the invention", prescribed in Section 36 of the Patent Law, there are "means to solve the problem," "acts" and "embodiment". Thus, the "technical matter related to the constitution of the invention" means the technical matter which is grasped on the basis of the specification or the detailed description on the effect (in the generic as well as the subgeneric group.)

③ Comparison of Old and New Examining Standards

The attachment lists those items that are permissible under the old Standards but illegal under the new Standards. As these three examples show, any addition of new matter is not permissible whether the interpretation on the patent claim has been affected or not.

④ Recommended Action for Applicant

Amendment before Transmittal of Ruling on Publication of Application

- As in the practice under the old Standards, prepare a specification in such a manner that no amendment will be necessary.
  - Addition of comparative example is no longer allowed. However, the new Standards will not put the applicant at an disadvantage since the submission of lab certificate is now possible. Since the amendment that is permissible under the old Standards but no longer permissible under the new Standards is the kind of amendment which does not affect the scope of the patent under the old Standards, the revision of the examining standard will not make a significant difference.
  - If the amendment to add new matter is only intended to make the invention public, make such an amendment within one year and three months from the application. It will make the application published and the intended purpose will be achieved even if the amendment is declined during the examination process. (Any application to add new matter filed under the new Law may be held as the reason for refusal.)

Appendix: "Relationship between Embodiments and Patent Claim"

This Appendix is designed to illustrate the above relationship.

Claim 1 : Manufacturing process for compound C by the reaction of the compound in the A group and the compound in the B group.

Claim 2 : Manufacturing process for the compound C of Claim 1 with the reaction temperature of 50 to 90 ℃.

Claim 3 : Manufacturing process for the compound C of Claim 1 or Claim 2 wherein the compound in the A group are a1, a2 or a3.

Claim 4 : Manufacturing process for the compound C of Claim 3 wherein the compound in the A group is a1, and the compound in the B group is b1, b2 or b3.

Claim 5 : Manufacturing process for the compound C of Claim 3 wherein the compound in the A group is a3 and the compound in the B group is b4.

Embodiment 1: a1 and b1 are reacted at 60 ℃ to obtain the compound C.

Embodiment 2: a1 and b2 are reacted at 70 ℃ to obtain the compound C.

Embodiment 3: a1 and b3 are reacted at 80 ℃ to obtain the compound C.

In the above example, Claims 1 through 4 are supported by Embodiments 1 through 4, but there is no embodiment to support Claim 5. If Claims 1 through 4 are deleted (because these claims are found in the reference unnoticed by the applicant at the time of application, for example), Claim 5 will have a problem because no embodiment is found in the specification at the time of application. In order to avoid such a situation, include an embodiment which will look like the following:

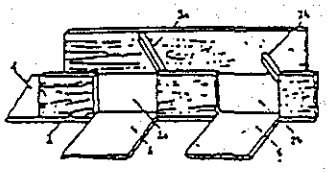
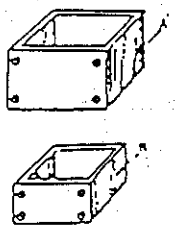
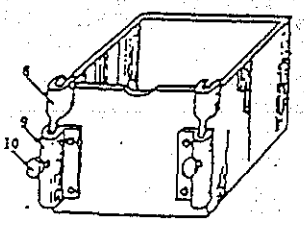
Embodiment 4: a3 and b4 are reacted at 75 ℃ to obtain the compound C.

In addition, no embodiment supports the reaction of a2 and B within the scope of the Markush-type Claim 3. If the reactions of a1 and B and a3 and B are deleted from the patent claim, there will be a problem. Thus, include the following embodiment:

Embodiment 5: a2 and b3 are reacted at 55 ℃ to obtain the compound C.

Examples of amendments permitted under the old Examining Standard, but not permitted under the new Examining Standard

[Example 1]

Specification of the original application	Specification after the amendment
(Title of invention) Selecting device on conveyors	(Title of invention) .....
(Claim) A selecting device on conveyors characterized in that the side wall to tub (1) is cut open to provide outfalls (2a) and (2b), and that guide rods (3a) and (3b) are affixed diagonally on the upper edge of the tub, and that an endless belt (4) is installed at the bottom of the tub.	(Claim) ....
(Summary of description of the invention) A device to select goods of various heights, in accordance with their height, in which the taller shuttle box (A) is led by the guide rod (3a) to the receiving slope (5), and the shorter shuttle box (B) is led by the guide rod (3b) to the receiving slope (6), respectively.	(Summary of description of the invention) ..... Furthermore, the height of the support colum (8) of the shuttle box (7) is adjusted by the screw (10) of the tie-hoop (9), which enables the selection of various types of goods by having a multiple of identically shaped shuttle boxes in stock.
(Drawings)  Drawing 1  Drawing 2	(Drawings) Drawing 1  Drawing 2

[Explanation]

Although the original specification illustrates two shuttle boxes, a large one and a small one, the amended specification included an addition of adjustable-height support columns to the shuttle box. Accordingly, the amended invention attained an advantageous effect that the shuttle boxes of identical size can be used in the selection of various types of goods.

These added matters, functions, and effects are not clearly stated in the specification or drawing of the original application.

Hence, since the technical matters associated with the constitution of the invention concerning the selecting device on conveyors, added in this amendment, are not within the scope of the matters stated in the specification or drawing originally attached to the request, this amendment shall be deemed a change of the gist of the invention.

[Example 2]

Specification of the original application	Specification after the amendment
(Title of invention) Receiving device for phase modulation waves	(Title of invention) .....
(Claim) A phase modulation wave receiving device characterized by the demodulation being intergrated to reproduce the source signals.	(Claim) ....
(Summary of description of the invention)	(Summary of description of the invention)
[Note] No description in reference to a transmitter.	[Note] Provided an amended description accompanied by drawings, concerning the transmitter and transmitting methods.

[Explanation]

The amendment provided a description of the transmitter and transmitting methods.

The specification in the original application offers no description of a transmitter or transmitting methods, and these matters are not stated in the specification attached to the original application, even if allowance are made for the state of the art when the application was filed.

Hence, since the technical matters associated with the constitution of the invention concerning the transmitter and transmitting methods, added in this amendment, are not within the scope of the matters stated in the original specification or drawing, this amendment shall be deemed a change of the gist of the invention.

[Example 3]

Specification of the original application	Specification after the amendment
(Title of invention) Extraction method for kainic acid	(Title of invention) .....
(Claim) An extraction method for kainic acid characterized by the collection of extractions of kainic acid in the from of copper salt by adding cooper sulfate to the extract solution which has been refined through the adsorption and desorption of the effective components of the digenea by an adsorbent.	(Claim) ....
(Summary of description of the invention)	(Summary of description of the invention) The kainic acid content in the solution can be quantified through the colorimetric determination of the yellow color by alloxan.
[Note] No description in reference to the quantity of kainic acid in the solution.	

[Explanation]

The amendment provided a new quantification of kainic acid. The colorimetric determination method of kainic acid is not described in the specification of the original application, and such colorimetric determination method for quantifying kainic acid is not a part of publicly known or publicly used technology.

Hence, since the technical matters associated with the constitution of the invention, added in this amendment, are not within the scope of the matters stated in the specification or drawing originally attached to the request, this amendment shall be deemed a change of the gist of the invention.

3. Examining Standard on Patentability of Inventions or Discoveries Concerning the Computer Software

(1) Introduction

In Japan, the Examining Standard on patentability of inventions or discoveries concerning the computer software has subsisted, without any legal amendment, since its first promulgation in 1975. Meanwhile, however, a number of precedents have been compiled in the US which lead to the revision of the examining standard and the guidelines based on those precedents.

In this report, Japanese Examining Standard newly promulgated will be compared to the US standard, illustrating the similarity and difference using the precedents accumulated, and the discussion will be given on the points of consideration the applicant needs to be aware of with regard to the Japanese Examining Standard. The cases referred to in this report, Examples 1 through 4, are the summaries of the portions of cases quoted in the Examining Standard.

(2) ~ (6) Refer to Tables IV-4 ~9.

(7) Reminders for applicants

① Unlike the examining standard in the U.S., Japanese standard holds patentable only those software-related inventions that are interrelated and interdependent with the hardware in producing its effects and advantages over the prior art. Thus, changes in the operation or the condition of the hardware effected by the software need to be sufficiently disclosed in the specification.

② It is important that not only the abstract concept of algorithm be described but also the flowchart be submitted with the specification in disclosing the software-related inventions. If necessary, for the purpose of explanation, the source code listing may also be disclosed in the specification, however to the extent just necessary for such explanation and yet not be reproduced. Although such a source code listing may, of course, be submitted as a reference material with the specification, it must be noted that the specification may not be amended based on the information disclosed in the reference material.

③ The US standard requires "the sufficient disclosure of a program's function/program's logic such as the disclosure of block diagram and operation flow diagram (flowchart) necessary for enabling any person skilled in the art to write the computer program without unreasonable experimentation", and this disclosure requirements are also held true by the Japanese Patent Law.

④ As the Examining Standard clearly indicates that "citation of references concerning prior art is required for the application on a software-related invention, for no sufficient volume of patent literature has been accumulated in that particular field of technology", it is necessary to clarify the difference between the claimed invention and the prior art, and also the advantages inherent in said invention, by providing prior art references in far greater volume and thoroughness than will be considered sufficient in the case of patent application in other technical fields.

Table IV-4 (2) Change in the Examining Standard and the Precedents Concerning the Software-Related Inventions in Japan and the US (Part 1)

JAPAN	UNITED STATES
1975 "Examining Standard on Inventions Relating to Computer Program (Part 1)" - Technical idea which utilizes laws and arrangements other than the law of nature in the process, whether be in part or in whole, of bringing about a certain goal is held not patentable.	1972 "Gottshalk v. Benson" (US 63,175 USPQ 673 (1972)) - A claim which would "wholly preempt the mathematical formula" shall not be protected by a patent. That is, a claim which would grant an individual the exclusive right to to a mathematical formula, thus pre-empting the use by any one else, is nonpatentable. 1978 "*In re* Freeman" (573 F.2d 1237, 197 USPQ 464 (CCPA 1978)) *In re* Freeman set forth a two-step test for determining whether claims preempt a mathematical formula (Freeman Test). 1. The first step is to determine whether a claim recites a method of calculation, mathematical formulae or equation either directly or indirectly. 2. The second step is to determine whether the claim as a whole merely recites a mathematical algorithm or method of calculation, or defines the statutory subject matter under 35USC101. 1978 "Parker v. Flook (437 US 584,198 USPQ 193 (1978)" - A claim is not statutory if what is claimed is mere post-solution activity after the algorithm has completed its calculation. Ex: An invention will not be considered as a statutory subject matter if what is claimed is the mere proof of improved and useful application of Pythagorean theorem to the existing method of measurement.

Table IV-4 (2) Change in the Examining Standard and the Precedents Concerning the Software-Related Inventions in Japan and the US (Part 1) contd.

JAPAN	UNITED STATES
	1980 "*In re* Walter" (618 F.2d 758,205 USPQ 397 (CCPA1980)) - In order to determine whether a claim preempt a mathematical algorithm, the claim needs to be analyzed if the algorithm defined structural relationships between the physical elements or process steps of the claim. 1981 "Diamond v. Diehr and Lutton" (450US175,209 USPQ(1981) - Paraphrased the 2nd step in Freeman Test (upheld the test employed in *Freeman* and in *Walter* (Freeman-Walter test) - When a claim is for a process involving the use of computer and said process is for "performing a function which the patent laws were designed to protect, such as transforming or reducing an article to a different state or thing", then the claimed process is statutory and the same will hold true for apparatus. • Establishment of examining standard on the patentability of inventions concerning computer implemented process or apparatus of control 1981 "Diamond v. Bradley" (67 L.Ed.2d. 311,209 USPQ97(1981) - Ruling on the invention concerning the capacity of a central processor to handle the internal functions and effectively facilitating the process of performing said functions by providing multi-access to the system (multiprogramming). - The claim was deemed as statutory for the body of the claim was directed to a computer implemented process, instead of focusing on the operating method of computer itself, of more effective data arrangement made possible as a consequence of multiprogramming. • Internal computer control (e.g., operating system, file management) was judged as comprising patentable subject matter.

Table IV-5 (2) Change in the Examining Standard and the Precedents Concerning the Software-Related Inventions in Japan and the US (Part 2)

JAPAN	UNITED STATES
1982 "Guidelines Concerning the Inventions Related to Microcomputer Application" - Computer software-related inventions are held patentable if the claim is drawn to apparatus by representing the invention, as a whole, as "machine". - While the standard clarifies the requirements for patentability of software-related inventions operating interdependently with the hardware, other software-related inventions which cannot be represented as constituting "apparatus" are to be examined by the conventional standard. Therefore, it is not yet clear whether inventions related to microcomputer application, such as operating system, multiprogramming control, and file access control, are patentable or not.	1982 "*In re* Abele (684F.2d902, 214USPQ682(CCPA1982)" - A claim is patentable if the algorithm in the claim is "applied in any manner to physical elements or process steps." (Expanding on the 2nd step of Freeman test) 1982 "*In re* Pardo (684F.2d912,214 USPQ673(CCPA1982))" - The term "algorithm" signifies a mathematical algorithm, and arrangements other than those mathematical algorithms shall be deemed a statutory subject matter under 35USC101. • Preparation of "2106 Patentable Subject Matter-Mathematical Algorithm or Computer Programs [R6]" by U.S. Patent and Trademark Office based on the above precedents. 1984 "Paine, Webber, Jackson & Curtis v. Merrill Lynch, Pierce, Fenner & Smith (564F.Supp.1358,218, USPQ212(D.Del.1983), later proceeding, 587F.Supp.1112(D.Del.1984))" - Determination on compliance with Section 101 of a computer program supplied for the management of financial service systems. - The invention was of a computer program to integrate three financial service systems, claiming an advantageous effect made possible by such an integration. - No recitation of mathematical algorithm, either directly or indirectly, was found in the claim, thereby not being tested by the Freeman test, and the claim was deemed as statutory based on the advantageous effect made possible by the use of a computer.
1988 "Treatment of computer software-related invention upon the examination of patentability (a draft)" Patentability of an invention to be established if the software utilizes characteristics specific of hardware, thereby establishing the patentability of internal computer control such as the operating system and file access control described above.	

Table IV-5 (2) Change in the Examining Standard and the Precedents Concerning the Software-Related Inventions in Japan and the US (Part 2) contd.

JAPAN	UNITED STATES
	1989 "*In re* Grams" (888 F.2d 835,12 USPQ 2d 1824 (Fed.Cir1989)) - Held not statutory after the inquiry into the specification such that the only physical step described in the claim concerned the mere gathering of data by the use of an algorithm. - *Grams* differs from *Abele* in a sense that the algorithm described in the claim merely manipulated data gathered in earlier steps where the algorithm claimed in *Abele* refined the process specific of the apparatus.
	1989 "*In re* Iwahashi" (888 F.2d 1370,12 USPQ 2d 1908 (Fed.Cir.1989)) - Application involving a series of means-plus-function claims for calculating sample values and auto-correlation coefficients. - Held statutory for the algorithm defined structural relationship between the physical elements of the claim (in apparatus claims) and its relation to the apparatus was precisely disclosed in the specifications, despite the quite unclear distinction from *Grams*.
	9.5.1989 Proclamation of a legal analysis of 35USC101, "Guideline to 1106 OG 7".
1993 Announcement of the Examining Standard of Computer Software-Related Invention.	

Table IV-6 (3) Patentability of Computer Software-Related Invention in Japan and the US, Comparison

JAPAN	UNITED STATES
Whether the claim is directed to a controlling means of hardware resources or an operating means necessary in performing such control such as those concerning: ① computer-implemented process of control; Ex 1: Air conditioning means and apparatus for automobiles (Refer to Example 1) Ex 2: Multiprogramming execution control method/means Ex 3: Controlling means of pattern-stitching speed of computerized sewing machine ② operation of computer; Ex 1: Multiprogramming execution control method Ex 2: Virtual storage supervising unit ③ the employment and reliance upon the laws of nature in the object of control and that data being processed based on the physical and technical characteristics of the object of control: Ex 1: Computer-implemented image processing Ex 2: Detecting means of digital signals transmission error Ex 3: Method for generating and displaying circles (Refer to Example 3)	1. This portion of Japanese Examining Standard is embodied in the Freeman-Walter test described below in the US. ① Either direct or indirect recitation of calculation method or mathematical formulae is found in the claim. If "YES" in ①, then determine whether ② the claim as a whole merely shows a mathematical theory or is directed to to statutory subject matter (e.g., process, machine, composition of matter or any new and useful improvement thereof). The claim is non-statutory (nonpatentable) under 35USC101 if it merely recites a mathematical theory. If the claim does more than merely recite a mathematical theory, then *it is* statutory subject matter (patentable). 2. As for ② (those concerning the operation of computer) mentioned in the Japanese Examining Standard, a claim falling within the same scope may be patentable, considering the decision in Diamond v. Bradley, also in the U.S.
↓ - If applies as "YES" to at least one of ① to ③, the invention is then regarded as patentable on the basis that the software incorporates a law of nature in its data-processing operation. - If "No" to all of ① to ③, following is to be considered. ↓	
④ the use of hardware resources in a manner described in the specification (incorporation of a law of nature into the computer-implemented data-processing not required in this case) Case 1: Command input method for selecting commands from hierarchical menus (Refer to Example 4) Case 2: Japanese syllable-chinese character conversion method	① An invention may be patentable in the US if step one of Freeman-Walter test does not apply to the subject matter (i.e., those other than mathematical algorithm), so long as the hardware resources contains patentable features specific of itself and thus automatically qualifies for statutory subject matter under 35USC101. (Refer to *In re* Pardo) ② Diamond v. Bradley Considering ① and ② above, a claim deemed patentable by the Japanese Examining Standard may also be determined as being patentable in the US.
↓ If applies as "YES", patentability of the invention upheld on the basis that a law of nature is being incorporated. If "NO", however, the invention is determined as being nonpatentable.	

Table IV-7 (4) Japanese Standard and the US Standard on Computer Software Determined as Being Nonpatentable for not Incorporating a Law of Nature, Comparison

JAPAN	UNITED STATES
A computer program may be found nonpatentable if: the data-processing operation is based on the economic principles, method of doing business, artificial arrangement or mathematical formulae; and, limitations to the claim steps by hardware resources are being equivalent to those inevitably occurring as a result of employing the computer (mere use of computer). For example, mere addition of limitations, like the following phrases, to the method of solving mathematical formulae does not make the claim stand as having incorporated a law of nature. ① "solve using the computer". ② "input the data into the computer ... and output the result from the computer". ③ "input ... from the input device, operate ... using the processing unit, store.... in the memory, and output ... from the output device". ④ "means for inputting ... from the input device, means for operating ... using the processing unit, means for storing ... into the memory, means for outputting.... from the output device".	*In re* Abele Paine, Webber, Jackson & Curtis v. Merrill Lynch, Pierce, Fenner & Smith *In re* Iwahashi Decision in each of above precedents evidently suggests that an invention determined as being nonpatentable in Japan may be determined as being patentable in the US. On the other hand, however, no clear standard is established in the Japanese Examining Standard on such inventions that were claimed as the subject matter in above precedents in the US.
Case: Karmarkar Patent (Applicant: AT&T, Application Number: 61-501865) Examiner's decision of refusal notified in: March, 1993 Reason for refusal: virtually no ground accounting for the calculation means being attributed to the digital processor is found in the claim. In other words, the computer program which stands as the method of calculation in this invention is not in any manner interrelated to the digital processor which stands as the means of calculation. The advantageous effect is attributable solely to the program itself, and is not the consequence of program's influence on the external environment such as controlling, either directly or indirectly, the mechanism of processor with a view to expanding on the capacity of the processor by selectively utilizing its individual functions to the fullest extent. Considering these points, what is being claimed in this invention is in essence the program intended to run on a digital processor, in spite of its being, as a matter of formality, an apparatus claim for a digital processor. Therefore, what is being claimed of this invention is evidently the method of calculation which holds the invention as being nonpatentable.	3 related cases have been granted patent in the US (USP4,744,0266,USP4,744,0267,USP4744,0268) Discrepancy in the determination of patentability by the Japanese standard and the US standard may be for the difference in the requirements to be met. Japanese standard holds patnetable only those inventions that are interrelated and interdependent with the hardware in producing its patentability where the US standard is slightly broader in its scope such that computer program can be determined as being patentable, if expanding on the comprehension of Freeman-Walter test, provided that the program does more than calculate the given mathematical algorithm and attain some advantageous effects. (The US standard by nature, unlike Japanese standard, is concerned with the patentability of a mathematical algorithm and imposes no restrictions as to the interrelationship of the software to the hardware.)

Table IV-8 (5) Reminders for Applicant and Comparison with the US Examining Standard: Computer Software-Related Inventions

JAPAN	UNITED STATES
① When determining whether or not a law of nature is being incorporated in an invention, attention must be paid as not to be confused by the statutory categories ("process" or "apparatus") of the claimed invention. For example, if a claim is drawn to an invention that falls into the category of "apparatus" but as a mere conjunction of "means for various functions", the said claimed invention shall not automatically be regarded as having incorporated a law of nature. ② Programming language, program itself and program list are not regarded as "an invention". ③ For an invention claiming a "medium with a program stored therein", the data stored in the medium (program itself) is featured with specific characteristics and the medium itself lacks technical characteristics and therefore not regarded as "an invention". ④ For an invention with a claim ending either in "program" or "software", the computer program itself will be regarded as being applied for a patent and what is actually being described in the claim will not be regarded as "an invention".	① If what is being claimed of an invention is merely a mathematical algorithm recited by preamble limiting the area of use, such invention is not regarded as being patentable. (Refer to "*In re* Walter") ② Similar criteria is stipulated in the US examining standard "2106 Patentable Subject Matter-Mathematical Algorithm or Computer Programs [R-6]". However, there are exceptions to this criteria in which an invention not in conformity with this criteria has been granted a patent (USP4,896,291).

Table IV-9 (6) Criterion on the Inventiveness of Computer Software-Related Invention

JAPAN	UNITED STATES
① Inventiveness of an invention is determined with a consideration to the level of ordinary knowledge in the computer technology field at the time of application. ② In order to qualify as being "one skilled in the art" with regard to a software-related invention in its applicable field, one must possess ordinary technical knowledge in both fields of the applicable field and the computer technology field (e.g., systemization) be able to employ ordinary technical means in research and development, be capable of demonstrating ordinary creativity such as an ability to alter the design of the system, and possess, as its own, technical knowledge deemed as of ordinary level in the pertinent art (both of the applicable field and the computer engineering field) as of the filing date of the patent application. ③ Application of procedures and a means pertinent to a software-related invention to other applicable fields is obvious to one skilled in the art. Example: When "medical information retreival system" exists as prior art to "product information retreival system", applying a "means" claimed in the prior invention and being equivalent in function and effect to that of the prior invention to the "product information retreival system", is a measure obvious to one skilled in the art. ④ Supplement of element, either of hardware or software, that are ordinarily used for such purpose, or substitution of a portion of elements of system configuration by its equivalent is obvious to one skilled in the art. Example: Providing, as a supplemental input means of system, the use of mouse in selecting the item displayed on the screen or the use of bar code for the purpose of inputting numeric code. ⑤ Execution of functions that are generally being performed by hardware resources such as circuit by software is a concept obvious to one skilled in the art. ⑥ An attempt to systemize an operation which is being performed by human resources with a view to using computer in attaining the same results is regarded as demonstrating creativity ordinary of one skilled in the art if the purpose of such an attempt can be attained by implementation of routine operations such as ordinary system analysis and system design. ⑦ Advantageous effect of an invention General effects such as "accelerated processing", "capacity of processing greater volume of data", "decreasing an error" and "consistency in processed results" are the natural consequences of computerization and cannot be regarded as effects unobvious when viewed in the light of technical knowledge of ordinary level in pertinent art.	① Criteria for determining the inventiveness of an invention is same as that of other area of technology. No specific regulations are therefore being stipulated. ⑦ Similar effects were also claimed in *Iwahashi* and *Karmarkar* patents.

Example 1 (Directed to a controlling means of hardware resources or an operating means necessary in performing such control)

[Title of invention] AIR CONDITIONING METHOD AND APPARATUS FOR AUTOMOBILES

[Claim]

An air-conditioning method for air-conditioning the automobile cabin by controlling in-cabin blow-out air conditioning means (7), (19), comprising the steps of:

detecting the temperature Tu at a position substantially exposed to the sunlight (L) transmitted through the cabin window (17) in the vicinity thereof, the temperature Tr at a position substantially not exposed to the sunlight (L) in the cabin and the atmospheric temperature Tam;

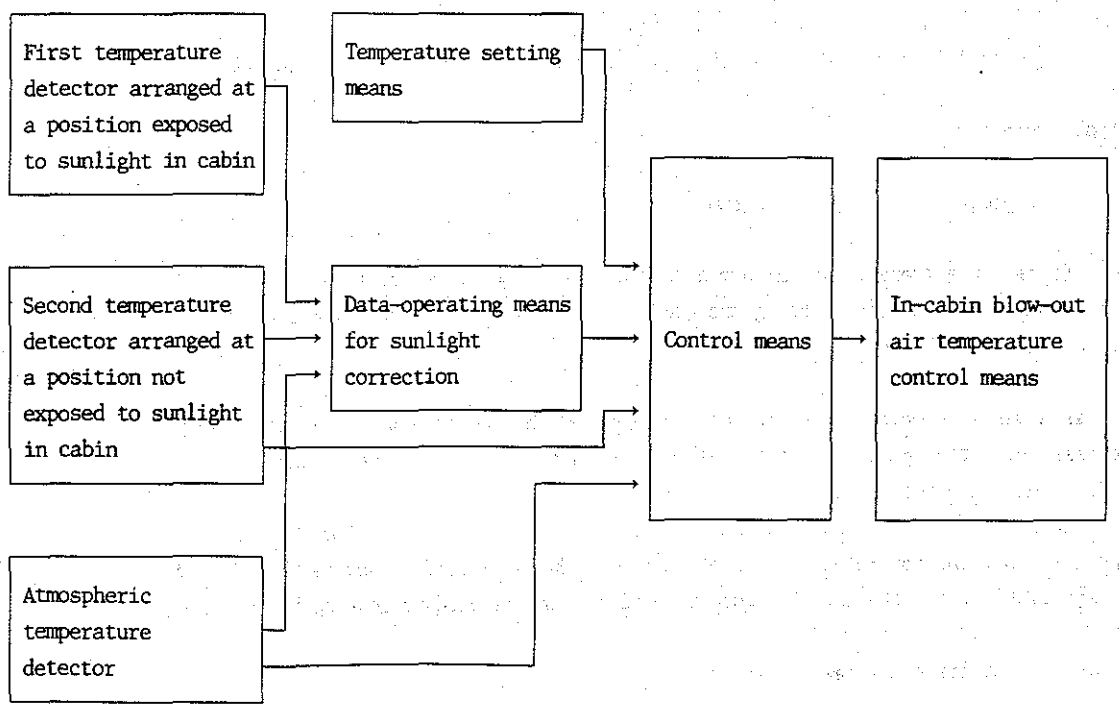
deciding whether the atmospheric temperature Tam is higher than a predetermined value,

calculating the sunlight-corrected data X proportional to the difference between the temperature Tu and the temperature Tr when the atmospheric temperature Tam is higher than a predetermined value;

calculating the temperature drop Tamu of the temperature Tu due to the atmosphere corresponding to the atmospheric temperature Tam and also calculating the sunlight-corrected data X proportional to the difference between the temperature Tr and the sum of the temperature Tu and the temperature drop Tamu when the atmospheric temperature Tam is less than a predetermined value, and

controlling the in-cabin blow-not air-conditioning means (7), (19) in accordance with a not temperature, the atmospheric temperature Tam and the sunlight-corrected data X.

[Description of the Invention]



This invention is intended to control the in-cabin blow-out air-conditioning means comprising an air-mix damper (7) and an actuator (19) providing a hardware resource. It is obvious that the invention, which utilizes the physical characteristics of a control system, and therefore "the law of nature is utilized in the data processing by software (I)" is applicable.

Hence, this invention utilizes the law of nature.

Example 2 (A means for controlling hardware resources or for performing processes associated with control thereof)

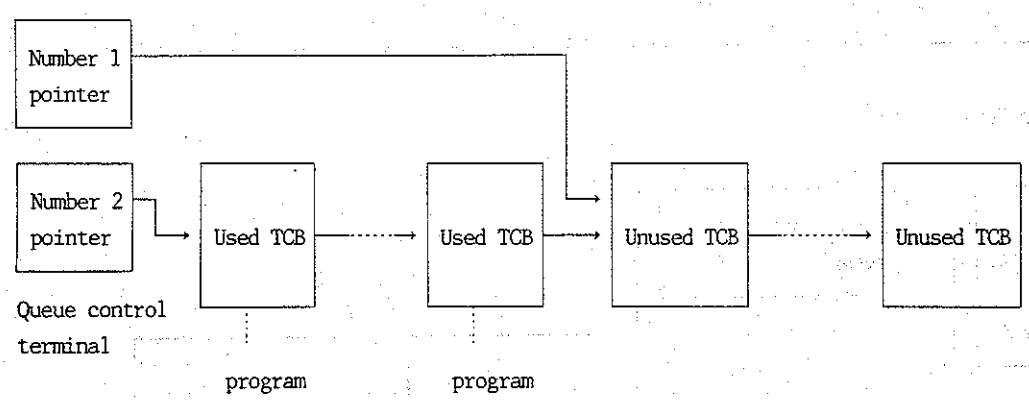
[Title of invention] MULTIPROGRAMMING EXECUTION CONTROL METHOD

[Claim]

A multiprogramming execution control method characterized by the formation of a queue of multiple-linked control blocks, in which task control data are stored, and said queue is controlled by the multiprogramming execution control method in which queue control terminal controls the execution sequence of multiple programs, wherein a predetermined amount of unused control block regions, in which the aforementioned control data are not stored, are secured and linked together in advance,

wherein, in order to change the unused control blocks into unused control blocks, the control data to be executed are stored in the leading unused control block, and the number 1 pointer stored in the aforementioned queue control terminal is changed to indicate the subsequent unused control block, the number 2 pointer stored in the aforementioned queue control terminal is changed to indicate the subsequent used block.

[Determination of Patentability]



Task : Actions (a sequence thereof) which form a unit of operating system control. Hence, it is a program that is currently being executed, in contrast to the program which is merely a sequence of orders.

This invention is a means in which processing devices such as the CPU or memory are effectively assigned to the task units through the usage of task queues, and is thus relative to the processing device of hardware resources.

Although the hardware resources are not clarified in the claim, it is clear, based on ordinary knowledge in the art, that the control is performed on the hardware resources such as the CPU and memory, and is applicable when "the law of nature is utilized in the data processing by software (I)".

Hence, this invention utilizes the law of nature.

Example 3 (A means for processing data based on the physical or technical characteristics of the objects)

[Title of invention] METHOD FOR GENERATING AND DISPLAYING CIRCLES

[Claim]

A method for generating and displaying circles on a graphic display device possessing bitmap memory,

wherein when the dot Dk coordinates on the display device are displayed via (Xk and Yk),

in order to generate and display the circle centers (XC and YC) and the radius r (r being an integer),

n = 0, 1, between 2 ··· 2r (n being an integer),

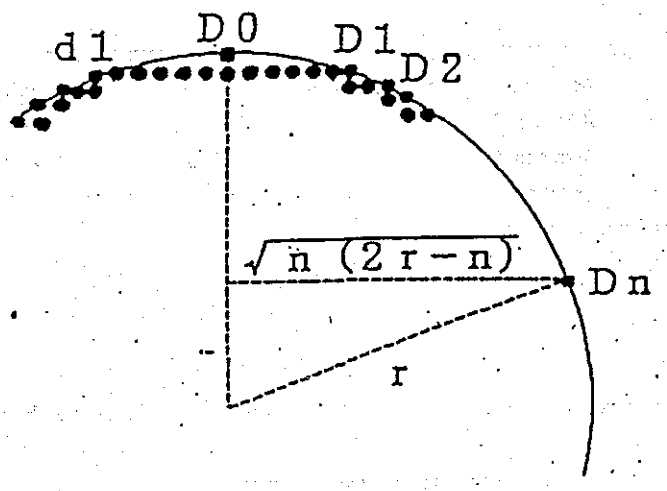
$Yn = (YC + R) - n$

$Xn = XC \pm INT(\sqrt{n(2r - n)})$

[INT ( ) being an integral function for the calculation results between the parentheses ( )]

are calculated to display ON the applicable bits in bitmap memory, and Xn stored in memory, and by displaying ON the bits that are applicable between (Xn+1, Yn+1) and (Xn, Yn+1) during the next n+1, by averaging out the density of the dots which compose the circle.

[Determination of Patentability]



On a display device using bitmap memory, there exists a technical characteristic (composing characteristic) wherein the object to be displayed is represented in units of dots (applicable to 1 bit of bitmap memory), and only said dots are displayed.

The data processing performed by the software of this invention does not simply obtain values from of a circle, but generates circles and display them in accordance with the said technical characteristic; and "the law of nature is utilized in the data processing by software (I)" is applicable.

Hence, this invention utilizes the law of nature.

Example 4 (A means in which hardware resources are being utilized)

[Title of invention] COMMAND INPUT METHOD FOR SELECTING COMMANDS FROM HIERARCHICAL MENUS

[Claim]

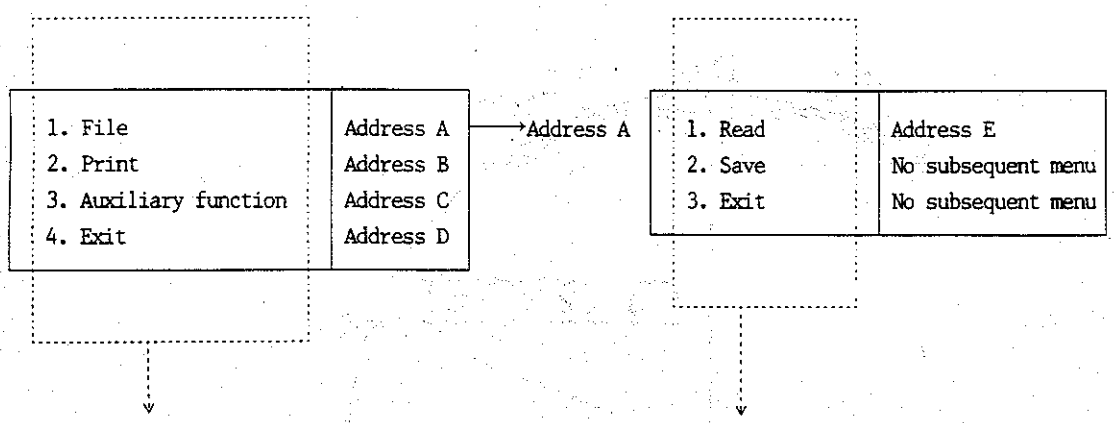
A command input method for selecting commands from hierarchical menus in a system comprising of a display device to display menus, an input device to receive external selection instructions in reference to the displayed menus, a memory device to store data, and a computer to process commands which are input,

wherein a multiple of menus to be displayed are hierarchically correlated and stored in the aforementioned memory device, and the corresponding relationship between the menus and commands are stored in memory,

wherein the menu of the first hierarchical order is read from the memory device to edit and display the menu on the aforementioned display device,

wherein each time a menu selection is received from the input device, the menu of the hierarchical order that is subsequent to the selected menu is read out from the memory device, then edited and displayed, wherein when there is no subsequent hierarchical menu, the command which corresponds to the selected menu is input into the computer.

[Determination of Patentability]



Contents of the memory device

This invention comprises of a display device, input device, memory device, and a computer as its hardware resources. Its memory device has a multiple number of menu stored and correlated hierarchically, as well as the corresponding relationships between the menus and commands.

The hardware resources are combined to read out the hierarchical menus from the memory device in sequence, edit, and display them, to input commands into the computer.

This composition in which hardware resources are thus combined do not constitute a simple usage of hardware resources, and "hardware resources are utilized (II)" is applicable.

Hence, this invention utilizes the law of nature.

V. Conclusion

In this report, content of the revision on the Patent Law and the Utility Model Law, and the new Examining Standard for applications filed in accordance with the current Law were outlined with a special focus on recommended actions for applicant to employ in order to accomodate such revisions on the Patent Law, with regard to amendment, and the new Examining Standard.

Practical application of the details of revised Patent Law and Utility Model Law, however, has not yet been clearly established, and therefore, attention needs to be drawn to the content of the guideline to be published after the preparation of this report, and also to the actual practice after the revised Law enters into force.

We hope this report serves as an assitance in the future practice of all the members of PIPA.

Update in Recent Developments in U.S. Patent Laws
(MISSING -- SEPARATE HANDOUT)

(1) Title: Trademark Infringement
(focusing on the cases of a claim for damages)

(2) Date: October 1993 (24th Cincinnati Congress)

(3) Source

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

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(5) Key words:

"trademark right", "unfair competition", "infringement", "injunction", "compensation for damages"

(6) Provisions of the Related Laws:

Trademark Law - Sections 25, 36, 37, 38 and 39
Unfair Competition Law - Sections 1, 1-2, 2 and 6
Civil Law - Sections 703 and 709

(7) Abstract:

We reviewed a system in Japan of the remedies for trademark infringement focusing on the Trademark Law and Unfair Competition Law, and also the trend of lawsuits. We did it concretely by studying the decisions of the lawsuits for the past six years on the claims for injunction, damages, etc., against a trademark infringement and act of unfair competition, and by examining the criteria for the estimation in each of the cases.

CONTENTS

I. Introduction:

The Japanese trademark registration system rests on "first-to-file" and "registration" basis, and so a trademark right is essentially acquired through registration on the Trademark Register, subject to the first filing.

The trademark right so registered is an absolute right like a real right, under which the owner shall have an exclusive right to use the registered trademark with respect to the designated goods or designated services, and the owner may demand for remedy by a civil action such as an injunction against any infringement and damages, if any.

Remedy by a criminal suit is available too. However, since a trademark infringement leads to disorders of trade relations causing confusion of the origin or deception of the quality of goods, no charge by the owner is needed, making much account of the public interests. This is different from a patent infringement case.

On the ground that our country rests on registration basis, the examiner of the Japanese Patent Office examines applications for trademark registrations in light of whether there would be likelihood of confusion with prior marks, disregarding the issue being caused by "actual use". But, in a trademark infringement lawsuit, a court compares and contrasts the defendant's mark being actually used with the registered trademark owned by the plaintiff, and examines concretely the actual conditions of both marks in the relevant trade in order to ascertain whether any confusion between both marks actually arose or not.

A major issue in a lawsuit of trademark infringement and unfair competition has been whether an act of infringement or unfair competition existed or not, in other words, whether similarity existed between both marks or between goods and services of the parties, or whether the plaintiff's mark was well-known. Accordingly, an abundance of studies has been carried on in these area, but few studies of the decisions of lawsuits have been made by categorizing and examining the injunctions and damages by cases admitted or dismissed and by reasons judged.

These studies would be a matter of concern and interest of those who practice trademark administration in the business enterprises.

Then, as a result of our study, we like to briefly present the structures and the related provisions of the Japanese Trademark Law and Unfair Competition Law, which aim to defend from and remedy infringement and violation, and further present a table made by categorizing the decisions of infringement lawsuits for the past six years or so, and damages, demanded and found, by cases picked out from the table, and the criteria for the presumption of the amount of damages, too.

II. Japanese System of Prevention and Remedy against Infringement:

A. Trademark Law

Section 25 of the Trademark Law provides for the effect of trademark right; "The owner of a trademark right shall have an exclusive right to use the registered trademark with respect to the designated goods or designated services." In addition, under Section 37-1, it shall be construed infringement for any person other than the owner to use a trademark similar to the registered trademark in respect of the designated goods or designated services, or use of the registered trademark or trademark similar thereto in respect of goods or services similar to the designated goods or designated services. The owner has a right to exclude use of such acts by others.

The owner or exclusive licensee (under Section 30) has a right to claim against an infringer or probable infringer to cease infringement or to take preventive measure, and in addition, to demand for damages if the infringement is due to willfulness or negligence of the infringer.

In addition, the owner who demands for injunction under the Trademark Law, is not required to prove actual confusion of the origin of goods as the result of infringement.

The Unfair Competition Law is also available for an owner of

a well-known registered trademark to demand for injunction and to claim damages against unfair use of the same or similar mark.

1. Trademark Infringement

Trademark infringement is classified into four types as follows;

(1) Infringement of the Right to the Exclusive Use (§ 36)

It is an infringement of the essential right of exclusive use for another to use the registered trademark in respect of the designated goods or designated services without good authority such as exclusive license, non-exclusive license, prior use right of a well-known unregistered mark, continued use right of a well-known invalid registered mark.

(2) Infringement of the Similar Scope of a Registered Trademark (§ 37-1)

It is deemed infringement for a person other than the owner of the registered trademark to use any trademark similar to the registered trademark in respect of the designated goods or designated services, or to any goods or services similar thereto, without good authority such as exclusive license, non-exclusive license, prior use right of a well-known unregistered mark, and continued use right of a well-known invalid registered mark. This is a legal fiction by which the scope of infringement is extended, beyond the essence of the trademark right, to any goods or services and trademark similar thereto.

(3) Preparation for Infringement of the Right to the Exclusive Use and to the Similar Scope (§ 37-2-8)

While paragraphs (1) and (2) relate to the infringement of the essence of the trademark right, some preparations are provided in the Trademark Law to be excludable as the

infringement in light of strengthening the protection of the registered trademark. Such preparations are classified into five types as follows;

(a) acts of holding, for the purpose of assignment or delivery, designated goods, or goods which are similar to the designated goods or designated services and to which or on the packaging of which the registered trademark or a trademark similar thereto has been applied;

(b) acts of holding or importing articles which are for use by persons to whom the services are provided and to which the registered trademark or a trademark similar thereto has been applied, in the provision of the designated services, or of services similar to the designated services or designated goods, for the purpose of using such articles in the provision of such services;

(c) acts of assigning or delivering articles which are for use by persons to whom the services are provided and to which the registered trademark or a trademark similar thereto has been applied, in the provision of the designated services, or services similar to the designated services or designated goods, for the purpose of causing such articles to be used in the provision of such services, or acts of holding or importing such articles for the purpose of assigning or delivering them;

(d) acts of holding articles bearing a reproduction of the registered trademark or a trademark similar thereto for the purpose of using such trademark in respect of the designated goods or designated services or of goods or services similar thereto;

(e) acts of assigning or delivering, or of holding, for the purpose of assignment or delivery, articles bearing a reproduction of the registered trademark or a trademark

similar thereto, for the purpose of causing such trademark to be used in respect of the designated goods or designated services or of goods or services similar thereto;

(f) acts of manufacturing or importing articles bearing a reproduction of the registered trademark or a trademark similar thereto for the purpose of using such trademark, or causing it to be used, in respect of the designated goods or designated services or of goods or services similar thereto;

(g) acts of manufacturing, assigning, delivering or importing, in the course of trade, articles to be used exclusively for manufacturing goods bearing a reproduction of the registered trademark or a similar trademark.

(4) Use or Preparation for Use relating to the Specified Goods in a Defensive Registered Trademark

This relates to the use by another of the defensive registered trademark in respect of the designated goods and designated services, and this is the extension of the scope of infringement of well-known trademark, beyond the essence of the trademark right, to any dissimilar goods or services. (§ 67-1)

The Unfair Competition Law, but not the trademark Law is applied to the use by a person other than the owner of the defensive registered trademark of any trademark similar to the defensive registered trademark.

Preparation for using the defensive registered trademark is also deemed an infringement. (§ 67-2-5)

2. Remedy by Civil Action

The trademark right is an absolute right similar to the real right covering the exclusive use of the registered trademark in respect of the designated goods or designated services, and the registrant has a right to demand for injunction against

infringement in the same way as a right of claim on the real right. Moreover, if the infringement satisfies the required condition of a tort, the registrant is able to demand for remedy by a civil action such as a claim for damages, demand for retrieval of reputation, and demand for return of unjust enrichment. Generally, the Civil Law is applicable to these cases.

(1) Demand for Injunction (§ 36)

The Trademark Law provides; "the owner of a trademark right or an exclusive licensee may demand to a person who is infringing or is likely to infringe the trademark right or right of exclusive use, the cease and desist or prevention of such infringement"(§ 36-1), and at the same time to demand the destruction of the infringing articles, the removal of the facilities used for infringing or other relief needed to prevent the infringement (§ 36-2).

Those who can exercise their right to demand for injunction are the owner and exclusive licensee who are similar to the possessor of the real right, and, however, the non-exclusive licensee who is similar to the obligee of the obligatory right is not granted to demand for injunction. Those who can be exercised the right to demand for injunction are the performers in progress of an infringement, actual or probable, without the issue of willfulness or negligence.

(2) Claim for Damages (§ 38, § 39)

The owner of a trademark right or exclusive licensee may claim for damages against a person who has intentionally or negligently infringed the trademark right or exclusive use right.

A claim for damages against an infringer under the Civil Law requires the claimant to prove that he was caused damages intentionally or negligently by the infringer. But a claim for damage against an infringer under the trademark law does not require the owner of a trademark right or exclusive licensee to

prove that he was caused damage intentionally or negligently by the infringer, since the infringer shall be presumed to have been negligent (§ 39, Patent Law § 103).

As to the amount of damages, the Civil Law places the responsibility on a claimant to prove it in an infringement of the property right in general, whereas the Trademark Law as the special law contains the provision to relieve the claimant's responsibility to prove the damages for the purpose of protecting the owner of the trademark right or exclusive licensee from the difficulty to prove it in the trademark infringement, that is, the profits gained by the infringer through the infringement shall be presumed to be the amount of damage suffered by the owner, provided that the owner proves the amount of such profits (§ 38-1).

Moreover, as far as the trademark infringement exists, the owner may claim from the infringer an amount of money at the lowest, which he would normally be entitled to receive for the use of the registered trademark as the amount of damage suffered by him regardless of whether he is actually suffered or not. This provision of damages as legal fiction is to be applied only to the case in relation of the right of the exclusive use and of excluding another's use, but is interpreted not to be applied to such acts as deemed to be infringement. Further, the owner may claim for damages exceeding the amount equivalent to a royalty fee under the normal license. But, in such case, if there is malicious intention or gross negligence on the part of the person who has infringed the trademark right or the right of exclusive use, the court may take this into account in determining the amount of damages. (§ 38-3)

(3) <u>Demand for Recovery of Reputation (§ 39)</u>

Upon the request of the owner of a trademark right or of a right of exclusive use, the court may, in lieu of damages or in addition thereto, order a person who has injured the business reputation of the owner of a trademark right or exclusive licensee to take necessary major to the recovery of the

reputation.

This provision has the same effect as the Civil Law aims at the recovery of the reputation from defame (§ 723). As a concrete measure it is probable to publish apology on a newspaper or magazine, or to broadcast apology over TV or radio.

(4) Demand for Return of Unjust Enrichment

Although there is no provision in the Trademark Law relating to the demand for return of unjust enrichment which is one of remedy for infringement of the property right, it is interpreted to apply mutatis mutandis the provision of unjust enrichment of the Civil Law.

3. Remedy by Criminal Suit

The Trademark Law contains penal provision, under which any person who has infringed a trademark right or a right of exclusive use be liable to imprisonment with labor not exceeding five years or to a fine not exceeding 500,000 yen. (§ 78)

This provision applies not only to essential infringement acts (§ 36) but also to the acts deemed to be infringement. The general rules of the Criminal Law is applied to the constitution of a crime for which the willfulness is needed.

Since a trademark infringement is connected much with the public interests, that is, it leads to disorders of trade relations and injury of the public interests by causing confusion of origin or deception of the quality of goods, no charge by the owner is needed making much account of the public interests. This is unlike a patent or design infringement.

B. Unfair Competition Law

While the Trademark Law aims to protect the registered trademark by granting an exclusive right, the Unfair Competition Laws aims to maintain the order of trade and to protect and promote the development of the business activities by excluding

such acts that a person uses with the unfair intention the well-known trademarks, trade names and other indications of origin, on no condition of registration.

Accordingly, when another person uses such mark as same to a person's well-known mark or similar thereto, and when such mark is a registered trademark and used in respect of such goods as same to the designated goods or designated services or similar hereto, an enforcement of the right under the trademark right is available. If the mark which another person has used is a well-known unregistered mark in the above case, the Unfair Competition Law is available.

The Unfair Competition Law contains the provisions of the demand for injunction against, claim for damages and demand for recovery of reputation from a person who performs such act as causes confusion of the goods or the business activities of another person by using the same or similar mark that are well-known to represent another person's goods or business.

A demand for exclusion of the unfair competition shall be admitted if three conditions mentioned below are satisfied;

1) The trademark, the trade name, or other indication of origin used by the plaintiff is well known.

2) The defendant is making use of the same or similar goods/services mentioned above 1).

3) As a result the confusion or probability thereof arises.

"Well-known" requirement needs to be satisfied in Japan, but, as to overseas well-known marks, such requirement tends to be relaxed. While it has been required that the plaintiff is competitor with the defendant in home market (confusion in the narrow sense), in recent years, increasing are cases where existence of confusion was admitted without such competition (confusion in broad sense), and there is a tendency of increase of dispute on well-known marks and reinforcement of protection on the same.

Further, it is not deemed unfair competition to use a common name of goods, other indication customarily used in trade for business of the same kind and one's own name used in good faith, and perform such act admitted to be the exercise of an industrial property right such as a patent right, trademark right, etc., even though these acts seem under any type of unfair competition. (§ 6)

1. Remedy by Civil Action

(1) Demand for Injunction

Section 1-1 provides that a person whose business interests are likely to be injured by another person's acts mentioned in 1) and 2) below may demand for injunction against such another person. This means that, if a person's act is likely to injure another person's business interests, such another person may demand for injunction regardless of an intention of the performer.

1) Confusion of the Origin of Goods

Causing confusion of the origin with another person's goods by using such indication identifying a person's goods as same or similar to another person's name, trade name, trademark, container or package of goods or other indication which identifies his goods well-known in the territory where this Law is in force, or by selling, distributing or exporting goods bearing the same. (§ 1-1-1)

2) Confusion of the Origin of Business

Causing confusion of the origin with another person's business facilities or activities by using such business indication identifying a person's business activities as same or similar to another person's name, trade name, trademarks or other indication identifying his business, well-known in the territory

where this Law is in force (§ 1-1-2).

(2) Claim for Damages

The Unfair Competition Law provides that, a person who has performed the act mentioned 1) or 2) above, intentionally or negligently shall be liable to compensate damages to another person whose business interests have been injured. (§1-2-1)

A person whose business interests have been injured may claim for damages if suffered, together with a demand for injunction. Such claim for damages requires another person's willfulness or negligence.

This is different from a demand for injunction, but same as the provision of unjust act in the Civil Law. (§709)

(3) Demand for Recovery of Reputation

Upon the request of a person whose business reputation was injured intentionally or negligently by another person's act of unfair competition, the court may, in lieu of damages or in addition thereto, order such another person to take an appropriate measure for recovering a person's business reputation from defame. (§ 723)

This provision has the same effect as the Civil Law aims at the recovery of the reputation from defame. As a concrete measure it is probable to publish apology on a newspaper or magazine.

2. Remedy by Criminal Suit

For the maintenance of a fair competition and protection of a business reputation, the Unfair Competition Law aims to impose the criminal responsibility upon those persons who have performed the acts falling under the confusion of the origin of goods (§ 1-1-1) or business activities (§ 1-1-2).

By the way, it should be noted that by the Amendment which shall come into force from the next year, the penal provision is amended to read an imprisonment with labor not exceeding three

years or to a fine not exceeding 3,000,000 yen (100,000,000 yen in case of a corporation).

C. The Civil Law

A trademark right is alike to a real right and the substance thereof is an exclusive right to use the trademark in respect of the designated goods or designated services. As a general rule of the Civil Law, the provision of the unjust acts (§ 709) is to be applied to the infringement, similarly in the private property right. Section 709 provides "A person who has infringed another person's right intentionally or negligently shall be liable to compensate damages arose from such infringement".

In the former Trademark Law there was no provision of such kind as remedy for the trademark infringement. But, the Law in force contains the provisions on the claim for damages (§ 38, 39) due to the special characteristics of the trademark right. The relation between the Civil Law and Trademark Law is that between the general law and the special law.

As to the demand for return of unjust enrichment, the provision of the Civil Law (§ 703) is to be applied since there is no provision of this kind in the Trademark Law.

III. Case study of the Demand for Injunction, etc. in Trademark Infringement

The trademark right is an exclusive and absolute right, and another person cannot use such trademark falling under the scope of the right of exclusive use (on the same trademark in respect of the same goods or services) and also the scope of the right of exclusion (on the similar trademark in respect of the similar goods or services). However, in the actual business transaction there have been many cases where another person infringed a trademark right or used a well-known mark without any consent.

For every company, it is an essential theme of business planning and market strategy to maintain and administrate its own marks on which a business reputation has been accumulated, and it

is required to keep watching fully another person's infringement and unfair competition acts and to take protective measures against possible disputes, such as by searching another person's prior right.

In the lawsuits of the trademark infringement, a major point in dispute has been whether infringement exists or not, namely, related to the similarity or well-knownness of the trademark, or that of goods or services, and consequently many studies have been made as a matter of course.

However, in the practices of trademark administration in the industries, much interest was additionally shown on the demand for injunction and claim for damages, claimed amount of damages, and on the merits and reason of judgement by the court, while there has been little studied about the amount of damages, claimed and admitted, and the reason therefor in the trademark infringement lawsuits, by categorizing and analyzing the cases.

Then, we have studied on these issues reviewing the lawsuits of trademark infringement and unfair competition cases for the past six years.

A. Demand for Injunction against Trademark Infringement, etc.

(A) Categorizing and Analyzing Cases

We have collected the decisions on the demands for injunction against infringement of the trademark right and against unfair competition acts and on the claim for damages, which were given by the district courts, high courts and supreme court during the period from January of 1987 through March of 1993. We have selected and reviewed those lawsuit cases on which substantial judgments were passed on similarity, confusion of the origin and damages.

We have categorized and analyzed such selected cases and showed in the following. At first, we have divided the cases into two groups. One is the admitted cases and the other is dismissed cases. And, as to every group, we have arranged the list in order of the decision date and numbered serially as reference

(hereafter called as "Ref. No."). We attached the Table of this list as appendix hereto (hereafter called as "Table"). The column of "Claimed for" is corresponding to that of "Decision" so as to easily find which claim or demand was admitted or not. As to an amount of damages in "Decision" column, an actual figure indicates the damages partially admitted.

1. Number of the Selected Cases

We have selected sixty-two cases. As showed in the following table, the cases of 70% or so were admitted; (Besides the selected cases, there seems to have been many cases settled out of court).

Total	62 (100%)
Admitted	44 (71%)
Dismissed	18 (29%)

2. Number of the Selected Cases by the Base Law

In the lawsuits about the trademark infringement or unfair competition asking for remedy such case as demanding for injunction or claiming for damages, the Civil Law, Design Law and Copyright Law are available in addition to the Trademark Law and Unfair Competition Law. In the selected cases, the Trademark Law was most utilized and the Unfair Competition Law succeeded together with a combination of both laws. The ratio of the admitted cases was the largest under the Unfair Competition Law.

(1) Admitted Cases

Claimed or demand for:	Total	Admitted	Dismissed
Injunction (Trademark & trade name)	35	32	3
Damage	35	30	5
Conc. of trade name	7	5	2
Dest. infringing articles (goods & sign board)	6	4	2
Recovery of reputation (publish apology)	5	2	3
Erasion of indication	2	2	0
Return of unjust enrichment	1	1	0
Default of obligation	1	1	0
Total	92	77	15

(2) Dismissed Cases

Claimed or demanded for:	Total
Injunction (Trademark & trade name)	16
Damages	10
Dest. infringing article (goods & sign board)	5
Conc. of trade name	1
Erasion of indication	1
Recovery of reputation (publish apology)	1
Total	33

* including two cases demanding affirmation of non-existing of injunction

Law	Total	Admitted	Dismissed
Trademark Law	26	14	12
Unfair Competition Law	17	16	3
Trademark Law & Unfair competition Law	18	13	3
Civil Law, etc.	1	1	0
Total	62	44	18

3. Number of the Selected Cases by "What was Claimed or Demanded"

In this analysis, the demand for injunction and claim for damages were the most among the cases and the demand for cancellation of registration of the trade name and for destruction of the infringing articles succeeded.

In some five admitted cases, the demand for publishing apology as recovery of reputation was made additionally, but only two cases were admitted.

Further, there were two cases of demand for affirmation of non-existence of injunction, in which the plaintiffs won. These two cases were classified is as dismissed cases since the probability of injunction was rejected.

4. Goods and Business in Dispute

Following is a table made by categorizing goods and business in dispute, by case, admitted or not.

As to the goods in dispute, there were many cases on apparel, bag and fashion goods as we had forecasted. And, there were many cases on restaurant in business field.

There were also many cases between parties in different kind of business and between different kind of goods. There is a tendency for the court to admit the confusion broadly.(Confusion in broad sense)

(1) Admitted Cases

1) Goods in Dispute

Chemical	cosmetics (2), perfume (2), medicines, hair grower, shoes deodorant
Machinery/Electric	helicopter, TV game machine, contact-point, transportation equipments
Textiles	apparel (8), obi, fabric
General goods	belt, bags (5), sunglasses, musical instrument, kitchen knife, canoe, glasses, shoes
Foods	tea, sushi, cereals, Japanese confection

2) Business Fields

sushi shop (2), crab restaurant, tavern
credit-card financing,
transit service, amusement, sport facilities,
advertisement/realty agent,
construction/civil engineering (2),
hotel (2),
fashion goods sales (belt/bag),
puppet show, amusement park,
optician, job-offering news publishing

3) Case between Different Kind of Business/Different Kind of Goods

Plaintiff	Defendant	Ref. No.
perfume	hotel	2
transportation equipment	go-cart amusement park	10
transit services, entertainment	construction/civil engineering	11
copyright author, characterizor	apparel sales	18, 19
apparel sales	realty agent/construction	29
hotel	sales of apparel for child	31
credit-card financing	advertisement/realty agent	35
apparel and shoes sales	shoe deodorant	38
apparel sales	financing	41

(1) Dismissed Cases

1) Goods in Dispute

Chemical	cosmetics, plaster, medicines,
Machinery/Electric	wheel spoiler, decorative frame of break switch
Textiles	apparel (2), jeans
General goods	bags, tapestry, knapsack, packing seal, magazine
Foods	healthy food

2) Business Field

tempra restaurant, unique food restaurant, tutor-dispatching

3) Cases between Different Kind of Business/Different Kind of Goods

Plaintiff	Defendant	Ref. No.
Cosmetics	healthy food	58
Packaging seal	packaging box/case	59

(3) Reason to be Dismissed

The following tables show the reasons that the trademark infringement and unfair competition were dismissed, arranged by the base law.

As far as the Trademark Law is concerned, there were such cases where the defendant's trademark had been judged "make no use of the trademark"; i.e., "Lack of distinctiveness," "No effect of the trademark right," etc.

And, there were two cases where the defendant's plea of the "prior use" had been admitted.

As far as the Unfair Competition Law concerned, there were some cases where the demand had been dismissed by reason of difference of the goods, while "well-known" thereof were admitted.

1) Trademark Law

Reasons	Number of case	Ref. No.
Lack of distructiveness	4	47, 57, 59, 60
No effect of trademark right	2	51, 54
No goods under the Trademark Law	2	45*, 46
Parallel importation	2	48, 52
Prior use	2	55, 56
No confusion of trademark	1	53
No confusion of goods	1	58*
Abandonment	1	49
Abuse	1	62
Total	16	* also connected with the Unfair Competition Law

[In the admitted cases connected with the Trademark Law, a case of Ref.No.9 was found "No goods under the Trademark Law" and a case of Ref.No.10, "No resemblance of goods"]

2) Unfair Competition Law

Reasons	Number of case	Ref. No.
"well-known" in limited area	2	15, 45*
"well-known" in limited goods	2	12, 58*
Not yet well-known	1	50
No confusion	1	61
Total	6	* also connected with the Trademark Law

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
1	Osaka Dis. 61(WA)4147 1987. 3.18	(bag)	(bag)	① ② 6,620 ③ scrap	Admit'd Admit'd Admit'd	Trademark Law (T) 36	When a trademark is distinctively used, it can be deemed proper use of a trademark, even if the mark is a part of design of any item. → Appealed but rejected
2	Kobe Dis. 59(wa)94 1987. 3.25	CHANEL (perfume)	HOTEL CHANEL in katakana (hotel)	② 10,000	1,200	Unfair Competition Law (U.C.) 1-2	There is the possibility for the public to mistake that they have any business relation each other in the context of multiple operation even though they belong to a different type of industry and are not competing now. → Finalized
3	Osaka Dis. 56(wa)9093 1987. 5.27	a: KANIDORAKU in Japanese b: CLAB DOLL (sign board) (crab restaurant)	a: KANISHOGUN in Japanese b: CLAB DOLL (sign board) (crab restaurant)	① ② 50,000 ③ scrap display Publish apology Remove sign board	a: Dismis'd b: Admt'd Admit'd Dismis'd Dismis'd a: Dismis'd b: Admt'd	U.C.1-2	a: Both marks are much alike in the form of a character but different in pronunciation, idea and appearance. Then, there is no possibility to lead the public to mistake or confusion. b: Sign board at issue in the shape of a crab is has the distinctiveness in representing business because of its oliginality and novelty.
4	Tokyo High 57(ne)2799 1987. 9.29	SEITO in Japanese 制糖 (tea)	SEITO-CHA in Japanese 制糖茶 SEITO-CHA (tea)	② 6,827	1,810	T. 38 etc.	The mark used by the defendant resembles the registered trademark of the plaintiff. → Finalized

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
5	Osaka Dis. 59(wa)6210 1987.10.14	HIYAKIOGAN in Japanese (medicines)	HIYAJUSSEI KIOGAN in Japanese (medicines)	③ demand for return of unjust enrich-ment 93,382	84,682	Civil Law 703	Admitted was the Demand for return of unjust enrichment against a person who had engaged in sales using mark resembling the registered trademark of the plaintiff and a person who had gained a royalty fee from the aforesaid person in consideration of the license of the mark. → Appealed but rejected
6	Nagoya High 59(ne)39/72 1987.12. 7	PORSCHE (a: automobile) (b: sunglasses)	PORSCHE (sunglasses)	① (provisional)	Admit'd	U.C.1-1-1/2	a: Related company using a well-known trademark jointly with its group companies has a right to demand for injunction against the infringement by the third party. b: There is the possibility of misunderstanding that the defendant may be a member of the group dealing with the character-goods bearing a well-known trademark. → Finalized
7	Osaka Dis. 60(wa)9860 1988. 2. 9	PLUS (musical instrument)	PIANO PLUS with katakana RHYTHM PLUS SOUND PLUS in katakana RECORDER PLUS in katakana SOUND PLUS, etc. (piano, recorder, other audio instrument)	① ② 51,000 ③ erase mark	Admit'd Admit'd Admit'd	T.39 Patent Law 103	Defendant marks resemble the registered trademark of the plaintiff because they contain the same in their essential parts. The reason why the plaintiff was assigned the registered trademark from the third party is to excude the defendant from the market. Claim by the defendant for abuse of the right was not admitted.
8	Tokyo Dis. 61(wa)6408 1988. 4.27	(bag)	(bag)	② 20,180	4,936	T.38-1/2 U.C.1-1-2 Civil Law 715 Commercial Law 266-3	The defendant's sale in Japan of the bags bearing mark and device substantially the same as the plaintiff's trademark which is well known in the world constructs an infringement and unfair competition.

A. (8) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
9	Yokohama Dis. (Kawasaki Branch) 61(wa)363 1988. 4.28	MOKUBAZA (firm name) in Japanese (puppet show)	MOKUBA KIKAKU in Japanese (puppet show)	① (Firm name) ②9,000 ③ cancell registration of firm name	Admit'd Dismis'd Admit'd	T.2-3-3 T.36 Com.Law 20-1 & 21-2	A ticket, brochure and program of the puppet show are not the goods in the Trademark Law, and therefore, the defendant's use of the marks at issue thereon does not constitute an infringement of the trademark right. The court found that there had been an intention of an unfair competition in adopting the firm name of the defendant's company.
10	Osaka Dis. 61(wa)7184 1988. 7.28	SLICKCART SLICK in katakana (transit equipment & parts)	SLIC-CAR CANAM-SLIC CAR CRICUIT in katakana SLICK CAR RACING with katakana (cart-circuit at amusement park)	① ② 15,000 ③ publish apology	Partially Admtd(U.C) Dismis'd (T) Dismis'd	U.C.1-1-1/2 U.C.1-2-3 T.36, 37, 38-1, 39, Civil 709 Com.266-3	Some marks at issue are similar to the plaintiff's trademark, but there are no infringement of the trademark because the scope of goods and services are different each other. The defendant was found to cease from using every mark resembling well-known business indication mark of the plaintiff for the purpose of advertising the pleasure park by reason that the confusion would probably arise as to which is conducting the business.
11	Osaka Dis. 61(wa)1923 1989. 1.23	HANKYU DENTETSU K. K. (firm name) (transit service, facilities for sport & amusement, parking,restaurant, stores)	HANKYU SOGO KAIHATSU K.K. (firm name) (construction & civil engineering, drainage works, disposal of industrial waste matter)	①	Admit'd	U.C.1-1-2	As the plaintiff is doing multiple operation, the defendant's engaging in construction and civil engineering causes the confusion.
12	Osaka Dis. 61(wa)2614 1989. 5.24	SUPERDOLL スーパードール Kitchen Expert Super Doll (kitchen knife)	Kitchen Expert Super Doll Kitchen Expert Super Chef (kitchen knife)	② 14,549	116 (T)	U.C.1-1-1 T.37, 38-1, 39	As the plaintiff's marks are not well known, a claim for damages based on unfair competition should not be admitted. Unintentional use of the marks resembling the plaintiff's trademark was found to be the infringement.

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
13	Osaka Dis. 61(mo)53971 61(wa)9077 1989. 9.11	VOGUE (fashion goods)	VOGUE SUNSEAVOGUE (belt,bag,purse)	①	Admit'd	U.C.1-1-1/2	The court, admitting that the plaintiff's mark was well known, found that the defendant's doing business caused the confusion.
14	Osaka Dis. 61(wa)3663 1989. 9.13	MORITA GOLF K.K. (firm name) in Japanese (production & sale of golf club)	MORITA GOLF Masshy MORITA GOLF (production & sale of golf club)	①	Admit'd	U.C.1-1-1	The court, admitting that the plaintiff's mark was well known, found that the defendant's mark was similar to the plaintiff's.
15	Osaka Dis. 59(wa)5473 61(wa)2367 1989.10. 9	GENROKU in Japanese (production & sale of Sushi-pack)	GENROKUSUSHI in Japanese Mawaru GENROKUSUSHI in Japanese (production & sale of Sushi-pack)	① a: 306,000 b: 36,720 (T)	Dismis'd (U.C.) Dismis'd (U.C.) Admit'd (T)	U.C.1-1-2 T.37 Civil Law 709, 719	a: Service mark under which the plaintiff is conducting its business in Osaka Fu area is not well known in Hokuriku district. b: The defendant running Sushi restaurant and operating a franchising system in the same field has to bear a responsibility for the trademark infringement by franchisee.
16	Osaka Dis. 1(yo)2228 1990. 1.29	dancer perception (canoe)	DANCER ダンサー perception (canoe)	①	Admit'd	T.36, 37 Civil Law 709	The court, admitting that the defendant's mark was similar to the plaintiff's trademark, made provisional disposition of injunction.

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

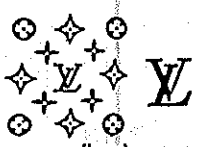
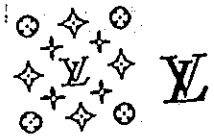
(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
17	Tokyo Dis. 57(wa)7959 1990. 1.29	HEAVEN with katakana (apparel)	HEAVEN (baby T-shirt)	② 10,193 ③ default of obligation	5,204 Admit'd	T.38-2 Civil Law 709	The court, admitting that the mark at issue which the defendant made the third party use without permission of the plaintiff retained a function to indicate the origin of goods and then caused the confusion, found the trademark infringement.
18	Tokyo Dis. 59(wa)10103 1990. 2.19	POPEYE with katakana Character of POPEYE (copyright author, charactorizor)	POPEYE Character of POPEYE (cravat, muffler)	① ② 37,000	Partially Admtd(U.C) 289 (U.C)	Copyright Law 2-2-1, 15, 21, U.C.1-1-1, 1-2-1, 6, T.29	The name "POPEYE" itself and logotype "POPEYE" cannot be admitted to be the production under the copyright of "POPEYE" comics. The defendants's sale of goods bearing "POPEYE" and other marks constructs the unfair competition.
19	Tokyo Dis. 61(wa)5911 1990. 2.28	MICKEY MOUSE Character of MICKEY MOUSE (copyright author, charactorizor)	MICKEY MOUSE Character of MICKEY MOUSE (T-shirt)	② 23,000	16,915	U.C.1-1-1/2	The court, admitting that the plaintiff's character is well known, found that the defendant's deed had caused the confusion with the plaintiff's business of the characterised goods.
20	Osaka Dis. 61(wa)678 1990. 3.15	ONIGIRI KOZO in Japanese (box lunch shop)	KOZO SUSHI in Japanese KOZO SUSHI KOZO ZUSHI KOZO (Sushi-pack shop)	① ② 200,000	Partially Admit'd(T) Dismis'd (T/U.C)	U.C.1-1-2, T.1, 25, 26-1-1, 36, 37	The court, admitting that the defendant's service mark had been well known, approved the defendant's plea that the effect of a trademark right does not extend to the plaintiff's claim pursuant to Section 26-1-1 of the Trademark Law. But only the demand for injunction against the defendant's mark "KOZO" was admitted.

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
21	Osaka Dis. 62(wa)12346 1990. 3.29	GUERLAIN with katakana (perfume & cosmetics) (sale of cosmetics)	GELAN in Japanese GELAN sGELAN (sale of apparel & cosmetics)	① ②10,000 ③ cancell registration of firm name	Admit'd 3,000 Admit'd	U.C.1-1-1, 1-2	The defendant's firm name is similar to the plaintiff's well-known business indication mark and there is a confusion in a broad sense although the business items in transaction are different. Then the court admitted the demand for injunction against defendant's business indication and for cancellation of the defendant firm name from the register and further admitted the claim for damages.
22	Osaka Dis. 2(wa)1968 1990. 8.28	 (bag)	 (bag)	① ②50,375	Admit'd(T) 39,075	T.36, 37 Civil Law 709 U.C.1-1-1	The defendant's production and sale of the bags bearing the same marks as the plaintiff's trademarks which are well known in the world constructs the trademark infringement. By this reason, the demand for injunction and claim for damages were admitted. → Finalized
23	Osaka Dis. 63(wa)3368 1990.10. 9	ROBINSON (helicopter)	ROBINSON R22 Beta (helicopter)	① ②5, 000	Part.Admit 125	T.2, 25, 26-1-2/3, 37, 38	The effect of the trademark right does not extend to the use of a model name on the aircraft register and on an airplane applying Sect. 26-1-2 of the Trademark Law. It is an infringement if used on a motor car. As the mark has not been used, damages correspond to the royalty.
24	Tokyo Dis. 2(wa)10504 1990.11.21	TSUBOHACHI in Japanese (tavern)	AJINO TSUBOHACHI in Japanese (tavern)	① ②2,500	Admit'd Admit'd	U.C.1-1-1/2	As the defendant' mark resembles the franchaise mark of the plaintiff being used all over the country as a name of a tavern, there is a confusion between both marks. Then the demands for injunction against and eration of the defendant's mark and demand for damages were admitted. → Finalized

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
25	Urawa Dis. 62(wa)226 1991. 1.28	A I in Japanese (optician, sign-board, brochure)	A I-CONTACT LENS A I-MEGANE in katakana (optician, sign-board, brochure)	② 2,973	1,487	T.25, 37-1	The use of the mark on a sign board constructs the trademark infringement, but there is no infringement if used on the brochure for the limited customers.
26	Kyoto Dis. 62(wa)640 1991. 1.31	APPAREL with katakana (apparel & cosmetics)	K.K. YU APPAREL in Japanese (apparel & cosmetics)	① ② 41,241	Admit'd 5,000	U.C.1-1-1/6, 1-2	There is a possibility of the confusion of origin as to the fabric goods for the apparel. Demand for damages including an attorneys fee was admitted because there was moral damage.
27	Osaka Dis. 1(wa)8966 1991. 3.29	(bag)	(bag)	② 4,400	4,300	T.25, 38, Civil Law 709	Demand for damages by the trademark infringement was partially admitted against the seller of the counterfeits of Louis Vitton bags. → Finalized
28	Osaka Dis. 63(wa)9368 1991. 4.26	KRISPIES (cereals)	CHOCOKRISPIES KOMECHOKOKRISPIES KOME FROST KRISPIES RICE KRISPIES, all in Japanese (cereals)	① ③ publish apology	Admit'd (T, U.C) Admit'd	T.37-1, 26-1-1 U.C.1-1-1	Defendant mark is similar to the registered trademark of the plaintiff and is not a common name being used in a common way. As the plaintiff's trademark has been already well known, there is a probability of confusion when defendant's mark is used.

A. (8) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
29	Osaka Dis. 2(wa)5143 1991.10.30	MIKIHOUSE with katakana (production & sale of apparel)	K.K. MIKIHOUSE in Japanese (realty agent, construction)	① (firm name) ③ cancell registration of firm name	Admit'd Admit'd	U.C.1-1-2	Defendant's firm name resembles the plaintiff's well known service mark. Then the use of defendant's firm name constructs an unfair competition because there is a probability of confusion in broad sense.
30	Osaka Dis. 1(wa)2830 3(wa)6052 1991.12.25	SACHIKO CLUB BAD BOY'S COMPANY (sweat shirt)	SACHIKO CLUB BAD BOY'S COMPANY (sweat shirt)	① ② a: 2,272 b: 2,272	a: Dismis'd b: Admit'd a: Dismis'd b: 654	T.38-1/2, 39 Civil Law 709 Patent Law 103	As the owner of the trademark at issue granted beforehand to the plaintiff an exclusive license under Section 30 of the Trademark Law, he has no right to grant further license to others. The exclusive licensees are all in the same position disregarding whether the license is under Section 30 or not.
31	Tokyo Dis. 1(wa)10719 1992. 4.27	RITZ HOTEL RITZ with katakana (hotel)	THE RITZ SHOP RITZ RITZ Inc. (sale of child apparel)	① ② 7,000 ③ erase marks	Admit'd 3,000 Admit'd	U.C.1-1-1/2, 1-2 Civil Law 709	Doing business in a shop in Hotel New Ohtani by using the indication of "THE RITZ SHOP" causes the confusion with the business activities and goods of RITZ HOTEL as the plaintiff. → Appealed but rejected
32	Osaka Dis. 61(wa)10261 62(wa)10985 1992. 5.28	TANABEYA FUYUGOMORI in Japanese (Japanese-style confection)	SOHONKE TANABEYA KOSHUN FUYUGOMORIDEN in Japanese (Japanese-style confection)	① ② 137, 842	Admit'd (U.C) 2,000	U.C.1-1-1/2, T.2-3, 25	As both of the plaintiff's business indication mark and trademark has become well known, the defendant use of its mark causes the confusion with the goods of the plaintiff. Although the defendant has a registered trademark, the defendant use is not a faithful execution of the trademark right and exercise of the trademark right under Sec.6 of Unfair Competition Law.

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
33	Osaka Dis. (Nara Branch) 62(wa)38 1992. 3.31	WARMY in katakana (underwear)	WARMY LIFE in katakana (underwear)	① ② 10,000 ③ publish apology	Admit'd(T) 1,024 Dismis'd	T.36, 38 U.C.1-1-1, 6	The defendant mark resembles the plaintiff's trademark.
34	Tokyo Dis. 63(wa)1607 1992. 5.27	NINTENDO FAMILY COMPUTER with katakana (TV-game machine)	NINTENDO FAMILY COMPUTER with katakana + HACKER JUNIOR (TV-game machine)	② 8,000	1,067	T.38-2	The goods sold by the defendant are the goods of the plaintiff itself bearing the defendant trademark without removing the plaintiff's trademark and adding a change to the internal part of the goods. Such execution constructs an trademark infringement and unfair competition.
35	Tokyo Dis. 2(wa)14493 1992. 6.29	AMEX in katakana (credit card)	AMEX in katakana AMEX-INTERNATIONAL in katakana K.k. AMEX-INTERNATIONAL in Japanese (advertisement & realty agent)	① ③ cancell registration of firm name	Admit'd Admit'd	U.C.1-1-1, 2-1-4	As the defendant mark and firm name are similar to the plaintiff's well known mark, the confusion causes as to which is the executing party. → Appealed but rejected
36	Osaka Dis. 1(wa)9579 1992. 9.22	MIKI HOUSE (apparel)	MIKISPORTS (apparel)	① ② 168,992 ③ scrap	Admit'd (U.C.) 1,024 Admit'd	T.25 U.C.1-1-1	Defendant's goods causes the confusion with the plaintiff's goods.

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

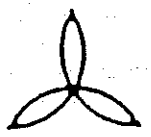
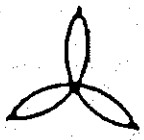
(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
37	Supreme Court 3(o)1805 1992. 9.22	DAISINRIN in Japanese 大 森 林 (hair grower)	MOKURINSIN in Japanese 木林森 (hair grower)	①	Admit'd	T.37	Defendant's mark resembles the plaintiff's trademark. The court sent back the case to the original court which judged the resemblance without finding the circumstance of transaction. Original lawsuit: Tokyo Dis.(wa)12784 / Appeal,Tokyo High (ne)2408
38	Osaka Dis. 3(wa)8386 1992.12.24	MORITO K.K. in Japanese (apparel, shoes)	K.K. MORITO JAPAN in Japanese (shoe-deodorizer)	① ② 1,000 ③ cancell registration of firm name	Part Admit 500 Dismis'd	U.C.1-1-1, 1-2-1	The defendant's firm name causes the confusion with the plaintiff's business facilities and activities.
39	Nagoya Dis. 3(wa)1786 1992.10.30	STUDIO α with katakana (bag)	STUDIO α with katakana (bag)	② 5,156 ③ publish apology (2 papers/3 days)	1,246 Admit'd (1 paper/1 day)	T.38, 39 Civil Law 44, 709	The defendant infringed the plaintiff's trademark by importing and selling the goods which the plaintiff had directed beforehand to scrap.
40	Kyoto Dis. 61(wa)339 61(wa)870 1993. 2.18	ARISUKAWASHIKATE in Japanese FUTARI SHIZUKA in Japanese (obis, textile)	MEIBUTSU ARISUKAWA SHIKATE-NISHIKI in Japanese MEIBUTSU FUTARI-SHIZUKA KINRAN in Japanese (obis, textile)	① ② ① 14,400 ② 1,500	Admit'd (T.& U.C.) ①1,020 ②1,300	U.C.1-1-1 T.36, Copyright 112 Civil Law 709 Design Law 37	The court rejected the defendant's pleading that anybody could use the design of the ancient cloth and noted cloth as they had been publicly known by appearing in the photo publication, and found that defendant' use constructs the trademark infringement.

A. (B) Cases of the Trademark Infringement Lawsuits

<Admitted Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
41	Tokyo Dis. 1(wa)17170 1993. 2.24	WORLD with katakana (production & sale of apparel)	WORLD in katakana SEKAI NO WORLD K.K. WORLD FINANCE, all in Japanese (finance business)	① ③ cancell registration of firm name	Part Admit Dismis'd	U.C.1-1-2	As the plaintiff's service mark resembles the essential part of the defendant's service mark, the defendant's use of its mark causes the confusion with the plaintiff's business activities and injures the plaintiff's business interest.
42	Tokyo Dis. 2(wa)16538 1993. 3.24	K.K. RECRUIT in Japanese (job-offering news publishing)	K.K. MIERECRUIT in Japanese (job-offering news publishing)	① ② 5,000 ③ cancell registration of firm name	Admit'd 1,000 Admit'd	U.C.1-1-2 T.20, 21	As a part of the defendant's mark "MIE" means and indicates the location of its office and business area and accordingly cannot be deemed to be the essential part thereof, the defendant mark was found to be similar to the plaintiff's mark.
43	Tokyo Dis. 59(wa)10103 1993. 3.24	CHANEL in katakana (perfume & cosmetics)	CHANEL TYPE in katakana (apparel & cosmetics)	① ② 3,580	Admit'd 560	T.36, 38	Defendant's use of its mark resembling the plaintiff's trademark on the packaging case is the use of trademark and infringes the plaintiff's trademark.
44	Tokyo Dis. 4(wa)10986 1993. 3.24	 (contact point)	 (contact point)	① ② 20,000 ③ scrap publish apology	Admit'd (T.& U.C.) 7,524 Admit'd Admit'd	U.C.1-1-1 T.38-1	Because of the defendant's default in submitting the documents necessary to estimate the damages, the court presumed the damages by deeming them equal to a decrease in net profit caused by a decrease in sale of the plaintiff's goods.

<Dismissed Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
45	Tokyo Dis. 59(wa)6476 1987. 4.27	TEN-ICHI in Japanese 天一 (Tempura restaurant)	天一 天一 Tenichi (Tempura restaurant)	① ②13,000 ③ erasion, scrap, cancel registration of firm name	Dismis'd Dismis'd Dismis'd Dismis'd Dismis'd	U.C.2-1-4 T.20, 21	The "well-known" of the service mark does not extend to such area where the store has not extended yet. Service mark will become well known only in such area where the stores concentrate. It is not the use of the trademark under the Trademark Law when a mark is used on the food package or box for taking back prepared by customer's unusual order.
46	Osaka Dis. 61(wa)7518 1987. 8.26	BOSS (clothing material)	BOSS (T-shirt for sales promotion of musical instrument)	②12,766	Dismis'd	T.37, 2-1/3, 25	T-shirt and training shirt presented to the customer for sales promotion of the musical instruments to the customer are not the goods under the Trademark Law. → Finalized
47	Tokyo Dis. 59(wa)10502 60(wa)2064 1987. 8.28	TSUKOTEGATA in Japanese (wooden plate)	TSUKOTEGATA in Japanese (tapestry)	③ affirmation of non-existence of injunction	Admit'd	T.36	It is required for a person who demands for injunction that his mark is used in distinctive way to others' goods. → Finalized
48	Nagoya Dis. 60(wa)1833 1988. 3. 25	BBS MAGNESIUM ALLOY ROAD WHEELS (wheel spoiler)	BBS (wheel spoiler)	① ②7,875	Dismis'd Dismis'd	T.1 Paris Convention 6-J	There is no trademark infringement when the defendant imports goods from the manufacturer in Germany, the same origin to the plaintiff's and sell them in Japan. Because of the parallel importation, the defendant goods are the genuine goods and from the same source. → Finalized

A.(B) Cases of the Trademark Infringement Lawsuits

<Dismissed Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
49	Tokyo Dis. 58(wa)12827 1988. 6. 3	CHOUINAD with katakana (knapsack)	CHOUNAD, CHOUINAD, both in katakana (knapsack)	① ② publish apology	Dismis'd Dismis'd	T.36, 39	The defendant trademark right elapsed and registration thereof was erased during the lawsuit, and accordingly the demand for injunction was rejected. As to the period during which the trademark was in force, the court found that the reputation of the plaintiff was not injured. → Finalized
50	Tokyo High 63(ne)3423 1989. 7.20	ZEN NIPPON KATEI KYOSHI CENTER RENMEI in Japanese (tutor-dispatching agency)	Yugenkaisha KATEI GAKUSYUU CENTER in Japanese (tutor-dispatching agency)	①	Dismis'd	U.C.1-1-2	The plaintiff retained only eighteen tutors and should not be admitted to become well known among the parents being prospects.
51	Nagoya Dis. 61(wa)1394 1990.11.30	DOROKON in katakana (plaster)	DOROKON in katakana (plaster)	① ② 1,000	Dismis'd Dismis'd	T.26-1-2, 67	As the defendant mark has been used among the trade as a common name meaning the plaster, the trademark infringement was not admitted.
52	Tokyo Dis. 2(wa)13450 1990.12.26	GUESS PARIS WASHED JEANS (jeans)	GUESS U.S.A. WASHED JEANS (jeans)	①	Dismis'd	T.1	The defendant imported and sold in Japan the goods same to the plaintiff's. Defendant's parallel importation from the same origin is not substantially illegal. → Finalized

A.(B) Cases of the Trademark Infringement Lawsuits

<Dismissed Cases>

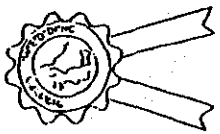
(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
53	Tokyo Dis. 1(wa)3496 1991. 2.25	GIFT with katakana (magazine)	NIKKEI GIFT with Japanese (magazine)	①	Dismis'd	T.27, 37	Defendant mark does resemble the plaintiff's registered trademark. → Appealed but rejected
54	Tokyo Dis. 62(wa)5237 1991. 2.27	BEZEL in katakana (decorative frame of break switch)	BEZEL with katakana (decorative frame of break switch)	①	Dismis'd	T.26-1-2 U.C.1-1-1	The defendant mark is a common name of the decorative frame of the break switch and was used in a common way.
55	Tokyo Dis. 1(wa)4610 1991. 2.27	BATTUE CLOTH (bag)	SPORTING WORLD BATTUE (bag)	② 300,000	Dismis'd	T.32-1	The prior use by the defendant was admitted.
56	Tokyo Dis. 1(wa)11631 1991.12.30	ZELDA with katakana ZELDA ゼルダ (apparel)	ZELDA in katakana ゼルダ (apparel)	③ affirmation of non-existence of injunction	Admit'd	T.32-1	The court admitted the prior use by the plaintiff of the defendant trademark, and the affirmation of non-existence of injunction thereunder.
57	Osaka Dis. 2(wa)259 1992. 1.30	RAKUDA (CAMEL) (cotton apparel)	CAMEL (cotton apparel)	① ② 7,000 ③ scrap	Dismis'd Dismis'd Dismis'd	T.37	While a pronunciation of "RAKUDA" and an idea of "Camel as an animal" did not have the distinctiveness at the time of closing the oral proceedings, the defendant mark became well known as "CAMEL" and no confusion would arise between them.

