CHAPTER 12 PROTECTION OF INTELLECTUAL PROPERTY

1. OVERVIEW OF RULES

(1) Protection of Intellectual Property

In today’s economic environment, intangible assets are becoming increasingly important. These assets which are the result of human intellectual creative activity such as invention, design, know-how, and artistic creation are known as “intellectual property.” Among the forms of intellectual property specifically entitled to legal protection are inventions, trademarks, designs, literary works, layout-designs of integrated circuits and trade secrets. As the volume of trade in goods and services involving intellectual property has increased greatly in recent years, the importance of the protection of intellectual property for the world economy has grown enormously. Inappropriate and insufficient protection of intellectual property can distort free trade.

In developing countries, the protection of intellectual property rights is often insufficient. For example, developing countries often limit protection to a very narrow subject area, or provide protection for only a short period of time, or lack strict enforcement. Some developed countries also have problematic intellectual property regimes that, for example, openly discriminated against foreign nations, provide excessive protection or otherwise have regimes so different from those employed by the rest of the world that its effect is discriminatory.

To address the trade distorting effect these problems can cause, the WTO sought to establish an appropriate framework for the protection of intellectual property in order to bring greater order to international trade. A number of international treaties already form a common legal framework for the protection of intellectual property, including the Paris Convention which entered into force in 1883 and covers patents, trademarks and other industrial property rights, the Berne Convention which entered into force in 1886 and covers copyrights. Recently, however, as countries pay more attention to the trade related aspects of this subject, they have frequently placed intellectual property protection on the agenda of trade negotiations. Countries recognized that as many governments as possible should take part in framing an international agreement establishing standards for the trade aspects protecting intellectual property. As a result, GATT negotiators instituted negotiations on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) -- one of the most important new areas included in the Uruguay Round negotiations. A final consensus on the TRIPS Agreement was reached in Marrakesh in April 1994 and took effect on 1 January 1995.

(2) Legal Framework

(i) The TRIPS Agreement

An outline of the TRIPS Agreement is provided in Figure 12-1. Although a few problems remain, the TRIPS Agreement, which became effective on January 1, 1995, establishes valuable standards for the trade-related aspects of protecting intellectual property. The significance of this agreement is manifold: (a) it covers the full range of protections afforded intellectual property; (b) it, in principle, raises the levels of protection from those in existing treaties like the Paris Convention and Berne Convention and obligates countries that have not joined these conventions to adhere to them; (c) it is the first treaty on intellectual property rights to explicitly mandate most-favoured-nation treatment; (d) it specifies
substantial levels of protection and rights that WTO Members are obligated to guarantee in their domestic laws, and also contains detailed provisions on the procedures for enforcing rights should they be infringed; and (e) it contains dispute-settlement procedures.

