

Changing World for Trademarks

A review of changes proposed for protection and transfer of intellectual property in world

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Hopefully, I can provide you with sufficient information to permit you to make an informed judgment respecting the question, how activities of the U.S. Patent and Trademark Office will affect the profits of licensing.

Perhaps most familiar to the members of this group is the effort undertaken jointly by the Licensing Executives Society and the Department of Commerce. As an organization composed of successful licensing executives, it should come as no surprise that your organization's "joint ventures" should be very successful — at least in all of the associations which the Department of Commerce and the Patent and Trademark Office have had with LES. Our latest joint venture, which I will term our Eastern European Project, will, I am sure, conform to our established pattern of successful collaboration.

You may be aware that about a year ago a joint LES-Department of Commerce delegation visited six Eastern European countries — Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland and Romania. Actually, the "delegation" was composed of three min-delegations, each visiting two of the six countries and spending about one week in each country. Each group was co-chaired by a Commerce representative and members of LES. Betsy Ancker-Johnson, then Assistant Secretary of Commerce for Science and Technology, co-chaired the group visiting Poland and the German Democratic Republic with Harold Haidt and Peter Casella. C. Marshall Dann, the Commissioner of Patents and Trademarks, Lewis Lamm and James O'Brien provided the leadership for the group visiting Bulgaria and Romania. The team visiting Czechoslovakia and Hungary was led by the Deputy Commissioner of the Patent and Trademark Office, Lutrelle Parker, Dave Dougherty and Gabriel Katona.

Need Publication

This program arose out of the identification of a need for a volume on Eastern Europe similar to the 1974

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LES/Commerce publication on patents and licensing in the Soviet Union. The undertaking provided an opportunity for frank and friendly discussions between representatives of government and business. There were discussions with representatives of many of the organizations involved in planning and implementing foreign technological trade. There was also the opportunity to talk with lawyers, with university professors, with scientists and engineers, and with others in the field of technology transfer. The delegations made intensive efforts to obtain valuable and informative practical data, information which has not been previously pulled together in a consistent manner.

Since last summer, all of the delegation members have been writing, rewriting, editing and re-editing various sections of the forthcoming publication on patents and licensing in the countries visited. The draft section on the German Democratic Republic has been sent to officials visited there to insure the accuracy of citations and other information. Ted White, the overall project coordinator, provided the glue to hold the project together. On his shoulders falls the monumental job of editing the entire volume. I understand that the volume will be completed and published sometime in the fall.

Turning to a more specialized area, the successful drafting and negotiation of a new treaty relating to industrial property was celebrated with a signing ceremony in the spring of 1977. This new arrival is known as the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure.

The Budapest Treaty establishes a union in which all of the member countries agree to recognize a single deposit of a microorganism to complete the disclosure of a patent application. As you know, patents covering microbiological inventions are unlike patents for other inventions in one respect: They involve the use of living material, and a written description is frequently not sufficient to teach a person how to make and practice the invention. Someone interested in making and practicing the invention must use a sample of the microorganism itself. For this reason, the patent laws of most countries protecting microbiological inventions require the inventor to deposit his microorganism in a depositary and for that depositary to make a sample available when the patent issues or the patent application is published. Unfortunately, these national deposit requirements do not follow uniform rules and procedures. Some countries accept deposits made either in foreign or domestic depositaries. Others recognize only national depositaries. Certain depositaries are recognized under the patent laws of some countries, but not under the laws of other countries.

Some countries, may not pay enough attention to the technical competence or administrative procedures of depositaries. Other countries are scrupulous about these matters. There is no international system for assuring the safety and continuous maintenance of deposits. Lack of uniformity in the protection of microbiological inventions means legal uncertainty, unjustified expense, and undue delay. This is where the treaty comes in.