A.(8) Cases of the Trademark Infringement Lawsuits

<Dismissed Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
58	Osaka Dis. 3(wa)4149 1992. 8.27	BIOQUEEN with katakana (cosmetics)	POLA BIO QUEEN with katakana POLA BIO QUEEN (healthy food)	① ② 6,000 ③ scrap (printed matter)	Dismis'd Dismis'd Dismis'd	T.36, 37 U.C.1-1-1	The plaintiff's trademark and goods are well known in the field of the cosmetics but not in the field of the healthy food as to which the defendant's mark was used.
59	Nagoya Dis. 3(wa)647 1992. 7.31	HAPPY WEDDING (package box)	 (packaging seal)	① ② 32,800 ③ scrap	Dismis'd Dismis'd Dismis'd	T.25, 36	The defendant's mark is not distinctiveness.
60	Osaka Dis. 1(wa)16879 1992.12.21	BIWA NO HA ON-ATSU in Japanese (moxa cautery supplies)	BIWA NO HA ONKYUU in Japanese (moxa cautery supplies)	① ② 60,000	Dismis'd Dismis'd	U.C.1-1-1,1-2-1 Civil Law 709, 719	Defendant's mark only indicates the usage of goods.
61	Osaka Dis. 2(wa)50 1993. 1.26	AIDEA RYORI in Japanese アイデア料理 井出 (restaurant)	AIDEA RYORI in Japanese (restaurant)	① ③ erasion	Dismis'd Dismis'd	U.C.1-1-1	Although the plaintiff's service mark is well known in the limited area, a part of it "AIDEA RYORI" (unique food) is not the essential part of both marks and then there is no confusion.

A.(B) Cases of the Trademark Infringement Lawsuits

<Dismissed Cases>

(Amount in ¥ 1,000)

Ref. No.	① Court ② Case No. ③ Found on	Plaintiff's Mark (Goods/Services)	Defendant's Mark (Goods/Services)	Claimed for ① Injunction ② Damages ③ others	Decision Admitted/ Dismissed	Remarks	
						Applicable Law	Key points of Reason of Judgement
62	Osaka Dis. 2(wa)3599 1993. 2.25	JIMMIY'S in katakana (clothing)	JIMMY'S (apparel)	① ②2,520 ③scrap	Dismis'd Dismis'd Dismis'd	T.36/38	It is an abuse of the trademark right to demand for injunction on selling after agreement by the plaintiff not to enforce the right under Section 37 of the Trademark Law.

B. Claim for Damages

(A) Categorizing and Analyzing Cases

We further selected from the cases in above paragraph A. (A) (Injunction cases), some cases of claim for damages on which substantial judgment were passed. Ref. Nos. in all cases are the same as that on the Table shown above and such cases are arranged in order of the decision date. Only when demanded amount is not equal to the decided amount, we showed such amount in the decision column. When full amount is admitted, the decision column has been kept blank.

1. Number of Cases Claimed

There were forty-five cases, admitted or dismissed, under all base laws.

Within claimed cases, thirty cases(88%) were admitted. Within them, there were three cases in which full amount was admitted.

Total	45
Admitted	35 (30 admitted) partial: 27 full: 3 Trademark Law 2 (Ref. 1, 7) Unfair Competition Law 1 (Ref. No. 24)
Dismissed	10

In admitted cases there is one case of Demand for return of unjust enrichment. (Ref. 7)

2. Number of Cases by the Base Law

We divided the base laws utilized for claiming for damages into the Trademark Law and Unfair Competition Law, and found that more cases under the Unfair Competition Law had been compared to the cases of Trademark Law.

Base Law	Total	Admitted	Dismissed
Trademark	29	16	13
Unfair competition	22	14	8
Total	51	30	21

In eleven cases, combination of both laws was utilized. Detail is as follows;

Law Admitted/Dismissed	Number of case	Ref. No.
TM/admitted, UC/admitted	2	8, 44
TM/admitted, UC/dismissed	3	12, 15, 40
TM/dismissed, UC/admitted	2	32, 36
TM/dismissed, UC/dismissed	4	10, 20, 45, 58

3. <u>Number of Cases by "What was Claimed for"</u>

It is natural that the claim for damages(defendant's profit) was the most cases. Royalty and recovery of reputation also succeed.

Claimed or demands for	Total	Admitted	Dismissed
Damage	41	15	26
Royalty (including franchise fee)	16	13	3
Recovery of reputation	14	10	4
Attorneys fee	12	11	1
Consolation money	2	1	1
Investigation cost	3	0	3
Admission fee to franchise	1	1	0
Unjust enrichment	1	1	0
Total	90	52	38

4. Amount of Damages and Rate (Defendant's Profit)

We think that an issue of great interest in lawsuit of claiming for damages would be the criteria for the presumption of the amount of damages.

Reviewing this issue in each case, it was revealed that the rate of profit against sales was ranging widely. Then it seems that the account was estimated one by one in each case taking well-known, details and scale of business into account. In case of adopting a royalty rate, there is not so wide difference as the profit rate.

When a claim for damages is admitted, the defendant is required to pay overdue interest at the rate of 5% per year as provided in the Civil Law.

In case that a plaintiff or defendant is two or more and Judgement was different, we showed each judgment severally on the Table.

(1) Rate of Profit (against sales)

Demanded rate or amount	Admitted/ Dismissed	Ref. No.
4%	D	59
5%	D	48, 55
5.63%	D	3
10%	3.5%	17
	8%	34
	D	23, 45
17.58%	D	15
20%	D	18
30%	A	5, 9, 15, 32
	D	9, 55, 43
60%	30%	36
Amount after subtracting the amount of goods laid in	A	1
	D	8, 10, 30
Dafendant's profit	A	12, 15, 21, 27, 40
	D	19, 20, 22, 33, 40, 51, 57, 60, 62
Decrease of sales	A	39
	D	26, 46, 33
Outlay for advertisement	D	33
Joining fee of franchise (basic + fixed + shop size)	A	24

[A: Admitted case, D: Dismissed case, %: Rate judged by court]

(2) Royalty on Use of Trademark (against sales)

Demand rate or amount	Admitted/ dismissed	Ref. No.
3%	A	7, 15
	2%	3
4%	D	58
5%	2%	4
	2.5%	25
	D	55
7%	D	62
10%	A	8
	8%	34
16%	A	5
30%	10%	43
Admitted as royalty but rejected by damage	5%	30
	6%	19
	7%	18
	.....	23
Franchise royalty (fix x shop size x period of time)	A	24

[A: Admitted case, D: Dismissed case, %: Rate judged by court]

5. Sharing Rate of the Litigation fee (Admitted case)

Following table shows the sharing rate of the litigation fee which the court decided in admitted case (Plaintiff won). On this rate you can see the cost shared by 50:50, 20:80, with parallel to the cases full cost was born by defendant.

In case that a plaintiff or defendant is two or more and judgement was different, we showed each judgment severally on the Table.

Rate		Ref. No.
Plaintiff	Defendant	
---	100%	1, 7, 24, 24, 27, 31, 40
10%	90%	5, 42
20%	80%	3, 17, 19, 21, 22, 44
55%	45%	18
50%	50%	23, 25, 32, 36, 38, 33, 40, 43
70%	30%	26, 30
75%	25%	8
80%	20%	10, 34
90%	10%	20
95%	5%	12
1/3	2/3	9
2/3	1/3	15, 21, 39
7/8	1/8	2
5/6	1/6	4

B.(B) EXAMPLES OF DAMAGES CLAIMED

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

(PTF = Plaintiff DEF = Defendant)

Ref No / Case No.	DAMAGES CLAIMED: DETAILS/CALCULATION	DAMAGES CLAIMED: AMOUNT	COURT DECISION: DETAILS/CALCULATION	COURT DECISION: AMOUNT	REMARKS
1 61 (WA) 4147	Defendant's Profit: Sales (41,620) - Buying (36,500) Injury to Reputation Attorney's Fees	 5,120 1,000 500 6,620	Total Claim Approved (Litigation Fee: DEF 100%)	6,620	PTF's efforts considered to maintain reputation by quality control, exclusive sales channels, unfrequent design changes
2 59 (WA) 94	Injury to reputation - Brand Promotion - Dilution - Warning - Dues of Union des Fabricants Attorney's Fees	8,000 2,000 10,000	Damages Attorney's Fees (Lit Fee: PTF 7/8 DEF 1/8)	1,000 200 1,200	
3 56 (WA) 9093	Ordinary Profit: Sales(7,027,320) x Profit Ratio(5.63%) x 1/2 (Another 1/2 is Royalties) (or) Trademark License Royalty: Sales(7,027,320) x Royalty(3%) ... of which Claimed:	 206,310 210,810 50,000	Trademark License Royalty: Sales(7,027,320) x Royalty(2%) (Lit Fee: PTF 20% DEF 80%)	140,554 50,000	PTF's claim to recover damages equivalent to DEF's profit. Doubtful if PTF could make the same profit as DEF without DEF's unfair conducts
4 57 (NE) 2799	Sales Amount 100,852 x Royalty(5%) (DEF 1) Sales Amount 12,426 x Royalty (5%) (DEF 2) Attorney's Fees (Initial Fee + Success Award))	5,042 621 990 174 6,827	Sales Amount 80,629 x Royalty 2% (DEF 1) Sales Amount 9,936 x Royalty 2% (DEF 2) (Attorney's Fees not approved) (Lit Fee: PTF 5/6 DEF 1/6)	1,612 198 1,810	PTF's claim of damages based on DEF's profit was not supported
5 59 (WA) 6210	DEF's Unfair Earning: (1)Sales (203,017) x Royalty(16%) (2)Net Profit (minimum 30%) (203,017x30%)	 32,477 60,905 93,382	184,094 x 16% 184,094 x 30% (Lit Fee: PTF 10% DEF 90%)	29,454 55,228 84,682	Difference in Assessment of Sales Amount

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No Case No.	DAMAGES CLAIMED DETAILS/CALCULATION	DAMAGES CLAIMED AMOUNT	COURT DECISION DETAILS/CALCULATION	COURT DECISION AMOUNT	REMARKS
7 60 (WA) 60(7)9860	Sales during 7/29/85-2/14/87 1,700,000 Trademark Royalty: 3% of Sales	51,000	Total Claim Approved		
		51,000	(Lit Fee: DEF 100%)	51,000	
8 61 (WA) 6408	DEF's Profit = Sales Price - Buying Price	16,684			Amount of Profit is not diff'nce between sales amount and buying amount, but should be calculated by deducting all expenses from sales amount, which cannot be identified.
	Injury to Reputation	2,000	Injury to Reputation	1,000	
	Attorney's Fee	1,500	Attorney's Fee	600	
		20,184			
	Preliminary Claim: Trademark Royalty: Sales Amount x 10%	3,336	Trademark Royalty: Sales Amount 33,369	3,336	
		20,184	(Lit Fee: PTF 75% DEF 25%))	4,936	
9 61 (WA) 363	Amount of Loss Reduction in Sales: minimum 10,000/Year 10,000 x Profit Ratio(30%) x 3 Years	9,000	Not approved		
		9,000	(Lit Fee: PTF 1/3 DEF 2/3)		
10 61 (WA) 7184	(Against A) Loss of Expected Profit Sales Price(920/cart) x 20carts 18,400 Purchase Price 600/1cart - 12,000 Course Construction/Know-How 600	7,000	Not Approved		
	Injury to Reputation	1,000			
		8,000	(Lit Fee: PTF 100%)		
	(Against B) Loss of Expected Profit Profit for 1 cart operation: ¥250 1,000 people x 12 days x ¥250 3,000 2,000 people x 6 days x ¥250 3,000	6,000	Not Approved		
	Injury to Reputation	1,000			
		7,000			
	Total Claimed	15,000	(Lit Fee: PTF 80% DEF 20%))		

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No / Case No.	DAMAGES CLAIMED		COURT DECISION		REMARKS
	DETAILS/CALCULATION	AMOUNT	DETAILS/CALCULATION	AMOUNT	
12	Profit by Export: ¥290 x 1000 dz (*)	290	Application of Unfair Competition		
61	Profit by Export: ¥290 x 9400 dz (**)	2,726	Law not approved		Only 400dz sales was proved
(WA)	Orders Cancelled	1,533	¥290 x 400 dz	116	No evidence for sale of 9,000 dz
2614	Damage to Reputation	10,000			
	(*) Unfair Comp. Law (**) Trademark Law	14,549	(Lit Fee: PTF 95% DEF 5%)	116	
15	(Unfair Competition Law)				
	(1) Primary Claim (based on Profit)				
59	1981-86 Sales by direct-				
(WA)	managed shops 4,081,254		Not Approved		
5473	Profit	717,673			
	Amount Claimed	306,000			
61	(2) Preliminary Claim (based on royalty)				
(WA)	8/1/81-7/31/88 Sales by shops				
2367	including franchises 11,866,387				
	Royalty 3%	355,991			
	Amount Claimed	306,000			
	(Trademark Law)				
	(1) Primary Claim (based on Profit)		(1)Not approved		Sales amount by franchises other
	1981-86 Sales by direct-				than direct-managed shops was
	managed shops 4,081,254				not proved by evidence
	Profit (717,673) x 30% (Take-Out)	215,301	(2)Calculation based on Royalty		
	Amount Claimed	36,720	8/1/81-7/31/88 Sales by direct-		
	(2) Preliminary Claim (based on royalty)		managed shops	4,685,293	
	8/1/81-7/31/88 Sales by shops		Sales during 8/1/84-2/26/85		
	including franchises 11,866,387		(Liability released by prescription)	-387,912	
	x 30%(Take-Out) x Royalty 3%	106,797		4,297,381	
	Amount Claimed	36,720	x 30%(Take-out) x 3% (Royalty)	38,676	
	Total Claimed	342,720	(Lit Fee: PTF 2/3 DEF 1/3)	36,720	

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No Case No.	DAMAGES CLAIMED		COURT DECISION		REMARKS
	DETAILS/CALCULATION	AMOUNT	DETAILS/CALCULATION	AMOUNT	
17	DEF's profit from Royalty	3,343		3,343	
57	Sales Amount 68,500 x Profit Ratio 10%	6,850	Sales Amount 58,182 x Profit Ratio 3.5%	1,861	
(WA)					
7959		10,193	(Lit Fee: PTF 20% DEF 80%)	5,204	
18	PTF-A's Loss				
	(1) Sales (Arm Cover ¥150 x 200,000)		(1) Sales (Arm Cover ¥150 x 27,495)		Not eligible for claims covering
59	x 20% (Profit Ratio)	6,000	x Royalty 7%	289	period later than 9/1/81 due to
(WA)	(2) Royalty paid to DEF-B by DEF-A				prescription
10103	3,000/year x 2 years 6,000				
	Annual Sales (Muffler ¥1,800 x 33,000)		Other claims not approved		
	x 2 years x Profit Ratio 20% 23,760				
	Annual Sales (Necktie ¥2,000 x 5,000)				
	x 2 years x Profit Ratio 20% 4,000				
	33,760	30,000			
	OTF-B's Loss				
	Total of (2) x Royalty 1%	1,000			
		37,000	(Lit Fee: PTF 55% DEF 45%)	289	
19	Loss = DEF's Profit by its conduct		(1)Total & claim against DEF-B approved		(1)to be borne jointly by DEF-A&B
	(1) Against DEF-A&B		DEF-A's liability:		DEF-A's portion only identified
61	Printing ¥70 x 82,250		Printing ¥45.5 x 82,250 = 3,742,375		
(WA)	Profit for sale ¥190 x 15,779	8,000	Sales (clothing ¥520 x 15,779)		For amount claimed in (1)(2),
5911	(2) Against DEF-C		x Royalty 6% = 492,304	8,000	profit for sale of one clothing
	Profit for sale ¥300 x 108,760	10,000	(2)Sales (Clothing ¥600 x 108,760)		cannot be identified.
	(3) Against DEF-D		x royalty 6%	3,915	Royalty of 6% of sales approved.
	Profit for sale ¥150 x 26,434		(3)Approved	5,000	
	Profit for sale ¥300 x 15,294	5,000			Loss suffered by 2 PTFs: 6:4
		23,000	(Lit Fee: PTF 20% DEF 80%)	16,915	

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No Case No.	DAMAGES CLAIMED DETAILS/CALCULATION	DAMAGES CLAIMED AMOUNT	COURT DECISION DETAILS/CALCULATION	COURT DECISION AMOUNT	REMARKS
20	Sales 200,000 x 9 years = 1,800,000				
61	Loss to above	200,000	Not approved		Detailed bases for calculation of damages not displayed
(WA) 678		200,000	(Lit Fee: PTF 80% DEF 10%)		
21			Damages by DEF-A's Infringement	2,000	
	Assessment of loss caused by DEF's conduct		Damages by DEF-B's Infringement	400	
62	Monetary value: 4,500 x 2 DEFs	9,000	Attorney Fees for suit against DEF-A	500	
(WA)	Attorney Fees: 500 x 2 DEFs	1,000	Attorney Fees for suit against DEF-B	100	
12346			(Lit Fee:Against DEF-A: PTF 20% DEF 80%)		
		10,000	(Lit Fee:Against DEF-B: PTF 2/3 DEF 1/3)	3,000	
22	Estimted Profit based on Total Sales	33,575	Approved	33,575	
2	Investigation on DEF's conducts	3,800	Not Approved		Graduated scale for calculating
(WA)	Damages to Reputation, etc.	10,000	PTF's claim too much	4,000	losses applied only to net profit
1968	Attorney's Fees	3,000	Attorney's Fees	1,500	
		50,375	(Lit Fee: PTF 20% DEF 80%)	39,075	
23	Sales:22,500 x 2 planes x Profit ratio 10%	4,500			
63	Trademark Royalty (Preliminary Claim)	500	Trademark Royalty	125	DEF's 2 planes are not assumed
(WA)					to be PTF's loss
3368		5,000	(Lit Fee: PTF 50% DEF 50%)	125	
24	Franchise Membership Fee:				
	Basic Fee (1,500) + 25 x Shops's area 25	2,125			
2	Royalty:		Total Claim Approved		
(WA)	(3,000 x Shop's Area 25)/month x 5months	375			
10504		2,500		2,500	
	+ Royalty due until deletion of name (75 x X months)	+ 75 x X	(Lit Fee: DEF 100%)	+ 75 x X	

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No / Case No.	DAMAGES CLAIMED		COURT DECISION		REMARKS
	DETAILS/CALCULATION	AMOUNT	DETAILS/CALCULATION	AMOUNT	
25 62 (WA) 226	Royalty = Sales x 5% = 59,469 x 0.05	2,973	Royalty = Sales x 2.5% = 59,469 x 0.025 (Lit Fee: PTF 50% DEF 50%)	1,487	
26 62 (WA) 640	Loss of Profit: 35,000 of (a) or (b) (a)Sales of previous year: 1,247,914 Current year 634,883 (Estimate for Sales of current year without DEF's conduct = Sales of prev yr x 0.8 = 998,331 Decrease of Sales due to DEF's conduct Estimate - Actual = 363,448 Loss = Decrease of Sales x Profit (0.352) = 127,933 Net Loss = Loss x Undefined factors (0.7) = 89,553 (b)(Unit Sales Price - Unit Buying Price) x (Estimated Sales Volume - Actual Sales) = Loss = 46,890 Damage to Reputation 10,000 Attorney's Fees	35,000 4,241 2,000 41,241	(Lit Fee: PTF70% DEF30%)	0 4,000 1,000 5,000	Decrease of sales not approved as the loss due to DEF's conduct
27 1 (WA) 8966	DEF's Profit (6,000 with a 3rd party A divided:50%) Damage to Reputation Attorney's Fees	3,000 1,000 400 4,400	(Lit Fee: DEF 100%)	3,000 1,000 300 4,300	DEF not appeared at court Of Attorney's fees incurred, 300 was approved as relevant to DEF's conduct

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No Case No.	DAMAGES CLAIMED		COURT DECISION		REMARKS
	DETAILS/CALCULATION	AMOUNT	DETAILS/CALCULATION	AMOUNT	
30	(Case 1) DEF's Claim				
	Loss: DEF's profit = Sales Amount -				
1	Buying Amount = 3,083 - 1,810	1,272	Loss Not Approved		PTF is Representative of
(WA)	Compensation for Intangible Damages	1,000			DEF Company of Case 2
2830		2,272			
	(Case 2) DEF Company's Claim		Rules of Exclusive License applied		
	Loss: DEF's profit = Sales - Buying Price		Trademark Law Art.38-1		
3	= 3,083 - 1,810	1,272	(If the above is not approved,		
(WA)			loss = DEF's Profit)		
6052			Total Sales (3,083) x 5% = 154	154	
	Compensation for Intangible Damages	1,000		500	
			(Lit fee: Case 1: PTF 100%		
		2,272	Case 2: PTF 70% DEF 30%)	654	
31	Damage to business reputation	5,000	Damage to Business Profit	1,000	PTF's operation, advertising
1	Expenses: Attorney Fees/Investigation/		Attorney's Fees (relevant to DEF's		duration of business in Japan
(WA)	Collection of Evidences/Translation	2,000	conduct)	2,000	Duration of mark in question
10719					-- all considered
		7,000	(Lit Fee: DEF 100%)	3,000	
32	Expected sales based on average growth		Decrease in sales due to confusion		
61(WA)	prior to DEF's use of mark	459,467	caused by DEF's conduct &		No proof that PTF's sales would
16261	x Profit Ratio (30%)	137,842	Damage to Reputation	2,000	have increased with the same
					growth ratio
62(WA)					
10985	Amount Claimed	60,000	(Lit Fee: PTF 50% DEF 50%)	2,000	
33	(1)Advertisement cost wasted by		(1) Not Approved		(1)Not to be calculated based on
	infringment and dilution, or	10,000			advertising cost
60	(2)Decrease of PTF's Profit, or	22,065	(2) Not Approved		(2)PTF's & DEF's products are
(WA)	(3)DEF's Profit	1,024	(3) Approved	1,024	different in unit price/profit
38					ratio and simple comparison
					inappropriate
	Amount Claimed	10,000	(Lit Fee: PTF 50% DEF 50%)	1,024	

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No / Case No.	DAMAGES CLAIMED		COURT DECISION		REMARKS
	DETAILS/CALCULATION	AMOUNT	DETAILS/CALCULATION	AMOUNT	
34 63 (WA) 1607	Ordinary Royalty ¥800 (10% of sales)* x 10,000	8,000 8,000	Prevailing royalty ¥22,800 x 8%* x 565 (Lit Fee: PTF 80% DEF 20%)	1,067 1,067	* Not likely the well known mark in this case to be licensed. 10% royalty might be reasonable to be claimed. However, in this case, DEF purchased the products through legitimate channel, sold them with its own name. PTF's trademark remained as was.
36 1 (WA) 9579	Sales (281,720) x 60% (Cost for Contract Sales, Ordinary Expenses deducted)	168,992 168,992	DEF's Sales (6,830) x 30% (Net Profit) (Lit Fee: PTF 50% DEF 50%)	1,024 1,024	No evidences for unit price & volume submitted
38 3 (WA) 8386	Attorney's Fees/Publication Investigation (by outside service/ employees)	1,000 1,000	Attorney's Fees, etc. (Lit Fee: PTF 50% DEF 50%)	500 500	Fees for outside investigation irrelevant to DEF's conducts
39 3 (WA) 1786	Loss of Profit (a)Decrease of Profit ¥236 x 197 = 46 (b)Retail Stores' loss ¥5,637x197 = 1,110 Liability for compensation* (c) Damage to Reputation (d) Attorney's Fees	1,156 3,000 1,000 5,156	(a) Approved (b) Not Approved (**) (c) Partially Approved (Lit Fee: PTF 2/3 DEF 1/3)	46 1,000 200 1,246	* PTF gave retail stores excl've rights to use trademark ** Contract on liability for compensation of damages not submitted as evidence

(PTF = Pl[illegible]) (DEF = De[illegible]ant) [illegible] except: those with ¥ are Actual Amo[illegible]

Ref No / Case No.	DAMAGES CLAIMED: DETAILS/CALCULATION	DAMAGES CLAIMED: AMOUNT	COURT DECISION: DETAILS/CALCULATION	COURT DECISION: AMOUNT	REMARKS
40	DEF(1) Unfair Comp Law: DEF's Profit	12,880	Not approved (*)		
61	Design Law: " (¥5,100 x 200)	1,020	Approved	1,020	
(WA)	Copyright Law: Damage to Reput'n	500	Not approved (**)		* No provisions to assume profit
339		14,400			by unfair conduct is the amount
61					of PTF's damages
(WA)	DEF(2) Trademark Law: DEF's Profit	1,500	50 x 26 = 1,300	1,300	
870			(Lit Fee: (1) PTF 50% DEF 50%)		
	Total Claimed	15,900	(2) PTF 0 DEF 100%)	2,320	
42	Damage to Reputation	30,000	Damage to the Reputation	1,000	
2					
(ワ)					
16536	Amount Claimed	5,000	(Lit Fee: PTF 10% DEF 90%)	1,000	
43	(1) [1] DEF's Profit				
	Unit price 2 X Volume 1300 X Profit 30%				
59	or [2] Ordinary Royalty		(1)[1] Not approved *		* PTF is not selling the products
(ワ)	Unit price 2 X Volume 1300 X Roy'.ty 30%	(1) 780	(1)[2] Royalty 10%	(1) 260	in Japan
7534	(2) Damage to Reputation	(2) 2,000	(2) Not Approved		
	(3) Lawyer's Fee	(3) 800	(3)	(3) 300	
		3,580	(Lit Fee: PTF 50% DEF 50%)	560	
44	DEF's Profit		DEF's Profit		
4	Total Sales - Expenses/Buying Price	23,040	(Sales Unit Price - (purch. price/exp.)		
(ワ)			X Reduced Volume of Sales)	7,524	
10986					
	Amount Claimed	20,000	(Lit Fee: PTF 20% DEF 80%)	7,524	
45	Damage to Reputation: inferior material				
	different cooking, etc.	3,000			
59	Damages in business				
(WA)	(Unfair Comp Law) DEF's annual sales				
6476	120,000 x 10% x 7yrs = 84,000				
	Amount claimed	10,000			
		13,000			
	or: (Alternative Claim) - Trademark Law				
	Take Out Annual Sales 20,000 x 10% x 7yrs	14,000			

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with Y are Actual Amount)

Ref No Case No.	DAMAGES CLAIMED		COURT DECISION		REMARKS
	DETAILS/CALCULATION	AMOUNT	DETAILS/CALCULATION	AMOUNT	
46 61 (WA) 7518	Decrease in Sales Profit	12,766 12,766			Purchase refused by customers due to confusion of source caused by DEF's infringement
48 60 (WA) 1833	Sales Wheel 45 x 2000/year = 90,000 Spoiler 45 x 1500/year = 67,500 Profit Ratio: 5%	157,500 7,875			
51 61(WA) 1394	Damages by DEF's trademark infringement	1,000 1,000			No proof of damages
55 1 (WA) 4610	Loss of Profit: 300,000 from (a),(b)or(c) (a)Royalty = Sales Profit x 50% = Wholesale (4,230,000) x Profit(30%) x 50% = 634,500 (b)Royalty = Retail Sales x 50% 7,050,000 x 0.9(Ratio of subject Bags) x 5% = 317,230 (c)Expected Profit: 5% of Retail Sales (min.) = 7,050,000 x 5% = 352,500	300,000 300,000			Claims are (a) Royalty in the subject case (b) Ordinary royalty prevailing in the industry
57 2(WA) 259	DEF's profit (Royalty Equiv.) - to PTF 1 - to PTF 2	3,000 7,000 10,000			
58 3(WA) 4149	Sales (¥15,000 x 10,000) x ordinary royalty (4%)	150,000 6,000			

(PTF = Plaintiff)
(DEF = Defendant)

(Amount in ¥1,000
except: those with ¥ are Actual Amount)

Ref No Case No.	DAMAGES CLAIMED		COURT DECISION		REMARKS
	DETAILS/CALCULATION	AMOUNT	DETAILS/CALCULATION	AMOUNT	
59					
3	Sales 820,000 x Profit Ratio 4%	32,800			
(WA)					
647		32,800			
60					
	Average Annual sales before DEF's conduct	130,000			
1	Average Annual sales after DEF's conduct	-85,000			
(WA)	Decrease of Sales	45,000			
16879					
	Gross Profit: 30,000 -- minimum 20,000	20,000			
62					
2	Damages equivalent to profit, or				
(WA)	Ordinary Royalty (7% of Sales)				
3599		2,520			

IV. Closing:

As stated above, we reviewed a system in Japan of the remedies for and protection of the trademark right and well-known mark focusing on the Trademark Law and Unfair Competition Law, by categorizing and analyzing actual case of lawsuits.

We believe that we have got an interesting result of a general tendency in the infringement lawsuits. By reviewing actual cases, we have found in detail, the dispute goods and business area, and what was claimed and demanded for, and further, claimed amount and admitted amount, together with the criteria for presumption thereof.

Various marks such as trademark, service mark and trade name are in use, effecting the distinctness of goods or services and indication of the origin.

Continuous use of these marks produces extremely high value, as a result of accumulation of reputation.

It is an important theme to the industry to maintain and administrate such marks with accumulation of reputation.
In addition, it is also important to review and study the infringement lawsuit cases in the past for the purpose of preventing from occurring dispute.

In Japan, a registration system of service mark was adopted on April 1, 1992 and 139,000 applications for registration were filed in half a year. Further, the amended Unfair Competition Law will be put in effect next year in order to expand the protection of well-known marks. Our country has made arrangements of the legal system, meeting the demands of the times, namely, diversification, enlargement of area and internationalization of economic activities.

From now on, it is required for the industry to make full use of these system.

(1) Title: Issues Concerning Software Licensing Based on Copyright

(2) Date: October 1993 (The 24th Cincinnati Ohio, U.S.A.)

(3) Source:

1) Source: PIPA
2) Group: Japan
3) Commitee: No.2-A

(4) Authors:

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(5) Keywords:

License, Software, Patent right, Copyright, Knowhow, Exclusive license, Non-exclusive license, Right to use, License to use, Transfer, Assignment, M&A, Merger, Transfer of business, Bankruptcy, Inheritance, Escrow

(6) Statutory Provisions:

Articles 76 and 99 of Japanese Patent Law; Article 62 of Japanese Copyright Law; Articles 7, 59, 188 and 189 of Japanese Bankruptcy Law; Articles 26-29, 100, 103, 415, and 416 of Japanese Commercial Code; Articles 951, 952-954, 958 and 959 of Japanese Civil Code

(7) Abstract:

For many software license agreements, the licensor maintains ownership of the copyright on the software retains the source code granting to the licensee only the right to use it, and provides the licensee with maintenance service of the code. The contractual status of the licensor under the license agreement and property rights, i.e. patent rights and program copyrights, owned by the licensor are transferable in exactly the same manner as in general property. Such transfer, if made, affects the licensee, possibly making it difficult, depending on circumstances, for the licensee to carry on its operations previously conducted under that license.

In this paper, we will discuss issues of assignment, bankruptcy, merger and acquisition, and inheritance as typical cases in which the contractual status of the licensor and its rights under the license agreement are transferred to a third party. We will discuss, under each case, whether the licensee may carry on its operations conducted under the license agreement and whether the licensee could be provided with the maintenance service by the licensor.

INTRODUCTION (BACKGROUND):

In recent years, licensing of intellectual property rights has become more important to business activities. In order to provide for its own use or to leave room for a license to another party, a licensor is very likely to grant licenses to use and/or reduce to practice intellectual property rights rather than assign them.

Because of the long history of the patent system in Japan, the concept of granting a license based on the patent right has long been established. Further, the process of registering the license under a specific patent is currently provided in Japanese Patent Law.

The concept of intellectual property rights has been expanded, and as a result, a new protection system is being developed as in the protection of software under copyright laws. From the licensing point of view, the term "right to copy" is defined in the Japanese Copyright Law, but the term "right to use" is not explicitly defined. Thus, the "right to use" should be defined in a license agreement entered into between the parties involved, as in the case of software licenses under the copyright.

In drafting license agreements of any license, it is very critical (particularly to one whose business depends on the license) to have the abillity to carry on its operations with confidence in the validity of the license and without interruption. Licensees, however, could face a worst case scenario in which the licensees could be prevented from carrying out their use of the licensed products. The likelihood of this situation developing may or may not depend on the provision in the license agreement.

For example, assume that a licensee has been granted a license under a pending patent application and that the licensor subsequently assigns the right to receive the patent under the then pending application to a third party. The patent is subsequently issued and registered in such third party's name. What would happen if this third party, or new patentee, demands that the licensee stop the use of the patented invention?

At least, under the Japanese Patent Law, registration of license to the Patent Office is required to prevail against a

subsequent license or assignment to a third party. However, pending applications except for registered patents does not allow its non-exclusive license to be registered. Then any licensee who has a license for pending applications cannot prevail against the third party who has so subsequently obtained the patent right. Accordingly, if a license agreement is not successfully negotiated with that third party, the licensee may have no alternatives but to quit its operations under the license granted by the prior licensor.

The licensee may demand that the prior licensor pay for damages resulting from cessation of the operations but may not be able to collect damages which would cover future loss. In addition, if the prior licensor has gone bankrupt with no financial ability to pay for damages, what last refuge would the licensee be entitled to? This worst case scenario will be address later in this text.

We now turn to a software license example, particularly because recently an expanding number of software licenses involve program copyright and knowhow in addition to patent licenses.

Providers of the software, which are the licensor under the license agreement, include many small businesses which have recently expanded; however, these newly successful businesses are subject to bankruptcy. We must therefore be fully prepared for such business failures. This, therefore, depicts another reason why we address the license on software as the subject of discussion.

Also, software licenses, in many cases, provide for such maintenance services to be provided by licensor, such as fixing of bugs and providing updated versions of the software. In light of our discussion on software, we will examine the problem of continuity of maintenance services provided.

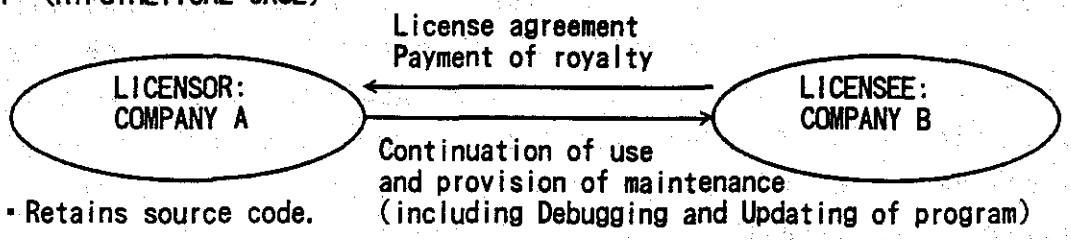
1. HYPOTHETICAL CASE:

COMPANY A (LICENSOR) has a patent on a data processing system and a copyright on a control program for the data processing system.

COMPANY B (LICENSEE) is granted by COMPANY A an intellectual property right license to construct and operate a data processing system for both its head office and branch office. In addition,

certain information will be furnished to its customers on an on-line basis. The license includes copyright on software (including the control program) and provides for fixing of bugs (free of charge) and periodic updating of the program (for payment). The source code of the software (program) is held by COMPANY A and COMPANY B of course has possession of and the right to use a copy of the software object code. There are a few other companies furnishing similar services (See Fig.1).

Fig.1 (HYPOTHETICAL CASE)



2. OBJECTS OF STUDY:

Our discussion will be held on the assumption that a change has taken place with respect to the LICENSOR. To preclude confusion, no reference will be given to changes in the LICENSEE.

The following will be discussed as potential causes affecting LICENSOR's position: assignment of the license agreement or of underlying rights, bankruptcy and M&A of LICENSOR, and inheritance of LICENSOR for an individual.

Points of discussion will relate to whether each of the potential causes affecting LICENSOR's position referred to in the preceding paragraph would permit LICENSEE to continue (1) to operate the system and provide services to customers, and (2) to receive maintenance services on its software by COMPANY A.

3. STUDIES ON INDIVIDUAL CASES:

3-1. ASSIGNMENT

Those assignments which could affect LICENSEE would occur in four different cases (See Table 1);

(1) Assignment of only license agreement to a third party;
(2) Assignment of underlying rights (such as patent right or copyright) (See Fig.2);
(3) Package assignment of license agreement and underlying rights to a single third party; and
(4) Assignment of each of license agreement and underlying rights to different third parties (See Fig.3).

Under the cases (1) and (3), the new LICENSOR, under the license agreement, knows of the existence of the LICENSEE and is legally bound to perform its obligations under the license agreement as such. Therefore, there should be no problem with respect to continued operation of the system by LICENSEE.

The contractual position of the LICENSOR passes on to the new LICENSOR, with the maintenance service taken over by the new LICENSOR. Thus, the LICENSEE should be able to continue receiving maintenance service by the new LICENSOR. There is no assurance, however, that the new LICENSOR has the ability to substantially perform the maintenance service to reasonably satisfy the requirements of the LICENSEE. If the case (3) is in such mode as *en bloc* transfer of the entire business, continued maintenance service by the new LICENSOR may be expected.

The cases (2) and (4) would give rise to more serious problems. The case (2) -(See Fig.2)- represents a case in which COMPANY A voluntarily assigns to COMPANY C the patent right and copyright on software owned by COMPANY A on which COMPANY A, as the licensor, has previously made a license agreement with COMPANY B - the LICENSEE.

The case (4) -(See Fig.3)- relates to a situation in which COMPANY A voluntarily assigns to COMPANY C, a third party, the patent right and copyright on software owned by COMPANY A on which COMPANY A, as the LICENSOR, has previously made a license agreement with COMPANY B and further assigns its position, as the LICENSOR, under that license agreement to COMPANY D, a third party other than COMPANY C.

In each of the cases (2) and (4), what will happen if COMPANY C, the new rightful owner of intellectual property right, has no prior knowledge of the license agreement or knowingly ignores the license agreement between COMPANY A (or COMPANY D) and COMPANY B in question?

In the eyes of the new rightful owner (COMPANY C), acts of

LICENSEE (COMPANY B) would amount to an infringement, because the new rightful owner is not a party to, and is not bound by, the existing license agreement.

Under the Japanese Law, the situation concerning whether or not LICENSEE could continue to use a patented invention under the given circumstances as mentioned above, is discussed as the question of requirements for prevailing against third parties. In what circumstances, then, could LICENSEE continue to use the patented invention against the objections of the new rightful owner of the patent?

Paragraph 1 of Article 99 of the Japanese Patent Law reads, "Once a non-exclusive license has been registered, it shall also be effective against anyone subsequently acquiring the patent right or the exclusive license or an exclusive license on such a patent right."

Under the Copyright Law, there is no concept of the "right to use" nor any system in effect for registration of such "right to use." Hence, LICENSEE may effectively prevail independently against the new rightful owner of the patent involved only if the LICENSEE has registered the patent license obtained from the prior rightful owner of patents involved.

Under such a case, which includes copyright, which is under study, the LICENSEE (COMPANY B) would not be properly entitled to continuously provide service to its customers, even when a non-exclusive patent license has been registered. Under the present case, we can assume that the license agreement is valid. Therefore, the LICENSEE (COMPANY B) would be entitled to demand the LICENSOR (COMPANY A or COMPANY D), under the license agreement, with regards to the patent and copyright aspects, to perform the license agreement or seek damages if the LICENSOR fails to do so.

The LICENSEE may also address it as a tort case, alleging willfulness or negligence on the part of the LICENSOR (COMPANY A) with respect to the rights of the LICENSEE. However, if COMPANY B is interested solely in continued license arrangements, there is no guaranty of any satisfactory outcome.

Table 1: COMPARISON OF POSITIONS OF LICENSEE IN ASSIGNMENT CASES

Case No.	Subject matter(s) assigned	Assigned to	Any problem and for what reason
1	License agreement	Third party	None, particularly because new LICENSOR is obligated to perform the license agreement.
2	licensed IPRs	Third party	Yes, because new rightful owner is unaware of existence of license agreement or knowingly disregards it.
3	License agreement and licensed IPRs	Identical third party	None, particularly because new LICENSOR is obligated to perform the license agreement.
4	License agreement and licensed IPRs	Separate third parties	Yes, because new rightful owner is unaware of existence of license agreement or knowingly disregards it.

IPRs: Intellectual Property Rights (patents and copyrights)

Fig. 2 (Development 1)

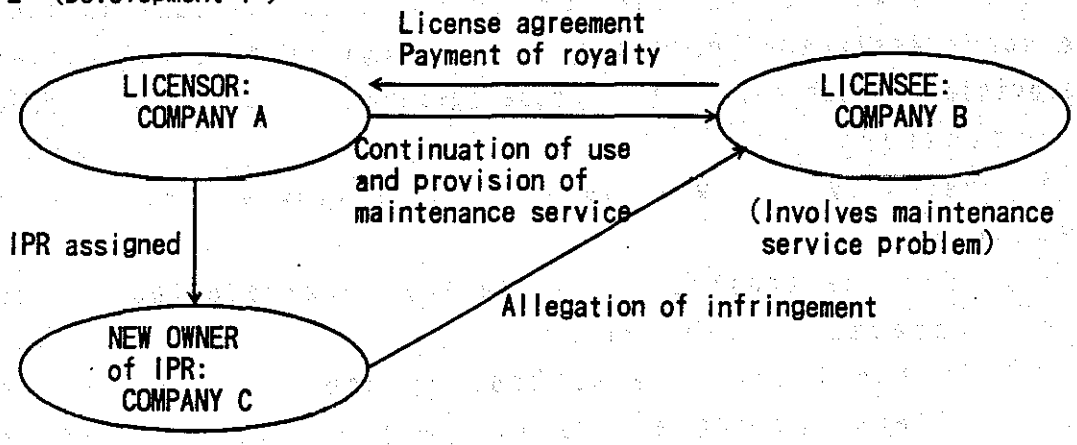
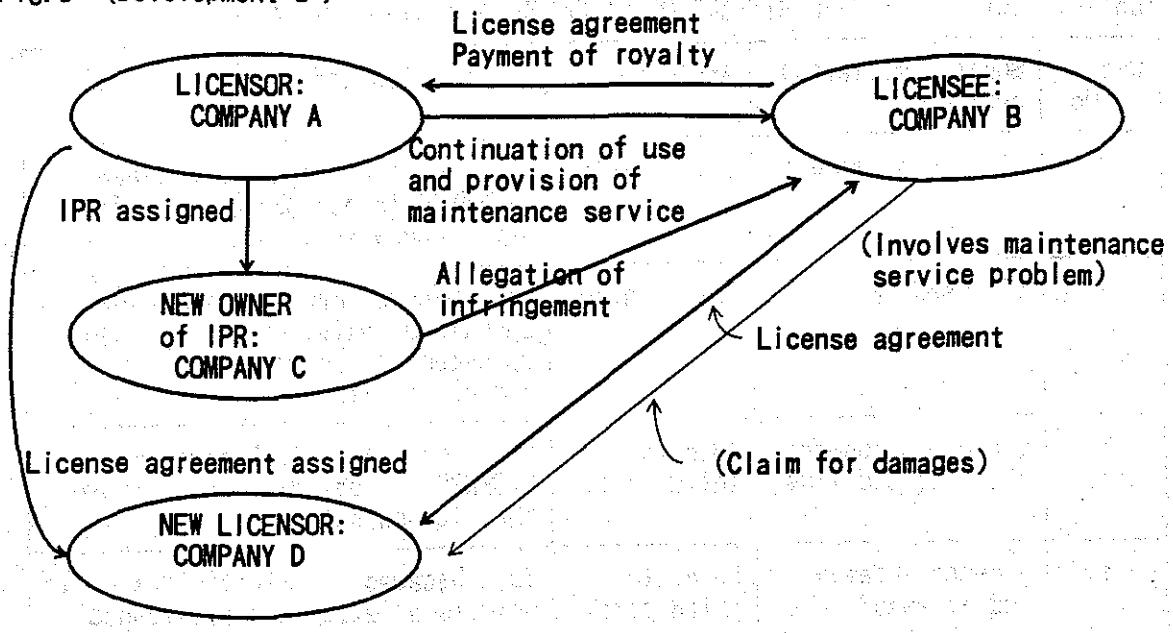


Fig. 3 (Development 2)



3-2. BANKRUPTCY

We will now proceed to discuss bankruptcy of the LICENSOR which could pose a serious problem for the LICENSEE (See Note 1). We will assume that the license agreement is the same as under the above assignment case and further that it does not contain a provision to terminate the license agreement in the case LICENSOR goes bankrupt.

A bankruptcy case will involve the following two peculiar questions:

(1) Can the trustee in bankruptcy terminate the license agreement? (See Fig. 4)

(2) If the trustee in bankruptcy cannot terminate the license agreement or, in the event the trustee can terminate it, and he does not elect to terminate it, can LICENSEE effectively continue to use software against any new rightful owner of intellectual property who obtains them as the result of disposition by the trustee? (See Fig. 5)

The first question (See Fig. 4) is a problem of bankruptcy law. In Japan, procedures following a petition for an adjudication

of bankruptcy are subject to the Bankruptcy Law (see Note 2). Article 59 of the Bankruptcy Law provides for the right of the trustee in bankruptcy to cancel any bilateral agreement.

Under the license agreement in question, LICENSOR (COMPANY A) is under an obligation to make software available to LICENSEE (COMPANY B) for use and to provide maintenance service thereon, while LICENSEE owes an obligation to pay royalty to LICENSOR. It is, therefore, a continuous bilateral agreement. As long as the provision of Article 59 of the Bankruptcy Law is applied here exactly as it is, the trustee in bankruptcy has the power to cancel the license agreement in question.

If the license agreement is canceled by the trustee, the LICENSEE will have no other choice but to sue the trustee in bankruptcy for damages, in which event it will be very unlikely that the LICENSEE can recover damages in full.

With respect to application of the Article 59 to the license agreement, however, there is a contrary view which states that it is quite unreasonable to prevent the LICENSEE from continuously working the licensed invention at the sole discretion of the trustee in bankruptcy (see Note 3). In that there has been no judicial precedent on construction of the Article 59, we will have no other alternatives but to look to future developments in this area.

With reference to continuation of maintenance service, if nobody except the LICENSOR can furnish it, then there may be no alternative to continue the maintenance service. In cases like this, it will probably be helpful to incorporate into the license agreement, at its drafting stage, provisions permitting the LICENSEE to continuously maintain the system by itself (or to have it maintained by a reliable third party), or more particularly add provisions agreeing on how the LICENSEE should get access to the source code software (the escrow system in the United States is one way for preparing for such circumstances).

The second question (See Fig.5) will be the case in which a license agreement and underlying intellectual property rights of the LICENSOR (COMPANY A) are disposed of and held by different third parties. Here, the same conclusion will be reached as under the assignment case (4) — See Fig.3 —. If the intellectual

property right holder (COMPANY C) demands the LICENSEE (COMPANY B) to stop using its licensed intellectual property right, the LICENSEE will have to meet the requirements for prevailing against third parties, in order for it to continue practicing the licensed intellectual properties.

Fig.4 (Development 3)

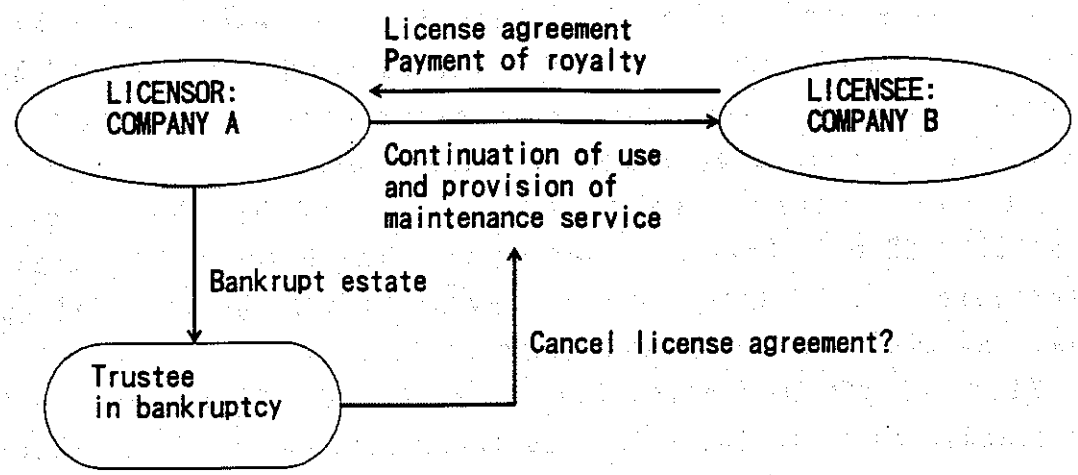
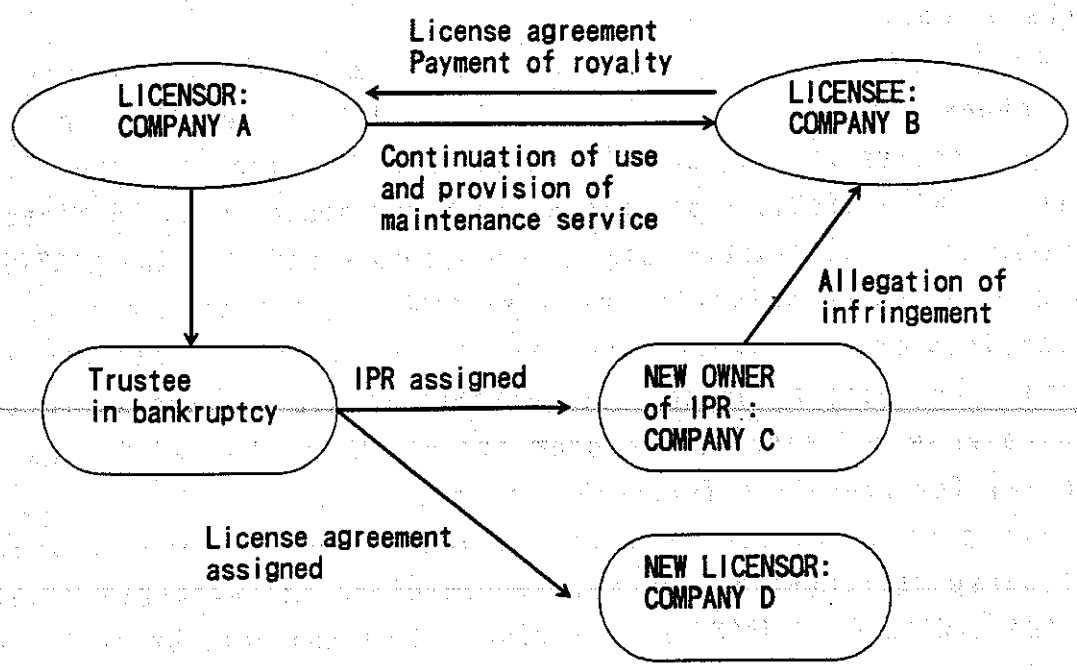


Fig.5 (Development 4)



Note 1: Under the Japanese Bankruptcy Law, the following procedures will be followed:

(i) A petition in bankruptcy will be filed with the court, on the ground of any qualified causes therefor.

(ii) Upon the court's adjudication of bankruptcy against the party whom the petition was filed, the court will appoint a trustee in bankruptcy and have the bankrupt party's estate organized. The bankrupt party will, then, no longer have any right to control or otherwise dispose of the bankrupt estate (Article 7 of the Bankruptcy Law).

(iii) The trustee in bankruptcy will, among other things, cause to have evaluated any and all property that was in possession of the bankrupt party (Articles 188 and 189 of the Bankruptcy Law). With respect to any ongoing bilateral continuous agreement under which both the bankrupt party and its creditors have obligations yet to be performed (Article 59 of the Bankruptcy Law), the trustee in bankruptcy has the power to elect to either terminate the agreement or to require both parties to continue performance of it (Article 59 of the Bankruptcy Law):

- If the trustee in bankruptcy elects to require both parties to continue performance, the agreement will be kept in effect.
- If the trustee in bankruptcy elects to terminate the agreement, creditors may claim payment for damages resulting therefrom and, in addition, require those previously performed to be returned.

(iv) Thereafter, the trustee in bankruptcy will change all property constituting the bankrupt estate into money.

(v) Dividends will be paid.

Note 2: Cases under study will be restricted to bankruptcy cases in the nature of liquidation proceedings in the United States.

Note 3: Refer to, for example, "Patent Licensing," by Masahiko Amemiya, pp 179-180

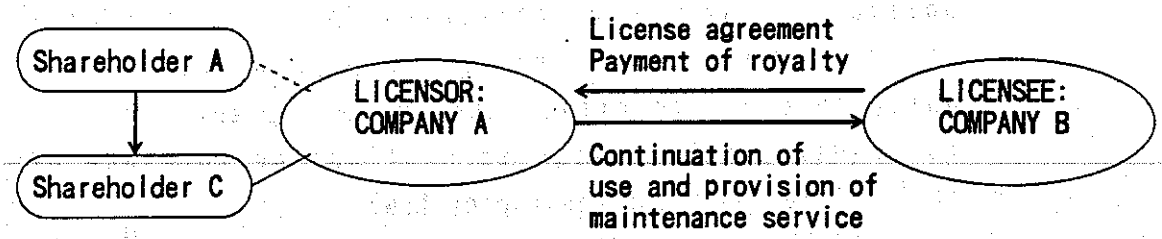
3-3. MERGER AND ACQUISITION

Merger and acquisition cases will produce different effects on a license agreement, depending on nature of the cases (See Note 4). In analyzing these effects, we will discuss a stock purchase case and a merger case.

(1) STOCK PURCHASE - (See Fig.6):

In assuming a case in which the purchase of shares involves changes in shareholders without affecting the identity of the corporation, the relation between LICENSOR (COMPANY A) and LICENSEE (COMPANY B) will not be subjected to any direct change. Thus, this permits the LICENSEE to carry on its operation of the system and provide service to customers in the same manner as in the past.

Fig.6 (Development 5)



(2) MERGER CASE - (See Fig.7):

A merger is an agreement combining two or more corporations into a single corporation, with obligatory rights and obligations of the former corporations (COMPANY A and COMPANY C) to be taken over by the latter company (COMPANY AC) on an *en bloc* basis (See Note 5). Thus, a merger will not impact the LICENSEE (COMPANY B) with regard to the LICENSEE's continued use of software, which is consistent with the stock purchase case.

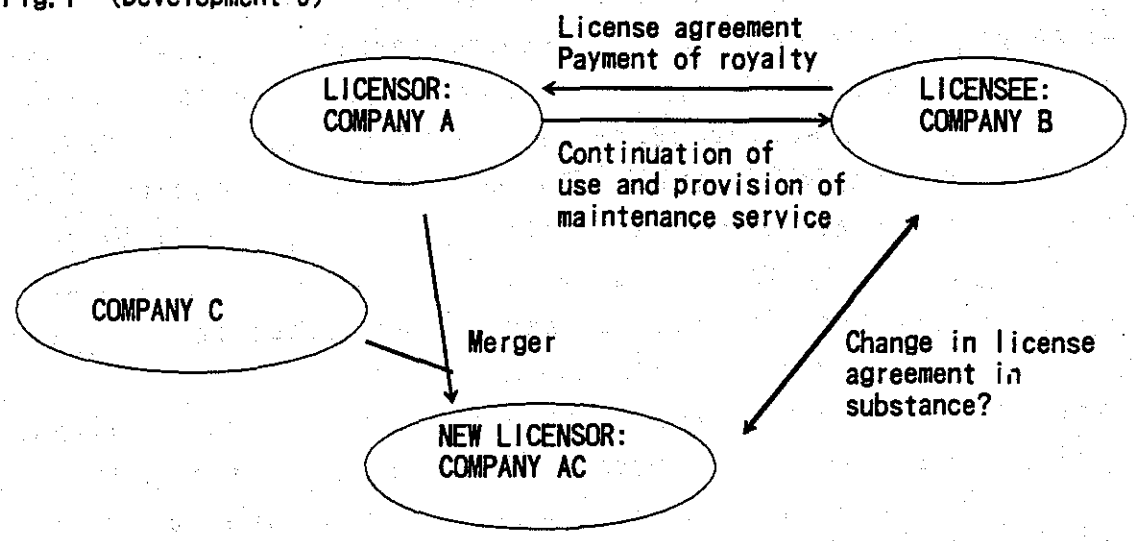
A change in LICENSOR (from COMPANY A to COMPANY AC), however, could affect maintenance service to be performed; for example, a deterioration in the quality of the service may occur. Under the license agreement, LICENSEE is entitled to demand that the LICENSOR not lower the quality of maintenance. If the new LICENSOR is not expected to be able to maintain the same quality of maintenance

service then, as stated in the bankruptcy case, the LICENSEE may prefer to obtain the source code and perform the maintenance service itself. In this case, which differs from the bankruptcy case, it will not always be easy to draft such a license agreement, which would permit the LICENSEE to obtain access to the source code on the ground of "unsatisfactory" maintenance service (See Note 6).

Also, the LICENSEE must prepare itself for problems relating to continuation of license and maintenance service agreements. If any of such agreements has a specified period of duration requiring renewal formalities to be followed whenever it runs out, the other party (COMPANY C) which is merged with the LICENSOR, (if it is a competitor to LICENSEE), may well propose both the change of terms and conditions of the agreements or even the termination of the same.

Therefore, prior to entering into a license agreement, it will be important for the LICENSEE to consider the future possibility of the LICENSOR being acquired by a competitor, or of another party merging with the LICENSOR which is a competitor to the LICENSEE (See Note 7).

Fig.7 (Development 6)



Note 4: Styles of merger and acquisition would include sale of shares, transfer of business and merger.
The transfer of business agreement is one in which a package of personal and real properties, together with obligatory rights and obligations of a business,

is sold. In order for such on individual item to be effective against third parties, the transfer formalities must be completed for each item.
Thus, if the formalities of assignment of obligatory rights and of acceptance of obligations have not been completed, the parties to the license agreements will remain unchanged. If such formalities have been completed, the assignee of the license will become the new licensor (to take place of the former licensor). In either case, the contents of license agreement is not changed. However, the Japanese Commercial Code provides certain exceptions, to responsibilities of the assignor and the assignee that could possibly impact the license agreements (Articles 26 through 29).

Merger is an agreement whereby two or more companies are incorporated into one company. Under the merger the new company takes over *en bloc* obligatory rights and obligations of the dissolved companies, while a package of part of a business may be transferred under the transfer of business agreement (Article 416 Paragraph 1 and Article 103 of the Commercial Code).

Note 5: There is a court precedent invalidating exclusion of a part of such obligatory rights and obligation from a merger agreement (Supreme Court decision, September 26, 1917). The transfer of a division of a corporation will constitute a transfer of business, and therefore it must be ascertained that the license agreement in question has properly been included in the transfer formalities.

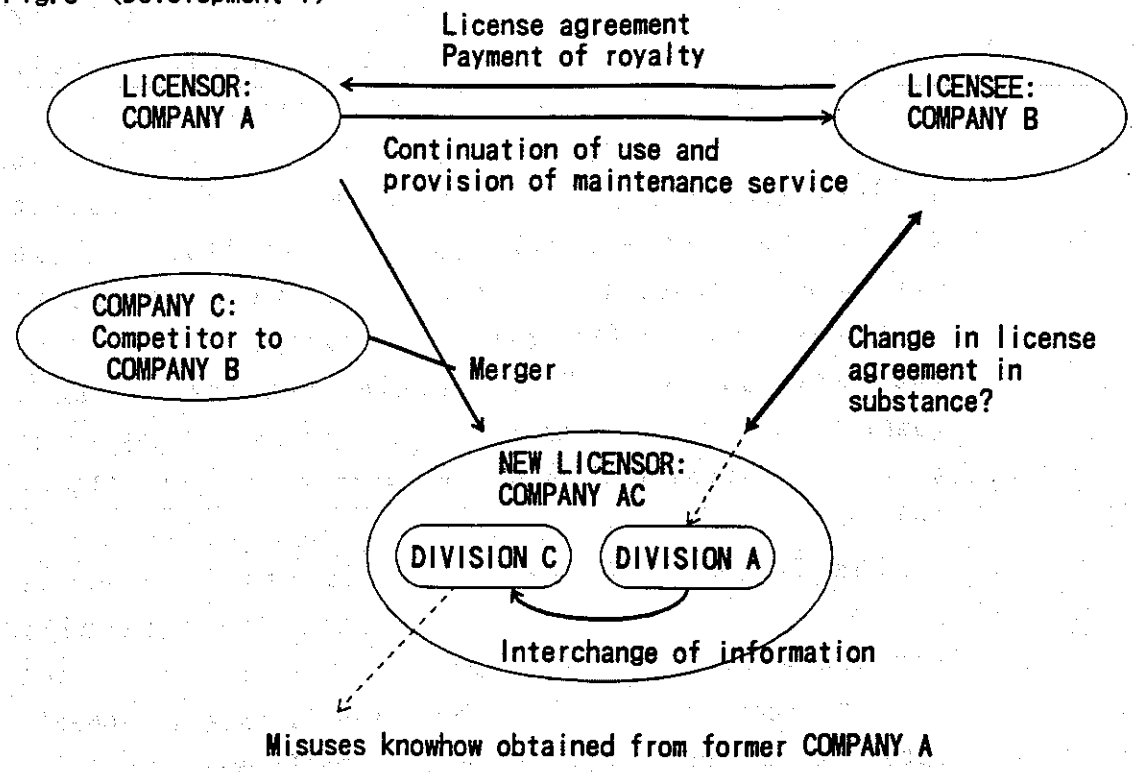
Note 6: An alternative which could be effective against a merger is "an objection by creditors." According to the Japanese Commercial Code, "In the event of a merger, each of the merging companies shall make a public announcement, within two weeks of the date of the resolution of the merger, urging its creditors to bring to the company any objections to the proposed merger, within a prescribed period, and individually notify any and all known creditors thereof. The period within

which any such objection must be made shall not be less than one month (Article 416 Paragraph 1 and Article 100 paragraph 1 of the Commercial Code). If an objection is made in accordance with the above provision, the merging company must do one of the following: satisfy its obligations to the opposing creditor or provide the opposing creditor with an equivalent security, or deposit equivalent property in a trust company (Article 416 Paragraph 1 and Articel 100 Paragraph 8). If any merging company fails to complete the above formalities, its creditors may bring a suit for invalidation of the merger (Article 415 of the Commercial Code).

The Japanese Commercial Code provisions, as referred to in the above, is intended basically for protection of pecuniary creditors. It is not clear whether the LICENSEE, under the license agreement, constitutes the "creditor" under the Commercial Code. Also, if any LICENSEE makes an objection, it is not clear how the merging company should "satisfy its obligations" or "deposit equivalent property in trust." In addition, no court precedents have been established which could have shed some light on this problem. Thus, these problems will remain unsolved for the time being. We understand that the United States has no objection system applicable to a merger.

Note 7: If the LICENSOR is merged with a competitor of the LICENSEE, another serious problem may develop. For example, the leak of confidential information. Trade secrets of the LICENSEE previously disclosed to the LICENSOR in, for example, a proprietary customized system, may leak to the competitor of the LICENSEE (See Fig.8). Such disclosure of trade secret is necessary for the customization of the system and therefore generally takes place. However, this is a contractual confidentiality issue, which is outside of the scope of discussion hereunder. Thus, no further comments will be given herein.

Fig.8 (Development 7)



3－4. INHERITANCE

Death of the LICENSOR, if an individual, will give rise to inheritance of license agreements and intellectual property rights.

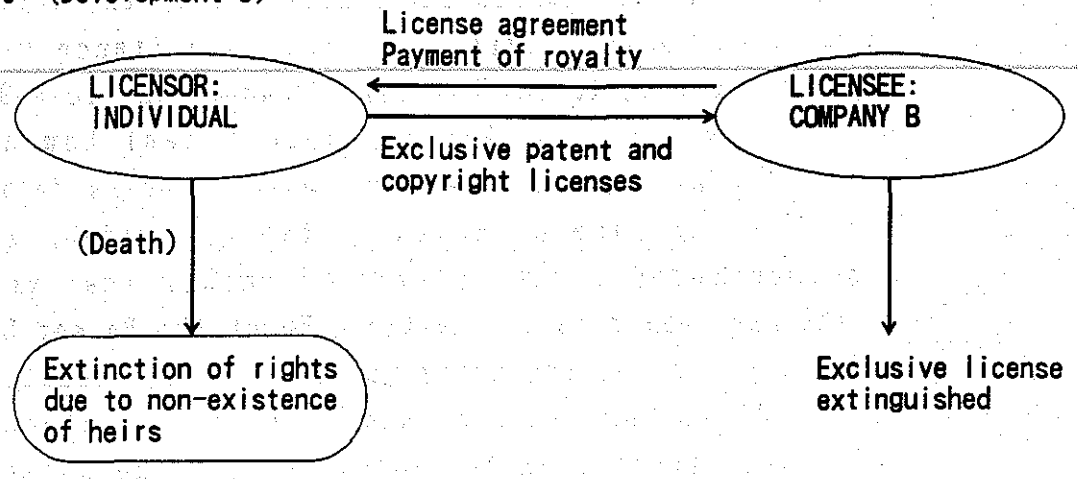
As long as any heir is present, obligatory rights and obligations of the deceased LICENSOR will be inherited, for which no particular problems would arise (See Note 8).

If any successors do not exist (which should be very rare in Japan), the Japanese Patent Law, as well as Copyright Law, provides that the right underlying a license agreement shall be extinguished (See Fig.9 ; See Note 9). Thus, extinction of patent rights and copyrights will automatically extinguish license agreements thereon.

There is a view, however, that there exists an unreasonable disadvantage with respect to the LICENSEE in that the LICENSEE is forced to lose its position as an exclusive publisher with extinction of copyright because it may not have recovered its investments previously made (See Note 10). In the same way, one might argue that the LICENSEE should be entitled to some sort of remedy for loss, if any, of exclusive license because of

extinction of intellectual property right underlying it. It will be legally effective to make preliminary arrangements so that, "upon death of the LICENSOR, the intellectual property rights under the license agreement shall pass on to the LICENSEE."

Fig. 9 (Development 8)



Note 8: Upon occurrence of a cause of inheritance on the part of either party to the agreement, any and all obligatory rights and obligations which have occurred by that time are transferred, as a rule, in their entirety, to heirs, without any such requirements to be met. This would apply to the transfer of obligatory rights in order for the heirs to prevail against others. Also, obligations of the deceased pass to heirs in the absence of consent of creditors. Thus, the position of a party to the agreement as the licensor devolves *en bloc*, along with those obligatory rights and obligations which are inseparably integrated with the position of the licensor, including those obligatory rights and obligations on which an agreement prohibiting assignment has been specifically made. Industrial property rights and copyrights on license agreements are not personal, and therefore are transferred *en bloc* in the same manner as the general inheritance. Also they are subject to the same provisions of inheritance under the Japanese Civil Code.

Note 9: Under the Japanese Law, if heirs are unidentifiable

(Article 951 of the Civil Code), procedures shall be followed to look for heirs (Article 958 of the Civil Code), and the inheritance shall be regarded as a corporation to be controlled by an administrator (Articles 952 through 954 of the Civil Code). If there is no person claiming to be an heir within the period prescribed by the Civil Code, the inheritance will generally belong to the National Treasury (Article 959 of the Civil Code). The Japanese Patent Law and Copyright Law provide, however, that, if heirs do not exist at the time of death of the decreased, the abovementioned rights terminate rather than vest in the National Treasury (Article 76 of the Patent Law and Article 62 of the Copyright Law). Such exception to the Civil Code is provided to make the patented privileges freed from the monopoly, for the benefit of the public, and to allow cultural assets previously under the copyright protection to be fully utilized.

Note 10: Refer to, for example, Commentary on Copyright Law, Totally Updated, by Moriyuki Kado, p.307.

CONCLUSION

In the foregoing, we have introduced software license agreement as an example to discuss impacts upon the licensee of transfer of property rights on which the license is based as well as the transfer of the license agreement itself. In particular, we have discussed cases of assignment of rights by the licensor, bankruptcy of the licensor, merger or acquisition involving the licensor, and death (inheritance) of the licensor, if a natural person.

Under Japanese Laws, drafting of a license agreement will require careful attention to the following matters:

(1) If the licensor assigns its rights under a license agreement to a third party (e.g. assignments in general and assignments effected through a trustee in bankruptcy), the licensee may not prevail against that third party (e.g. with respect to

use of the licensed intellectual property right).
Among other things, in the case of copyright in which the means of registration of the licensee's right to use it is not available, the status of the licensee remains uncertain.

(2) As the result of transfer of a license agreement, which provides for maintenance service on software, the licensee may not be able to receive the maintenance service substantially to the same extent as before, or the maintenance service available may be substantially inferrior in quality to the one before. For the purpose of exercising control over assignment of a license agreement, it would be effective and binding to stipulate in it a prohibition of its assignment or requirement of prior consent of the other party. There are no valid measures which could be effective against disposition of the property by the trustee in bankruptcy.

(3) Bankruptcy of the licensor involves the question of whether the trustee in bankruptcy can terminate a license agreement.

(4) *En bloc* succession of business entity, including license agreements, as in the case of merger, does not legally cause any change in the status of the licensee, however a change in the licensor may develop.

(5) If, in the event of death of an individual licensor, heirs are not present, the status of the licensee under the license agreement will be extinguished in the absence of an agreement defined otherwise.

The foregoing represents a summary of our discussion of how Japanese Laws would be construed if given circumstances take place. It will be necessary in the future to study ways and means of preventing the status of the licensee from being jeopardized and of assuring the licensee to continue his or her business under that license; issues which are contractual arrangements are of no help; and differences in approaches between Japan and the U.S.A. must be studied in a more detailed manner.

(1) Title: Acquiring Rights to Computer Programs

(2) Date: October 1993 (The Twenty-fourth International Congress Convention in Cincinnati, Ohio)

(3) Source:
- (1) Source PIPA
- (2) Group USA
- (3) Committee 2

(4) Author: William A. Troner - Harris Corporation

(5) Key Words: Rights in Computer Programs/Software, Copyrights

(6) Abstract: The completeness of a contract in transferring rights in a computer program and the due diligence in the preliminary investigation of the transferor's rights can have a significant impact on the success of the transaction. For an acquiring party of computer programs, it is necessary to establish that the rights in the computer program are assigned or conveyed in accordance with the expectations of the parties. This paper discusses the issues of potential preexisting claims to the computer programs being acquired and how to acquire copyrights in such computer programs.

The paper also discusses some of the practical aspects of acquiring software licenses in the acquisition of a company or its assets.

(1) Title: Fair Use and Bankruptcy

(2) Date: October 1993 (The Twenty-fourth International Congress Convention in Cincinnati, Ohio)

(3) Source:
- (1) Source PIPA
- (2) Group USA
- (3) Committee 2

(4) Author: Joel I. Rosenblatt - Harris Corporation

(5) Key Words: Computer Programs, Copyright, Fair Use, Reverse Engineering Disassembly, License, Trust, Escrow.

(6) Abstract: The owner of a copyrighted Computer Program enjoys certain exclusive rights. However, this exclusivity is subject to erosion by the right of fair use. This paper discusses how fair use allows copying and reverse engineering of computer programs to understand non-protected elements. Along with fair use, the rights of a licensee against a bankrupt licensor are discussed. As explained, bankruptcy is no longer a shield and the bankruptcy trustee is no longer able to arbitrarily deprive the licensee of the licensed technology. Escrow and trust agreements are discussed as means to preserve the licensed technology for the licensee.

When transferring rights in computer programs, the completeness of the contract and diligence in the preliminary investigation of the rights of the owner can have a significant impact on the success of the transaction. For an acquiring party of computer programs, it is necessary to establish that the rights in the computer programs are assigned or conveyed either free and clear of competing claims, or with the knowledge that such claims exist. These claims can take the form of preexisting ownership rights or existing license rights.

When transferring computer programs, the agreement between the parties should provide for the necessary warranties and representations as to what rights are being transferred. Assignment of the appropriate copyrights, trade secrets and patent rights should be clearly provided for with the assignor further warranting that no default has occurred with respect to any existing licenses that may jeopardize the assignor's intellectual property rights. Further, the assignor should warrant that the program has not been lost to the public domain as a result of abandonment or neglect. Notwithstanding having the necessary warranties and representations, the potential assignee should conduct due diligence in verifying that marketable title exists. If the software has been registered as a copyrighted work, a search of the copyright office records may disclose possible prior assignments or security interests. Also, a state U.C.C. lien search may uncover security interest as well.

If the employees of the assignor or third party contractors are involved in the development of the software, the assignor should document that it has obtained the appropriate assignments from its employees or contractors and provide proof that such has occurred. This is of particular importance with respect to copyright interests as the work for hire doctrine becomes more contentious and litigated in the courts. Government funding agreements and university patent policies can also affect the ownership in software to the extent that if the government or a university fund part

or all of for the software development, they may have residual rights in the software.

Even without the above express warranties, there may be an implied warranty of title and of fitness for the intended use under a the particular state's Uniform Commercial Code Law. See U.C.C. Sec. 2-312 (1)(a), 2-312(3) and 2-315. It is important to note, however, that while the sale of computer hardware is covered by Article 2 of the UCC, it is not so clear whether the sale of software is equally covered.

The agreement between an owner and acquirer of a computer program should include also the assignments of any end user license agreements under which the owner has authorized customers to use the program, and any marketing agreements under which the seller has obtained the right to include other parties' software components in the program.

Acquiring Copyrights in Computer Programs

Principles of contract law are generally applicable in the construction of copyright assignments and licenses, and hence, the focus is on the manifested intent of the parties. If an assignment for instance does not contain certain essential terms, it may be held void for indefiniteness. Additionally, ambiguities will be resolved against the party preparing the instrument of transfer. This can lead to the conclusion that in the absence of clear evidence of a contrary intent, where an assignee has prepared the assignment, rights not expressly granted to the licensee will be held to be reserved by the assignor.

The ownership of copyright in a computer program as in other copyrighted works, may be transferred in whole or in part by means of conveyance or by operation of law. 17 U.S.C. Sec. 201(d). Any transfer other than by operation of law, however, must be in writing and signed by the assignor or its authorized agent. 17 U.S.C.

§204. A "transfer of copyright ownership" consists of an assignment, mortgage, exclusive license, or other conveyance ..... but does not include a nonexclusive license 17 U.S.C. Sec 101. No consideration is necessary to effectuate a transfer of ownership which does not purport to require such consideration. Nimmer, Section 10-03 [A] (1992).

An assignee may register such assignment with the U.S. Copyright Office with the resulting registration constituting prima facia evidence of the validity of the copyright. 17 U.S.C. §410(c). Registration of the assignment in the Copyright Office further provides constructive notice of the assignment and the facts stated in the recording document.

With respect to priority of rights, a first-executed transfer or assignment will always prevail over a later executed conflicting transfer if the prior transfer is properly recorded in the Copyright Office prior to the time that the subsequent transfer was recorded or within the statutory period of one month for a U.S. citizen and two months for a foreign citizen from the execution date of the transfer. If the first transferee fails to record and register either prior to the recordation of the subsequent transfer or within the statutory grace period, then such prior transfer will be voided as against the subsequent transferee if the subsequent transferee is without notice of original transfer and the subsequent transferee has paid valuable consideration. Because of the grace period to record an assignment, it is impossible at the moment of execution of a transfer for an acquiring party to be certain that it is acquiring the purportedly transferred rights, since it remains possible for a period of one month (two months for a foreign resident) thereafter that a prior transfer will be recorded which will cut off the right of the transfer. Thus, prior to acquiring the rights in a computer program, either by assignment or purchase, the acquiring party should check the Copying Office's registration for prior transfers and then if any question arises as to the potential for loss of rights, the assignment or sale should be contingent on the expiration of the grace period with no registration appearing to a third party regarding

the computer program in question.

In the unique situation where a computer program created prior to 1978 is being assigned today, the ownership rights will turn on the validity of grants executed pre-1978. It, therefore, remains important to consider the pre 1978 formalities required in connection with grants of both statutory and common law copyright. By way of example, a common law copyright assignment did not have to be in writing, but rather could have been oral or implied from conduct.

Assignment of License Rights

Recording of transference of copyrights other than an outright assignment is also permissible for providing constructive notice. Upon proper recordation in the Copyright Office, there is constructive notice of the facts stated in the documents pertaining to a copyright, regardless of whether such document consists of an assignment an exclusive license or non-exclusive license. 17 U.S.C. §205. Hence, a licensee may record its license in order to assure its seniority to subsequent assignments by the licensor.

Because an exclusive license is defined as a "transfer of ownership" under Section 101 of Title 17 of the U.S. Code and Section 204(a) requires that a "transfer of copyright ownership" be in writing to be effective, any assignment of an exclusive right in a computer program must be preceded by a written license to the assigning party from the owner of the computer program. *Freedman v Select Information Systems, Inc.* 221 USPQ 848 (N.D. Ca. 1983). A transfer of copyright ownership includes exclusive licenses, whether or not it is limited in "time or place of effect." 17 U.S.C. §101. Thus, an exclusive license, even if limited to a time period or geographic area is equated with an assignment and can be reassigned by the exclusive licensee. 17 U.S.C. §201(d) A perspective transferee of a licensee's "exclusive" rights should,

therefore, verify the extent of the licensee's exclusive rights as they may be limited in breath and scope. For example, the acquisition of all right, title and interest in the exclusive right to make and distribute copies will not entitle the transferee to create derivation works base on the software being acquired.

Because a non-exclusive license is not considered a "transfer of copyright ownership" the license need not be in writing to be effective. However, state statutes regarding Statute of Frauds may invalidate such a license extending more than one year without a written document evidencing the license. Also distinctive from an exclusive license, a non-exclusive licensee of a computer program may not resell or sublicense its rights unless there is an express authorization to do so from the owner/licensor. Additionally, nonexclusive licenses are revocable absent consideration provided by the licensee.

A non-exclusive licensee may register its license with the Copyright Office resulting in constructive notice of this license. The non-exclusive license, however, whether recorded or not, will prevail over a conflicting transfer of copyright ownership if the license is evidence by a written instrument signed by the owner of the rights licensed. 17 U.S.C. §205(e). Thus, unlike with exclusive license or assignment arrangements, a non-exclusive licensee need not record the license to preserve its senior rights to a successor of interest in a computer program.

Mergers and Acquisitions

There are two approaches to acquisition of a company's assets. One involving the sale of the business by transfer of ownership rights in a corporation via a stock transaction and the other through an asset transaction. A sale of the corporation stock automatically carries with it all the assets and liabilities associated with the business to the extent held by the corporation. An asset transaction requires that each of the assets and liabilities be identified and transferred individually.

If an acquiring party is purchasing the stock of an entire company which is the holder of one or more software licenses, the acquiring party would receive the benefit of these licenses as it steps into the shoes of the acquired party. This would be true even if there were language in the respective license stating that the respective license is not assignable. However, if their does exist explicit language prohibiting assignment of the license rights, the rights to the acquiring business would be limited to the business entity being acquired.

If an acquiring party is purchasing only the assets of a company which assets include software licenses, then the ability to assign such licensed software would depend upon whether there was an explicit prohibition to such assignment. If there is such a prohibition, then the acquiring party will not receive the benefit of the license. Typically, assignment provisions which provide for the non-assignability of the license, do permit assignment to an entity which is purchasing all or substantially all of the licensee's business assets.

Hence, a purchase and sale agreement of a company and/or its assets should contain extensive warranties by the seller as to marketable title to both the tangible software assets and the intellectual property rights associated therewith. Also included in the agreement should be provisions addressing the ownership by the seller of all necessary rights, the procedures used by seller to preserve copyrights and trade secrets in the software, the adequacy of personnel agreements to vest in the seller all rights arising out of development and the absence of any infringement claims. The seller should warrant that the technical documentation is adequate to enable the buyer's programmers to use and maintain the software programs either being used by the business or being marketed by the business. Also, there should be provision addressing third party components included in the software and for assigning if possible third party software licenses.

FAIR USE

A. Fair Use is a limitation on exclusive rights as set forth under the Copyright Act of 17 U.S.C. 106, 106A. The Fair Use doctrine is an equitable rule of reason Sony Corp. of America v. Universal Studios, Inc. 220 UPQ 665 (US Sup. Ct. 1984).

B. The rights under 106 are:

reproduction;

preparation of derivative works based on the copyrighted work;

distribution of the copyrighted work to the public by sale or other transfer of ownership or by rental, lease, or lending;

to perform the copyrighted work publicly;

to display the copyrighted work publicly.

Section 106A gives the author of a work of visual art to certain "moral rights."

C. The rights in 17 U.S.C. 106 and 106A are subject to and permitted fair use of the copyrighted work for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research. 17 U.S.C. 107.

These purposes (listed the preamble of 107) "such as criticism, comment, news reporting, teaching (including multiple copies for classroom use, scholarship, or research" is illustrative and not limited, 17 U.S.C. 101.

D. Fair use is a determination made by considering the statutorily enumerated factors of:

1. The purpose and character of the use, including whether such use is of a commercial nature or for nonprofit education purposes;

2. the nature of the copyrighted work;

3. the amount of substantiality of the portion used in relation to the copyrighted work as a whole; and the effect of the use upon the potential market for, or value, of the copyrighted work. 17 U.S.C. 107.

E. The fact that the work is unpublished shall not in itself bar a finding of fair use if such finding is made upon consideration of all of the above factors.

F. Cases illustrating court's interpretation of "fair use" in connection with electronic works and other relevant works illustrate the scope of fair use permitted copying.

1. A video game enhancer would constitute fair use since it was used for private home enjoyment and is not for commercial, non-profit activity. Lewis Galoob Toys, Inc. v. Nintendo America, 20 USPQ 2d 1662 (NDCA 1991).

2. The use and sale of a pirated computer chip containing 8 television encryption technology and used to descramble programming is not fair use. The computer chip was used by the rightful owner for the commercial purpose of sale to subscribers. In this case, the defendant's use was for flagrant commercial purposes, specifically for reception of scrambled television programming without payment. This use found to directly injure commercial

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1. Publication requires distribution to the Public; Section 101. The House Report explains "public" as persons under no restriction to disclosure of the work. H. Rep. p 138.

present and future markets. Cable/Home Communications Corp. v. Network Productions, Inc., 15 USPQ 2d 1001 (CA 11 1990).