**<Figure 12-1> Outline of the TRIPS Agreement**

<table>
<thead>
<tr>
<th>Scope of Coverage</th>
<th>All legally-recognized intellectual property rights (copyright and related rights, patents, industrial designs, trademarks, geographical indications, layout-designs of integrated circuits and undisclosed information)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relation to Existing Conventions</td>
<td>The TRIPS Agreement incorporates and improves upon protection levels of the Paris Convention (industrial property rights) and the Berne Convention (copyright). WTO Members who are not parties to the Paris Convention or Berne Convention will thereby be obligated to meet the standards of these conventions.</td>
</tr>
<tr>
<td>Basic Principles</td>
<td>The TRIPS Agreement requires national intellectual property regimes to provide most-favoured-nation (MFN) treatment and national treatment to the nationals of WTO trading partners. Bilateral agreements that provide higher protection than found in the TRIPS must afford that same level of treatment to the nationals of all other WTO Members on a MFN basis. The TRIPS Agreement applies the national treatment exceptions found in Berne and Paris conventions, and MFN exceptions found in existing international agreement and multilateral agreements.</td>
</tr>
<tr>
<td>Levels of Protection (Standards)</td>
<td>In the area of copyrights and related rights, the TRIPS Agreement specifies the protection of computer programmes (protected as literary works under the Berne Convention) and rental rights. In the area of patents, the TRIPS Agreement establishes a wide definition of patentable subject matter and requires Members to introduce patent protection for products. As such, it does not allow for the exclusion of pharmaceutical products or foods from patentable subject matters. Protection shall be afforded for at least 20 years from the filing date of the application. The TRIPS Agreement also stipulates strict conditions on authorization of compulsory license. The TRIPS Agreement obligates signatories to provide the legal means to prevent unlawful geographical indication and additional protection for wines and spirits in relation to geographical indication. The TRIPS Agreement contains provisions governing the protection of trademarks, geographical indications, industrial designs, layout-designs of integrated circuits, and undisclosed information. It also contains rules on anti-competitive practices in contractual licenses.</td>
</tr>
<tr>
<td>Enforcement</td>
<td>The TRIPS Agreement requires domestic procedures for enforcement to be fair and equitable. It provides for enforcement through civil judicial process, through administrative procedures including border measures and administrative remedies, and through criminal judicial process.</td>
</tr>
<tr>
<td>Dispute Settlement</td>
<td>WTO dispute settlement procedures shall apply to disputes under the TRIPS Agreement. Violations of the TRIPS Agreement may result in the suspension of tariff concessions or cross retaliation through the suspension of WTO benefits in another trade sector.</td>
</tr>
<tr>
<td>Transitional Arrangements</td>
<td>Developed countries have a transition period of one year from the date of entry into force of the WTO Agreement; developing countries and transformation countries have five years (until January, 2000); and least-developed countries have 11 years (until January, 2006) (Articles 65 and 66). Developing countries that do not provide product patent protection (e.g., for pharmaceutical products) are accorded an additional transition period of five years (ten years in total) for application of the provisions on product patents. The TRIPS Agreement also contains provisions that place the following obligations on developing countries apply themselves of a transitional period, from the date of entry into force of the Agreement: (a) to provide a means for filing application of product patent for pharmaceutical and agricultural chemical products (b) to grant exclusive marketing</td>
</tr>
</tbody>
</table>
Amendment for pharmaceutical and agricultural chemical products which are the subject of a patent application under certain conditions.

Amendment | In principle, amendments to the TRIPS Agreement shall be governed by regular amendment procedures under the TRIPS Agreement. However, amendments serving the purpose of adjusting to higher levels of intellectual property rights protection achieved and in force in other multilateral agreement may, under certain conditions, be made through simpler procedures.

(3) Recent Trends

Work in the Council for TRIPS

The WTO Council for TRIPS held four formal meetings in 1999. The Council discussed notifications by WTO Members of changes to their national laws and regulations as required under the TRIPS Agreement, exchange of information on technical cooperation, reviews of the implementation of the TRIPS Agreement, and built-in agenda that was prescribed to be further discussed.

Regarding technical and financial cooperation, information was notified and circulated by fourteen developed countries, including Japan, and seven international organizations including the World Customs Organization (WCO) to developing countries. In July, 1998, the WTO and the World Intellectual Property Organization (WIPO) appealed to developing countries to acknowledge the importance of the implementation of the Agreement until the year 2000. In addition, these two organizations notified these countries that they are prepared to provide technical assistance for the implementation of the Agreement. The WTO and WIPO held a workshop in July, 1997 for improving the enforcement of border measures.

Reviews of the implementation of the TRIPS Agreement involve examining notified national implementing legislation, reviewing written questions by other Members and replies prior to the review meeting, and follow-up questions and replies during the review meeting. Legislation is conducted from 1996 through 1999. (See Figure 12-2).

Now that the transition period for developing countries has expired, a review of their laws and ordinances is scheduled to take place in 2000 and 2001 (see Figure 12-3). The legislation review for new members will be conducted in order after accession.