May Designate

Any member country of the union may designate for recognition a depositary located on its territory. The designating country must provide assurances that the depositary complies and will continue to comply with certain enumerated requirements concerning its continuing existence and its scientific competence to preserve deposits. Other requirements are that the depositary follow applicable national laws on the release of specimens to the public and operate impartially and objectively. In addition, the nominating country must commit itself to step in and transfer deposits to another depositary if something goes wrong in its depositary. Of course, all of these assurances are to protect the patent rights of inventors, and the public availability of the microorganism on which a patent is based.

Under the treaty, any recognized depositary must accept deposits for patents in any member country of the union. For instance, an inventor here may rely on a single deposit in a recognized United States depositary for patent rights in each of the member countries. Or, if he wishes, he may rely on a single foreign deposit.

While intergovernmental organizations, such as the European Patent Office (EPO), cannot become members of the union or vote in its assemblies, such organizations can recognize deposits in international depositaries for its patent procedures. If such an organization does agree to recognize depositaries designated by member states, it would be entitled to designate a depositary located on the territory of one of its member states. We are hopeful, of course, that the European Patent Office will recognize all depositaries designated pursuant to the treaty. This would greatly enhance the internationality of the union.

Like the PCT, rules are appended to the treaty. They have the same legal effect as the treaty articles themselves. The difference is that the rules may be amended by the assembly, without convening a conference of revision.

Rule 11 is one of the most important and controversial provisions agreed upon in Budapest. It governs the release of specimens to the public. Obviously, a sample may be publicly available anytime if the depositor desires. More significantly, however, the rule assures that the time and conditions of release will be governed by the National Patent Law under which release is made. Under our law, samples will be released unconditionally at the time of patenting in the United States, whether the deposit is located in a United States or a foreign depositary. Likewise, a deposit in the United States completing the disclosure of a foreign application will be released at the time and under the conditions specified in the foreign law.

Two procedures for release are available to member countries under Rule 11. They are simple and, hopefully, foolproof. Under one, the person wishing a specimen must request the appropriate patent office to determine if release is proper and if the conditions for release have been met. If so, the patent office will direct the depositary to release a specimen to him. The second procedure is even simpler, and is particularly suited to the needs of the United States. The appropriate patent office need only inform the depositary that specimens of a particular deposit are now available for release to the public.

The beauty of these procedures is that depositaries will not be required to make decisions about the propriety of release. This should significantly reduce, if not eliminate, the possibility of a specimen being released at the wrong time, or to the wrong person, or without any national requirements for release being satisfied.

As you might expect, the Treaty's Articles and Rules cover many other details: e.g., the opportunity to make a replacement deposit if needed, the conditions under which depositaries may or must test the viability of deposits, the length of time that deposits must be stored by depositaries, the services for which depositaries may charge fees, etc.

Restrictive Practices

I shall turn now to the anticipated conclusion in the near future of a study regarding restrictive business practices relating to trademarks. This effort is conducted under the auspices of the Organization for Economic Cooperation and Development, perhaps better known by its acronym OECD. While it is a fact that the study primarily concerns the practices of industrialized nations, I think we can anticipate that the major impact of its resulting conclusions and recommendations will be with regard to the national laws of developing countries, similar to the manner in which the 1974 OECD Recommendation of the Council Concerning Action Against Restrictive Business Practices Relating to the Use of Patents and Licenses has been used. I would remind you that the OECD Recommendation on Patents and Licenses was later referred to in UNCTAD's Study on the Role of the Patent System in the Transfer of Technology to Developing Countries. Also, let me refresh your memory as to the content of the OECD's Recommendations on Patents and Licenses. That recommendation stated that the governments of member countries should:

Be alert to the harmful effects of abusive practices in which patentees and their licensees may engage, in particular; unjustified territorial, quantity or price restrictions, or industry or market domination stemming from patent pools or cross-licensing arrangements; unjustified export restrictions; unjustifiable tying arrangements; exclusive grantbacks when they reinforce the dominant position of the licensor or stifle a licensee's incentives to invent; unjustified limitations on competition,

including those between licensees; coercive package licensing; and price fixing when contrary to national law.