3. A computer program made from a copyrighted work and designed for the same purpose as the copyrighted work was not fair use. The Court found the works substantially similar. The unauthorized use was commercial and there was a likelihood for future harm to the market value of the copyrighted work Kepner-Tregoe, Inc. v. Leadership Software, Inc., 22 USPQ 2d. 1788 (SD Texas 1992).

4. Copying for the purpose of scientific research is fair use where the most prominent feature of copying is to supersede the original and multiply its presence American Geophysical Union v. Texaco, Inc., 23 USPQ 2d 1561 (SDNY 1992). Scientist's research using unauthorized copies was for commercial gain is the fair use. However, if the other factors clearly indicate that secondary use is fair, then any deprivation of royalty revenue may play a very little role in analysis. The fair use inquiry is highly fact-specific and whether any one factor dominates depends on each case, Id., 1577.

5. Two cases dealing directly with computer products are Atari Games Corp. v. Nintendo of America, Inc., 24 USPQ 2d. 1015 (CAFC 1992) and Sega Enterprises Ltd. v. Accolade, Inc., 24 USPQ 2d. 1561 (CA9 1992).

In the Nintendo case, Nintendo designed a program (10NES) to prevent the Nintendo Home Video Game System (NES) from accepting unauthorized game cartridges. The NES console contained a master chip or lock. The authorized Nintendo cartridges contained a slave chip or key. Through this lock and key arrangement, the Nintendo's 10 NES program controlled access to its NES console. Atari made a direct copy of the Nintendo's 10 NES Program. The Court did recognize reverse engineering of object code to understand unprotected ideas in a computer program is fair use: Those elements of a work

that are not original, for example, facts and materials in the public domain may be copied as long as the author's original contribution is not unfairly appropriated. However fair use does not extend to profit from replicating protected expressions (i.e. expression protected under the copyrighted Act).

Disassembly or reverse engineering untainted by use of an illegal copy of the program and necessary to understand the principles and operations of a program is fair use. Accordingly, disassembly of computer chips in rightful possession to learn unprotected ideas and processes and to not to copy protected elements, would be fair use. However, commercial exploitation of misappropriated protected expression would not be protected by the fair use doctrine.

6. In the other computer case, the approximately at the same time as the Atari case, Sega Enterprises, Ltd. v. Accolade, Inc., 24 USPQ 2d. 1561 (CA9 1902), found fair use to cover disassembly for the understanding of unprotected functional elements of the program. This case like the Atari case, involved use of unauthorized game cartridges in a console. However, unlike Atari which made a direct copy of the program, Accolade used a two-step process comprising reverse engineering and testing. In the process, Accolade purchased the Sega Genesis console and three game cartridges, wired a compiler into the console circuitry and generated print-out's of the resulting source code. The Accolade engineers then studied the print-out's in order to identify areas of commonality between the three authorized game programs. This disassembled code was then used through experimentation to discover the interface specifications for the Genesis console. The second step in the process was experimentation involving modifying the programs and studying the results. As a result of the reverse engineering process Accolade created a development manual incorporating the information discovered about the requirements of a compatible game. The manual contained only functional descriptions of the interface requirements and did not include any of the parts

of the original code.

In the second stage, Accolade created its own games for the console relying upon the interface specifications it had obtained in the first stage. As a further refinement, a small segment of code containing 20-25 bytes of header data was added to the console used in the power up sequence. This amount of header data is relative to 500,000 to 1,500,000 bytes. This header of approximately 25 bytes was copied directly by Accolade.

From this set of facts, the Court found disassembly to discover unprotected aspects of a program is permissible under the fair use doctrine. The Court found the Copyright Act intended to promote growth and new expressions based on dissemination of other creative works and their unprotected ideas. Accordingly, where disassembly is the only way to gain access to ideas and functional elements embodied in copyrighted computer programs and where there is a legitimate reason for seeking such access, disassembly is fair use.

This case illustrates the equitable balancing of the four factors in fair use (see D. above). The Court found the first, second, and fourth factors weighed in favor of Accolade while the third factor weighed against Accolade. Accordingly, the court found the weight of evidence in favor of Accolade. Further, the court emphasized the underlying policy of the Copyright Act to secure a fair return for an author's creative effort and to encourage the limited purpose of Copyright Act. This purpose is stated as the production of original works by protecting expressive elements only of those works and by leaving ideas, facts, and functional concepts in the public domain for others to build upon. Id. at 1573, 1574.

BANKRUPTCY

I. Overview

A. U.S. Constitution, Article I, Section 8, grants to Congress the power to establish "...uniform laws on the subject of bankruptcies..."

B. Current bankruptcy law passed under authority of the U.S. Constitution is the Bankruptcy Reform Act of 1974, Public Law 95-598, Title 11 of the United States Code, as amended in 1984 conferring all bankruptcy jurisdiction on Federal district courts.

C. The Bankruptcy Code is in eight chapters; 1, 3, 5, 7, 9, 11, 13,15.

D. Chapter 3, Section 301 et.seq. deals with "Case Administration" and the initiation of a bankruptcy case.

E. For example, a voluntary case may be filed under Section 301 by filing a petition constituting an Order For Relief.

F. Once a petition is filed, all actions based on claims arising before the filing are stayed. This stay applies to all pending cases and any new cases which could have been filed. Section 362. (Certain exceptions are made for support and criminal actions).

G. In 1985 the Court of Appeals for Fourth Circuit decided:

1. Licenses constituting continuing obligations for license or licensees such as notice, forbearance and accounting and payment of royalties, demonstrate an executory agreement as to both parties and is within Section 365(a). Lubrizol Enterprises, Inc. v.

Richmond Metal Finishes, Inc., 226 USPQ 961, 962 (CA4 1985).

H. Executory agreements under the Bankruptcy Code Section 365 (a) may be rejected by the Bankruptcy Trustee. In this case, the Trustee for the bankrupt Richmond Metal Finishes rejected its licensing agreement with licensee Lubrizol, id. at 961.

I. The purpose of Section 365(a) is to allow the Bankruptcy Trustee to strip technology from the licensee and sell it under more advantageous terms to another.

J. In response to the Lubrizol case, Congress passes the Intellectual Property Bankruptcy Protection Act in 1988.

K. The main points of the Act are:

1. The Bankrupt's Trustee may elect or reject the license agreement (same as before).

2. If the Trustee rejects the license agreement and the licensee is satisfied with that rejection, all licensee obligations are terminated (in most cases). If the licensee is dissatisfied, it may retain its rights in "intellectual property" under the license agreement, as of the time of filing the petition. Paragraph Section 365 (n)(1)(A),(B).

3. If the licensee retains its rights, the license agreement continues for the duration of its term. However, licensee must make all payments due. 365 (n)(2).

4. The Trustee must provide all of the Intellectual Property to the licensee, but the Trustee shall not be obligated for any act of

specific performance required under the agreement. 365(n)(4)(B); 365(n)(1)(B).

5. Intellectual property means:
   a. trade secrets
   b. inventions, processes, designs under 35 USC
   c. patent applications
   d. plant varieties
   e. works of authorship under Title 17
   f. mask works protected under Chapter 9 of Title 17. 11 U.S.C. 101.

6. Agreements protecting licensee's technology rights:
   a. Source Code Escrow Agreements:

      The escrow agreement places licensed technology in possession of a third party escrow agent for use by licensee upon conditions.

   b. Source Code Trust Agreement:

      The trust places ownership of the technology in the trust for use by licensee upon conditions.

   c. Essential Terms:
      (1) Description of The Escrow Agency or Trust:
      (2) Release Events

Breach of license

Rejection of license agreement

Failure of bankruptcy trustee to assume the license agreement within 15 days of filing of a petition or to perform the license agreement under the meaning of Sections 365(a)(4)(i)

Termination of the licensor's business or sale of licensor's assets related to the business and which are necessary to meet its obligations under the license agreement.

Failure to meet scheduled maintenance milestones.

(3) Self-help

(4) Right to inspect the escrow deposit or trust deposit.

(5) Failure to meet all terms of escrow or trust agreement is a material breach of the license agreement.

7. Escrow and trust agreements for source code and other technology are generously available from publishers of legal material.

(1) Title: Legal Restrictions on Licensing or Transferring Technology in Asian Countries

(2) Date: October 1993 (24th, Cincinnati, Ohio, U.S.A.)

(3) Source:

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

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(5) Keywords:

Technology Transfer; License Agreement; Regulations; Anti-monopoly Law; Unfair Competition Prevention Law; Regulations to which attention must be paid in technology transfer; Asia; The People's Republic of China ("China"); Taiwan; Republic of Korea ("Korea").

(6) Abstract:

It sometimes happens in the developing countries that, for protection of their domestic industries, foreign companies are subjected to various restrictions when entering into knowhow license agreements or patent license agreements with indigenous companies.

In this paper, we report on regulations to which we should pay attention when entering into license agreements with Asian countries, particularly, China, Taiwan and Korea.

We will also compare regulations among those countries and discuss points requiring particular attention.

Legal Restrictions on Licensing or Transferring Technology in Asian Countries

1. Preface:

In many of advanced countries, introduction of technology from abroad is liberalized. Although careful consideration must be given to any statute which controls any business activities incompatible with free competition in the market (e.g. unfair competition prevention law), it can generally be said that there are no statutes prohibiting technology transfer itself.

To the contrary, in developing countries, it is rather likely that certain restrictions are imposed on technology transfer from abroad, with a view to protecting and developing domestic industries or to preventing foreign businesses from forcing unfair terms of agreements upon domestic companies, taking advantage of a superior position as licensor.

Some of those restrictions occasionally seem to be hard to licensors. When transferring technology to developing countries, licensors in advanced countries should study and become fully acquainted with the regulations of the country to which they transfer technology.

This paper will study regulations applicable to technical license agreements to be entered into with businesses of Asian countries, particularly China, Korea and Taiwan.

2. Regulating Statutes of Asian Countries:

2-1 China:

(1) In China, modernization is being advanced in four fields consisting of manufacturing industries, agriculture, scientific technology and military. Technology transfer from abroad is playing a significant role in the promotion of its modernization policy.

For this reason, China has established and/or improved its patent system and statutes applicable to technology transfer in

order to accelerate needed technology transfer from abroad and to place certain restrictions to prevent the technology transfer from operating as undue restrictions on its own economic structure.

(2) Regulations in China:

Statutes regulating technology transfer in China are represented by:

(i) "Technology Transfer Agreement Control Ordinance" ("Control Ordinance") promulgated in May 1985 and, as its enforcement regulations, "Enforcement Regulations for the Control Ordinance" promulgated in January 1988; and

(ii) "International Joint Venture Enterprise Act," promulgated in July 1979, which regulates joint venture enterprises owned by Chinese and foreign enterprises, and "Enforcement Regulations for International Joint Venture Enterprise Act," promulgated in September 1983.

In the Special Economic Districts and the Economic-Technological Development Districts, such as Shamen and Kuangchou, in addition, local statutes such as the "Shamen Special Economic District Technology Transfer Regulations" ("Shamen Regulations") and the "Kuangchou Economic-Technological Development District Technology Transfer Provisional Regulations" have been enacted since before promulgation of the Control Ordinance.

Although these local statutes have provisions mostly corresponding to those of the Control Ordinance, there are some differences between the local statutes and the Control Ordinance, in which event these local statutes are effective to such extent that they are not contradictory with the Control Ordinance. In the event of technology transfer to these territories, these local statutes will also have to be carefully studied.

(3) Outline of regulations:

(a) Filing of application for approval:

According to Article 2 of the Control Ordinance, an application for approval must be filed with competent authorities when entering into any technology transfer agreement which include agreements on transfer or licensing of industrial property rights, technical knowhow licensing agreements and technical service agreements.

The competent authorities with whom the application for approval must be filed include the Department of Foreign Economy and Trade, and those provinces, autonomous districts and special economic districts to which the Department of Foreign Economy and Trade has delegated its powers (Article 5 of the Enforcement Regulations for Control Ordinance).

Procedures from filing of application to the grant of approval are outlined below:

(i) Written statement of intention to introduce technology from abroad and feasibility study report will be submitted to competent authorities.

(ii) After examination by the competent authorities, their consent to a license agreement will be obtained.

(iii) A license agreement will be entered into in written between the parties thereto.

(iv) Application for approval of the license agreement so entered into will be submitted to competent authorities, together with official documents, within 30 days of the date on which the license agreement was entered into (Article 17 of the Enforcement Regulations for Control Ordinance.

(v) The competent authorities will either approve or disapprove the application within 60 days of the date

on which it accepted the written application. Any application with respect to which no response is given by competent authorities within the above period will be regarded as having been approved (Article 19 of the Enforcement Regulations for Control Ordinance).

(vi) Technology Transfer agreement become effective as of approval date.

(b) Warranties of licensor:

Transfer of technology to China involves such heavy burden of warranties imposed on licensors as cannot be expected in any license agreement in the western nations. The warranties imposed on licensors will be classified into the one on intellectual property right and the one on technical effects:

(i) Warranty on intellectual property right:

Article 6 of the Control Ordinance and Article 11 of the Enforcement Regulations for Control Ordinance require a licensor to warrant that:

- the licensor is the lawful owner of the technology to be transferred;

- the licensor has qualified authorities to transfer the technology;

- if a suit is brought by a third party for infringement of intellectual property rights with respect to the technology transferred, the licensor will defend it; and

- if an infringement of intellectual property rights is established, the licensor will be liable for economic damages sustained by the licensee.

As a result, when licensing a patent, the licensor is required to warrant that the patent involved is valid and, depending on circumstances, the licensor may well be required to warrant validity of the patent as of the time the agreement is entered into as well as for the future.

The term, "economic damages sustained by the licensee," includes not only damage award in the lawsuit but any damages sustained by the licensee resulting from unavailability of using of the transferred technology. Since the warranty of this type involves possibilities of a huge amount of damages forced upon the licensor, oftentimes licensor hesitate to enter an technology transfer agreement.

(ii) Warranty on technical effects:

Article 6 of the Control Ordinance requires the licensor "to warrant that licensed technology is complete, free of any defects, effective and capable of attaining the technical objectives provided for in the license agreement." Article 9 of the Enforcement Regulations for Control Ordinance also provides, the licensor shall warrant that technology, documents and materials furnished by it are complete, accurate and effective and capable of attaining the technical objectives stipulated in the license agreement.

While knowhow license agreements often involve a warranty on technical effects in most of the countries, such warranty is required in patent license agreement as well in China. It depends largely on basic engineering ability of the licensee whether or not intended effects may be produced with successful manufacturing of products of quality as contemplated. For this reason, it will be very important, before you agree to details of what you undertake to warranty, to make yourselves fully familiar, by visiting plants in China or otherwise, with basic engineering level of licensees-to-be and the plant environments which could affect the expected technical effect, such as stable supply of electricity and raw materials, water supply and drainage.

(c) Restrictive provisions:

Article 9 of the Control Ordinance sets forth the following restrictive provisions of license agreements:

(i) Paragraph 1 (tie-in provision):

A licensor is not permitted to require a licensee to accept any collateral condition which is irrelevant to the technology transfer. For example, any provision, in which, a licensor require a licensee to purchase any technology, product or equipment which is not necessary for the technology transfer, taking advantage of its position as a licensor, is prohibited.

(ii) Paragraph 2 (Restrictions on purchase of raw materials or parts):

A licensee must be free to purchase raw materials, parts and equipment from other sources at its own will.

(iii) Paragraph 3 (Restrictions on improvements in transferred technology):

Any provision restricting licensee's technical improvements or technical developments on the transferred technology is prohibited.

(iv) Paragraph 4 (Restrictions on introduction of competitive technology):

Any provision restricting introduction of competitive technology by a licensee from other sources is prohibited.

In Japan, such provision is lawful in the case of exclusive license agreement. In China, any provision restricting use of competitive technology is not allowed even though under exclusive license agreements.

(v) Paragraph 5 (Grant-back provision):

Any provision preventing parties from exchanging of improvement technology on an equitable basis is prohibited. As a result, free "grant-back" and "assign-back" provisions are prohibited.

Ownership in improvement technology vests in the improving party (Article 12 of the Enforcement Regulations for Control Ordinance).

(vi) Paragraph 6 (Restrictions on quantity of production or sales price):

Any provision restricting quantity of production or sale or restricting production to popular type goods is prohibited. Also, it is regarded as unlawful and prohibited to restrict sales price or resale price.

(vii) Paragraph 7 (Restrictions on purchasers or export):

Any restriction on purchasers, e.g. to a department store, or on export of licensed products is prohibited.

Restriction on exports to those countries or territories, in which a licensor already has an exclusive license agreement or exclusive agency agreement with third party may be provided, however (Article 14 of the Enforcement Regulations for Control Ordinance).

(viii) Paragraph 8 (Prohibition of use of transferred technology after termination of license agreement):

Use of transferred technology after expiration of the agreement can be prohibited where the agreement includes patent rights.

If the transferred technology is knowhow, a knowhow license agreement is not construed as automatically prohibiting the licensee from use of the knowhow after expiration of the

agreement (Article 15 of the Enforcement Regulations for Control Ordinance), possibly because a know how license is taken as assignment of knowhow in China.

(ix) Paragraph 9 (Payment of license fee under expired patents):

No payment of license fee may be claimed against licensees with respect to any unused patents or expired patents.

In other words, the minimum royalty provision may not be included in any license agreement with any Chinese party, in that it amount to requiring license fee for patents not actually used.

(d) Royalty:

Provision on royalty is provided for under the International Joint Venture Enterprise Law. It requires that the license fee be fair and reasonable, and generally on a running basis, with rate thereof not to exceed the general international standard.

The rate of license fee actually in use generally range between 2% and 3%. It is very unlikely that it exceeds 3.5%.

Payment of license fee may be made on the basis of running, lump sum or installment payment. The minimum royalty provision may not be incorporated in a license agreement, as referred to previously.

(e) Confidentiality:

The term of confidentiality shall not generally exceed the term of the license agreement.

If, for any particular reason, the term of confidentiality needs to exceed the term of the license agreement, the term of confidentiality in excess of the term of the license agreement may be provided by specific reference to it in the agreement form and stating the reason therefor at the time of applying for an approval (Article 13 of the Enforcement Regulation for Control Ordinance).

(f) Submission of prior license agreements:

Article 12 of the Shamen Regulations, for example, states that, if a licensor has previously transferred to a third party technology which is being transferred to a licensee, the licensee is entitled to request the licensor for a duplicate copy of that technology transfer agreement previously entered into with the third party. Thus, a prior license agreement which is confidential be tween the parties may be forcibly exposed to third parties.

(g) Term of license agreement:

Generally, the term of a license agreement may not exceed ten (10) years (Article 8 of the Control Ordinance).

If the term of a license agreement entered into exceeds 10 years, an application for approval thereof must be filed and notification thereof made with the competent authorities, with full description of circumstances requiring it, at the time when the application for approval of the license agreement is filed (Article 21 of the Enforcement Regulations for Control Ordinance).

2-2 Korea

(1) Regulations in Korea:

Technology transfer into Korea is regulated under Anti-monopoly Act and Foreign Capital Introducement Act. In this section, we will discuss restrictions on technology transfer into Korea, with emphasis on those portions of the statutes which relate to technology transfer agreements.

The purpose of the Anti-monopoly Act is to encourage fair and free competition and promote the sound development of the national economy by preventing abuse of controlling position of enterprises and excessive concentration of economic power and by regulating unreasonable restraints of trade and unfair trade

activities. With the idea as outlined above, various kinds of control are in effect. With respect to international agreements, Article 32 of the Anti-monopoly Act states that any enterprise or any association of enterprises shall not enter into an international agreement involving unreasonable restraints of trade, unfair trade activities or resale price maintenance activities. It designates seven types of international agreements including the technology transfer agreement, as being subject to control under the Act. The Fair Trade Commission announced in 1990 the Guidelines for Unfair Trade Activities with respect to International Agreements (hereinafter, "the Guidelines") as guidelines for such international agreements. The technology transfer agreement is examined under Article 5 of the Guideline.

(2) Outline of regulations:

(a) Report of international agreements:

(i) In the event an enterprise or an association of enterprises enter into an international agreement, he shall report to the Fair Trade Commission thereof within 30 days of the date on which it is entered into (Article 33 Para graph 1 of the Anti-monopoly Act).

(ii) Any technology transfer agreement, payment of consideration of which is to be made by means of foreign currency and term of which exceeds three years shall be reported to the Fair Trade Commission.

(iii) In the event any person or entity, entering into an international agreement which is required to be filed, has failed to file such an international agreement within 30 days of the date of the agreement into or has made a false report, such a person or entity shall be liable to a fine.

(b) Contents of the Guideline

The following activities constitute unfair trade activities under the Guideline.

(i) Article 5 (1) of the Guideline -- Restrictions on purchase of raw materials and components:

Unjustly imposing any obligation on licensee to purchase from the licensor or any person or entity designated by the licensor raw materials or components necessary for the manufacture of products produced with technology furnished by the licensor. However, such cases are excluded where the effectiveness of products based on licensed technology cannot be guaranteed unless licensee purchases the raw materials or components from licensor or any person or entity designated by the licensor, or the raw materials or components are patented products of the licensor, or the raw materials or components are based on knowhow of the licensor.

(ii) Article 5 (2) of the Guideline -- Restrictions on sale or export:

Providing any territory to which licensee is prohibited to sell or export contract products, or licensee is required to get a prior approval of the licensor when licensee sells or export contract products. However, such cases are excluded where restricted area falls into within one of following paragraphs:

- The licensor has a patent on contract products;

- The licensor is constantly conducting sales activities in respect of the contract product;

- The licensor has granted an exclusive license to a third party; or

- The licensor is restricted to export products in question under any statute of licensor's country.

(iii) Article 5 (3) of the Guideline -- Restrictions on the sales agent or distributor through which sales are made, sales quantity or sales price of the licensee:

Restrictions on the sales agent or distributor through which sales are made, sales quantity, sales method, sales price, or resale price of the licensee in respect of the license product. However, the above restrictions are allowed where licensee is allowed to export to the territory falling within one of the paragraphs i), ii) or iii) mentioned in Article 5(2) above.

(iv) Article 5 (4) of the Guideline -- Restrictions on handling of competitive goods or technology:

Making it obligatory for the licensee not to handle any goods which are in competition with contract goods or not to employ technology which is in competition with contract technology during the term of agreements. However, such case is excluded where licensee is granted exclusive license. Even if in the case of exclusive license, it falls under unfair trade activities that licensor imposes any restrictions on licensee on handling any goods or employing any technology which has been already handled or employed by licensee before the agreement is made, or licensor withhold its right to use the licensed technology in the licensed territories.

(v) Article 5 (5) of the Guideline -- Restrictions on handling of competitive goods or employing technology after termination of the license agreement:

Restrictions on handling by the licensee of competitive goods or employing competitive technology during a certain specified period following expiration or termination of the

license period. However, such restrictions are allowed and may continue for the original license period in the event the agreement is early terminated by licensor for reason attributable to the licensee.

(vi) Article 5 (6) of the Guideline -- Prohibition of use of knowhow after termination of Agreement:

Prohibition of using knowhow after the license agreement is terminated, except where such termination is the result of a cause attributable to the licensee.

(vii) Article 5 (7) of the Guideline -- One-sided calculation of license fee:

One-sided determination of a license fee by the licensor, without a calculation formula expressly set forth in the license agreement.

(viii) Article 5 (8) of the Guideline -- Requirement for payment of license fee on other than contract products:

Requirement for payment of a license fee on products other than contract products.

(ix) Article 5 (9) of the Guideline -- Delay in furnishing technology without justifiable reason:

Failure to furnish contract technology over an unreasonably long period without justifiable reason after the effective date of the license agreement or prepayment of the license fee.

(x) Article 5 (10) of the Guideline -- Obligation to pay for advertisements or publicity:

Imposition on the licensee of obligation to pay a predetermined amount of advertisements or publicity in respect of

contract products.

(xi) Article 5 (11) of the Guideline -- Tie-in with other technology:

Forcing the licensee under a patent on a certain product to be licensed under unnecessary patents.

(xii) Article 5 (12) of the Guideline -- One-sided designation of arbitration organization:

One-sided designation by the licensor of an arbitration organization or court for resolution of disputes under the license agreement.

(xiii) Article 5 (13) of the Guideline -- Creation of any conditions disadvantageous to the licensee in the light of international license agreement practices:

Creation of any conditions disadvantageous to the licensee in the light of international license agreement practices. Incorporation in the license agreement of, among others, the grant back provision, minimum royalty provision (applicable under non-exclusive license), or one-sided termination provision favoring the licensor will come under this section.

(c) Foreign Capital Introducement Act:

Purpose of the Foreign Capital Introducement Act is to facilitate efficient control of foreign currencies and introduction of technology from abroad.

A provision cited below is contained in the Act in connection with technology transfer from abroad:

A technology transfer agreement, when entered into, shall be reported to the Minister of Finance. Unless required by the Minister of Finance to be supplemented or adjusted, the report shall be deemed to be accepted on the day on which 20 days have

elapsed after it is made. If the Minister of Finance has required supplementation to or adjustment in the report, the report shall be accepted after such requirement is met. The technology transfer agreement accepted upon such application shall be effectuated within six months of the date on which it is accepted. (Article 23 of the Act)

The Minister of Finance shall examine the following aspects of the report:

(i) Technology

(ii) Terms and conditions of the proposed contact

(iii) Whether a technology to be induced falls under Article 3 (Standards of Foreign Capital Inducement) (Article 23 of the Enforcement Decree for Foreign Capital Inducement Act)

Any technology transfer agreement shall not be accepted pursuant to the provision of Article 3 if:

(i) its principal purpose is only to make use of an monopoly sales right;

(ii) its principal purpose is only to sell raw materials, parts or accessories;

(iii) it has unfair contents;

(iv) it is necessary to protect manufacturers of new domestic technical products; or

(v) it is unsuitable under any other statute to introduce the technology in question. (Article 24 of Enforcement Decree)

2-3 Taiwan

(1) Principal statutes of Taiwan relating to technology transfer agreements are, as follows:

(i) Foreigners Investment Ordinance, promulgated on July 14, 1954 and as most recently revised on May 26, 1989;

(ii) Technical Tie-Up Ordinance, promulgated on August 9, 1962, as revised on May 29, 1964; and

(iii) Investment Inducement Ordinance, promulgated on September 10, 1960, as revised on January 26, 1987.

This paper will deal with the "Technical Tie-Up Ordinance" which has the closest relations with license agreements.

According to Article 4 of the Technical Tie-Up Ordinance, a patent right or knowhow is required to satisfy any one of the following requirements:

1. Capable of producing or manufacturing a new product;

2. Capable of increasing production, improving quality, or reducing production cost; or

3. Capable of making an advantageous improvement in administration, control, designing, operating techniques, or otherwise.

Trademark licenses are not allowed, except that licenses on trademarks of foreign enterprises are subject to the "Standards for Treatment of Licenses on Trademarks of Foreign Enterprises."

(2) Outline of regulation:

(a) Procedure for obtaining approval:

Economic policy of Taiwan aims at internationalization and liberalization. Technical tie-up of Taiwanese enterprises with foreign businesses are increasing year after year.

Application for approval of technical tie-up project must be filed to the competent authorities.

The technical tie-up agreement is mainly examined in examination of applications for approval of technical tie-up projects.

There is no discriminative provisions, by reason of differences in industrial sectors or in nationalities, with respect to examination of technical tie-up agreements. In the actual examination phase and/or government's administrative guidance phase, however, there are certain minor differences in the approaches of regulating authorities.

(i) By Industrial Sectors:

Basically, industrial fields of a proposed technical tie-up project falls under has nothing to do with examination approaches taken by the regulatory authorities.

Nevertheless, administrative guidance appears to be different with respect to certain fields of industries.

With respect to examination of technical tie-up applications, each of specified industrial sectors is subject to competent government authorities under which it falls.

For example, the banking, financing and insurance industries are subject to the Finance Department, agriculture to the Agricultural Commission, building and construction to a competent office of the Domestic Administration Department, environmental protection to the Environmental Protection Agency, medical and sanitary goods to the Public Health Agency, and the greater part of the other industrial sectors to either the Industrial Bureau of Economic Department or the Industrial Science and Technology

Agency.

The Government is very stringent to sectors of industries regarding environmental contamination. Careful attention must be paid if, as the result of a proposed technical tie-up, environmental contamination is likely to take place. With respect to any industry classified as a contaminous industry designated by the Government, it is extremely difficult to obtain an approval.

(ii) By Nations:

As far as technical tie-up is concerned, there is no legal ground supporting any discriminatory approaches taken by the Government. Basically, examination procedures are followed on an equal basis.

In administrative guidance given to Japanese enterprises which make investments in or propose technical tie-up with production businesses in Taiwan, the Government's examination standards are said to be relaxed because of their significant contribution to production businesses of Taiwan.

<Standards of approval for technology transfer>

The Investment Examination Commission of the Economic Department examines applications for technology transfer on the basis of the "Guidelines for Investments in Taiwan by Overseas Chinese and Foreigners." According to the Guidelines, the position of Taiwanese enterprises is very likely to be inferior to foreign businesses when negotiating a technical tie-up. For the purpose of examination of applications for approval of technical tie-up, therefore, emphasis will be placed on:

(i) Elimination of unreasonable requirements which otherwise would be imposed upon Taiwanese makers by foreigners in an advantageous position and of disadvantageousness to Taiwanese enterprise resulting from such requirements;

(ii) whether or not the proposed technical tie-up is necessary and whether or not the proposed royalty and tie-up period are reasonable; and

(iii) minimization of outflow of foreign currency.

(b) Royalty:

Such restrictions under the Foreign Currency Control Ordinance that used to serve as an criterion for examination of the proposed payment of royalty having been removed, royalty rates now generally range between 3% and 5% of the net sales, with those exceeding 5% occasionally approved on a case-by-case basis.

For the purpose of calculation of royalty in the case of technical tie-up of general manufacturers, the term "net sales price" is defined as gross sales less taxes, freight, insurance, advertisements, commissions, discounts, raw materials supplied by licensor, CIF price of parts and customs duties.

(c) Term of agreement:

The term of the tie-up agreement is generally three to five years.

(i) If technology required by the licensee is not of high level, the term of tie-up agreement will not exceed five years.

(ii) If the tie-up agreement involves transfer of technology of high level required over a long period of time, a tie-up period of not less than five years may be approved.

(iii) If patents are involved in the tie-up agreement, the term may be decided based on the expiration date of the patents.

(d) Restrictive Provisions:

According to the Standards of Approval, any technology transfer agreement must be based on the "principle of reasonableness and lawfulness," and any unreasonable provision of the agreement shall be deleted or modified at the time of examination.

(i) Sale of any technical tie-up product may not be restricted to Taiwan market only. Such restrictive provision, if any, contained in an agreement shall be removed or modified to include sales in any territories or countries.

(ii) Any "payment of minimum license fee" provision, if required by the licensor, shall likewise be deleted.

(iii) Any provision requiring payment of interest in the case of delay in payment of royalty by the licensee will be deleted.

(iv) Any provision requiring the licensee to purchase raw materials designated by the licensor will also be deleted or modified so as to allow the licensee to purchase any raw materials selected and purchased by the licensee.

(v) If requested by the licensee, the licensor must send its expert employees to Taiwan for technical training. The licensor must receive employees of the licensee sent by the licensee to learn and discuss technology at the licensor's facilities or plants.

(vi) Article 9 of the Technical Tie-Up Ordinance provides, "Sales market of the product shall not be restricted to Taiwan market." No agreements shall violate this

provision.

(e) Warranty on technical effects

Although not expressly provided for in the law, warranty on technical effect will be examined on the basis of whether it is reasonable or not.

(f) Patent non-infringement warranties:

The patent non-infringement warranties may include the warranty indemnifying and holding the licensee harm less from any infringement claim by third parties and the warranty excluding any infringer of licensor's patents.

(g) Restrictions on technical tie-up agreements with competitors:

Although there is no express statutory provision on it, any restrictions imposed on licensee not to enter a technical tie-up agreements with competitors are likely to be regarded as falling under "conditions unduly restraining business activities of the other party," as referred to under Paragraph 6 of the Article 19 of the Fair Trade Law put in effect in February 1992.

2-4. Other Asian Countries:

(1) Singapore:

Approval of the Singapore Government is not necessary regarding transfer of technology to Singapore. A 40% withholding income tax is imposed on royalty. If a non-resident licensor desire to enjoy a benefit of reduction of the tax rate, he must submit the technological transfer agreement involved to the Economic Development Board or the Inland Revenue Department for examination.

As a statute technology transfer agreements, the Patent Law provides for a compulsory license provision which designates

patents on certain types of inventions set forth in the Law and on inventions on foodstuffs, medical supplies, and surgical and treatment devices as being subject to the compulsory licensing. There is no restriction on the royalty amount, nor is there any restrictive foreign exchange regulation applicable to remittance of the royalty.

(2) Malaysia:

A technology transfer is subject to an approval of the Ministry of Trade and Industry prior to the signing of technology transfer agreement. The following restrictive provisions apply to any technology transfer agreement:

(i) A technology transfer agreement must set forth nature and outstanding features of the technology transferred, scheduled production, quality and use of products, and method of technology transfer.

(ii) The technology to be transferred must be the latest technology available to the licensor, including patents, whether pending or registered.

(iii) The term of the technology transfer agreement shall be less than five years, subject to a prior approval of the Ministry of Trade and Industry with respect to renewal.

(iv) Where the patent term exceeds the term of the agreement, the agreement must provide for continued use of the patent after expiration thereof.

(v) The technology transfer agreement is subject to the Malaysian law as the governing law. The arbitration clause contained in it must specify that arbitration shall be subject to the Malaysian arbitration law, UNCITRAL arbitration provision, or the arbitration

center regulations for the Kuala Lumpur district.

Royalty rate is generally 2-3% of the net sales price, with remittance freely made up to M$10,000. Any remittance exceeding M$10,000 is subject to an approval by any authorized foreign exchange bank.

(3) Thailand:

In Thailand, it is not necessary to register a technology transfer agreement, except for patent license. The patent license is subject to restrictive provisions in the Patent Law, and the Law on Price Cartel and Anti-monopoly also contains similar restrictions. The restrictive provisions contained in the Patent Law is outlined, as follows:

(i) Licensing of a patent must be registered at the Department of Commercial Registration and approved by its Director General.

(ii) In connection with grant of a patent license, the licensor shall not impose such conditions or restrictions of rights upon the licensee as could retard development of domestic commerce, manufacturing or agriculture.

(iii) Licensor shall not require the licensee to pay royalty after expiration of the patent right.

The Law on Price Cartel and Anti-monopoly has a provision as follows:

- Any restrictive provision contained in a patent license agreement to unduly protect interests of the licensor beyond the protection afforded under the Patent Law, Commercial Law or Copyright Law shall be illegal.

Other matters which are restrictive or otherwise require careful consideration include the following:

(i) Remittance in foreign currency of royalty and technology transfer fee shall be subject to the directions of the Bank of Thailand.

(ii) The Trademark Law contains no provisions for the license of the trademark. Thus, the trademark right may not be transferred except by assignment of trademark.

(iii) Unlimited confidentiality obligation and prohibition of use of knowhow after expiration of the agreement are held to be against public policy and invalid under the Civil and Commercial Law.

(iv) The arbitration clause of the technology transfer agreement may stipulate arbitration in a foreign country. Also, the governing law applicable to the agreement may be laws of a foreign country.

(4) Philippines:

Technology transfer agreements must be submitted to and registered with the Technology Transfer Board of the Government. Such agreement involving payment of royalty is subject to an approval of the Technology Transfer Board, and any such agreement, if not approved, becomes void. Any technological transfer agreement not involving payment of royalty needs only to be so reported to the Board.

Standards for approval by the Technology Transfer Board include the following:

(i) Whether the technology is appropriate

(ii) Whether royalty for the technology is appropriate

(iii) Whether the agreement comply with the Philippine law

(iv) The term of agreement shall not exceed five years. An automatic renewal clause must not be included.

No technological transfer agreement shall provide for:

(i) restrictions on use of the transferred technology after expiration of the agreement, except where it is due to failure of the licensee to perform the agreement;

(ii) requirement for the licensee to pay royalty after expiration, termination or invalidation of patent rights or other industrial property rights involved;

(iii) restrictions on access of the licensee to any improvement inventions made by the licensor.

(iv) Assignment to the licensor of any improvement technology made by the licensee without any consideration;

(v) prohibition of challenging validity of patents by the licensee;

(vi) restrictions on obtaining patent licenses on the competitive technology by the licensee from third parties, or prohibition of sale or manufacture of competitive products;

(vii) imposition on the licensee of an obligation to purchase raw materials or equipment from the licensor, except where the purchase price is on an international market price level or lower than prices at which such materials may be available from third parties;

(viii) restrictions on export of products employing the licensed technology;

(ix) restrictions on quantity, sales prices, or resale prices of the product; or

(x) restrictions on improvement on the licensed technology.

Other restrictions not covered in the foregoing include a compulsory licensing provision in the Patent Law. Since this compulsory license is non-exclusive, licensor still may entered into any license agreement with third parties. In such event, royalty cannot exceed 5% of the net sales price and, especially in the case that the technology designated by the Board of Investment, it cannot exceed 3%.

With respect to any technology transfer agreement which is not a compulsory license, royalty rates usually range between 2% and 3% of the net sales price or local value added. With respect to renewal of a technology transfer agreement, the royalty will be reduced to 1% of the net sales price or local value added. In the event of a license agreement on specifications of trademarks, royalty is generally 1% of the net sales price or local value added. Remittance of royalty to the licensor abroad will be authorized by the Central Bank of the Philippines, subject to approval of the Technology Transfer Commission and upon payment of income tax imposed on the royalty.

3. Comparison of Regulations between Asian Countries:

Regulations of technology transfer between China, Korea and Taiwan are compared on the attached comparison table. Generally speaking from the standpoint of the licensor, restrictions imposed by China are fairly strict and, in the preparation stage, careful consideration should be given with particular reference to the following:

(i) Particularly in connection with transfer of technology into China, strict warranty is required with respect to effectiveness of the technology and the validity of the patents;

(ii) Provisions relating to the anti-monopoly restrictions of the three nations are similar to those of advanced countries. In China, however, it is prohibited to restrict introduction of competitive technology even on the grounds of any exclusive license agreement.

(iii) China and Korea prohibit restricting use of knowhow after expiration of the license agreement.

(iv) Royalty between 2-5% is generally held reasonable. Royalty of exceeding 5% likely to raise an issue. The minimum royalty may not be allowed in China, even under exclusive license agreements.

(v) There is no particular restrictions with respect to the term of license agreement, except that, in China, it may not exceed ten years.

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	China	Korea	Taiwan
Application for approval	Application-approval system, under which: * the license for which the approval is sought must not retard self-sustaining technical development; and * the application must be filed within 30 days of the agreement.	Report-approval system, under which: * report is examined under Foreign Capital Inducement Act and Anti-Monopoly Act; and * report must be filed within 30 days of the license agreement.	Application-approval system
Warranty as to quality	Effectiveness of all transferred technologies are required.	Not specified.	Not specified, except for examination as to whether the warranty clause is unreasonable.
Warranty as to patent	The licensor must warrant that the transferred technology will not infringe patents of third parties and that the patent will not be invalid throughout the term of the agreement.	Not specified.	Not specified.
Restrictive provisions			
Grant back	Not allowed (because it constitutes unfair trade).	Not allowed (because it constitutes unfair trade).	Not allowed (because it constitutes unfair trade).
Introduction of competitive technology	Any restrictive provision is invalid.	Any restrictive provision is invalid (except under exclusive license)	Any restrictive provision may be invalid. (except under exclusive license)
Tie-in	Constitutes unfair trade provision and not allowed.	Constitutes unfair trade provision and not allowed.	Constitutes unfair trade provision and not allowed.
Restrictions on quantity of production	Constitutes unfair trade provision and not allowed.	Constitutes unfair trade provision and not allowed.	Constitutes unfair trade provision and not allowed.
Restrictions on price	Constitutes unfair trade provision and not allowed.	Constitutes unfair trade provision and not allowed.	Constitutes unfair trade provision and not allowed.

	China	Korea	Taiwan
Restrictions on export	Not allowed, except for restrictions on export to nations in which an exclusive license is granted, etc.	Not allowed, except for restrictions on export to nations in which an exclusive license is granted, etc.	Not allowed, except for restrictions on export to nations in which an exclusive license is granted, etc.
Use of knowhow after expiration of license agreement	Allowed, subject to restriction if patent rights survive.	Allowed, subject to restriction if patent rights survive.	
Royalty	Must be in principal on a running basis, but lump sum and installment payments are also allowed (2-3% are deemed appropriate, 3.5% would be the maximum allowed).	Royalty exceeding 5% may cause an issue as being unreasonable.	Not specified. Royalty exceeding 5% may well be approved on a case-by-case basis.
Minimum royalty	Not allowed, even under exclusive agreements.	Not allowed, except under exclusive agreements.	
Term of agreement	May not exceed 10 years from the date of approval, except for special district in which it may not exceed 5 years.	Not specified.	3-5 years as a rule but may exceed 5 years. patent license agreement may be made for entire duration of the patents involved.
Confidentiality obligation	Terminates upon expiration of the agreement. where confidentiality obligation survives expiration of the agreement, an application with full descriptions, including the necessity for it, must be submitted in advance at the time of filing of the application for approval of the agreement.	Not specified.	Not specified.

(1) Title: Technology Licensing in the Peoples Republic of China

(2) Date: October 1993 (The Twenty-fourth International Congress Convention in Cincinnati, Ohio)

(3) Source:
- (1) Source PIPA
- (2) Group USA
- (3) Committee 2

(4) Author: Charles C. Krawczyk - Harris Corporation

(5) Key Words: Licensing of Technology, PRC, Contract Objectives, Warranties concerning quality and capacity

(6) Abstract:

The issue of guaranties concerning contract objectives lies at the heart of most technology transfers with the PRC. This paper discusses the Regulations on Administration of Technology Import Contracts of the Peoples Republic of China ("Regulations") and the Detailed Rules for Implementation of the Regulations ("Detail Rules") as they apply to the required warranties concerning the objectives of the contract that involve quality of the licensed product manufactured in the PRC, and the capacity of the manufacturing facilities in the PRC. The paper also discusses some of the practical aspects involved in negotiating with the PRC.

TECHNOLOGY LICENSING IN THE PEOPLES REPUBLIC OF CHINA

A. GENERAL

The issue of guarantee concerning contract objectives lies at the heart of most technology transfer contracts with the PRC, the most onerous one being that the licensor must guarantee the capability of the technology to achieve these objectives.

B. BASIC PRC LAWS

The primary PRC law pertaining to technology transfers includes the following:

1) Regulations on Administration of Technology Import Contracts of the Peoples Republic of China (1985) ("Regulations").

2) Detailed Rules for the Implementation of the Regulations on Administration of Technology Import Contract of the Peoples Republic of China (1988) ("Detailed Rules")

A copy of the Regulations and Detailed Rules are included in the appendix.

The Regulations and Detailed Rules address "objectives", "goals" and "targets" of the contract, which for the purpose of the paper will be all considered as "objectives".

The Regulations and Detailed Rules contain the standards and methods for determining whether the technology has achieved the objectives and the bearing of responsibility for the risk.

C. PRACTICAL ASPECTS OF NEGOTIATING IN THE PRC

1) Competition

An example of competition for the PRC market took place several years ago when the PRC Government decided that there was a need to improve the country's communications, particularly in the telephone technology. At the time the PRC decided to promote the development of ten (10) manufacturing facilities within the country based on foreign telephone technology. The concept was that once the ten (10) joint venture partners or technology

transfer companies were selected, the borders would be closed to other outside companies. This policy created a high level of competition, in that companies felt if they were not selected, they would be foreclosed from the PRC market. At the time, it appeared that the PRC was intending to enforce this policy. However, it appears that the policy is somewhat flexible since the PRC is now belatedly discussing a possible arrangement with others. In any event, it can be expected that at least three (3) companies will be competing for each opportunity in the PRC. Potential licensors are at times advised that they were in a "Dragon Race" with a number of other companies and must be willing to compromise their position significantly to be awarded the contract.

2) Negotiating With PRC Government Agencies

As you may know, all the legal aspects of contract negotiations are carried out by an agency of the Government. The technical matters are handled by the contract factory. This is quite a disadvantage to the licensor, since the agency, as the central manager of all the negotiations throughout the PRC for a given technology, knows all other offers, knows the PRC law, knows the concessions that can be made, etc. Hence, it is most important, and it cannot be stressed enough, to have at least one person on the negotiation team that has a significant amount of experience dealing with the PRC. It is important to have a thorough understanding of the PRC law and to also have practical knowledge as to how to best resolve serious controversies, and particularly as to how such controversies have been resolved in the past.

3) Initial Negotiations

i) Initial Proposal

a) The PRC often sends request for bids. Each and every aspect of the PRC document needs to be considered in detail and addressed. If any detail is not addressed in the initial licensor proposal, it will be brought out during contract negotiations. Objectives such as expected product quality and manufacturing capacity are often contained in the request for bid.

b) It should be understood that even if Licensor's proposal does not address these objectives, warranties for these objectives are required by the Regulations and Detailed Rules. Eventually the warranties will become part of the contract.

c) Licensor's price quoted in the initial proposal should take into consideration an understanding of the potential financial impact of the warranties and other requirements of the

Regulations and Detailed Rules. Once a price is quoted, it is highly unlikely that it will be increased because of the eventual addition of the required contract warranties.

d) A member of the legal staff familiar with the PRC Regulations and Detailed Rules should be included as a team member and should be involved in the early discussions and strategy for the initial proposal.

ii) Memorandum of Understanding (MOU)

a. A MOU prepared by the PRC may include references to warranties. Even though the MOU may not be binding, it will be applied heavily in the contract negotiations, based on good faith dealings. As in the case of the initial proposal, MOU needs a thorough review by knowledgeable legal staff.

4) Preparation for Contract for Negotiations

Another important issue is that licensors should be prepared to develop their own contract. The contract should reflect a well thought out business plan that addresses the objectives of the contract in the form of warranties and representations. The PRC will prefer to negotiate from their contract, but they can be and should be convinced to negotiate from the licensor's contract. This is because a well prepared licensor's contract usually reflects a more thorough business plan that will move the negotiations along much faster. The contract should be prepared to comply with the PRC contract law requirements and to conform to the organization and the style preferred by the PRC so as to minimize conflicts, but to also be able to obtain appropriate PRC government approval. This is quite a challenge, but experience shows the task can be successfully accomplished.

5) Qualified Interpreter/Translated Contracts

Although the PRC negotiators have a very good understanding of foreign languages, it is very important to include an interpreter on the licensor's negotiation team that is knowledgeable in the technology involved. Further, although not necessary, it is preferred to provide draft copies of the proposed agreement in the Chinese language. This will expedite negotiations. Since the PRC requires the final contract to be prepared and be valid in both languages, the contract will need to be eventually translated to Chinese in any event. This will also allow the licensor to control the accuracy of the translation.

6) Duration of Negotiations

Be prepared at the time of arrival to advise the PRC negotiators of your return date, and be prepared to leave at that time, even if it is necessary to return on a later date. Otherwise there is no time pressure to close issues, and experience shows that the negotiations will drag on.

7) PRC Government Is A Party to the Contract

The PRC government agency involved in the negotiations will become a party to the contract as well as the contract factory. This becomes an important distinction to remember when a non-exclusive license is being provided. Should a second technology transfer opportunity arise in the PRC, the PRC will take the position that the government is licensed and therefore no additional payment is due for the technology for the second factory.

D. LEGAL ISSUES CONCERNING WARRANTIES

1) General

The discussions of this paper will be directed principally to warranties that pertain to the capacity and quantity type objectives of the contract.

2) Analysis of PRC Regulations and Detailed Rules

i) Introduction

On January 20, 1988, the PRC Ministry of Foreign Economic Relations and Trade ("MOFERT") of the PRC promulgated the Regulations and Detailed Rules. The purpose of the Detailed Rules, is to clarify the application and approval procedures for technology contracts.

ii) Abstract of Analysis

The Regulations and Detailed Rules include a complex set of broad and interrelated provisions that govern technology transfers in the PRC.

Understanding the Regulations and Detailed Rules is important. Perhaps even more important is to understand how these Regulations an Detailed Rules interact within a technology contract.

The most critical and onerous issues posed by the Regulations and Detailed Rules concern warranties that the technology will enable the PRC company to reach the objectives of the contract and that involve

the allocation of responsibilities concerning the production of licensed products in the PRC. The contract is required to identify objectives such as, the quality of the products and the capacity of the manufacturing facilities in the PRC. The contract will also define the responsibilities of the parties for failure in achieving these objectives. Hence, particular attention needs to be directed to the measures for achieving the objectives. In the case of quality and capacity such objectives are determined by technical specifications, acceptance tests and production rates.

iii) Discussion

a) Scope of Contracts Covered

Technology import contracts are required to be submitted for examination and approval by MOFERT. The following is a summary of six (6) types of contracts specified:

1) Contracts for the assignment or licensing of industrial property rights (ie. involving patents and trademarks.

2) Contracts for the licensing of proprietary technology; (ie. supply of know how for manufacturing goods);

3) Technical service contracts; (ie. utilizing technology to provide feasibility studies, engineering designs, improvement in production, etc.);

4) Contracts for cooperative production or design that include a transfer of industrial property rights or proprietary technology, or the provision of technical services;

5) Contracts for the importation of complete sets of equipment, production lines, and key equipment that include a transfer of industrial property rights, proprietary technology and technical services;

6) Other technology import contracts deemed subject to examination and approval.

b) Factors Considered For Approving Contracts

Three (3) types of provisions that are used in determining whether a technology import contract will be approved by

MOFERT, ie., (1) terms preventing approval; (2) terms specifically required in the contract; and (3) terms that are prohibited. The Regulations and Detailed Rules are abstracted below for the purpose of simplifying the understanding of the same. Those provisions relating to quality and capacity type warranties have been underlined for easier identification.

1) Terms Preventing Approval

These are contract provisions that if not corrected within the period specified by MOFERT, the contract will not be approved:

a) The contract violates current state laws or regulations and/or is detrimental to the public interest.

b) The contract is detrimental to state sovereignty.

c) The contents of the contract are inconsistent with the approved feasibility study of the project.

d) The basic terms and contents of the contract are incomplete.

e) The contract does not contain explicit and reasonable provisions for the responsibility for and settlement of property right disputes arising from the assigned or licensed technology and other disputes arising during the performance of the contract.

f) The contract does not contain reasonable provisions for the technical level to be attained and the economic benefits to be generated by the licensed technology, including a warranty concerning the quality of the products produced with such technology.

g) The price of the imported technology and the method of payment thereof are unreasonable.

h) The provisions for the rights, responsibilities and obligations of each party to the contract are sufficiently explicit, reciprocal or reasonable.

i) The contract contains provisions promising preferential tax treatment which the state tax authorities have not agreed to.

2) Terms Specifically Required For Approval

The following terms must be included in the contract:

a) the title of the contract;

b) the contents, scope and requirements of the imported technology

c) the standards, term and method for the assessment and examination of whether the imported technology has reached the objective, and the bearing of the responsibility for risks.

d) the total price or remuneration and breakdown thereof, as well as method of payment.

e) the method of computing the amount of liquidated damages.

f) the obligation to maintain the confidentiality of the imported technology.

g) the ownership and sharing of improvements to the technology, conditions that are equally applicable to both parties for provision of improvements to the technology during the term.

h) the interpretation of nouns and terms (comment - particularly problematic in definitions of specifications and acceptance tests)

i) if the contract involves the assignment or licensing of Chinese patent or trademark rights, specification of the relevant patent number (or application number) or trademark registration number and a specimen of the trademark should be attached;

j) a delivery time for the technical documents

that conforms to the requirements for the schedule of progress of the receiving party's engineering plan;

k) a warranty by the supplying party that the technology or documentary information is complete, accurate, effective and able to reach the technical objective specified in the contract;

l) a warranty by the supplying party that is the lawful owner of the technology provided or that it has a right to assign or license the same.

3) Terms That Are Prohibited

A technology transfer contract shall not violate any of the following prohibitions:

a) Prices of raw materials, parts, components or equipment required for the imported technology supplied by the supplying party may not exceed international market prices;

b) Without approval, a contract may not restrict the export of products produced by the receiving party with the imported technology, except exports to a country or region for which the supplying party has already entered into an exclusive licensing contract; or an exclusive agency contract.

c) Without approval, a contract may not prohibit the receiving party from continuing to use the technology after the expiration of the term of the contract.

3) Appendices

Technology transfer contracts include a main portion (that usually includes all the terms and conditions) that is followed by a number of appendices (that includes technology descriptions, procedures, schedules, drawing schedules, acceptance test procedures, etc.). Beware that appendices may include warranties, and as negotiations process, warranties may tend to creep into the appendices. It is very important to read and

understand the appendices from a legal and technical aspect. Preferably the party responsible for the legal aspects of the contract should also have a background in the technology being licensed to understand the appendices and any warranties that may be inadvertently included therein. The technical staff preparing the appendices will often miss these warranties, or inadvertently insert the same after discussions with the PRC technical group. Because of potential impact of the warranties, all of the warranties must be consolidated in the main contract portion in a manner they can best be defined, understood and quantified.

4) Quality and Capacity Type Objectives

i) Objectives of the Contract

As can be seen, the objectives of the contract are required to be specified. There is also the requirement on the part of the licensor to "ensure" that the objectives are reached. Further, there are requirements for the measurement and verification that the objectives are reached.

Measurement and verification of the contract objectives often involve the quality of the licensed product and the capability of the contract factory to produce the licensed product at a production rate.

ii) Definitions

The quality issues of the licensed product need to be addressed first in the definitions section of the contract. The licensed product needs to be defined by a clear description along with a set of specifications. The specifications will be the measure by which the licensors quality performance will be gauged. It is important that the licensor realizes that this may be the measure of performance for each licensed product produced and not an average specification that most licensed products achieve.

iii) Acceptance Tests

The quality of the licensed products and the production rate thereof will be measured by acceptance tests.

If the acceptance test demonstrates that the product meets the specifications, or its production rate, then the parties will sign an acceptance certificate that such objectives have been reached.

However, if the product fails an acceptance test, the parties are first required to consult and analyze the failure. Thereafter, the parties will be expected to work together to resolve the problem, conduct a second acceptance test, and clarify responsibilities. If the fault is with the PRC contract factory the acceptance test certificate will be signed, but the licensor may still be required to assist in the elimination of defect. If it is the fault of licensor, then licensor will be required to assist in taking measures to eliminate the problem.

The acceptance test should be, either the actual test used by the licensor for its own products in its own factory, or else some other test that the licensor feels confident that it can be achieved in the PRC. Acceptance tests may be limited to performance in the PRC contract factory, or may be required to be performed in the field or customer site.

The capacity warranties are usually defined by some production rate of products measured over a pre set period of time that meet the quality acceptance tests. Care must be taken to define the production equipment to be used so the contract factory is capable of achieving the capacity objectives. Even if the equipment is capable of meeting the capacity objectives, it is most important to clearly specify the quality of the infeeding of parts or materials used. If not, the tests may be performed with the lowest available cost parts or materials that may not be compatible with the capacity requirements.

It is also important to consider the environment under which the acceptance tests are to be performed. An example of a potential problem in the past (which may not be as prevalent now) was the interruption of electrical power. What if the power goes out? Is the acceptance test restarted from the beginning, or does it continue where the test left off?

What if the acceptance tests are not passed? How is fault determined? Who is at fault? At whose expense will the acceptance test be re-run? The acceptance test needs to specify a method by which failure and fault can be determined. A lot of thought process should be spent on this issue so as to achieve

innovative methods and processes for addressing the analysis acceptance test factors. This can, for example, include a right on the part of the licensor to substitute proven parts (such as circuit boards manufactured by the licensor) or to substitute licensor's infeeding parts or material in subsequent acceptance tests, or the right of the licensor to independently run subsequent acceptance tests, etc.

To a large degree problems can be reduced or eliminated by the licensor's dedicating a sufficient amount technically qualified manpower support and training to achieve the objectives, even beyond that committed to by the contract.

The contract should include requirements upon the PRC factory to apply the technology in the proper manner. The contract should also require the PRC factory to provide adequate manufacturing, test and storage facilities, utilities and environment. In addition, the PRC contract factory should agree to be responsible for providing a competent staff of technical personnel to carry out the contract.

There is an added incentive for the licensor to assure that acceptance tests are passed in that a part of the payments to the licensor are usually withheld until successful completion of the acceptance tests.

As can be seen from the above, the scope of contract guarantee depends upon the manner by which the contract objectives are defined, the requirement to use the technology in the proper manner, and the provision or adequate manufacturing facilities and equipment. The contract needs to be carefully drafted to ensure that the guaranties are limited and clearly defined. A precise definition of the acceptance test, methods and the standard of measurements to be applied should be included in detail. The objectives of the contract and the expected results must be set forth as detailed and accurately as possible. Manufacturing quality procedures must be required to be strictly adhered to.

Finally, the licensor should be prepared to apply adequate resources and manpower to achieve the defined objectives.

CONCLUSIONS:

The Regulations and Detailed Rules set forth a strict set of guidelines required by the law of the PRC in order for a technology transfer to be accepted by the PRC government.

The specific issues that need addressing are the expected warranties pertaining to objectives to be reached by the contract and the responsibilities of the licensor for these objectives. The objectives can be defined by the quality of the licensed product produced in the PRC and the capability to produce such licensed products at the projected rates quantities. The quality objectives are determined through acceptance tests usually based on product specifications. It is important that the specifications for the licensed product should be achievable in the PRC. The capacity objectives are controlled by the production equipment involved and also the infeeding of parts or material. The production equipment as well as the infeed parts or material need definitive specifications.

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审批机关逾期未予答复的，视为合同获得批准。

第二十条 合同自批准之日起生效，由审批机关颁发经贸部统一印制和编号的《技术引进合同批准证书》。

第二十一条 技术引进合同超过《条例》第八条规定的十年期限或者含有《条例》第九条规定的限制性条款的，受方应当在按照本细则的规定办理审批手续时，向审批机关提交申请报告，详细说明理由。

第二十二条 修改经批准的技术引进合同的技术标的内容、价格、期限及保密期限条款，应当经签约各方协商一致并征得原审批机关书面同意。该项修改与原批准的技术标的内容不符或者超过原批准所需外汇金额的，应当按照《条例》第四条和第十一条以及本细则第六条的规定重新办理审批手续。

第二十三条 授权审批机关应当在批准技术引进合同之日起十日内，将《技术引进合同批准证书》的复印件及其他有关资料报送经贸部备案。

第二十四条 技术引进合同在执行过程中办理有关银行担保、信用证、支付、结汇、报关纳税等项业务时，应当按照规定向有关机关出示《技术引进合同批准证书》或者其复印件；不能出示的，银行、海关、税务机关有权拒绝受理。

第二十五条 本细则由经贸部负责解释，由经贸部自行修订。

第二十六条 本细则自发布之日起施行。一九八五年九月十八日经贸部发布的《技术引进合同审批办法》同时废止。

Regulations on Administration of Technology Import Contracts of the People's Republic of China

(Promulgated by the State Council on May 24, 1985)

Article 1 These Regulations are formulated with a view to further expanding foreign economic and technical cooperation, upgrading the scientific and technical level of the country and promoting the national economic growth.

Article 2 Importation of technology referred to in these Regulations means acquisition of technology through trade or economic and technical cooperation by any corporation, enterprise, organization or individual within the territory of the People's Republic of China (hereinafter referred to as the recipient) from any corporation, enterprise, organization, or individual outside the territory of the People's Republic of China (hereinafter referred to as the supplier), including:

1. Assignment or licensing of patent or other industrial property rights;
2. Know-how provided in the forms of drawings, technical data, technical specifications, etc, such as production processes, formulas, product designs, quality control and management skills;
3. Technical services.

Article 3 The technology to be imported must be advanced and appropriate and shall at least conform to one of the following requirements:

1. Capable of developing and producing new products;
2. Capable of improving quality and performance of products, reducing production cost and lowering consumption of energy or raw materials;

3. Favorable to maximum utilization of local resources;

4. Capable of expanding product export and increasing earnings of foreign currencies;

5. Favorable to environmental protection;

6. Favorable to production safety;

7. Favorable to improvement of management;

8. Contributing to advancement of scientific and technical level.

Article 4 The recipient and the supplier shall conclude in written form a technology import contract (hereinafter referred to as contract). An application for approval of the contract shall be submitted by the recipient, within thirty days from the date of conclusion, to the Ministry of Foreign Economic Relations and Trade of the People's Republic of China or any other agency authorized by the Ministry (hereinafter referred to as the approving authority). The approving authority shall approve or reject the contract within sixty days from the date of receipt. Contracts approved shall come into effect on the date of approval. Contracts on which the approving authority does not make a decision within the specified period of time shall be regarded as approved and shall come into effect automatically.

Article 5 The conclusion of technology import contracts must conform to the relevant provisions of the Foreign Economic Contract Law and other laws of the People's Republic of China.

Both parties must specify in the contract the following items:

1. Contents, scope and essential description of the technology provided, and a list of patents and trademarks if they are involved;

2. Technical targets to be reached and time limit and measures for accomplishing the targets;

3. Remuneration, composition of remuneration and form of payment.

Article 6 The supplier shall ensure that it is the rightful owner of the technology provided and that the technology provided is complete, correct, effective and capable of accomplishing the technical targets specified in the contract.

Article 7 The recipient shall undertake the obligation to keep confidential, in accordance with the scope and duration agreed upon by both parties, the technical secrets contained in the technology provided by the supplier, which has not been made public.

Article 8 The duration of the contract shall conform to the time needed by the recipient to assimilate the technology provided and, unless specially approved by the approving authority, shall not exceed ten years.

Article 9 The supplier shall not oblige the recipient to accept requirements which are unreasonably restrictive. Unless specially approved by the approving authority, a contract shall not include and of the following restrictive provisions:

1. Requiring the recipient to accept additional conditions which are not related to the technology to be imported, such as requiring the recipient to purchase unnecessary technology, technical service, raw materials, equipment and products;

2. Restricting the freedom of choice of the recipient to obtain raw materials, parts and components or equipment from other sources;

3. Restricting the development and improvement by the recipient over the imported technology;

4. Restricting the acquisition by the recipient of similar or competing technology from other sources;

5. Non-reciprocal terms of exchange by both parties of improvements over the imported technology.

6. Restricting the quantity, variety and sales price of products to be manufactured by the recipient with the imported technology;

7. Unreasonably restricting the sales channels and export markets of the recipient;

8. Forbidding use by the recipient of the imported technology after expiration of the contract;

9. Requiring the recipient to pay for or to undertake obligations for patents which are unused or no longer effective.

Article 10 In applying for approval of contracts, applicants shall submit the following documents:

1. Written application for approval of the contract;
2. Copy of the contract concluded by both parties and its Chinese translation;
3. Documents evidencing the legal status of the contracting parties.

Article 11 Application and approval of any revision and renewal of contract shall be made in accordance with the provisions stipulated in Article 4 and Article 10 of these Regulations.

Article 12 The authority to interpret these Regulations and to formulate detailed rules for implementing these Regulations resides in the Ministry of Foreign Economic Relations and Trade.

Article 13 These Regulations shall enter into force on the date of promulgation.

Detailed Rules for the Implementation of the Regulations on Administration of Technology Import Contracts of the People's Republic of China

(Approved by the State Council on December 30, 1987)
(Promulgated by the Ministry of Foreign Economic Relations and Trade on January 20, 1988)

Article 1. The Detailed Rules are formulated in accordance with the provisions of Article 12 of the Regulations on Administration of Technology Import Contracts of the People's Republic of China (hereinafter referred to as the "Regulations").

Article 2. Regardless of country or region of the supplier, source of funds and ways of payment of the recipient, technology import contracts hereunder listed concluded between the recipient and the supplier as specified in Article 2 of the Regulations shall apply for examination and approval from the competent authority in accordance with the Regulations and the Detailed Rules.

1. Contracts for assignment or licensing of industrial property rights:

Contracts for assignment or licensing of industrial property rights refer to those for assignment or licensing of rights relating to invention patents, new utility model patents, exterior design patents as well as trademarks excluding those merely for assignment of rights of trademarks.

2. Contracts for licensing of know-how;

Contracts for licensing of know-how refer to those

for provision or impartment of technical knowledge for manufacturing a product, or applying a technology as well as for product designs, technological processes, formulae, quality control and management, which is neither publicized nor under legal protection of industrial property rights.

3. Contracts for technical services:

Contracts for technical services refer to those for providing services or consultations to the recipient by the supplier with his technology for achieving a specific goal, including those for feasibility study or engineering design undertaken by the supplier upon the entrustment of the recipient or by the recipient in cooperation with the supplier, those for providing technical services by foreign geological exploration or engineering teams that are employed and those for providing services or consultations by the supplier upon entrustment of the recipient for technical transformation of enterprise, improvement of production technology or product design and quality control as well as enterprise management (excluding those for employing aliens in China's enterprises).

4. Contracts for co-production and co-design which contain any one of such contents as assignment or licensing of industrial property rights, licensing of know-how or technical services;

5. Contracts for importing complete set of equipment, production line and key equipment which contain any one of such contents as assignment or licensing of industrial property rights, licensing of know-how or technical services;

6. Other technology import contracts which need the fulfilment of the procedure for examination and approval in the view of the competent authority.

Article 3. To import technology, companies, enterprises, institutions or individuals with no right to do technology import business with abroad shall, with a letter of commission, entrust those companies and enterprises with such rights to conclude technology import contracts.

Article 4. Technology import contarcts concluded by Chinese-foreign equity joint ventures, Chinese-foreign co-operative ventures and wholly foreign-owned enterprises (hereinafter referred to as "foreign investment enterprises") established in the territory of the People's Republic of China for technology acquired from suppliers shall comply with the procedure of examination and approval in accordance with the provisions of the Detailed Rules.

If the foreign investor in the foreign investment enterprise uses industrial proprety rights or know-how as his equity share, this will be dealt with in accordance with the relevant laws and regulations of the State for foreign investment enterprises.

Article 5. The competent authorities for examining and approving technology import contracts are the Ministry of Foreign Economic Relations and Trade (hereinafter referred to as MFERT) and its authorized departments, commissions, bureaux of foreign economic relations and other administrative organs of provinces, autonomous regions, municipalities directly under jurisdiction of the central government, coastal open cities, special economic zones and cities under provinces with separate economic plans (hereinafter referred to as the "authorized examining and approving authorities").

Article 6. Technology import contracts are examined and approved at different levels in accordance with the following stipulations:

1. Technology import contracts for projects with feasibility study reports approved by the ministries/commissions of and departments under the State Council are to be examined and approved by MFERT.

2. Technology import contracts for projects with feasibility study reports approved by people's governments or their authorized responsible organs of provinces, autonomous regions, municipalities, coastal

open cities, special economic zones and cities under provinces with separate economic plans are to be examined and approved by the authorized examining and approving authorities of the some levels; If the technology import contracts are concluded by other transregional companies through entrustment, they may be examined and approved by the authorized examining and approving authorities of the spot where the entrustees are located with the consent of the entrusters' local authorized examining and approving authorities. After approval, the on-the-spot authorized examining and approving authorities shall send a copy of the Approval Certificate to the local authorized examining and approving authorities for record. Neverthless, technology import contracts concluded by companies located in Beijing pursuant to transregional entrustment (excluding those directly under Beijing municipality) are to be examined and approved by MFERT.

3. Technology import contracts concluded by foreign investment enterprises for acquiring technology from suppliers shall be examined and approved by MFERT if the foreign investment enterprises were established with the approval of ministries/commissions of and departments under the State Council, or be examined and approved by MFERT-authorized organs if the enterprises were not so established.

Article 7. Technology import contracts shall specify in terms of the following items:

1. Name of contract;
2. Contents, scope and requirements of the goal-directed technology imported;
3. Criteria, time-limits and measures for quality rectification of the imported technology and liabilities for risks;
4. Obligations of keeping-confidential for imported technology, ownership and sharing of the technology improvements;
5. Price or payment in total and breakdown and terms of payment;
6. Calculations for compensation in case of violation;
7. Means of settlement for disputes;
8. Interpretation of terms and phrases.

Annex and data relatioins to implementatiion of the contract may constitute an integral part of the technology import contract in accordance with the agreement of the contracting parties.

Article 8. With respect to technology import contracts involving assignment or licensing of patent or trademark rights obtained in China, relevant patent numbers or patent application numbers, trademark registration numbers together with trademark design shall be expressly specified. Contracts for assignment of patent rights shall be recorded with the Patent Office in accordance with provisions of the "Patent Law of the People's Republic of China", and those for licensing of the trademarks shall be recorded with the Trademark Office in accordance with provisions of the "Trademark Law of the People's Republic of China".

Article 9. The supplier shall ensure that the technology or data documents provided are complete, accurate, effective and capable of reaching the technology goal specified in the contract. The time-limits for the delivery of technology documents shall correspond with the engineering programme of the recipient.

Article 10. If the recipient requires the supplier to provide raw materials, spare parts or equipment for the imported technology, the price shall not be higher than that of the like product on international market.

Article 11. The supplier shall ensure that he is the legal owner of the technology provided or that he has the right to assign or license the technology. If the recipient, in producing or selling products with the assigned or licensed technology, is accused of infringement by a third party, the supplier shall respond to the lawsuit. If the infringement charged by the

third party is proved, all economic losses the recipient may suffer shall be compensated for by the supplier

Article 12. Within the term of validity of the contract, the ownership of the improved technology including the right to apply for patents belongs to the party that has made the improvements. Where the recipient provides the improved technology to the supplier, the terms shall be the same as those when the supplier provides the improved technology to the recipient.

Article 13. The recipient shall undertake the obligations to keep confidential for know-how and relevant information provided or imparted by the supplier in accordance with limits and duration as agreed in the contract. The duration of keeping-confidential shall not generally exceed the term of validity of the contract. If special circumstances demand that the duration shall exceed the term of the contract, it shall be expressly specified in the contract, and reasons shall be made when applying for examination and approval.

Within the duration in which the recipient undertakes the obligation to keep confidential, if the technology is publicized not owing to the recipient, obligations to keep confidential undertaken by the recipient shall be immediately terminated. If it is specified in the contract that the supplier provides its developed and improved technology to the recipient within the term of validity of the contract, the recipient may continue to undertake the obligations of keeping-confidential after expiration of the contract. In that case, the duration for keeping-confidential shall begin from the date when the supplier provides the technology but not exceed the duration specified in the original contract.

Article 14. No provisions of restrictions on exportation of products manufactured by the recipient with the imported technology may be included in the contract without the approval of the competent authority, however, either of the following cases shall be excepted:

1. In countries and regions where exclusive license contracts have been concluded by the supplier;

2. In countries and regions where sole agent contracts have been concluded by the supplier.

Article 15. No provision of prohibitions to be imposed on the recipient to continue using the imported technology after expiration of the contract maybe included in the contract without approval of the competent authority. Where the contract has expired but the duration of the patent relating to the imported technology has not expired, the relevant stipulations of the "Patent Law of the People's Republic of China" shall govern.

Article 16. The supplier shall pay taxes in accordance with the provisions of the Tax Law of the People's Republic of China.

Article 17. The recipient or companies, enterprises acting as its agents who have concluded the technology import contracts shall, in accordance with the provisions of Article 6 of the Detailed Rules, submit to the competent authority within thirty days from the date when the contract is concluded the following official documents:

1. Application for approval. The contents of the application shall include the name of the contract, country of the supplier and name of the firm, the contents and scope of the goal-directed technology imported, the approving organ and approved number of the feasibility study report of the project, etc.;

2. Copy of the contract (enclosiing a Chinese version if it is in a foreign language);

3. Copy of documents evidencing the legal status of the contracting parties;

4. Approved feasibility study report and arrangement of the fund needed.

To facilitate the examination and approval, the recipient or companies, enterprises acting as its agents

may ask for comments or request for preexamination from the competent authority on the main contents or certain clauses of the contract either before or during negotiations.

Article 18. In case the technology import contracts and other documents submitted to the competent authority in accordance with the provisions of Article 17 of the Detailed Rules include any one of the following contents, the competent authority shall require amendments within a prescribed time-limits, and approval shall not be granted in case of failure to make amendments:

1. that is is against the current laws and legislations of the State and is harmful to public interests of the society;
2. that it is harmful to national sovereignty;
3. that the contents of the contract are inconsistant with the approved feasibility study report of the project;
4. that the basic clauses and contents of the contract are imperfect;
5. that the contract contains no definite and rational stipulation concerning the responsibilities and solutions to possibly-occurred disputes over property rights due to the assigned or licensed technology or other disputes that may occur in the course of implementation of the contract;
6. that the contract contains no rational stipulation on the technical level and economic efficiency which the assigned or licensed technology should attain including quality warranty for the products manufactured with the said technology;
7. that the price or ways of payment for the imported technology are unreasonable;
8. that the stipulations on rights, responsibilities and obligations of the contracting parties are unclear, unequal or irrational;
9. that the contract contains preferential tax commitment without the consent from the Chinese tax authority.

Article 19. The competent authority shall decide whether or not to approve the contract within 60 days from the date when the application is received. If the competent authority requires amendments in accordance with the provisions of Article 18, the duration of examination and approval shall be counted from the date when the amended contract or text is received.

If the competent authority makes no response within the specified time, the contract shall be deemed to have been approved.

Article 20. The contract shall come into force on the date of approval and the competent authority shall issue a unified Approval Certificate for a Technology Import Contract printed and numbered by MFERT.

Article 21. If the term of validity of the technology import contract exceeds the period of ten years stipulated in Article 8 or includes the restrictive provisions lised in Article 9 of the Regulations, the recipient shall submit the application with detailed explanations to the competent authority when going through the procedure for examination and approval in accordance with the stipulations of the Detailed Rules.

Article 22. Amendments to the provisions relating to the goal-directed technology content, price, term and keeping-confidential time-limits of an approved technology import contract shall be made by consultations between contracting parties upon a written consent of the original competent authority for examination and approval. If amendments are inconsistent with the approved content of goal-directed technology or exceed the approved amount of foreign exchange, the procedure for reexamination and reapproval shall be gone

through in accordance with the provisions of Article 4 and article 11 of the Regulations and Article 6 of the Detailed Rules.

Article 23. The examining and approving organs other than MFERT shall submit copies of Approval Certificate for a Technology Import Contract and other relevant documents to MFERT for record within 10 days from the date the technology import contract is approved.

Article 24. In the course of the implementation of the contract, the Approval Certificate for a Technology Import Contract or its copy must be presented to the organs concerned in accordance with the relevant stipulations for purposes of bank guarantee, letter of credit, payment, exchange settlement, Customs declaration and tax payment, etc. In case of failure of presentation, refusals may be made by the banks, Customs and tax authorities.

Article 25. The authority to interpret and revise the Detailed Rules resides in MFERT.

Article 26. The Detailed Rules shall enter into force on the date of promulgation. The Procedure for Examination and Approval of Technology Import Contracts promulgated on Spectember 18, 1985 by MFERT shall cease to be in force simultaneously.

(1) Title:

The Antimonopoly Act Guidelines Concerning Joint Research and Development

(2) Date: October, 1993 (the 24th Cincinnati)

(3) Source: 1) Source; PIPA
2) Group; Japan
3) Commitee; No. 2

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(5) Keywords:

Antimonopoly Act, Joint research and development, Japan Fair Trade Commission, (US) National Cooperative Research Act of 1984, (US) Antitrust Enforcement Guidelines for International Operations, (US) Antitrust Guide Concerning Research Joint Ventures, Commission Regulation (EEC) No. 418/85 of 19 December 1984 on the application of Article 85 (3) of the Treaty to categories of research and development agreements.

(6) Abstract:

This paper aims to analyze the "Antimonopoly Act Guidelines Concerning Joint Research and Development" (hereinafter referred to as the "Guidelines" or "Japanese Guidelines") published by Japan Fair Trade Commission (JFTC) in April 1993 and to provide in a concise format an account of the Guidelines. In Chapter 1, those articles in the Antimonopoly Act considered relevant to joint research and development (R&D) shall be briefly explained, and the JFTC will be analyzed in terms of organization and authority. In Chapter 2, the Guidelines will be discussed in terms of its basic points of view, coverage, timing in passing judgment on unfair trade aspects in the joint R&D under the Antimonopoly Act, and specific items, in order to give a summary on how the Antimonopoly Act will be applied to joint undertaking of R&D and also the arrangements accompanying the implementation of joint R&D projects. Matrix tables provided in this paper will facilitate understanding of comparison of various items. In Chapter 3, the Guidelines will be compared with the (US) National Cooperative Research Act of 1984, the (US) Antitrust Guide Concerning Research Joint Ventures, and the Commission Regulation (EEC) No. 418/85 of 19 December 1984 on the application of Article 85 (3) of the Treaty to categories of research and development agreements, introducing major issues in these rules and guidelines along the way.

INTRODUCTION

The JFTC published the Antimonopoly Act Guidelines Concerning Joint Research and Development on April 20, 1993. The Guidelines clarify the general views of the JFTC on the application of the Antimonopoly Act to joint research and development.

This paper reports the results of the analysis of the Guidelines and comparison of the Guidelines with relevant guidelines and rules currently in force in the United States and the European Community (EC). Firstly, the circumstances of the latest publication of the Guidelines will be briefly described by referring to the attached documents distributed by the JFTC.

In February 1989, the JFTC published the Guidelines for Regulation on Unfair Trade Practices with respect to Patent and Know-how Licensing Agreements. However, the guidelines did not cover joint research and development (R&D).

In the recent years, the joint R&D efforts have increased in number along with the industrial technology which is becoming more sophisticated, complicated and diversified into various fields. Such a trend should be welcomed because of the promotive effect on technological innovation. However, since such efforts involving more than one firm could impair competition, the preparation of guidelines concerning joint R&D was demanded by the interested parties.

In the United States, the Antitrust Guide Concerning Research Joint Ventures was announced in 1980, followed by the legislation of the National Cooperative Research Act of 1984. In 1988 the Antitrust Enforcement Guidelines for International Operations was published. In the EC, the Commission Regulation (EEC) No. 418/85 of 19 December 1984 on the application of Article 85 (3) of the Treaty to categories of research and development agreements was enacted. These legislation and guidelines has clarified the view of each governmental authority on application of antimonopoly laws to research and development efforts.

The JFTC's February 1989 Guidelines were introduced with respect to patent and know-how licensing agreements. Based on the study

report prepared and published by the Study Group on Technical Transactions, etc., in June, 1990, the JFTC published the draft of the Antimonopoly Act Guidelines Concerning Joint Research and Development on September 10, 1992, and subsequently held a number of hearings with various concerned organizations both in Japan and abroad. The Guidelines were finalized and published on April 20, 1993.

In this paper, Chapter 1 outlines the Japanese Antimonopoly Act in terms of principal articles closely related to the Guidelines, and organization and authority of the JFTC which is empowered to achieve the very purposes of the Antimonopoly Act. Chapter 2 discusses the basic viewpoints of the JFTC on joint R&D, coverage, and acts subjected to the Guidelines, and specific cases in relation to violation of the Antimonopoly Act will be described using matrix tables. In Chapter 3, the Guidelines will be compared with those guidelines and regulations of the United States and the EC concerning joint R&D, alongside of the authors' views on these guidelines and rules.

Chapter 1. ANTIMONOPOLY ACT OF JAPAN

1-1. PRINCIPAL ARTICLES CONCERNING JOINT R&D

The purpose of the Antimonopoly Act is "... to promote free and fair competition, to stimulate the creative initiative of entrepreneurs, to encourage business activities of enterprises, to heighten the level of employment and people's real income, and thereby to promote the democratic and wholesome development of the national economy as well as to assure the interests of consumers in general (Section 1)".

For this purpose, "no entrepreneur shall effect private monopolization or any unreasonable restraint of trade (Section 3)", and "no entrepreneur shall employ unfair trade practices (Section 19)". The terms "Private monopolization", "Unreasonable restraint of trade" and "Unfair trade practices" are defined in Section 2 of the Act and can be summarized as below:

(1) "Private monopolization" is the act of any entrepreneur which

either individually or jointly excludes or controls the business activities of other entrepreneurs, thereby forming or maintaining the market power.

(2) "Unreasonable restraint of trade" is the act of any entrepreneur jointly made with other entrepreneurs in fixing prices and/or limiting production, customers and/or suppliers, thereby substantially restraining competition in any particular field of trade. In general, the said act is called "Cartel".

(3) "Unfair trade practices" include dealing on restrictive terms, abuse of dominant bargaining position and other impediments to fair competition, as specifically designated by the JFTC. The JFTC designation consists of the "General Designation" applicable to all types of industries and the "Special Designation" applicable only to certain types of industries including department stores and newspaper publishers. There are sixteen types of unfair trade practices under the General Designation (Notification No.15):

① Concerted refusal to deal; ② Other refusal to deal; ③ Discriminatory pricing; ④ Discriminatory treatment on transaction terms, etc.; ⑤ Discriminatory treatment in a trade association, etc; ⑥ Unjust low price sales; ⑦ Unjust high price purchasing; ⑧ Deceptive customer inducement; ⑨ Customer inducement by unjust benefits; ⑩ Tie-in sales, etc.; ⑪ Dealing on exclusive terms; ⑫ Resale price restriction; ⑬ Dealing on restrictive terms;⑭ Abuse of dominant bargaining position; ⑮ Interference with a competitor's transaction; ⑯ Interference with internal operation of a competing company.

1-2. ORGANIZATION AND AUTHORITY OF JFTC

Organization and authority of the JFTC are stipulated from Section 27 on.

The JFTC is organized to attain the purpose of the Antimonopoly Act and is administratively attached to the Prime Minister (Section 27). The JFTC is an independent administrative agency neither controlled nor supervised by any outside authority in respect of the execution of its duties (Section 28). The JFTC is composed of a chairman and four commissioners selected among experts in laws and economics and appointed by the Prime Minister upon consent of both Houses of the Diet (Section 29). Their term of office is five years respectively (Section 30). The JFTC has the Executive Bureau staffed by over four hundred personnel and must include not exceeding five administrative law judges in charge of prosecuting hearing proceedings, and persons qualified as public prosecutor and private attorney (Section 35 and others).

The JFTC has the power to take a variety of administrative measures including the issuance of both an exclusion order against any act in violation of the Antimonopoly Act and a competition restoration order against monopolistic situations (Sections 7, 8-4, 20 and others). The JFTC's activities are commenced on filing of a report on alleged violation of the Antimonopoly Act and a petition for appropriate measures to be taken against such violation (Section 45). When indeed any violation is found, the JFTC will recommend the violator to take corrective actions. If the violator fails to take corrective actions even after being recommended, the JFTC will initiate hearing proceedings and take appropriate measures stipulated in the Antimonopoly Act including the issuance of an exclusion order in accordance with a decision given as a result of hearing proceedings (Sections 48, 54 and others). A suit to appeal a decision of the JFTC is under the exclusive jurisdiction of the Tokyo High Court (Section 85). If the JFTC finds any crime in violation of this Act, it must file an accusation with the Public Prosecutor General (Sections 73 and 96).

The JFTC also has the power to enact administrative regulations

on the designation of unfair trade practices (Subsection 9, Section 2) and the power to investigate into the business activities and economic conditions of parties concerned (Sections 40 through 42 and others).

Chapter 2. OUTLINE OF THE ANTIMONOPOLY ACT GUIDELINES CONCERNING JOINT RESEARCH AND DEVELOPMENT

2-1. BASIC POINTS OF VIEW

The JFTC's basic points of view, provided in the introductory section of the Guidelines, may be summarized as follows. However, it must be noted that the following is a mere summary of the Guidelines prepared under sole responsibility of the Committee No.2, Pacific Industrial Property Association, Japan, and the reader is thus advised to carry out any business activity in accordance with the original Guidelines published by the JFTC. (See the attachment.)

Recent technological innovation often requires tremendous time and expenditure, and diverse types of industrial arts as technologies become highly sophisticated and complex, spanning many different fields. For this reason, the joint R&D carried out by several firms is evermore increasing in number.

With such advantages as cost reduction, risk distribution, time saving and complementary use of technology, a joint R&D project will vitalize and streamline the R&D efforts, promote technological innovation and in many cases promote competition.

On the other hand, a joint R&D project may impede fair competition since a joint R&D is a collective conduct by multiple firms.