<Figure 12-2> Reviewed Countries

| Australia, Austria, Belgium, Bulgaria, Canada, Czech Republic, Denmark, Ecuador, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Mongolia, Netherlands, New Zealand, Norway, Panama, Poland, Portugal, Romania, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, United Kingdom, United States, Kyrgyz, Latvia (Total: 38 Countries) |

<Figure 12-3> Schedule for reviews of domestic laws and ordinances (2000-2001)

| June 2000 | Belize, Cyprus, El Salvador, Hong Kong, Indonesia, Israel, Korea, Macao, Malta, Mexico, Poland*, Singapore, Trinidad and Tobago |

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Consideration of reviews of the TRIPS Agreement

Below is an overview of the review of the TRIPS Agreement currently taking place in the TRIPS Council.

The Council for TRIPS began to discuss the issue of geographical indications in November, 1996, and is continuing discussions on the purpose and procedures for the review of the application of the provisions of geographical indications under Article 24.2. Related agenda items include the establishment of a multilateral system for the notification and registration of geographical indications for wines and spirits, and the granting of additional protection of geographical indications for products other than wines and spirits.

In addition, fact-finding activities are in progress as a first step of review regarding the exemption provision on patentability of plants and animals under the Article 27.3(b).

Furthermore, the Council began to examine the scope and modalities for non-violation complaints which had been postponed application to the settlement of disputes under the TRIPS Agreement until the end of 1999. Also, the extension of the moratorium for the application of non-violation claims had been discussed at the third Ministerial Conference in Seattle November, 1999. However, there are no concrete results so far and the moratorium has expired.

Overview of TRIPS Dispute-Settlement

Since the TRIPS Agreement took effect on 1 January 1995, 17 matters have been taken into consultation under the WTO dispute settlement procedures. They are: 1) Japan - Measures Concerning Sound Recordings, complaints by the United States and the European Union; 2) Pakistan - Patent Protection for Pharmaceutical and Agricultural Chemical Products, complaint by the United States; 3) Portugal - Patent Protection under the Industrial Property Act, complaint by the United States; 4) India - Patent Protection for Pharmaceutical and Agricultural Chemical Products, complaints by the United States and the European Union; 5) Indonesia - Measures Affecting the Automotive Industry, complaint by the United States; 6) Ireland and EU - Measures Affecting the Grant of Copyright and Neighbouring Rights, complaint by the United States; 7) Denmark - Measures Affecting the Enforcement of Intellectual Property Rights, complaint by the United States; 8) Sweden - Measures Affecting the Enforcement of Intellectual Property Rights, complaint by the United States; 9) Canada - Patent Protection of Pharmaceutical Products, complaint by the European Union; 10) Greece

Concerning the Japan Sound Recordings case, Japan amended the Copyright Law, leading to a mutually agreed solution in 1997. The Pakistan Patent case and the Portugal Patent case also resulted in mutually agreed solutions on February 1997 and July 1997, respectively. In the India Patent case the Appellate Body report and the panel report were adopted by the DSB on 16 January 1998 (see 2. (2) (iii)). The European Union originally participated in this case as a third party. However, it requested consultations separately on the same issue and a panel was established in October 1997 and the panel report was adopted in September 1998.

In the Indonesia Auto case, a panel was established in July 1997. On 23 July 1998, a panel report was adopted in relation to Indonesia’s measures as to automobiles. However, according to the report, illegality of the measures in the context of the TRIPS Agreement was not ascertained. As for the Canada Patent case, a panel was requested to be established on 1 December 1999. As for the EU Patent Protection of Pharmaceutical and Agricultural Chemical Products, Canada requested consultations in which it claimed the inconsistencies of European patent protection of pharmaceutical and agricultural chemical products on 2 February 1998.