The recommendation went on to say that countries should:

- (1) Consider the desirability and feasibility of compulsory patent and related know-how licensing as a remedy for patent misuse; and
- (2) Consider the desirability and feasibility of registration of international licensing agreements.

The study of trademarks and restrictive business practices has been underway for nearly three years. OECD Working Party VII met in Paris to review the latest draft of a Chapter III which contains the conclusions and recommendations of the Working Party. The draft of Chapter III prepared for consideration at the meeting concluded that the ability of a trademark owner to prevent the importation of goods bearing a mark identical or similar to his own constitutes a restriction on the free movement of goods since it may be used to prevent imports when the foreign mark has been lawfully applied by a company related to the trademark owner. This is similar to Section 526 of our Tariff Act of 1930 as implemented in 19 CFR 133.21.

298 Chapter III also concludes that trademarks may form the foundation of restrictions on the distribution of goods in national markets. Although exclusive trademark licensing agreements or distribution agreements are, in principle, permitted in all OECD member countries, action may be taken against such agreements in certain well-defined cases: e.g., horizontal market divisions, territorial and customer restrictions, tying arrangements, and resale price maintenance.

Based on these conclusions, Chapter III recommends that the OECD member countries consider:

Taking action to prohibit barring the importation of goods of common origin, whether on trademark-related grounds or by private agreement, when those goods bear a mark identical or similar to a trademark protected in the country of importation and when the purpose of excluding the foreign marked goods is to maintain artificially high prices or is otherwise anti-competitive. For this purpose, "common origin" means the situation where the two trademark users are effectively under common control or where there is an economic or legal link between the enterprises.

Chapter III also recommends that OECD countries consider:

Taking action to control the anti-competitive effects of certain abusive practices involving a trademark; namely:

- (i) Horizontal market division agreements among competitors,
- (ii) Trademark-related restraints as to sale or resale by licensee (unjustified territory or customer restrictions),
- (iii) Tying arrangements of goods or services not related to maintaining the identity or quality of the goods or services or not subject to specifications for practical, trade secret or confidentiality reasons,
- (iv) Resale price maintenance (not a problem in the U.S.).

It would not surprise me if these recommendations ultimately find their way into the New Model Law on Trademarks which WIPO will prepare, as well as into the new laws enacted by developing countries.

Paris Convention

Finally, I would like to make a few comments about the activity with which I personally have been most closely involved: that involving the effort of developing countries to revise the Paris Convention. Developing countries began the effort to revise the convention in September 1974 at the Annual Administrative Meetings of WIPO. During the consideration of the activities of the Paris Union for 1975, the Paris Union Program was expanded at the suggestion of India to include an item calling for the study of all aspects of the question of the revision of the Paris Convention including, among other things, additional provisions for the benefit of developing countries.

At the first meeting to consider the LDC's demands for revisions of the Paris Convention in February 1975, LDC delegations:

- Expressed concern over the relatively large percentage of patents in LDCs owned by foreign nationals and the correspondingly small percentage of patents in LDCs owned by LDC nationals.
- Expressed concern about the high percentage of patents in LDCs which were not worked, and which served only to protect importation from industrialized nations.
- Stated that the equality of nationals and foreigners mandated by the national treatment provision of the Paris Convention perpetuated the inequality which existed technologically and economically between LDCs and the industrialized nations.
- Alleged that those nationals of industrialized countries who owned patents in LDCs, especially multinational corporations, often indulged in abusive practices by including restrictive clauses in license agreements.

During this meeting, the developing nations fashioned a list of 14 points in which, in their view, the Paris Convention needed revision. Although the 14 points, in fact, entail a considerably larger number of possible amendments to the convention, the discussions which have occurred over the past two years have focused on only a few suggestions for amending the convention. These include the notion of placing inventors' certificates into the convention on a more equal footing with patents (a proposal by the Soviet Union and its socialist allies), a proposal to relax the limitations on the actions which developing countries can take to remedy so-called abuses of patent rights, and a proposal to provide preferential treatment without reciprocity to developing countries with respect to patent and trademark fees and rights of priority.