These Guidelines are published to clarify the general view of the JFTC so that the joint R&D will be carried out in such a manner that the competition is further promoted.

The JFTC does not question the joint R&D activities in general. It will examine a given joint R&D project in light of the Antimonopoly Act only if such a project may exert an anti-competitive effect, and in making examination, the JFTC will take

into consideration the pro-competitive effects of the project.

2-2. COVERAGE OF THE GUIDELINES AND TIMING IN PASSING JUDGEMENT

Coverage of the Guidelines is as summarized below:

(1) These Guidelines are applicable to joint R&D activities carried out by more than one firm. The applicability of the Guidelines is not affected by the nationality of participants so long as their joint R&D activities affect the Japanese market.

(2) The undertaking of joint R&D may occur in any of the following ways:

① sharing of R&D activities among the participants;

② joint establishment of an organization to carry out R&D activities;

③ carrying out R&D activities by a trade association; and

④ arrangement under which one party provides funds and the other/s carry out R&D works (except the cases where only one participant engages in R&D activities and the other/s obtain all the fruits of such R&D activities for a certain remuneration).

The Guidelines are applicable to any of these conceivable ways.

(3) These Guidelines are applicable to all basic, applied, and developmental researches.

In principle, whether or not a certain joint R&D agreement is in violation of the Antimonopoly Act is judged according to the Guidelines at the time of the conclusion of a contract on the joint R&D. However, if the contract does not include any arrangement on the fruits of the joint R&D, judgement may be postponed until such an arrangement is made.

An prior-consultation system has been initiated for individual cases since making a judgement on whether or not a particular joint R&D project is problematic with regard to the Antimonopoly Act may not be an easy task for the person or firm concerned, and the following is the outline of the consultation system.

1) Joint R&D Projects Covered by the Consultation System:

Any joint R&D project subject to the Guidelines of which the compatibility with the provisions of the Antimonopoly Act is not clear.

2) Party Eligible to Request:

Any domestic or foreign firm or trade association intending a joint R&D project which is believed to be an object of the consultation system.

3) Procedure for Request:

Fill out the specified request form and attach supplementary material. Submit these form and materials to the Director General of the Executive Bureau of the JFTC directly or via its local office.

4) Reply to Consultation:

A written reply will be made after examination for contradiction with the Antimonopoly Act.

A reply may accompany effective period or specific conditions. In addition, the JFTC may refrain from replying if the technology involved requires evaluation, the possible effect on the product market in the future needs further evaluation, or the intervention in a private dispute will be involved.

If the JFTC has replied that a joint R&D project under consultation does not contradict with the Antimonopoly Act, the JFTC will not take any legal actions against that joint R&D project on the ground of violation of the Act.

5) Withdrawal of reply:

Even if the JFTC has replied that a particular joint R&D project does not contradict with the Antimonopoly Act, the JFTC may withdraw the said reply if there is a change in the situations upon which the first decision is based. Even in such a case, the JFTC will not take any legal actions until a reasonable period for the applicant to take necessary actions has been passed from the withdrawal of the reply.

6) Publication of consultation:

Any consultation will be published in summary, except for the confidential information of the applicant.

2-3. OUTLINE OF THE GUIDELINES

The Guidelines consists of "No.1: Application of the Antimonopoly Act to Joint Undertaking of R&D" and "No.2: Application of the Antimonopoly Act to Arrangements Accompanying the Implementation of Joint R&D Projects".

Firstly, the essential part of the Guidelines pertaining to the application of the Antimonopoly Act to joint undertaking of R&D is described.

No.1: APPLICATION OF THE ANTIMONOPOLY ACT TO JOINT UNDERTAKING OF R&D

1. Basic Concept

If a joint R&D project may limit the R&D activities of participants, thereby substantially limiting competition in the technology or product market, such a joint effort may raise a question in light of Section 3 of the Antimonopoly Act (Unreasonable Restraint of Trade). A joint R&D project by a trade association and the establishment of a jointly-invested company for joint R&D may also present a question under Sections 8 and 10 respectively.

Joint R&D activities of competing firms may incur a problem under the Antimonopoly Act.

Joint R&D efforts are often carried out by a small number of firms, there seems to be less likelihood that they will pose a problem in light of the Antimonopoly Act.

An example of exceptional cases involving violation of the Antimonopoly Act is that more than one firm in the oligopolistic industry or most of the competing firms in the product market are participating in a joint effort to develop an improved version or a substitute of the existing product even though such a development can be accomplished independently, thereby limiting the R&D activities of participants, and substantially restraining the competition in the technology or product market.

2. Matters to be Considered when Making Judgements

Whether or not a joint R&D project may constitute violation of the

Antimonopoly Act is judged case by case by taking into consideration the following items while giving due consideration to the pro-competitive effect:

① Number of participants and their market shares

In general, no problem is found if the total market share of R&D project participants in the product market is 20% or less.

Even though a market share of participants exceeds 20%, however, it does not right away pose a problem. Such a judgement will be made after consideration of every relevant factors. Moreover, the technology market will be considered as a related market.

② Character of R&D

In general, a basic research is less likely to present a question under the Antimonopoly Act than does a developmental research.

③ Need for joint undertaking

If the cost of R&D is tremendous and the R&D capability of each participant is limited, such a joint R&D project is less likely to be questionable with regard to the Antimonopoly Act.

A joint R&D project intended for external factors including environmental and safety measures is usually difficult for any one firm to perform because of high risk and cost. Such a joint undertaking is less likely to be questionable under the Antimonopoly Act.

④ Range of objects, duration, etc.

A joint R&D project of which the range of objects and duration are clearly specified will have less impact on competition than does a R&D project with unnecessary broader scope and longer duration.

Of the cases of joint R&D projects in which the participants have a large share of the market and which will then lead to standardization, a case where a firm is restricted from participation and therefore is likely to be excluded from the market will present a problem in light of the Antimonopoly Act.

A joint R&D project, even if it incurs high market share holding and standardization, may be permissible so long as it cannot be

carried out by a single firm, contributes to more efficient production, does not interfere with the interests of the user, and does not restrict the R&D of related technologies. However, if such a joint R&D project restricts participation or access of a certain firm or firms and as a result excludes them from the market with no business alternatives, it will then be questionable under the Antimonopoly Act.

On the other hand, any joint R&D project which guarantees access of a non-participant and does not hinder the business activity of the non-participant may be permissible.

Shown next is the outline of the part on the arrangements accompanying implementation of joint R&D projects.

No.2: ARRANGEMENTS ACCOMPANYING IMPLEMENTATION OF JOINT R&D PROJECTS

1. Basic Concept

Any arrangement associated with implementation of a joint R&D project will be suspected of violation of Section 19 of the Antimonopoly Act (Unfair Trade Practices) if such an arrangement imposed by a participant unreasonably restricts business operations of the other participant/s and impede fair competition.

An inquiry will also be made into any restrictive arrangements on the price and quantity of the products among competing firms in the product market in connection with Section 3 of the Antimonopoly Act (Unreasonable Restraint of Trade).

It must be noted that an arrangement associated with implementation of a joint R&D project will be subject to these Guidelines and not to the Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-how Licensing Agreements.

2. Judgement Concerning Unfair Trade Practices

In clarifying its views of the Antimonopoly Act, the JFTC classifies matters to be arranged associated with implementation of a joint R&D project into (1) matters concerning the implementation of the joint R&D project, (2) matters concerning the technology which is a

fruit of the joint R&D project and (3) matters concerning products utilizing the technology which is a fruit of the joint R&D project.

In addition, each of above items are subdivided into (a) matters which are considered, in principle, not to fall under unfair trade practices, (b) matters which may fall under unfair trade practices, and (c) matters which are highly likely to fall under unfair trade practices.

(a) Matters which are considered, in principle, not to fall under unfair trade practices are permissible unless there is significant imbalance among participants.

(b) Matters which may fall under unfair trade practices are individually examined for possible impediment to fair competition by taking into consideration such factors as the position of each participant in the market, the relationship among the participants, market situations, and the relative length of the restrictive period. The more predominant the participant's position in the related market is, the less competitive the market situation is, and the longer the restrictive period is, the greater the likelihood of becoming an impediment to fair competition is.

(c) Matters which are highly likely to fall under unfair trade practices will be considered as such unless there is a due justification.

These Guidelines clarify the JFTC's views on the Antimonopoly Act arranged by types of practices, as in the Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-how Licensing Agreements.

Following table organizes the arrangements connected with implementaion of joint R&D projects and the degree of suspicion of being "unfair trade practices" under the Antimonopoly Act Guidelines Concerning Joint Research and Development. Indicated in rows is the type of arrangement, and indicated in columns is the degree of suspicion [(a), (b), (c) as classified above].

(1) Matters Concerning the Implementation of the Joint R&D Project
Note 1: "R&D" means research and development.
Note 2: This table is the summary of the Antimonopoly Act Guidelines Concerning Joint Research and Development published by the JFTC.

Item	(a) Matters which are considered, in principle, not to fall under unfair trade practices	(b) Matters which may fall under unfair trade practices	(c) Matters which are highly likely to fall under unfair trade practices
Arrangements on the objective, duration and work sharing	① Arrangements on the objective, duration and work sharing etc., in the R&D project.		
Obligation to disclose technical information	② Obligation to disclose among the participants the technical information or knowledge, etc. necessary for the joint R&D project.		
Obligation to hold the disclosed information in confidence	③ Obligation to hold the information, etc. disclosed pursuant to the obligation ②in confidence.		
Obligation to maintain the confidentiality of the non-technical information	④ Obligation to maintain the confidentiality of non-technical information obtained from other participants and supposed to be particularly confidential.		
Obligation to report on the progress	⑤ Obligation to report on the progress of the shared part of the research work to other participants.		
Restrictions on the diversion of disclosed information for any purpose other than the theme of the joint R&D project	⑥ Restrictions on the diversion of the disclosed technology or know-how, etc., for any purpose other than the theme of the joint R&D project (except for the restrictions specified in the box at right).	① Restrictions on the use of the disclosed technology and/or know-how, etc. for any purpose other than the theme of the joint R&D project beyond a reasonable extent necessary for prevention of the diversion of such information. - Restrictions on the the development of new technology, even if it is based on ideas derived from the disclosed information, will be regarded as "exceeding a reasonable extent". (See the box at left.)	

Item	(a) Matters which are considered, in principle, not to fall under unfair trade practices	(b) Matters which may fall under unfair trade practices	(c) Matters which are highly likely to fall under unfair trade practices
Restrictions on carrying out R&D on the same theme during implementation of the joint R&D project	⑦ Restrictions on carrying out R&D on the same theme independently or together with third parties during the implementation of the joint R&D project.		
Restrictions on carrying out joint R&D on a related theme during implementation of the joint R&D project	⑧ Restrictions on carrying out R&D with third parties on a theme very closely related to that of the joint R&D project during its implementation, where these restrictions are necessary to avoid disputes over the fruits of the joint R&D and to keep the participants concentrated on the R&D effort. (See the box at right.)		① Restrictions on carrying out R&D on a theme other than that of the joint R&D project. - Such restrictions may unjustly restrict R&D activities of participants and much likely to impede fair competition (except for the restrictions specified in the box at left).
Restrictions on joint R&D with the same or a related theme after completion of the joint R&D project	⑨ Restrictions on carrying out R&D with third parties on a theme same with or very closely related to the theme of the joint R&D project for a reasonable period after the completion of the joint R&D in order to avoid disputes over fruits of the joint R&D project and to keep the participants concentrated on the joint R&D effort. - Restrictions after its completion are generally considered as unnecessary, and are in most cases serious impediments to fair competition. However, such restrictions are not considered as impediments to fair competition if necessary for prevention of breach of faith or confirmation of ownership of the rights. (See the box at right.)		① Restrictions on carrying out R&D on a theme other than that of the joint R&D project. ② Restrictions on carrying out R&D on the same theme after completion of the joint R&D project. - Both restrictions ① and ② may unjustly restrict R&D activities of participants and much likely to impede fair competition (except for the restrictions specified in the box at left).

Item	(a) Matters which are considered, in principle, not to fall under unfair trade practices	(b) Matters which may fall under unfair trade practices	(c) Matters which are highly likely to fall under unfair trade practices
Restrictions on introduction of similar technology	⑩ Restrictions on introducing similar technology from third parties during implementation of the joint R&D project for keeping the participants concentrated on the R&D effort (except for the restrictions specified in the box at right).	② Restrictions on introducing similar technology from third parties beyond the extent that is necessary for implementation of the joint R&D project. - These restrictions prohibiting introduction of technology from third parties even after withdrawal from the joint R&D project is likely to impede fair competition. (See the box at left.)	
Restrictions on participation of other firms	⑪ Restrictions on participation of other firms in the joint R&D project. - Although these restrictions are not considered as questionable in general, some exceptions may involve unfair trade practices, private monopolization, etc.		
Restrictions on a participant in using a technology already in its possession or licensing such a technology to third parties			③ Restrictions on a participant in using a technology already in its possession or licensing such a technology to third parties.
Restriction on the production or sale of other competing products of the product based on the fruits of the joint R&D project			④ Restrictions on production and/or sale of competing products other than the product based on the fruits of the joint R&D project. - Both restrictions ③ and ④ above are considered as unnecessary for the implementaion of the joint R&D project, and are highly likely to impede fair competition.

(2) Matters Concerning the Technology which is a Fruit of the Joint R&D Project

Item	(a) Matters which are considered, in principle, not to fall under unfair trade practices	(b) Matters which may fall under unfair trade practices	(c) Matters which are highly likely to fall under unfair trade practices
Restrictions on R&D activities utilizing the fruits of the joint R&D project			① Restrictions on R&D activities utilizing the fruits of the R&D project. - Such restrictions may unjustly restrict R&D activities of the participants and much likely to impede fair competition.
Determination of definition of the fruits and/or ownership of the rights to the fruits	① Determination of the definition of and/or the ownership of the rights to the fruits.		
Restrictions on licensing of the fruits to third parties	② Restrictions on licensing of the fruits to third parties. - Some of these restrictions may, exceptionally, involve unfair trade practices, private monopolization, etc.		
Determination of share of royalties paid by third parties according to licenses of the fruits	③ Determination of share of royalties and/or other conditions related to licenses of the fruits granted to third parties.		
Obligation to hold the fruits in confidence	④ Obligation on the parties to hold the fruits in confidence.		
Obligation to disclose or license any improvement invention to the fruits	⑤ Obligation to disclose or grant non-exclusive licenses for any improvement invention to the fruits to other participants. - Even obligations from ① through ⑤ may be considered questionable if significantly imbalanced among participants.		② Obligation to assign or grant exclusive licenses of any improvement invention to the fruits to other participants. - Since such an obligation may weaken the incentive to the participants for improvement, and is very likely to impede fair competition.

(3) Matters Concerning Products Utilizing the Technology which is a Fruit of the Joint R&D Project

Item	(a) Matters which are considered, in principle, not to fall under unfair trade practices	(b) Matters which may fall under unfair trade practices	(c) Matters which are highly likely to fall under unfair trade practices
Restrictions on sales price			① Restrictions on determination of the price when selling the products based on the fruits of the joint R&D project.
Restrictions on production or sales territories		① Restrictions on production or sales territories of the products based on the fruits.	
Restrictions on production or sales volume		② Restrictions on production or sales volume of the products based on the fruits.	
Restrictions on customers	① Restricting customers to participants and/or the designated firms for a reasonable period in order to maintain the confidentiality of know-hows resulting from the joint R&D project. (See the box at right.	③ Restrictions on customers of the products based on the fruits of the joint R&D project (except for the restrictions specified in the box at left.)	
Restrictions on suppliers of raw materials and parts	② Restricting suppliers of raw materials and/or parts of the products based on the fruits to participants and/or the designated firms for a reasonable period in order to maintain the confidentiality of know-hows resulting from the joint R&D or to ensure the quality of the products. (See the box at right.) - The "reasonable period" in the context of ① and ② may be determined on the basis of a period required for a know-how to lose its commercial value by reverse engineering, etc., or a period required to obtain the equivalent raw materials from other sources.	④ Restrictions on suppliers of raw materials and/or parts of the products based on the fruits (except for the restrictions specified in the box at left).	

Item	(a) Matters which are considered, in principle, not to fall under unfair trade practices	(b) Matters which may fall under unfair trade practices	(c) Matters which are highly likely to fall under unfair trade practices
Restrictions on quality and standards of the products	③ Imposing a participant an obligation to maintain the quality and to observe the standards of the products based on the fruits of the joint R&D project when receiving such product from other participants in order to ensure the effectiveness of the developed technology. (See the box at right.)	⑤ Restrictions on the quality or standards of the products based on the fruits (except for the restrictions specified in the box at left.) - Whether or not the restrictions from ① through ⑤ impede fair competition will be judged on the basis of all the following factors: each participant's position in the market; the relationship among the participants; the market situations; the relative length of the restrictive period. - Restrictions ③ and ④ may be questionable when an influential firm in the market imposes such restrictions, thereby reducing business opportunities of its competitors. (See also the Antimonopoly Guidelines Concerning Disribution Systems and Business Practices.)	

Chapter 3. COMPARISON OF JAPANESE GUIDELINES WITH US AND EC GUIDELINES

3-1. LEGISLATION AND GUIDELINES COMPARED

In this chapter, the Japanese Antimonopoly Act Guidelines Concerning Joint Research and Development will be compared with the (US) National Cooperative Research Act of 1984 and the (US) Antitrust Guide Concerning Research Joint Ventures (hereinafter referred to as the "US Guidelines"), and the Commission Regulation (EEC) No. 418/85 of 19 December 1984 on the application of Article 85(3) of the Treaty to categories of research and development agreements (hereinafter referred to as the "EC Commission Regulation") of the European Community.

3-2. JOINT RESEARCH AND DEVELOPMENT

(1) General Treatment of Joint Research and Development under Japanese, US and European Guidelines

In the United States, joint R&D was regarded per se illegal under the Antitrust Laws until the enactment of the National Cooperative Research Act of 1984. Thus, the US Guidelines stipulate the scope of exemption under the Antitrust Laws in a limited manner.

The EC Commission Regulation stipulates the scope of exemption significantly wider than in the US Guidelines.

In the Japanese Guidelines, the scope of exemption is indicated in the form of example.

① Predictability as to Legality of Joint Research and Development Agreement

Although the Japanese Guidelines list a variety of factors to be taken into consideration, the legality of a joint R&D agreement is, in principle, judged ultimately depending on whether or not the competition is substantially restrained by the agreement in question.

The EC Commission Regulation explicitly provides a number of circumstances in which Article 85 of the Treaty establishing the European Economic Community (Prohibition of Agreements between Undertakings and Concerted Practices) is not applied. (Such

exemption from application of Article 85 is hereinafter referred to as the "exemption from the EEC Treaty".) Thus, the process for determining the legality issue is very clear, and therefore, it is easy to predict whether or not a particular agreement will become questionable under the EEC Treaty. The EC Commission Regulation also stipulates the conditions under which the exemption from the EEC Treaty is withheld.

Under the National Cooperative Research Act of 1984, only those explicitly defined joint R&D ventures will be exempted from treble damages (Section 4) by filing the notification prescribed in the Act, and the legality of a joint R&D venture under the Antitrust Laws will be determined according to the "rule of reason" standard (Section 3).

When compared with the EC Commission Regulation, the Japanese Guidelines seem to more significantly emphasize comprehensive judgement based on consideration of all relevant factors. The judgement by the JFTC may not thus be predicted by mere reliance on the factors expressly provided in the Japanese Guidelines. These practices in Japan may appear similar to those in the US where the judgement is made on the basis of the "rule of reason" standard. However, the judgement on the legality issue is easier to predict in the US than in Japan owing to a greater number of precedent decisions established.

(2) Factors to be Considered under Japanese Guidelines

① Number of Participants and Their Market Shares

The Japanese Guidelines stipulate that a joint R&D project will generally be considered not questionable under the Antimonopoly Act if the total market share of the R&D project participants in the product market is 20% or less. In addition, none of the cases in which the market share exceeds 20% will be regarded as questionable until such a judgement of violation of the Antitrust Act is rendered final after taking into consideration all relevant factors. Again, the general principle of comprehensive judgement is prevalent.

In the US, the legality issue is decided by the "rule of reason" standard in a suit for damages under the Antitrust Laws. In a certain case the market share of about 20% level was taken into consideration.

The EC Commission Regulation provides that the exemption from the EEC Treaty applies to the case where the parties' combined production of the products does not exceed 20% of the total market for such products in the common market of the EC.

Consider the case in which the market share has exceeded 20% during the course of a joint R&D project. In Japan, whether or not the competition is substantially restrained by the joint R&D agreement at the time of judgement will be the deciding factor in the legality issue. In the EC, the legality issue is decided absolutely on the basis of what is stipulated in the EC Commission Regulation, and the decision-making will not be affected by unexpected factors. Under the US practices, the case is judged on the basis of the market share at the time a suit for damages is brought into court.

② Character of R&D

The Japanese Guidelines indicate that a basic research and a developmental research have different influence on the competition in the product market. In the US, a case is reported where a judgement was made based on such a principle. However, the EC Commission Regulation does not specifically indicate such a principle.

③ Need for Joint Undertaking

The Japanese Guidelines provides that cooperation in R&D is deemed necessary if the joint R&D efforts have been designed as an environmental or safety measure and require the cost and risk too large for one firm to bear.

In the US, a joint R&D venture for development of inflammable pajama for children formulated as an emergency measure was judged as not questionable in light of the Antitrust Laws.

④ Range of objects, Duration, etc.

The Japanese Guidelines warn that any agreement with the scope too wide may affect the competition in the market. Similar logic is employed in the US while no such logic is specified in the EC Commission Regulation.

(3) Joint Research and Development for Specifications and Standards

Under the Japanese Guidelines, any joint R&D for formulation of new

specifications and standards will pose a question under the Antimonopoly Act if a firm or firms which have been restricted from taking part in the joint R&D may have difficulties in continuing its business operations, and may possibly be excluded from the market. On the other hand, any joint R&D which guarantees access of non-participants to the fruits of the joint effort will not be regarded as questionable. Similar approaches are also being employed in the EC and the US.

(4) Conclusion

The legality of a joint R&D agreement is judged in Japan on the basis of all relevant factors with an emphasis on items ① to ④ mentioned above. Although such an approach is adaptable to the change in social needs, it is more difficult to predict how the legality of a given agreement is judged in Japan than in the US because of the lack of sufficient accumulation of precedent decisions.

3-3. ARRANGEMENTS ACCOMPANYING IMPLEMENTATION OF JOINT R&D PROJECTS

In this section, individual arrangements mentioned in the Japanese Guidelines are compared with the guidelines and legislation of the EC and the US. Patent pool and other arrangements mentioned in the US Guidelines but not in the Japanese Guidelines are excluded from the following matrix table.

For the EC and the US, the Commission Regulation (EEC) No. 418/85 of 19 December 1984 on the application of Article 85 (3) of the Treaty to categories of research and development agreements and the (US) Antitrust Guide Concerning Research Joint Ventures are being used as the bases for the determination of legality. Nevertheless, the interpretation of the US Guidelines is said to be undergoing a change in keeping up with the progressing social and economical environments.

In the matrix table shown below, the legality is rated and represented by symbols such as " ○ " meaning that the arrangement is considered, in principle, not to fall under unfair trade practices (Clear Clause), " △ " meaning that the arrangement may

fall under unfair trade practices (Gray Clause), and " ● " meaning that the arrangement is highly likely to fall under unfair trade practices (Dark Clause). The above symbol is accompanied by the specific article or section upon which the determination is based. An arrangement marked " △ " (Gray Clause) under the EC Commission Regulation is in practice that considered to be " ○ " (Clear Clause). Although the "△ " arrangements by nature are regarded as the restraints of competition, it still be exempted from the EEC Treaty based on the rationale that permitting such arrangements will make the joint R&D and the utilization of its fruits more efficient, thereby affording benefits to the participants of the joint effort and consumers.

(1) Matters Concerning the Implementation of the Joint R&D Project

Type of Arrangement	Japanese Guidelines	EC Commission Regulation	US Guidelines
Objective, duration, and work sharing	○ (1) a ①	Note 4	○ I.B. and I.B.1.
Obligation to disclose technical information	○ (1) a ②	○ Article 5 Paragraph 1 (a)	○ I.B.1. and I.B.2.
Obligation to hold the disclosed technical information in confidence	○ (1) a ③	○ Article 5 Paragraph 1 (d)	
Obligation to hold the confidential information in confidence	○ (1) a ④	○ Article 5 Paragraph 1 (d)	
Obligation to report on the progress	○ (1) a ⑤	○ Article 5 Paragraph 1 (a)	○ I.B.1.
Restrictions on the diversion of the disclosed information for any purpose other than the theme of the joint R&D project	○ (1) a ⑥ △ (1) b ① Note 1	○ Article 5 Paragraph 1 (b)	
Restrictions on carrying out R&D on the same theme during implementation of the joint R&D project	○ (1) a ⑦	△ Article 4 Paragraph 1 (a) (b)	
Restrictions on carrying out joint R&D on a closely related theme during implementation of the joint R&D project	○ (1) a ⑧	△ Article 4 Paragraph 1 (a) (b)	
Restrictions on carrying out joint R&D on the same or a related theme after completion of the joint R&D project	● (1) c ② ○ (1) a ⑨ Note 2	● Article 6 Paragraph 1 (a)	● I.B.
Restrictions on carrying out R&D on themes other than that of the joint R&D project	● (1) c ①	● Article 6 Paragraph 1 (a)	● I.B.
Restrictions on introduction of similar technology from other sources	○ (1) a ⑩ △ (1) b ② Note 3		
Restrictions on participation of other firms	○ (1) a ⑪		○ I.C.

Type of Arrangement	Japanese Guidelines	EC Commission Regulation	US Guidelines
Restrictions on a participant in using a technology already in its possession or in licensing such a technology to third parties	● (1) c ③		
Restrictions on the production and sale of other competing products of the product derived from the joint R&D project	● (1) c ④		

Note 1 : Restrictions on the development of new technology, even if it is based on ideas derived from the disclosed information, as well as the use of the disclosed information.

Note 2 : Such restrictions may be considered necessary for a reasonable period from the expiry of the joint R&D project if for the prevention of breach in bad faith or confirmation of ownership of the rights gained in the joint R&D.

Note 3 : Restrictions on a participant in introducing similar but superior technology from other sources after withdrawal from the joint R&D project.

Note 4 : The blank box means that the applicable type of arrangement is not mentioned in the EC Commission Regulation or the US Guidelines.

(2) Matters Concerning the Technology as a Fruit of the Joint R&D Project

Type of Arrangement	Japanese Guidelines	EC Commission Regulation	US Guidelines
Restrictions on R&D activities utilizing the fruits of the joint R&D project	● (2) b ①	● Article 6 Paragraph 1 (a) Note 5	
Arrangement on definition of, and ownership of the rights to the fruits	○ (2) a ①		
Restrictions on licensing the fruits to third parties	○ (2) a ②		○ I.C.
Determination of share of royalties paid by third parties according to licenses of the fruits	○ (2) a ③	○ Article 5 Paragraph 1 (g)	○ I.C.
Obligation to maintain the confidentiality of the fruits	○ (2) a ④	○ Article 5 Paragraph 1 (d)	○ I.B.1.
Obligation to disclose or grant non-exclusive licenses of any improvement invention to the fruit to other participants	○ (2) a ⑤	△ Article 4 Paragraph 1 (g) Note 6	
Obligation to assign or grant exclusive licenses of any improvement invention to the fruits to other participants	● (2) b ②		

Note 5 : Restrictions on participants in carrying out R&D independently or in cooperation with third parties in a field unconnected with that to which the joint R&D project.

Note 6 : Obligation on the parties to communicate to each other any experience they may gain in exploiting the results and to grant each other non-exclusive licenses for any invention relating to improvements or new applications.

(3) Matters Concerning Products Utilizing the Technology as a Fruit of the Joint R&D Project

Type of Arrangement	Japanese Guidelines	EC Commission Regulation	US Guidelines
Restrictions on sales prices	● (3) c ①	● Article 6 Paragraph 1 (d)	● I.B.1.
Restrictions on production or sales territories	△ (3) b ①	△ Article 4 Paragraph 1 (d) & Article 4 Paragraph 1 (f) Note 7 ● Article 6 Paragraph 1 (f)	△ ● I.B.1. Note 8
Restrictions on production or sales volume	△ (3) b ②	△ Article 4 Paragraph 1 (e) Note 10 ● Article 6 Paragraph 1 (c)	△ ● I.B.1. Note 8
Restrictions on customers	○ (3) a ① Note 9 △ (3) b ③	△ Article 4 Paragraph 1 (e) Note 10 ● Article 6 Paragraph 1 (e)	△ ● I.B.1. Note 8
Restrictions on suppliers of raw materials and parts	○ (3) a ② Note 11 △ (3) b ④	△ Article 4 Paragraph 1 (c) Note 12	
Restrictions on quality and standards of the products	○ (3) a ③ Note 13 △ (3) b ⑤	△ Article 5 Paragraph 1 (h) Note 14	

Note 7 : Obligation not to manufacture the contract products or apply the contract processes in territories reserved for other parties (Article 4, Paragraph 1 (d)). Allotment of sales territories among participants of the joint R&D project for a period of five years from the time the contract products are first put on the market within the common market (Article 4, Paragraph 1 (f)).

Note 8 : A restriction as to production and sales may fall in the scope of arrangements considered as △ (Gray Clause), and an arrangement as to division of the market is regarded as ● (Dark Clause), per se illegal.

Note 9 : Restriction of customers to participants and designated firms for a reasonable period in order to maintain the confidentiality of know-hows gained from the joint R&D project.

Note 10: Restrictions on manufacture and application of contract products or processes, only when the parties are not in competition with each other.

Note 11: Restriction on suppliers of raw materials and parts to participants and designated firms for a reasonable period in order to maintain the confidentiality of know-hows and/or the quality of the developed products.

Note 12: Obligation to procure the contract products exclusively from participants and/or related parties.

Note 13: Imposing a participant an obligation to maintain the quality and to observe the standards of the products when supplying such to other participants, in order to ensure the effectiveness of the developed products/technology.

Note 14: Obligation to supply minimum quantities of contract products and to observe minimum standards of quality.

(4) Conclusion on Comparison of Judgement on Joint R&D Arrangements under Guidelines and Regulation

As the above matrix table shows, the treatment of the example arrangements given are almost identical among the guidelines and regulation of Japan, the EC, and the US.

The differences observed include:

a) The EC Commission Regulation and the US Guidelines have a number of blank areas in respective columns;

b) The Japanese Guidelines show exceptions as in Notes 1-3, 11 and 13;

c) Different basic approaches are used in "restrictions on carrying out independent R&D on the identical theme or a closely related theme during implementation of joint R&D project" explained in (1) Matters Concerning the Implementation of the Joint R&D Project, and "obligation to disclose or grant a non-exclusive license of any subsequent improvement to the fruits to other participants" explained in (2) Matters Concerning the Technology which is a Fruit of the Joint R&D Project, even if the actual treatments are similar;

d) Provisions of the EC Commission Regulation are more specific than the Japanese Guidelines in "restrictions on production or sales territories", "restrictions on production or sales volume" and "restrictions on customers" explained in (3) Matters Concerning Products Utilizing the Technology which is a Fruit of the Joint R&D Project.

In authors' view, the blanks in the columns for the EC Commission Regulation and the US Guidelines mean that those arrangements may well be judged by common sense and need no particular rulings. The decision concerning those matters will probably not differ considerably among Japan, the EC and the United States.

The exceptions provided in the Japanese Guidelines as shown in Notes 1-3, 11 and 13 are for the cases where rigid application of the Law may impede competition and more detailed tools are

provided in order to avoid such an outcome. Thus, the Japanese Guidelines are more specific in this respect. "Restrictions on production or sales territories" and "restrictions on production or sales volume" explained in (3) Matters Concerning Products Utilizing the Technology which is a Fruit of the Joint R&D Project are considered to be in the gray zone and judged on a case-by-case basis under the Japanese Guidelines. On the other hand, the same case is classified as either gray or dark case under the EC Commission Regulation. In this respect, the Regulation is more specific than the Japanese counterpart.

CONCLUSION

In modern technology becoming evermore sophisticated and complicated, the joint R&D plays a key part in the corporate R&D activities. In this respect, publication of these Guidelines clarifying the JFTC's positions and views on the joint R&D under the Antimonopoly Act, first attempt ever made in Japan, can be considered as significant contribution to all the firms intending joint R&D ventures. The JFTC will present more specifically its standpoints in the process of aggregating case decisions through the consultation system. The JFTC's future activity is worth extensive attention.

The Antimonopoly Act Guidelines Concerning Joint Research and Development

April 20, 1993
Fair Trade Commission

Introduction

1. Basic Points of View

One of the characteristic features of recent technological innovations is that research and development (R&D) requires enormous expenditure and time as technologies have become highly sophisticated and complex, spanning many different fields. And the technologies called for could become quite diversified. For this reason, joint R&D projects by multiple firms are increasing in addition to R&D undertakings by a single firm and the introduction of technologies from other firms.

A joint R&D project stimulates and improves the efficiency of R&D activities and encourages technological innovations by (1) helping reduce the costs, distribute the risks or shorten the required time for R&D, and (2) facilitating mutual complementing of technologies and so forth, among firms in different lines of business, and accordingly are regarded as having pro-competitive effects in many cases.

On the other hand, since joint R&D projects are conducts by multiple firms, it is conceivable that they sometimes cause substantial restraint of competition in the market. Or, even where a joint R&D undertaking involves no problem in itself, an arrangement accompanying the implementation of the joint R&D project may unreasonably restrain business activities of the participants and impede fair competition in the technology market which is a fruit of the joint R&D project or in the market for products utilizing that technology.

This set of the Antimonopoly Act Guidelines Concerning Joint Research and Development, based on the above-stated perception, is published in the hope that the disclosure of the Fair Trade Commission's general view, with respect to joint R&D, on arrangements for joint undertaking of R&D projects and their implementation may enable joint R&D projects to further promote, rather than impede, competition.

The FTC does not mean to question joint R&D activities in general, but it will examine a given R&D project in the light of the Antimonopoly Act only where it may exert an anti-competitive effect and, in making such an examination, will of course take into account the pro-competitive effects of joint R&D.

2. Coverage of the Guidelines and Timing in Passing Judgement

(1) The "joint R&D" projects to which the Guidelines are applicable are conducts of "joint undertaking of R&D with the participation of multiple firms". Thus, in respect of participation in joint R&D, the Guidelines are applicable to attempts in which "more than on firm" participate. The Guidelines are applicable to any such conduct as far as it may affect the Japanese market, irrespective of whether the participants are domestic or foreign firms.

(2) Whereas the way in which R&D is "jointly undertaken" may be (i) the sharing of R&D activities among the participants, (ii) the joint establishment of an organization to carry out R&D activities by the participants, (iii) undertaking of R&D activities by a trade association, or (iv) an arrangement under which mainly one party provides the funds and the other engages in actual R&D activities (excluded are such cases where only one participant engages in R&D activities and the other acquires all the R&D fruits for a certain remuneration, and is considered to be a contract or the like where the purpose is

simply in the development of technology and does not have the nature of a joint conduct between firms), the Guidelines are applicable to any of these conceivable ways.

(3) Whereas R&D projects, in respect of their character, may be roughly classified into basic, applied and developmental researches, the Guidelines are applicable to joint R&D projects on any of these researches.

(4) In principle, it is at the time of the conclusion of a contract on the joint R&D project that judgement is passed regarding problems relating to the joint R&D under the Antimonopoly Act. However, if the handling of the fruits of the joint R&D, etc. cannot be prescribed at that time, judgement will be passed regarding problems under the Antimonopoly Act at the time handling arrangements on such aspects are made.

As to whether an individual specific joint R&D project and the arrangement regarding its implementation present any problem under the Antimonopoly Act, since examination may often be required on a case-by-case basis, the FTC will establish a consulting system regarding joint R&D, and respond to individual requests for consultation (see Appendix).

No. 1: Application of the Antimonopoly Act to Joint Undertaking of R&D

1. Basic Concept

If by undertaking R&D jointly, its activities are restricted among the participants, and which, in turn, may substantially restrict competition in the technology or product market, such a joint undertaking of R&D can pose a problem under the provisions of Sec. 3 of the Antimonopoly Act (Unreasonable Restraint of Trade). If the joint R&D project is undertaken by a trade association, it may also present a problem under Sec. 8, or if a jointly-invested company is established, it may also create a problem under Sec. 10 of the Antimonopoly Act.

Joint undertaking of R&D projects that would pose problems under the Antimonopoly Act would be those competing (including potentially competing, hereinafter referred to as "competing") firms undertaking R&D projects jointly. There is very little likelihood for non-"competing" firms to undertake R&D project jointly that would normally pose a problem under the Antimonopoly Act. Each firm is expected to undertake R&D regarding its products and production processes, and to compete with others in the technology or product market. However, for "competing" firms to undertake R&D project jointly would affect competition in the technology or product market.

In most cases, joint R&D projects are carried out by a small number of firms and there seems to be not much likelihood that they will pose problems under the Antimonopoly Act. However, in exceptional cases, where, for example, multiple firms in the oligopolistic industry or a majority of "competing" firms in the product market, in improving a certain product or in developing an alternative product, work together under a joint project, in spite of the fact that this project could be carried out by anyone of the participating firms. This could mean restricting R&D activities among the participants and cause substantial restraint of competition in the technology or product market.

2. Matters to be Considered When Making Judgements

(1) Regarding the problem of undertaking R&D jointly, judgement will be made case-by-case, and giving due consideration to the pro-competitive effect, whether or not the problem would cause substantial restraint of competition in the technology or product market. In passing judgement,

the following matters will be comprehensively taken into consideration.

① Number of Participants and Their Market Shares

In passing judgement as to whether or not a given joint undertaking of R&D presents a problem under the Antimonopoly Act, the number of participating firms and their shares and positions in the market are taken into account. Generally speaking, the greater the market shares of the participants and the greater the number of firms excelling in business capabilities including the technological development capability among the participants, the more likelihood of the joint conduct to present a problem under the Antimonopoly Act or, conversely, the smaller the market shares of the participants and the smaller their number, the less likelihood of the joint conduct to present a problem under the Antimonopoly Act.

For instance, a joint R&D project among competing firms in the market for a product, is undertaken to improve the product or to develop an alternative to the product. If the combined market share of the said product of the participants is no more than 20%, it will usually present no problem under the Antimonopoly Act. Furthermore, even if the total of the said market share exceeds 20%, it does not right away pose a problem. Judgement will be made by comprehensively, taking into consideration matters from ① through ④.

As a market relevant to a joint undertaking of R&D, apart from the product, it is possible to consider a technology market in which the technology itself is an object of transaction. In passing judgement on restriction of competition in the technology market, it will not depend on the market share, etc. of the said product of the participants, but on the standard of whether or not there are appropriate number of units to undertake R&D in the said technology market. In such a case, since technologies cost less to transfer and are objects of international transactions, when considering either actual or potential units to undertake R&D, not only domestic but also foreign firms would have to be taken into account and, normally, there are a substantial number of units to undertake R&D, and in that case, the undertaking is less likely to present a problem under the Antimonopoly Act.

② Character of Research

R&D projects can be classified into basic, applied and development researches as different stages of a comprehensive research work. And these differences in character are an important criterion in passing judgement as to whether the impact of a given joint R&D project on competition in the product market is direct or indirect. If it is a developmental research, since its fruits would have a more direct impact on the product market, it would more likely present a problem under the Antimonopoly Act. On the other hand, if a joint R&D project is made for basic research, which is not intended to develop a specific product, it usually would have little effect on competition in the product market, and is less likely to present a problem under the Antimonopoly Act.

③ Need for Joint Undertaking

Where the risks involved or the cost of a research project are too great to be borne by a single firm, or where the firm undertaking the R&D project finds a strong need among other reasons, for joint undertaking with other firm or firms in view of the limitation of its accumulated technological resources, technological development potential and so forth, joint undertaking of the R&D project is considered necessary for the achievement of the objective of the R&D project, such undertaking is less likely to present a problem under the Antimonopoly Act.

Moreover, a joint R&D project intended to

address so-called external factors, such as developing an environmental or safety measure, may not in itself immediately exclude the possibility for such project to pose a problem under the Antimonopoly Act. However, taking into account cost, risk, and so forth, related to research, it may not be so easy to carry it out alone. In such a case, it is less likely to pose a problem under the Antimonopoly Act.

④ Range of Objects, Duration, etc.

The range of objects, duration, etc. of the joint R&D project are also taken into account in assessing its impact on competition in the market. In other words, where the range of objects, duration, etc. are clearly defined, its impact on competition in the market will be less than where they are more extensively stipulated than necessary.

(2) Moreover, even if the problems mentioned above do not arise, should the total market share of the participants be fairly high, and in starting a joint R&D project to develop technology indispensable for business linked to unification of standards or to standardization, a firm is restricted from participating and as a result, finds difficulty in carrying on business activities and be exposed to danger of being excluded from the market. In such a case and as an exception, undertaking such R&D jointly could pose a problem under the Antimonopoly Act (Private Monopolization, etc.)

For example, regarding a joint R&D project in which the combined market share of the participants is fairly high, the fruits of said R&D, assessed by the substance of the R&D, might very possibly be actually standardized in the business field concerned. Should this joint R&D project be difficult to be carried out by an individual firm, and if such standardization contributes to rationalizing production and distribution; does not harm the interests of the consumer; and does not restrict the R&D, production, and sales activities of the product without the use of the technology concerned, the undertaking of R&D jointly will be permitted.

Even in such a case, if a firm is restricted from participating in said joint R&D project: restricted from access (rational terms for utilization of the results, availability of information on the results, etc., hereinafter referred to as Access): and finds difficulty in its business activities as it has no other possible means to do business. As a result, if there is danger of the firm being excluded from the market, it would pose a problem under the Antimonopoly Act.

However, if the firm that is restricted from participating in the said joint R&D project is guaranteed Access to the results which may not make the firm's business activities so difficult, it would not pose a problem under the Antimonopoly Act.

No. 2: Application of the Antimonopoly Act to Arrangements Accompanying the Implementation of Joint R&D Projects

1. Basic Concept

Even where the joint undertaking of R&D presents no problem under the Antimonopoly Act, arrangements accompanying the implementation of the joint R&D project may affect competition in the market and they may create problem or problems under the Antimonopoly Act.

Thus, if an arrangement unjustly restricts the business activities of a participant under an arrangement and may thereby impede fair competition, the arrangement will constitute unfair trade practices and pose a problem under the provisions of Sec. 19 of the Antimonopoly Act.

Furthermore, in implementing a joint R&D project by "competing" firms in the product

market, if business activities are mutually restricted in firms on price and volume, etc. of a product, it will be examined in accordance mainly with the provisions of Sec. 3 (Unreasonable Restraint of Trade) of the Antimonopoly Act.

Moreover, since a joint R&D project is undertaken by multiple firms to achieve a common purpose, arrangements by the participants regarding its implementation are basically judged by this set of Guidelines. "Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-how Licensing Agreements" (published on February 15, 1989), the object of which is technological transaction, will not apply. However, in concluding a license contract with a third party on the results of the joint R&D project, it will be judged by the above mentioned Guidelines.

2. Judgement Concerning Unfair Trade Practice

In the following paragraphs, matters to be arranged in connection with the implementation of a joint R&D project are classified, on the basis of the realities of joint R&D projects, into three categories including (1) "Matters Concerning the Implementation of the Joint R&D Project", (2) "Matters Concerning the Technology which is a Fruit of the Joint R&D Project" and (3) "Matters Concerning Products Utilizing the Technology which is a Fruit of the Joint R&D Project", each being subdivided into (a) "Matters which are considered, in principle, not to fall under unfair trade practices", (b) "Matters which may fall under unfair trade practices" and (c) "Matters which are highly likely to fall under unfair trade practices", and the FTC's views under the Antimonopoly Act are revealed as much as possible from the viewpoint of unfair trade practices.

"Matters which are considered, in principle, not to fall under unfair trade practices" are considered to be within a reasonable scope, needed for smooth implementation of the joint R&D project and have little impact on competition. Even if such matters have been arranged, they do not, in principle, constitute unfair trade practices and accordingly present no problem under the Antimonopoly Act. However, even such matters will present a problem under Sec. 19 of the Antimonopoly Act (General Designations: Article 14 (Abuse of Dominant Bargaining Position) or Article 5 (Discriminatory Treatment in a Concerted Activity)) if its contents significantly lack balance among the participants and thereby place any specific participating firm at an unreasonable disadvantage.

Regarding the "Matters which may fall under unfair trade practices," each matter is individually examined as to whether or not it may impede fair competition and, in such an examination, whether or not said matter may impede fair competition is judged on the basis of the overall assessment of the participants' positions in the market, the relationship among the participants, the market situation, the relative length of the period during which the restriction is imposed, among other factors.

In such a case, the more influential the positions of the participants in the market, the less intense the competition in the related markets, and the longer the duration of the restriction, the greater the likelihood of impediment of fair competition. Furthermore, the compatibility with Articles 14 and 5 of the General Designations mentioned above will also be questioned here in certain cases.

"Matters which are highly likely to fall under unfair trade practices" are not deemed necessary for the implementation of the joint R&D project and as the contents of the restriction themselves to be imposed are highly likely to impede fair competition, they would be considered to fall under unfair trade practices unless there is a particular reason or reasons to justify such practices.

(1) Matters Concerning the Implementation of the Joint R&D Project

(a) Matters which are considered, in principle, not to fall under unfair trade practices

① Arrangement on the objective, duration, and sharing (sharing of work, sharing of cost, etc.) of the R&D project.

② Calling for the obligation to disclose among the participants themselves information (including what is obtained in the process of the joint R&D project; the same applies hereinafter) on the technologies, etc. (including findings, data, etc.; the same applies hereinafter) necessary for the joint R&D project.

③ Calling for the obligation to keep secret the information on the technologies, etc., disclosed under ② from other participants.

④ Calling for the obligation to keep secret such information, other than the information on the technologies, etc. under ②, obtained from fellow participants and those which are supposed to be particularly confidential (including the secrecy of the actual implementation of the joint R&D project).

⑤ Calling for the obligation to report on the progress of the shared part of the research work to other participants.

⑥ Restrictions on the diversion of the technologies, etc. disclosed by other participants under ② for any purpose other than the theme (which means the scope of the objects of the joint R&D project; the same applies hereinafter) of the joint R&D project (except in the case of (1)-(b)-①).

⑦ Restrictions on an R&D of an individual or with a third party or parties which has the same theme as that of the joint R&D project during the implementation of the joint R&D project.

⑧ Restrictions on a joint R&D with a third party or parties on any theme very closely related to the theme of the joint R&D project during the implementation of the joint R&D project, where such restrictions are deemed necessary for preventing a dispute arising over the fruits of the joint R&D project or inducing the participants to the joint R&D project to dedicate themselves to the said project (see (1)-(c)-①).

⑨ Restrictions on a joint R&D with a third party or parties on the same theme as or any theme very closely related to the theme of the joint R&D project for a reasonable period after the completion of the joint R&D project, where such restrictions are deemed necessary for preventing a dispute arising over the fruits of the joint R&D project and for inducing the participants to dedicate themselves to the said project (see (1)-(c)-① and ②).

Restriction on R&D after completion of the joint R&D project can not, in principle, be accepted. It unjustly restricts the R&D activities of the participants and would seem to strongly impede fair competition (see (1)-(c)-① and ②). However, in the case of a reasonable period after completion of the joint R&D project, when it is accepted that the restriction was necessary to prevent a breach of faith or confirm acquisition of rights, restricting an R&D with a third party having the same theme or very closely related to it, would not be considered, in principle, an impediment to fair competition.

⑩ Restrictions on the introduction from some other party, of a technology similar to the technology which is the objective of the joint R&D project during the implementation of the joint R&D project in the case where the necessity is recognized to induce the participants to dedicate themselves to the joint R&D project (except in the case of (1)-(b)-②).

⑪ Restrictions on the participation of other firms in the joint R&D project.

It will not, in principle, create a problem by just restricting participation of other firms in the joint R&D project. However, it could pose a problem in exceptional cases under unfair trade practices (General Designations: Article 1 [Concerted Refusal to Deal], Article 2 [Other Refusal to Deal], etc.) and under private monopolization, etc. (see No. 1-2 (2)).

(b) Matters which may fall under unfair trade practices

① Restrictions on the diversion of the technologies, etc. disclosed by other participants in connection with the joint R&D project regarding themes other than that of the joint R&D project beyond a reasonable extent necessary for the prevention of the diversion of the technologies, etc. (see (1)-(a)-⑥).

If even the development of another different technology based on a hint from the disclosed technologies, etc., instead of diverting them as they are, is restricted, the restrictions on such R&D activities will be regarded as exceeding a reasonable extent necessary for the prevention of the diversion of the technologies, etc. and, unjustly restricting business activities of the participants in the joint R&D project, and it would seem likely to impede fair competition (General Designations: Article 13 [Dealing on Restrictive Terms]).

② Restrictions on the introduction from some other party of any technology similar to the technology which is the objective of the joint R&D project beyond an extent necessary for the implementation of the joint R&D project (see (1)-(a)-⑩).

If the wish of a participant to withdraw from the joint R&D project by disclaiming its rights to findings, fruits, etc. pertaining to the said R&D project and to introduce superior technology from another party is rejected, such a restriction will be regarded as binding unjustly on the business activities of the participant beyond an extent necessary for the implementation of the joint R&D project. And such a restriction would seem likely to impede fair competition by depriving the firm holding a competitive technology of transaction opportunities or depriving each participant of its freedom of the choice of technology (General Designations: Article 11 [Dealing on Exclusive Terms] or 13 [Dealing on Restrictive Terms]).

(c) Matters which are highly likely to fall under unfair trade practices

① Restrictions on R&D on theme other than that of the joint R&D project (except in the case of (1)-(a)-⑧ and ⑨).

② Restrictions on R&D on the same theme as that of the joint R&D project after the completion of the said joint R&D project (except in the case of (1)-(a)-⑨).

Restrictions such as ① and ② above may unjustly restrict R&D activities by the participants and are regarded as being highly likely to impede fair competition (General Designations: Article 13 [Dealing on Restrictive Terms]).

③ Restrictions on the use existing technologies by any participant or on granting of license of such technologies to a third party.

④ Restrictions on the production and sales activities by any participant with respect to any competing product or the like other than the products based on the fruits of the joint R&D project.

Restrictions such as ③ and ④ above that are not deemed necessary for the implementation of the joint R&D project are regarded as being highly likely to impede fair competition (General Designations: Article 13 [Dealing on Restrictive Terms]).

(2) Matters Concerning the Technology which is a Fruit of the Joint R&D Project

(a) Matters which are considered, in principle, not to fall under unfair trade practices

① Determination of the definition of or title to the fruits.

② Restrictions on the license for the implementation of the fruits by a third party.

Restricting approval of implementation of the fruits to a third party in itself does not, in principle, pose a problem. However, it could pose an exceptional problem under unfair trade practices (General Designations Article 1 [Concerted Refusal to Deal], Article 2 [Other Refusal to Deal], etc.) and under private monopolization, etc. (see No. 1-2 (2)).

③ Determination of the sharing, etc. of the royalty pertaining to the license for the implementation of the fruits by a third party.

④ Calling for the obligation to keep the fruits of the work secret.

⑤ Calling for the obligation to disclose inventions, etc. that would improve the fruits to other participants or to permit the implementation thereof by other participants on a non-exclusive basis.

As already stated, any restriction from ① through ⑤ above will present a problem if its contents significantly lack balance among the participants and thereby place any specific participating firm at an unreasonable disadvantage.

(b) Matters which are highly likely to fall under unfair trade practices

① Restrictions on R&D activities utilizing the fruits.

Such a restriction unjustly restricts R&D activities by the participants, may reduce competition in the market, and is regarded as being highly likely to impede fair competition (General Designations: Article 13 [Dealing on Restrictive Terms.]).

② Calling for the obligation to transfer inventions, etc. that would improve the fruits to other participants or to permit the implementation thereof by other participants on an exclusive basis.

Such a restriction weakens the incentive for R&D activities by the participants to improve the fruits, may reduce competition in the market, and would be regarded as being highly likely to impede fair competition (General Designations: Article 13 [Dealing on Restrictive Terms]).

(3) Matters Concerning Products Utilizing the Technology which is a Fruit of the Joint R&D Project

(a) Matters which are considered, in principle, not to fall under unfair trade practices

① Restricting the marketing of products utilizing the technology which is a fruit of the joint R&D project to another participant or to a firm or firms it designates within a reasonable period if such restrictions are required for keeping the know-how which is a fruit of the joint R&D project secret (see (3)-(b)-③).

② Restricting the supply source or sources of raw materials or parts for the products utilizing the technology which is a fruit of the joint R&D project to another participant or to a firm or firms it designates within a reasonable period if such restrictions on the supply source or sources of raw materials or parts are required for keeping the know-how which is a fruit of the joint R&D project secret or for ensuring the quality of the products based on the fruit (see (3)-(b)-④).

The "reasonable period" under ① and ② above is determined according to the length of time when the know-how will lose its transaction value judged by reverse engineering or otherwise at the technological level prevailing in the area concerned and the length of time when equal raw materials or parts can become available from other sources, among other factors.

③ Calling for the obligation to maintain the product quality or standards at a certain level so as to ensure within a necessary range, the effectiveness of the technology which is the fruit of the R&D when receiving from another participant, supply of products based on the R&D result (see (3)-(b)-⑤).

(b) Matters which may fall under unfair trade practices

① Restrictions on the production or sales territories of the products based on the fruits.

② Restrictions on the production or sales volumes of the products based on the fruits.

③ Restrictions on to whom to sell the products based on the fruits (except in the case of (3)-(a)-①).

④ Restrictions on the supply source or sources of the raw materials or parts for the products based on the fruits (except in the case of (3)-(a)-②).

⑤ Restrictions on the quality or standards of the products based on the fruits (except in the case of (3)-(a)-③).

Problem will arise if any of the items from ① through ⑤ above is judged to have the possibility of impeding fair competition on the basis of overall assessment of the participants' positions in the market, the relationship among the participants, the market situation, and the relative length of the period during which the restriction is imposed, among other factors. In such a case, the problem will be related to unfair trade practices (General Designations: Article 11 [Dealing on Exclusive Terms], 13 [Dealing on Restrictive Terms], etc.).

Furthermore, for ③ and ④ above, for example, regarding a joint R&D project between business partners to improve the product or to develop an alternative to the product, there may be cases where an influential firm in a market implement such restrictions, resulting in reduced business opportunities of the competitors and making it difficult for them to easily find alternative trading partners. In that case, such restrictions would seem likely to impede fair competition (see the Antimonopoly Guidelines Concerning Distribution Systems and Business Practices (published on July 11, 1991) Part 1, Chapter 4 [Restrictions on Trading Partners of Dealing with Competitors]).

(c) Matters which are highly likely to fall under unfair trade practices.

① Restrictions on the sales prices to a third party, of the products based on the fruits.

Such a restriction would deprive any participant subject to the restrictions of its freedom of pricing, which is its important means of competition, and is regarded as being highly likely to impede fair competition (General Designations: Article 13 [Dealing on Restrictive Terms]).

Appendix: The Consulting System Concerning Joint R&D Project

This set of Guidelines sets forth, with respect to matters to be arranged in connection with a joint undertaking of R&D and the implementation of the joint R&D project, the FTC's views under the Antimonopoly Act. However, some firms may find it not easy to judge whether an individual specific joint R&D project presents any problem under the Antimonopoly Act. Therefore, the FTC will establish a consulting system regarding joint R&D projects along with the publication of this set of Guidelines, and respond to individual requests for consultation from participants of joint R&D projects.

Requests for general consultation, including inquiries about this set of Guidelines, will be handled in the same manner as before.

1. Joint R&D Projects Covered by the Consulting System

The objects of the consulting system will be, with respect to joint R&D projects to which the Guidelines are supposed to be applicable under "2. Coverage of the Guidelines and Timing in Passing Judgement" in the "Introduction" to the Guidelines, those matters to be arranged in connection with a joint undertaking of R&D and the implementation of the joint R&D project whose compatibility with the provisions of the Antimonopoly Act is not clear.

2. Request for Consultation

The party eligible to request prior consultation shall be the firm or the trade association intending to implement a joint R&D project which would be an object of prior consultation, irrespective of whether the firm or the trade association is a domestic or a foreign entity.

It is not necessary for all the parties to the joint R&D project to request, but parties to the project other than the requestor or requestors, if deemed necessary by the FTC, may be heard with the consent of the requestor or requestors.

3. Procedure for Request

A Party intending to request prior consultation will file a written request for consultation in a specified form, accompanied with supplementary material, with the Director General of the Executive Bureau of the Fair Trade Commission. The documents may also be filed via the competent local office of the FTC (see the separate table of offices).

A requestor who is not familiar with the procedure for requesting consultation or the way in which the request form is to be filed out is advised to inquire in advance with one of the offices listed in the separate table.

4. Reply to Prior Consultation

(1) If prior consultation is requested, the FTC will examine whether the contents of the intended joint R&D project would contradict any provision of the Antimonopoly Act, and the result will be notified in writing.

If necessary, the reply may be valid for only a prescribed period or be conditional. If the contents of the technology involved should be evaluated, if the likely impact on the product market in the future should be evaluated,or if intervention in a private dispute would be involved, the FTC may refrain from replying.

(2) If a reply to prior consultation is given to the effect that the intended conduct does not contradict any provision of the Antimonopoly Act. no legal action shall be taken against the conduct for which the

consultation was sought on the ground of its contradiction of a provision or provisions of the Antimonopoly Act, except where a conduct different from the conduct referred to in the request or a conduct in violation of any condition attached to the reply has been committed.

5. Withdrawal of a Reply to Prior Consultation

If, after a reply is given under 4-(2) above to the effect that the intended joint R&D project contradicts no provision of the Antimonopoly Act, a change arises in any of the facts on which the judgement underlying the reply was based, such as a significant change in the positions of the parties in the markets or in the situations of the markets, or it is deemed inappropriate to maintain the reply for some other reason, the FTC may withdraw its reply either in whole or in part. In this case, in principle, no legal action shall be taken against the conduct for which the consultation was sought on the ground of its contradiction of a provision or provisions of the Antimonopoly Act until a reasonable period for taking necessary measures has passed after the withdrawal of the reply in whole or in part.

6. Publication of Prior Consultation

The contents of prior consultation and the reply thereto (even if later withdrawn) may be made public in summary in the absence of any circumstance to prevent such publication except for parts regarding confidential matters of the firm or firms.

Attachment (Form A4)

APPLICATION FORM FOR PRIOR CONSULTATION
JOINT RESEARCH AND DEVELOPMENT

Date

To the Secretary General,
The Fair Trade Commission

Name of the Firm or the Association
Name and Title of the Representative
Name and Telephone Number of
Person in Charge

This firm (association) contemplates to engage in Joint Research and Development as stated below, and hereby applies for prior consultation regarding whether the project pose a problem under the Antimonopoly Act Guidelines Concerning Joint Research and Development.

1. Outline of Participants (Signers of the Joint Research and Development Contract)

Enter the following information for all participating firms (associations).
(1) Name of the firm or the association
(2) Address of the firm or the association
(3) Summary of the firm or the association's business activities

2. Market Share and Ranking of Participant

Enter the market share, rank, etc. of the main firms concerned with the related product that is related to Joint Research and Development.

3. Matters Concerning Joint Research and Development

Enter the following information on Joint Research and Development.

(1) Date of the signing of the Joint Research and Development contract.
(Contract to be signed on or about __ year, __ month, __ day (contract signed on __ year, __ month, __ day))

(2) Purpose of Joint Research and Development (details of achievement expected from from Joint Research and Development).

(3) Character of research.

(4) Need for joint undertaking (in specific detail).

(5) Object and period of Joint Research and Development.

(6) Restrictions placed on access to the fruits of Joint Research and Development by third parties.

4. Matters Concerning Arrangements Made for Joint Research and Development

For each of ① Matters Concerning the Implementation of the Joint Research and Development Project, ② Matters Concerning The Technology which is the Fruit of the Joint Research and Development Project, and ③ Matters Concerning Products Utilizing the Technology which is the Fruit of the Joint Research and Development Project, enter item or items that would come under categories other than "Matters which Are Considered, in Principle, Not to Fall under Unfair Trade Practices" according to the aforementioned Antimonopoly Act Guidelines.

5. Other Attached References

Attach ① a Copy of the Contract and ② any other reference materials which may be of use.

6. Other Matters

Enter concisely any other matters that require consultation.

Annex

Offices in Charge of Prior Consultation

Name of Offices	Address and Phone Number
Executive Office of the Fair Trace Commission Coordination Division Economic Department	2-1, Kasumigaseki 2-chome Chiyoda-ku, Tokyo 100 Tel. (03)3581-5471
Hokkaido Office	Sapporo Joint Office Building #2 10 Odori-nishi, Chuo-ku, Sapporo 060 Tel. (011)231-6300
Tohoku Office	Sendai Joint Office Building #2 2-23, Honcho 3-chome, Aoba-ku, Sendai 980 Tel. (022)225-7095～6
Chubu Office	Nagoya Joint Office Building #2 5-1, Sannomaru 2-chome, Naka-ku, Nagoya 460 Tel. (052)961-9421～4
Kinki Office	Osaka Joint Office Building #4 1-76, Ohtemae 4-chome, Chuo-ku, Osaka 540 Tel. (06)941-2173～6
Chugoku Office	Hiroshima Joint Office Building #4 6-30, Kamihatchobori, Naka-ku, Hiroshima 730 Tel. (082)228-1501～3
Shikoku Office	Takamatsu Joint Office Building #2 17-33, Matsushima-cho 1-chome, Takamatsu-shi 760 Tel. (0878)34-1441～2
Kyushu Office	Fukuoka Joint Office Building 11-1, Hakataeki-higashi 2-chome, Hakata-ku, Fukuoka 812 Tel. (092)431-5881
Fair Trade office, Okinawa General Bureau, Okinawa Development Agency	Fuso Building 21-13, Maejima 2-chome, Naha-shi 900 Tel. (098)863-2243

TRADEMARK LICENSES BASED ON ACQUISITION OF BUSINESSES

Presented at the 1993 Congress -
Pacific Intellectual Property Association
Cincinnati, Ohio
5-8 October 1993

In considering this topic, it came to me that trademark licensing is more complex than sometimes appears at first blush. For example, not only does trademark licensing become important when a business is being acquired but also is important when a business is being divested, a distributor network is being organized or in the conduct of various joint venture businesses around the globe.

Too often the potential for revenue generation via a trademark license is overlooked by the business people. I need not discuss this in detail for those who are representative of, or working for, consumer products-oriented companies. However, for those of us that work for commodity suppliers, the potential for trademark licensing has been a continuing education process and one that has paid off, albeit on a smaller scale than patent licensing.

The foundation for any licensing program, be it a license in or a license out, is close relationship with the business people and counseling of the business people to understand that a successful trademark program has certain key elements.

To begin with, an aggressive registration program is key to worldwide trademark licensing. This means that once a mark or a group of marks have been selected as relevant to a particular business, that the licensor set about preparing and filing applications in the relevant jurisdictions, either based on actual use or intent to use the mark or marks covering all the international classes of goods and services that are related to the mark. Behind the aggressive registration program is a thorough understanding and search of the various countries to make sure that the mark or marks are registerable in a given jurisdiction. Too often, because of the vagaries in what the various trademark offices consider to be descriptive subject matter, a mark may be registerable in the U.S. but falls flat on its face in the UK and the rest of Europe. Therefore, use of the various searching services and commercial databases to obtain background information, is indispensable. As the old adage states, forewarned is forearmed. In Air Products while for many, many years we have done all of our patent and trademark prosecution directly with associates in the various foreign countries, I have found that if there is a campaign for a specific mark that is to be registered

worldwide, e.g. our house mark - Air Products with the Stylized A or delta bar as you may refer to it, that use of a U.S. intermediary was a big plus if not indispensable. In addition to the U.S. intermediary having access to various databases, the U.S. intermediary who deals in trademarks on a daily basis was able to coordinate the requirements throughout the world and to shuffle the papers much more efficiently than we were in this large trademark registration campaign. In addition, the on-going watch service of the U.S. intermediary, which is inexpensive, has provided valuable monitoring of activity around the world in regard to the house mark. This has also been the case with marks that our chemicals group has been successful in establishing in the world marketplace.

Upon completion of the background investigation and the searches, then it's a matter of sitting down with the business people and understanding what it is that they expect to receive from the license agreement and making sure that all of the relevant terms and conditions are set forth in the license agreement. Here it is important to note that in the U.S. we are very good at word-smithing and set out benchmarks by the written word. This may not be the case in foreign jurisdictions where the other side may have a working knowledge of English, but not of the U.S. system. It is important to make sure that the understanding that passes between the business people is fairly reflected in the license agreement and that the

other side, if their culture is such that they base their understanding of the agreement on the face-to-face negotiation and look at the memorialization of the arrangement as a necessary evil, that there is no inconsistency between the two. I am sure each one of you has a war story that will reinforce this observation.

The understanding and the conditioning of the licensee is of paramount importance in the trademark license agreement and is the most important item in a license agreement where a house mark is being licensed, whether it's being licensed for a short period of time to cover any divestiture situation where there is product that is being transferred to the new owner only until the new owner exhausts the supplies on hand when the divestiture is complete and he will have the benefit of using your house mark until that time or there is a long-term relationship under the license agreement. Remember, misuse of the trademark can lead to loss of the rights, whether the misuse takes place by the owner or the owner's licensee. Generally the actions of the licensee will inure (good or bad) to the benefit/detriment of the licensor.

We at Air Products have prepared numerous license agreements with venture partners of ours in Southeast Asia (Exhibit A) which we believe was adequate and set forth the rights and obligations of the parties. After

execution of the agreement and the commencement of the joint venture activities, I received a watch notice whereby our venture partner sought to register a trademark which was a combination of the stylized portion of our mark with their house mark. Repeated correspondence did not achieve the voluntary withdrawal of the registration or the application to register, so I had to bring an opposition proceeding. Only then were we finally able to set the matter right, pointing out that the licensee had the right to use the mark in a combination he chose but not to register in their name trademarks bearing any portion of our house mark. Again this points out the need for an aggressive registration and monitory program and making sure that if the mark can dissected that the various portions of the mark are registered in various foreign jurisdictions. Here again, education is the watch word. Unless you take the time to educate your own business people who in turn education the venture partner people, this situation can arise. Clearly trademarks are important and probably more misunderstood than patents in some jurisdictions.

Appended as Exhibit B is trademark license agreements covering detailed requirements by Licensee in order to use Licensor's house mark and other marks. This details the precise usage of the house mark.

Exhibit C is another version of a license to use a house mark and other marks. This Agreement covers the semiconductor mask works acquired by licensee which include licensor's logo.

Exhibit D is representative of a License Agreement used with distributors which may or may not be partially owned by Licensor. This Agreement is being put in place in Canada under the aegis of the new Canadian Trademark Law.

After the parties and the subject matter of the license are defined then the notice of the grant must be defined. If it is a world-wide license, can Licensee sub-license? Is it personal to Licensee?

The agreement must specify how the Licensor will monitor usage and what happens, e.g. termination if the Licensee fails to comply. Licensee might want pre-approval of advertising and labeling as circumstances dictate - most important is a recitation of use inuring to benefit of Licensor.

Warranties whether or not given should be set out.

Indemnification should be set out.

Term and termination should be set out. Here it pays to define actions or events, e.g. involving misuse that will trigger termination.

Applicable law, jurisdiction and settlement of disputes (e.g. arbitration) should be set out.

There should be a clause setting forth the relationship between the parties (i.e. they are independent and not able to speak or pledge assets one for the other).

Transfer of the agreement should be dealt with, i.e. can either party assign (at will, only in the event of selling the related business or not at all).

Notice provisions are important.

Other clauses as the parties may deem appropriate.

In regard to trademark licensing in Europe, the INTA has published a document entitled "Guidelines for Trademark Licensing in the European Community", a copy of which is available from INTA for fifteen dollars for INTA members and twenty dollars for non-members. The address for the INTA is:

Six East 45th Street

New York, NY 10017

(212) 986-5880

Fax No. (212) 687-8267.

This publication summarizes the status of trademark law in Europe at the moment in view of the large amount of activity in the member communities. Remember that Article 85 of the EEC Treaty makes no distinction as to the nationality of the parties. Thus, the Treaty is applicable if the agreement "may effect trade between member states". This is the case even if neither party is a national member of a member state of the EEC.

Thus in the EEC trademark license agreements not affecting trade between member states of the EEC and trademark licensing agreements falling under the commissioned notice of September 3, 1986 on agreements of minor importance are permissible in general terms. The following is a

list of clauses which, on the surface, appear permissible in a trademark which comes under Article 85(1) of the EEC Treaty:

- Restrictions on trademark use,
- royalty payments,
- minimum royalties,
- restrictions with regard to the range of goods,
- territorial restrictions,
- exclusivity,
- non-exclusivity clauses in general,
- exclusivity clauses including other licensees,
- exclusivity clauses including the licensor,
- ban on active export policy,
- export ban outside the community,
- non-competition clauses,
- quality specifications and procurement obligations,
- provision of production samples,
- consumer support and advertising,
- prohibition of sub-licensing and assignments,
- provision of legal assistance,
- secrecy,
- breach of contract by licensee, and
- breach of contract by licensor.

Clauses which appear not to be permissible are:

- No-challenge clauses,
- Sales price restrictions,
- Quantity restrictions,
- Restrictions with regard to customers, and
- Absolute territorial protection clauses and absolute export bans.

The foregoing guidelines are applicable to license agreements outside the U.S. in North America and the rest of the world in general. Of course, when a specific trademark license is to be negotiated, there is no substitute for a thorough understanding of the trademark law in a given jurisdiction.

It is important that the license agreement cover use by the licensee and use such that will inure to the benefit of the licensor. While in countries like Japan there is no obligation to use a trademark, a trademark can be canceled after three years of non-use. In Taiwan, use is mandatory and non-use for two years can be used to cancel a mark. In Korea, non-use can result in cancellation as can non-use in Singapore after five years and three to five years in Malaysia.

The western hemisphere is interesting in that the Canadian Parliament passed a new trademarks act which requires use of the mark, but more importantly does away with the old concept of registered user. Therefore, it is mandatory that in Canada, each user of the trademark be the licensee under a good trademark license. Here again, careful attention to the drafting of the agreement is necessary in order to protect the licensor's mark and to make sure that the licensor has the right to insist on proper use of the mark and termination of the agreement should the licensee misuse or otherwise do anything in derogation of licensor's rights. Again I refer you to Exhibit D.

Attention must also be paid to the requirements in the local jurisdiction as to whether or not a particular agreement has to be registered with the local authorities.

As a general proposition, sublicensing by the licensee is to be avoided because of the inherent problems in monitoring sublicensee's activities unless the licensor becomes a party to the sublicensee and has direct and unequivocal rights to enforce the agreement and/or terminate the agreement.

When it comes to licensing a house mark or any dominant mark, if the licensor company has what is called a "style manual", then a follow-up along the lines of the letter set out in Appendix E with a copy of the style manual will further aid in enforcing the licensor's rights under the license agreement. This is probably wise even though it is set out in the agreement (e.g. Exhibit B) since the manual should get to Licensee's advertising people where the agreement may not.

Again, remember that they key to maintaining the trademark right is control of the licensee's use the mark, his obligations to report, and vigilance to make sure that the activity of the licensee is directly beneficial to that of the licensor and in no way injurious to the rights of the licensor.

In summary, I would like to look at the entire subject matter of licensing trademarks in the context of the steps of (1) understanding the needs of the business group and the prospective licensee in regard to the trademark, (2) understanding the total trademark estate including accomplishing searches to determine the scope and quality of various foreign registrations, (3) aggressive registration of the mark in the relevant classes throughout the world, and last but not least (4) aggressive enforcement of the trademark and license rights by licensor.

EXHIBIT "A"

065-329-P

TRADEMARK AND TRADE NAME LICENSE

THIS CONTRACT shall be by and between AIR PRODUCTS AND CHEMICALS, INC., a Delaware corporation, having a principal business address at P.O. Box 538, Allentown, Pennsylvania 18105, U.S.A. (hereinafter referred to as "LICENSOR") and [redacted], a limited liability company organized under the laws of the Kingdom of Thailand pursuant to that certain Joint Venture Agreement effective [redacted] and having a principal business office at [redacted] (hereinafter referred to as "LICENSEE");

WITNESSETH

WHEREAS, LICENSOR is the owner of certain valuable trademarks and commercial trade names which have become identified with LICENSOR and which LICENSOR utilizes throughout the world to identify itself and its quality products to customers and potential customers;

WHEREAS, LICENSOR has expended great effort and large sums of money over the course of many years in an effort to develop recognition and protection of these trademarks and trade names;

[redacted]

WHEREAS, special control, policing and proper trademarks and trade names is necessary to prevent irrep. LICENSOR's reputation and recognition in the marketplace;

WHEREAS, LICENSEE desires to obtain rights to use certain of such trademarks and commercial trade names; and

WHEREAS, LICENSOR is willing to grant limited rights to LICENSEE to use certain of such trademarks and trade names under the following terms and conditions.

NOW, THEREFORE, in view of the foregoing premises and the following covenants and conditions, the parties agree as follows:

ARTICLE 1.0 - DEFINITIONS

In all interpretations of this Contract, the following definitions shall apply:

1.1 The term "Trademarks" shall mean those marks utilized by LICENSOR in connection with certain goods and services, such as the Industrial Gases and Equipment defined in the Technology License Agreement between

LICENSOR and LICENSEE of even date herewith, and which marks are listed in Exhibit A hereto, which Exhibit A can be amended from time to time by addition or substitution at the sole option of LICENSOR.

1.2 The term "Trade Names" shall mean those commercial names utilized by LICENSOR to identify itself and its affiliated companies in connection with the sale and marketing of services and goods, such as the Industrial Gases and Equipment defined in the Technology License Agreement between LICENSOR and LICENSEE of even date herewith, and which names are listed in Exhibit A hereto, which Exhibit A can be amended from time to time by addition or substitution at the sole option of LICENSOR.

1.3 The term "Territory" shall mean the Kingdom of Thailand

ARTICLE 2.0 - GRANTS

2.1 Subject to the terms and conditions set forth hereinafter in this Agreement and in partial consideration of the Royalty to be paid pursuant to the Technology License Agreement between LICENSOR and LICENSEE of even date herewith, LICENSOR hereby grants to LICENSEE permission to utilize LICENSOR's Trademarks and Trade Names within the Territory.

2.2 The grant of Paragraph 2.1 is contingent upon LICENSOR's ownership interest in LICENSEE remaining at a level of at least [redacted] and LICENSEE remaining in a financially viable condition, and, if at any time LICENSOR's ownership interest in LICENSEE falls below the stated [redacted] level or LICENSEE fails to maintain itself in a financially viable condition, the permission to use the Trademarks and Trade Names granted in Paragraph 2.1 shall terminate ipso facto and LICENSEE shall forthwith cease and desist utilization of all such Trademarks and Trade Names.

ARTICLE 3.0 - DUTIES AND OBLIGATIONS OF LICENSEE

3.1 LICENSEE agrees to use the Trademarks and Trade Names only in the manner and form approved by LICENSOR, shall apply the Trademarks only to those goods specified by LICENSOR, shall utilize the Trade Names only in connection with the activities of LICENSEE specifically approved by LICENSOR, and shall refrain from doing all things which would diminish or destroy such Trademarks, Trade Names or the good will or recognition thereof.

3.2 LICENSEE recognizes that the Trademarks and Trade Names are unique and extremely valuable to LICENSOR and that in connection with any goods, products, equipment, technology or the operation of any process with which such

Trademarks and/or Trade Names are used, LICENSOR shall have the right to specify quality standards for such goods, products, equipment, technology or process as well as the manufacturing procedures employed to produce any of such goods, products or equipment together with the right to inspect such goods, products, equipment, technology and processes as well as manufacturing facilities used to produce the same to determine whether LICENSEE is maintaining the specifications and quality thereof in accordance with LICENSEE's specification. In the event that such quality is less than or the properties different from that specified by LICENSOR, LICENSOR shall have the right to require LICENSEE to correct the composition or to upgrade the quality thereof so as to comply with that specified by LICENSOR. If at any time the quality or composition of any of such goods, products, equipment, technology or processes or the methods of manufacture are found to be deficient, LICENSEE agrees immediately discontinue the use of such Trademarks in connections with the deficient goods, products, equipment or processes; to recall from the marketplace any deficient goods, products or equipment and, if such deficiency has not been remedied within sixty (60) days of notice by LICENSOR to LICENSEE of such deficiency, LICENSEE shall at that time immediately

discontinue use of the Trade Names in connection with the sale and marketing of the deficient goods, products, equipment, technology or processes and shall not resume use of the Trade Names therewith until the composition or quality thereof has once again been demonstrated to LICENSOR to be of that specified by LICENSOR.

3.3 LICENSEE specifically agrees to utilize the Trademarks and Trade Names in accordance with the requirements and format as specified in LICENSOR's "Corporate Identification Manual", a copy of which has been provided to LICENSEE and receipt of which is hereby acknowledged.

3.4 LICENSEE hereby agrees and states that all uses of the Trademarks and Trade Names by LICENSEE shall accrue to the benefit of LICENSOR just as if LICENSOR where the actual and direct user of the Trademarks and Trade Names itself, and LICENSEE shall acquire absolutely no rights in or to the Trademarks or Trade Names because of the use thereof whether licensed hereunder or not.

ARTICLE 4.0 - ASSIGNMENT

4.1 This Contract may not be assigned by LICENSEE without the prior written consent of LICENSOR, and no such assignment shall be permitted unless LICENSEE's assignee assumes all of the obligations and duties of LICENSEE

hereunder. Any attempt to assign this Contract by LICENSEE other than as set forth in this Paragraph 4.1 shall be void ab initio and of no force or effect.

ARTICLE 5.0 - TERM

5.1 This Contract shall have an Effective Date as of _____ [redacted]. The term of this Contract shall be the same as the term of the above mentioned Joint Venture Agreement and shall terminate simultaneously with any termination, cancellation or early expiration of the Joint Venture Agreement.

ARTICLE 6.0 - GENERAL

6.1 Entire Agreement. This Trademark and Trade Name License sets forth the entire agreement and understandings between the parties as to the subject matter hereof, and merges all prior discussions and negotiations between them. Neither of the parties shall be bound by any decisions, definition, warranties, or representations with respect to the subject matter hereof, other than as expressly provided herein, or as set forth hereafter in writing and signed by the parties to be bound thereby.

6.2 Modification. No change, amendment, modification, or waiver of any of the terms or conditions of this Contract shall be effective unless agreed to in writing and signed by a duly authorized representative of each of the parties.

6.3 Waiver. No waiver of any right or failure to exercise any remedy with respect to any matter or event covered by this Contract shall be or be deemed to be a waiver of such right or remedy with respect to any other matter or event, or to constitute a precedent for purposes of the interpretation of this Contract or the rights and obligations of the parties hereunder.

6.4 Headings. Article headings used in this Contract are inserted for convenience of reference only and shall not affect the construction of the Articles.

6.5 Force Majeure. Neither party shall be liable for failure to perform any of the terms of this Contract during such time as it may be prevented from doing so by reason of force majeure or the after effects thereof. Except where the nature of the event shall prevent it from doing so, the party suffering such force majeure shall notify the other parties in writing within five (5) days after the occurrence of such force majeure and shall in every instance, to the extent it is capable of doing so, use its best efforts to remove or remedy such cause with all reasonable dispatch.

As used herein, the term "force majeure" means acts of God, strikes, lockouts, slowdowns, or other industrial disturbances, whether of the

same or different kind, riots, civil commotions, blockades, revolutions, insurrections, mobilization, declared or undeclared war, earthquakes, flood, fires, explosions, failure of transportation, governmental action or inaction or controls, including any security action or controls or refusal to issue import or export licenses, or other occurrences of failures happening to the parties or to others which prevent the parties from performing their obligations hereunder.

Settlement of strikes, lockouts, slowdowns, and labor disputes or disturbances shall be entirely within the discretion of the party having the difficulty and the above requirement that any force majeure shall be removed with all reasonable dispatch shall not require the settlement of such strikes, lockouts, slowdowns, and labor disputes or disturbances by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

6.6 Governing Law. This Contract shall be governed by and interpreted in accordance with the laws of the Commonwealth of Pennsylvania and each of the parties intends to be bound thereby.

6.7 Notification. It shall be a sufficient giving of any notice, statement, report, or other communication hereunder and a sufficient making of any payment hereunder, if the party giving such notice, statement, report, or other communication shall deposit a cc of such notice, statement, report, or other communication in the pos office in a registered or certified envelope, air mail postage prepaid, or file a radiogram or telegram with a radio or telegraph company, all charges prepaid, addressed to the other party at its address as herein set forth, or at such other address as the other party shall designate in writing. The date of giving of any such notice, statement, report, or other communication shall be the date which such envelope was deposited or such radiogram or telegram was filed. The post office receipt or the receipt furnished by the ra or telegraph company showing the date of such deposit of such filin shall be prima facie evidence of these facts.

Notices to LICENSOR shall be sent addressed:

Air Products and Chemicals, Inc.
P.O. Box 538
Allentown, PA 18105
U.S.A.
Telex No.: [redacted]
Attention: Patent Department
[redacted]

Notices to LICENSEE shall be sent addressed:

[redacted]

6.8 Notwithstanding any other provision of this Agreement, in no event shall one party hereto be liable to the other party for consequential or indirect damages, unless caused by or resulting from the negligence or intentional acts of the one party or its employees, agents, officers, or directors.

IN WITNESS WHEREOF, the parties hereto have caused this Contract to be duly executed as on the dates set forth below.

Executed in [redacted] on [redacted] ,

[redacted]

By _____

Title _____

Executed in [redacted], [redacted], [redacted] on [redacted] , [redacted]

AIR PRODUCTS AND CHEMICALS, INC.

By _____

Title _____

EXHIBIT "B"

TRADEMARK LICENSE AGREEMENT[redacted]

Effective as of _____, 199[redacted], between [redacted] Corporation, a Delaware corporation with an office at [redacted] (hereinafter "Licensor") and _____, a [redacted] corporation with an office at [redacted] (hereinafter "Licensee").

RECITALS

WHEREAS, [redacted] Corporation owns the trademarks [redacted], [redacted] Logo, and the combination thereof, and has established a commercial reputation for high quality and reliability for products sold thereunder, and has trademark applications and registrations thereon in most countries throughout the world.

WHEREAS, [redacted] Corporation owns [redacted]or, with an office at [redacted], an operation of Licensor's [redacted] Sector (hereinafter "[redacted]"), involved in the manufacture of [redacted]

WHEREAS, [redacted]o. a [redacted] company having an office at _____ [redacted] is purchasing, [redacted] from [redacted] Corporation pursuant to an Asset Purchase Agreement, of which this agreement is part thereof, (hereinafter "Asset Purchase Agreement") and is incorporating Licensee as a separate legal entity.

WHEREAS, Licensee desires a temporary license for the use of the trademarks [redacted] Logo, and the combination thereof, and [redacted] Corporation desires to grant such temporary license to Licensee.

NOW THEREFORE, in consideration of the mutual promise set forth herein and entirely to be legally bound, the parties do hereby agree as set out herein.

1. **Definitions**

1) "Closing Date" means the date of execution of this Agreement and the Asset Purchase Agreement.

2) "Licensed Trademarks" means the trademark applications and registrations on the trademark [redacted] and/or the H Logo and/or the combination thereof, of Schedule A (attached hereto and made part hereof).

3) "[redacted] Logo" means Licensor's logo as included in Schedule A.

4) [redacted] Products" means t[redacted] designed, manufactured, assembled and tested or sold by [redacted]

5) [redacted]

6) [redacted]

7) [redacted]

8) "Goods" means [redacted]

9) "Licensed Masks" means the masks used by [redacted] in the manufacture of [redacted] which include Licensor's [redacted] Logo, all such Licensed Masks are listed in Schedule B (attached hereto and made part hereof). The Licensed Masks, when used to manufacture [redacted] will form an image of the [redacted] Logo in various layers that form the semiconductor circuits in Dies.

10) "Printed Material" means brochures, data books and other sales and marketing information used in the sale, or for marketing of, [redacted] Products.