**<Box-1> Negotiations for the New WIPO Rules**

To avoid the trade friction caused by differences among national systems and to ensure the further development of world trade, countries should strive to harmonize intellectual property regimes even in areas not covered by the TRIPS Agreement. The development of innovative technology will necessarily give rise to new issues in protecting intellectual property, and the creation of rules to protect intellectual property in these areas will be vital. In order to create new rules to address areas not covered by the TRIPS Agreement or other existing conventions, the WIPO is organizing negotiations to draft new rules. In the case of patents, the Standing Committee on Patent Law (SCP) was established in March, 1998 to conduct studies with a view to eventually signing a "Patent Law Treaty" (PLT) that would provide internationally-harmonized patent procedures. This resulted in a diplomatic meeting scheduled for May, 2000 to sign the treaty. After the meeting, discussions regarding the harmonization of patent Law substantially, which had been frozen since 1994, were restarted.

In the industrial design area, the Hague Convention, which creates a system for international registration of industrial designs, had a "third act" (amendment) proposed. This act was adopted in July 2 as the "Hague Convention Geneva Act" and will pave the way for national, EU, and other government agencies conducting reviews (including those in Japan) to join.
In trademarks, the General Council adopted a "Joint Advisory on Protection of Known Trademarks" in September, 1999 that contained concepts for protection against the dilution of famous trademarks and for the problem of Internet domain names and trademark infringement.

In the area of copyright and related rights, a Protocol to the Berne Convention is being discussed by WIPO. The protocol which would supplement and enhance the Berne Convention, which was last changed over twenty years ago, would include 1) new minimum standards of copyright; 2) new minimum standards of the rights of performers (singers, actors, etc.) and producers of recordings; and 3) new protection for databases.

The WIPO Diplomatic Conference in December, 1996 agreed to new minimum standards for copyright and reached partial agreement on new minimum standards for the rights of performers. At this conference, the “WIPO Copyright Treaty” and “WIPO Performances and Phonograms Treaty” were adopted. Each treaty will take effect three months after at least 30 countries have ratified the treaty.

Consultations in the WIPO continue in areas where agreement has yet to be reached, with negotiations progressing toward the adoption of a treaty protocol on audio-visual performances. With regard to the protection of databases, reviews involving investigations on current situations of individual countries have also been held. In addition, reviews on the raising of the protection level on broadcasting agencies have also begun.

In addition to these efforts to formulate international rules, studies have also been initiated for new areas of intellectual property rights protection. In September, 1999 WIPO published its "Digital Agenda" outlining activities guidelines for electronic commerce. The agenda includes promotion of adoption and study of the new treaties for copyright protection (see above) and promotion of studies of intellectual property rights protection as related to issues such as the use of Internet designations and infringement of existing trademarks. Studies and research are now going forward with the agreement of member countries. There has also been discussion within the Convention on Biodiversity (CBD) of access, use and allocation of benefits for genetic resources and protection of traditional knowledge (knowledge and folklore of aboriginal peoples).

(4) Economic Implications

Intellectual property rights systems provide the institutional framework to promote two economic goals. First, patent and copyright laws grant certain exclusive (monopolistic) rights to the developers and creators of intellectual property, encouraging intellectual creative activity and promoting the effective use of resources in the development of new technologies and the discovery of new knowledge, thereby enhancing the intellectual infrastructure for economic development. Second, marks and indications of goods and services, such as trademarks and geographical indications, enable businesses to maintain public trust and promote fair competition.

On the other hand, because intellectual property rights allow a certain amount of monopolistic use of new technology and knowledge, these systems restrain use by both third parties and competition, and therefore reduce the social benefits to consumers by limiting the industrial application of technology and knowledge. To balance these competing interests,
intellectual property rights systems need to be instituted carefully so as not to prevent fair and free competition.

**The Impact of Introducing a New IPR System**

When introducing a new intellectual property rights system, international redistribution of income results from new limits on the use of existing intellectual property. This redistribution has an asymmetrical impact on the economic welfare of individual countries. Developing countries fear that they will bear the burden of new IPR systems because there would be an international redistribution of income from the developing countries that use intellectual property created by the developed countries to the developed countries. This concern has made negotiating the introduction of new IPR systems more difficult.