Two years after the Soviet Union joined the Paris Convention in 1965, the convention was revised to permit an application for an inventor's certificate to serve as the basis for a right of priority for a later-filed patent application, provided the applicant for the inventor's certificate initially had the right to apply for either a patent or an inventor's certificate. The Soviets now want to broaden the reference in the convention to inventor's certificates by stating that they constitute an object of the protection of industrial property and by listing the forms which inventor's certificates might take. Most significantly, however, the Soviets wish to delete the requirement of free choice — the requirement that in order for an inventor's certificate to serve as the basis for a right of priority, the applicant must have had the option to apply for either a patent or an inventor's certificate.

Western industrialized countries, or, in the parlance of the U.N., Group B countries, have generally not objected to the suggestion of broadening the reference to inventor's certificates in the Paris Convention, but have steadfastly maintained that the notion of free choice must remain if an inventor's certificate is to serve as the basis for a right of priority. In fact, as a condition for broadening the reference to inventor's certificates in the convention, Group B countries have insisted on limiting the term of inventor's certificates to that of patents and broadening the basis for attacking inventor's certificates to be the same as that for attacking patents. To date, the socialist bloc and the Group B countries have been unable to reach an accommodation. In fact, a Working Group Meeting held in Geneva in February of this year was adjourned one day early with the two sides totally unable to reach agreement.

Restrictions on Remedy

Existing Article 5A of the Paris Convention places certain restrictions on what a country can do to remedy so-called abuses of patent rights. Article 5A states that a country cannot provide for forfeiture of a patent on the basis that a patented product was imported into the country. It further expresses the right of countries to take legislative measures to prevent patent abuses and, with respect to the abuse of failure to work, imposes certain limitations on what a country may do to remedy such failure. More specifically, these

limitations prevent a country from providing for compulsory licensing of a patent for failure to work until the expiration of either four years from filing or three years from grant, whichever is longer, and preclude forfeiture of a patent on the basis of failure to work may not occur until two years after the first compulsory license has been granted.

Discussions on amendments to Article 5A have been based, first, on a draft prepared by WIPO, and secondly, on a draft prepared by the developing countries themselves. Since Group B and the developing countries were so far apart on the question of how Article 5A should be amended, a working group was convened in March of this year in Geneva to discuss possible amendments to attempt to locate common ground. As the result of a rather frustrating experience during which the developing countries would listen to Group B criticisms of their proposals without explaining the reasons for their proposals, a general approach for a new Article 5A began to emerge. This new Article 5A would continue most of what is currently contained in Article 5A and would add an express statement that countries could do certain things which most people believe countries are free to do today. In this later group are included statements such as that a country may require that an invention be worked, a country is not required to regard importation as working, and a country may provide for the exploitation of patents for reasons of public interest. This much of the article would be generally applicable to all Paris Union countries.

In addition, however, one or more paragraphs would be included in this new Article 5A which, to some extent, would relax for developing countries the limitations which would be applicable to nondeveloping countries. Thus, developing countries would be permitted to grant a compulsory license for nonworking within two or three years from grant of a patent and would be authorized to revoke a patent within three or five years from the grant of a patent.

Initial Draft

An initial draft of a new Article 5A going in the direction described was prepared just prior to the adjournment of the Working Group Meeting in March. There are many areas of disagreement regarding the conditions and time limits stated in this draft, including whether the approach taken in the draft is appropriate at all.

The third area which has received extended consideration in the discussion concerning the Paris Convention revision involves the notion of providing preferential treatment without reciprocity to developing country nationals. This discussion has been based on draft texts of new articles for the convention prepared by WIPO which would:

1. Require that a country charge nationals of developing countries one half the fees it charges its own nationals.
2. Provide that the priority period stated in Article 4C(1) for filing patent and trademark applications be 50% longer for nationals of LDCs.