11) "Packaging" means containers, boxes, tubes, and the like used to ship HMS Products.

2. <u>License</u>

Subject to the terms and conditions of this Agreement:

A) As of the Effective Date, Licensor grants to Licensee, and Licensee accepts, a worldwide royalty free, non-exclusive, license, to use the existing inventory of Printed Material at Licensee's facilities, as of the Closing Date, that include at least one of the Licensed Trademarks thereon. This license shall continue for a period of one (1) year after the Closing Date. Thereafter Licensee shall promptly cease using any such Printed Material. Should Licensee use up the total of an existing inventory of a certain Printed Matter prior to such one (1) year period, Licensee shall not re-print any such Printed Matter with any of the Licensed Trademarks thereon. Further, Licensee agrees to promptly and predominantly stamp or otherwise imprint or display Licensee's corporate name predominantly on all such Printed Matter prior to any use thereof.

B) As of the Effective Date, Licensor grants Licensee, and Licensee accepts, a world wide, royalty free, non-exclusive license to use the presently existing Licensed Masks listed in Schedule B, to manufacture Dies and to sell such Dies and/or Devices including Dies. This license is for a period of five (5) years after the Closing Date. If Licensee is still using any of such Licensed Masks after the five (5) year period, Licensee shall identify such Licensed Masks to Licensor and Licensor shall extend this

license for such identified Masks an additional five (5) years. If Licensee is still using any of such Licensed Masks after the additional five (5) year period, Licensee shall identify such Licensed Masks to Licensor and Licensor shall extend this license for such identified Licensed Marks a second additional five (5) years. In the event that Licensee modifies a Licensed Mask, any license granted to use the [redacted] Logo in the modified Licensed Mask shall terminate. In the event that Licensee makes new masks or replacement masks for Licensed Masks, Licensee agrees that such new masks or replacement masks shall not include the [redacted] Logo.

C) Licensee acknowledges that, except for the license for the use of the [redacted] Logo on Licensed Masks as provided in Section 2 B above, no license is granted herein for the use of any of the Licensed Trademarks on any Devices, manufactured by Licensee. However, it is understood that in the event the Licensed Trademarks are included on completed finished Devices in inventory at [redacted] as of the Closing Date, such completed Devices have been sold by Licensor to Licensee and may be resold by Licensee with such trademarks thereon until the inventory is exhausted.

D) As to Packaging, Licensee agrees to take reasonable steps to remove or cover any of Licensed Trademarks prior to the use, or disposition thereof, and shall promptly apply Licensee's own corporate name. If it is not practical to implement the removal or to cover any of the Licensed Trademarks on Packaging, as to only such Packaging, as of the Closing Date, Licensor grants to Licensee, a worldwide, royalty fee, non-exclusive license to use such Packaging with [redacted] Products without removing or covering the Licensed Trademarks, which license is limited for one (1) year after the Closing Date.

E) The license rights granted hereunder are personal to Licensee. The license rights provided herein only extend to Licensee and no license rights whatsoever are being granted directly or indirectly pursuant to this Agreement to [redacted]. Furthermore, Licensee has no rights or power to grant sublicenses in any of the Licensed Trademarks.

3. <u>Ownership</u>

Licensee acknowledges that the Licensed Trademarks are the exclusive and sole property of Licensor and that Licensor will retain full ownership of the Licensed Trademarks and all rights appurtenant thereto, and that all use of the Licensed Trademarks by Licensee shall inure to the sole benefit of Licensor.

4. <u>Trademark and Logo Selection</u>

Licensee agrees not to adopt or use any other mark or logo that is confusingly similar to the Licensed Trademarks. Licensee may, at its option, submit any mark or logo that it intends to adopt having a [redacted] configuration to Licensor's legal

department for approval prior to any use thereof. Nothing herein contained, however, shall be construed as prohibiting or limiting Licensee from adopting or using trademarks or logos which are not confusingly similar.

5. Compliance

A) Licensee agrees that it will do everything in its power to avoid endangering the validity of the Licensed Trademarks including complying with all laws and regulations of all countries where its Goods are sold. Should the compliance with the laws or regulations of the country result in the potential dilution or loss of trade name or trademark rights of Licensor in the Licensed Trademarks, Licensor shall promptly notify Licensee of the same and Licensee shall take such actions as may be required by Licensor from time to time to preserve the validity and the strength of the Licensed Trademarks.

B) Licensee acknowledges that the trademark license agreement and/or registered user agreements are required to be filed by Licensor in various countries for the licensed use of the Licensed Trademarks by Licensee hereunder and any extensions thereof. Licensee, at the request of Licensor, shall execute registered user agreements as Licensor determines is needed to protect Licensor's title in the Licensed Trademarks. Licensee shall pay Licensor's cost in the preparation and for filing of the registered user agreements and for Licensor's costs in filing trademark license agreements.

6. Quality Control

A) To protect the value of the Licensed Trademarks, Licensee agrees that the manufacture of the Goods will be substantially at least equivalent in quality to the [redacted] Product presently being manufactured and sold by Licensor with respect to materials, workmanship, and performance. Licensor reserves the right to inspect the quality of the Goods sold or disposed of by Licensee under the Licensed Trademarks in order to ensure that the quality is as aforesaid and for the purpose of maintaining in full force and effect Licensor's rights to and in the Licensed Trademarks under applicable trademark laws. From time to time, and at Licensor's expense, Licensor may send representatives to the plants of Licensee to consult with and advise Licensee with respect to Licensee's quality control of the Goods. In response to Licensor's request, Licensee shall, from time to time, send to Licensor copies of Licensee's quality assurance tests, or equivalents, conducted on the Goods. If Licensor determines that it is necessary or desirable for Licensee to make changes in the Goods in order to maintain quality, Licensor shall so advise Licensee and Licensee shall promptly review such proposals and implement them as soon as practical. In lieu of the above procedures, Licensee, at its option, may provide to Licensor, written statement on annual anniversaries of the Closing Date, certified by an officer of Licensee, warranting that the Goods manufactured and sold by Licensee with the use

of the Licensed Trademarks as licensed herein are at least equivalent in quality to the [redacted] Products presently being manufactured and sold by Licensor with regard to materials, workmanship and performance

B) If, at any time, any Goods made or assembled by or for Licensee with the Licensed Trademarks, or sold with Printed Matter including the Licensed Trademarks shall fail to conform to the standards of quality required, as provided in Section 6 A above, Licensee shall promptly remove the [redacted] Logo from such non-conforming Goods in its possession and not use Printed Matter containing the Licensed Trademarks.

7. Coordination

Licensee and Licensor shall each assign and identify an employee to be responsible for coordinating the communications with Licensor concerning the administrative matter involved in the performance under this Agreement.

8. Warranty

Licensor represents and warrants that it has the title to the Licensed Trademarks. EXCEPT FOR THE WARRANTY OF TITLE, LICENSOR MAKES NO OTHER WARRANTIES, EXPRESS OR IMPLIED, OR STATUTORY, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTY FOR FITNESS FOR A PARTICULAR PURPOSE.

9. Indemnification

A) Licensor assumes no responsibility or obligation to Licensee regarding the safety, reliability, performance, or marketability of any Goods manufactured and marketed by Licensee under the Licensed Trademarks as licensed hereunder whether or not such Goods comply with Section 6A.

B) Licensee agrees to indemnify, defend, and hold Licensor harmless with regard to any claims, charges, or litigation by third parties against Licensor based upon the quality safety, reliability, performance, or marketability of any of the Goods manufactured and marketed by Licensee, or based upon any injury to persons or property involved in the use of such Goods that involve the Licensee's use of the Licensed Trademarks.

C) As to the sale or manufacture by Licensor of completed [redacted] Products in inventory prior to the Closing Date, Article 2.3 and 2.4 of the Asset Purchase Agreement shall apply

10. Term and Termination

A) The term of this Agreement is five (5) years unless the Agreement is extended for the additional five (5) year terms pursuant to Section 2 B.

B) Licensor shall have the right to terminate the licenses granted in this Agreement if Licensee shall default in performing any of the terms and conditions of this Agreement and shall fail to remedy such default within thirty (30) days after receiving written notice thereof from Licensor. Licensor may also terminate the licenses granted in this Agreement upon written notice to Licensee in the event that Licensee shall: 1) be adjudged bankrupt; 2) become insolvent; 3) make an assignment for the benefit of creditors; 4) have a receiver or trustee appointed; 5) file a petition for bankruptcy; 6) initiate reorganization proceedings or take steps toward liquidation; or 7) lose, dispose or have expropriated substantially all of its assets.

C) Should the separate independent legal entity status of Licensee as a corporation be dissolved, by merger, acquisition, or otherwise, the license granted hereunder shall terminate immediately.

D) Upon expiration and/or termination of this Agreement, the licenses granted herein shall terminate and Licensee shall immediately discontinue use of any and all of the Licensed Trademarks.

E) Upon the termination or expiration of this Agreement, Licensee expressly agrees not to use any marks or logos that may be confusingly similar to the Licensed Trademarks. Nothing herein contained, however, shall be construed as prohibiting or limiting License from adopting or using trademarks or logos which are not confusingly similar. This provision shall survive the expiration or termination of this Agreement.

11. Applicable Law

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of [redacted] as if the Agreement is to be fully executed and performed under the laws of the State of [redacted] such that the principles of conflict of law do not apply.

12. Jurisdiction

The parties submit themselves to the jurisdiction identified below for the determination of any controversy whatsoever arising under or in connection with this Agreement or any transaction connected to this Agreement (1) in the [redacted] Court of [redacted] County or the Northern District of [redacted] if Licensor brings action against Licensee or (2) in the Circuit Court of [redacted] County or the [redacted] District

of [redacted], if Licensee brings action against Licensor. The parties will provide personal services in accordance with the applicable jurisdiction identified above, but as a minimum the parties will accept service to the applicable Secretary of State of any summons or complaint.

13. Injunction

The Licensee agrees that Licensor shall have the right to a claim for injunctive relief in the event of any repudiation or breach or attempted repudiation or breach, of any term or condition hereunder, and Licensee will not object to any such claim, it being acknowledged that for any such claim, a remedy at law would be inadequate.

14. Headings

The headings of the sections and paragraphs contained in this Agreement are for convenience of reference only and do not form a part hereof and in no way modify, interpret or construe the meaning of this Agreement.

15. Severability

In the event that one or more provisions of this Agreement shall be declared to be illegal or unenforceable under any law, rule, or regulation of any government having jurisdiction over the parties hereto, such illegality or unenforceability shall not affect the validity and enforceability of the other provisions hereof, and the parties hereto shall agree upon the modification of this Agreement with respect to such illegal or unenforceable provisions to eliminate such invalidity or unenforceability or terminate this Agreement.

16. Relationship of the Parties

It is agreed and understood that nothing contained in this Agreement shall be deemed to appoint Licensee as the agent or legal representative of Licensor, or appoint Licensor as the legal representative of Licensee, or that either party shall have any right or authority to assume or create an obligation or responsibility, expressed or implied, on behalf of or in the name of the other, or to bind the other in any manner.

17. Modifications and Waiver

This instrument contains the entire Agreement between the parties hereto and there are no representations, understandings, or agreements, oral or written, which are not expressly included herein. No modifications of the terms of this Agreement will be valid unless made in writing and signed by both Licensee and Licensor. Failure of a party to enforce one or more of the provisions of this Agreement, or to exercise any option or other rights hereunder, or to require, at any time, performance of any of the obligations hereof shall not be construed to be a waiver of such provisions by such party or to,in any way, affect the validity of this Agreement, or to preclude such party from taking any other action any time which it would legally be entitled to take.

18. Force Majeure

Neither party will be liable or any failure or delay in performance under this Agreement which might be due, in whole or in part, directly or indirectly, to any contingency, delay, failure, or cause of any nature beyond the reasonable control of such party, including without limitation, fire, explosion, earthquake, storm, flood or other weather, unavailability of necessary utilities or raw materials, strike, lockout, unavailability of components, activities of a combination of workmen or other labor difficulties, war, insurrection, riot, act of God or the public enemy, laws act, order, export control regulation, proclamation, decree, regulation, ordinance, or instructions of Government or other public authorities, or judgment or decree of a court of competent jurisdiction (not arising out of breach by such party of this Agreement). In the event of the happening of such a cause, the party whose performance is affected will give written notice to the other party, stating the period of time the same is expected to continue.

19. Assignment

Licensee understands and agrees that its rights under this Agreement are not assignable or transferable, directly or indirectly, and that said rights shall not pass to any third parties, either by act or deed of or by operation of law or by any court order. Licensor has the right to assign this Agreement.

20. Notices

All notices or correspondence required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been properly given when hand delivered or when mailed by first class certified mail, return receipt requested, postage prepaid:

If to Licensee: _____

[redacted]

Attention: _____

If to Licensor: [redacted]

Attention: [redacted]

Either party may change its address for receiving notice upon notice to the other party given in the manner set forth in this Section.

21. Counterparts

This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other.

22. Benefit

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective permitted successors and assigns. Nothing in this Agreement shall be construed to create any rights in third parties as third party beneficiaries or otherwise.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their duly authorized officers all as of the day and year first above mentioned.

[redacted] CORPORATION
(Licensor)

By: _____

Title: _____

_____
(Licensee)

By: _____

Title: _____

[redacted]

CCK/License.New
04/07/93

SCHEDULE A
LICENSED TRADEMARKS

SCHEDULE B
LICENSED MASKS

EXHIBIT "C"

[redacted] AGREEMENT

Effective as of [redacted], between [redacted] Corporation, a Delaware corporation ("Licensor") and [redacted] ("Licensee").

RECITALS

A. Licensor owns the trademarks, trademark applications, and trademark registrations listed at Schedules A and B and has established a commercial reputation of high quality and reliability for products sold thereunder.

C. Licensee has established a commercial reputation of high quality and reliability for products sold under the mark [redacted] including but not limited to Equipment as hereinafter defined.

In consideration of an Agreement of even date ("[redacted] Agreement") between Licensor [redacted], and other good and valuable consideration and intending to be legally bound, the parties hereto do hereby agree as set out herein.

SECTION I: DEFINITIONS

Each following term, wherever found in this Agreement, shall be understood in accordance with the definition of that term set out below.

A. Mechanical Equipment [redacted]

[redacted]

B. Electronic Equipment [redacted].

C. Equipment means Mechanical Equipment and Electronic Equipment.

D. Restricted Mechanical Equipment [redacted].

E. Restricted Equipment means Restricted Mechanical Equipment and Electronic Equipment applicable to Restricted Mechanical Equipment.

F. Subsidiary means a business entity in which a party to this Agreement owns directly or indirectly more than fifty per cent (50%) of the stock normally entitled to vote for the election of directors, or which is otherwise directly or indirectly controlled by said party.

G. [redacted] Marks means the trademarks, trademark applications, and trademark registrations listed at Schedule A, trademark registrations issuing hereafter from listed applications, and trademark applications hereafter added to Schedule A pursuant

to this Agreement and registrations issuing therefrom.

H. Other [redacted] Marks means the trademarks, trademark applications, and trademark registrations listed at Schedule B, trademark registrations issuing hereafter from listed trademark applications, and trademark applications hereafter added to Schedule B by Licensor by notice to Licensee and registrations issuing therefrom.

SECTION II: GRANT OF LICENSE

A. It is the intent of the parties that any use of [redacted] HARRIS authorized by this Agreement shall be deemed a trademark usage, governed by this IIA, rather than a trade name usage, governed by IIB, unless [redacted] is ultimately followed by a word indicating the form of organization of the using entity. Subject to the terms and conditions of this Agreement, Licensor grants to Licensee, and Licensee accepts, a royalty-free, world-wide, non-exclusive trademark license, without expiration date and subject to termination only upon non-use, abandonment, and otherwise pursuant to XA and XB, to use [redacted] Marks only in marketing Equipment and only:

1) When [redacted] immediately precedes HARRIS without any intervening words or symbols including without limitation "and" or "&" or a dash ("-") or slash ("/"); and

2) When [redacted] is equal to or greater than HARRIS in type size and boldness; and

3) When [redacted] and [redacted] are physically affixed to or carried by Equipment, then:

a) When [redacted] and [redacted] appear on the same horizontal line, only when the said words are separated by the maximum practical space; or

b) When [redacted] and HARRIS appear on different horizontal lines, only when [redacted] appears above HARRIS; and

4) When [redacted] and [redacted] are not physically affixed to or carried by Equipment, the following apply:

a) When [redacted] and [redacted] appear on the same horizontal line, only when the said words are separated by no less than the normal space.

b) When [redacted] and [redacted] appear on different horizontal lines, only when [redacted] appears above [redacted].

5) The parties recognize the possibility that a word listed on Schedule C, or a word that is a Licensee trademark, appearing immediately after [redacted] on the same horizontal line, could lead to confusion with a Licensor product, division, or related company, or confusion as to ownership of [redacted] Marks. Licensee shall use its reasonable best efforts to minimize this possibility by causing a word listed on Schedule C, or a word that is a Licensee trademark, appearing immediately after [redacted] on the same horizontal line, to appear in a type style or boldness significantly differentiating it from [redacted]. Licensor may at its sole option, exercisable by notice, add any word or words to Schedule C to reflect its business,

provided Licensee shall not previously have notified Licensor of Licensee's use in marketing licensed Equipment of such word as hereinabove indicated.

B. Subject to the terms and conditions of this Agreement, Licensor hereby grants to Licensee, and Licensee accepts, a world-wide, royalty-free, non-exclusive license, without expiration date and subject to termination only upon non-use, abandonment, and otherwise pursuant to XA and XB, to use HARRIS as part of a trade name identifying an entity engaged in marketing Equipment under [redacted] Marks, but only:

1) When [redacted] immediately precedes HARRIS without any intervening words or symbols including without limitation "and" or "&" or a dash ("-") or slash ("/"); and

2) When [redacted] is equal to or greater than [redacted] in type size and boldness; and

3) When [redacted] and [redacted] appear on the same horizontal line, only when the said words are separated by no more than the normal space between words of such type size and boldness and only when [redacted] is ultimately followed by a word indicating the form of organization of the entity using the trade name, such words including without limitation "AB" "AG", "AS", "BV", "GmbH", "Inc.", "Ltd.", "NV", "SA", or "SARL" but excluding "Corporation", "Corp.", "Company", and "Co."; and

4) When [redacted] and [redacted] appear on different horizontal lines, only when [redacted] appears above [redacted], and only when [redacted] is not ultimately followed on the same

horizontal line by a word permitted by IIB3 indicating the form of organization of the entity; and

5) When the only words, if any, which appear between [redacted] and the word indicating the form of organization of the licensed entity are:

a) not a word set out in Schedule D; and

b) a single word in the same type size and boldness as [redacted] to indicate the geographic place of existence or operation of such licensed entity, such as (without limit) "USA", "Europe", or "France" (e.g., [redacted] USA Inc.); and/or

c) a single word in the same type size and boldness as [redacted] to indicate the Equipment marketed by such licensed entity, such as (without limit) [redacted] (e.g., [redacted].

Licensor, at its sole option, may by notice add words to Schedule D to reflect its business, except that Licensor may not add to Schedule D any word as to which it has received notice from Licensee that a licensed entity is using as part of its trade name or as to which IIB5b or IIB5c applies.

C. Licensee acknowledges it has no right to use the word HARRIS anywhere in the world as any part of a mark or trade name except pursuant to this Agreement [redacted], and agrees to forever refrain from use of the word [redacted] as any part of a mark or trade name except pursuant to this Agreement

[redacted].

SECTION III: TRANSFERS; SUBLICENSING

A. This Agreement is personal to Licensee. Licensee shall not transfer or assign this Agreement, or any right derived from it, without the prior written consent of Licensor except the entirety of this Agreement may be assigned by Licensee to a business entity into which it is merged, with which it is consolidated, or to which it disposes of substantially all of its assets related to Equipment.

B. Licensee has no power to grant sublicenses. However, at Licensee's request and expense Licensor shall grant to any Subsidiary a license to use [redacted] Marks for Equipment on terms substantially the same as the terms of this Agreement. By its request Licensee consents to the grant of the license requested.

C. Pursuant to the license granted in IIA, and subject to all of the terms and conditions hereof, Licensee's agents, dealers and distributors are entitled to use [redacted] and Harris Marks in marketing licensed Equipment originating with Licensee. Licensee's agents, dealers and distributors are not entitled to use [redacted] as any part of a trade name and Licensee shall assure they do not do so. If applicable local law requires such an agent, dealer or distributor to be licensed in writing under both [redacted] and Harris Marks to advertise, show at exhibitions or open houses or otherwise market licensed Equipment under both [redacted] and [redacted] Marks, and if such agent, dealer or distributor is licensed

in writing under [redacted] for such purposes, at Licensee's request and expense Licensor shall grant to such agent, dealer or distributor a written license under [redacted] Marks for such purposes. By its request Licensee consents to the grant of the license requested.

SECTION IV: LOGO AND LETTERING STYLE

A. Licensee may continue to use without objection from Licensor the logos and lettering styles of [redacted] Marks shown at Schedule E during the existence of this Agreement, in addition to any non-distinctive lettering style.

B. Licensee may adopt new logos and/or distinctive lettering styles, and add it or them to Schedule E by notice, but any new logo or distinctive lettering style shall differ sufficiently from logos and lettering styles shown at Schedule F so as to avoid any likelihood of confusion, mistake or deception therewith.

C. Licensor may adopt new logos and/or distinctive lettering styles, and add it or them to Schedule F by notice. If a new Licensor logo and/or lettering style resembles more closely a logo and/or distinctive lettering style shown at Schedule E, Licensee shall have no duty to change or cease its use of such logo and/or distinctive lettering style.

SECTION V: OWNERSHIP

A. Licensee acknowledges [redacted] Marks and Other [redacted] Marks to be the sole property of Licensor. All use of [redacted] Marks by Licensee and any other person licensed pursuant to this Agreement shall inure solely to Licensor's benefit.

B. Licensor agrees that it will forever refrain from using [redacted] as a trade name, but nothing herein detracts from Licensor's sole ownership of [redacted] Marks.

SECTION VI: QUALITY CONTROL

A. Licensee agrees that the quality of Equipment marketed by Licensee under [redacted] Marks shall not deteriorate below the quality of Equipment marketed by [redacted] in September, 1988. At that time, Equipment carrying [redacted] Marks was made from a variety of high grade raw materials; raw material quality was supported by vendor certifications and internal testing satisfying requirements such as those of ASTM, SAE, and ANSI. Certifications were maintained to provide traceability throughout product life. At that time, required functional dimension tolerances were commonly plus or minus five ten-thousandths of an inch, and state of the art inspection equipment was utilized to verify that machined tolerance requirements were satisfied. At that time, such Equipment was constantly monitored and inspected throughout the manufacturing process, specifications were verified, documented, and maintained to ensure that functional performance requirements were met, and a final operation test was utilized to ensure that dynamic, thermal, and torsional disturbances were within design specifications. Before December 31 of each year during the existence of this Agreement, Licensee shall certify in writing to Licensor that the quality of Equipment marketed by Licensee under [redacted] Marks has not deteriorated below the said standard.

B. Licensee agrees to cooperate in keeping Licensor informed as to the quality of licensed Equipment, but Licensor has no right to inspect Licensee's manufacturing facilities. For example, Licensee shall promptly respond to Licensor's reasonable requests for information relevant to the quality of such Equipment, and shall make available to Licensor promotional material relevant to the quality of such Equipment and/or showing the then-current trademark and trade name use under this Agreement. Licensee shall advise Licensor annually of trade shows, open houses, and other public exhibitions of such Equipment, and at the request of Licensor shall make representatives of Licensee available to show at such public exhibitions such Equipment to Licensor and to discuss its quality. At the request of Licensor, Licensee shall use its reasonable best efforts to arrange for Licensor's representatives to visit installations of such Equipment and to discuss with [redacted] the quality of such Equipment.

C. If Licensor by notice to Licensee identifies any Equipment marketed by Licensee under [redacted] Marks with quality deterioration, suggested by substantial customer dissatisfaction or otherwise, and identifies the deterioration with reasonable specificity, Licensee agrees either:

1) to cure the identified deterioration within a reasonable time, which shall not be less than ninety (90) days; or
2) to promptly notify Licensor that Licensee disputes the fact of quality deterioration, in which event the parties agree to attempt in good faith to resolve the issue.

D. If Licensee fails to cure an undisputed deterioration in quality within a reasonable time, Licensee shall have no right to use [redacted] Marks on Equipment deteriorated in quality but otherwise this Agreement remains in full force and effect. If the parties disagree as to the existence of quality deterioration, Licensee may continue to use [redacted] Marks on Equipment that in Licensee's view meets the quality standards hereinabove set forth until the disagreement is resolved by agreement or litigation.

E. Licensee agrees to defend and hold Licensor harmless as to product liability claims arising out of the marketing of Equipment under [redacted] Marks by Licensee pursuant to this Agreement.

SECTION VII: REGISTRATION AND RECORDATION

A. At Licensee's request and expense, Licensor shall apply to register [redacted] Marks for Equipment in any country Licensee may specify from time to time. Each such application and any registration granted therefrom shall be added automatically to Schedule A.

B. If Licensor does not meet its obligations under VIIA within a reasonable time, which shall not be less than ninety (90) days after Licensor's receipt of the request and all information necessary for filing the application, Licensee may give notice to Licensor of Licensee's intent to register [redacted] Marks in such country. If, and only if, Licensor does not apply to register within three (3) months thereafter, or provide to Licensee an opinion of counsel that an application would

dilute or otherwise impair trademark rights of Licensor, Licensee may apply at its expense to register [redacted] Marks in such country in the name of Licensor. Licensee's application and any registration issuing therefrom shall added automatically to Schedule A and shall be Licensor's sole property; all use thereof by Licensee or a person licensed pursuant to this Agreement shall inure solely to the benefit of Licensor pursuant to VA.

C. At Licensee's expense, Licensor shall apply to record this Agreement, and/or to record Licensee and others licensed pursuant to this Agreement as registered users of [redacted] Marks, in each country recognizing such recordation.

D. Licensor shall use its reasonable best efforts to obtain promptly, and to maintain in force, registrations and recordations for which it applies. In performing these obligations Licensor shall employ counsel reasonably acceptable to Licensee. The firm of [redacted] is acceptable to Licensee.

E. 1) Certain registrations of Other [redacted] Marks listed at Schedule B apply both to Equipment and to other goods not licensed under this Agreement. To the extent such registrations apply to Equipment, the license granted by IIA for a period not to exceed one (1) year shall include such registrations, except XIC shall not apply thereto.

2) If Licensee within one (1) year requests the filing of a new application covering only Equipment where Equipment is included in a registration of an Other [redacted] Mark, said request shall be deemed made under VIIA and the

application and any registration granted therefrom shall be added automatically to Schedule A. Upon filing of said application, the related registration of an Other [redacted] Mark shall no longer be licensed under IIA and Equipment shall be deleted therefrom. The deletion of Equipment from the Other [redacted] Mark registration shall be at the expense of Licensee, and shall be undertaken by counsel selected by Licensor and reasonably acceptable to Licensee. The firm of [redacted] is acceptable to Licensee.

3) If Licensee within one (1) year does not request Licensor action under VIIE2, Licensor at Licensee's expense may delete Equipment from any application and registration listed on Schedule B.

SECTION VIII: COMPLIANCE WITH LAW; ADVERTISING

A. Licensee's rights in [redacted] Marks are always subordinate to the rights of Licensor in Harris Marks and Other Harris Marks, and Licensee agrees to use its reasonable best efforts to maintain the distinctiveness of [redacted] Marks and to protect and enhance good will represented thereby. Licensee shall comply with all laws and regulations in countries in which Harris Marks are used. If Licensee's compliance with such laws or regulations could dilute or impair otherwise trademark rights of Licensor, Licensor has the right to take such action as is reasonably necessary or appropriate to avoid such dilution or impairment. Licensor shall make reasonable efforts to avoid action detrimental to rights of Licensee.

B. Use of appropriate registration symbols such as "®" in a way consistent with good trademark practice, while not required, is encouraged, but:

1) In no event shall a registration symbol be used following HARRIS unless it also follows [redacted], e.g.: [redacted] ® [redacted] ®; and

2) In no event shall a registration symbol be used following [redacted] unless the usage indicates that [redacted] is owned by Licensor and/or is licensed, e.g., a footnote:

   a) "[redacted]" is a registered trademark of [redacted] Corporation"; or

   b) "Use of [redacted] is by license"; and

3) In no event shall a registration symbol be used in association with a word following [redacted] unless a registration symbol follows [redacted] and the requirements of VIIIB1 and VIIIB2 are observed.

SECTION IX: INFORMATION

At Licensor's request, Licensee shall use its reasonable best efforts to furnish data as to sales, advertising, customers and dealers in Equipment marketed under [redacted] Marks on a country by country basis, as a need arises for such data, for the sole purpose of aiding Licensor in acquiring, maintaining and renewing registrations of [redacted] Marks. Licensee recognizes and acknowledges that its failure to promptly supply such data may interfere with and/or prevent Licensor's performance of its obligations under VII. Any such data not disclosed to the public, if so marked by Licensee, shall be treated as

confidential by the individual receiving it and shall not be disclosed to any other individual, whether or not employed by Licensor, except as reasonably necessary to the acquisition, maintenance and renewal of Harris Marks.

SECTION X: TERMINATION

A. Licensor may terminate this Agreement if Licensee or a person licensed pursuant to this Agreement defaults in performing its obligations under its license and does not remedy such default within ninety (90) days of notice of default to Licensee from Licensor.

B. This Agreement is automatically terminated if Licensee is adjudged bankrupt, becomes insolvent, makes an assignment to benefit creditors, has a receiver or trustee appointed, files a petition in bankruptcy, initiates reorganization proceedings, takes any step toward liquidation except in a reorganization under which its business continues, or loses, disposes of, or has expropriated substantially all its assets.

C. The parties agree that:

1) Use of HARRIS by Licensee or a person licensed pursuant to this Agreement otherwise than as authorized hereby which is accidental, non-repetitive and infrequent is not a breach of this Agreement; and

2) Use of [redacted], HARRIS, or [redacted] HARRIS by an entity not authorized or controlled by Licensee or a person licensed pursuant to this Agreement is not a breach of this Agreement.

D. Upon termination of this Agreement, Licensee shall stop all use of [redacted] Marks and shall not thereafter use Harris Marks.

E. Within two (2) years after termination of this Agreement Licensee shall discontinue all use of the word [redacted] as any part of a trade name and shall not thereafter use the word [redacted] as any part of a trade name.

F. Licensor shall not itself use or permit any Licensor Subsidiary to use [redacted] Marks for Restricted Equipment for five (5) years after the date hereof.

G. For ten (10) years from the date hereof, Licensor shall not grant or permit any Licensor Subsidiary to grant a license under [redacted] Marks to an unrelated entity authorizing use of [redacted] Marks by such unrelated entity for Restricted Equipment; provided that Licensor, with the approval of Licensee not unreasonably withheld, may grant a license under [redacted] Marks for a term of not more than one (1) year to an unrelated entity authorizing use of a mark confusingly similar to [redacted] Marks by such unrelated entity on Restricted Equipment to settle a bona fide controversy between Licensor and such unrelated entity involving use of a mark confusingly similar to [redacted] Marks on Restricted Equipment.

SECTION XI: INFRINGEMENT

A. Licensee shall promptly give Licensor notice of possible infringements of [redacted] Marks that come to its attention, supplying all relevant data it has or thereafter acquires. Thereupon Licensor at its sole option may commence an action against the noticed infringement at its expense, with counsel

of its choice, and for its sole benefit. Licensor shall keep Licensee fully informed about any such action and Licensee shall cooperate fully with Licensor therein.

B. If there is a possible infringement of both [redacted] Marks and marks containing [redacted] Licensee may commence an action against infringement of marks containing [redacted] at its own expense, with counsel of its choice and for its own benefit, keeping Licensor fully informed about the proceeding.

C. If Licensee commences an action under XIB and by notice requests Licensor to act to protect [redacted] Marks against the same infringer, Licensor at its sole option and at the expense of Licensee may join Licensee's action or may commence an independent action using counsel of Licensor's choice. If Licensor, within six (6) months after it has received a request from Licensee hereunder, fails:

1) To join Licensee's action; or
2) To commence an independent action; or
3) To furnish to Licensee an opinion of counsel indicating that such action on the part of Licensor would create unreasonable risks for Licensor;

Licensee at its cost and with counsel of its choice may pursue infringement of [redacted] Marks against the same infringer (subject to requirements of local law). Any recovery by Licensee in such action based on infringement of Harris Marks shall be shared equally by Licensee and Licensor after deducting Licensee's out-of-pocket expenses.

SECTION XII: APPLICABLE LAW

This Agreement shall be governed by and construed and enforced in accordance with the laws of New York. The courts in the United States shall have exclusive jurisdiction over any dispute relating to this Agreement.

SECTION XIII: SEVERABILITY

If a provision of this Agreement is declared illegal or unenforceable by competent authority under any law, rule or regulation, such illegality or unenforceability shall not affect any other provision of this Agreement.

SECTION XIV: RELATIONSHIP OF PARTIES

Except as specifically provided to the contrary in this Agreement, nothing in this Agreement makes either party an agent or legal representative of the other. Neither party has or shall have any right or authority to bind the other in any way or to assume or to create express or implied obligations or responsibilities on behalf, or in the name, of the other.

SECTION XV: MODIFICATIONS

This instrument is the entire Agreement between the parties with respect to the subject matter hereof. There are no representations, understandings or agreements, written or oral, not expressly included herein. No addition, deletion or modification of this Agreement is binding on either party unless it is in writing and signed by both parties.

SECTION XVI: WAIVER

Failure of a party to enforce any provision(s) of this Agreement, or to exercise any option or right hereunder, or to

require performance of any obligation(s) of the other party arising hereunder, shall not be or be construed as a waiver or affect in any way the validity of this Agreement or such party's right thereafter to enforce each and every term of this Agreement, and shall not preclude such party from taking any other action at any time which it would legally be entitled to take.

SECTION XVII: FORCE MAJEURE

Each party shall be relieved of its obligations if and to the extent that a cause beyond its control prevents compliance therewith, but only for so long as compliance is so prevented.

SECTION XVIII: NOTICES

All notices required or permitted by this Agreement shall be effective upon receipt if in writing by postage pre-paid registered or certified air mail addressed to the other party at the address given below or by notice changed.

If to Licensor: [redacted] Corporation
[redacted]

With a copy to: [redacted]q.

If to Licensee: [redacted]

With a copy to: [redacted]

SECTION XIX: COORDINATION

The parties understand expeditious communication is imperative in international business and accordingly agree:

A. to each designate by notice a representative responsible for coordinating communication between them;

B. to make all reasonable effort to expedite communication; and

C. to respond to any request received from the other at the earliest practicable moment.

Use of telex and telecopier is encouraged.

SECTION XX: SURVIVAL

Surviving termination of this Agreement are V, XD, and XE.

IN WITNESS WHEREOF, the parties have caused execution of this Agreement by their representatives thereunto duly authorized as of the date first above written.

WITNESS: [redacted] [redacted] CORPORATION

[redacted]

WITNESS:

_____

[redacted]

EXHIBIT "D"

069-543-P-A

LICENSE AGREEMENT

AGREEMENT made as of this ____ day of _____ 1993.

BETWEEN

AIR PRODUCTS CANADA LTD.
(hereinafter called "Air Products")
OF THE FIRST PART

AND

_____
(hereinafter called the "Licensee")
OF THE SECOND PART

WHEREAS for many years Air Products has, through corporations in which it is a shareholder, carried on the business of selling gas products in liquid or gaseous form, welding equipment and other products related thereto (the "Weldco Business"), at a number of retail stores and other premises generally known as Weldco;

WHEREAS the Weldco Business and the trade names, trade marks and associated commercial logos and symbols owned, used and/or established by Air Products and used in connection with the Weldco Business have gained public acceptance and goodwill;

WHEREAS the Licensee desires to use the trade marks, trade names, commercial logos and symbols in Canada in connection with products and services;

WHEREAS Air Products is willing to license the use of certain of its trade marks, trade names, commercial logos and symbols under the aforementioned terms and conditions so that the Licensee may engage in the distribution and promotion thereof;

NOW THEREFORE THIS AGREEMENT WITNESSETH that for and in consideration of the premises and of the mutual covenants and agreements herein contained the parties covenant and agree as follows:

ARTICLE I

DEFINITIONS

1.1 **"Licensed Trade Marks"** shall mean the trade marks listed in Exhibit A attached hereto and made a part hereof.

1.2 **"Licensed Products"** shall mean the products identified in the Registrations or Applications set out in Exhibit A.

1.3 **"Licensed Services"** shall mean the operation of retail stores and other premises, rental of cylinders, sale, maintenance and repair of welding equipment used in welding applications; sale of solder and other

products used in welding application, analysis, testing and cleaning of gas and welding equipment, advising with respect to the use of gas products and welding applications, provided under one or more of the Trade Marks in Exhibit A.

1.4 **"Effective Date"** shall be the close of business on _____, 1992.

1.5 **"Anniversary Date"** shall mean _____ of each year of the term hereof.

1.6 **"Territory"** shall mean the territory identified in Exhibit "B" of the distributor agreement executed between the parties on _____.

ARTICLE II
GRANTS OF RIGHTS

2.1 In consideration for all the obligations undertaken by the Licensee in this Agreement, Air Products hereby grants to the Licensee a non-assignable, non-transferrable right and license, within the Territory for the term of this Agreement to use and display the Licensed Trade Marks within the limits hereinafter set forth (hereinafter referred to as the "License"). The License herein granted shall only extend to Licensed Products and to Licensed Services designed, manufactured, promoted, advertised and

sold according to Air Products' standards so as to maintain and protect the prestige associated with the Licensed Trade Marks.

2.2 The Licensee acknowledges that similar products and services may be under License to other licensees for areas outside the Territory and agrees to take every reasonable step to prevent the export of the products outside the Territory.

2.3 The Licensee shall not sublicense its right to use the Licensed Trade Marks.

2.4 The Licensee agrees that it shall cause to appear on or within the products offered for sale under this Agreement and on or within all advertising, promotional or display material and on stationery and sales documents bearing or using the Licensed Trade Marks and on any and all labels, cartons, containers, and/or wrapping materials bearing the Licensed Trade Marks, appropriate notices pursuant to any patent, trade mark or copyright law or statute of Canada and any other notices deemed appropriate or necessary by Air Products.

2.5 The Licensee shall diligently and fully exploit its rights in the License in every manner.

2.6 The Licensee agrees not to use Weldco or any name or trade name confusingly similar as all or part of its corporate name or as all or part of the name of any corporation which it controls. However, Air Products hereby grants to the Licensee the right to use Weldco as all or part of Licensee's trade name, provide the lay-out of each document in which the trade name appears has received the prior written approval of Air Products.

2.7 The Licensee furthermore agrees all use of the Trade Marks licensed hereunder shall inure to the benefit of Air Products.

ARTICLE III

EFFECTIVE DATE, DURATION

3.1 This Agreement and the License herein granted shall become effective at the Effective Date.

3.2 Without prejudice to any of its other rights or remedies at law or in equity or under this Agreement, Air Products, at its option, may terminate this Agreement immediately upon notice to the Licensee upon the happening of any of the following events:

i. if the Licensee defaults in the performance of any of the terms and conditions of this Agreement, or if the Licensee fails to use

the Licensed Trade Marks or trade name Weldco in compliance with the standards prescribed by Air Products and fails to cure such default to the satisfaction of Air Products within thirty (30) days following receipt of written notice from Air Products;

ii. if the Licensee is adjudicated bankrupt, becomes insolvent, or if a receiver, whether permanent or temporary, for all or substantially all of the Licensee's property, is appointed by a Court of competent jurisdiction, or if the Licensee makes a general assignment for the benefit of its creditors, or makes a proposal under the *Bankruptcy Act*, or any proceedings to wind-up or liquidate or dissolve the Licensee are commenced;

iii. if there is change in control, organization or management of the Licensee which is unacceptable to Air Products or if all or substantially all of the assets of the Licensee are sold;

iv. if the Licensee shall cease to distribute products of Air Products; or

v. in the event that the distributor agreement between Air Products and the Licensee shall terminate.

ARTICLE IV

TECHNICAL INFORMATION AND TRADE SECRETS

4.1 The Licensee undertakes not to disclose the confidential information disclosed in writing or orally, except to employees of the Licensee for purposes related solely to the operation of the Weldco Business.

ARTICLE V

EFFECT OF TERMINATION

5.1 Upon any termination or expiration of the Agreement:

5.1.1 The Licensee shall forthwith and forever discontinue any and all use in any manner whatsoever of the Licensed Trade Marks and trade name Weldco or of such trade marks that so nearly resemble the Licensed Trade Marks or such trade names as to be likely to deceive or cause confusion, and it will ensure that its directors, officers and employees shall not use the Licensed Trade Marks or any other trade mark or a trade name so nearly resembling as aforesaid;

5.1.2 The Licensee shall forthwith and forever discontinue to represent itself as being connected with the Licensed Products and/or Licensed Services or with Air Products and shall promptly remove

all indications of the Licensed Trade Marks on the Licensed Products, its premises, invoices, price lists or any other documentation and labels;

5.1.3 The Licensee shall offer at its book value to Air Products all inventory labelled Weldco and/or Weldco/Air Products; and

5.1.4 The Licensee shall promptly pay to Air Products all sums owing or accrued prior to such termination or expiration by the Licensee to Air Products. Such sums shall include any damages, costs and expenses incurred by Air Products by reason of default on the part of the Licensee.

ARTICLE VI
RECOGNITION OF RIGHTS

6.1 The Licensee acknowledges Air Products' right to all and each of the Licensed Trade Marks or those from whom the rights of Air Products are derived, and to all trade mark applications and registrations based thereon, and the goodwill relating thereto. The Licensee shall not at any time do or suffer to be done any act or thing which in any way may impair the rights of Air Products or those from whom the rights of Air Products are derived, in and to the Licensed Trade Marks or to any trade mark application or registration based thereon. The Licensee hereby

recognizes the validity of the Licensed Trade Marks and Air Products' right therein and agrees never to contest the validity of the Licensed Trade Marks or the rights of Air Products, directly or indirectly, during and after the term of this Agreement.

6.2 It is understood that the Licensee shall not acquire and shall not claim any title to the Licensed Trade Marks or any trade names including or incorporating all or parts of the name Weldco or all or parts of the Trade Marks owned by Air Products, its parent company or any related or affiliated company by virtue of the grant to the Licensee hereunder or through the Licensee's use of the Licensed Trade Marks or trade name Weldco. Licensee will assign to Air Products or its designee upon request all rights it may obtain in any mark that incorporates all or part of the name Weldco or all or part of trade marks owned by Air Products, its parent or related companies. It is the intent of the parties hereto that all use of the Licensed Trade Marks by the Licensee shall at all times enure to the benefit of Air Products or those from whom Air Products derives its rights and the Licensee shall furnish Air Products upon request any evidence or use by the Licensee of the Licensed Trade Marks and trade name Weldco in the Territory. The Licensee specifically undertakes not to do any act which would or might invalidate any registrations of the Licensed Trade Marks or trade name Weldco or to assist any other person directly or indirectly in any such act or create any rights adverse to those of Air Products.

ARTICLE VII

INFRINGEMENT OR COUNTERFEIT OF TRADE MARKS OR ANY COPYRIGHT RELATED THERETO

7.1 The Licensee shall promptly give Air Products written notice of any infringement, counterfeit, passing off by reason of imitation or otherwise or act of unfair competition known to Licensee or any act which may have an adverse impact on the Licensed Trade Marks, the trade name Weldco, the get-up of the products or otherwise, giving such details as are available. Legal proceedings of any nature with respect to these matters shall be entirely within the discretion of Air Products which shall not be obliged to institute legal proceedings.

7.2 The Licensee shall not be entitled to call upon Air Products to take any proceedings to prevent infringement or passing off by third parties, nor shall the Licensee itself be entitled on its own account to take any such proceedings without the receipt of prior written approval from Air Products. Air Products may call upon the Licensee, under supervision from Air Products, to prosecute the infringing or tortious conduct. Such supervision shall be limited to control over the continuing validity and vitality of the Licensed Trade Marks and trade name Weldco.

7.3 The Licensee hereby agrees to render to Air Products all business assistance in connection with any matter pertaining to the protection of

the Licensed Trade Marks and trade name Weldco whether within the courts, administrative agencies or otherwise.

ARTICLE VIII

INDEMNIFICATION AND DEFENSIVE LITIGATION

8.1 Air Products will indemnify, defend and hold the Licensee harmless from all claims, suits, losses, damages, and expenses arising solely and directly out of the use of the Licensed Trade Marks with the Licensed Products and Licensed Services. In the event that Air Products advises the Licensee of an actual or potential legal impediment to the use of the Licensed Trade Marks or trade name Weldco with the Licensed Products and Licensed Services, and the Licensee refuses to comply with Air Products' directives pursuant, the Licensee shall indemnify, defend and hold Air Products harmless from all claims, suits, losses, damages, and expenses flowing from the misuse of the Licensed Trade Marks or trade name Weldco with the Licensed Products and Licensed Services. In the event of any actual or threatened suit against the Licensee by reason of the use of the Licensed Trade Marks or the trade name Weldco in the manufacture, use or sale of the Licensed Products and Licensed Services, the Licensee shall, upon receiving knowledge thereof in any manner whatsoever, promptly give written notice of such suit to Air Products.

ARTICLE IX

INSPECTION

9.1 Air Products shall have the right to inspect the Licensee's premises at all reasonable times to ensure that the exercise of the License herein granted is in compliance with the standards and policies of Air Products.

ARTICLE X

ALTERNATE REMEDIES

10.1 In addition to and without prejudice to the rights and remedies of Air Products in Article III to terminate this Agreement, Air Products shall have the right to see judicial enforcement of its rights and remedies including, without limitation, injunctive relief, damages or specific performance.

ARTICLE XI

UNDERTAKING BY LICENSEE

11.1 The Licensee undertakes to employ its best efforts to distribute and to promote the Licensed Trade Marks in conjunction with the Licensed Products and Licensed Services within the Territory.

ARTICLE XII

FORCE MAJEURE

12.1 Neither party shall be deemed in default of performance of its obligations required by this Agreement if it is delayed or becomes impossible because of any act of God, war, blockade, earthquake, fire, flood, accident or any other legitimate force majeure or fortuitous event.

ARTICLE XIII

AGREEMENT VALIDATION AND APPROVAL

13.1 To the extent that the Government of Canada may require any validation and approval, the Licensee shall be solely responsible for securing all documents from all agencies of the Government of Canada in order to validate and approve this Agreement and all terms and conditions thereof. The Licensee shall notify Air Products of any approval, proposed modification, or other pronouncement by the Government of Canada. Air Products, in its sole discretion, shall determine whether any modification to the terms and conditions of this Agreement must be effected in order to comply with the requirements of the Government of Canada.

13.2 The Licensee warrants and agrees that the Licensed Products and Licensed Services shall meet or exceed all Canadian federal, provincial, and local statutes, standards, regulations and guidelines therefrom

pertaining to such products and services, including, without limitation, with respect to health and product safety.

ARTICLE XIV
ASSIGNMENT

14.1 This Agreement is fully assignable by Air Products and shall enure to the benefit of any assignee or other legal successor to the interests of Air Products herein. Any assignment of this Agreement shall automatically release Air Products from its obligations hereunder except any obligations incurred prior to the effective date of such assignment. As indicated in Article II hereof, the Licensee shall not be entitled to assign its rights hereunder.

ARTICLE XV
EFFECT OF WAIVERS

15.1 No waiver by Air Products of any default in performance on the part of the Licensee, or a like waiver by Air Products of any breach or a series of breaches, shall constitute a waiver of any subsequent breach or default or a waiver of the terms of this Agreement.

ARTICLE XVI

NOTICES

16.1 Any notice required or permitted to be given hereunder shall be in writing and shall be given by telecopier, personal service or by mailing registered mail, with postage thereon fully paid, in a sealed envelope to be addressed as follows:

a) if to Air Products:

Air Products Canada Ltd.
2090 Steeles Avenue East
Brampton, Ontario
L6T 1A7
Attention: C. M. Chabot
Fax: 416-791-4595

with a copy to:

Air Products and Chemicals, Inc.
7201 Hamilton Boulevard
Allentown, Pennsylvania
U.S.A. 18195-1501
Attention: J. C. Simmons
Patent Department

b) if to Licensee:

Any party may, by notice, change the address to which notices must be sent. Notice shall be deemed to have been given when served personally, or if mailed, on the third business day following the mailing thereof as herein provided; or if sent by telecopier on the day following the day of sending.

ARTICLE XVII
CONSTRUCTION AND SEVERABILITY

17.1 All references in this Agreement to the singular shall include the plural where applicable and references to the masculine shall include the feminine and vice-versa. Either reference shall include the neuter. If any part of this Agreement for any reason shall be declared invalid, such decision shall not affect the validity of the other provisions of this Agreement and this Agreement shall be construed as if this Agreement had been executed with the invalid portion eliminated. In the event that any material provision of this Agreement shall be deleted or declared invalid, Air Products reserves the right to terminate this Agreement.

ARTICLE XVII
ENTIRE AGREEMENT

18.1 This Agreement (including any schedules, appendices and agreements supplemental hereto) together constitute the entire agreement between the parties hereto and supersede any and all other prior or contem-

poraneous negotiations, commitments, conditions, representations, warranties, undertakings and agreements, either oral or in writing, made between them with respect to the subject matter hereof. No interpretation, modification, termination or waiver of any of the provisions hereof shall be binding upon Air Products or the Licensee unless in writing signed by a duly authorized officer of Air Products. No modification, waiver, termination, suspension, discharge or cancellation of any of the provisions hereof shall affect the right of any party to enforce any claim hereunder, whether contractual or otherwise, which has accrued prior to the date hereof.

ARTICLE XIX
SUCCESSORS

19.1 Subject to the provisions of Article XIII, this Agreement binds and enures to the benefit of the successors and assigns of Air Products and the successors of the Licensee.

ARTICLE XX
FURTHER ASSURANCES

20.1 The parties hereto shall execute and deliver such other documents and additional assurances or cause same to be executed and delivered in

order to give full effect to the provisions hereof or to any change in trade mark laws in respect of the provisions of this Agreement.

ARTICLE XXI
NO PARTNERSHIP OR JOINT VENTURE

21.1 The parties hereby expressly acknowledge that they are independent contractors and are not nor shall represent themselves to be agents or employees of each other or to be related to each other.

21.2 Air Products shall have no control over the employees of the Licensee, including the terms and conditions of their employment. No employee engaged by the Licensee shall, under any circumstances, be deemed to be an employee of Air Products, and all such employees shall be so notified by the Licensee.

ARTICLE XXII
TIME OF ESSENCE

22.1 Time shall be of the essence of this Agreement.

ARTICLE XIII

LAW GOVERNING

23.1 This Agreement shall be governed by and construed in accordance with the laws of or applicable to the Province of Ontario and the parties shall submit to the jurisdiction of the court of the Province of Ontario.

ARTICLE XXIV

LANGUAGE

24.1 The parties hereto have expressly required that this Agreement and all deeds, documents and notices relating hereto be drafted in the English language. Les parties aux présentes ont expressément exigé que la présente convention et tous autres contrats, documents ou avis qui y sont afférents soient rédigés en langue anglaise.

IN WITNESS WHEREOF the parties hereto have executed this Agreement.

AIR PRODUCTS CANADA LTD.

Per: _____

_____

Licensee

Per: _____

EXHIBIT A

TRADE MARK	REGISTRATION NO.
WELDCO	UCA 18676
WELDCO & DESIGN	145,830
WELDCO	383,066
WELDCO & DESIGN	396,942
WELDCO & DESIGN	397,365
WELDCO & DESIGN	397,364

TRADE MARK	APPLICATION NO.
WELDCO & DESIGN	673,004
WELDCO & DESIGN	671,444

EXHIBIT "E"

(1) _____

(2) _____

(3) _____

Re: Use of Trademarks

Gentlemen:

We are very pleased that your company is interested in utilizing some of Air Products trademarks and logos on your (4)_____.

In this connection, I am enclosing relevant pages of the manual which prescribes the manner and style for using our "corporate signature". You will note that the enclosed pages set the standards for the relative proportions of the components of the trademark, as well as requirements for permissible color combinations and color swatches - to insure consistency and recognition. There are even specific illustrations of the us of the trademark on various product labels, containers and equipment, as well as on business cards and stationery.

Also enclosed is a copy of our specification sheet for (5)_____, which will permit you to ensure the maintenance of proper quality standards for product sold using our trademark.

Adherence to the standards for use of our trademark and compliance with the product quality specification, together with the presence of representatives of Air Products at your plant during normal operation should meet the legal requirements of our (6)_(name of agreement)_ License, (7)_(executed/effective-date)_, particularly Article (8)_____ thereof.

If we can be of any further help in assisting you in the proper use of our trademarks or compliance with the terms of our (6)_____ License, please feel free to contact us. Again, we are pleased and proud that (3)_____ will be using our trademarks together with their own in the marketing of industrial gases.

Very truly yours,

Encl.

Commissioner's Advisory Committee on Patent Law Reform

Introductory Speaker -- Donald Banner
(MISSING -- SEPARATE HANDOUT)

(1) **Title:** A study on the Report of the Advisory Commission on US Patent Law Reform

(2) **Date:** October, 1993 (The 24th Congress in Cincinnati, Ohio, U.S.A.)

(3) **Source:**

1) PIPA
2) Group: Japan
3) Committee: No. 3

(4) **Authors:**

TANIGUCHI, Mitsuo (Eisai Co., Ltd.)
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HONDA, Keiji (Tanabe Seiyaku Co., Ltd.)
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ITO, Yoji (Nippondenso Co., Ltd.)
KAMEISHI, Michihiro (Kaneka Corporation)
KAMIYA, Maki (Yamaha Corporation)
KOBAYASHI, Makoto (Nippon Telegraph and Telephone Corporation)
KOWA, Toshikazu (Fuji Photo Film Co., Ltd.)
KUBOYAMA, Takashi (Sumitomo Chemical Company Ltd.)
KUSANO, Kazuya (Nissan Chemical Industries, Ltd.)
MASAKI, Keisuke (Toyoda Automatic Loom Works, Ltd.)
MATSUSHITA, Atsushi (Ricoh Company, Ltd.)
MEDO, Shuji (Mitsubishi Rayon Co., Ltd.)
MUROFUSHI, Yoshinobu (Sankyo Company, Limited)
OGAWA, Eiji (Fujisawa Pharmaceutical Co., Ltd.)
TANAKA, Keisuke (Sony Corporation)
YAMAGUCHI, Hiroshi (Oki Electric Industry Co., Ltd.)
YAMAJI, Ginichi (Mitsubishi Electric Corporation)

(5) **Keywords:** US Patent System, First-to-File System, "Hilmer" Rule, Reexamination

(6) **Statutory Provisions:**

US Patent Law: Sections 102, 104, 302
Japanese Patent Law: Articles 30, 39, 55

(7) **Abstract:**

In the middle of a global trend toward harmonized patent systems, the United States is working on a patent law reform. This report will take up and study the first-to-file system, "Hilmer" rule and reexamination, out of recommendations in the Report of the Advisory Commission on Patent Law Reform, in comparison with similar items in the WIPO harmonization and Japanese patent system.

A Study on the Report of the Advisory Commission on US Patent Law Reform

As intellectual property rights have become more widely enforced on a global basis, a trend is developing toward harmonization of patent systems among countries of the world. In the United States, an effort has started for reform of its patent law, which we feel is very welcome. In August 1992, the Advisory Commission on Patent Law Reform presented a report, discussing various issues in detail and presenting respective recommendations. The report may not necessarily predict the direction to which the law reform will proceed but does suggest the reform possibilities which should be well worth the study. Out of the recommendations in the report of the Advisory Commission on Patent Law Reform ("the Commission Report"), we, the Committee No. 3, has picked up and studied the first-to-file system, "Hilmer" rule and reexamination, in comparison with the similar items under the WIPO harmonization draft (PLT/DC/69, 1/29/93) and the Japanese patent system.

I. First-to-File:

1. Preface:

Conversion of the patent system to the first-to-file system is a drastic change for the United States. We are certain that the first-to-file system will prove to be reasonable from the view point of, among other things, merit of the patent system to the society, particularly to the industries, smoothness in the practice, and its acceptability to those concerned. As the Commission Report gives the recommendations on the provisional application, the grace period and the prior user rights for the adoption of a first-to-file system, we herein discuss these items in the order stated.

2. Provisional Application:

The Commission Report suggests that a provisional

application scheme is under study in connection with conversion of the patent system to the first-to-file. It will enable inventors to file an application early and easily, securing an early filing date and helping first inventors to retain advantages so far protected under the first-to-invent system. It is similar to the internal priority system in use in Japan and the United Kingdom. To make the proposed provisional application scheme clearer, we will discuss it in comparison with the internal priority systems in those two countries.

2.1 Recommendations of Advisory Commission:

2.1.1 Outline:

(1) A provisional application to be filed shall satisfy "a minimum of formal requirements" "at a low cost." It must "satisfy the description and enablement requirements under 35 USC Section 112" but "would not have to include claims to define the invention in order to receive a filing date ..." "Further more, to facilitate early filing, requirements for ... declaration and for inventorship nomination would be waived." "Satisfaction of these formalities of the application would not be required until the inventor files a complete patent application."

(2) An "applicant would have twelve months after filing the first provisional application to file a complete application meeting all regular application requirements." For a complete application, regular filing fee would be paid. "One or more provisional applications could be consolidated into one complete application. Once the complete application had been filed, any earlier provisional applications would be abandoned."

(3) "Applicants using the provisional application scheme would be entitled to claim priority for subject matter claimed in the complete application back to the date of filing of the provisional application, provided the provisional application includes a sufficient description of the invention and sufficiently 'enables' the practice of the invention claimed in the later complete application. The provisional application could serve also as a priority document for foreign applications"

which satisfies a certain requirement under the Paris Convention. "The filing date of the complete application would serve as the basis of the domestic patent term, where the patent term is a fixed period measured from the filing date ..."

2.1.2 Grounds:

(1) Under the first-to-file system, it is necessary that an applicant can file an application early and easily, and the provisional application scheme satisfies this necessity at a low cost. Also, the one year period within which an applicant decides whether to file a complete application or not will serve to operate to his great advantage. Being the basis of a right of priority, the provisional application would be useful not only in obtaining a complete patent but as a defense against patents of others.

(2) The first-to-file system will permit patent owners to have an identical patent term for patents obtained in various countries. If, for example, two patent applications are filed in the U.S. and in another country on the same day, and then a U.S. application is filed claiming priority on the basis of the application filed in that another country, the U.S. patent with the benefit of priority, if granted, would have a longer term by the amount of priority period. Under the provisional application scheme, the patent owner can have identical patent terms. Also, the proposed U.S. scheme will coordinate satisfactorily with the internal priority systems of Japan and EC countries.

(3) The provisional application scheme will help to substantially identify the date of invention. It will also work satisfactorily with foreign application cases under the first-to-invent principle in which the priority date must be identified.

2.2 Japanese Internal Priority System:

2.2.1 Outline:

(1) The Japanese internal priority system may be stated to be one in which an applicant may claim priority based on its application previously filed in its own country. The

"application previously filed" under the Japanese internal priority system will be equivalent to the "provisional application" proposed by the Advisory Commission.

(2) In the case of claiming priority under the Paris Convention, the partial priority and the multiple priorities are authorized (Article 4 F of the Convention), permitting a full package of rights to be obtained including improvement inventions and additional inventions. In Japan no domestic applicant had been entitled to similar benefits until this internal priority system was adopted to remove the inequality.

2.2.2 Requirements:

(1) Applicant Requirements:

a. An applicant claiming internal priority shall be the applicant under the "earlier application" which term is defined as an application for patent or utility model under which the applicant has the right to obtain a patent or utility model registration and which has been filed earlier (Article 42 bis (1)). In the case of a joint application, there shall be a unanimous agreement among co-applicants with respect to the claim for internal priority. Any assignee in the right to obtain a patent after filing of the application involved would be entitled to receive the benefit of the internal priority system.

b. Inventors shall not necessarily be the same.

(2) Earlier Application Requirements:

a. The earlier application must be duly pending at the time of filing of the later application (Article 42 bis (1)(iii) and (iv)), as it is the ground on which priority may be claimed.

b. The earlier application must be an application for either Japanese patent or utility model. No design application can be this earlier application.

c. No divisional application or converted application can be this earlier application (Article 42 bis (1)(ii)), to avoid complexity involved in examination of its

legality.

d. The invention included in an earlier application should not be one claiming priority based on a further earlier application, in order to preclude extension of the priority period by successive claiming of priorities.

e. The invention for which internal priority is claimed must be one which has been disclosed in the specification or drawings initially attached to the earlier application, specifically excluding any additions and amendments subsequently made.

(3) Procedural Requirements:

a. The later application must be filed within one year of the earlier application (Article 42 bis (1)(i)).

b. Identification of the earlier application and claiming of a right of priority must be done in writing at the time of filing the application (Article 42 bis (1)(iv)).

2.2.3 Effect:

(1) The patent application enjoying the benefit of internal priority shall be considered to have been filed at the time the earlier application was filed, with its patentability examined accordingly with respect to, among others, novelty, inventive step (Article 29), Article 29 bis, and first-to-file rule (Article 39), and with all such other advantages made available as accrue from an earlier application (Article 42 bis (2)).

(2) Time limitation on amendments and time of laying open of the application shall be based on the time the earlier application was filed.

(3) The commencement date of patent term and the period within which the request for examination must be made will be determined on the basis of the date on which the later application is filed.

(4) As a result, it is avoided that an amendment for addition of embodiments is never entered as being a new matter and that an improvement invention is rejected as being double patenting. By use of the multiple priorities and the partial priority, it has

become possible to unify applications into a single application as long as unity of invention is satisfied.

(5) The earlier application will be regarded as being withdrawn after fifteen months of its filing date, to avoid conflict with the later application (Article 42 ter).

(6) Claim of priority may be withdrawn before the earlier application is regarded as having been withdrawn, and withdrawal of the later application gives effect to withdrawal of the claim of priority, to protect benefits of the applicant (Article 42 ter (2) and (3)).

2.3 Internal Priority System in UK:

2.3.1 Background:

(1) The former law (Patents Act 1949) required an application for a patent to be accompanied by a provisional or complete specification. In case of an application accompanied by a provisional specification, a complete specification had to be filed within twelve months. To the extent that claims made in the complete specification are based on explanation of the invention in the provisional specification, the priority date of the claims was made the filing date of the provisional specification. This provisional specification system was introduced for the first time by the 1852 Act.

(2) A provisional specification system under the former law was repealed by the current law (Patents Act 1977) which was enacted to, among other things, promote harmonization with EPC. The current law provides for the so-called internal priority system -- a system authorizing a claim of priority on the earlier domestic application -- which provides advantages similar to those under the provisional specification system.

2.3.2 Outline:

a. A later application filed within twelve months of the earlier application shall be entitled to the priority date under the earlier application.

b. An application shall contain, among other things, a request for grant of a patent, a specification

[description of invention, claims, (drawings)] and an abstract. However, neither claims nor abstract is necessary to secure a filing date thus permitting an applicant to secure the priority date without claims and abstract.

c. The earlier application is a complete application for itself and, because of lack of an automatic withdrawal provision, may survive with the later application.

d. In the later application, either multiple priorities or partial priority may be claimed.

e. In the later application, priority on the earlier application may be claimed also with priority under the Paris Convention.

f. The later application will be laid open 18 months after the filing date of the earlier application.

g. The patent term shall be 20 years from the filing date of the later application.

2.4 Comparison among Japan, UK and USA

	Japan	United Kingdom	United States
Position of earlier application	Complete application	Complete application	Provisional application
Position of later application	Complete application	Complete application	Complete application
Applicants of earlier and later applications	Identical (includes successor)	Identical (includes successor)	Identical (inventor or applicant)
Requirements for earlier application	Claims required Article 36	No claims nor abstract required Section 15	No claims required. Descriptions for enablement required Section 112 (No declaration needed.)
Amendments	May not be made basis for claiming priority	May not be made basis for claiming priority	Unknown
Treatment of earlier application after claiming priority	Regarded as "withdrawn" 15 months after filing of prior application.	Not automatically "withdrawn."	Automatically "abandoned" upon complete application
Fees			
Earlier application	¥ 21,000 as filing fee.	Pounds 170 Stg. as filing fee	Low level for provisional application
Later application	¥ 21,000 as filing fee + ¥ 87,000 or more for request for examination	Pounds 170 Stg. as filing fee Pounds 130 Stg. for Substantive examination	Regular level for complete application
Period of priority	12 months	12 months	12 months
Date to be laid open	18 months after earlier application	18 months after earlier application	24 months after earlier application
Patent term measured	Filing date of later application	Filing date of later application	Filing date of later application
Multiple priorities	Available	Available	Available
Partial priority	Available	Available	Available
Application to be laid open	Later application only	Both of earlier and later applications.	Later application only

2.5 Comments:

The U.S. provisional application scheme is similar to the internal priority system of Japan and the U.K. but largely different when it comes to the position of the earlier application. In other words, the earlier application under the internal priority systems of Japan and the U.K. is a normal application for itself, without the filing of a later application, and is eligible for a patent after examination. Under the U.S. provisional application system, an earlier application is simply a preliminary one for a later application. Thus, the earlier application alone is not eligible to be a patent in the end.

With the earlier applications of the three countries as outlined above, we come across the following issues which are either unclear or expected to be problem areas.

(1) Applicant:

According to the Commission Report, "to facilitate early filing, requirements for ... and for inventorship nomination would be waived for the provisional application. Satisfaction of these formalities of the application would not be required until the inventor files a complete patent application." The issue raised here refers to the relation between the applicant and the inventor.

If the above statement is intended to mean that a provisional application does not require to be in the names of all inventors, one of inventors or even some other person (an agent, for example) or an assignee could be an applicant. In the light of the fact that the inventor is supposed to be an applicant in the United States, it occurs to us that all inventors should be named in the provisional application.

Or, we can assume that it might follow from lack of claims in a provisional application that an inventor or inventors stated in the claims are unidentifiable. Even in that event, we feel all inventors involved should be named and an inventor or inventors named in the claims may be designated at a later date.

(2) Effect of prior application:

A provisional application, unless followed by a complete application, is expected to be waived. In that case, would the provisional application have a patent-defeating prior art effect? For example, after A filed a provisional application, B files a provisional application on an identical invention to the one previously filed by A. Thereafter, A fails to file a complete application while B files a complete application. In this case, could the provisional application filed by A constitute the ground of rejection of the complete application filed by B?

Where the failure of A to file a complete application is considered to be abandonment of obtaining a patent, it would be unfair to give the application by A a patent-defeating prior art effect against others. If the application by A should have such an effect, it would encourage abuse of the system by simply filing a provisional application to prevent others from obtaining patents. Thus, as explained above, the application by A should not have such an effect.

(3) Description requirement

In case an earlier provisional application is filed on a certain invention satisfying 35 USC 112 requirement to a certain extent and a later complete application is filed with more satisfactory description, and therebetween a third party's application (provisional or complete) is filed on the same invention with the intermediate degree of description, how strict should 35 USC 112 requirement be ruled among these? And who is entitled to get a patent on the invention in question?

(4) Scope of applicability

Would use of the provisional application scheme be restricted to Americans? The Commission Report does not specifically refer to this point. We do not see any particular reason why only Americans should be entitled to it. It is our understanding that the provisional application scheme should be made available to foreigners as well as internal priority systems of other countries which entitle foreigners to enjoy the advantage. In such a case, we hope that provisional applications from foreigners may be filed in the language of their own

countries (for example, Japanese language for Japanese citizens).

(5) Multiple priorities:

Under the provisional application scheme multiple priorities are available. The Commission Report, however, does not make any specific reference to the multiple priorities on a provisional application and a foreign application under the Paris Convention. Since the provisional application may serve as a basic application for claiming priority under the Paris Convention, the above described multiple priorities should be made available.

(6) CIP application scheme:

In the United States, CIP application is available. It is not specific in the Commission Report whether the CIP application scheme is to continue after the provisional application scheme is implemented. If it is to continue, would it be possible to file a CIP application directly from a provisional application (alone or additionally from another complete application). Where a provisional application is to be followed by complete or regular application, the complete or regular application could simply be a CIP application itself directly. Thus CIP applications from provisional applications (alone or additionally from another complete application) should also be authorized.

(7) Amendment:

Is the provisional application subject to amendments? Where one or more provisional applications may be consolidated into one complete applications, it is possible to file further provisional applications in order to include additional ideas and then to merge into a complete application. From this point of view, amendments to a provisional application in itself should not be authorized.

2.6 Conclusion:

Where the requirements for a formal application are very strict in the United States, it will be reasonable to adopt the provisional application scheme for easy and early filing thereby to introduce a system which is equivalent in substance to the internal priority system and which can retain advantages of

the first-to-invent principle.

3. Grace Period:

The current U.S. patent law adopts the grace period. The Commission Report states the necessity for adoption of the grace period as a condition of introducing the first-to-file system. We will discuss in the following the recommendation of the Commission Report on the grace period, with reference to the WIPO harmonization and to Japanese provisions pertaining to exceptions to lack of novelty of invention.

3.1 Commission Report:

3.1.1 Background of Recommendation:

(1) As a compromise between "two opposing principles" -- one being the long and firmly established traditions in the United States scientific community which "encourage open and free communication through early publication and dissemination of the results of scientific research," and the other being the patent protection-oriented concept that "prior public disclosure of the substance of an invention serves as the most fundamental bar to the ability of an inventor to obtain patent protection" -- the current U.S. patent laws adopts a grace period (Section 102(b)). "The grace period is of critical importance to the scientific community in facilitating early dissemination of research results, while preserving the patenting opportunity of the inventor for a reasonable period."

"The grace period also is essential to protect entities which have limited financial resources for ... patent application filing and prosecution. Such entities must have some time after publication or other public disclosure to validate the commercial viability of an innovation, often by finding a prospective licensee as a precondition to making any significant financial commitment toward obtaining patent protection for that invention." "The U.S. grace period helps to ensure equal access for such entities to the benefits of U.S. patent protection, and protects against inadvertent loss of U.S. patent rights during the initial period of testing or promotional

activities."

(2) If the grace period is adopted in the first-to-file system, there will be "a situation where a party other than the inventor learns of an invention exposed through a grace period publication and then files a patent application on that invention before the original inventor." Some appropriate measures will have to be provided to solve any such issue.

(3) "Another problem ('spoiling') occurs where someone other than the patent applicant learns of the subject matter of the invention and prior to the filing of the patent application publishes the information." This would have a patent defeating effect on the true inventor's patent application. This potential problem must also be resolved.

3.1.2 Recommendations:

(1) "A grace period" should be provided, "during which [period] public disclosure of an invention by an inventor would not affect the patentability of that invention if claimed in an application filed by that inventor within 12 months of the disclosure." Our understanding is as follows:

(i) Interpretation of "public disclosure by an inventor", "an application filed by that an inventor" and "an application":

Although not clear in the Recommendations, we expect that an interpretation compatible with the WIPO harmonization would be adopted. In other words, public disclosure by any third party of information obtained directly or indirectly from an inventor would probably be construed as "public disclosure by an inventor." Application filed by a person having the right to obtain a patent on the date of filing is likely to be construed as "an application filed by inventor." Although not clear in the Recommendations either, "an application" would probably include the application filed in a foreign (original) country having base of priority date. It is also presumed that "application" would probably include a provisional application (with or without claims).

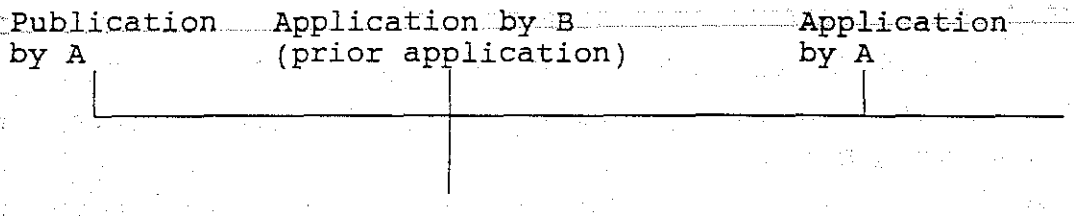
(ii) Type and place of public disclosure:

The public disclosure would include any and every type of public disclosure, including in writing or verbal, and at any place of the world.

(iii) When to request for benefit of the grace period?:

Basically the benefit of grace period would probably be requested for at any time. However, probably it shall be requested for whenever the applicant knows a grace period public disclosure, following the 37 CFR (Duty to disclose information material to patentability).

(2) In a case "a party other than the inventor learns of an invention exposed through a grace period publication and then files a patent application on that invention before the original inventor," "retention of the requirement for an affirmation of inventorship by the true inventor, and provision of a forum to decide derivation issues, whether it is the USPTO in an interference-like proceedings, or in the courts, should suffice to address this situation."



Our understanding is as follows:

If the application by B is a misappropriation case, the application by A would be granted, to which there is no specific reference in the Commission Report. If the application by B is not a misappropriation case, neither application by B nor application by A would be granted. If the application by B is based on knowledge learnt from publication by A but contains allowable invention distinct from the content of publication by A, the application by B would be granted.

(3) In a case "someone other than the patent applicant learns of the subject matter of the invention and prior to the filing of the patent application publishes the information," "it would be appropriate for the USPTO to 'presume' that the second publication of the same invention was derived from the first, and

then on this presumption, grant the patent application."

Publication by A (first publication)	Publication by B (presumed to be derived from the publication by A)(second publication)	Application by A

Our understanding is as follows:

The application by A is granted based on that presumption. In a dispute over the validity of the patent (the application by A), a federal court would decide whether the publication by B was derived from the publication by A. Unless the presumption is rebutted, the patent (the application by A) will continue to be in force as a patent. (This may look at first like a "first-to-publish" system.)

3.2 The WIPO Harmonization (PLT/DC/69 (1/29/93)):

3.2.1 Background:

Many countries have patent laws with a grace period, which varies country by country as to, among other things, the period provided and acts entitled to benefits of the grace period. In fact, the difference of the grace period triggered the idea of the harmonization treaty as one of the most important issues in the international patent harmonization.

3.2.2 Outline of Harmonization Provisions Involved (Article 12):

(1) Requirements:

"Disclosure of information[1)] which otherwise would affect the patentability of an invention claimed in the application shall not affect the patent ability of that invention where the information was disclosed, during the 12 months[2)] preceding the filing date or, where priority is claimed, the priority date of the application,

(i) by the inventor,

(ii) by an Office and the information was contained

(a) in another application filed by the inventor and should not have been disclosed by the Office, or

(b) in an application filed without the knowledge or consent of the inventor by a third party which obtained the information direct or indirectly from the inventor,

or

(iii) by a third party which obtained the information direct or indirectly from the inventor."

For the purposes [hereof], "'inventor' also means any person who, at the filing date of the application[3], had the right to the patent."

(2) Procedure:

"The benefits of paragraph (1) may be invoked at any time[4]."

"Where the applicability of paragraph (1) is contested, the party invoking the effects of that paragraph shall have the burden of proving, or of making the conclusion likely, that the conditions of that paragraph are fulfilled."

(3) Benefit:

The information so disclosed does not affect the patentability of the application, i.e. novelty and inventive step.

3.2.3 Effect:

(1) Effect of any prior application by third party: An inventor is not entitled to advantage of a grace period, i.e. an application filed by an inventor after disclosure would be considered to be rejected under Article 13 on the ground of any prior application filed by the third party between the disclosure and the filing of the application by the inventor.

The prior application by the third party would likewise be considered to be rejected on the ground of the disclosure by the inventor.

(2) Effect of secondary disclosure by third party: An inventor is not entitled to the advantage of a grace period, i.e. an application filed after disclosure would be rejected under

Article 11 on the ground of any secondary disclosure by the third party made between the disclosure and the filing of application by the inventor. Any secondary disclosure by the third party, if based on information obtained directly or indirectly from the inventor, would not be rejected.

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1) The term "disclosure of information" would be made in writing, verbally or by any other means (such as display at an exhibition or retrieval of information from an electronic data base).

2) "Observations" (29 January, 1993), a WIPO document, suggested that "during the 12 months" be amended to read "during, or with effect under Article 13 on a date during,"

3) The "Observation" (29 January, 1993) suggested that "at the filing date of the application" be amended to read "at or before the filing date of the application."

4) The term, "at any time," would mean "at any time the application is pending with the patent office as well as in proceedings revoke the patent involved after it is granted."

3.3 Japanese Grace Period:

3.3.1 Outline:

As a principle, any invention either publicly known or worked in Japan or described in a publication distributed in Japan or elsewhere, prior to filing of a patent application, is not eligible for novelty (Article 29 Paragraph 1).

The above rule, if adhered to strictly, would be too harsh for inventors or could operate against the purpose of the patent law intended for development of industries.

In the circumstances, with due consideration for disadvantages to which third parties in good faith may be subjected, and as exceptions for certain types of disclosure, novelty of inventions is regarded as not being forfeited (Article

30).

3.3.2 Requirements:

(1) Relation between Discloser and Inventor:

Qualified disclosers are restricted to persons having the right to obtain a patent.

In principle, a qualified discloser is identical with the applicant for patent or inventor involved.

In order for any other person to be a qualified discloser, a statement setting forth the circumstances must be produced to satisfy the patent office (Examiners' manual 10.33A, 10.45A).

(2) Time of disclosure:

Qualified disclosure must be made within six months before filing of a patent application. In other words, an application must be filed within six months after qualified disclosure. The date of disclosure is deemed to mean the date on which a presentation is made in writing at a study meeting or, if such writing is distributed in advance for preliminary information, the date on which it is so distributed rather than it is disclosed at the meeting. In the case of successive disclosures, disclosure is deemed to be made on the date of the first disclosure.

The date of filing of a patent application means the date on which a patent application is filed with the Japanese Patent Office. In the event of an application with a claim for priority under Article 4 B of the Paris Convention, the date of filing of patent application will likewise be the date on which it is filed in Japan. Applications with claim for priority under the Article 4 B are not prejudiced, because only acts between the filing of application with the first country and the filing of application with the second country are involved and acts prior to the date of filing of application with the first country are not involved, and also because inclusion of acts prior to the filing with the first country would results in accumulation of grace periods.

In the event an application must be filed within six months after qualified disclosure notwithstanding a claim for priority.

(3) Modes of qualified disclosures:

a. Experiments: The term, "experiments," is restricted to mean those verifying technical effect of a completed invention, and does not include any intended for advertisement or sale.

b. Printed publication: The term, "printed publication," as used in Article 30, is taken to mean the so-called reproductions intended for disclosure, such as reproduced writings, drawings and pictures.The term, "disclose" or "disclosure," is taken to relate to disclosure made in person by a rightful person having a right in receiving a patent with the positive intent to disclose and does not include publication in the official patent gazette issued by the patent office in Japan or elsewhere. Thus, once a patent office in Japan or else where lays open an application, no body other than the rightful applicant cannot obtain a right in the invention involved in that application.

c. Disclosure in paper at study meeting held by scientific body designated by Director General of Patent Office: Disclosure must be made in writing. The writing may even be a draft writing consisting of a single copy of slides and must set forth at least matters described in claims applied for (Trial 42-6320, Feb. 13, '73).

d. Disclosure of invention against will: The Article 30 will apply where an invention is disclosed against will of the person having the right to obtain a patent. The will is defined as that of that person not to publicize until filing of a patent application.
The disclosure against will typically be made by, for example, duress, spying or fraud. It may also apply where a third party imposed with confidentiality obligation by a person having the right to obtain a patent discloses without authority.

e. Display at exhibition:

(i) Exhibitions held in Japan:

- Exhibitions held or sponsored or co-sponsored by

the Government or any local public entity ("governmental entities").

- Exhibitions held by non-government entities and designated by the Director General of Patent Office.

(ii) Exhibitions held outside of Japan:

- International exhibitions held in territory of a country which is a party to the Paris Convention by its government entities or a person authorized by such government entities. This provision is intended to cope with Article 11 of the Paris Convention.
- International exhibitions held in territory of a country which is not a party to the Paris Convention and which has been designated by the Director General of the Patent Office.

(4) Procedural requirements for qualified disclosures:

(i) A written statement requesting application of a qualified exception must be submitted at the time of filing of the patent application. In the event of an international application in foreign language under PCT, the statement may be submitted within 30 days of the filing of the patent application.

(ii) Within 30 days of the filing of the patent application, a document proving that the invention claimed in the patent application is an invention to which the provision of Article 30 Paragraph 1 or 3 is applicable (except when publicized against will).

3.3.3 Effects:

(1) Effect of application for exceptions under Article 30:

The disclosure does not forfeit novelty of the invention applied for, provided the invention so applied for is identical with the invention so disclosed, and does not relate to any application for extension or improvement invention.

(2) Effect of prior patent application by third party:

Patent application under Article 30 will be rejected on the

ground of any prior patent application by a third party (except where it is made clear that the third party is neither an inventor nor an assignee of interest in invention from the inventor (judgment of which is not made by the Patent Office)).

Any patent application by a third party will be rejected on the ground of disclosure by the person having the right to obtain a patent.

(3) Effect of secondary disclosure by third party:

Patent application under Article 30 will be rejected on the ground of secondary disclosure by third party (except where such disclosure by third party is based on disclosure made by the inventor).

3.4 Comparison:

Refer to a statement entitled "Comparison of Grace Periods," as attached.

Comparison of Grace Periods

	U.S. (Recommendation by Advisory Commission)	WIPO Harmonization	Japan	Comments on U.S. Recommendation
1. Purpose of Grace Period	Harmonization of free exchange of information with the first-to-file system.	International harmonization of laws of respective countries.	An exception to the first-to-file system.	Grace period should strictly be "an exception to the first-to-file" system.
2. Who discloses	Inventor	Inventor, Patent Office, third party which obtained the information direct or indirectly from the inventor.	Any person having the right to obtain a patent	WIPO harmonization should be more practical.
3. When to disclose	Within one year before filing of application (includes provisional application?).	Within one year prior to filing of application or priority date.	Within 6 months prior to filing of application.	"Within one year prior to filing of application" will be acceptable (the provisional application with the grace period will be excessive).
4. Type of disclosure	Public disclosure	No restrictions	Subject to restrictions.	Restrictions as to mode of disclosure would be unneces sary.
5. Benefit of application of the grace period on patent application	Patentability is not affected.	Patentability is not affected.	No, none on novelty, but does affect inventive step because of disclosure.	Inventive step should not be affected on the ground of disclosure.
6. When to request for benefits of grace period?	Not shown (follows the duty of disclosure, whenever a grace priod public disclosure is known.)	Any time	At the time of filing of patent application (except when disclosed against will).	The request must be made whenever necessary.
7. Patent application to which grace period is applied, as affected by prior application by third party, will be:	Examined and decided by USPTO or court as to who the inventor shall be.	Rejected (Article 13) (earlier application by third party will likewise be rejected on the ground of disclosure).	Rejected (prior application by third party will like wise be rejected on the ground of disclosure).	Both of applications must be rejected in the first-to-file principle.
8. Patent application to which grace period is applied, as affected by the second publication by third party, will be:	None (the second publication is presumed to be derived from the first publication).	Rejected (Article 11).	Rejected.	"Presumption" is likely to end up with a, say, "first-to-publish" system.

3.5 Comments:

3.5.1 Recommendations in Commission Report:

Recommendations in the Commission Report, although there are minor differences from the WIPO harmonization and Japanese law, are basically in line with the proposed WIPO. There would be no problem if further details are provided for.

The recommendation seems to take up the grace period as one of requisites for conversion to the first-to-file system. In nature, however, it should probably be an exception to the first-to-file system. In other words, careful consideration must be given so that publication by an inventor would not prejudice an patent application by any subsequent inventor. It should never be used for securing the first-to-file privilege.

3.5.2 Ambiguities and problem areas:

(1) Who discloses an invention:

The recommendation refers to "public disclosure by an inventor." In the actual practice, however, it happens that an assignee of an invention or third party who has known of an invention made by the inventor discloses the invention. For this reason, detailed provisions would be required with respect to the discloser. We believe, the WIPO harmonization should be relied upon.

(2) When to request for application of grace period:

It is unclear from the Commission Report when a request for application of grace period should be made. The U.S. duty of disclosure would require a request for application of grace period to be made at the time of filing the patent application. If third parties are also included as qualified discloser, disclosure of which the patent applicant is not aware could exist. To prepare for this, arrangements will have to be made to permit a request for application of grace period after the filing of patent application.

(3) To which application the grace period applies:

It is unclear whether filing of a patent application after disclosure of details of an invention by the inventor refers to that of the complete application alone or includes that of a

provisional application. If filing of a provisional application is included, a complete application would be filed 24 months after disclosure of details of an invention. If the provisional application is intended to secure a "grace period" within which to file a complete application, use of the grace period together with a provisional application would provide excessive protection of the invention.

In the case of filing of a U.S. patent application with claim for priority, it is not clear whether the date of application refers to the priority date.

(4) Relations with acts of third parties:

The Japanese law deals with relations with third parties by way of strict construction of the first-to-file principle and of exceptions to lack of novelty of invention provided for in its Article 30. Contrary to this, the Commission Report seems to recommend, as previously mentioned in 3.1, to leave the concept of the first-to-invent system in the proposed new system and place emphasis on which party has completed an invention before the other. Illustrations will follow.

(i) Effect of prior application by third party:

Assuming that, after publication of details of an invention but prior to filing of patent application of the invention by A who requests for the benefit of grace period, a third party, B, files a patent application with identical claims on the same invention, approach seems to vary between the Commission Report and Japanese law.

Under the Japanese law, the application by A will be rejected on the ground of the application by B, because of the first-to-file principle (the application by B will be rejected on the ground of the publication by A, also). As an exception to the above, if A satisfactorily proves that B unlawfully claims the title to the invention by A, A will be relieved of rejection on the ground of the application by B. It will not be the patent office but the court which examines the case, however.

Under the Commission Report, on the other hand, it sounds like USPTO also examines which of A and B is the real

inventor. Besides, the Report does not specifically state that the application by B will be rejected. As a result, we fear the recommendation under the Commission Report would eventually the same in substance as the first-to-invent system.

(ii) Effect of secondary publication by third party:

Assuming that, after publication of details of invention but before filing of patent application, by A who desires benefit of grace period, a third party, B, publishes the same invention as A's, approach will be different between the Commission Report and the Japanese law.

Under the Japanese law, the application by A will be rejected on the ground of publication by B, except where A satisfactorily proves that the publication by B is based on the publication by A, in which A will be relieved of rejection on the ground of publication by B. Thus, a secure patent right for the society will be registered.

Under the Commission Report, on the other hand, the application by A will be granted rather than rejected, because the publication is presumed to be derived from the publication by A. It will be rejected if it is satisfactorily proven that the publication by B is independent from the application by A. The registered patent right is uncertain in this regard.

It will not be until a suit, alleging infringement, is instituted at a later date that the problem originating in this "presumption" takes place. It is the defendant, who has nothing to do with A or B, who has to prove independency of B's publication from A's to challenge validity of, and rebut, the presumed patent. It is expected to be extremely difficult to successfully prove it. There is a danger that the "presumption" contemplated in the Commission Report would induce a, say, "first-to-publish" concept in which whoever publishes first will win.

3.6 Conclusion:

Recommendations of the Commission Report are substantially in line with the harmonization concept outlined in the WIPO harmonization. Efforts toward developing detailed provisions will have to be made. We are of the opinion that, in relation to acts of third parties, the "presumption" and "interference-like procedure" should be eliminated and provisions developed strictly on the first-to-file basis must be adopted.

4. Prior User Rights:

The first-to-file system recommended in the Commission Report is conditioned upon adoption of the provisional application scheme, grace period and prior user rights.

In the following we will identify differences of the U.S. prior user rights so recommended from those in the WIPO harmonization and in Japanese Patent Law. We will also discuss outstanding differences in more detail.

4.1 Commission Report:

The Commission Report states that "under the appropriate circumstances, a prior user right will enable an earlier user of a patented invention to raise a defense to a claim of patent infringement. To establish the prior user right, the prior user must show that they have independently developed the invention and began use or substantial preparation for use of that invention prior to the filing of by the patent owner."

In other words, the prior user right is intended to serve as defense against allegation of patent infringements from patent owners. In order for such defense to be effectively exercisable, "the prior user must show that they independently developed the invention and began use or substantial preparation for use of that invention prior to the filing by the patent owner."

As the result of successful demonstration of the above, any prior user is authorized to continue reduction to practice to the extent that he had reduced to practice its own invention prior to filing of the patent application by the patent owner.

We will further discuss requirements, scope and other

details of the prior user right, in 4.4

4.2 The WIPO Harmonization (Article 20):

Article 20 provides, "a patent shall have no effect against any person ... who, in good faith, for the purposes of his enterprise or business, before the filing date or, where priority is claimed, the priority date of the application on which the patent is granted, and within the territory where the patent produces its effect, was using the invention or was making effective and serious preparations for such use; any such person shall have the right, for the purposes of his enterprise or business, to continue such use or to use the invention as envisaged in such preparations."

Basic concept seems to have no significant differences from that contained in the Commission Report or the Japanese patent law, except that, because of its nature as draft treaty, the definition of "good faith" is left to respective domestic or territorial laws applicable.

In the same manner as under the Commission Report, requirements, scope and other details of the prior user right are discussed further in 4.4.

4.3 Japanese Patent Law (Article 79):

Article 79 of the Japanese Patent Law provides, "Where, at the time of filing of a patent application -- <u>or at the time of filing of the original application or of submission of an amendment when the patent application is deemed to have been filed at the time of submission of the amendment in accordance with Article 40</u>* -- a person who has made an invention by himself without knowledge of the contents of an invention claimed in the patent application or has learned how to make the invention from a person just referred to, has been commercially working the invention in Japan or has been making preparations therefor, such person shall have a non-exclusive license on the patent right under the patent application. Such license shall be limited to the invention which is being worked or for which preparations for working are being made and to the purpose of such working or

the preparations therefor."

In short, it is a license granted under certain conditions to any person who has been reducing in good faith an invention identical to one of the patent owner since before the patent owner filed the application therefor.

In the same manner as under the Commission Report and the WIPO harmonization, requirements, scope and other details of the prior user right will be discussed in 4.4.

Note: The underlined portion is deleted in the draft revision.

As shown above, the recommendation under the Commission Report, the WIPO harmonization and Japanese Patent Law provisions are different each other in wording employed, but all agree in that they provide prior user rights to bona fide third parties.

4.4 Comparison of prior user rights between the U.S. Commission Report, the WIPO harmonization and Japanese Patent Law:

(1) <u>Requirements of prior user right:</u>

(i) Time and place of activity protected:

Time: Activity prior to the earliest filing date of application covering patented claims (the filing date includes the earlier filing date in foreign country under 35 U.S.C. Section 119).

[Comment] Japanese Patent Law says, "at the time of filing of patent application," which is construed to include a priority date, while the WIPO harmonization states, "before the filing date or, where priority is claimed, the priority date of the application on which the patent is granted." Thus, all of the three are substantially on the same basis.

Place: Activity in the United States.

[Comment] Japanese patent law says, "in Japan," while the WIPO harmonization says, "within the territory where the patent produces its effect." All three are on the same basis.

(ii) Independent creative activities:

- Bona fide activities not derivative from the patent owner.
- Activities developed independently by the prior user right holder.

[Comment] Japanese law as well as the WIPO harmonization requires "good faith," being substantially on the same basis as Commission Report.

(iii) Scope of Activities Protected:

- Subject matter of patented invention and subject matter of invention reduced to practice by the prior user right holder must be the same.

[Comment] Japanese law says, "commercially working the invention" which is "claimed in a patent application or making preparations therefor," while the WIPO harmonization says, "using the invention or was making ... preparations for such use." Both are on the same basis as Commission Report.

- Commercial use or substantial preparation toward such use.

[Comment] Japanese law says, "commercially working the invention" which is "claimed in the patent application" ... or "preparations therefor," and the WIPO harmonization says, "using the invention or was making effective and serious preparations for such use." Both are on the same basis as Commission Report.

<Factors employed to determine "substantial preparation for use">

a) Proportion of preparation costs incurred to the total costs for commercialization.

b) The amount of time required to complete the preparation for commercial use, and the proportion of that time in relation to the total time necessary to fully prepare for the prior use.

c) Complexity of preparation for practicing the claimed prior use.

d) Diligence of the prior user in preparations for the prior use.

[Comment] Requirements under the Japanese law are: (i) intention to immediately reduce to practice, (ii) demonstration of that intention in such manner and to such extent as may be objectively recognized, and, as prerequisite for it, (iii) completed invention, thus largely different from the Commission Report. A decision at the Japanese Supreme Court (Supreme Court 1986 (オ) 454) required, "intention to immediately reduce to practice and establishment of that intention in such manner and to such extent as may be objectively recognized, even when such preparations have not reached a commercially workable phase." Another Supreme Court precedent ruled (on October 13, 1977 (1974 (ツ) 107) that an invention is not complete until the phase in which a person with skilled in the art is able to make final drawings and manufacture the product. With respect to the element which decides whether a case represents "substantial preparation" as is referred to in the Commission Report, the Japanese Supreme Court has taken into consideration circumstances of a certain specified product, but otherwise there has been no judicial precedent clearly establishing legal requirements for "preparation toward establishment of commercial use." Therefore, "substantial preparation" may be differently ruled between Japan and the United States.

The WIPO harmonization, on the other hand, requires "effective and serious preparations" as a requirement. In that the term "serious preparations" would be considered equivalent to "the diligence ... in preparations," the WIPO harmonization requirements are closer to the

Commission Report requirements.

Burden of Proof:

The burden of establishing prior use by documentary and other objective evidence is on the party asserting the prior user right.

[Comment] The Japanese law provides for substantially the same thing. Under the WIPO harmonization, although not specific in the text, burden of proof would be on the party claiming the prior user right because of its nature.

Under the Japanese law, evidence sufficient enough to objectively establish the prior user right is required.

The WIPO harmonization is not specific in this regard.

(2) Scope of prior user right:

- It is necessary to continue the particular activity which gives rise to the prior user right.

[Comment] Japanese prior user right also requires that the invention is reduced to practice or preparation for such reduction is made at the time of filing of patent application, but, differently from the Commission Report, does not require after filing of patent application that the invention is reduced to practice or preparation therefor is made. Nevertheless, there would not be substantial difference from the Commission Report in that, at the time of defense for the prior user right, an invention is normally reduced to practice or preparation therefor made.

The WIPO harmonization has substantially the same basis as the Commission Report.

- Reasonable expansion in volume of the prior use.

[Comment] In Japan, as shown in a high court precedent (Tokyo High Court, September 29, 1966, 1961 (ネ) 2881 case), size of reduction to practice should not necessarily be restricted to that at the time of filing of patent application as long as it is within the scope of the

authorized purpose of the business, and may be expanded howsoever. The prior user right under the Commission Report is made subject to a "reasonable" scope which will be identified from future court precedents.

The WIPO harmonization is not specific in this regard.

- No territorial restriction as long as the prior user's activity is within the U.S.

[Comment] Prior user right under the Japanese law is territorially restricted within Japan, while the WIPO harmonization may be described as being restricted to "within the territory where the patent produces its effect." Thus, both should substantially be on the same basis as Commission Report.

- In the case of processes, scope of prior user right is restricted to a continuation of use of the same process.

[Comment] Continuous reduction to practice of processes involves a question of how far the processes may be changed. It will be eventually determined on the criterion of (iii) Scope of activities protected, above. What factors satisfy requirements for "continuous reduction to practice" will depend on future U.S. court precedents. Neither Japanese patent law nor the WIPO harmonization contains an express provision about continuous reduction to practice of process inventions.

- In the case of products, improvements of them would be permitted to the extent they do not fall within the scope of other claims in the patent.

[Comment] The term, "to the extent [improvements] do not fall within the scope of other claims in the patent," is provided presumably simply for precautionary purposes of keeping court proceedings from being involved in useless disputes. Improvements may be made in the case of Japanese patent law as well as the WIPO harmonization.

(3) <u>Legal features:</u>

(i) Personal nature of prior user right:

- The prior user right is personal in nature and is not transferable as a rule.
- The prior user right may be transferred with that part of the business.

[Comment] Under the Japanese law, the prior user right "may be transferred, but only together with the business in which it is worked." The WIPO harmonization states, "The right of the prior user may only be transferred for devolve together with his enterprise or business, or with that part of his business in which the use or preparations for use have been made." Both are substantially the same as the Commission Report.

(ii) Legal features of prior user right:

- Equitable defense to charge of patent infringement.
- A court has the authority to assess appropriate and reasonable royalties in favor of the patentee, or to expand the right to assure that justice is done.

[Comment] The prior user right is a defense right under both Japanese law and the WIPO harmonization. The prior user right under Commission Report is not a mere legal defense right but serves as equitable defense as well. Requirements of, and scope of protection of, the prior user right need to be construed with due consideration for the spirit of the equity law underlying the entire U.S. patent law.

The foregoing is summarized in a statement entitled "Comparison of Definitions, Requirements and Scope, and Legal Features of Prior User Rights, between U.S. Commission Report, Japanese Patent Law and the WIPO harmonization," as attached.

4.5 Conclusion:

A review of the Commission Report, the WIPO harmonization and Japanese Patent Law in the foregoing will indicate the following three points as most significant issues:

(1) Criteria for construction of preparation, one of

requirements of prior user right.

(2) Scope of prior user right

(3) Legal features of prior user right

(1) Criteria for construction of preparation, one of requirements for creation of prior user right:

Under the Japanese Patent Law, establishment of reduction to practice prior to the filing of application will suffice, with substance of the establishment being (i) how to demonstrate the "intention to immediately reduce to practice, and (ii) demonstration of that intention in such manner and to such extent as may be objectively recognized," as previously quoted in connection with a court precedent. In the case of the Commission Report, as seen from the four factors of a) through d) employed to determine "substantial preparation for use," the key would be how to objectively prove the circumstances of facts in which reduction to practice was conducted.

We are not certain how close "the diligence of the prior user in preparations for the prior use" is to a similar concept in the U.S. interference and, if it is close, to what extent. If they are more or less alike, it would not be easy to prove it satisfactorily. For allegation of prior user right, appropriate preparations must be carefully made so satisfy these requirements.

(2) Because effect of process patents as to production method has been expanded under the law revision of 1988, the scope of prior user right will be construed more broadly. On the other hand, risk of infringements would also exist.

(3) Differently from the Japanese patent law, the Commission Report defines the prior user right as an equity defense to an infringement claim, giving room for discretion of courts as to the above-mentioned requirements for proof and scope of the prior user right. In this sense, it lacks for stability.

As seen from the foregoing, corporations in the United States are expected to face considerable difficulties in order for them to tactfully make use of the prior user right. It would

be more advisable for them to make their position more advantageous by aggressive use of, say, the provisional application, rather than try to defend themselves against patent owners by a negative means such as this right.

It must also be added that the United States has entered the so-called pro-patent era where patent owners are in an advantageous position.

Comparison of Definitions, Requirements, Scope, and Legal Features of Prior User Rights between U.S. Commission Report, Japanese Patent Law and WIPO Harmonization

(1) Definitions

	Commission Report	Japanese Patent Law	WIPO Harmonization
Definitions	A personal right which entitles a third party diligently making an earlier use or substantial preparations therefor in respect of a patented invention of others prior to the date of its application filing, to raise a defense to a claim of patent infringement, subject to certain conditions.	A right of continuous reduction to practice granted, subject to certain conditions, to any person who has been reducing to practice in good faith an invention with identical claims to those of a patented invention of the patent owner since before the date of its patent filing (Article 79).	A patent shall have no effect against any person who, in good faith, for the purposes of his enterprise or business, before the filing date or, where priority is claimed, the priority date of the application on which the patent is granted, and within the territory where the patent produces its effect, was using the invention or was making effective and serious preparations for such use; any such person shall have the right, for the purposes of his enterprise or business, to continue such use or to use the invention as envisaged in such preparations (Article 20 of WIPO harmonization).

Comparison of Definitions, Requirements, Scope, and Legal Features of Prior User Rights between U.S. Commission Report, Japanese Patent Law and WIPO Harmonization

(2) Requirements of prior user right:

	Commission Report	Japanese Patent Law	WIPO Harmonization
Time	Prior to the earliest filing date to which the relevant claim or claims of the patent is or are entitled. The term, "filing date," includes priority date.	Filing of a patent application.	Before the filing date or, where priority is claimed, the priority date of the application on which the patent is granted.
Place	Within U.S.A.	Within Japan	Within the territory where the patent produces its effect.
Indipendent Creation	Activities which are diligent and not derivative from the patent owner. Activities independently developed by the prior user.	Good faith	Good faith
Extent of Priority Activity	Subject matter of patented invention must be the same as subject matter of invention reduced to practice by prior user prior to its filing of application.	Commercial reduction to practice of invention for which patent application is pending or preparations therefor.	Use of the invention on which a patent has been granted or preparations for such use.
	Actual commercial use	Commercial reduction to practice	Use
	Substantial preparation toward commercial use	Preparations for commercial reduction to practice	Effective and serious preparations for use

Comparison of Definitions, Requirements, Scope, and Legal Features of Prior User Rights between U.S. Commission Report, Japanese Patent Law and WIPO Harmonization

(2) Requirements of prior user right:

	Commission Report	Japanese Patent Law	WIPO Harmonization
	Factors employed to determine whether substantial preparation for use has been proven: A) Proportion of costs incurred by prior user to total costs for commercialization. B) Amount of time required for the prior user to complete preparation for commercial use after filing date, and proportion of that time in relation to total time necessary to fully prepare for the prior use. C) Complexity of preparation for practicing claimed prior use. D) Diligence of the prior user in preparations for prior use.	Intention to immediately reduce to practice; establish ment of that intention in such manner and to such extent as may be objectively recognized; and, as pre requisite for it, completed invention.	Effective and serious preparations for use.
	Burden of proof is on the prior user.	Burden of proof is on the prior user.	Not specific but the burden of proof is considered to be on the prior user.
	Must be proven with documentary and other objective evidence.	Evidence sufficient enough to objectively establish the prior user right is required.	Not specified

Comparison of Definitions, Requirements, Scope, and Legal Features of Prior User Rights between U.S. Commission Report, Japanese Patent Law and WIPO Harmonization

(3) Scope

	Commission Report	Japanese Patent Law	WIPO Harmonization
Scope of Right	* It is necessary to continue the particular activity which gives rise to the prior user right. * Reasonable expansion in volume of the prior use is available. * No territorial restriction as long as the prior user's activity is within the U.S. In the case of processes, scope of prior user right is restricted to a continuation of use of an identified process. In the case of products, improvements of them would be permitted to the extent they do not fall within the scope of other claims in the patent.	* The right is restricted to such extent of scope of invention for which the reduction to practice or preparation therefor has been conducted and of the author ized purpose of the business. * Size of commercial reduction to practice may be expanded as long as it is within the scope of the authorized purpose of the business. * No restriction on activities within Japan.	Right to continue such use or to use the invention as envisaged in such preparations. No territorial restriction within the territory where the patent produces its effect.

Comparison of Definitions, Requirements, Scope, and Legal Features of Prior User Rights between U.S. Commission Report, Japanese Patent Law and WIPO Harmonization

(4) Legal features

	Commission Report	Japanese Patent Law	WIPO Harmonization
Personal Nature of the Right	* Not transferable because of personal nature. * Transferable with that part of the business.	Transferable with the business commercially conducting reduction to practice.	Transferable only together with enterprise or business or with that part of enterprise or business in which the use or preparations for use have been made.
Legal or Equitable Nature of the Right	Defense right (an equity defense right)	Defense right (a statutory defense right)	Not specified.

5. **Significance of first-to-file system:**

Last but not least, we discuss the significance of the first-to-file system for the society.

Where the patent system provides inventors with a monopoly for a prescribed period, it is a reward to the inventors in return for the benefits afforded to the people in the society. Hence the benefits which the inventors are to receive should balance with the benefits received by the people in the society from their inventions.

The patent system is intended, from the social point of view, to encourage inventions to be published and made available rather than to be concealed, and to balance the benefits so that the inventors should not be obliged with misfortune while the general public is enjoying their happiness by making use of inventions.

In no event is it intended to provide inventors with benefits at the sacrifice of the general public. Consensus in our community lies in the spirit of "give-and-take." Something "given" must balance with something "taken," although what is meant by "balance" would vary according to what is emphasized and what is de-emphasized depending on the cases.

Would any invention made by an inventor contribute by itself to the community? No! Any invention, if merely conceived of, would be of no use to the society. An invention will not contribute to the society until it is made use of by the people. Thus, the rewards to which the inventors are entitled should be commensurate with the contribution they make to the society.

In order for the people to be able to make use of an invention, it must be either reduced to practice by the inventor or disclosed to people to enable them to reduce it to practice. In case an identical invention is made by different inventors, which inventor is it that contributes to the society? It is not the inventor who merely conceived of the invention but the inventor who furnishes the invention to the society before the other. (It should not be neglected that the person who actually reduces an invention to practice for the people in the society to use likewise contributes to the society.)

It is the patent system that encourages inventions to be furnished to the society for use and, at the same time, provides those who so furnish inventions to the society with a monopoly. Would it, therefore, not be reasonable to give a monopoly to a person who has applied to the Patent Office for a patent, in a successful manner before others, with the intention to make an invention available to the society? It is indeed the first-to-file system that satisfies such a purpose of the patent system.

Under the first-to-file system, in addition, it is objectively determined, in the case of two or more competitive applicants, who is entitled to a patent to the exclusion of the others. It helps to secure equity in the society in a reasonable and acceptable manner. For example, it is not the person who intended to take a bus before others did but the person who reached the bus stop before others, that has priority in riding into a bus. This is the consensus in the society.

The U.S. Constitution states, "The Congress shall have powers ... to promote the progress of science and useful arts," but does not go as far as to say, "a monopoly must be secured for any inventors." The U.S. patent law states, "Whoever invents or discovers any new and useful process ... may obtain a patent therefor, subject to conditions and requirements of this title," but does not go as far as to say, "a patent must be given to an inventor," either. It will also be noted that the "inventor" is not defined therein as the absolutely first discoverer, nor is the invention ruled therein as the absolutely first idea, either. Past arguments would seem to have been made on too simply restricted premise in this regard.

Discussion on any social system as to whether it is good or not should be made with regard to its real substance, and no preference should be given to the protection of business chances of those engaged indirectly in it. It must be borne in mind that the patent system exists for those who invent and those who make use of the inventions, and not for the lawyers.

II. "Hilmer Rule"

1. Introduction

Under the current U.S. Patent Law, a patent application claiming the priority of Paris Convention, on condition that the application would be granted, should be applicable as prior art reference against others' junior application, as of U.S. filing date, not as of the earliest foreign priority date.

This is well-known as the "Hilmer rule".

The above prior art references should be applicable for the judgment on both novelty and obviousness in the U.S.

In the contrary thereto, the WIPO harmonization requires that the former application shall be considered as prior art from the priority date of a former application, subject to its publication. Also, under the WIPO harmonization, whether any Contracting States may consider the whole contents of their former application to be prior art for the purpose of determining the inventive step is left to its discretion.

The Advisory Commission Report was produced under the background mentioned above.

2. The Advisory Commission Report

2.1 Contents

(1) <u>In the case that U.S. adopts a first-to-file system:</u>

If the U.S. adopts a first-to-file system, U.S. patents and published U.S. applications should be applicable as prior art for novelty as of their priority date, and for obviousness as of their U.S. filing date (including filing date of provisional application).

Consequently, as far as novelty is concerned, the U.S. practice could be the same as the Japanese (Article 29 bis) and the European (Article 54 (3)) practice, while for non-obviousness the present U.S. practice would remain as it is.

(2) <u>In the case that the U.S. retains the present first-to-invent system:</u>

If the U.S. would not change the present first-to-invent system, the "Hilmer rule" should be maintained "as is". The U.S.

should only change the "Hilmer rule" in the context of a global harmonization package.

(3) <u>In the case that the U.S. adopts a "publication of application" system:</u>

If the U.S. adopts a "publication of application" system, whether or not the U.S. adopts a first-to-file system, and whether or not the U.S. changes the "Hilmer rule", the applicability of a prior-filed U.S. application as prior art should occur when the prior-filed U.S. application either issues as a U.S. patent, or is published. The effective U.S. filing date should be regarded as the standard date for prior art purposes.

2.2 Discussion

(1) Little attention had been given to the "Hilmer rule" in the U.S. for more than twenty years. Impetus for change in the "Hilmer rule" developed during the negotiations on international patent law harmonization.

(2) However, changing the "Hilmer rule" would allow a foreign-originated U.S. applications to "knock out" more U.S. patent applications than is presently the case.

For these reasons, the Commission supports changing the "Hilmer rule" only in the context of a patent law harmonization package.

(3) The reason why the effect of a U.S. patent or a published U.S. application as prior art references is defined as above is as follows:

If they are not cited for obviousness purposes as of its U.S. filing date, the possibility that the inventions which are only obvious technical variants over the prior art are granted would increase.

On the contrary, if they would have to be considered for the purpose of determining both "novelty-and-obviousness" as of priority date, then the burden for searching prior art references could increase.

Anyway, foreign applicants would be permitted to obtain a prior art effect as of their earliest filing date for purposes of

both novelty and obviousness by filing a U.S. provisional application.

3. The Comparison with the Systems of Other Countries:

3.1 The WIPO Harmonization:

This requires that countries consider a whole content of a former application as prior art for the purpose of determining the novelty of an invention in another application from the filing date of the former application on condition that the former application is published.

It also permits that any Contracting States may consider the whole contents of the former application to be prior art as of priority date for the purpose of determining whether or not the invention satisfies the requirement of inventive step (non-obviousness).

3.2 European Patent Convention:

The whole contents of European patent application as filed which was published shall be considered as prior art for the purpose of determining the novelty as of the earliest filing date (prior date).

On the other hand, the whole contents of an application shall be considered as prior art for the purpose of determining the inventive step as of its publication date.

3.3 Japanese Patent Law:

The whole contents of Japanese Patent Application, when it is published, shall be considered as prior art for the purpose of determining the novelty as of the earliest filing date (priority date).

On the other hand, the whole contents of an application shall be considered as prior art for the purpose of determining the inventive step as of its publication date.

4. **Comments:**

4.1 The Report states that if the U.S. retains the present first-to-invent system, the "Hilmer rule" should be maintained "as is".

We think that this is improper and that the "Hilmer rule" should be abandoned even when the U.S. retains the first-to-invent system. This is because a foreign applicant will not be equally treated to a domestic applicant under U.S. Patent Law.

Besides, the "Hilmer rule" should be abolished, whether or not the U.S. will adopt the publication of application system.

4.2 Pursuant to the Report, if the U.S. adopts a first-to-file system, U.S. patents and published U.S. applications should be applicable as prior art for novelty as of their priority date, and for obviousness as of their U.S. filing date (including filing date of provisional application).

However, we strongly recommend that in such a case, they should be considered as prior art for novelty as of their priority date and for obviousness as of their publication date in the light of the international harmonization.

4.3 Even if the comments stated above are not acceptable, we really think that it is improper that the standard date for permitting U.S. patents to be prior art for obviousness might be changed depending on whether the earliest application is filed in the U.S. or in other countries.

Hence, in order to eliminate the discrimination between U.S. applicants and foreign applicants, the earliest priority date should be applied as the standard date for the purpose of determining the novelty and the non-obviousness.

The effect of a former patent application against a later application with respect to Novelty and inventive step in U.S., Japan and Europe

	U.S. (with "Hilmer rule" applied)			Japan	Europe
	present	If a "first-to-file" system is adopted:	If publication of applications, but not "first-to file" system, is adopted:		
Inventions as prior art	Invention described in patent granted in the United States	Inventions described in U.S. patents or in published U.S. applications.		Inventions described in published patent applications.	
Novelty	Prior art will be determined on the basis of effective filing date of application in U.S.	Prior art will be determined "as of their earliest effective filing date (priority date)."	Prior art will be determined as of U.S. filing date (including filing date of provisional application).	Prior art will be determined as of the first filing date of patent application (priority date)	
				(Article 29 Par. 1, Articles 29bis and 39).	(Article 54 and 60 (2))
Inventive step		Prior art will be determined as of U.S. filing date (including filing date of provisional application)		Prior art will be determined as of the date of publication	
				(Articles 29 Par 2)	(Article 56 except for Article 54 (3)).

III. Reexamination

1. Preface:

The United States has no system in effect for opposition to examination of patent applications. However, there is a reexamination procedure as a system under which the patent owner and third parties can seek examination of a patent as to its validity after grant. It was in effect in July 1981. Its procedure is simple and not costly as compared with the procedures for assertion of invalidity of patents in infringement proceedings and with procedures of declaratory judgment. Also, since the judgment of validity by the court is made on the basis that the judgment at the PTO examination stage is proper, heavy burden of proof is placed on the defendant (or the party alleging invalidity of a patent). On the contrary, the reexamination procedure is not subject to such presumption. For this reason, as a system, the reexamination procedure could be easier to invalidate patents and should be made use of more frequency to avoid useless infringement trials. Nevertheless, it is used in only about 300 cases annually.

The reasons should be that the scope of evidence which may be submitted before the reexamination is narrow, and that participation of third party requesters in examination is restricted as compared with that of patent owners, thus serving a disadvantage to third party requesters.

We expect that the recommendations made in the Commission Report with respect to the reexamination procedure will improve the problems which have existed so far.

2. Current Reexamination:

(1) Period, and requester for seeking reexamination:

The patent owner and any third party may request a reexamination of patented claims.

The request for reexamination may be made at any time during the 17-year patent term within which the patent right may be asserted and six years thereafter.

(2) How to request a reexamination:

A requester notifies PTO of a patent and publications which he believes to have a bearing on a patentability of the patented claims, and sets forth in the request form the relation between the patented claims and prior arts.

The commission of the PTO determines, within three months following the filing of the completed request form, whether to reexamine and issues a reexamination order.

(3) Procedure in request for reexamination:

An order for reexamination is served upon the patent owner, who is entitled to submit statements and amendments with respect to questions set forth in that order.

The order for reexamination, together with a copy of the statements of the patent owner on it, is served upon the third party requester for reexamination, who is entitled to submit a counter-argument within two months from the date of service.

If the patent owner does not submit statements in response to the order for reexamination, the third party requester is not entitled to submit a counter-argument. Therefore, patent owners often do not submit their comments to retard submission of counter-arguments. In such a case, patent owners submit statements for the first time in the first office action, but third party requesters for reexamination are unable to submit a counter-argument.

Thereafter, examination proceeds between the patent owner and PTO in the same manner as under the normal examination procedure, in which examination the third party requester for reexamination is unable to participate. Nor is he unable to participate in interview.

(4) Appeals of reexamination decisions:

Third party requesters for reexamination, if dissatisfied with results of the reexamination, are not entitled to appeal.

3. Commission Report:

Recommendations in the Commission Report was made in view of lessening restrictions to third party requester in participating in reexamination or those to availabilities of grounds for

invalidation, which would be reasons that current reexamination is not employed, and were designed, without providing the PTO with much workload to expand an area where third party requester can participate in reexamination. The recommendations contained in the Commission Report are summarized in the following:

3.1 **Recommendations:**

(i) "The basis for and scope of reexamination should include compliance with all aspects of 35 U.S.C. Section 112, except for best mode" which "issues generally involve disputed factual evidence not normally considered by examiners," and should not be a basis for invalidation of patents.

(ii) "The order for reexamination and the first Office action should be consolidated and any third party requester should be permitted, within strict time deadline, to submit written comments on the patent owner's response to the first Office action."

(iii) "A third party requester should have the right to participate in any examiner interview initiated by the patent owner or by the examiner. ... The third party should not be permitted to initiate interviews."

(iv) "A third party requester should have the right to submit written comments at the close of prosecution of a patent under reexamination." Depending on situation, "the examiner should be permitted to reopen prosecution ..."

(v) "A third party who requested and participated in a reexamination should be permitted to appeal any adverse decision of the Examiner to the Board of Patent Appeals and Interferences and to the Federal Circuit... The third party's right to appeal to the Federal Circuit should be conditioned upon filing of a written waiver by the third party of any right to assert, in any forum, the invalidity of any claim determined to be patentable on appeal on any ground ..."

(vi) "A reexamination should not be initiated or continued on any patent claim held valid in an entered judgment, or its equivalent, of a district court in an action in which the requesting party or its privies raised or could have raised the

same issues."

3.2 Other Considerations:

(i) "Several public comments sought to direct assignment of reexamination to" an examiner or examiners "who did not issue the patent." These suggestions are based on rather insufficient grounds, and "the impact on the USPTO's costs ... is much greater than the limited benefit, if any, of such procedures."

(ii) "Another public suggestion concerned permitting reexamination only for a limited period after issuance of the patent." This involves problems. There is no schedule for adopting this suggestion.

(iii) The suggestion that accused infringers in a court proceeding be required to request reexamination was perceived by many commentators. "Forcing a third party to use reexamination, however, ... might overwhelm the USPTO. Moreover, it would provide a built-in delay factor to most patent infringement suits." It will not be adopted.

4. Studies:

Patent systems of Japan and EPO have opposition proceedings as a means of refutation on patentability. Also, the WIPO harmonization provides for opposition proceedings after a patent issued. Neither the U.S. Patent Law nor the Commission Report provides for opposition proceedings, however. For this reason, the reexamination procedure will have to serve the role of the opposition proceedings.

Under the opposition proceedings, each of the patent owner and the opponent is entitled equally to submit their comments. Under the reexamination procedure, reexamination proceeds only between the patent owner and PTO after counter-arguments against comments of the patent owner on the reexamination determination. Under the Commission Report, this practice will be improved in part.

As recommended in the Commission Report, any third party requester will be allowed to submit written comments at the time

of the first Office Action as well as before the close of the reexamination procedure, to participate in any examiner interviews, and to appeal any adverse decision, as the result of which certain defective points which have been advantageous to the patent applicant will be improved. Nevertheless, the following problems still exist.

(i) None of "public use", "on sale" and use by others are made "a basis for or within the scope of reexamination." We understand that the Commission Report has been developed subject to a restriction that the procedure should not impose unreasonable burdens on the USPTO. This matter remains to be solved, nevertheless.

(ii) A third party requester is not permitted to initiate interviews.

One of the purposes of an interview is to supplement information which would not be fully explained in writing. This would apply to explanation on comments of third party requesters as well, and it is not equitable that the requests of interviews are restricted to the patent owner. In addition, assuming that, as recommended, a third party requester is entitled to participate in an examiner interview initiated by the patent owner, it is not clear whether or not the interview is restricted to issues in which the patent owner is involved.

(iii) A third party requester would be entitled to submit counter-arguments against comments of the patent owner in response to the first Office Action and to submit written comments only at the close of prosecution of a reexamination.

When compared with the opposition proceedings in which the patent owner and the third party requester are given an opportunity interchangeably to state comments in turn, the opportunity for third party requesters to state their comments is restricted, and thus, it is very likely to be resulted in favor of the patent owner in the reexamination procedure.

(iv) The reexamination examiner is the same person as the examiner who has issued the patent.

According to the Commission Report, based on statistical data, there is no significant differences in results between the

examiner who conducted the original patent and a different examiner for reexamination. Nevertheless, it is not desirable in formality. In the case of opposition proceedings of the Japanese Patent Office, an examiner is supposed to be the same examiner who permitted the patent application, which has the similar problems with the U.S. patent reexamination system. On the other hand, EPO has a different opposition system in which opposition proceedings are examined by three examiners including the original examiner who issued a patent. It may be said, therefore, that the EPO system is better than the two others.

(v) "A third party's right to appeal to the Federal Circuit" is "conditioned on with waiver of any right to later assertion for invalidity of claims in patent litigation."

In Japan, each of an infringement case and a patent invalidation case is separately tried, and a judgment for validity of a patent will not be passed in an infringement case. The system contemplated in the Commission Report, in which invalidation of claims may not be asserted in an infringement case, is of no significant difference from the Japanese system, and would have no substantial differences to be taken up from the harmonization viewpoint. It is reasonable as a judicial proceeding system that invalidity of claims is not allowed to be asserted in an infringement case at a Federal district court, after a validity judgment is passed by a Federal circuit which is superior to the Federal district court.

		Current reexamination system	Reexamination system, as proposed in Committee Report	Japanese opposition system	EPO opposition system
1	Request may be made	As long as patent right is exercisable.	As long as patent right is exercisable.	Within 3 months of publication date.	Within 9 months from grant date of the mention of the grant of European patent.
2	Grounds of invalidation of patents	Official gazette and other publications	Official gazette and other publications; violations of Section 112 except "Best Mode."	Official gazette and other publications; defective descriptions (violation of Article 36 Paragraphs 4 and 5); public knowledge and public use.	Official gazette and other publications; defective descriptions (violation of Article 83); public known edge and public use.
3	Scope of participation of third party requesters	* Grounds in writing of request for reexamination * Counterarguments in writing may be submitted against any comments submitted by patent owner in response to reexamination order.	* Grounds in writing of request for reexamination * Counterarguments in writing may be submitted against any comments submitted by patent owner in response to first Office Action. * Written comments may be submitted before the examiner makes a final decision * Examiner interview initiated by the patent owner or the examiner.	* Grounds in writing of opposition * Rebuttal in writing against the answer, as need arises. * Request for examiner interview may be submitted.	* Comments on all answers and amendments from patent owner. * May request examiner interview.
4	Scope of participation of patent owner	* Response to all Office Actions given by the examiner. * Initiation of and participation in examiner inter view.	* Response to all Office Actions given by the examiner. * Initiation of and participation in examiner inter view.	Answer to grounds in writing of oppositions; amendments.	Answers and amendments on all comments from reexamination requesters.
5	Examiners	Same as regular examiner.	Same as regular examiner.	Same as regular examiner.	Three examiners in consultation, including regular one.
6	If third party requester is dissatisfied with results, he can:	NOT appeal, except with respect to any publication which may be a new issue for which request for reexamination may be submitted.	Appeal, subject to filing of a written waiver of any right to later assert the invalidity of any claim determined to be patentable on appeal.	NOT appeal but is entitled to request trial for invalidation of patent.	May appeal.
7	If patent owner is dissatisfied with results, he can:	Appeal (if dissatisfied with results of the appeal, he can appeal to Federal Circuit).	Appeal (if dissatisfied with results of the appeal, he can appeal to Federal Circuit).	NOT appeal (but may request trial against the final rejection).	May appeal.

(1) **Title:** Unexamined Patent Publication and Provisional Protection for Applicant thereon

(2) **Date:** October 1993 (24th Cincinnati, Ohio, U.S.A.)

(3) **Source:**

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

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"Unexamined Patent Publication", "Right of Provisional Protection", "Warning Letters" and "Right to Demand Compensation"

(6) **Statutory Provisions:**

Japanese Patent Law, Section 65bis and Section 65ter

(7) **Abstract:**

Searches on a legal system and practice with respect to unexamined publication system (laying-open system) were conducted by sending questionnaire to patent attorneys of eleven countries. In any reply, an application is laid-open eighteen months after the filing date or priority date. Some countries require sending of a warning letter for occurrence of the right to demand compensation. In most of the countries, it is said that amount of compensation is equivalent to royalty of granting licence. Injunction cannot be exercised in most of the countries. Almost all the countries provide a time to exercise the compensation demand right after issuance or grant of the patent. However, only Korea provides the time after the examined publication as in Japan.

The posture of WIPO harmonization draft and U.S. Advisory Commission on Patent Law Reform are also discussed.

I. Introduction

In Japan, the application laying-open system was provided in accordance with the Amendment to Patent Law in 1970 in order to cope with the drastic increase in number of applications and the delay of examination therefor concomitant with development of technical innovation.

As a result, the usefulness of the published literature as technical information documents had further accelerated the increase in number of the applications and the technical development, which had highly contributed to the Japanese economic development.

The "unexamined patent publication system" was first adopted in the Netherlands, German, Australia and so on and was now spread in almost all of developed countries including Japan. Under such circumstances, in the United States where a large number of applications are filed, it is highly desired to adopt the unexamined patent publication system as well as a first-to-file system in order to successfully attain the so-called harmonization.

On the other hand, basically, the application laying-open system has no direct connection with a procedure for obtaining a right and is a sort of compulsory publication. Namely, it is said that the laying-open system is beneficial to a third party rather than the applicant for a patent.

Accordingly, the United States, where protection of the benefit of an applicant is regarded as important, would ask that assurance of the sufficient protection for the applicant be insured.

The authors sent questionnaire to patent attorney firms in foreign countries where the laying-open system is presently available (not all of them) and obtained answers on the legal system and the present status of practice thereof.

The results will hereinafter be reported.

II. Detailed Report

Many European countries adopt the laying-open system. The seven countries that have strong relationship with Japan and a large number of applications from Japan, i.e., UK, Germany, France, Netherlands, Italy, Sweden and Switzerland were selected for this report. Also, in addition to the European countries, four countries,

i.e., Australia, Canada, China and Korea were selected in accordance with the same standards.

In view of the results of reply from each country, the systems of the respective countries are summarized in Tables 1-1 to 1-3. At the same time, in comparison with this, the draft of the patent system harmonization (WIPO) and the report from US Patent Advisory Commission on Patent Reform are summarized in Table 2.

Based upon these results, the possible features of each country on the provisional protection on the basis of the application laying-open system and the unexamined publication are described.

The time to lay an application open is omitted from the detailed explanation in each country because the time is specified to eighteen months after the filing data or priority date in any countries other than US (according to the report from US Patent Advisory Commission).

II-1. Japan (for reference)

The details of the Japanese system have already been reported on the legal system and the present status of exercise in the PIPA 21st Congress at Niigata by the Fourth Committee. Therefore, only outline is shown here.

The Japanese application laying-open system is provided under Patent Law, Section 65bis and the right of provisional protection based upon the unexamined publication (i.e., so-called compensation demanding right) is stipulated under Patent Law, Section 65ter.

Incidentally, in Japan, a right based upon an examined publication for opposition purpose is called as a provisional protection right and a right based upon the unexamined publication for public inspection is called as a compensation demanding right. However, in this report, in relation with the other countries and draft of WIPO harmonization, the right based upon the unexamined publication will hereinafter be referred to as the provisional protection right. Accordingly, unless as otherwise described, the "provisional protection right" will refer to a right of protection for an applicant based on the unexamined publication.

In Japan, there are a few precedent cases in which the compensation demanding right is admitted. The cases are shown below. The numerals shown on the right side represent the rate.

The amount of the compensation may be calculated by multiplying the sales amount of the infringing articles by the said rate.

Showa 52 "WA" No. 8686 "Golf Bag Delivery Apparatus" Case	**2.4%**
Showa 54 "WA" No. 1666 "Ice Ingot Cutting Apparatus" Case	**3.0%**
Showa 62 "WA" No. 4329 "Seaweed Liquid Concentration Adjusting Apparatus" Case	**3.5%**

In the decisions, there are references that the payment of compensation in a sum of money is equivalent to working of the invention based upon the royalty in grant of license as the standards for determining the royalty.

II-2. United Kingdom

The unexamined publication is provided under Section 16 of Patent Law and the provisional protection right is provided under Section 69 of Patent Law.

A warning letter is not one of the necessary conditions for occurrence of right to demand compensation as a provisional protection. However, since ones who are working the invention should know the presence of the patent application, it may be effective for ones who wish to exercise the compensation demanding right to send a warning letter.

Subject to the working of the invention by a third party, the applicant for a patent may request an "early" examination and an extra charge is not necessary therefore.

It is said that the amount of compensation depends upon the technical field to which the invention pertains but is about 5% on average. However, there would be a few legal precedent cases referring the amount. There is a following legal precedent case that calculation of damage is possible based upon the unexamined patent publication under Section 16 of Patent Law.

Pall Corp. vs. Commercial hydraulics (SRIS C/90/89)

With respect to the time to exercise, the court proceedings may only be brought after grant of the patent. Also, with respect to the publication of the European patent application which designates United Kingdom as a designated state, the compensation right is

conferred as a provisional protection right in the same way. However, in the case where that European application is published in languages other than English in order to exercise the right, an English translation of claims should be submitted to the British Patent Office and the translation should be available to the public.

II-3. Germany

The unexamined publication is provided under Section 31, Subsection (2), Section 2 and Section 32 of Patent Law and the provisional protection right is provided under Section 33 of Patent Law. A warning letter is not one of the conditions for occurrence of right to demand compensation as a provisional protection.

Subject to the working of the invention by a third party, the applicant of a patent can request an "early" examination and an extra charge is not necessary therefor. With respect to the exercise of the compensation right, it is possible to bring it to court not only after grant of a patent but also after the unexamined publication of the application. In the latter case, the exercise is limited only to the invention which is not obvious but sufficiently patentable. It is also said that the amount of compensation based upon the provisional protection is equivalent to or less than the amount equivalent to the grant of license.

A period during which the compensation right can be exercised is limited within one year after the grant of a patent. A person who wishes to exercise the provisional protection right should pay his or her attention to the time limitation.

Also, with respect to the unexamined publication of the European patent application which designates Germany as a designated state, the compensation right is conferred as a provisional protection right in the same way. However, in the case where that European application is published in languages other than German, a German translation of claims should be submitted to the German Patent Office and the exercise of the right is restricted after the translation is open to the public or otherwise the right is limited after a warning letter to which the translation is attached is sent to ones who are working the invention.

II-4. France

In France, there is an application laying-open system but only a list showing bibliographic of an application is automatically published. A specification and the like may be inspected in accordance with a request to the Patent Office.

The provisional protection right based on the publication of the application is not particularly admitted. After the grant of patent, the claim for damage compensation is retroactively possible up to the time of the publication; however, there is some limitation of period.

In parallel, with respect to the publication of a European application designating France, the compensation demanding right as the provisional protection right is made available. In the case where the European patent application is laid-open in languages other than French, the occurrence of the right will be effective at the time when a French translation of the claims is filed in French Patent Office or the translation is sent to an infringer who works the invention.

Also, the exercise of the damage compensation demand or the compensation demanding right from the application publication to the grant of patent in this case is retroactively possible only up to three years after the grant of patent.

II-5. Netherlands

The unexamined publication is provided under Section 22 of Patent Law and the provisional protection right is provided under Sections 43A, 43B and 44 of Patent Law. It is necessary to send a notice to an infringer in the form of a warning letter as a condition for occurrence of the compensation demanding right as a provisional protection right. Also, in the case where the claims are expanded by an amendment after the unexamined publication, it is necessary to again make a notice in the form of a warning letter.

The "early examination" system is available and no extra charge is imposed.

The amount of compensation is equivalent to the grant of license. It is said that the royalty is 5 to 10% on average.

With respect to the publication of the European patent application which designates the Netherlands, in the same way, the compensation demanding right will occur as a provisional protection

right. However, it is necessary to communicate a Dutch translation of claims to an infringer together with a warning letter after the unexamined publication.

II-6. Italy

The unexamined publication of an application is provided under Section 4 of Patent Law and the provisional protection is provided under Section 86 of Patent Law. It is unnecessary to send a warning letter as a condition for occurrence of the compensation demanding right as a provisional protection.

It is possible to exercise the compensation demanding right as well as injunction before the grant of patent formally under the law and the amount thereof may be determined by a court. However, it is unknown how the case is actually decided.

There is the "early examination" system and any extra charge is not imposed.

With respect to the publication of a European patent application which designates Italy, the compensation demanding right will occur after the Italian translation of the claim is made available to the public.

II-7. Sweden

The unexamined publication is provided under Section 44 of Patent Law and the provisional protection right is provided under Sections 57 to 70 of Patent Law. In Sweden, the particulars such as an applicant, an inventor, a filing date and a patent classification will be automatically laid-open to the public one month after the filing date. And an abstract, claims and main drawings are laid-open to the public eighteen months after the filing date. However, full specification and all drawings will be accessible in accordance with a request.

The provisional protection right is made available not after the publication but after the filing date. Also, it is unnecessary to send a warning letter as a condition for occurrence of the compensation demanding right as a provisional protection right. But if the warning letter is sent to an infringer, and the infringing activity being continued after the sending of the warning letter shall be

deemed an intentional infringement. Accordingly, it is beneficial to make a notice by sending the warning letter.

It is said that the amount of compensation is essentially the same as a charge equivalent to the grant of license, i.e., 3 to 8%. However, the damage compensation for the patentee may be added to the amount and hence, there would be possibility that the amount would be increased.

With respect to an European patent application designating Sweden, the compensation demanding right will occur after the publication of the application by filing a Swedish translation of the claims to Swedish Patent Office.

II-8. Switzerland

In Switzerland, there is no publication system, but there is a provision relating to the provisional protection right based on an international patent application and an European patent application under Sections 111 and 112 of Patent Law.

With respect to the European patent application designating Switzerland, the compensation demanding right will occur as a provisional protection right under the condition that translation of the claims into the Swiss official languages (German/Italian/French) except for the publication in German or French is publicly accessible or a notice is send to an infringer together with the translation.

A period for compensation based upon the provisional protection right for the publication of the European application is retroactive only three years after the grant of the patent and only up to the publication of the application (more exactly up to the time the provisional protection right occurred).

This is the case also with respect to the international patent application.

II-9. Australia

The unexamined publication is provided under Sections 54 and 55 of Patent Law and the provisional protection right is provided under Sections 57, 122 and 123 of Patent Law. It is unnecessary to send a warning letter to meet the condition for occurrence of the compensation demanding right as the provisional protection right.

Incidentally, it is said that a marking of pending application on an article or a brochure is effective in proving an intent of the infringer.

As to the legal interpretation of the compensation demanding right is such that the right should be to ask recovery of damage given by a kind of infringement or a profits gained by the infringer and therefore the compensation demanding right has no direct relation with a reasonable royalty.

The exercise of the compensation demanding right is possible after the grant of the patent. In this case, it is said that the allowed claims should be similar to the claims which were published. It is unclear how the claims are similar because there are few precedent cases.

The provisional protection right will occur for the international publication based upon a PCT application.

II-10. Canada

The unexamined publication is provided under Section 10 of Patent Law and the provisional protection right is provided under Section 55, Subsection (1), paragraph (b). It is unnecessary to send a warning letter as a condition of occurrence of the compensation demanding right as the provisional protection right.

The exercise of the compensation demanding right is possible after the grant of the patent. The amount of compensation is one equivalent to the reasonable royalty in granting a license. However, there is no actual precedent case.

There is a provision that, in the case where the laid-open invention is worked by a third party during a publication period, the early examination is possible by the applicant's request. In this case, the extra fee is imposed in addition to the regular fee in a request for examination.

The compensation demanding right occurs also in the case where the international publication under PCT is in English or French.

II-11. China

The unexamined publication is provided under Section 34 of Patent Law and the provisional protection is provided under Section 13 of Patent law.

It is necessary to send a notice to an infringer in the form of a warning letter as the condition for occurrence of the compensation demanding right as the provisional protection right.

Subject to the working of the invention of an application by a third party, it is possible to request an early examination of the application. The exercise of the compensation demanding right is possible after the grant of the patent. In the case where the claims are expanded or restricted by an amendment, it is necessary to send a new warning letter to the infringer.

China is now preparing to be affiliated with PCT.

II-12. Korea

The Korean system is similar to that of Japan as a whole. The unexamined publication is provided under Section 64 of Patent Law and the provisional protection right is provided under Section 65 of Patent Law.

It is necessary to send a warning letter to an infringer as a condition for occurrence of the compensation demanding right as a provisional protection.

Subject to the working of the invention based on the application by a third party, it is possible to request an early examination. In this case, no extra fee is necessary.

Since an examined publication system for opposition purpose is adopted as in Japan, the exercise of the compensation demanding right is possible only after the examined publication. At this time, it is possible to exercise injunction. In the case where the patent is not granted through further examination such as opposition after the examined publication, the applicant shall be liable to indemnify any damage caused to the infringer by the exercise of the right.

It is unnecessary to make any notice to the infringer in the case where the claims of the application is expanded or restricted. However, the applicant is liable to return a part of the amount of compensation corresponding to the scope which has been finally excluded from the claims.

There would be some precedent cases in exercise of the compensation demanding right.

With respect to an international application under PCT, in the case where the international publication is made in foreign language,

the provisional protection will not occur. However, in this case, the provisional protection right will occur at the time of the national publication of translated version of the international application.

III. Draft of WIPO Harmonization and US Advisory Commission Report

The draft of WIPO harmonization and US Advisory Commission report will be described (see Table 2).

Section 15 of the draft of WIPO harmonization treaty provides the publication of an application. Basically, the application will be laid-open eighteen months after the filing date or priority date. However, the reservation of right of the member nation is admitted so that the application will be laid-open twenty-four months after the filing date or priority date. Also, such a system is admitted that the application may be laid-open before expiration of these period in accordance with a request of the applicant.

A search report will be published with the publication of the application or within six months after the publication.

The substantial examination will be started within three years after the filing date or immediately after the request for examination and will be completed in two years after the start of the examination.

On the other hand, in the US Advisory Commission report, the commission is of the opinion that an application should be laid-open twenty-four months after the filing and also the early publication system should be adopted.

According to the commission's opinion, the provisional protection right based upon the publication of the application should be insured, and to exercise the right it is necessary to send a warning letter to an infringer.

The reason why the application should be laid-open twenty-four months after the filing date is that half the number of the applications are estimated to fall in the already issued category by that time. Also, it is beneficial to the applicant that a first office action is issued within twenty-four months, because the applicant can have a chance to withdraw the application and make the application not to be disclosed to the public.

IV. Conclusion

In accordance with this study, the present status of the laying-open system of the application in each country is as follows:

i) In any country having unexamined publication system, the application will be laid-open eighteen months from the filing date or priority date.

ii) The provisional protection right is admitted in any country other than France.

iii) In many countries, the amount in money of the compensation demanding right is one corresponding to the reasonable royalty equivalent to the grant of license. However, with respect to Italy and Australia, this conclusion is not applicable.

iv) In United Kingdom, Germany, Italy, Sweden, Australia, Canada and so on, it is unnecessary to send a warning letter to a potential infringer.

v) In many countries, it is impossible to exercise the injection based upon the provisional protection right. Even in countries where it is possible, the actual exercise of the injunction is available only after the grant of the patent in relation with actual practice of court action.

vi) Almost all the countries, the exercise of the compensation demanding right based upon the provisional protection right is possible at the time of the grant of the patent. As an exceptional case, in Korea, the exercise of the compensation is possible at the time of the examined patent publication as in Japan.

vii) A prior use right is respectfully insured in any country.

viii) In many countries, with respect to an international/ European patent application through PCT/EPC routes, the compensation demanding right as a provisional protection right based upon the publication is admitted under some conditions.

ix) With respect to the legal precedent cases, it was impossible to obtain effective information thereon but it is true that few precedent cases exist in any country.

V. Comments

Inherently, the purport of the publication of an application must be useful for the public due to the early publication of an invention. The reason why, in almost all the countries, the application will be laid-open eighteen months after the filing is that the application should be laid-open as soon as possible after the expiration of the priority period.

The US Advisory Commission report in which the application should be laid-open twenty-four months after the filing date would mean that the public usefulness is delayed by six months. This would be unfavorable for attaining the so-called harmonization. Thus, the time of publication should be harmonized with eighteen months of the other countries.

It is also another matter to be considered that the draft of WIPO harmonization treaty requires the attachment of the search report to the publication. This would impose a large burden on the present examination system of the Japanese Patent Office.

It is interesting that there are few precedent cases worldwide. As an exception, a few precedent cases are known in Japan.

The reason why a relatively large number of disputes are present in Japan would be that i) it takes a long time to complete the examination from the publication of the application and ii) there is a difference in evaluation of the invention laid-open to the public between the applicant and a third party.

Thus, in near future, it will be required that the search report be attached to the publication and the examination period up to the grant of the patent be shortened.

Table 1-1(a)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	JAPAN	UNITED KINGDOM	GERMANY	FRANCE
Unexamined Publication	Laying-Open System of Application	Yes	Yes	Yes	Yes
	Statutory Provisions	Section 65bis of Patent Law	Section 16 of Patent Law	Section 31, Subsection (2), Paragraph 2 and Section 32 of Patent Law	Section 17 of Patent Law
	Time of Publication	18 months from priority date	18 months from priority date	18 months from priority date	18 months from priority date
	Particulars of Publication:				
	Applicant(s)	○	○	○	○
	Inventor(s)	○	○	○	○
	Application Number/Application Date	○	○	○	○
	Publication Number/Publication Date	○	○	○	○
	Patent Classification	○	○	○	○
	Request for Examination	○			
	Claim(s)	○	○	○	○
	Abstract	○	○	○	○
	Full Specification	○	○	○	○
	Main Drawings				
	All Drawings	○	○	○	○
	Search Report		○		△ However, only a list of bibliographic data is published and copies of the other documents can be obtained on a request
	Laying-Open Type: Printed Publication Microfilm	○	○	○	△

Table 1-1(b)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	JAPAN	UNITED KINGDOM	GERMANY	FRANCE
Outline of Examination	Average Examination Period	32 months from a start of examination	About 50 months	9-36 months (from a request for examination)	24-36 months (non-examination system)
	Early Examination System	Yes (including a preferential examination)	Yes	Yes	No
	Condition for Early Examination	Working of invention by another, and the like	Working of invention by another, and the like	Working of invention by another, and the like	-
	Extra Fee for Early Examination	No	No	No	-
Provisional Protection Right	Provisional Protection Right	Yes	Yes	Yes	No
	Statutory Provision	Section 65ter of Patent Law	Section 69 of Patent Law	Section 33 of Patent Law	-
	Condition for Receiving Provisional Protection	Application being laid-open; and Sending a warning notice to an infringer or the infringer knowing the fact of the publication (Section 65ter of Patent Law).	Application being laid-open; provided that, the infringer knowing the presence of the application and/or patent (Section 62 of Patent Law).	Application being laid-open.	-
	Necessary items to be noticed in the form of a warning letter in the case where the warning letter is necessary	Publication number, Claims and the like. In addition, in writing, the invention is described to such an extent that the skilled in the art can understand the invention and the applicant/patentee has a plan to exercise the compensation demanding right	A warning letter is not necessary; however, it is effective to send the warning letter to the infringer because it is necessary that the infringer know the presence of the patent/application.	Unnecessary to send a warning letter	-
	Average Compensation Amount for the provisional protection right	Equivalent to a royalty in granting a license (about 3%)	About 5% depending upon a technical field	About 1 to 5%	-
	Comparison with Regular Royalty	Almost same	Almost same	Almost same or less	-

Table 1-1(c)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	JAPAN	UNITED KINGDOM	GERMANY	FRANCE
	Period in which the exercise of the provisional protection right is possible	After examined publication (Section 65ter, Subsection 2)	After grant of a patent	From the unexamined publication and within one year after the grant of patent (Patent Law Section 33(3))	-
	Possible Injunction based upon the provisional protection	No injunction based upon the provisional protection (compensation demanding right)	Injunction against commercial use is admitted but the actual injunction will be exercised after the grant of patent (Section 61(1)).	No injunction is admitted based upon the provisional protection.	-
	Necessity to again send a warning letter in accordance with an amendment after the publication	Necessary to send another warning letter to an infringer in the case where the working of the infringer comes to infringement of claims which have been amended after the publication (in accordance with precedent)	Unnecessary because it is unnecessary to sending a warning letter to an infringer	Unnecessary because it is unnecessary to sending a warning letter to an infringer	-
	Obligation to return the compensation based upon the provisional protection	There is non-negligence compensation liability (Section 65ter)	No	No	-
	Relationship between Prior Use Right and Provisional Protection Right	The effects of the provisional protection right shall not extend to the prior use right, (Section 79 of Patent Law).	The effects of the provisional protection right shall not extend to the prior use right, (Section 64 of Patent Law).	The effects of the provisional protection right shall not extend to the prior use right, (Section 12 of Patent Law).	-

Table 1-1(d)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	JAPAN	UNITED KINGDOM	GERMANY	FRANCE
	Affiliation to PCT/EPC	PCT member	PCT/EPC member	PCT/EPC member	PCT/EPC member
	Relationship between PCT/EPC Publication and Provisional Protection Right	With respect to a publication of a PCT application, the compensation demanding right will occur after the publication of the Japanese translation (i.e., national publication of translated version). However, with respect to the international publication of the Japanese patent application, the compensation demanding right will occur one year and six months after the priority date (Section 184decies of Patent Law).	EPC: (Section 78 of Patent Law) In the case where an application is laid-open in languages other than English, the application is deemed to be published when an English translation of claims of the application is submitted to the Patent Office and at the same time the translation should be available to the public. PCT: (Section 79 of Patent Law) International publication or national publication in English	EPC: In the case where an application is laid-open in languages other than German, the application is deemed to be published when a German translation of claims of the application is submitted to the Patent Office and at the same time the translation is available to the public or otherwise when the translation is sent to an infringer. PCT: International publication or national publication in German	EPC: In the case where the application is laid-open in languages other than French, it is necessary to file a French translation of claims of the application to the French Patent Office or otherwise when the translation is sent to an infringer. PCT: International publication or national publication in French
	Other Items	The compensation demanding right as a provisional protection right based upon the publication of the application will be extinguished in three years from the examined publication and in twenty years after the applicant knows the infringing activity.			The provisional protection right based upon the publication of the EPC/PCT application may be effective retroactively only within three years after the grant of the patent and the retroactive effect is limited to the publication of the application.

Table 1-2(a)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	NETHERLANDS	ITALY	SWEDEN	SWITZERLAND
Unexamined Publicatoin	Laying-Open System of Application	Yes	Yes	Yes	No
	Statutory Provisions	Section 22C of Patent Law	Section 4 of Patent Law	Section 44 of Patent Law	-
	Time of Publication	18 months from priority date	18 months from priority date	18 months from priority date	-
	Particulars of Publication:				
	Applicant(s)	○	○	*○	
	Inventor(s)	○	○	*○	
	Application Number/Application Date	○	○	*○	
	Publication Number/Publication Date	○		○	
	Patent Classification	○		*○	
	Request for Examination				
	Claim(s)	○	○	○	
	Abstract	○	○	○	
	Full Specification	○	○	△	
	Main Drawings			○	
	All Drawings	○	○	△	
	Search Report			△	
				* indicates publication in one month after filing date. △: indicates that it is possible to obtain a copy in accordance with a request although it is not in the form of a printed publication.	
	Laying-Open Type:				
	Printed Publication	○	○	○	
	Microfilm			○	

Table 1-2(b)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	NETHERLANDS	ITALY	SWEDEN	SWITZERLAND
Outline of Examination	Average Examination Period	No available information	36-49 months	Within 40 months	No examination system
	Early Examination System	Yes	Yes	Yes	-
	Condition for Early Examination	Not specified	Not specified	Not specified	-
	Extra Fee for Early Examination	No	No	No	-
Provisional Protection Right	Provisional Protection Right	Yes	Yes	Yes	No
	Statutory Provision	Sections 43A, 43B and 44 of Patent Law	Section 86 of Patent Law	Sections 57 to 70 (Chapter 9) of Patent Law	-
	Condition for Receiving Provisional Protection	Application being laid-open; and sending a warning notice to an infringer.	Application being laid-open	There is no specific provision at all.	-
	Necessary items to be noticed in the form of a warning letter in the case where the warning letter is necessary	Patent application publication number/publication date; Patent application number/application date; Published specification; and Explanation in writing as to which claims are infringed by the infringer.	no need to send a warning letter to an infirnger	There is no specific provision. There is no need to send a warning letter to an infringer; however, since the infringing activity after the notice is deemed to be intensional, it is effective to send a warning letter.	-
	Average Compensation Amount for the provisional protection right	5-10%	Determined by a court	3-8%	-
	Comparison with Regular Royalty	Almost same	Determined by a court	Almost same but damage at early stage is considered (Section 58)	-

Table 1-2(c)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	NETHERLANDS	ITALY	SWEDEN	SWITZERLAND
	Period in which the exercise of the provisional protection right is possible	After the grant of the patent	Possible by bringing a damage compensation action into a court after the publication of the application	After the grant of the patent (It is possible to demand compensation not only after the publication of the application but also after the filing date.)	-
	Possible Injunction based upon the provisional protection	No injunction based upon the provisional protection	Possible (Section 81 [chapter 9]of patent Law)	Possible with respect to the injunction against commercial use (Section 59).	-
	Necessity to again send a warning letter in accordance with an amendment after the publication	It is necessary to send another warning letter to an infringer in the case where the claims are expanded after the publication.	Unnecessary because it is unnecessary to sending a warning letter to an infringer	Unnecessary because it is not required sending a warning letter to an infringer	-
	Obligation to return the compensation based upon the provisional protection	No	Unknown	No	-
	Relationship between Prior Use Right and Provisional Protection Right	The effects of the provisional protection right shall not extend to the prior use right, (Section 32 of Patent Law).	The effects of the provisional protection right shall not extend to the prior use right, (Section 6 of Patent Law).	The effects of the provisional protection right shall not extend to the prior use right, (Section 4 [chapter 1] of Patent Law).	The prior use right is provided under Section 35 of Patent Law.

Table 1-2(d)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	NETHERLANDS	ITALY	SWEDEN	SWITZERLAND
	Affiliation to PCT/EPC	PCT/EPC member	PCT/EPC member	PCT/EPC member	PCT/EPC member
	Relationship between PCT/EPC Publication and Provisional Protection Right	EPC: In order to enjoy the provisional protection based upon the publication of the EPC application, it is necessary to send a Dutch translation of claims to the infringer (Section 43 subsection B3). PCT: International or national publication in Dutch	The provisional protection will occur by the publication of PCT/EPC applications and Italian translation becomes available to the public.	EPC: In order to enjoy the provisional protection right based upon the publication of the EPC application, it is necessary to file a Swedish translation of the claims to Swedish Patent Office (Section 88 of Patent Law) PCT: It is necessary to file a Swedish translation of the full specification to Swedish Patent Office.	It is impossible to obtain the right parsuant to Article 64 of EPC by only the fact of the publication. However, it is possible to obtain the right under the condition that the claim translation into official languges is filed parsuant with the provisions of Sections 111 and 112 of Patent Law so that the public can access the translation, or otherwise by the proceeding of the normal damage compensation action after the translation has been sent to the infringer. Incidentally, the PCT application is proceeded in the same way.
	Other Items				The provisional protection right based upon the publication of the application may be effective retroactively only withih three years after the grant of the patent and the retroactive effect is limited to the publication of the application.

Table 1-3(a)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	AUSTRALIA	CANADA	CHINA	KOREA
Unexamined Publication	Laying-Open System of Application	Yes	Yes	Yes	Yes
	Statutory Provisions	Sections 54 and 55 of Patent Law	Section 10 of Patent Law	Section 34 of Patent Law	Section 64 of Patent Law
	Time of Publication	18 months from priority date	18 months from priority date	18 months from priority date	18 months from priority date
	Particulars of Publication:				
	Applicant(s)	*○	○	○	○
	Inventor(s)	*○	○	○	○
	Application Number/Application Date	*○	○	○	○
	Publication Number/Publication Date	*○	○	○	○
	Patent Classification	○	○	○	○
	Request for Examination	○			○
	Claim(s)	○	○	○	○
	Abstract	○	○	○	○
	Full Specification	○	○	○	○
	Main Drawings				
	All Drawings	○	○	○	○
	Search Report		○		
		* indicates publication immediately after filing date.			
	Laying-Open Type:				
	Printed Publication		○	○	○
	Microfilm	○		○	

Table 1-3(b)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	AUSTRALIA	CANADA	CHINA	KOREA
Outline of Examination	Average Examination Period	2-3 years	Within three years from the request for examination	About 30 months from the request for examination	About 36 months
	Early Examination System	Yes	Yes	No	Yes
	Condition for Early Examination	Not specified	Not specified	-	Working the invention by another
	Extra Fee for Early Examination	No	Yes (C$100)	-	No
Provisional Protection Right	Provisional Protection Right	Yes	Yes	Yes	Yes
	Statutory Provision	Sections 57, 122 and 123 of Patent Law	Section 55, Subsection (1), Paragraph b of Patent Law	Section 13 of Patent Law	Section 65 of Patent Law
	Condition for Receiving Provisional Protection	Application being laid-open	Application being laid-open	Application being laid-open; and sending a warning letter to an infringer	Application being laid-open; and sending a warning letter to an infringer
	Necessary items to be noticed in the form of a warning letter in the case where the warning letter is necessary	No need to send a warning letter. However, in order to prove the intent of the infringement, it is beneficial to mark the patent number to the article, indicate it on a brochure or send a warning letter.	No need to send a warning letter.	Patent application publication number/publication date; Patent application number/application date; and Published specification.	Patent application publication number/publication date; Patent application number/application date; and Published specification.
	Average Compensation Amount for the provisional protection right	Not royalty but damage compensation or demanding return of gain through the infringement	Unknown	Unknown	About 3%
	Comparison with Regular Royalty	Impossible to compare because the amount is not based upon the royalty	Almost same	Seems almost same	Almost same

Table 1-3(c)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Nations/ Items	AUSTRALIA	CANADA	CHINA	KOREA
	Period in which the exercise of the provisional protection right is possible	After the grant of the patent	After the grant of the patent	After the grant of the patent	After the examined publication
	Possible Injunction based upon the provisional protection	No injunction based upon the provisional protection	No injunction based upon the provisional protection	No injunction based upon the provisional protection	No injunction based upon the provisional protection
	Necessity to again send a warning letter in accordance with an amendment after the publication	Unnecessary because it is unnecessary to sending a warning letter to an infringer	Unnecessary because it is unnecessary to sending a warning letter to an infringer	It is necessary to send another warning letter to an infringer in either case where the claims are broadened or restricted.	It is unnecessary to send another warning letter to an infringer in either case where the claims are broadened or restricted.
	Obligation to return the compensation based upon the provisional protection	No	No	No	There is non-negligence compensation liability.
	Relationship between Prior Use Right and Provisional Protection Right	The effects of the provisional protection right shall not extend to the prior use right.	The effects of the provisional protection right shall not extend to the prior art use, (Section 56 of Patent Law).	The effects of the provisional protection right shall not extend to the prior art use, (Section 62 of Patent Law).	The effects of the provisional protection right shall not extend to the prior art use, (Section 103 of Patent Law).
	Affiliation to PCT/EPC	PCT member	PCT member	Will become PCT member January 1, 1994	PCT member
	Relationship between PCT/EPC Publication and Provisional Protection Right	The provisional protection will occur by the publication of a PCT application (Section 90 of Patent Law)	The provisional protection will occur in the case where the international application is made in English or French.		The provisional protection will occur at the time of the publication of a PCT application (exactly at the publication of the translation) (Section 207 of Patent Law).
	Other Items				

Table 2(a)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Items	Draft of WIPO Harmonization	U.S. Advisory Commission on Patent Law Reform
Unexamined Publication	Laying-Open System of Application	Yes	Yes
	Statutory Provisions	Section 15 (old Section 106)	[III-A]
	Time of Publication	18 months from priority date. However, 24 months are admitted. An early publication is also provided.	24 months from priority date (or date of provisional application)
	Particulars of Publication: Applicant(s) Inventor(s) Application Number/Application Date Publication Number/Publication Date Patent Classification Request for Examination Claim(s) Abstract Full Specification Main Drawings All Drawings Search Report	There is no detailed definition of the particulars and documents to be laid-open but all the information would be basically laid-open. In the case where completion of a search report is not in time for the publication, the search report will be laid-open as soon as possible (Section 16).	A regular specification and claims, and if possible, a search report is open to the public. An early publication system is available by the payment of the special fee [IIIA-(iv)].
	Laying-Open Type: Printed Publication Microfilm	There are no detailed definition but the printed publication is basically adopted, and will be finished within two years after started.	Only the bibliographic data and the summary are published on a gazette. The full specification may be obtained on a copy request.
Outline of Examination	Average Examination Period	The examination will be started within three years after the filing date and will be finished within 2 years after started (Section 16).	A first office action will be issued within two years after the filing date (before publication).
	Early Examination System	Yes (Section 16, subsection (2))	Yes
	Condition for Early Examination	Not specified	Not specified
	Extra Fee for Early Examination	Yes. A fee may be imposed.	Yes [IIIA-(iv)]

Table 2(b)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Items	Draft of WIPO Harmonization	U.S. Advisory Commission on Patent Law Reform
Provisional Protection Right	Provisional Protection Right	Yes	Yes
	Statutory Provisions	Section 23, Subsection (2) (old Section 307)	[IIIA-(iii)]
	Condition for Receiving Provisional Protection	In the case where the person working the invention (i.e., an infringer) actually knows the invention laid open or otherwise in the case where the infringer receives a warning letter identifying the application number.	In the case where a notice in writing is communicated to an infringer infringing the laid-open claims, it is possible to demand a payment of the compensation during a period from a notice date to the issuance of the patent.
	Necessary items to be noticed in the form of a warning letter in the case where the warning letter is necessary	It is at least necessary to send a notice in writing in which the subject matter of the invention of the pending application is worked by the infringer and the patent application number is shown.	It seems necessary to send a notice in writing in which the number identifying the patent application is described and the infringer infringes the laid-open claims.
	Average Compensation Amount for the provisional protection right	There are two plans, i.e., plan A based upon the damage compensation and plan B based upon reasonable compensation.	Specifying as the compensation
	Comparison with Regular Royalty	-	-
	Period in which the exercise of the provisional protection right is possible	There is a provision that it is allowed to provide that the exercise of the provisional protection is prohibited until the grant of the patent.	After the grant of the patent
	Possible Injunction based upon the provisional protection	No injunction based upon the provisional protection	No injunction based upon the provisional protection
	Necessity to again send a warning letter in accordance with an amendment after the publication	There is not a provision where a warning letter is necessary. There is a provision that only in the case where the infringing article may be covered by both the allowed claims and the published claims, it is possible to exercise the provisional protection right.	No special provision
	Obligation to return the compensation based upon the provisional protection	No special provision	No special provision
	Relationship between Prior Use Right and Provisional Protection Right	The effects of the provisional protection right shall not extend to the prior use right (Section 20).	The effects of the provisional protection right shall not extend to the prior use right.

Table 2(c)

COMPARISON OF EACH COUNTRY ON UNEXAMINED PUBLICATION AND PROVISIONAL RIGHT BASED ON THE PUBLICATION

	Items	Draft of WIPO Harmonization	U.S. Advisory Commission on Patent Law Reform
	Affiliation to PCT/EPC		PCT member
	Relationship between PCT/EPC Publication and Provisional Protection Right		It appears that the provisionanl protection right would occur based upon the publication in English.
	Other Items		The patent office issues an office action before the publication so that the applicant may have a chance to selectively continue or withdraw the application. (In the case of the withdrawal, the application shall not be laid open.)

NORTH AMERICAN

FREE TRADE AGREEMENT

INTELLECTUAL PROPERTY CHAPTER

INVESTMENT CHAPTER

DISPUTES SETTLEMENT CHAPTER

1993 CONGRESS - PACIFIC

INTELLECTUAL PROPERTY ASSOCIATION

CINCINNATI, OHIO

OCTOBER 8, 1993

WILLIAM T. ELLIS
COUNSEL
IBM CORPORATION
ARLINGTON, VIRGINIA

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

- US/CANADA/MEXICO AGREEMENT TO OPEN MARKETS

- PROJECTED TO BE COMPLETED IN 1992/93 TIMEFRAME

- HAS SIGNIFICANCE FOR ALL OF LATIN AMERICA

NAFTA - NEGOTIATING SECTORS

MARKET ACCESS	TRADE RULES	SERVICES
TARIFF & NON-TARIFF BARRIERS	SAFEGUARDS	INTELLECTUAL PROPERTY
RULES OF ORIGIN	SUBSIDIES	FINANCIAL SERVICES
GOVERNMENT PROCUREMENT	HUMAN HEALTH & ENVIRONMENT	INSURANCE
AGRICULTURE	INDUSTRIAL & TECHNICAL STANDARDS	LAND TRANSPORTATION
AUTOMOBILES		TELECOMMUNICATIONS
PETROCHEMICALS		INVESTEMENT
TEXTILES		DISPUTES SETTLEMENT

NAFTA -- COPYRIGHT GENERAL PROVISIONS

- **BERNE:** EACH PARTY SHALL GIVE EFFECT TO THE SUBSTANTIVE PROVISIONS OF THE BERNE CONVENTION. ARTICLE 1701(2).

  - BUT THE NAFTA AGREEMENT CONFERS NO RIGHTS AND IMPOSES NO OBLIGATIONS ON THE U.S. WITH RESPECT TO BERNE ARTICLE 6BIS MORAL RIGHTS (RIGHTS OF INTEGRITY/ATTRIBUTION). ARTICLE 1701(3) AND ANNEX 1701.3(2).

- **NATIONAL TREATMENT:** FULL NATIONAL TREATMENT IS TO BE ACCORDED TO THE PROTECTION AND ENFORCEMENT OF ALL INTELLECTUAL PROPERTY RIGHTS, EXCEPT THAT RECIPROCITY PRINCIPLES MAY BE USED FOR THE RIGHTS OF PERFORMERS IN THE SECONDARY USES (BROADCASTING) OF SOUND RECORDINGS. ARTICLE 1703(1) AND DEFINITION OF INTELLECTUAL PROPERTY OF ARTICLE 1721.

  - TREATY OF ROME PERMITS RECIPROCITY RE PERFORMER'S RIGHTS (AFFECTS DISTRIBUTION TO PERFORMERS OF PROCEEDS FROM LEVIES)

  - PERFORMER'S RIGHTS IN SOUND RECORDINGS IS NOT CURRENTLY PROVIDED IN U.S. LAW

- **LIMITATIONS/EXCEPTIONS** TO RIGHTS MUST BE CONFINED TO CERTAIN SPECIAL CASES THAT DO NOT CONFLICT WITH A NORMAL EXPLOITATION OF THE WORK OR UNREASONABLY PREJUDICE THE RIGHTHOLDER. ARTICLE 1705(5).

- **CANADIAN CULTURAL EXEMPTION:** THE NAFTA IP CHAPTER DOES NOT APPLY IN CANADA TO BOOKS, MAGAZINES, NEWSPAPERS, FILM RECORDINGS, AUDIO-RECORDINGS, PRINTED MUSIC, ALL RADIO, TV AND CABLE BROADCASTING UNDERTAKINGS, AND SATELLITE PROGRAMMING AND ALL BROADCAST NETWORK SERVICES. ANNEX 2106 AND ARTICLE 2107.

NAFTA -- COPYRIGHT GENERAL PROVISIONS

- **NO FORMALITIES:** NATIONAL TREATMENT MUST BE ACCORDED AND NO FORMALITIES OR CONDITIONS MAY BE IMPOSED IN ORDER TO ACQUIRE RIGHTS IN RESPECT OF COPYRIGHT AND RELATED RIGHTS. ARTICLE 1703(2).

  - "COPYRIGHT AND RELATED RIGHTS" IS INTENDED TO BROADLY COVER ANY NEW EXPRESSIVE SUBJECT MATTER, RIGHTS OR BENEFICIARIES

- **TERM OF PROTECTION:** A 50-YEAR MINIMUM. ARTICLE 1705(4).

- **RIGHTS:** ARTICLE 1705(2).

  - THE RIGHTS ENUMERATED IN THE BERNE CONVENTION (REPRODUCTION/TRANSLATION/ADAPTATIONS/ARRANGEMENTS)

  - THE RIGHT TO AUTHORIZE OR PROHIBIT IMPORTATION INTO THE PARTY'S TERRITORY OF PIRATICAL COPIES

  - RIGHT OF FIRST PUBLIC DISTRIBUTION OF THE ORIGINAL AND EACH COPY OF THE WORK BY SALE, RENTAL OR OTHERWISE

  - THE RIGHT TO AUTHORIZE OR PROHIBIT COMMUNICATION OF THE WORK TO THE PUBLIC

  - THE RIGHT TO AUTHORIZE OR PROHIBIT THE COMMERCIAL RENTAL OF THE ORIGINAL OR A COPY OF A COMPUTER PROGRAM

- **IMPORTATION:** THERE IS NO RIGHT GRANTED TO CONTROL THE IMPORTATION OF AUTHORIZED COPIES OF A WORK

NAFTA -- COPYRIGHT ROYALTY COLLECTIONS AND TRANSFER

- **ROYALTIES:** INTANGIBLE PROPERTY IS SUBJECT TO THE NAFTA INVESTMENT CHAPTER. ARTICLE 1101 AND DEFINITION OF "INVESTMENT" IN ARTICLE 1138.

  - ROYALTY PAYMENTS ARE INCLUDED AMONG THE INTERNATIONAL TRANSFERS THAT PARTIES MUST PERMIT TO BE MADE "FREELY AND WITHOUT DELAY." ARTICLE 1109(1).

  - HOWEVER, THE INVESTMENT CHAPTER DOES NOT APPLY TO THE CULTURAL INDUSTRIES (MOTION PICTURES, TV, VIDEO, MUSIC, BOOK, NEWSPAPER, MAGAZINE, RADIO, CABLE, AND SATELLITE INDUSTRIES) IN CANADA. ANNEX 2106 AND ARTICLE 2107.

NAFTA -- COPYRIGHT
TRANSFER OF RIGHTS

- **TRANSFER:** UNDER ARTICLE 1705(3). EACH PARTY SHALL PROVIDE THAT FOR COPYRIGHT AND RELATED RIGHTS:

"(A) ANY PERSON ACQUIRING OR HOLDING ECONOMIC RIGHTS MAY FREELY AND SEPARATELY TRANSFER SUCH RIGHTS BY CONTRACT FOR PURPOSES OF THEIR EXPLOITATION AND ENJOYMENT BY THE TRANSFEREE; AND

"(B) ANY PERSON ACQUIRING OR HOLDING SUCH ECONOMIC RIGHTS BY VIRTUE OF A CONTRACT INCLUDING CONTRACTS OF EMPLOYMENT UNDERLYING THE CREATION OF WORKS AND SOUND RECORDINGS, SHALL BE ABLE TO EXERCISE THOSE RIGHTS IN ITS OWN NAME AND ENJOY FULLY THE BENEFITS DERIVED FROM THOSE RIGHTS".

- NO RESTRICTION ON CONTRACTUAL TRANSFERS

- PARTICULARLY PERTINENT TO RIGHT TO COLLECT SHARE OF VIDEO/AUDIO LEVIES

- DOES NOT APPLY TO CANADA WITH RESPECT TO THE "CULTURAL INDUSTRIES". ARTICLE 2107 AND ANNEX 2106.

NAFTA -- COPYRIGHT TRANSFER OF RIGHTS

- **LITERARY WORK:** "ALL TYPES OF COMPUTER PROGRAMS ARE LITERARY WORKS WITHIN THE MEANING OF THE BERNE CONVENTION AND EACH PARTY SHALL PROTECT THEM AS SUCH". ARTICLE 1705(1)(a).

- **COMPILATIONS:** "COMPILATIONS OF DATA OR OTHER MATERIAL, WHETHER IN MACHINE READABLE OR OTHER FORM, WHICH BY REASON OF THE SELECTION OR ARRANGEMENT OF THEIR CONTENTS CONSTITUTE INTELLECTUAL CREATIONS, SHALL BE PROTECTED AS SUCH." ARTICLE 1705(1)(b).

- **RENTAL:** A COMMERCIAL RENTAL RIGHT IS GRANTED FOR THE ORIGINAL OR A COPY OF A COMPUTER PROGRAM. ARTICLE 1705(2)(d).

  - IN MEXICO/CANADA THE RENTAL RIGHT NEED NOT BE APPLIED TO COPIES PURCHASED PRIOR TO THE DATE OF THIS AGREEMENT. ARTICLE 1720(5).

  - THE RENTAL RIGHT DOES NOT APPLY WHERE THE "COMPUTER PROGRAM IS NOT ITSELF AN ESSENTIAL OBJECT OF THE RENTAL." (AUTO RENTAL)

  - THE AUTHORIZED SALE OF A COPY OF A COMPUTER PROGRAM DOES NOT EXHAUST THE RENTAL RIGHT

- **IMPORTATION:** THERE IS NO RIGHT GRANTED TO STOP GREY MARKET IMPORTATION. ARTICLE 1705(2).

- **MANUALS:** IT IS UNCLEAR WHETHER THE CANADIAN CULTURAL EXEMPTION WOULD REMOVE COMPUTER PROGRAM MANUALS AND DOCUMENTATION FROM THE NAFTA PROTECTIONS IN CANADA. ANNEX 2106.