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Licensing in Asia-Pacific Market

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7. To avoid restrictive business practices.

The normal rate of royalty approved is two percent of net sales. A slight deviation from this normal rate is allowable depending upon the merits of each case. In addition, the government does not encourage lump-sum payments.

Licensing agreements for local manufacture or marketing must be recorded by the Ministry of Trade and Industry. A licensee may sue in his own name against "infringement of his rights." The government does not allow export territorial restrictions.

In summary, it has been my experience that the growing Asia-Pacific market area offers tremendous business potential.

Japan has been the leader in market growth along a path that many Asian countries are following. In 10-15 years businessmen entering the Asian markets now will be harvesting worthwhile rewards.

The key is planning, followed by aggressive action.

EEC Trademark — Why and How

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During the years our friend has spent a fortune on those trademark cases and now he has no longer any trademark at all. The sale of his pipes has considerably decreased mainly because the consumers have been confused. Now Little John tries to sell his pipes without any name or trademark at all, but the sale decreases even more. He puts small red silk ties to the pipes and advertises "the pipe with the red tie." But some of his competitors imitate his idea.

One day Little John goes bankrupt and his factory is sold by order of the court. He takes up residence in the woods and makes brilliant bows and arrows from the branches of the trees. His former sales manager serves as a spy in Brussels, and when officials of the EEC commission pass through the wood in their distinguished black cars they are stopped by Little John and his men and are only released on payment of big ransoms. Now, who is going to pay?

Trademark Linking in Mexico

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3. A Mexican or foreign company manufacturing or producing in Mexico articles or products which bear foreign origin trademarks or Mexican-origin trademarks owned by foreigners or by Mexican subsidiaries of foreign companies, that are the object of a trademark license agreement filed for recordal at the

National Registry of Transfer of Technology after February 10, 1976, fall within the provision of third paragraph of Article 128. It prescribes a one year term counted as from the date the trademark license agreement is recorded at the National Registry of Transfer and Technology.

4. The fourth and last specific case covers those Mexican or foreign companies manufacturing or producing in Mexico articles or products which bear foreign origin trademarks or Mexican-origin trademarks owned by foreigners or by Mexican subsidiaries of foreign companies, and which trademarks are being used under a tacit or informal trademark license agreement which obviously has not been recorded at the National Registry of Transfer of Technology.

This case, also falls within the provisions of the third paragraph of Article 128, which prescribes a one year term counted as from the date the respective trademark was first used.

In all of the preceding specific cases, either the Law of Inventions and Trademarks or its Regulations establish the granting by the Ministry of Patrimony and Industrial Development, of extensions of terms for a period of one year at the most, provided that the requestor can justify the granting of such extension.

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Group B countries cataloged a number of problems presented by these proposals, including the impact that they would have on relations with nondeveloping countries in view of "Most Favored Nation Clauses" in Friendship, Commerce and Navigation Treaties, the lack of any requirement of "need," and the problems that such proposals would present in the ratification process. A new proposal which was suggested at the last meeting will be discussed at a future meeting. It provides that a developing country may charge its nationals up to 50% less than the nationals of other countries for the granting and maintaining of patent and trademark rights. While this proposal is clothed in the form of a proposal for preferential treatment, it is a clear derogation of the principal of national treatment.

Among the other issues which will be considered, the question of independence of patents and the wish expressed by LDCs to improve the information they now receive regarding the treatment and fate of applications upon which priority is based will be discussed on the basis of a paper prepared by WIPO. The paper outlines four different solutions to the problem, none of which would require change in existing Article 4 of the convention which establishes the principal of independence of patents. Each of the four solutions addressed in the paper would leave sole responsibility in the hands of the authorities of the LDCs for determining the patentability of inventions in their own country.