NAFTA -- COPYRIGHT
SOUND RECORDINGS

- **RIGHTS GRANTED:** ARTICLE 1706(1).

  - DIRECT OR INDIRECT REPRODUCTION;
  - IMPORTATION INTO THE PARTY'S TERRITORY OF PIRATICAL COPIES;
  - FIRST PUBLIC DISTRIBUTION OF THE ORIGINAL AND EACH COPY BY SALE, RENTAL OR OTHERWISE;
  - COMMERCIAL RENTAL (SALE OF A COPY DOES NOT EXHAUST THE RENTAL RIGHT)

- **MINIMUM TERM:** 50-YEARS FROM FIXATION. ARTICLE 1706(2).

- **LEVIES:** PRODUCERS/AUTHORS OF SOUND RECORDINGS, BUT NOT PERFORMERS, WILL BE ENTITLED TO THEIR FAIR SHARE OF AUDIO LEVIES BASED ON THE NATIONAL TREATMENT REQUIREMENT OF ARTICLE 1703.

- **CULTURAL EXEMPTION:** THE NAFTA PROVISION DO NOT APPLY TO SOUND RECORDINGS IN CANADA DUE TO THE CULTURAL EXEMPTION. ANNEX 2106 AND ARTICLE 2107.

NAFTA -- COPYRIGHT
SATELLITE SIGNALS

- **ARTICLE 1707:** PROTECTION OF "ENCRYPTED PROGRAM-CARRYING SATELLITE SIGNALS (TERM DEFINED IN ARTICLE 1721).

  "WITHIN ONE YEAR FROM THE DATE OF ENTRY INTO FORCE OF THIS AGREEMENT, EACH PARTY SHALL:

  - MAKE IT A CRIMINAL OFFENSE TO MANUFACTURE, IMPORT, SELL, LEASE OR OTHERWISE MAKE AVAILABLE A DEVICE OR SYSTEM THAT IS PRIMARILY OF ASSISTANCE IN DECODING AN ENCRYPTED PROGRAM-CARRYING SATELLITE SIGNAL WITHOUT THE AUTHORIZATION OF THE LAWFUL DISTRIBUTER OF SUCH SIGNAL; AND

  - MAKE IT A CIVIL OFFENSE TO RECEIVE, IN CONNECTION WITH COMMERCIAL ACTIVITIES, OR FURTHER DISTRIBUTE, AN ENCRYPTED PROGRAM-CARRYING SATELLITE SIGNAL THAT HAS BEEN DECODED WITHOUT THE AUTHORIZATION OF THE LAWFUL DISTRIBUTOR OF THE SIGNAL OR TO ENGAGE IN ANY ACTIVITY PROHIBITED UNDER SUBPARAGRAPH (a)."

- SATELLITE BROADCAST IS THE PRINCIPAL VEHICLE FOR THE TRANSMISSION OF TV PROGRAMMING TO CABLE/HOTELS/APARTMENT BUILDINGS

- **CULTURAL EXEMPTION:** CANADA IS EXEMPTED FROM THIS PROVISION UNDER THE CULTURAL EXEMPTION OF ANNEX 2106 AND ARTICLE 2107.

NAFTA -- COPYRIGHT IMPROVEMENTS OVER GATT/TRIPs (DUNKEL)

- **NATIONAL TREATMENT:** A STRONGER NATIONAL TREATMENT OBLIGATION. THE DUNKEL TEXT PERMITS MAJOR DEROGATIONS FROM NATIONAL TREATMENT FOR NEIGHBORING RIGHTS/RELATED RIGHTS/AND NEW RIGHTS OF PROTECTION FOR EXPRESSION (MOVIES, RECORDS).

- **SOUND RECORDINGS:** MORE EFFECTIVE PROTECTION FOR SOUND RECORDINGS INCLUDING AN EXCLUSIVE RENTAL RIGHT. THE DUNKEL TEXT INCLUDES A GRANDFATHER CLAUSE PERMITTING THE RENTAL RIGHT TO REMAIN NON-EXCLUSIVE IN CERTAIN CIRCUMSTANCES.

- **CONTRACTUAL TRANSFERS:** EXPLICIT RECOGNITION OF CONTRACTUAL TRANSFERS FOR COPYRIGHTED WORKS.

- **SATELLITE:** EXPLICIT PROTECTION OF ENCRYPTED PROGRAM-CARRYING SATELLITE SIGNALS.

- **TRANSITION:** IMMEDIATE ENTRY INTO FORCE OF THE IP PROVISIONS IN CONTRAST TO THE LONG TRANSITIONS IN THE DUNKEL TEXT.

- **DEFINITION OF PUBLIC:** AN ACCEPTABLE DEFINITION OF "PUBLIC" FOR PURPOSES OF RESTRICTING UNAUTHORIZED COMMUNICATION OF WORKS (MOTION PICTURES, MUSIC) OUTSIDE THE FAMILY CIRCLE.

- **SOUND RECORDING EXCLUSIONS:** EXCEPTIONS TO EXCLUSIVE RIGHTS FOR SOUND RECORDINGS ARE RESTRICTED BY LANGUAGE SIMILAR TO BERNE 9.2. DUNKEL INCORPORATES THE BROAD EXCLUSIONS (PARTICULARLY FOR PRIVATE COPYING) OF THE ROME CONVENTION FOR SOUND RECORDINGS.

NAFTA -- COPYRIGHT
LAYOUT DESIGNS OF SEMICONDUCTOR INTEGRATED CIRCUITS

- **WASHINGTON TREATY:** ARTICLES 2-7, 12, AND 16(3), BUT NOT ARTICLE 6(3) OF THE TREATY ON INTELLECTUAL PROPERTY IN RESPECT OF INTEGRATED CIRCUITS (OPENED FOR SIGNATURE IN MAY, 1989) ARE INCORPORATED INTO THIS CHAPTER. ARTICLE 1710(1).

  - THESE ARTICLES PROVIDE THE BASIC REPRODUCTION RIGHTS FOR MASK WORKS.

- **NAFTA RIGHTS:** IT IS UNLAWFUL TO IMPORT, SELL, OR OTHERWISE DISTRIBUTE FOR COMMERCIAL PURPOSES.

  - A PROTECTED LAYOUT DESIGN.
  - AN INTEGRATED CIRCUIT INCORPORATING THE LAYOUT DESIGN.
  - AN ARTICLE INCORPORATING SUCH AN INTEGRATED CIRCUIT. ARTICLE 1710(2).

- **INNOCENT INFRINGER:** INNOCENT IMPORTATION, SALE, OR DISTRIBUTION IS NOT UNLAWFUL, BUT THE INNOCENT INFRINGER IS LIABLE TO PAY A REASONABLE ROYALTY FOR THE STOCK ON HAND, AFTER NOTICE IS GIVEN. ARTICLE 1710(3) AND (4).

- **COMPULSORY LICENSE:** NO COMPULSORY LICENSING IS PERMITTED FOR LAYOUT DESIGNS. ARTICLE 1710(5).

- **TERM:** MINIMUM 10-YEAR TERM OF PROTECTION. ARTICLE 1710(6)(7).

- **MEXICO:** MEXICO MAY DELAY IMPLEMENTATION OF THE LAYOUT DESIGN PROVISIONS FOR 4 YEARS. ARTICLE 1710(9) AND ANNEX 1710.9.

NAFTA -- TRADE SECRETS

- **"EACH PARTY SHALL PROVIDE** THE LEGAL MEANS FOR ANY PERSON TO PREVENT TRADE SECRETS FROM BEING DISCLOSED TO, ACQUIRED BY, OR USED BY OTHERS WITHOUT THE CONSENT OF THE PERSON LAWFULLY IN CONTROL OF THE INFORMATION IN A MANNER CONTRARY TO HONEST COMMERCIAL PRACTICES, IN SO FAR AS:"

  - THE INFORMATION IS SECRET
  - HAS ACTUAL OR POTENTIAL COMMERCIAL VALUE
  - REASONABLE STEPS UNDER THE CIRCUMSTANCES HAVE BEEN TAKEN TO KEEP IT SECRET. ARTICLE 1711(1).

- **"IN A MANNER CONTRARY TO HONEST COMMERCIAL PRACTICES"** IS DEFINED TO INCLUDE:

  "AT LEAST PRACTICES SUCH AS BREACH OF CONTRACT, BREACH OF CONFIDENCE AND INDUCEMENT TO BREACH, AND INCLUDES THE ACQUISITION OF UNDISCLOSED INFORMATION BY OTHER PERSONS WHO KNEW, OR WERE GROSSLY NEGLIGENT IN FAILING TO KNOW, THAT SUCH PRACTICES WERE INVOLVED IN THE ACQUISITION." ARTICLE 1721.

- **CONTINUED USE:** THERE IS NO PROTECTION AGAINST CONTINUED USE OR FURTHER DISSEMINATION BY A THIRD PARTY WHO OBTAINED THE TRADE SECRET IN GOOD FAITH, AFTER IT IS ESTABLISHED THAT PRACTICES CONTRARY TO HONEST COMMERCIAL PRACTICES WERE USED IN ITS INITIAL ACQUISITION AND THE THIRD PARTY IS PUT ON NOTICE.

- **TANGIBLE FORM:** A PARTY MAY REQUIRE THAT THE TRADE SECRET MUST BE IN A TANGIBLE FORM (DOCUMENTS, ELECTRONIC MEANS, MICROFILM, ETC.) TO QUALIFY FOR PROTECTION. ARTICLE 1711(2).

NAFTA -- TRADE SECRETS

- **GROSS NEGLIGENCE:** THE STANDARD TO HOLD A THIRD PARTY CULPABLE IS "GROSS NEGLIGENCE."

  - THE U.S. ADVOCATED A SIMPLE "NEGLIGENCE" STANDARD USED IN MOST DEVELOPED COUNTRIES.

- **DURATION OF PROTECTION:** NO PARTY MAY LIMIT THE DURATION OF PROTECTION SO LONG AS THE INFORMATION MEETS THE CRITERIA OF ARTICLE 1711(1). ARTICLE 1711(3).

- **LICENSING:** NO PARTY MAY DISCOURAGE OR IMPEDE THE VOLUNTARY LICENSING OF TRADE SECRETS BY IMPOSING EXCESSIVE OR DISCRIMINATORY CONDITIONS ON SUCH LICENSES. ARTICLE 1711(4).

- **TEST DATA:** UNDISCLOSED TEST OR OTHER DATA SUBMITTED TO A GOVERNMENT TO OBTAIN APPROVAL TO MARKET PHARMACEUTICAL OR AGRICULTURAL CHEMICAL PRODUCTS THAT UTILIZE NEW CHEMICAL ENTITIES MUST BE PROTECTED AGAINST DISCLOSURE. ARTICLE 1711(5).

- **ME-TO-REGISTRATION:** NO PERSON, EXCEPT THE SUBMITTER, MAY RELY ON SUCH TEST DATA TO OBTAIN MARKETING APPROVAL FOR A REASONABLE PERIOD OF NORMALLY NOT LESS THEN 5-YEARS FROM THE DATE ON WHICH THE PARTY GRANTED MARKETING APPROVAL TO THE ORIGINAL SUBMITTER. ARTICLE 1711(6).

  - ONLY APPLIES TO PHARMACEUTICAL OR AGRICULTURAL CHEMICAL PRODUCTS USING NEW CHEMICAL ENTITIES

  - CONSIDERABLE EFFORT AND EXPENSE IS REQUIRED WHETHER THE CHEMICAL ENTITY IS NEW OR OLD.

NAFTA -- PATENTS

- **FIELD OF TECHNOLOGY:** PATENTS SHALL BE AVAILABLE IN ALL FIELDS OF TECHNOLOGY WITHOUT DISCRIMINATION. ARTICLE 1709(1) & (7).

  - ACCORDINGLY, COMPUTER PROGRAM-RELATED INVENTIONS SHOULD BE PATENTABLE IN MEXICO AND CANADA.

- **EXCLUSIVE RIGHTS:**

  - TO PREVENT OTHERS FROM MAKING, USING, OR SELLING THE PATENTED PRODUCT.

  - TO PREVENT OTHERS FROM USING A PATENTED PROCESS OR FROM USING, SELLING, OR IMPORTING A PRODUCT OBTAINED DIRECTLY BY THE PATENTED PROCESS. ARTICLE 1709(5).

- **WORKING REQUIREMENTS:** A WORKING REQUIREMENT MAY BE IMPOSED ON A PATENT, BUT THE REQUIREMENT MAY BE SATISFIED BY IMPORTS SUFFICIENT TO SATISFY THE LOCAL MARKET.

  - THERE MAY BE NO DISCRIMINATION BASED ON WHETHER OR NOT A PRODUCT IS IMPORTED. ARTICLE 1709(7).

- **EXCEPTIONS TO EXCLUSIVE RIGHTS:** EXCEPTIONS ARE PERMITTED IF THEY (1) DO NOT UNREASONABLY CONFLICT WITH NORMAL EXPLOITATION OF THE PATENT RIGHTS AND (2) DO NOT UNREASONABLY PREJUDICE THE LEGITIMATE INTERESTS OF THE PATENT OWNER. ARTICLE 1709(6).

  - WHILE ALL PATENT LAWS HAVE EXCEPTIONS, THEY ARE GENERALLY NARROWLY CIRCUMSCRIBED AND LIMITED.

  - IDENTICAL LANGUAGE IN THE DUNKEL TEXT OF GATT/TRIPs.

- THIS LANGUAGE IS OVER-BROAD, AND COULD BE USED TO NEGATE THE EXCLUSIVE PATENT RIGHT.

- **COMPULSORY LICENSES:** PERMITTED, BUT WITH DETAILED CONDITIONS IMPOSED ON THE GRANT. ARTICLE 1709(10).

  - CONDITIONS INCLUDE (1) NON-EXCLUSIVITY, (2) NON-ASSIGNABILITY, (3) PREDOMINATELY FOR THE SUPPLY OF THE DOMESTIC MARKET, (4) ADEQUATE REMUNERATION MUST BE PAID, AND (5) SUBJECT TO JUDICIAL REVIEW.

  - DEPENDENT PATENT LICENSING IS EXPRESSLY PROHIBITED.

  - ALMOST IDENTICAL LANGUAGE IS USED IN THE DUNKEL TEXT OF THE GATT/TRIPs WITH THE EXCEPTION OF THE DEPENDENT PATENT LICENSING PROVISION.

- **35 USC 104:** SECTION 104 PROHIBITING EVIDENCE OF INVENTION ACTIVITY OUTSIDE THE U.S. IN INTERFERENCES MUST BE MODIFIED TO PERMIT THE SUBMISSION OF INVENTION ACTIVITY EVIDENCE FROM MEXICO AND CANADA. ARTICLE 1709(7).

  - THE DUNKEL TEXT OF GATT/TRIPs HAS A SIMILAR PROVISION COVERING ALL GATT COUNTRIES

  - ADMISSIBILITY SHOULD BE DEPENDENT ON THE EXISTENCE OF RULES REQUIRING ADEQUATE DISCOVERY IN CANADA/MEXICO ("WITHOUT DISCRIMINATION" LANGUAGE).

NAFTA -- PATENTS

- **131 PRACTICE:** ARTICLE 1709(7) MAY REQUIRE A CHANGE IN 131 PRACTICE TO PERMIT MEXICAN AND CANADIAN INVENTORS TO SWEAR BEHIND A REFERENCE BASED ON FACTS SHOWING A COMPLETION OF THE INVENTION IN MEXICO OR CANADA BEFORE THE REFERENCE DATE. 37 CFR 1.131 CURRENTLY IS LIMITED TO SHOWING A COMPLETION OF THE INVENTION IN THE U.S.

- **REVERSAL OF BURDEN OF PROOF:** THERE IS A REVERSAL OF THE BURDEN OF PROOF FOR PROCESS PATENTS IN PRESCRIBED CIRCUMSTANCES. ARTICLE 1709(11).

- **PARALLEL IMPORTS:** THE NAFTA IS SILENT ON FIRST SALE EXHAUSTION OF RIGHTS.

  - NAFTA DOES NOT OVERRIDE THE TERRITORIALITY OF U.S. PATENTS.

  - NO NAFTA-WIDE EXHAUSTION.

- **TERM:** 17-YEARS FROM ISSUE OR 20-YEARS FROM FILING. ARTICLE 709(12).

- **REVOCATION:** A PATENT MAY BE REVOKED ONLY WHERE GROUNDS EXIST THAT WOULD HAVE JUSTIFIED A REFUSAL TO GRANT, OR A COMPULSORY LICENSE HAS NOT REMEDIED A LACK OF EXPLOITATION. ARTICLE 1709(8).

NAFTA -- ENFORCEMENT

- **CIVIL ENFORCEMENT:** CIVIL PROCEDURES RE ENFORCEMENT OF INTELLECTUAL PROPERTY MUST BE AVAILABLE. ARTICLE 1715(1).

- **DISCOVERY:** A COURT MUST BE ABLE TO ORDER AN OPPOSING PARTY TO PRODUCE EVIDENCE SPECIFIED BY THE OTHER PARTY, SUBJECT TO SAFEGUARDS. ARTICLE 1715(2)(a).

- **REMEDIES:** PERMANENT INJUNCTION/BORDER CONTROLS/DAMAGES SHALL BE AVAILABLE. ARTICLE 1715(2)(c) AND (d).

  - A PARTY MAY IMPOSE A LIMITATION ON STOPPING DELIVERY OF INFRINGING GOODS "ACQUIRED OR ORDERED BY A PERSON BEFORE THAT PERSON KNEW OR HAD REASONABLE GROUNDS TO KNOW THAT DEALING IN THAT SUBJECT MATTER WOULD ENTAIL INFRINGEMENT..." ARTICLE 1715(3).

- **ABUSE OF PROCEDURE:** COMPENSATION MUST BE AVAILABLE FOR ABUSE OF ENFORCEMENT PROCEDURES. ARTICLE 1715(2)(f).

- **PROFITS:** AT LEAST FOR COPYRIGHTED WORKS AND SOUND RECORDINGS, A COUNTRY MAY AUTHORIZE THE RECOVERY OF PROFITS OR PRE-ESTABLISHED DAMAGES. ARTICLE 1715(4).

- **DISPOSAL:** INFRINGING GOODS SHALL BE DISPOSED OF OUTSIDE THE CHANNELS OF COMMERCE. ARTICLE 1715(5).

- **GOVERNMENT INFRINGEMENT:** REMEDIES FOR GOVERNMENT INTELLECTUAL PROPERTY INFRINGEMENT MAY BE LIMITED TO MONETARY DAMAGES. ARTICLE 1715(7).

NAFTA -- ENFORCEMENT

- **PRELIMINARY ENFORCEMENT:** PRELIMINARY INJUNCTIONS AND PRELIMINARY BORDER ENFORCEMENT SHALL BE AVAILABLE. ARTICLE 1716(1).

  - AN IRREPARABLE HARM STANDARD MAY BE IMPOSED. ARTICLE 1716(2)(c).
  - A SECURITY BOND MAY BE REQUIRED. ARTICLE 1716(2).
  - PROVISIONAL MEASURES MUST BE MADE AVAILABLE ON AN EX PARTE BASIS. ARTICLE 1716(4).
  - EX PARTE ORDERS ARE SUBJECT TO JUDICIAL REVIEW. ARTICLE 1716(5).
  - A PROCEEDING ON THE MERITS TO REVIEW PROVISIONAL MEASURES MUST BE INITIATED WITHIN A REASONABLE PERIOD, OR THE MEASURE WILL BE REVOKED. ARTICLE 1716(6).
  - DEFENDANT MAY BE ENTITLED TO COMPENSATION FOR IMPROPERLY INVOKED PROVISIONAL MEASURES. ARTICLE 1716(7).

- **CRIMINAL PENALTIES:** PENALTIES FOR COPYRIGHT/TRADEMARK SHALL BE AVAILABLE AT LEAST IN CASES OF WILLFUL TRADEMARK COUNTERFEITING OR COPYRIGHT PIRACY ON A COMMERCIAL SCALE. PENALTIES SHALL INCLUDE

  - IMPRISONMENT, OR
  - MONETARY FINES, OR BOTH, SUFFICIENT TO DETER
  - SEIZURE OF INFRINGING GOODS IN APPROPRIATE CASES. ARTICLE 1717(1) AND (2).

NAFTA -- ENFORCEMENT

- **CRIMINAL PENALTIES FOR PATENTS AND OTHER INTELLECTUAL PROPERTY:** A COUNTRY MAY PROVIDE CRIMINAL PENALTIES FOR THE INFRINGEMENT OF PATENT OR OTHER IP RIGHTS, "WHERE THEY ARE COMMITTED WILLFULLY AND ON A COMMERCIAL SCALE." ARTICLE 1717(3).

- **SPECIAL EX PARTE BORDER MEASURES:**

  - A COUNTRY SHALL PROVIDE FOR THE SUSPENSION OF THE RELEASE OF GOODS BY CUSTOMS AUTHORITIES FOR SUSPECTED COUNTERFEIT TRADEMARK GOODS OR PIRATED COPYRIGHT GOODS, ON AN EX PARTE BASIS. ARTICLE 1718(1).

  - A COUNTRY MAY PERMIT AN EX PARTE BORDER ENFORCEMENT RIGHT FOR GOODS SUSPECTED OF INFRINGING PATENT OR OTHER IP RIGHTS.

  - THIS OPTIONAL RIGHT FOR PATENTS, TRADE SECRETS, AND OTHER IP WAS OPPOSED BY THE U.S. DUE TO THE COMPLEXITY OF THE ISSUES INVOLVED.

  - THIS OPTIONAL RIGHT IS ALSO PROVIDED IN THE DUNKEL TEXT OF GATT/TRIPs.

  - REGARDING SPECIAL EX PARTE BORDER MEASURES FOR PATENTS/INTEGRATED CIRCUITS/TRADE SECRETS/INDUSTRIAL DESIGNS, WHERE PROVISIONAL MEASURES HAVE NOT BEEN GRANTED WITHIN 10 WORKING DAYS FOR SUSPENDED GOODS, THE GOODS MAY BE RELEASED UPON THE POSTING OF A SECURITY. ARTICLE 1718(4).

NAFTA -- ENFORCEMENT

- **STANDARD FOR ENTITLEMENT TO SPECIAL BORDER MEASURES RELIEF:**

  - EVIDENCE OF A PRIMA FACIE CASE OF INFRINGEMENT. ARTICLE 1718(2).

- **RELEASE FROM SPECIAL MEASURES:** GOODS SHALL BE RELEASED FROM SPECIAL BORDER MEASURES SUSPENSION IF PLAINTIFF DOES NOT INITIATE PROCEEDING OR PROVISIONAL MEASURES ARE NOT GRANTED WITHIN 10 WORKING DAYS. ARTICLE 1718(6).

- **WRONGFUL DETENTION:** THERE SHALL BE COMPENSATION FOR WRONGFUL DETENTION OF GOODS. ARTICLE 1718(9).

- **INSPECTION:** THERE SHALL BE A RIGHT OF INSPECTION OF THE DETAINED GOODS BY BOTH THE RIGHTHOLDER AND THE IMPORTER. ARTICLE 1718(10).

- **MEXICO:** MEXICO MAY DELAY IMPLEMENTATION OF THE SPECIAL BORDER MEASURES ARTICLE FOR THREE YEARS. ARTICLE 1718(14) AND ANNEX 1718.14.

NAFTA -- INVESTMENT CHAPTER

- **THE CHAPTER** APPLIES TO INVESTMENTS AND INVESTORS OF ANOTHER NAFTA PARTY (COUNTRY). ARTICLE 1101(1).

- **INVESTMENTS** IS DEFINED TO INCLUDE

  "PROPERTY (TANGIBLE OR INTANGIBLE) ACQUIRED IN THE EXPECTATION OR USED FOR THE PURPOSE OF ECONOMIC BENEFIT OR OTHER BUSINESS PURPOSES." ARTICLE 1138.

- **NATIONAL TREATMENT/MOST FAVORED NATION STATUS:** EACH COUNTRY SHALL ACCORD TO INVESTORS OR INVESTMENTS OF INVESTORS OF ANOTHER NAFTA PARTY, TREATMENT NO LESS FAVORABLE THAN THAT IT ACCORDS, IN LIKE CIRCUMSTANCES, TO ITS OWN INVESTORS (NATIONAL TREATMENT) OR INVESTORS OF ANOTHER PARTY OR NON-PARTY (MOST FAVORED NATION STATUS), WHICHEVER IS BETTER, WITH RESPECT TO THE ESTABLISHMENT, ACQUISITION, EXPANSION, MANAGEMENT, CONDUCT, OPERATION AND SALE OR OTHER DISPOSITION OF INVESTMENTS. ARTICLES 1102/1103.

- **EQUITY MINIMUM:** NO REQUIREMENT MAY BE IMPOSED THAT A MINIMUM LEVEL OF EQUITY IN AN ENTERPRISE BE HELD BY THAT COUNTRY'S NATIONALS. ARTICLE 1102(4).

- **EXPORT LEVEL:** NO REQUIREMENT MAY BE IMPOSED TO EXPORT A GIVEN PERCENTAGE OR LEVEL OF GOODS OR SERVICES. ARTICLE 1106(1)(a).

- **DOMESTIC CONTENT:** NO REQUIREMENT MAY BE IMPOSED TO ACHIEVE A GIVEN LEVEL OR PERCENTAGE OF DOMESTIC CONTENT. ARTICLE 1106(1)(b) AND (3)(b).

NAFTA -- INVESTMENT CHAPTER

- **IMPORTS TO EXPORTS:** NO REQUIREMENT MAY BE IMPOSED THAT RELATES IN ANY WAY THE VOLUME OR VALUE OF IMPORTS TO THE VOLUME OR VALUE OF EXPORTS. ARTICLE 1106(1)(d) AND (3)(c).

- **PURCHASE OF DOMESTIC GOODS OR SERVICES:** NO REQUIREMENT MAY BE IMPOSED. ARTICLE 1106(1)(c).

- **SALES TO EXPORTS:** NO REQUIREMENT MAY BE IMPOSED THAT RESTRICTS THE SALES OF GOODS OR SERVICES IN A COUNTRY BY RELATING SUCH SALES IN ANY WAY TO THE VOLUME OR VALUE OF EXPORTS. ARTICLE 1106(1)(e) AND (3)(d).

- **TECHNOLOGY TRANSFER:** NO REQUIREMENT MAY BE IMPOSED "TO TRANSFER TECHNOLOGY, A PRODUCTION PROCESS OR OTHER PROPRIETARY KNOWLEDGE TO A PERSON IN ITS TERRITORY," UNLESS THEIR IS A VIOLATION OF THE COMPETITION LAWS. ARTICLE 1106(1)(F).

- **PERMITTED CONDITIONS:** A COUNTRY MAY CONDITION RECEIPT OR CONTINUED RECEIPT OF AN ADVANTAGE, IN CONNECTION WITH INVESTMENTS IN ITS TERRITORY OF INVESTORS OF A PARTY OR OF A NON-PARTY, ON COMPLIANCE WITH A REQUIREMENT:

  - TO LOCATE PRODUCTION FACILITIES,
  - PROVIDE A SERVICE,
  - TRAIN OR EMPLOY WORKERS,
  - CONSTRUCT OR EXPAND PARTICULAR FACILITIES, OR
  - CARRY OUT R&D IN ITS TERRITORY. ARTICLE 1106(5).

- **SENIOR MANAGEMENT:** SENIOR MANAGEMENT FOR AN INVESTMENT SHALL NOT BE RESTRICTED TO ANY PARTICULAR NATIONALITY. ARTICLE 1107(1).

NAFTA -- INVESTMENT CHAPTER

- **GOVERNMENT PROCUREMENT:** DOMESTIC CONTENT AND TECHNOLOGY TRANSFER REQUIREMENTS MAY BE IMPOSED FOR GOVERNMENT PROCUREMENTS. ARTICLE 1108(9)(b).

- **PREFERENTIAL TARIFFS/QUOTAS:** QUALIFICATIONS FOR PREFERENTIAL TARIFF TREATMENT MAY INCLUDE DOMESTIC CONTENT OR PURCHASE REQUIREMENTS. ARTICLE 1108(9)(c).

- **PERFORMANCE REQUIREMENTS NOT PROHIBITED:**

  - A GOVERNMENT RIGHT TO IMPOSE OTHER REQUIREMENTS ON THE TERMS OF A LICENSING AGREEMENT;

  - A REQUIREMENT TO PROVIDE A SPECIFIC NUMBER OR TYPE OF JOBS;

  - A REQUIREMENT TO LOCATE RESEARCH & DEVELOPMENT FACILITIES ON THE TERRITORY OF THE PARTY;

  - A GOVERNMENT RIGHT TO ESTABLISH A MAXIMUM PRICE DIFFERENTIAL ON COMPARABLE PRODUCTS AMONG THE COUNTRIES.

- **ROYALTY TRANSFERS:** "EACH PARTY SHALL PERMIT ALL TRANSFERS AND INTERNATIONAL PAYMENTS ('TRANSFERS') RELATING TO AN INVESTMENT OF AN INVESTOR OF ANOTHER PARTY IN THE TERRITORY OF THE PARTY TO BE MADE FREELY AND WITHOUT DELAY. SUCH TRANSFERS INCLUDE:

  "(a) PROFITS, DIVIDENDS, INTEREST, CAPITAL GAINS, ROYALTY PAYMENTS, MANAGEMENT FEES, TECHNICAL ASSISTANCE AND OTHER FEES, RETURNS IN KIND, AND OTHER AMOUNTS DERIVED FROM THE INVESTMENT..." ARTICLE 1109(1).

NAFTA -- INVESTMENT CHAPTER

- **ROYALTY CURRENCY:** ROYALTY TRANSFERS SHALL BE PERMITTED IN FREELY USABLE CURRENCY AT THE MARKET RATE WITH RESPECT TO SPOT TRANSACTIONS IN THE CURRENCY. ARTICLE 1109(2).

- **NATIONALIZATION/EXPROPRIATION OF ASSETS:** IS ONLY PERMITTED IF:

  - FOR A PUBLIC PURPOSE;
  - ON A NON-DISCRIMINATORY BASIS;
  - SUBJECT TO DUE PROCESS OF LAW;
  - UPON PAYMENT OF COMPENSATION. ARTICLE 1110.

- **BINDING INTERNATIONAL ARBITRATION FOR DISPUTES:** IN A SIGNIFICANT BREAK WITH LONG-STANDING MEXICAN VIEWS, INVESTORS MAY NOW CHOOSE TO HAVE DISPUTES SETTLED BY IMPARTIAL INTERNATIONAL ARBITRATION (CHOICE OF ICSID OR UNCITRAL RULES) AND THUS BYPASS NATIONAL COURTS. ARTICLE 1120.

NAFTA -- OTHER ISSUES

- **RULES OF ORIGIN - FLAT PANEL:** THE COMPUTER IS GIVEN THE SAME ORIGIN AS THE MOTHERBOARD FOR TARIFF PREFERENCE PURPOSES.

  - AVOIDS IMPOSITION OF EXTERNAL TARIFFS ON EXPORTS OF COMPUTERS WITH FOREIGN FLAT PANELS TO ANOTHER NAFTA COUNTRY.

  - FLAT/PANEL COMPANIES ADVOCATED THAT ANY 2 OF THE MOTHERBOARD/INTERNAL DISK DRIVES/FLAT PANEL MUST COME FROM THE NAFTA REGION TO QUALIFY FOR THE NAFTA PREFERENCE.

  - THIS WOULD HAVE IMPACTED OUR FOREIGN SOURCING OF FLAT PANELS AND DISK DRIVES.

  - THE VALUE CONTENT RULE (50%) IS DROPPED IMMEDIATELY -- VERY HARD TO TRACK CONTENT.

- **20% TARIFF:** THE TARIFF ON COMPUTERS IMPORTED INTO MEXICO FROM THE U.S./CANADA WILL DROP IN STEPS TO REACH 0% IN 1998. THE MEXICAN TARIFF ON COMPUTER IMPORTS FROM NON-NAFTA COUNTRIES WILL DROP TO 3.9% OVER 5-YEARS STARTING IN 1999.

- **CUSTOMS UNION:** IN 2004 NAFTA WILL GO TO A CUSTOMS UNION SO THAT ONCE A PRODUCT IS INSIDE THE REGION, THERE ARE NO RULES OF ORIGIN.

- **0% TARIFF ON SEMICONDUCTORS, BOARDS, HARD DRIVES, MONITORS, & PRINTERS:** IMMEDIATELY FOR NAFTA COUNTRIES.

NAFTA -- DISPUTES SETTLEMENT

- **RECOURSE TO DISPUTES SETTLEMENT:** APPLIES TO ALL "DISPUTES BETWEEN PARTIES REGARDING THE INTERPRETATION OR APPLICATION OF THIS AGREEMENT OR WHENEVER A PARTY CONSIDERS THAT AN ACTUAL OR PROPOSED MEASURE OF ANOTHER PARTY IS OR WOULD BE INCONSISTENT WITH THE OBLIGATIONS OF THIS AGREEMENT OR CAUSE NULLIFICATION OR IMPAIRMENT IN THE SENSE OF ANNEX 2004." ARTICLE 2004.

- **NULLIFICATION AND IMPAIRMENT UNDER ANNEX 2004:**

  "IF ANY PARTY CONSIDERS THAT ANY BENEFIT IT COULD REASONABLY HAVE EXPECTED TO ACCRUE TO IT UNDER ANY PROVISION OF:

  . . .

  "(d) PART SIX (INTELLECTUAL PROPERTY),

  "IS BEING NULLIFIED OR IMPAIRED AS A RESULT OF THE APPLICATION OF ANY MEASURE THAT IS NOT INCONSISTENT WITH THIS AGREEMENT, THE PARTY MAY HAVE RECOURSE TO DISPUTES SETTLEMENT UNDER THIS CHAPTER." ANNEX 2004.

NAFTA -- DISPUTES SETTLEMENT PROCEDURE

- **CONSULTATIONS:** ANY PARTY MAY REQUEST CONSULTATIONS WITH ANOTHER PARTY ON A DISPUTED ITEM. ARTICLE 2006.

- **COMMISSION RESOLUTION:** 30 DAYS AFTER A REQUEST FOR CONSULTATIONS, EITHER PARTY MAY REQUEST A MEETING OF THE STANDING DISPUTES SETTLEMENT COMMISSION TO RESOLVE THE DISPUTE. ARTICLE 2007(1).

- THE COMMISSION SHALL CONVENE WITHIN 10 DAYS AND ENDEAVOR TO RESOLVE THE DISPUTE VIA CONCILIATION, MEDIATION, ETC. ARTICLE 2007(4) AND (5).

- IF THERE IS NO RESOLUTION WITHIN 30 DAYS, THE COMMISSION MAY AT THE REQUEST OF ANY PARTY, CALL FOR A PANEL TO RESOLVE THE DISPUTE. ARTICLE 2008.

  - A FINAL PANEL REPORT THAT INCLUDES

    - A DETERMINATION AS TO WHETHER THERE IS OR WILL BE NULLIFICATION OR IMPAIRMENT OF A BENEFIT UNDER THIS AGREEMENT,

    - A RECOMMENDATION FOR RESOLUTION OF THE DISPUTE, AND

    - ITS FINDING ON THE DEGREE OF ADVERSE TRADE EFFECTS ON ANY PARTY IS DUE APPROXIMATELY 120 DAYS AFTER THE PANEL IS SELECTED. ARTICLE 2017.

NAFTA -- IMPLEMENTATION/REMEDIES

- "THE DISPUTING PARTIES SHALL AGREE ON THE RESOLUTION OF THE DISPUTE, WHICH NORMALLY SHALL CONFORM WITH THE DETERMINATIONS AND RECOMMENDATIONS OF THE PANEL..." ARTICLE 2018(1).

- "WHENEVER POSSIBLE, SUCH RESOLUTION SHALL BE NON-IMPLEMENTATION OR REMOVAL OF A MEASURE NOT CONFORMING WITH THIS AGREEMENT OR CAUSING NULLIFICATION OR IMPAIRMENT..." ARTICLE 2018(2).

- **COMPENSATION:** "OR FAILING SUCH RESOLUTION, COMPENSATION." ARTICLE 2018(2).

  - EXAMPLE: REDUCTION IN TARIFFS IN ANOTHER SECTOR

- **RETALIATION.** IF THERE IS NO AGREEMENT OR RESOLUTION WITHIN 30 DAYS OF RECEIVING THE FINAL REPORT, THEN THE "COMPLAINING PARTY MAY SUSPEND THE APPLICATION TO THE PARTY COMPLAINED AGAINST OF BENEFITS OF EQUIVALENT EFFECT UNTIL SUCH TIME AS THEY HAVE REACHED AGREEMENT..." ARTICLE 2019(1).

  - PREFERENCE FOR SUSPENSION OF BENEFITS IN THE SAME SECTOR;

  - MAY SUSPEND BENEFITS IN OTHER SECTORS, IF SAME SECTOR SUSPENSION IS NOT PRACTICABLE. ARTICLE 2019(2).

- **INTERPRETATION OF THE NAFTA AGREEMENT IN DOMESTIC JUDICIAL/ADMINISTRATIVE PROCEEDINGS:**

  - AT THE REQUEST OF A PARTY, THE COMMISSION SHALL PROVIDE ITS INTERPRETATION OF THE AGREEMENT TO THE DOMESTIC COURT OR ADMINISTRATIVE BODY.

- IF THE COMMISSION CANNOT REACH AGREEMENT ON INTERPRETATION, THEN ANY PARTY MAY SUBMIT ITS OWN VIEWS. ARTICLE 2020.

- **PRIVATE RIGHT OF ACTION:** NO PARTY MAY PROVIDE A PRIVATE RIGHT OF ACTION AGAINST ANY OTHER PARTY ON THE GROUND THAT A MEASURE OF ANOTHER PARTY IS INCONSISTENT WITH THIS AGREEMENT. ARTICLE 2021.

NAFTA -- TRANSITION

- **IMMEDIATE** ENTRY INTO FORCE
  - DUNKEL GATT-TRIPs TEXT HAS
    - 5-YEAR TRANSITION FOR DEVELOPING COUNTRIES
    - 11-YEAR TRANSITION FOR LEAST DEVELOPED COUNTRIES

- **EXCEPTIONS** TO IMMEDIATE ENTRY INTO FORCE
  - MEXICO MAY DELAY IMPLEMENTATION OF THE REQUIREMENT FOR PROTECTION OF SEMICONDUCTOR CHIP LAYOUT DESIGNS FOR FOUR YEARS.
  - MEXICO MAY DELAY IMPLEMENTING ENFORCEMENT OF IP RIGHTS AT THE BORDER FOR THREE YEARS.

(1) Title:

Patent Infringement Prevention Measures from the R&D (Research and Delopment) Planning Stage to the R&D Achivement/Utilization Stage

(2) Date:

October, 1993 (24th Cincinnati Congress)

(3) Source:

1) PIPA
2) Group: Japan
3) Committee: #4

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(5) Keywords:

Patent Infringement; Infringement Avoidance; Research and Development; Planning; Execution; Utilization

(6) Statutory Provision: None

(7) Abstract:

Recent intellectual property rights play an important role in the strategy of enterprises and have led to many patent disputes such as patent infringement litigations. Under such circumstances, the most important matter for each companies in terms of patent management is to establish countermeasures for preventing patent disputes. In view of above, our committee researched how patent management is carried out to avoid patent infringement from the planning stage to the utilization stage of research and development by sending questionnaires to the members of the PIPA Japanese Group, and analyzed the results.

I. Introduction

Recently, intellectual property rights, particularly patent rights, have been playing an important role in the policies of enterprises and, therefore, many patent disputes such as patent infingement litigations have arisen, both domestically and overseas - especially in the United States.

When one becomes a defendant in such a patent infringement litigation, that company may have to pay extremely high costs and spend a great deal of effort to deal with the litigation, and if it loses the case, the company will suffer considerable economic damage. Under such circumstances, policies for preventing patent disputes or to avoid infringing the patent rights of other companies has been one of the most important matters in patent management for every companies in recent years.

In order to carry out measures for ideally preventing patent disputes, there are various problems concerning patent management, for example, how to conduct patent searches without pitfalls, how to conduct a proper infringement study, and also how to set up countermeasures and prepare an in-house organization to deal therewith. Further, in order to prevent patent disputes, one of the major matters for patent management is how to systematically investigate measures for preventing patent infringement not only from the manufacturing stage of the product but also from the intial stage of research.

This paper deals with the results of an analysis of replies from members of the PIPA Japanese Group to questionnaires on what type of patent management is conducted concerning measures against the infringement of patents of other companies from the research planning stage and development to the utilization stage.

The same questionnaires were sent to members of the PIPA U.S. Group already and we believe that we can study ideal

measures for prevention of patent infringements by a discusstion of this topic between US and Japanese Panellers during the panel discussion at the up coming congress.

II. Questionnaires

II-1. Summary

Questionnaires for the Japanese Group (cf. Attached Reference 1) were sent to 85 companies which were members of the PIPA Japanese Group (as of June 1993) and 76 companies (14 machinery/metal companies; 20 electric machinery/appliance companies; 41 chemical companies; and one company in another field) replied (cf. Fig. 1). Replies to each of the questions were collected for all companies and also by business fields and are given in the attached reference 2, while the results of questionnaires from all companies are given in Fig. 1 to Fig. 18. Incidentally, in the following search results and explanation of the analysis, "planning stage" of research and development is defined as the stage when the subject of R&D and the plan for realizing it are finalized, "execution stage" of R&D is defined as the stage when a certain technical outcome results during the course of R&D and "utilization stage" of R&D is defined as the stage when the research and development are finished and its industrialization (e.g., manufacture of merchandize, etc.) is considered.

II-2. Results and Analysis

II-2-1. Conducting the search of patents of other companies (Q2)

In order to know how widely the subject of R&D for patent searches has expanded, questions were asked about whether the range of searches is for "all" or "some" of the R&D subject or "not conducted". The results indicate that the numbers of the companies conducting patent searches of other companies for all subjects were 38, 42 and 43 in the planning, execution and utilization stages respectively, and when companies conducting searches for some subjects are included, the numbers were 71,

74 and 43 respectively (cf. Fig. 2). In that case, many companies answered that the important subjects for which patent searches are conducted are those subjects with a highly possibility of practice (production on commercial basis) and novel subjects. The result also revealed that:

(1) For some R&D subjects, all companies search the patents of other companies in any of the stages from at least the planning stage of R&D to the utilization stage of the results development; and

(2) Companies which search all of the R&D subjects at any of the stages are as many as 54 out of 76 (71%) .

For each stage and for each company, there were the following tendencies.

(1) During the execution stage of R&D, the patent search ratio for "all subjects" is higher than the planning stage; and

(2) In electrical companies, the rate of searching "all" subjects is relatively low while it is large in chemical companies.
This is presumably because of the effect on the difference in search costs and steps between those companies, depending upon the difference in the numbers of laid-open publications (unexamined publication of patent application) therebetween.

According to those results, it is likely that respecting the patents of other companies is now recognized to be the natural moral of a company and that patent searches prior to R&D and also to manufacture/sale of new products are fundamental behavior of the company.

II-2-2. Countries for the patent searches (Q3)

In order to determine the countries for patent searches, the question was asked concerning in which country patent searches are conducted by classifying Japan and foreign countries. The results are as follows:

(1) Most companies conduct a search for Japanese patents in each of the stages (cf. Fig. 3) and in at least one of the stages from planning to utilization, all companies search Japanese patents; and

(2) Searches of foreign patents are conducted in many companies as well.
Most of the companies replied that the reason for conducting foreign patent searches is the planning of production in that country or export thereto. The United States is the highest country in terms of numbers of foreign patent searches. The reason is that patent disputes are most apt to take place there, export to the U.S. is large, the database is well prepared, and the patents are written in English which is easy to understand.

When a comparison is made for each stage, the rate of foreign patent searches in the utilization stage is higher than that in the planning stage.

According to the above results, it may be concluded that in addition to patent searches for Japanese patents, which is to be expected, each company is now conducting patent searches in particular foreign countries on a routine basis in the R&D stage and also in regard to production of new products in such countries and export thereto, with a recognition that avoiding patent disputes in the country to which the product is to be exported is an inevitable demand for R&D, production of new products and sales activities per se.

II-2-3. Departments where patent searches are proposed (Q4)

In order to know which department in the company recognizes the necessity of searches and proposes patent searches, a question was asked concerning which among the R&D Department, Patent Department and Business Department proposes the search of patents of other companies. The results are as follows:

(1) In the planning stage of R&D, there are many cases where the R&D department proposes a search while the number becomes less with the progress of R&D. On the contrary, in the planning stage of R&D, there are relatively few cases where the Business Department proposes while the numbers become higher with the progress of R&D; and

(2) During the execution stage of R&D, patent searches proposed by the Patent Department increase as compared to the planning stage (cf. Fig. 4).

In addition, the following tendency was noted for each stage.

(1) In the planning stage, proposals from the R&D Department are extremely large while in the execution stage, proposals from R&D, Patent and Business Departments are nearly equal.

From this result, we think that the following conclusion may be drawn.

(1) There are many cases where it is a fundamentally essential condition for deciding the initial investment for R&D that the result of future development does not infringe the patents of others. Therefore, it is not possible to go ahead with the research unless the researchers themselves have further prospects after

conducting patent searches even at the planning stage of the research;

(2) As a result of paying considerable attention to intellectual property rights, patenting of the outcome of the development affects evaluation of the research. Therefore, it is necessary for the researchers themselves to conduct patent searches even in the planning stage for sufficient understanding of the required technical levels;

(3) In conducting the final decision as to whether or not the new product, which is the result of the development, is put on the market, it is again a prerequisite that the product does not infringe the patents of others. Therefore, when the utilization stage is approaching proposals for patent searches from the Business Department, which is responsible for utilization, increase; and

(4) With the utilization of the R&D, the result of the R&D begins to appear and, at the same time, requests for Patent Applications and opinion works for infringement to the Patent Department increase, whereby it is likely that searches proposed by the Patent Department increase as well.

Incidentally, there are essentially no differences between types of businesses.

II-2-4. Department by which patent searches are conducted and person in charge of searches (Q5 & Q18)

A question was asked concerning what department conducts the patent searches for each stage and also where the individuals in charge of the searches (cf. Figs. 5 & 17) are and as a result the following overall tendencies were noted.

(1) Patent searches are mainly conducted by the R&D Department and Patent Department;

(2) During the planning stage of R&D, the rate at which the R&D Department conducts searches is high, while the rate becomes significantly lower with the progress from development stage to utilization stage. On the other hand, with the progress of the development, the rate at which the Business Department conducts searches slightly increases, although the absolute numbers are low;

(3) Needless to say, the rate at which the Patent Department conducts searches is high throughout all the stages;

(4) Outside searching organizations are often utilized as well;

(5) In most companies, individuals skilled in patent searches are in the Patent Department, and in about one half (37) of companies, some individuals skilled in searches are available in the R&D Department; and

(6) The term "others" where the number of individuals skilled in searches is nearly the same meaning as that in the department conducting the searches, and will stand for the subsidiary companies conducting the searches.

Further, the following tendencies were noted for each business fields.

(1) In chemical companies, the rate at which the Business Department conducts searches is lower than that of companies in other fields; and

(2) In chemical companies, the rate at which the Research or Patent Department conducts searches is significantly high compared to companies in other fields.

According to these results, the following may be considered.

(1) Although it is natural the Patent Department conducts patent searches, the reason why the R&D Department is capable of conducting patent searches is partly affected by the fact that as a result of the spread of PATOLIS online services, information retrieval on patents is now able to be conducted at low cost, in fact at the same cost as in the case of information retrieval for non-patent related technical information.

The following problem should be pointed out.

Thus, in conducting patent searches through the R&D Department, there may be a question as to whether or not the R&D Department is capable of conducting proper patent searches and of evaluating the search results. However, in contrast, searches by the Patent Department are conducted at a considerable rate and, therefore, it is unlikely that the above would cause too much problems.

II-2-5. Means for conducting the patent searches (Q6)

A question was asked concerning the means for searching the patents of other companies for each stage of R&D. Plural answers were accepted.

There was no big difference among the R&D stages for the search means utilized. The search means used were, in order, PATOLIS, WPI/WPIL, periodical monitoring of patent publications, manual searches through patent publications and CLAIMS (cf. Fig. 6). It is clear from the results that companies usually conduct searches by means of machines. Many companies use outside databases, although there are about 20 companies which use in-house databases.

II-2-6. Conducting the infringement study (Q8)

A question was asked for each R&D stage as to whether or not interpretation of patent claims and possibility of infringement (hereinafter, referred to as "infringement study") are carried out based on results obtained from patent searches. (Q8)

The result was that during the stage of execution of the research and the stage of utilization of the result of the development, all companies which conduct patent searches, also conduct infringement studies based on the results of the patent searches, and even in the planning stage, 59 companies among 63 conduct infringment studies (cf. Fig. 8).

According to the above result, it may be concluded that nearly all companies use the patent searches as information on right from the planning stage of the research and conduct the interpretation in terms of patent rights for preventing the infringement of patents of other companies.

II-2-7. Handling of Laid-Open Publications (Q7 & 10)

Questions were asked concerning how, in each stage of R&D, the laid-open publications are treated as to the subjects of the searches (Q7).

A large number of companies (60 out of 73 in the planning stage; 62 out of 76 in the execution stage; and 53 out of 65 in the utilization stage) search laid-open publications in all patent searches even in the research planning stage and none of the companies ignore laid-open publications in any stage. Many companies search laid-open publications in all searches from the initial stage of R&D (cf. Fig. 7) and the result is that the positioning of laid-open publications in patent searches is high.

Further, a question was asked for each stage of R&D, as to how to deal with the laid-open publications which were found to exhibit the possibility of infringment (Q10).

The result was that the numbers of companies replying that final coverage of right is judged after searching the

prior art are 43, 60 and 53 in the planning, execution and utilization stages, respectively, which is the same as the number of the companies replying that they monitor the examination procedures at the JPO (cf. Fig. 10).

The above results may lead to the fact that every company pays considerable attention to the Laid-open publication as well as publications after examination as information on rights from the initial stage of the research.

II-2-8. Department where infingement studies are conducted and individuals concerned therewith (Q9 & 19)

The question was asked for each stage of R&D as to, in which department infringement studies are conducted (Q9) and also in which department the individuals who are skilled in infringement studies are available (Q19).

The result revealed that even in the R&D stage, Patent Departments conduct infringement studies in most of the companies (cf. Fig. 9), in addition, Patent Departments have individuals skilled in the infringement study.

Although the numbers are small, there are some companies in which infringement studies are conducted in the R&D Department or Business Department in each stage.

II-2-9. Use of external specialists in conducting the infringement studies (Q11)

The question was asked as to whether or not the opinion of external specialists is requested in each stage, when producing the infringement studies from the results of patent searches (cf. Fig. 11). The results are as follows:

(1) There was no company in which the opinion of external specialists was requested for all search results;

(2) The numbers of companies asking the opinion of external specialists for some of the search results are 35 out of

45 in the planning stage, 61 out of 67 in the execution stage and 64 out of 66 in the utilization stage; and

(3) On the contrary, the numbers of companies which do not ask the opinion of external specialists are 11 in the planning, 7 in the execution and 2 in the utilization stage respectively.

It was found from the above results that there are a few companies asking the opinion of external specialists in the planning stage where the constitution of the R&D subject becomes clear while the number of companies asking such opinions are high with progress to the execution and utilization stages.

Then, the question was asked as to in what case the opinion of the external specialists is asked. The expression of the reply was free.

Fifty-nine companies replied with 64 answers. Those answers are roughly classified as follows:

(I) when infringement study is difficult: 23 (36%)
(II) when the subject is important: 10 (16%)
(III) in the case of foreign patents: 9 (14%)
(IV) when there is a possibility of dispute: 7 (11%)
(V) other; 13% (23%)

According to the above results, it may be concluded that when (I) the infringement study is difficult or (II) the subject is important in the execution and the utilization stages, many companies ask the opinion of external specialists so that they obtain the best results in the infringement study.

II-2-10. Choosing countermeasures for liklihood of infringment (Q12)

Questions were asked as to when there is a strong liklihood of infringement as a result of the infringement study in each stage based upon the patent searches, how the company deals therewith (cf. Fig. 12).

Fig. 12 shows the numbers of companies which chose each of the items given in the question. Plural answers are allowed in the questionnaire.

(1)A: Try to take steps to prevent patent registration or to invalidate patent rights (hereinafter referred to as A).

Throughout all stages, many companies choose A [53 (70%) in planning, 68 (89%) in execution and 64 (84%) in utilization stages respectively; each bracketed percentage is for a total of 76 companies] and it may be said that prevention of patenting or invalidation is given first priority even in the planning stage.

(2)B: Avoid patent infringement (by design changes, etc.) (hereinafter referred as to B)

Many companies choose B in the planning and execution stages [65 (86%) in planning, 65 (86%) in execution and 49 (64%) in utilization stages respectively] and even in the utilization stage, more than one-half of the companies choose avoidance of infringing the patents of others.

(3)C: Obtain a license (hereinafter referred as to C)

Together with the progress from planning to utilization, the numbers of companies choosing C increase [37 (49%) in planning, 57 (75%) in execution and 64 (84%) in utilization respectively]. Especially, when there is a strong liklihood

of infingement in the utilization stage, it is likely that many companies choose licensing as a countermeasure.

(4)D: Make aggressive use of own patents/applications (cross-licensing, etc.)

Similar to C, the numbers of companies choosing D increase with the progress from planning to utilization [23 (30%) in planning, 40 (53%) in execution and 58 (76%) in the utilization respectively] and it is likely that in the utilization stage, most companies aggressively use their own patents/applications. Incidentally, in each stage, it is likely that the number of companies choosing D (cross-licensing, etc.) is less than that choosing C (obtaining a license).

(5)E: Purchase the patent rights

Similar to C and D, the numbers of the companies choosing E increase with the progress from planning to utilization [10 (13%) in planning, 15 (20%) in execution, and 21 (28%) in utilization stage respectively]. However, in any of these stages, it is likely that the number of the companies choosing E is less than that choosing C and D.

(6)F: R&D cooperation with the patentee/applicant company

The numbers of companies choosing F are 11 (14%) in the planning, 17 (22%) in the execution and 9 (12%) in the utilization stages respectively.

Companies choosing F in the utilization stage are characterized by the inclusion of 8 chemical companies.

(7)G: Acquire the company holding the patent right

The numbers of companies choosing G are 2 (3%) in the planning, 2 (3%) in the execution and 2 (3%) in the utilization stages respectively.

It can be said that the number of companies choosing F are very few.

(8)H: **Abandon the R&D (change the subjects)**

The numbers of companies choosing H are 52 (68%) in planning, 34 (45%) in execution and 21 (28%) in utilization, respectively.

When there is a strong liklihood of infringement in the planning stage, many companies (52 (68%)) choose H and with progress to the execution and utilization stages, the numbers of companies choosing H decrease. However, even in the utilization stage, a considerable number of companies choose H.

(9) As a whole, in the planning stage, measures such as trying to take steps to prevent patent or to invalidate the patent, avoiding patent infringement, abandoning of R&D, etc. are taken; in the execution stage, measures such as trying to take steps to prevent patent or to invalidate the patent, avoiding patent infringement, obtaining a license, etc. are taken; and in the utilization stage, measures such as trying to take steps to prevent patent or to invalidate the patent, avoiding patent infringement, obtaining a license, cross-licensing, etc. are taken.

II-2-11. Handling of judgment by Patent Department on deciding the countermeasure (Q13)

Questions were asked, as to when there is a strong liklihood of patent infringement as a result of the patent infringement study in each stage, how the judgment of the Patent Department will be treated on deciding the countermeasure (cf. Fig. 13).

The result is that the number of companies replying that the judgment of the Patent Department is given priority are 45 in the planning, 55 in the execution and 17 in the utilization stages, respectively.

Total numbers of the companies replying that said judgment is given with priority or is taken into consideration are 68 (89%) in the planning, 70 (92%) in the execution, and 70 (92%) in the utilization stages respectively. It is likely to say that throughout all stages, judgment by the Patent Department is greatly considered in deciding the countermeasure.

On the other hand, there are 4 companies replying that judgment is not asked in the planning stage, although this is not so with regard to the execution and utilization stages.

II-2-12. Availability of in-house rules for preventing the infringement of patents of other companies (Q14)

Questions were asked whether or not corresponding rules (systems) are available in the company upon deciding the countermeasure (herein after referred to as "decision-making") when there is a strong liklihood of infringement as a result of patent searches (hereinafter referred to as "search") and execution of infringement study of the search result (hereinafter referred to as "infringement study") in each stage (cf. Fig. 14).

Fig. 14 shows the number of companies where such in-house rules are available or not available upon conducting the search, infringement study and decision-making in each stage.

Numbers of the companies where the rules are available in the planning stage are 36 (47%) in search, 24 (32%) in infringement study and 18 (24%) in decision-making respectively, while 25 companies (33%) do not have such rules. Those in the execution stage are 38 (50%) in search, 32 (42%) in infringement study and 32 (42%) in decision-making respectively, while 25 companies (33%) do not have such rules. In the utilization stage, 35 (46%) in search, 37 (49%) in infringement study, and 22 (29%) in decision-making respectively, while 23 companies (30%) do not have such rules.

According to the above results, it could be said that:

(1) with regard to searches, about one-half of companies have in-house rules in every stage;

(2) with regard to infringement studies, the numbers of companies having such rules increase with progress from the planning to utilization stages, and in the utilization stage, about one-half of companies have rules; and

(3) with regard to decision-making, the numbers of companies having rules increase to some extent with progress from the planning to utilization stages. Although in the utilization stage, the number of companies having in-house rules is less than that of searches or infringement studies;
and about one-third of the companies have no such rules at all in any stage.

II-2-13. Necessity for in-house system for preventing the infringement of patents of others (Q15)

The question was asked whether or not an in-house system for preventing infringement of the patents of others (such as the patent approval system) is necessary during the planning to utilization stages of R&D (cf. Fig. 15).

The results are that 70 companies (92%) replied that such an in-house system is necessary while 4 companies (5%) replied that is not necessary.

According to the above results, it may be concluded that a large majority of companies are of an opinion that the in-house system for preventing the infringement of patents of others is necessary.

II-2-14. Regulation of the in-house system for preventing the infringement of patent of others (Q16)

The question was asked whether or not the in-house system for preventing the infringement of patents of others is available during the planning to the utilization stages of R&D (cf. Fig. 16).

The result was that 37 companies (49%) replied that an in-house system was available while 38 companies (50%) replied that it was not available.

According to the above results, it can be said that about one-half of the companies have an in-house system.

II-2-15. What kind of points that should be taken into consideration in establishing and effectively utilizing an in-house system for prevention of infringement of patents of others (Q17)

The question was asked in free statement form concerning the points that should be taken into consideration in the establishment and effective functioning of an in-house system for prevention of patents of others. Many interesting opinions were sent to us and as a whole they may be classified into the following three categories.

(1) enlightenment as well as increase in consciousness for respecting and paying importance to patents;

(2) making due use of patent system; and

(3) improvement of organization and ability of the department in charge of intellectual property rights.

It is likely that (1) is a view that enlightenment and an increase in consciousness regarding patents by means of education, etc. are necessary based upon the way of thinking that the significance of the in-house system for prevention of patent infringement is understood and the system is

effectively utilized only when each person in each department from the top to the R&D and production areas respects and recognizes the importance of patents. Examples sent to us are "elavation of consciousness of patents in R&D and Production Departments understanding by the management," "thorough in-house education," "thorough spread of spirit of the system" and "understanding and cooperation of the departments concerned."

Indications of or proposals on specific points that should be taken into consideration for effective utilization of the in-house system for preventing patent infringement is (2). Examples are "positive participation and instruction of the members of the Patent Department in and to research and development," "in-house recognition of function of searches," "exchange of information among the departments concerned on a timely basis," "requiring certificate of patent approval attached upon submission of a document for obtaining agreement and final decision for go-ahead," "giving different weights on search coverage depending upon the scale of expected business," "rules regulating that no further progress is allowed without the approval of the patent department" and "patent approval system is to be introduced and used on a flexible basis."

Points which are to be taken into consideration inside the Intellectual Property Department are (3) in which security of human resources and improvement in their abilities are main requisites. Examples are "improvement in ability for search and judgment by the Patent Department," "security of manpower in the Patent Department" and "improvement in professional capability and security of manpower in the Intellectual Property Department."

There was no big difference in the above-mentioned results among the fields of business of the companies. Among the above, (1) and (3) are well to-the-point and agreeable and their practice in higher levels is desired. On the other hand, the opinions classified under (2) relate to views regarding how the system of patent infringement prevention can

function precisely, surely and actually in each company. Since there will be various possibilities in application depending upon the circumstance of each company, such opinions include problems on the power of the Intellectual Property Department in the company and also problems of treating the gap between theory and practice and accordingly, careful consideration seems to be necessary for such opinions.

II-2-16. Indication of anything else that is specifically done to avoid infringing patents of others (Q20)

The question was asked to indicate what is done specifically to avoid the infringement of patents of others in free expression form. Some of the answers to this question are doubled with the answers to Q17 and most of the answers relate to (1) patent education; (2) routine monitoring of patent publications; and (3) rules and systems for patent searches. Some specific examples are "in-house lectures to young researchers", "routine monitoring of patent publications by researchers", "monitoring system for registrations of patents in question", "institutionalization of procedures for avoiding patent infringment and checking thereof" and "periodical holding of patent liaison meetings."

According to the above results, the most noticeable point is that routine monitoring of patent publications is well covered by researchers, etc. As a result of such routine monitoring, it is possible to check to avoid the infringement of patents of others, and the routine monitoring functions effectively. On the other hand, too much dependence on such routine monitoring may cause problems due to the fact that it is done on a "routine" basis, such as the problem of the depth of the search as well as the problem of the level of the individuals conducting the search. It would be necessary to consider countermeasures against such problems. In conclusion, it seems to us that what is to be added to routine level monitoring is a solution for achieving the effective avoidance of infringement of the patents of others.

III. Conclusions

According to the results of the questionnaires, the following were revealed.

(1) With regard to important subjects for research etc., most companies conduct patent searches from the planning stage of research, and all the companies conduct such searches from the planning to utilization stages.

(2) When production in foreign countries or export thereto is planned, many companies concerned conduct patent searches in said countries. Many companies conduct searches especially in the United States; and

(3) In addition, most companies conduct infringement studies based upon the results of patent searches from the planning stage of research, and if there is a strong liklihood of infringement, various means are carried out such as 1) trying to take steps to prevent patent registration or to invalidate the patent right; 2) avoiding patent infringement; 3) obtaining a license; 4) abandoning the R&D (changing subjects); etc. Furthermore, in the execution and utilization stages of research, many companies ask the opinion of an external specialist in the case where infringement study is difficult and where subjects are important.

According to the above description, it may be concluded that Japanese companies respect patents of others and conduct research while taking due consideration of avoiding the infringement of patents of others from the initial stage of research whereby conduct positive and sufficient measures for avoiding the infringement of patents of others.

However, in making the measures for patent infringement avoidance from planning to utilization stages of research more complete, there seem to be some problems that should be taken into consideration as shown in the replies to Q17.

The first point is establishment of an in-house system for avoiding the infringement of patents of others. Nearly all (92%) of companies recognize that certain a in-house system is necessary for avoiding the infringement of patents of others, although the percentage of companies wherein such a system is already established is about 50%. It is, therefore, desired that such an in-house system be established in many other companies in future. In addition, in such a system, it is likely that the department responsible for avoiding infringements should be clarified.

The second point is how efficiently and precisely the measure for avoiding infringement is to be conducted. For such a purpose, it seems to us that some actual means need to be established for the following items.

(1) enlightenment for making the importance of patents (avoiding infringement) recognized in the company;

(2) improvement in ability of the Intellectual Property Department including improvement in searching and judging abilities;

(3) reinforcement of communications between the Patent and R&D Departments from the initial stage of research;

(4) effective utilization of external specialists; and

(5) checking the patents of other companies by monitoring on a routine basis.

Attached References:

1. Questionnaire to PIPA Japanese Group

2. Results of Collection of Replies to the Questionnaire

Fig. 1

Q01 What is your company's main business?

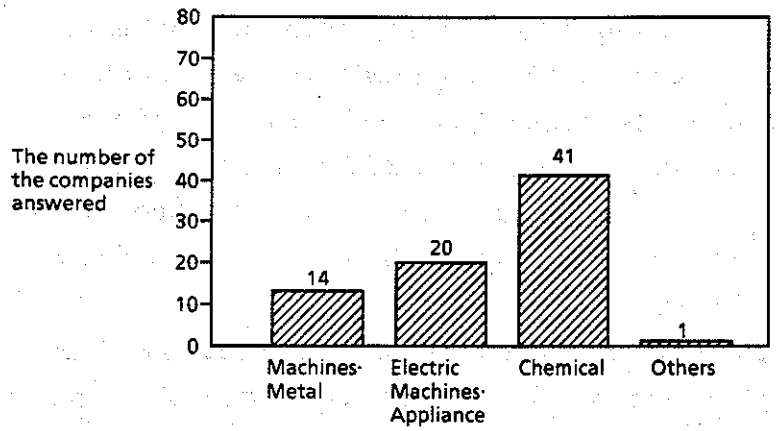


Fig. 2

Q02 Do you conduct patent searches?

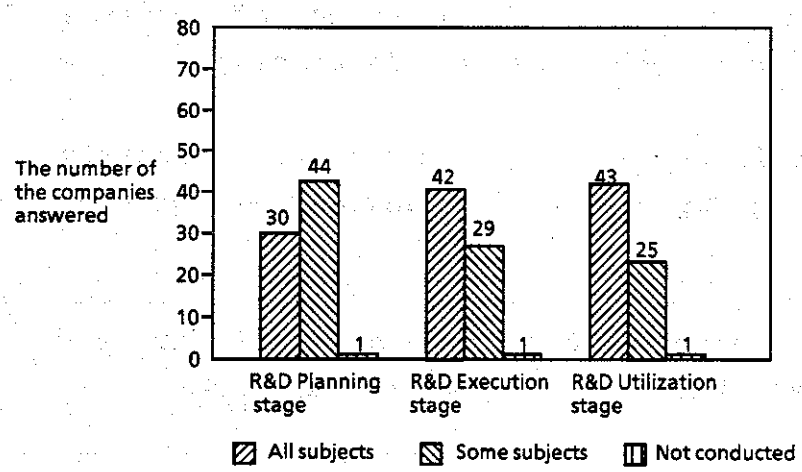


Fig. 3

Q03 For what countries' patents do you conduct searches?

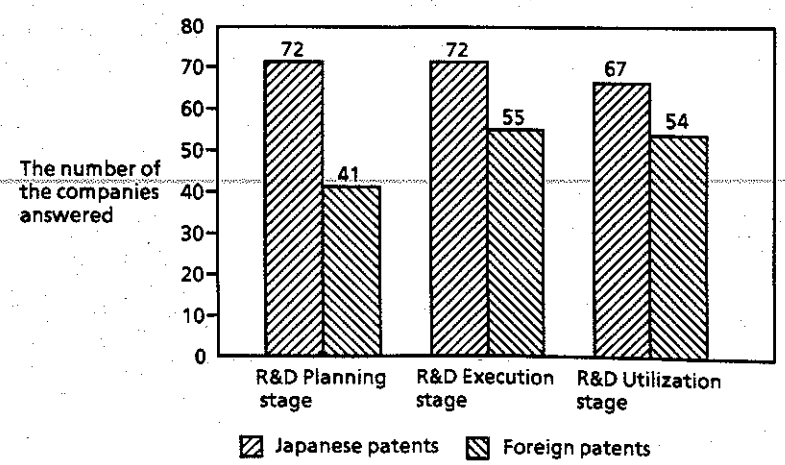


Fig. 4

Q04 What department in your company proposes patent searches?

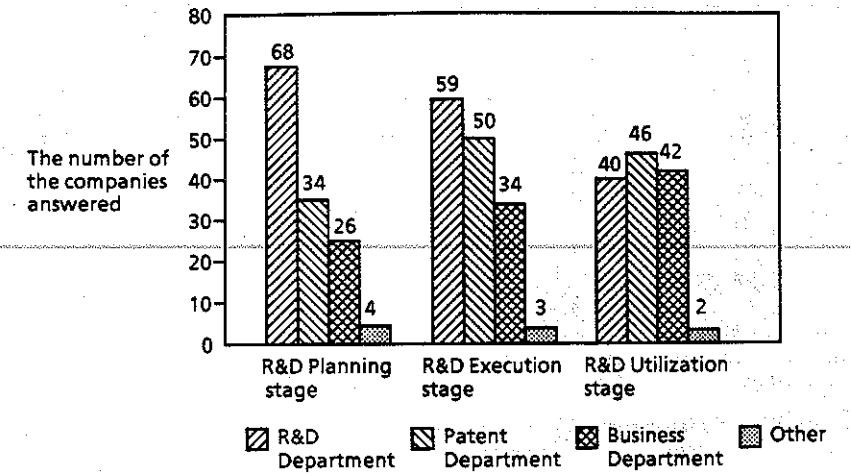


Fig. 5

Q05 What department conducts patent searches?

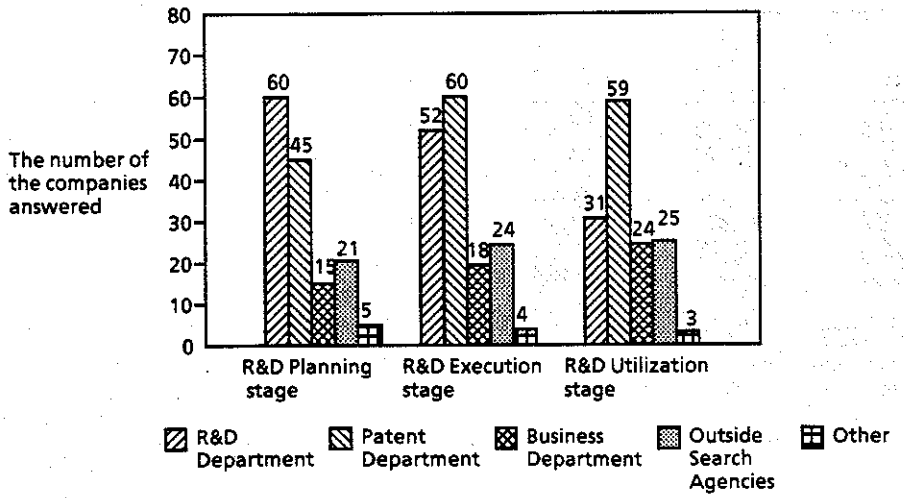
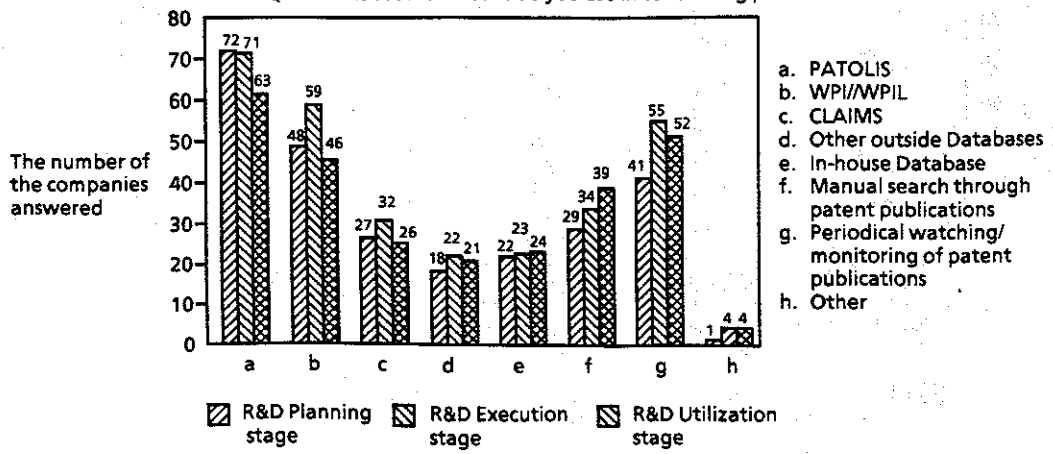


Fig. 6

Q06 What search means do you use in conducting patent searches?



a. PATOLIS
b. WPI/WPIL
c. CLAIMS
d. Other outside Databases
e. In-house Database
f. Manual search through patent publications
g. Periodical watching/ monitoring of patent publications
h. Other

Fig. 7
Q07 When conducting patent searches, do you include Laid-open patent publications?

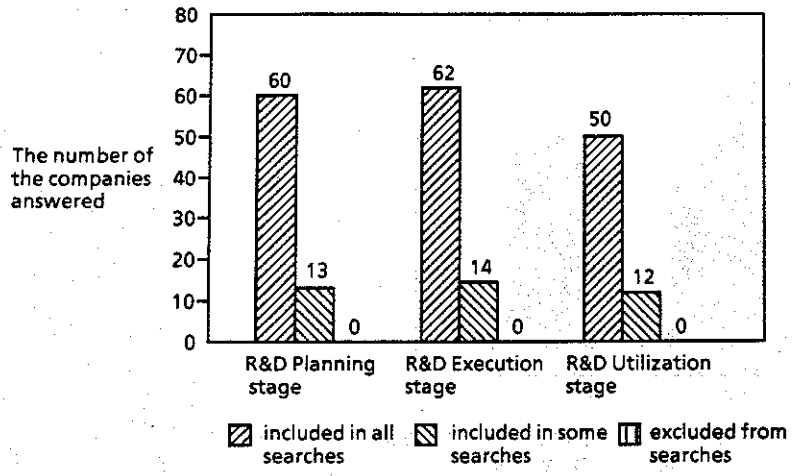


Fig. 8
Q08 Do you make an Infringement Study of Patent rights concerning interpretation of Patent claims and possibility of infringement based on results obtained from patent searches?

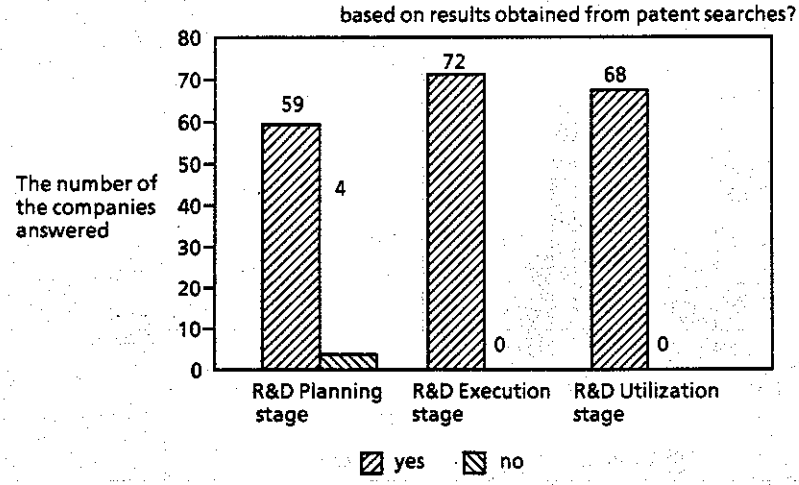


Fig. 9
Q09 What department in your company does Infringement Study?

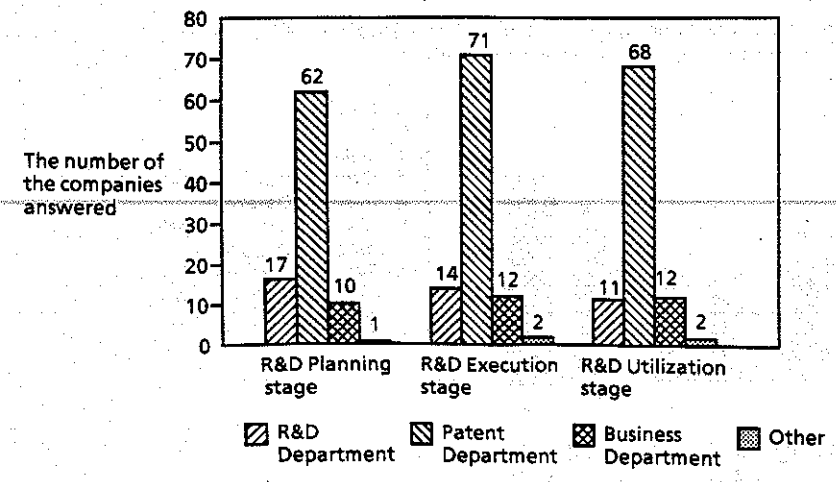


Fig. 10
Q10 In your Infringement Study, do you treat Laid-Open patent publications?

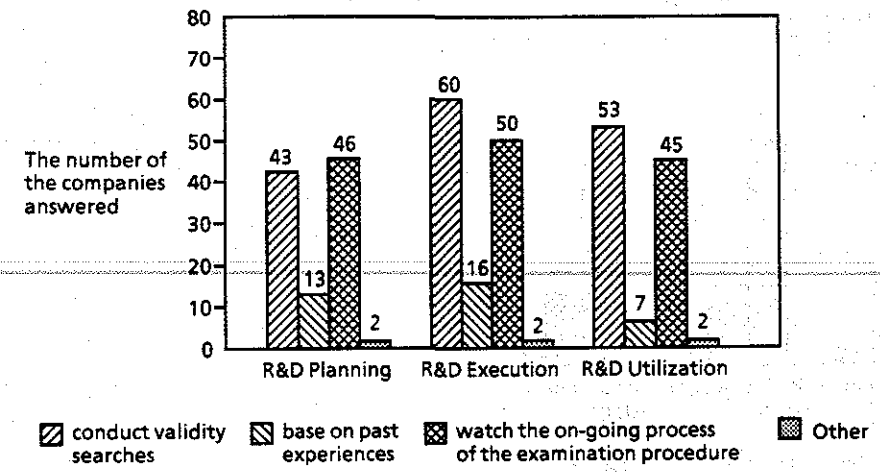


Fig. 11
Q11 In conducting Infringement Study, do you ask for an expert opinion of an external specialist?

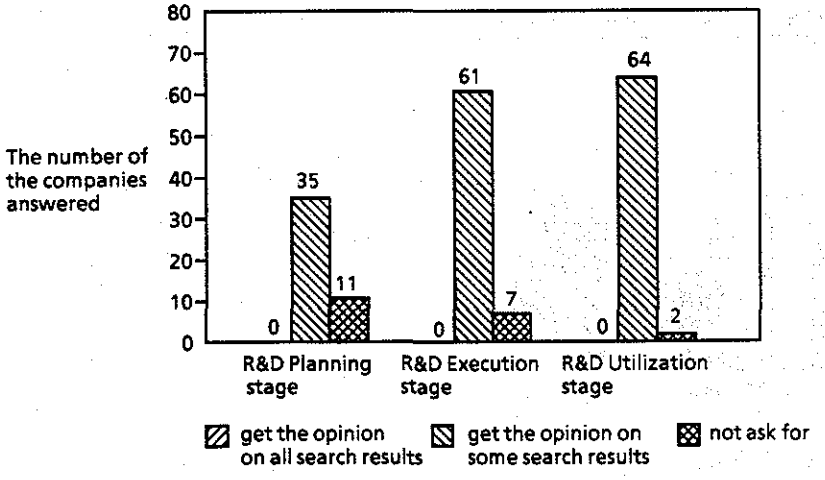
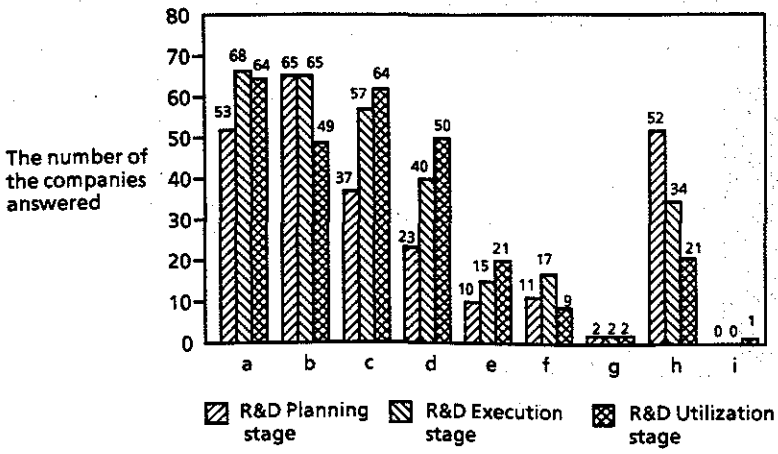


Fig. 12
Q12 If, as the result of Infringement Study, there is a strong likeliness of Infringing patents, what actions do your take to cope therewith?



a. Try to take necessary steps no to be patented or to invalidate the patent rights
b. Avoid patent infringement (by design changes, etc.)
c. Obtain a license
d. Make aggresive use of our own patents/ applications (cross-licensing, etc.)
e. Purchase the patent rights
f. Cooperate on R&D with the patentee/applicant
g. Acquire the company holding the patent rights
h. Abandon the R&D (change the subjects)
i. Other

Fig. 13
Q13 In the strategy/policy-making of Q12, how much weight is given to the infringement Study made by your Patent Department?

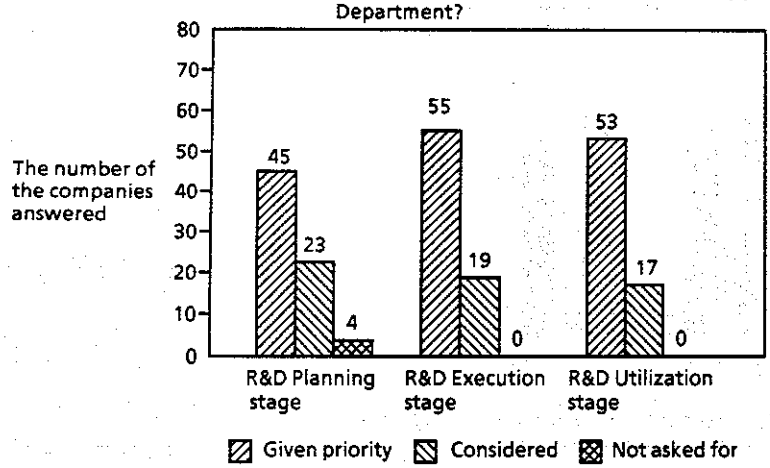


Fig. 14
Q14 Do you have an in-house rule regulated for procedures on patent searches and Infringement Study and the company's decision-making based on the same referred to the above?

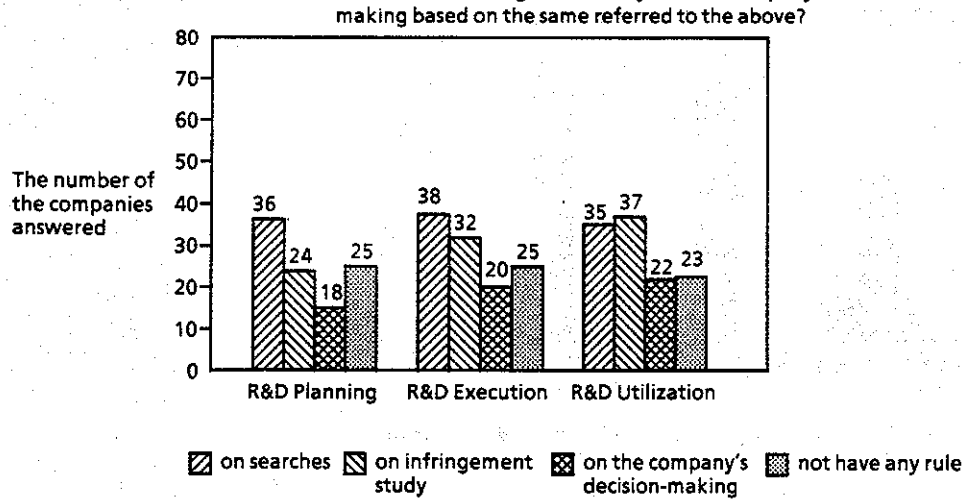


Fig. 15
Q15 Do you think in-house systems regulated for preventing infringement of other companies' patents?

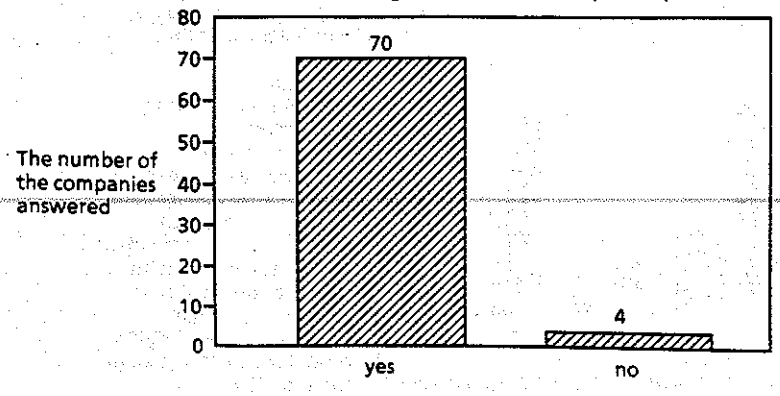


Fig. 16
Q16 Do you have in-house systems regulated for preventing infringement of other companies patents?

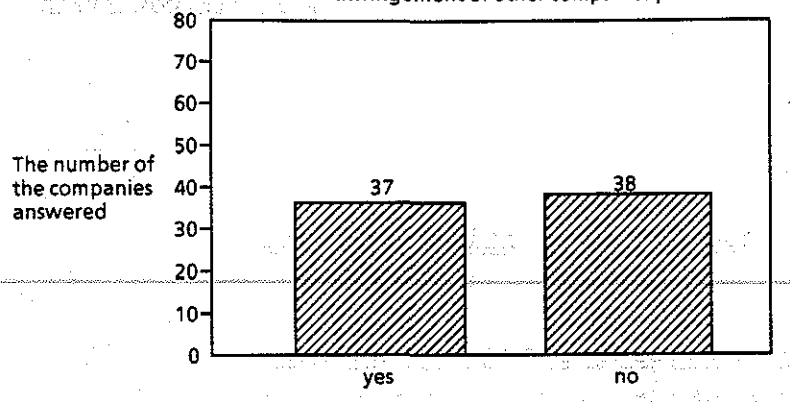


Fig. 17
Q18 What department has individuals skilled in patent searches?

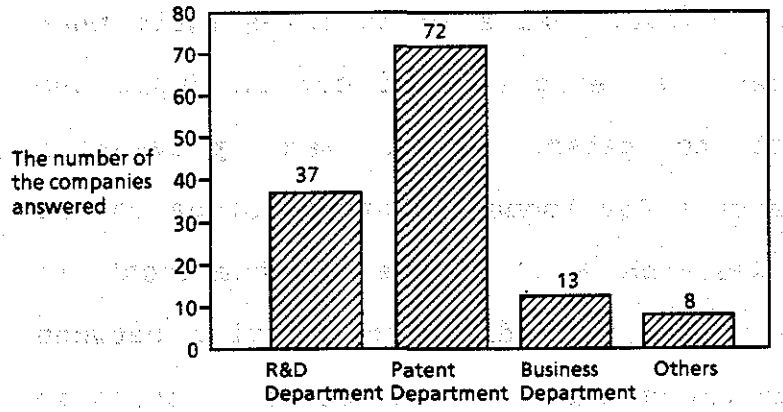
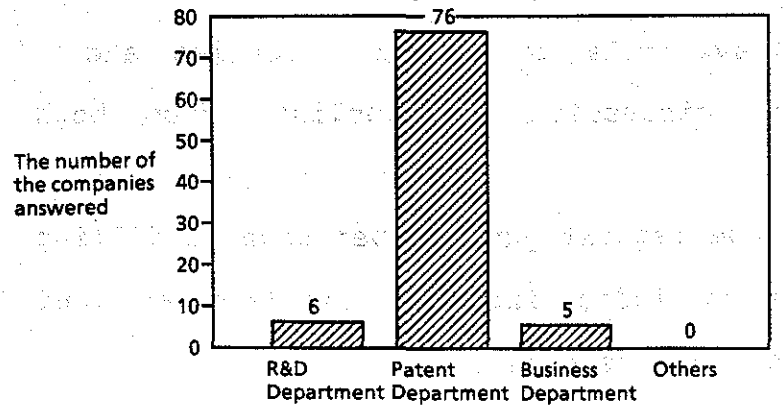


Fig. 18
Q19 What department has individuals skilled in Infringement Study?



QUESTIONNAIRE:

Patent Infringement Prevention Measures

From the R&D Planning Stage to the R&D Achievement/Utilization Stage

The purpose of this questionnaire is to investigate what kind of patent management is being carried out in Japan and the U.S. with respect to patent infringement prevention measures from the Research & Development Planning Stage to the Utilization Stage of Research & Development Achievement in order to get an insight into what differences exist between Japan and the U.S., and among different industrial sectors in this area, and based on this information, to find out what policies and arrangements should be essentially taken. The results will be made available to member companies and a Japanese/American panel discussion by panelists from both nations is planned.

In this connection we request your cooperation in filling out this questionnaire by indicating the situation at your company for each of the headings cited.

(In questions where a choice of responses is provided, please check the appropriate box. If for any reason you are reluctant to answer a question, please leave it blank.)

Answers to this questionnaire will be published as statistical data only.

Questions relate to your company's systems and procedures concerning searching for other companies' patents and preventing infringement of other companies' patents.

Questions ask for a separate response for each of the three phases: 'R&D Planning Stage', 'R&D Execution Stage' and 'R&D Achievement/Utilization Stage'. Please check a box for each phase.

"The R&D Planning Stage" (referred to as "R&D Planning" in the questionnaire) here means the stage at which an R&D subject and a plan for its realization have been fixed upon.

"The R&D Execution Stage" (referred to as "P&D Execution") here means the stage, during the course of R&D, at which a technological achievement of some kind has been made.

"The R&D Achievement/Utilization Stage" (referred to as "R&D Utilization") here means the stage at which R&D has been achieved and working out and utilization of R&D (commercialization, etc) are under consideration.

Q01: What is your company's main business?

(Machines·Metal) □ iron & steel □ nonferrous metals
□ automobiles □ shipbuilding
□ precision machines
□ power-driven machines
□ metals·machines
□ other metals·machines ( )

(Electric Machines·Appliances)

□ general electric machines·appliances
□ computers
□ telecommunications
□ household appliances
□ musical instruments/acoustics
□ measurements □ electric cables
□ electronic parts
□ other electric machines·devices
( )

(Chemical) □ general chemicals
□ organic chemicals
□ rubber □ plastics
□ paint and coating
□ petroleum □ petrochemicals
□ fibers
□ pharmaceuticals □ food
□ cosmetics
□ other chemicals ( )

(other) □ ( )

** Questions ask for a separate response for each of the three stages: 'R&D Planning Stage', 'R&D Execution Stage' and 'R&D Utilization Stage'. Please check a box for each stage.

Q02: Do you conduct patent searches (including prior art searches)?

conduct searches as to all of our R&D subjects

□ R&D Planning □ R&D Execution □ R&D Utilization

conduct searches as to some of our R&D subjects

□ R&D Planning □ R&D Execution □ R&D Utilization

→ As to what kind of R&D subjects do you conduct searches?
( )

not conduct searches

□ R&D Planning □ R&D Execution □ R&D Utilization

→ If you do not conduct searches at any of the three stages; R&D Planning, R&D Execution, and R&D Utilization, please skip Q03 to Q14 and go directly to Q15

Q03: For what countries' patents do you conduct searches ? (multiple answers okay)

conduct searches for U.S. Patents only

□ R&D Planning □ R&D Execution □ R&D Utilization

conduct searches for foreign patents

□ R&D Planning □ R&D Execution □ R&D Utilization

→ In what cases do you conduct searches for foreign patents?
( )

→ For what countries' patents do you conduct searches?
( )

Q04: What department in your company proposes patent searches? (multiple answers okay)

R&D Department

□ R&D Planning □ R&D Execution □ R&D Utilization

Patent Department

□ R&D Planning □ R&D Execution □ R&D Utilization

Business Department

□ R&D Planning □ R&D Execution □ R&D Utilization

other ( )

□ R&D Planning □ R&D Execution □ R&D Utilization

Q05: What department conducts patent searches? (multiple answers okay)

R&D Department

□ R&D Planning □ R&D Execution □ R&D Utilization

Patent Department

□ R&D Planning □ R&D Execution □ R&D Utilization

Business Department

□ R&D Planning □ R&D Execution □ R&D Utilization

Outside search agencies

□ R&D Planning □ R&D Execution □ R&D Utilization

other ( )

□ R&D Planning □ R&D Execution □ R&D Utilization

Q06: What search means do you use in conducting patent searches? (multiple answers okay)

JAPIO (or JPAT) database provided by Japan Patent Information Organization [on-line database for Japanese patents in English language]

□ R&D Planning □ R&D Execution □ R&D Utilization

WPI/WPIL database provided by Derwent

□ R&D Planning □ R&D Execution □ R&D Utilization

CLAIMS database provided by IFI

□ R&D Planning □ R&D Execution □ R&D Utilization

other outside databases ( )

□ R&D Planning □ R&D Execution □ R&D Utilization

in-house database

□ R&D Planning □ R&D Execution □ R&D Utilization

manual searches through patent publications

□ R&D Planning □ R&D Execution □ R&D Utilization

periodical watching/monitoring of patent publications

□ R&D Planning □ R&D Execution □ R&D Utilization

other (R&D Planning)
(R&D Execution)
(R&D Utilization)

Q07: When conducting patent searches, do you include Laid-Open (unexamined) patent publications such as JP or EP ones?

include them in all searches

□ R&D Planning □ R&D Execution □ R&D Utilization

include them in some searches

□ R&D Planning □ R&D Execution □ R&D Utilization

exclude them from searches

□ R&D Planning □ R&D Execution □ R&D Utilization

Q08: Do you make an Infringement Study of Patent rights (referred to hereinafter as 'Infringement Study') concerning interpretation of Patent claims and possibility of infringement based on results obtained from patent searches?

yes

□ R&D Planning □ R&D Execution □ R&D Utilization

no

□ R&D Planning □ R&D Execution □ R&D Utilization

→ How do you treat search results?
( )

Q09: What department in your company does Infringement Study? (multiple answers okay)

R&D Department

□ R&D Planning □ R&D Execution □ R&D Utilization

Patent Department

□ R&D Planning □ R&D Execution □ R&D Utilization

Business Department

□ R&D Planning □ R&D Execution □ R&D Utilization

other ( )

□ R&D Planning □ R&D Execution □ R&D Utilization

Q10: In your Infringement Study, do you treat Laid-Open (unexamined) patent publications? (multiple answers okay)

conduct validity searches (incl. prior art searches) first, then try to judge patentability or final scope of patent rights based on the result thereof.

□ R&D Planning □ R&D Execution □ R&D Utilization

judge final scope of patent rights, based on past experiences, without conducting prior art searches

□ R&D Planning □ R&D Execution □ R&D Utilization

watch the on-going process of the examination procedure at the Patent Office

□ R&D Planning □ R&D Execution □ R&D Utilization

other ( )

□ R&D Planning □ R&D Execution □ R&D Utilization

Q11: In conducting Infringement Study, do you ask for an expert opinion of an external specialist (lawyers, patent attorneys)?

get the opinion on all search results

□ R&D Planning □ R&D Execution □ R&D Utilization

get the opinion on some search results

□ R&D Planning □ R&D Execution □ R&D Utilization

→ In what cases do you ask for the opinion?
( )

do not ask for the opinion

□ R&D Planning □ R&D Execution □ R&D Utilization

Q12: If, as the result of Infringement Study, there is a strong likeliness of infringing patents, what actions do you take to cope therewith?
(multiple answers okay; please prioritize multiple answers alphabetically, below)

A: Try to take necessary steps not to be patented or to invalidate patent rights

□ R&D Planning □ R&D Execution □ R&D Utilization

B: Avoid patent infringement (by design changes, etc.)

□ R&D Planning □ R&D Execution □ R&D Utilization

C: obtain a license

□ R&D Planning □ R&D Execution □ R&D Utilization

D: make aggressive use of our own patents/applications (cross-licensing, etc.)

□ R&D Planning □ R&D Execution □ R&D Utilization

E: purchase the patent rights

□ R&D Planning □ R&D Execution □ R&D Utilization

F: cooperate on R&D with the patentee/applicant company

□ R&D Planning □ R&D Execution □ R&D Utilization

G: acquire the company holding the patent rights

□ R&D Planning □ R&D Execution □ R&D Utilization

H: abandon the R&D (change the subjects)

□ R&D Planning □ R&D Execution □ R&D Utilization

I: other

(R&D Planning)

(R&D Execution)
(R&D Utilization)

R&D Planning: Priority ( )

R&D Execution: Priority ( )

R&D Utilization: Priority ( )

Q13: In the strategy/policy-making of Q12, how much weight is given to the Infringement Study made by your Patent Department?

it is given priority

□ R&D Planning □ R&D Execution □ R&D Utilization

it is considered

□ R&D Planning □ R&D Execution □ R&D Utilization

it is not asked for

□ R&D Planning □ R&D Execution □ R&D Utilization

Q14: Do you have an in-house rule regulated for procedures on patent searches and Infringement Study and the company's decision-making based on the same referred to the above?
(multiple answers okay)

have the rule for procedures on searches

□ R&D Planning □ R&D Execution □ R&D Utilization

have the rule for procedures on infringement study

□ R&D Planning □ R&D Execution □ R&D Utilization

have the rule for procedures on company's decision-making

□ R&D Planning □ R&D Execution □ R&D Utilization

do not have any rule

□ R&D Planning □ R&D Execution □ R&D Utilization

** The following questions refer to all stages from R&D Planning to R&D Utilization

Q15: Do you think in-house systems (e.g. patent approval systems) regulated for preventing infringement of other companies' patents, from the R&D Planning Stage to the R&D Utilization Stage, are necessary?

□ yes

□ no

Q16: Do you have in-house systems (e.g. patent approval systems) regulated for preventing infringement of other companies' patents, from the R&D Planning Stage to the R&D Utilization Stage?

- ☐ yes
- ☐ no

Q17: In order to establish the above systems and make them function effectively, what kind of points do you think should be given consideration?

( )

Q18: What department has individuals skilled in patent searches?
(multiple answers okay)

- ☐ R&D Department
- ☐ Patent Department
- ☐ Business Department
- ☐ other ( )

Q19: What department has individuals skilled in Infringement Study? (multiple answers okay)

- ☐ R&D Department
- ☐ Patent Department
- ☐ Business Department
- ☐ other ( )

Q20: Please indicate anything else that you are especially doing to avoid infringing other companies' patents.

( )

** Thank you very much for answering these questions. Kindly return it to us as soon as possible. **

[Reference 2] Result of Collection of Questionnaires

The number of replies throughout All Lines of Business

Q01	
a	14
b	20
c	41
d	1

Q02	Planning	Execution	Utilization
a	30	42	43
b	44	29	25
c	1	1	1

Q03	Planning	Execution	Utilization
a	72	72	67
b	47	50	49
c	41	55	54

Q04	Planning	Execution	Utilization
a	68	59	40
b	34	50	46
c	26	34	42
d	4	3	2

Q05	Planning	Execution	Utilization
a	60	52	31
b	45	60	59
c	15	18	24
d	21	24	25
e	5	4	3

Q06	Planning	Execution	Utilization
a	72	71	63
b	48	59	46
c	27	32	26
d	18	22	21
e	22	23	24
f	29	34	39
g	41	55	52
h	1	4	4

Q07	Planning	Execution	Utilization
a	60	62	53
b	13	14	12
c	0	0	0

Q08	Planning	Execution	Utilization
a	59	72	68
b	4	0	0

Q09	Planning	Execution	Utilization
a	17	14	11
b	62	71	68
c	10	12	12
d	1	2	2

Q10	Planning	Execution	Utilization
a	43	60	53
b	13	16	7
c	46	50	45
d	2	2	2

Q11	Planning	Execution	Utilization
a	0	0	0
b	35	61	34
c	11	7	2

Q12	Planning	Execution	Utilization
a	53	68	64
b	65	65	49
c	37	57	64
d	23	40	50
e	10	15	21
f	11	17	9
g	2	2	2
h	52	34	21
i	0	0	1

Q13	Planning	Execution	Utilization
a	45	55	53
b	23	19	17
c	4	0	0

Q14	Planning	Execution	Utilization
a	36	38	35
b	24	32	37
c	18	20	22
d	25	25	23

Q15	
a	70
b	4

Q16	
a	37
b	38

Q18	
a	37
b	72
c	13
d	8

Q19	
a	6
b	76
c	6
d	0

Orders of a, b, c, ... are the same as those of alternative questions in the questionnaire.

The number of Replies from Companies of Machines/Metal (14 companies in total)

Q02	Planning	Execution	Utilization
a	7	9	7
b	7	4	5
c	0	0	0

Q03	Planning	Execution	Utilization
a	14	13	12
b	14	13	12
c	6	6	10

Q04	Planning	Execution	Utilization
a	13	12	8
b	7	9	8
c	6	8	7
d	0	0	0

Q05	Planning	Execution	Utilization
a	12	11	8
b	7	8	9
c	5	7	7
d	6	6	5
e	1	0	0

Q06	Planning	Execution	Utilization
a	14	13	11
b	6	9	6
c	3	3	3
d	1	2	2
e	6	5	5
f	7	8	10
g	8	10	11
h	0	0	1

Q07	Planning	Execution	Utilization
a	13	12	11
b	1	1	2
c	0	0	0

Q08	Planning	Execution	Utilization
a	12	12	13
b	0	0	0

Q09	Planning	Execution	Utilization
a	4	4	4
b	12	12	13
c	2	3	3
d	0	0	1

Q10	Planning	Execution	Utilization
a	8	10	9
b	1	3	1
c	10	10	11
d	2	2	2

Q11	Planning	Execution	Utilization
a	0	0	0
b	7	9	13
c	3	2	0

Q12	Planning	Execution	Utilization
a	12	13	14
b	13	13	11
c	7	9	14
d	6	6	12
e	2	2	4
f	3	2	1
g	1	1	1
h	8	4	4
i	0	0	0

Q13	Planning	Execution	Utilization
a	7	8	9
b	6	5	4
c	1	0	0

Q14	Planning	Execution	Utilization
a	10	9	10
b	6	5	8
c	3	3	4
d	4	4	3

Q15	
a	13
b	1

Q16	
a	7
b	7

Q18	
a	7
b	13
c	4
d	3

Q19	
a	2
b	14
c	2
d	0

Orders of a, b, c, ... are the same as those of alternative questions in the questionnaire.

The number of Replies from Companies of Electric Machines/Appliances
(20 companies in total)

Q02	Planning	Execution	Utilization
a	6	8	7
b	13	11	10
c	1	1	0

Q03	Planning	Execution	Utilization
a	19	19	17
b	16	16	14
c	12	15	11

Q04	Planning	Execution	Utilization
a	16	16	12
b	8	9	8
c	7	10	13
d	2	0	0

Q05	Planning	Execution	Utilization
a	14	14	7
b	14	16	16
c	7	9	11
d	6	7	10
e	0	0	0

Q06	Planning	Execution	Utilization
a	19	19	16
b	10	10	8
c	8	8	5
d	4	4	4
e	5	7	7
f	10	11	11
g	12	14	14
h	0	0	0

Q07	Planning	Execution	Utilization
a	15	14	11
b	5	5	7
c	0	0	0

Q08	Planning	Execution	Utilization
a	16	19	17
b	1	0	0

Q09	Planning	Execution	Utilization
a	6	6	4
b	15	19	18
c	3	5	6
d	0	0	0

Q10	Planning	Execution	Utilization
a	10	13	11
b	5	6	3
c	12	13	12
d	0	0	0

Q11	Planning	Execution	Utilization
a	0	0	0
b	10	15	15
c	3	3	2

Q12	Planning	Execution	Utilization
a	13	18	17
b	17	17	16
c	12	17	18
d	8	15	15
e	2	3	4
f	2	1	0
g	0	0	0
h	13	8	3
i	0	0	0

Q13	Planning	Execution	Utilization
a	13	14	12
b	3	5	6
c	1	0	0

Q14	Planning	Execution	Utilization
a	11	10	9
b	8	8	7
c	7	7	6
d	7	9	8

Q15	
a	16
b	3

Q16	
a	8
b	11

Q18	
a	8
b	19
c	7
d	1

Q19	
a	1
b	20
c	2
d	0

Orders of a, b, c, ... are the same as those of alternative questions in the questionnaire.

The number of Replies from Companies of Chemistry (41 companies in total)

Q02	Planning	Execution	Utilization
a	17	25	28
b	23	13	10
c	0	0	1

Q03	Planning	Execution	Utilization
a	38	39	37
b	16	20	22
c	23	34	32

Q04	Planning	Execution	Utilization
a	38	30	19
b	19	32	29
c	13	16	22
d	2	3	2

Q05	Planning	Execution	Utilization
a	33	26	15
b	23	35	33
c	3	2	6
d	9	11	10
e	4	4	3

Q06	Planning	Execution	Utilization
a	38	38	35
b	31	39	31
c	15	20	17
d	13	16	15
e	11	11	12
f	12	15	18
g	20	30	26
h	1	4	3

Q07	Planning	Execution	Utilization
a	21	35	30
b	7	8	3
c	0	0	0

Q08	Planning	Execution	Utilization
a	30	40	37
b	3	0	0

Q09	Planning	Execution	Utilization
a	7	4	3
b	34	39	36
c	5	4	3
d	1	2	1

Q10	Planning	Execution	Utilization
a	24	0	32
b	6	6	3
c	23	26	22
d	0	0	0

Q11	Planning	Execution	Utilization
a	0	0	0
b	18	37	35
c	4	1	0

Q12	Planning	Execution	Utilization
a	27	36	32
b	35	35	22
c	18	31	32
d	9	19	23
e	6	10	13
f	6	14	8
g	1	1	1
h	30	21	14
i	0	0	0

Q13	Planning	Execution	Utilization
a	24	32	31
b	14	9	7
c	2	0	0

Q14	Planning	Execution	Utilization
a	15	19	16
b	10	19	22
c	8	10	12
d	13	11	11

Q15	
a	40
b	0

Q16	
a	22
b	19

Q18	
a	22
b	39
c	2
d	4

Q19	
a	3
b	41
c	1
d	0

Orders of a, b, c, ... are the same as those of alternative questions in the questionnaire.

(1) Title: Patent Marking Law in Japan

(2) Date: October 1993 (24th, Cincinnati)

(3) Source

1) Source: PIPA
2) Group: Japan
3) Committee: 4

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(5) Key Words:

patent marking, false marking, damages

(6) Statutory provisions:

JPL187, JPL188, JPL198, Civil Law 709, Paris Convention 5D

(7) Abstract:

The more companies obtain patents, the more their proprietary consciousness is strengthened. They are interested in balance of royalty income and payment, and naturally want to utilize their patent rights more efficiently.

Fundamentally, a patent right is utilized to protect a product of the patent holder and to distinguish it from others. Patent marking is a means for protection. But it is not commonly practiced in Japan.

Patent marking is not mandatory under Patent Law. On the other hand, provision prohibiting false patent marking yields a liability against the patentee to monitor marking eligibility once patent marking has been made.

Patent marking should be encouraged as a means for preventing infringement. To make this possible, the authors suggest to amend provision of patent marking and to flexibly apply currently standing provisions prohibiting false patent marking.

I. Introduction

Following active investments in research and development, a huge number of patent applications are filed each year and a substantial number of patents are obtained eventually. At the same time, many companies started reviewing their patent managing policies and giving up less valuable patents. Patent maintenance fees are increasing year by year mainly to pick up costs of the central Patent Office.

If patents are maintained only for boasting of the level of technology, company people might not weigh the value of patents appropriately. In some cases, their recognition to patents might die out. Key issue is, thus, how to utilize its own patents.

Means for active patent utilization include its assignment or license to other companies which are producing infringing products. However, allegation of patent validity to demand patent royalty requires a significant number of human resources including engineers and intellectual property department people. Burden of allocation of such human resources as well as time and cost becomes excessive. An investigation system to find out potential infringement cannot be established in a short time.

Patent rights are sought because of the desire to protect patentee's own product or technology. Royalty income might be a secondary reason. Ideally, companies should seek recovery of investment and profits by selling their products or licensing technologies which are the outcome of research and technology. Thus, using a patent right so as to distinguish its own product or technology from others' would comply with the companies' goal. Marking of a patent is an easy yet efficient way of utilizing the patent.

In actuality, however, patent marking is not commonly practiced in Japan. Although Japanese Patent Law provides that reasonable efforts be made to mark a patent on a patented product, patent marking is not mandatory. Once patent marking is exercised, the patentee is required to monitor and administer marking eligibility. This requirement is to avoid possible false marking. For companies, patent marking does not yield

significant legal effect. It simply provides the companies with a burden of monitoring marking eligibility. In some occasion, companies may face a risk of criminal offence caused by false marking due to careless monitoring.

In general, patent marking is considered to attribute to the prevention of infringement and distinction from unpatented products. However, if it is very strict about interpretation of false patent marking, the exercise of patent marking would probably force patent holders to assume only the liability for administration of marking.

In view of actual situation where patent marking is unpopular, the authors analyze mechanisms of preventing infringement and distinguishing from unpatented products.

II. History of Patent Marking in Japan

As discussed above, patent marking is not mandatory under present Patent Law. In the former time, however, it was an obligation to the patentee. History of patent marking in Japan is discussed below.

1. Old Laws

The first patent marking provision dates back to 1871. Obligation of patent marking lasted until 1938 when the provision was abolished. For the period from 1885 through 1938, failure of the patent marking obligation resulted in exhaustion of the right to a damage claim.

The following are outlines of past patent law amendments.

1) The 1871 Law

The first patent marking provision in Japan was legislated in 1871 and abolished in 1872. A marking requirement was set forth in as the 18th article of the law. Indication of " 特許 " (Patent) together with the inventor's name was required when a patented product was marketed.

2) The 1885 Law

The 10th article of the law provided for patent marking, in which any invention was required to bear the indication of a patented date and term. When marking on the invention was physically unavailable, indication was required on a package of the invention. Article 19 set forth penalties when marking obligation was not performed. It specifically mentioned that the patentee was estopped from claiming damages when and if he failed in marking his patent.

3) The 1888 Amendment

Amended versions adopted the former Articles 10 and 19 as new Articles 29 and 40 respectively. There were no substantive changes between the old and new provisions.

4) The 1899 Amendment

Article 56 provides that in the absence of patent marking, the patentee could claim damages against a willful infringer only.

5) The 1909 Amendment

This amendment allowed the patentee to request his licensees or others to mark on patented goods. Article 64, Clause 3 was substantially the same as Article 56 of the 1899 Patent Law. By regulations under the Patent Law, marking specification was determined, including the indication of " 特許 " (Patent) in kanji character together with the patent number.

6) The 1922 Amendment

With regard to process patents, the new law provided for an indication different from one for the product patent, namely, " 方法特許 " (Process Patent) on goods manufactured by the patented process.

2. Current Law

The current law was substantially revised in 1938 to comply with the Paris Convention which set forth in Article 5D:

> "No indication or mention of the patent, of the utility model, of the registration of the trademark, or of the deposit of the industrial design shall be required upon the product as a condition of recognition of the right to protection."

Provisions regarding failure in marking obligation were deleted in view of conformity with Article 5D of Paris Convention and patent marking was provided as a non-compulsory obligation. Article 5D of Paris Convention was construed that failure of marking should not cause any discriminating effect.

1) The 1938 Amendment in part

Reflecting the foregoing construction, the marking provision (Sect. 64, Clause 3) was deleted from the 1909 law, and new Section 187 was included which read:

"A patentee or an exclusive or non-exclusive licensee shall take steps, as prescribed in an ordinance of the Ministry of International Trade and Industry, to mark the patented product or a product produced by the patented process (hereinafter referred to as "patented product"), or the packaging thereof, with a statement to the effect that the invention of the product or the process has been patented (hereinafter referred to as "indication of a patent").

III. Relevant Provisions

With the above history as background, the following discusses patent marking provisions and provisions relevant thereto under the present patent law.

1. Patent Marking (Section 187, Patent Law)

1) Persons entitled to marking

Persons who can mark are limited to the legitimate proprietor. To be more specific, a patent owner, an exclusive licensee or non-exclusive licensee can do that.

2) Patent marking by a non-proprietor

If patent marking is made by a person who is not a proprietor, such marking might constitute false marking under Section 188 as discussed later. Intention of marking by non-proprietor would be a free-ride on publicity of a legitimate product. Leaving them as they are does not comply with the gist of Section 188. For this reason, the infringing products cannot be assigned to be tantamount to the patent-associated products.

Patent marking by others also would be subject to the Unfair Indication Law, Clause 3 of Article 4.

3) Subjects for marking

a) Product patent

When a patent is granted to a product invention, marking must be made on the product or its packaging.

b) Process patent

When a patent is granted to a process invention, marking must be made on goods produced by the process or on its packaging.

c) Application for process patents

With respect to process inventions other than those for manufacture, there are no applicable provisions in Patent Law. However, in view of encouragement of patent marking, relevant law and rules should be amended so as to allow marking on a product exclusively used for the patented process.

4) Method of marking (Regulation under the Patent Law Article 68)

a) Product patent

Characters " 特許 " (Patent) and the patent number must be indicated.

(Example: 特許第 xxxxxxxxx)

b) Process patent

Characters " 方法特許 " (Process Patent) and the patent number must be indicated.

(Example: 方法特許第 xxxxxxxxxx)

5) Judgment of eligibility of marking objects

Patent marking is allowed only for a subject matter in association with a patent which includes a product per se in case of a product patent, and goods produced by a process in case of a process patent.

Practically speaking, it is not easy to objectively determine whether goods on which patent marking is made falls within the technical scope of an invention as described in patent claims. If the marked goods does not amount to the patent-associated product, marking on that goods might constitute a false indication. For this reason, the patentee is required to be very careful about appropriateness of the indication. Objective determination can be made with the aid of opinions from patent experts including outside patent attorneys. The most reliable approach is a request for judgment by the Patent Office (under Article 71, Patent Law.) However, it takes a comparatively long time and complicated procedures until the requested judgment is obtained.

In actuality, corporate patent specialists decide whether their own product is the patent-associated product under the patent law. Being a patentee, he might be inclined to broadly interpret the scope of his patent thereby allowing him to argue that his product is fully covered by his patent. If there are arguments about

eligibility, the court will finally hear the case. However, in view of the desirability that patent marking should be encouraged, corporate patent specialists should be given a discretion to decide whether to provide patent marking on a product when they reasonably find it to fall under their patent. One of the reasons for such discretionary judgment by corporate people is because requirement of judgment from outside experts would substantially make patent marking restrained.

6) Points to be considered

a) Marking on relevant items

Patent marking is admissible for the statutory patent-associated product and its packaging. When direct marking on the patent-associated product is difficult, the patent can be often mentioned in advertisement brochures or promotional descriptions. However, these descriptions are not regarded as legitimate patent marking under the current law. So far as the product described in that brochure is the patent-associated product, false marking might not be constituted. Description of a patent in relevant brochure would, of course, be effective for the general public in view of distinction of a patented product from others. Competitors shall also be warned of the patent, which would avoid future infringement. Thus, indication of " 特許 " and the patent number on relevant brochure seems effective to prevent future infringement and to impress the technological level of the manufacturer.

b) Position of patent marking

Patent marking aims at preventing future infringement problems. In view of this objective, marking should be made on a portion where competitors and consumers can easily recognize it.

Assuming that the patent-associated product is in

use, patent marking would be appropriate if it is made on a position where users can see it. However, when the product is for hand-carry, marking is usually made on its bottom. If marking is recognizable only after taking apart, such marking will not cause competitors to avoid infringement. If patent marking is worn out or flaked off by everyday use, it would be legitimate to make it somewhere appropriate within equipment.

c) How to mark

The characters " 特許 " and its patent number should desirably be imprinted as part of the product. In view of convenience, however, a label with the characters of " 特許 " and its patent number may be attached to the product. When the label is secured to the product, there shall be no problem. However, if it peels off before the marked product reaches final consumers, such marking would not constitute patent marking. Thus, secured attachment on an appropriate position is required thereby not allowing peeling off during normal delivery.

2. Prohibition of false marking (Section 188, Patent Law)

Any goods with the indication of a patent is received by users or consumers as a value-added item which is different from conventional products. It can be in a better position than others for commercial transaction. There shall be some persons who, expecting such advantageous position, want to place false marking on goods which are not associated with any patent. Section 188 of Patent Law thus prohibits this kind of acts causing unfair competition.

Any person who violates this provision is subject to penalties under Section 198 of Patent Law.

1) Prohibited acts

a) Marking on unrelated products or its packaging

Prohibited is patent marking on unrelated products or their packaging as well as confusingly similar indication thereon. More specifically, the indication of a patent number is prohibited when a product is totally irrelevant to any patent.

b) Assignment or display of a product with false marking

With respect to the products under the foregoing paragraph a), assignment, lease or display is prohibited.

c) Marking on advertisements for unpatented goods

Marking on advertisements for having others make or use unpatented goods, are prohibited when and if marking is made in such manner that the unpatented goods is indicated as if it is already patented.

d) Marking on advertisements involving unpatented process

Marking on advertisements for having others make or use goods with unpatented processes are prohibited if marking is made thereon in such manner that the unpatented process is indicated as if it already patented.

2) Troublesome indication

In actuality, following indications are troublesome.

a) Indication omitting a patent number

When the character " 特許 " is solely indicated on a product which is not covered by or associated with a patent, such indication is confusing as legitimate patent marking. Such indication should be interpreted as false marking. However, when a wrong

patent number is indicated on a product which is covered by or associated with a patent, it would not constitute false marking.

b) Marking after patent expiration

When a patentee continues to mark his patent on the patented product even after the expiration of his patent, such marking should be considered to be false marking because his product is no longer the patent-associated product. Likewise, when patent marking is made on the patented product while the patent is still valid and the marked product be marketed after the patent expired, false marking should constituted.

c) Patent marking during pendency of an patent application

Such indications as " 特許出願第 xx-xxx",(Patent Application No. xx-xxx), " 特許出願中 ", (Patent Pending), or "Patent Pending No. xx-xxxx" would not constitute false marking, as they are not regarded as "confusingly similar patent marking."

There is a case in 1916, in which the court held that the indication: " 特許願済 " (patent application was already filed) would possibly be interpreted to indicate that a patent was granted and that it would be confusing. In these days, however, the patent system has been well recognized and people would not read it as saying "a patent is granted."

d) Expanded patent marking

When a patent covers only a portion of equipment, it would be inappropriate for the patentee to indicate his patent in such a manner that users read it as if entire equipment is covered by the patent. However, such expansion may and may not constitute false marking. A key to determination is the degree of expansion. Let us take a word processor in which a

patented power switch is used, for instance. If indication is made so as to imply a patented word processor and newspaper advertisement is made with that indication, it would constitute false marking as the indication extends to portions which are not covered by the patent. Apparently, such indication functions to mislead that even unpatented portions are associated with the patent.

e) Indication in English letters

When an indication is made in corresponding English, for example, Pat. No. xxx, on a product produced in Japan, it would not be false marking as long as the product is properly covered by the patent.

3. Penalty for false marking (Articles 198 and 201)

False marking is subject to following penalties.

1) Patent Law, Article 198

A person engaging in unlawful acts as defined in Patent Law, Article 188 is liable to imprisonment for less than 3 years or to a fine less than 200,000 yen. By the forthcoming law amendment which is scheduled to be in effect early part of the next year, the limit of 200,000 yen shall be increased to 3 million yen.

2) Patent Law, Article 201

When a representing officer of a legal entity or a representative employer or other employees of a legal entity or natural person has violated Article 198 with regard to the business of that entity or person, the legal entity or natural person shall, in addition to the offender, be liable to the fine.

4. Relations with other law

1) Civil Law

When false marking was willfully or negligently made and damage was caused by the false marking, claim for damages might be admissible under Article 709 (unlawful acts) of Civil Law. Even without willfulness or negligence, return of profits might be claimed under Article 703 (claim for restitution) of Civil Law.

2) Criminal Law

Article 246 of Criminal Law (Fraud) provides that a person who unlawfully gets other's property by fraud is subject to imprisonment for 10 years or less. While a requirement for false marking is an inappropriate indication, deceit requires the existence of a cheated property. Thus, when a property is taken due to false patent marking, deceit would be constituted.

3) Unfair Competition Prevention Law

Unfair Competition Prevention Law provides in Clause 5 of Article 1 that when business interests are likely to be injured from a false indication on goods or in advertisement which would be misleading as to quality, contents, etc. of goods, a claim for discontinuance of such act can be filed.

It also provides in Article 1-2 that a person who committed any act defined in the foregoing Article intentionally or negligently is liable to damages.

Article 5 stipulates that any person who made false indication on goods or in advertisement likely to mislead the public as to quality, contents or the like of goods is liable to imprisonment for 3 years or less or a fine in the amount of 200,000 yen or less.

Thus, false marking would constitute a violation of Unfair Competition Prevention Law.

Under the criminal provision (Clause 1 of Article 53 of Criminal Law), one of the severest punishment is applied when an unlawful act constitutes violation of multiple laws.

Thus there shall be no multiplied punishment under Patent Law, Criminal Law and Unfair Competition Prevention Law.

IV. Effect of Patent Marking

1. Relationship with Paris Convention

The Convention of Paris provides in Article 5D that no patent marking shall be required on the patented product as a condition of recognition of the right. This provision simply confirms that absence of patent marking or indication would not render patent protection unavailable. It is a discretion of each member country so far as a patent right is protected, whether to treat disadvantageously if the patentee fails in marking or to treat advantageously if he meets marking requirements.

The provision of 35USC287 is a good example which sets forth:

> "In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice."

To the contrary, British Patent Law provides in Article 59 that damages shall not be awarded against a defendant who proves that at the date of the infringement he was not aware, and had no reasonable ground for supposing that the patent exited and that the patentee may rebut such infringer's defence if he marked his patent appropriately.

In Germany, patent marking is helpful for establishing gross negligence of an infringer.

In France and Sweden, bad-will can be presumed or proved against an infringer when patent marking is appropriately made.

In Italy, Belgium and Brazil, the patentee can overcome good-will arguments by infringers when patent marking is appropriately made.

2. Effect in Japan

The 1938 amendment removed the sentence to the effect that in the case of failure of patent marking, the patentee is allowed to sue for damages only against an infringer who has been aware that the product is patented. Thus, disadvantage of no marking was eliminated.

The currently standing provision states that the patentee, exclusive licensee or non-exclusive licensee must make efforts to mark his patent. This provision, however, simply has words for encouragement of patent marking. But it would be helpful for the patentee in refutation against infringer's argument about presumed negligence which is available under Article 103 of Patent Law. Willfulness or negligence on the part of an infringer is one of the requirements for a damage claim (Civil Law, Article 709).

However, patent marking is of no effect for a restitution claim under Civil Law, Article 703 as willfulness or negligence is not a prerequisite.

Apart from the effect of refutation in terms of a damage claim, patent marking provides manufactures with an implication to prevent from infringement issue and consumers with distinction from unpatented products.

3. Necessities of amendment and flexible application of articles of Patent Law

As discussed above, the 1938 amendment eliminated a sentence providing for a legal effect of patent marking. Elimination was reportedly necessary for conformity with the provision of Article 5D of Paris Convention.

Under U.S. law, patent marking constitutes a constructive notice thereby the patentee is entitled to claiming damages dating back to the time of marking. Under this circumstance, notice to an infringer is not required. It can be interpreted that USA puts positive legal weight on patent marking.

Like in the U.S., it might be possible in Japan to positively admit the claim for damages to be effective as of the time when patent marking is made. However, litigation would be

inevitable for the admission of such a damage claim, which would be a problem in view of efficient utilization of the patent right.

As discussed above, patent marking is effective for refutation against presumed negligence in a damage case. In addition to this effect, an effect of preventing infringement should be secured in a simpler, practical fashion. For that purpose, currently standing relevant provisions would be amended as well as flexible law interpretation.

Under the current provisions, the subject matters for patent marking are limited to patent-associated goods and their packages. Suggested is, thus, a law amendment to allow the inclusion of certain category of written materials including brochures and manuals of the patented product. If the suggested amendment is made, even a small item on which patent marking is physically unavailable would enjoy the effect of alerting potential infringers.

It is also suggested that provisions prohibiting false marking should be flexibly applied to "confusing" indications, thereby allowing an indication of a representative patent on his product catalogue even if goods appearing on the catalogue is unrelated to the patent. This would have an effect to appeal manufacturer's technical qualifications to users while preserving the effect of alerting the patent on the brochure.

For matured industries, patents are only means for protection of their own products. Compared with litigation which is usually costly and time-consuming, patent marking would provide a simple yet effective means for preventing competitors from infringement, if the legal effect of patent marking is strengthened.

V. Conclusion

Many patents are granted each year. Proprietary consciousness is enhanced gradually. However, environment to prevent patent infringement is still insufficient. On the other hand, Patent Law is expected to be revised next year

significantly. As a result, false marking provisions are to be amended and the amount of fines will be significantly increased. Increased punishments, unless appropriate changes are made regarding patent marking, would discourage the use of patent marking.

Therefore, the patent marking provisions should be revised so as to foster the environment for the better use of patent marking. Statutory subject matters should include certain category of written materials. At the same time, the scope of "confusing" indications should be flexibly determined. With these legislative amendments and flexible interpretation, practice of broader patent marking would be available and future infringement might be prevented more effectively and practically.

Finally, it will be beneficial for Japanese companies to learn about patent marking practice in USA where patent marking environment is more favorable than Japan.

VI. References

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2. "Tokkyo Sosho-ho Zakkan" (Overview of patent litigation law) by Miyake, pp 349-353

3. "Tokkyo-ho Gaisetsu" (Commentaries on patent law) by Yoshifuji, pp 441-442, pp 548-551

4. "Kogyo Syoyuken-ho Chikujo Kaisetsu" (Commentaries on patent law clauses), Hatsumei Kyokai, pp 429-431, p451

5. "Tokkyo-ho" (Patent Law) by Nakayama, pp 1512-1516

PIPA 24TH INTERNATIONAL CONGRESS
OCTOBER 8, 1993

HOW TO AVOID POTENTIAL PATENT INFRINGEMENT BASED ON AN APPROPRIATE PATENT CLEARANCE PROGRAM

Carol Lewis
Patent Counsel
Lanxide Corporation

I. MONITORING THE STATE OF THE ART (DOMESTIC AND FOREIGN)

- Domestic and Foreign Patent Office Publications - e.g., Official Gazette, PCT Gazette
- Commercial Searches - e.g., LEXIS/NEXIS, Derwent, DIALOG
- Trade Publications - e.g., Ceramics Bulletin, Journal of Metals, ASM International
- Trade shows attended by marketing people
- Professional society meetings attended by researchers
- Consultants - both from technical and business perspectives (e.g., market analysts, universities, etc.)
- Other contacts - agents, business/venture partners bring to our attention relevant technology
- Competitor activity - e.g., brochures and publications

II. WHEN POTENTIONALLY CONFLICTING TECHNOLOGY/PATENTS IDENTIFIED

A. Domestic

- Obtain and review file histories of U.S. patents
- Monitor publications - business, technical, product literature
- Consult with business analysts
- Consider capability to "design around"
- Contact outside law firm for independent opinion when warranted based upon in-house opinion

B. Foreign

- Follow progress of foreign prosecution
- Consider filing opposition
- Monitor publications - business, technical, product literature
- Consult with business analysts
- Consider capability to "design around"
- Contact outside law firm for independent opinion when warranted based upon in-house opinion

III. NEW PRODUCT DEVELOPMENT (DOMESTIC AND FOREIGN)

- Research/marketing contacts Patent Department regarding new applications for technology
- Typically, simultaneously with the product development, appropriate narrowly focused search carried out, including means used for monitoring (above), to clear the specific application for development/manufacturing

AVOIDANCE OF INFRINGEMENT

I. The cornerstone of 3M's policy is that "3M shall not infringe or use without permission the valid, enforceable intellectual property rights of others." This is consistent with 3M's policy that intellectual property, whether it be 3M's or another's, must be respected. Implementation of that policy takes many forms.

A. 3M technical personnel are charged with responsibility for knowing the prior art, including, of course, the intellectual property of others. It is their responsibility to call to 3M's patent attorney's attention patents relating to products under development by 3M. This may occur at various stages of product development or in the context of assessing patentability of inventions embodied in the product, or its method of manufacture or use.

B. 3M's Office of Intellectual Property Counsel organization mirrors that of 3M. Thus, each business unit has at least one patent attorney assigned to it. This enables the attorney to be familiar with the business plans, including product development, of the unit to which he/she is assigned. The patent attorney is also advantageously positioned to become familiar with competitive activity, competitive products, and associated patents owned by competitors. Prosecution of 3M patent applications also serves as a vehicle for becoming

aware of relevant patents of others. Through this close association between patent attorney and business unit, the likelihood of detecting potential infringement problems is enhanced.

C. Part of the formal approval process for launching products entails reviewing the patent literature for potential infringement. The business unit must confer with its patent counsel to assure that the product in question is free of infringement. Any patents recognized as presenting potential infringement problems are reviewed by patent counsel. If a colorable question of infringement arises, both infringement and validity are investigated and opinions written, either by in-house or outside counsel. Only after clearance is obtained is product launching approved. In this manner, 3M seeks to live up to its basic tenet quoted above not to infringe the valid patents of others.

Walter Kirn
8/31/93.6.2

PIPA 24TH INTERNATIONAL CONGRESS
OCTOBER 6-8, 1993

HOW TO AVOID POTENTIAL PATENT INFRINGEMENT BASED ON AN APPROPRIATE PATENT CLEARANCE PROGRAM

Tom DesRosier
Director, Patents and Trademarks
Genetics Institute, Inc.

I. Regular monitoring by attorney (assigned by technology/product area) of:

A. Commercially designed search reports (e.g., "Genetic Engineering" report published weekly by Derwent - cost $1,600/year after paying annual Derwent "membership" fee)

B. Reports from self-designed and self-executed on-line searches (e.g., on DIALOG or ORBIT, both of which have the Derwent and Inpadoc databases on their systems - cost $1,000/year)

C. Annual reports, 10Qs, etc. of competitors

D. Analyst reports on competitors

E. Trade/Industry publications (e.g., Bioworld, Biotec Law Report, Genetic Engineering News, etc.)

II. "Watches" established through local agents on potentially conflicting applications (identified through monitoring procedures above) to:

A. Follow prosecution of competitors application to identify strengths/weaknesses and monitor scope of claims

B. Be sure opposition period not missed

III. Formal procedure for "Pre-Development Patent Clearance" followed for every new product (see form), keys to success being:

A. Simplicity

B. Client education on importance of procedure

C. Attorney staying up-to-date on client's R & D activity

D. Adequate follow through when potential issued/granted blocking patent discovered (see SOP)

IV. Quality Assurance Program - for major product development, different attorney (sometimes outside attorney) assigned to start from beginning to independently run patent clearance

PRE-DEVELOPMENT PATENT CLEARANCE

PROJECT:

DESCRIPTION OF CLEARANCE REQUESTED (Describe/attach description of product to be made for sale, intermediate products, step-by-step process used, all contemplated uses for product; where clearance being requested is for change in existing product/process/use, only describe change):

CONTEMPLATED COUNTRIES OF MANUFACTURE, USE OR SALE:

KNOWN LITERATURE REFERENCES (journal articles, patents, etc.):

REQUESTED BY:_____ Date:_____

SUPERVISOR:_____ Date:_____

REQUEST APPROVED:_____ Date:_____
Functional VP

CLEARANCE OBTAINED:_____ Date:_____
Legal Affairs

SOP WHEN DETERMINATION MADE THAT SIGNIFICANT RISK EXISTS THAT THIRD PARTY PATENT MAY BLOCK IMPORTANT GI PROJECT

Upon determination by the Director, Patents and Trademarks (Director), in consultation with the General Counsel, that a significant risk exists that a third party patent may block an important GI project, the following procedure shall be followed:

- The Director shall notify the Executive Committee of the existence of the patent and shall form and chair a task force which will also include a representative from Research, Project Management and either Marketing or Business Development, as designated by the respective functional EVPs;

- The task force shall promptly evaluate the situation and report to the GI Executive Committee the relevant facts and recommend an action plan, including time-table, for addressing the situation, such action plan including one or more of the following:

  - obtaining a written in-house and/or external legal opinion that the patent at issue is invalid, unenforceable and/or not infringed,

  - negotiating with the third party for a patent license,

  - authorizing the appropriate research and development resources to attempt to design-around the patent at issue;

- In carrying out the action plan (including any modifications suggested by the Executive Committee), the task force shall report progress to the Executive Committee on a monthly basis;

- The task force shall obtain Executive Committee approval before significantly modifying the action plan;

- Upon resolution of the situation, the Director shall circulate a Final Report describing the situation and the steps taken to reach the resolution, and shall obtain sign-off by the President and EVPs signifying concurrence with the resolution of the issue.

SUMMARY
U.S. GENERAL ACCOUNTING OFFICE REPORT

on

U.S. COMPANIES PATENT
EXPERIENCES IN JAPAN

This summary is prepared by Gary A. Samuels in connection with the Report of Committee #4 for presentation at the Fall 1993 Pacific Intellectual Property Association Meeting.

I. Companies Surveyed

300 U.S. firms were surveyed
All active in patent matters
About 60% had sales over $1 billion annually
Half were diversified companies
16% were chemical companies
15% were biotech companies
14% were semiconductor companies

II. Results of Survey

a) 39% were dissatisfied with prosecution in the JPO
21% were satisfied

3% were dissatisfied with prosecution in EPO
74% were satisfied

13% were dissatisfied with prosecution in the USPTO
62% were satisfied

b) Percent of companies that had problems with length of time to obtain a patent:

in Japan	42%	(6-7 years)
in Europe	6%	
in U.S.	5%	

c) Percent of companies that had problems with costs:

in Japan	42%
in Europe	20%
in U.S.	12%

d) Percent of companies that had problems with scope of claims:

in Japan	41%
in Europe	6%
in U.S.	5%

e) Percent of companies that had problems obtaining patents for pioneering inventions:

in Japan	39%
in Europe	9%
in U.S.	7%

f) When asked if scope was too narrow in Japan, 71% said "yes, it was."

g) There is a perception that important inventions in a field are treated harshly. One company reported that it had no trouble getting its first 10 patents because the technology was so new it was not understood. But when the technology was realized by the JPO to be important, the company has not been able to obtain any patent for over 5 years now.

h) Patent Flooding

12% felt this was "very great."
Seems to be mostly in the electronics area.

i) Pre-Grant Oppositions

45% of the companies had an application opposed in the last 5 years. That is a lot. It is a lot more than in the EPO.

Of those, 71% had 1-5 opposers and 15% had 6-10 opposers. That is far too many for efficient operations, especially when the JPO reviews the opposition consecutively.

j) Fees

The survey found that Japanese benrishi charged about 3 times more than U.S. patent attorneys.

The survey found that the average per-word cost for translations in Japan was 43 U.S. cents; while for translation into German in Germany, it was only 32 U.S. cents.

k) Patent Office Examination Quality

JPO - 37% were satisfied
- 23% were dissatisfied

EPO - 84% were satisfied
- 2% were dissatisfied

USPTO - 61% were satisfied
- 19% were dissatisfied

l) Clarity of Office Actions

44% were dissatisfied, saying the actions are overly brief and vague.

There is some indication this is changing - but slowly.

m) High Technology

Of those companies deemed "high tech," 50% reported very great or great problems in Japan. But only 34% of non-high-tech companies reported problems.

III. <u>What U.S. Practices Contribute to This Dissatisfaction</u>

1. 87% said they file applications in Japan that are virtually the same as their U.S. applications.

2. Only 28% back-translate claims.

3. 81% said that no one in their patent group has ever had an interview with a Japanese examiner.

4. U.S. applicants "often" send their U.S. applications to Japan only a week or two before the priority deadline. The benrishi will divide the case up among several translators - of varying qualifications.

5. U.S. applications are "U.S. style" and say little about "effect of the invention on solving a problem" or about "the meritorious advantage" of the invention.

   Claims prepared by U.S. attorneys usually contain detail not needed in Japan.

   Moreover, the claims are usually much broader than the supporting examples.

All these practices relate to the format of the application and with the ever-increasing popularity of a single PCT application, it is difficult to prepare an application specifically for Japan. Query - how extensive can revisions be made after the PCT applications is nationalized in Japan.

IV. <u>What policies in Japan contribute to this dissatisfaction?</u>

1. Long pendency time when counted from the priority date.

2. Too few examiners.

3. Pre-grant oppositions.

4. Practice of filing many, narrow applications on incremental improvements.

5. Narrow scope of claims demanded by Examiners.

6. Lack of discovery.

7. Length of court proceedings.

8. Limit of damages to a reasonable royalty.

V. What Can Be Done?

The report discussed harmonization efforts.

In addition a very interesting article in the May 1993 issue of the Japanese AIPPI Journal on pages 87-97 by Harold C. Wegner titled "International Patent Law Developments" proposes alternatives if worldwide harmonization faces obstacles. He proposes that the U.S. and Japan conclude a bilateral harmonization.

VI. What are Some Policy and Practice Changes That Would Help Reduce Dissatisfaction?

The Report says the U.S. Government urges:

1. Quicker examination in Japan.

2. Post-grant opposition in Japan coupled with expedited oppositions with decision on all issues raised by all opponents.

3. Adoption of 12-month grace period in Japan.

4. The ability to file in English in Japan in order to ensure correction of translation errors.

5. Adoption in Japan of a doctrine of equivalents.

The report says that:

1. 64% of the companies desire that the U.S. go to first-to-file. This number rises to 75% for firms with over 10,000 employees.

The report does not endorse any changes in the way U.S. practitioners practice, but the implication is that they should:

1. Revise applications to fit Japanese style, format and claim interpretation.

2. Send priority document to Japan much earlier than they do now (again, PCT procedures may make this difficult).

3. Coordinate more closely with Japanese patent attorneys handling the U.S. cases.

GAS/sjp
0169JLC
9/1/93

(1) Title: Effective use of Utility Model based on the amended Utility Model Law

(2) Date: October 1993 (24th, Cincinnati, Ohio, U.S.A.)

(3) Source:

1) Source : PIPA
2) Group : Japan
3) Committee : 4

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(5) Keywords: Utility Model, amended Utility Model Law, Technical Estimation Report

(6) Statutory Provisions:

Article 14 of amended Utility Model Law,
Article 15 of amended Utility Model Law,
Article 12 of amended Utility Model Law

(7) Abstract:

Japan has amended Utility Model Law to meet the requirement for early production for technologies and the shortening of life cycle of products. The amended Utility Model Law has brought great innovation to the Utility Model System of Japan by introducing an Early Registration System requiring no substantial examination, shortening the term of rights, introducing a Technical Estimation Report System, etc. In this paper, the new systems based on the amended Utility Model Law are discussed in consideration of the application thereof to enterprise strategies. This amended system is applied to the protection of short life-cycle technologies, and it is not necessarily effective for the other technologies which require a long time for practical use or have a long life cycle. Accordingly, enterprises are required to select one of this system (Utility Model System) and the Patent System in consideration of the time for the working of a technology to be protected and the life cycle thereof.

1. Introduction

In consideration of the situation of the early production for technologies and in order to meet the shortening of the life cycle of articles, Japan has amended Utility Model Law. The present amendment of Utility Model Law has brought great innovation such as adoption of an early registration system requiring no substantial examination, shortening of the term (duration) of rights, adoption of a technical estimation report system, etc., which have not been hitherto existed in Utility Model System of Japan. Under the present condition that affection of the industrial property rights (patent and utility model registration rights) as a competition strategy on the market situation is not negligible, mere alteration of a technique on application proceedings would not meet the great innovation of the law on which the patent strategy is based.

Accordingly, the new system has been examined to find out preferable applications thereof in consideration of the situation of this system in the enterprise strategy.

2. Background of Introduction of this system

On the background that development competition of novel technologies has been increasingly intensified, early production for technologies, early triteness of articles and diversification of fancy cause the life cycle of articles to trend to be more shortened, and at present, various articles having short life cycle have appeared on the market.

In Japan are coexistent the patent system and the utility model system, which differ in the term of rights and the fee system, but are basically identical in the examination system and substantiality of examination. Each of these systems grants a right through a substantial examination, and thus it takes a long time from the filling of an application till the grant of a right. As a result, even if a right is granted, an article associated with the right becomes trite, or its life cycle is terminated at that time. Accordingly, the present system does not

meet the shortening of the life cycle of articles.

In view of the foregoing, in order to satisfy a requirement for early protection of articles, the amendment to Utility Model System has been made to achieve early grant of rights.

3. Summary of this System (new Utility Model System)

There are many different points between the new (amended) Utility Model System and the present Utility Model System. The amended points will be described hereunder, and characteristics thereof will be briefly described.

(1) Proceeding for grant of rights

In the present system, a right is granted after substantial requirements have been examined. However, in the light of "protection of short life-cycle technologies", the new system examines only fundamental requirements for an application, and registers the application without conducting the substantial examination to grant a right. The fundamental requirements correspond to protection capacity, public policy (public order or morality), unity of application (invention) and insufficient or unclear description of the specification, and these are not relevant to the substantiality of the utility model (article 6.2). Where an application has faults with respect to the formal and fundamental requirements, an official action for amendment to these faults is issued. If no response is submitted or a response is insufficient, the application would be invalidated (article 2.3). The requirements for protection such as novelty, inventiveness (inventive step), etc. which have been examined in the present system are also usable in this system as reasons for invalidating a registration.

(2) Publication (Kokai)

In the present system, an application has been laid open to public inspection after the lapse of a period of at least 18 months from the date of the filing of the application. However,

in the new system, an application is laid open to public inspection early after registration (about six months from the filing date of an application)

(3) Amendment/Correction

Difference exists in the limitation of content and time between the new system and the present system. In the new system, as to the limitation of the content, addition of a new matter is not permitted (article 2.2(2)). As to the limitation of the time, the amendment to an application is permitted until the registration of the application and for a short period as provided for in a government ordinance (article 2.2(1)).

The correction after registration is limited to only cancellation of claims, and correction to clerical or typographical errors and clarification of unclear description which have been permitted in the present system are not permitted in the new system (article 14.2).

(4) Relationship between earlier and later applications

Double registration is inhibited between an utility model application and another patent or utility model application also in the amended Utility Model Law, and only the prior (earliest-filed) application may be entitled to registration (article 7(1), 7(3), and second paragraph of article 37(1)). As to the applications having the same filing date, an official instruction for consultation is substantially abolished in this system. In the case where patent and utility model applications compete with each other, the patent application has a reason for rejection while the utility model application has a reason for invalidation. In the case where utility model applications compete with each other, each of these applications has a reason for invalidation (article 7(2), 7(6), and second paragraph of article 37(1)).

According to the amended utility model law, the conversion (alteration) between patent and utility model applications and

the conversion (alteration) between utility model and design applications are also permitted like the present utility model system. However, the limitation of the time is different between the new system and the present system (article 10, article 46(1) of Patent Law, article 13(2) of Design Law).

(5) Term of rights and Registration fee

In order to meet "protection of short life-cycle technologies," the term (duration) of rights is set to six years from the date of the filing of the application (article 15). A registration fee for one to three years must be paid together with an application fee at the filing of the application (article 32(1)).

(6) Appeal for invalidation

Validity of a right is judged in an appeal (trial) procedure for invalidation before Board of Appeals. In addition to the substantial requirements as stipulated in the present system, addition of a new matter is a ground for invalidation (article 37). In addition, alteration of the gist of a request for invalidation appeal is not permitted (article 38(2)). Correction during the invalidation appeal procedure is permitted in the new system.

The "Chuyoken" is abolished in the new system (article 20). The Chyuoken is a non-exclusive right which has been granted to the good-faith proprietor of an utility model right under practice of the utility model or preparation threof before a request for invalidation appeal.

(7) Technical Estimation Report System

In principle, the parties are required to judge whether the substantial requirements for a right are satisfied because the right is granted with no examination for the substantial requirements. However, a validity judgment on the right is

difficult because it requires technical and special knowledge, and thus a third party may suffer an unexpected detriment. In view of the foregoing, the technical estimation report system is introduced in consideration of the balance between the proprietor and the third party.

Any party, including an applicant, may make a request for technical estimation report every claim on an utility model registration application or an utility model registration (article 12(1)). The request may be filed after filing of an application as a matter of course, but may be filed even after registration and after extinction of an utility model right (excluding after the right is invalidated by a decision of invalidation appeal) (article 12(3)). A request for technical estimation report may be made for the same claim by any party and at any time, and no restriction is imposed on the request. The request for technical estimation report cannot be withdrawn (article 12(5)).

Where a request for technical estimation report is filed, the fact that the request has been filed is published in an utility model publication (article 13), and an examiner carries out an estimation (article 12(1), 12(2) and 12(4)) for novelty (article 3(1), excluding public knowledge or use), inventiveness (article 3(2)), enlarged interpretational relationship between earlier and later applications (article 3.2) and earlier and later applications (article 7) every claim for which a request for technical estimation report is made. The preparation term for the report would be set to about six months if the request is filed simultaneously with the filing of an application, and about three months if the request is filed after the registration.

The new system stipulates that the right cannot be exercised until after a warning with a technical estimation report is made (article 29.2). The technical estimation report is an objective judging material for validity of a right, however, it has no legal enforceability.

(8) Infringement

No change is made to the effectiveness of a right (rights for demanding an injunction, payment of damages, return of undue profits, etc.).

The provision stipulating negligence presumption of an infringer is canceled (article 30). When the proprietor demands payment of damages to an infringer, the proprietor carries the burden of proof for intention or negligence of the infringer (article 709 of Civil Law). As to the proprietor's liability for the right exercise, duty of care is imposed on the proprietor to prevent misuse of the right (article 29.3).

When an infringement suit is brought, in addition to the judge's discretion which is permitted in the present system, a defendant is also permitted to file a petition for ceasing the suit proceeding after a request for invalidation appeal is filed (article 40.2).

4. Effective Use of This System

(1) Object to be protected

The gist of the amendment of Utility model Law is "protection of short life-cycle technologies", and the main characteristics thereof are the non-examination registration and the shortening of the term of rights (six years from the filing of an application).

Like the present system, an object to be protected is "shape, construction or assemblage of an article", and no registration is permitted for "chemical substance", "method", etc.

In the light of the gist of the amendment, in the following cases, an applicant is recommended to file an utility model application more preferably than a patent application:

(1) where an early practice is intended for the technology of the application (the practice is intended

simultaneously with the filing of the application or early after the filing). However, attention should be paid to some points (see "(5) Chuyoken" as described later),

(2) for technologies having short life cycle (for example, fashionable articles, toys, miscellaneous articles for daily use, devices and equipments associated with computers, etc. can be considered),

(3) for relatively minor inventions (parts in a device, technologies which can be replaced by other means, etc.),

(4) where others are expected to want to sell a product having the same content as the technology associated with the filed application,

(5) where marking of "registered" is expected to be significant for a commercial effect (in this case, the purpose is achievable when the application is merely registered irrespective of its validity), or

(6) where possibility of the appearing of improved technologies is low (it is difficult to obtain the right for an improved technology because it is registered and publicly known after a half year from the filing of the application).

The utility model application has a merit that it can be registered early, but has a demerit or risk. Therefore, sufficient consideration should be made to determine one of the utility model registration application and the patent application when the application is filed.

(2) Limitation of amendment to specification

(a) Amendments to the specification, etc. after filing and before registration are also permitted after the Utility Model Law is amended. However, since such amendments are limited in content and term, a specification clarifying the difference from a prior art is required at the time of filing an application. In the light of the present situation that Japan adopts a first-to-file principle in which the earliest application is dominantly granted, clerical or typographical errors and unclear description may occur in an application because the application is required to be filed as early as possible, Accordingly, in this case, an internal priority system is more effectively used. However, even if the internal priority system is used, the application of an utility model should be carried out immediately after the utility model registration application is filed because the limitation of the term (the term until the registration) is imposed.

(b) Correction after a registration is not permitted for the purpose of the mere correction of clerical or typographical errors or clarification of an unclear description. Only the amendment to cancel claims is permitted. Therefore, plural claims containing those claims which are surely deemed to have validity should be prepared at the filing of an application.

(3) Exercise of rights

(A) The following note should be made in association with the utility model technical estimation report system.

(a) Note for a notification when a request for Technical Estimation Report is filed

No provision is given to stipulate that where the request is

made by a third party, the proprietor (applicant) shall be notified of the fact.

(Notes)

The proprietor should pay his attention not to overlook the issue of an utility model publication, if occasion demands.

(b) Note for contents of a technical estimation report

As stipulated in the provisions, the estimation is carried out on the basis of the following four criteria (article 12(1)).

- Novelty based on public knowledge through a printed publication (third paragraph of article 3(1))
- Inventiveness based on a publicly known publication (article 3(2))
- Enlarged interpretational relationship between earlier and later applications (article 3.2)
- Earlier and later applications (article 7)

(Notes)

(I) Attention should be paid to the fact that no examination based on public knowledge or use is carried out.

(II) No change is made to definition of "inventiveness" (not extremely easy). This system is intended to be applied to the protection of short life-cycle products, and the term of the right is short. Therefore, fair estimation in consideration of the level of an invention and the level of a device (utility model) is required for the inventiveness.

(III) As to the estimation based on the enlarged interprelational relationship between earlier and later

applications, there is possibility that the prior application has not yet been laid open to public inspection when the estimation report for the later application is issued. Accordingly, sufficient consideration on this point is further required in the future.

(c) Note for offer of information and submission of a petition

No provision is particularly given at least for the submission of a petition.

(Notes)

(I) If the information offer or the submission of a petition by the proprietor or the third party is permitted, a more accurate estimation result could be obtained on the basis of the submitted materials. On the other hand, if they are extremely broadly permitted, various estimation results would be successively obtained and confusion would occur more or less.

(II) To submit a petition when the proprietor has an opposition against an Examiner's estimation is deemed to be necessary as a remedy for the proprietor.

(B) The following note should be made in association with the exercise of rights.

(a) Note for proprietor's liability caused by exercising the right

As stipulated in the provisions, in the case where a proprietor exercised his right or makes a warning to a third party and then invalidity of the right is determined, in principle, the proprietor is liable to indemnify the third party for the damages which have been caused by the above actions

(article 29.3).

However, the following proviso exists in article 29.3.

(i) "where the right is exercised or the warning is made on the basis of a (positive) estimation"

(ii) "where the right is exercised or the warning is made with adequate care, this stipulation, however, does not apply to this case."

(Notes)

(I) Since the provision is not clearly expressed as to which "and" or "or" should be inserted between the phrases (i) and (ii) for the positive estimation, it is unclear whether it is sufficient to merely send the technical estimation report with positive result to the third party.

If it is insufficient to send only the technical estimation report, this case induces a case-by-case problem on duty of care of the proprietor, such as the degree of search, the degree of an opinion, relationship between the proprietor and a patent attorney preparing the opinion, etc., and thus an unific conclusion is not expected to be found out.

Various points, for example, the difference in searching capacity for search between an individual and a worldwide big company, the difference between situations where a technology associated with a right is practiced and where it is not practiced, etc. would be considered.

As our present position, it is deemed that, in principle, only an estimation result of a technical estimation report on validity is sufficient in the light of the short duration of a right (six years) and the gist of this system , however, an opinion by a lawyer or patent attorney is preferably attached for delicate cases.

In a case where the proprietor obtains publicly-known publications newly and the case is a delicate one, the proprietor may make a request for technical estimation report in addition to the information offer of the publications to exercise his right on the basis of the estimation result of the report.

(II) When the proprietor receives a negative technical estimation report, he must have "adequate care" as set forth in the above (ii), however, in this case the problem as described above occurs.

(III) In a case where plural estimation reports exist when the proprietor or the like exercised his right or makes a warning, there occurs a problem in selection of an estimation report to be submitted. However, at least, the proprietor can submit an estimation report obtained immediately before he exercised the right or makes the warning.

(b) Note for negligence presumption of infringer

The provision on negligence presumption of infringer is canceled in this system, and thus article 709 of Civil Law stipulating "any person who infringes the rights of another person intentionally or negligently shall be liable to compensate for damages caused by the infringement" is applied.

(Notes)

It is considered that, except for special cases, the proprietor can prove "intention or negligence of an infringer" as stipulated in article 709 of Civil Law at the time when a warning attached with an estimation report arrives at the infringer.

(4) Reception of Exercise of right

(A) The following note should be considered for a case where a warning is received.

(a) Search for prior arts

Publicly known or used technologies which are not estimated in the estimation report or prior applications which had not been laid open to public inspection at the time when the estimation report was issued can be also searched.

(Notes)

The prior applications may not be laid open to public inspection.

(b) Request for technical estimation report

A request for technical estimation report can be made with submission of new prior arts.

(Notes)

If necessary, a petition can be submitted to explain the relationship with prior arts.

(c) Opinion

Preparation of an opinion on the estimation result of the technical estimation report can be requested to a lawyer or patent attorney.

(Notes)

There is a case where the estimation result is not necessarily proper.

(B) The following note should be made in association with Appeal Request System

(a) Note for Appeal Request System

As stipulated in the provisions, a request for appeal on invalidity of an utility model registration may be filed (article 37).

(Notes)

Public knowledge or use which is not estimated in the estimation report can be used as a ground for invalidation.

(b) Relationship with petition for cease of suit proceeding

As stipulated in the provisions, a defendant may file a petition for ceasing the proceeding of an infringement suit on the basis of a reason why a request for invalidity appeal is made. In response to the petition for ceasing the proceeding, a court of justice must cease the suit proceeding except the case where the cease is judged to be clearly unnecessary (article 40.2).

(Notes)

The provisions of Utility Model Law before amended stipulate that if a petition for ceasing the proceeding is submitted, a court of justice may cease the suit proceeding when the court judges the necessity of the cease. In the amended Utility Model Law, the above provisions are amended to mandatory provisions stipulating that a court of justice must cease the suit proceeding until the decision of an appeal except the case where the court judges the cease to be clearly unnecessary.

(5) "Chuyoken"

(The Chuyoken is a non-exclusive license which has been granted to the proprietor of invalidated right.)

According to the amendment of Utility Model Law, "Chuyoken" based on an utility model registration is abolished. Accordingly, in the case where the proprietor intends to start a business

activity or the like, before he starts the business activity, he should make sufficient investigation as to whether his utility model registration is valid or invalid.

In the case where the utility model registered of the proprietor is the same subject matter as a patent application by another person and is in relationship of earlier and later applications with the patent application, and the application of the utility model registration was filed later than the patent application, even when the proprietor made sufficient investigation before he started his business, there may occur a case where the proprietor must quit his business even in such a situation that he cannot know the patent application by another person (since this is an unavoidable case, he would need to hold consultation with the patentee to continue his business on payment of royalty).

(6) Regarding Dependent Invention (Utilization Invention)

No amendment is made to a dependent invention in this amended law.

If the new system is applied as in the present system, the junior party of the later-filed utility model registration may immediately request a license to the senior party of the earlier-filed patent or utility model registration.

If the consultation is failed or any consultation cannot be held therebetween, the junior party of the later-filed utility model registration may request an award of judgment of the Commissioner of the Patent Office. However, if it harms profits of a demandee, the Commissioner of the Patent Office cannot set up the non-exclusive license.

In the light of the characteristic of the utility model registration application as described above, a number of later-filed utility model registrations to which licenses can not be granted are considered to exist.

(7) Relationship with Patent System (or Design System)

(A) When an utility model application is filed, the application is laid open to public inspection after the lapse of about six months from the filing of the application. Therefore, applications associated with the content of the application are required to have been completely filed within six months from the filing of the application.

For a series of improved relevant technologies, it is preferable that patent applications are first filed and then it is considered whether the applications are converted (altered) to utility model applications at the time when the first application is laid open.

(B) Like the present system, in the amended system, judgment on the relationship between earlier and later applications is made between a patent application and an utility model application in the technical estimation report.

As the utility model registration application is registered in six months, there is a possibility that a non-published prior patent application, which filed by another person before the filing of the utility model registration, exists. The another person which is the applicant of the prior patent application may file a divisional utility model application on the basis of the patent application concerned, or convert the patent application to an utility model registration application in consideration of the content of the certificate of registration of the later utility model registration application. For a technology to which the above risk should be avoided, the following safe measure may be used. That is, a patent application for the technology is first filed, and the division to an utility model registration application or the conversion to an utility model registration is carried out after obtaining the pre-examination publication (Kokai) of the prior application (patent application, utility model application) by another person (however, it is not a better measure because the duration of protection is shortened).

(C) In the present system, it is said that there is little difference in judgment on inventiveness between the patent and the utility model registration.

From the gist of the present amendment and the difference in definition between the invention and the utility model, the judgment criterion on inventiveness is expected to be lower for the utility model registration than that for the patent in the amended system.

In this case, there would more frequently occur those cases where the patent cannot be granted, but the utility model registration can be granted for the same technology. Accordingly, it is expected that the number of patent applications is reduced whereas the number of utility model registration applications is increased, so that the examination of patent applications is more promoted.

5. Comparison with German Utility Model System

Inventions and devices (utility models) should be easily and inexpensively granted and they must be protected to promote the opening thereof to the public, the utilization thereof and the development of technologies based on these opening and utilization. However, many problems such as the objects to be protected, the protection term, etc. must be considered, and it cannot be indiscriminately concluded whether the system of a specific country is good or bad.

In Germany, the utility model system which is basically different from the patent system has been established for a long time (the utility model system was promulgated in 1891) to protect low-level (minor) inventions. From that time, this system has been amended several times to establish the present system (Amendment of 1990).

Unlike Japan, from the initial stage where the system was introduced, Germany has adopted the substantially non-examination system which requires only the formal examination. The system of Germany aims to protect products of short life cycle for the same

reason for introducing the system as Japan, and with respect to this point, no difference would exist between two countries (*1). Accordingly, the protection term is shorter in the utility model system than in the patent system, and it was six years at the initial stage, then amended to eight years, and further amended to ten years by the Amendment of 1990. In Japan, the protection term has been amended to a short term of six years by the present Amendment. An excessively-short protection term would induce the following anxiety. That is, even if a suit is brought after registration, in the case where the suit proceeding is ceased in response to a request for invalidity appeal by a defendant, the protection term has been terminated before a first trial is concluded, and thus the protection is weakened. On the other hand, an excessively-long protection term would induce various problems. In Germany, as a defensive means against the exercise of rights, invalidity of rights can be issued in an infringement suit (bind only the parties concerned) in addition to a request for canceling the registration. Such anxiety would be weaker in Germany than that in Japan because the protection term is longer than that of Japan.

As to the objects to be protected, at present, all devices except "methods" can have been protected according to the amendments which have been carried out several times to the Utility Model Law. On the other hand, in Japan, no change is made to the objects to be protected before and after the Amendment, and the protection is limited to only devices relating to "shape, construction or assemblage of an article". That is, visual recognizability is one of the requirements. In consideration of exclusion of dead copies of short life-cycle articles, this requirement would be significant. However, it is broadly understood that an article which cannot be specified in terms of shape and is visually unrecognizable, such as an electronic circuit, chemical substance, composition, or the like is one of the articles of short life cycle.

As to stability of rights, in both of Japan and Germany, the stability of rights is insufficient because it is registered through only the formality examination, and the right of the

utility model registration is more instable than the right of the patent. In addition, the liability to indemnify the third party for the damages caused by exercising the right is also imposed on the proprietor of a right invalidated by an appeal decision in both countries. As described above, the proprietor should estimate validity of his right without neglecting duty of care. Like the search request system of Germany, the technical estimation report system for utility models is expected to be effectively used.

As to use of rights, no difference exists in effect of rights. However, Germany has the branch application system in which an utility model application may be filed on the basis of a patent application with claiming the date of the filing of the patent application before the grant of the patent or within a prescribed period from the rejection of the patent application before the lapse of ten years from the filing of the patent application. When a branch application is filed before the grant of the patent, the applicant has filed both of the patent application and the utility model application (that is, both applications may be coexistently granted). Therefore, the applicant can obtain the early or timely protection by the right based on the utility model registration, and also obtain the long-term protection by the patent right. However, the branch application system is hardly linked with the gist of the introduction of the system for protecting short life-cycle articles. In relation with the patent system, in Germany, the patent is entitled to exclude later-filed utility models, however, the utility model is not entitled to exclude later-filed patents (therefore, the branch application from the utility model application to the patent application is inhibited). In this point, the coexistent application and the double patenting of the patent and utility model application can be performed. On the other hand, in the amended Utility Model Law of Japan, like the Utility Model Law before amended, on the basis of the principle of excluding the double patenting which would induce misuse of rights, both of the patent and utility model are entitled to exclude each other, and the double patenting is inhibited (in

Japan, the conversion application between the utility model application and the patent application is permitted, however, unlike the branch application system of Germany, the original application is regarded as being withdrawn to inhibit the double patenting). In Germany, there occurs a problem as to how the existence of the later-filed patent affects the working of the proprietor of the prior-filed utility model after the right of the utility model application is terminated.

As to use of the utility model system of Germany, the following merits exist in novelty and inventiveness: in comparison with the patent, the bar to novelty is more restricted (domestic public knowledge bar which is different from that for the patent, general grace period of six months, etc.) and the inventive step is lower than the inventive activity for the patent (*2). On the other hand, in the utility model system of Japan, a certain degree of difference is provided in inventive step between the utility model and the patent (in the utility model system, those utility models which can be "extremely easily" made on the basis of the prior art are regarded as lacking the inventiveness while in the patent system those inventions which can be "easily" made on the basis of the prior art are regarded as lacking the inventiveness). (*3) describes the difference between the device and the invention in details. Germany has a claim system for deferring registration. Therefore, consideration of amendments and estimation of validity of the right for effective use of the right can be made for a period from the filing of an application till the deferred registration, and this system is valuable.

As described above, there are many different points between the utility model system of Germany and the amended utility model system of Japan even though they are based on the non-examination system. In order to smoothly use the new system in the future, it is required that the appeal and the suit should be speedy concluded not to lose the protection of rights due to the short term for rights and the judgment criterion on the technical estimation report for judging the validity of the rights should be made just and proper. Furthermore, the use of the judgment

criterion in consideration of the difference between the device and the invention is expected to affect promotion of use of the system more or less. In addition, there would be possibility that it will be examined in the future whether articles of short life cycle are sufficiently covered by the presently-protected articles. Finally, if the status of applications and the situation of the exercise of rights are clarified in the future, more concrete comparison could be further performed in the future ((*2) describes the system of Germany in details).

Utility Model Registration Applications of Germany (Blatt für Patent-, Muster- und Zeichenwesen (1993.3))

	Application (domestic)	Registration (domestic)
1992	17004(15064)	15199(13524)
1991	15553(13920)	14227(12741)

	Patent Application (domestic)	Registration (domestic)
1992	43663(33971)	17096(11021)
1991	41799(32321)	17537(10851)

*1: "GERMAN UTILITY MODEL - RIGHTS REGISTERED WITH NO EXAMINATION", by W. Grosse, translated by Hisao Fukami, in PATENT, Vol 45, No. 11, pp 32-40(1992).

*2: committee report of "CONSIDERATION OF UTILITY MODEL SYSTEM OF GERMANY", in PATENT, vol, 45, No. 1, pp 59-75(1992).

*3: "UTILITY MODEL SYSTEM NEWLY PUT ON THE STAGE", by Shoji Matsui, in AIPPI, Vol.37, No. 2, pp57-62(1992).

6. Conclusion

(1) Matters to be noted for use of this system

As described in "Effective use of this system", this system is applied to protection of technologies which are realized extremely early and have short life cycles, and this system is not effectively used for other technologies, for example, those technologies which are first practically used after the lapse of

several years from the filing of applications or technologies having long life cycle. Accordingly, the enterprises are required to determine the use of this system or the patent system or the like in sufficient consideration of the time of practical use of technologies to be protected and the life cycle thereof.

According to this system, various limitations to amendment and correction which are not found out in the patent system are imposed, and the use of this system is required to be carried out with sufficient recognition of these points. That is, attention should be paid to the following points: the term of the voluntary amendment to the specification is set to about two months, which is an extremely short term, and only cancellation of claims is permitted after registration. Particularly as to the correction as a defensive means to the invalidity appeal, attention should be paid to the following points: only the correction for canceling claims is permitted, and the correction to clerical or typographical errors and the clarification of unclear description are not permitted.

In order to make a warning for exercise of rights, the proprietor (warner) is liable to attach the technical estimation report to the warning. The estimation report will serve to release a liability for indemnifying third party for damages when the registration is invalidated. However, when preparing such estimation report, attention should be paid to the following points: no estimation is carried out on the basis of the public knowledge or use, and prior art to be estimated differes depending on the time of filing a request for technical estimation report, so that the estimation result is not always absolute. Furthermore, when the proprietor obtains new publications as prior arts, these publications may be submitted as information offer and a request for technical estimation report may be filed. When the proprietor is not convinced of the estimation report, it is desirable to request a specialist to prepare an opinion.

When an infringement suit is brought, a defendant can submit a petition for cease of the suit proceeding. In this case, attention should be paid to the point that the petition requires

the condition that a request for invalidity appeal has been made.

Through this amendment of Utility Model Law, the patent system adopting the examination system and the utility model system adopting the non-examination system are coexistent with each other, and this coexistence of both systems requires attention to be paid to various matters which have not hitherto existed. For example, an utility model registration application is filed, registered, and then published after the lapse of six months from the filing of the application. Patent applications for other technologies associated with the technology disclosed in the utility model application must be early filed. Furthermore, since the utility model is early laid open to public inspection, attention should be paid to the following point. That is, the applicant for the prior patent application can conduct a divisional application or a conversion application upon checking of the utility model which has been registered and then laid open to public inspection. On the other hand, the applicant for the utility model registration can make only the correction to cancel claims. Attention should be also paid to the point that the "Chuyoken" is abolished in this system.

As compared with the utility model registration system of Germany, in the amended utility model registration system of Japan, the term of a right is shorter, and objects to be protected are more limited. In addition, no double patenting is permitted between the patent and the utility model, and the requirements for registration are severer than those of Germany. As described above, the amended system of Japan is more difficult to be used than that of Germany, so that the applicant should use this system for his business activities with sufficient recognition of the characteristics of this system.

(2) Suggestion on use of this system

(a) Requirements for release of the proprietor from his liability for indemnity

It has been unclear whether or not the proprietor is necessarily released from a liability for indemnity after the right is invalidated if the right is exercised on the basis of the positive technical estimation report, and what degree of duty of care should be made to release the proprietor from the liability for indemnity. Accordingly, the judgment criterion on these matters is desired to be more clarified. In order to promote use of this system, it seems to be reasonable that except a special circumstance where the proprietor himself knows an invalidity reason or the like, the proprietor could be released from the liability for indemnity if he exercised the right with submitting a positive technical estimation report. The damages when the indemnity is made after invalidation should be set to proper ones from the viewpoint of abuse of rights and effective use of the system.

(b) Regarding judgment criterion on Inventiveness

No substantial difference is considered to exist in judgment criterion on inventiveness between the invention and the device in the present system. However, when the amended law is applied, the difference in judgment criterion on inventiveness between the invention and the device should be considered in strict conformity with the provisions of the law, and for the device having shorter duration time than the invention, it may be considered to make the protection scope of the device broader than the invention.

COMPARISON TABLE FOR NEW SYSTEM, PRESENT SYSTEM AND GERMAN SYSTEM

	New system	Present system	German system
Objects to be protected	devices relating to shape, etc. of an article (methods, medicine, chemical substance, etc. are unpatentable)	devices relating to shape, etc. of an article (methods, medicine, chemical substance, etc. are unpatentable)	all devices except methods (medicine, chemical substance, etc. are patentable)
Substantial Examination	No presence	Presence	No presence
Relationship between earlier and later application	First-to-file basis (first-applicant principle); Invalidation for an application of the same filing date	First-to-file basis (first-applicant principle); Consultation for an application of the same filing date	utility model is not entitled to exclude later-filed patent
Conversion application (U.M. → P.) (P. → U.M.)	possible possible	possible possible	impossible branch application
Term of rights	six years from the filing date	ten years from the examined publication date (not exceeding 15 years from the filing date)	three years from the filing date (extendable up to 10 years)
Liability of proprietor for exercise of invalidated right	No-fault liability for indemnity (released in special cases)	Release of no-fault liability for indemnity after registration	No-fault liability for indemnity (released in special cases)
Guarantee of validity of rights	Adoption of technical estimation report system	Guarantee by substantial examination	Adoption of search report system