**The Trade Distortionary Effects of Inadequate and Inappropriate Protection of IPR**

As the importance of intellectual property within international economic activities has grown, so have the trade distortionary effects of inadequate or inappropriate protection of IPR.

First, inadequate protection of intellectual property has a direct and adverse impact on the normal economic activities of the property holder. Inadequate protection of IPR leads to trademark counterfeiting, copyright piracy of pictures, music and other works design imitation, as well as the manufacture and distribution of products that infringe on IPR, thereby reducing the incentives and allocations of resources for new product development. Furthermore, regulations which require unreasonable time limits on technology licensing contracts entered into with foreign companies, prohibitions on confidentiality obligations after the completion of the term of a contract, and other measures that prevent property owners from exercising their legitimate property rights impede and impair investment and technology transfers from other countries. Such requirements reduce domestic technological development and ultimately cause a detrimental effect on the countries involved and the world economy as a whole.

Second, if each country’s intellectual property rights system causes excessive intellectual property protection, or discriminates against foreign interests, or varies widely from internationally generally agreed-upon rules and procedures, time and money must be spent in the acquisition and enforcement of rights, which in turn distorts free trade.

**Considerations in New Rulemaking**

There is an underlying acknowledgement that appropriate protection for intellectual property rights is vital to free trade and sound economic development. In this light, work is being done to create a more appropriate international framework. We note, however, that in establishing this system, consideration will need to be given to assure fair and free competitive conditions, to address the impact of the income redistribution from the introduction of the new system, and to secure improvements in economic welfare that will promote new intellectual creation and business.
2. **PROBLEMS OF TRADE POLICIES AND MEASURES IN INDIVIDUAL COUNTRIES**

   International standards for the protection of intellectual property have taken a great leap forward with the conclusion of the Uruguay Round. As mentioned above, the TRIPS Agreement provides transitional arrangements for developing countries and least-developed countries from applying the Agreement, except for national treatment and most-favoured-nation treatment, for a certain number of years. Nevertheless, we recommend that measures inconsistent with the international standards be eliminated as soon as possible.

   To implement the obligation of the TRIPS Agreement in developing countries, as Article 67 of the TRIPS provides, it is necessary for developed countries to provide technical and financial cooperation to developing countries. These activities will benefit both developed countries and developing countries in the short term, and will have increasing benefits for developing countries in the long term.

   It will also be important to monitor the progress made by WTO Members to bring their legal systems into consistent with the TRIPS Agreement and to point out, as appropriate, any aspects that may not be in conformity. The Council for TRIPS is going to conduct reviews of each Member’s implementation of obligations of the TRIPS Agreement, especially in developing countries, which were obligated to implement the agreement in January, 2000. As such, it is important to point out any measures that are inconsistent with the TRIPS Agreement. In addition, if countries fail to correct their systems that are inconsistent with the TRIPS Agreement, Japan should seek to address problems through the WTO dispute-settlement procedures.

   Furthermore, reviews of the TRIPS Agreement and negotiations at the WIPO should seek to create better and more objective rules for the protection of intellectual property.

(1) **United States**

(i) **Patent System**

   The United States has quite a unique patent system, including the first-to-invent principle, which negatively affects the stability of patent rights. In this section, however, we take up the issue of the Hilmer doctrine, which illustrates a problem in the US patent system in the context of the TRIPS Agreement. Under Article 2 of the TRIPS Agreement, Members have to comply with certain provisions in the Paris Convention for the Protection of Industrial Property. For example, Article 4 of the Paris Convention gives priorities regarding patent applications at the international level, and further paragraph B of the article provides that patents “shall not be invalidated by reason of any acts accomplished in the interval..., and such acts cannot give rise to any third-party right…”

   However, in accordance with two decisions of 1966 and 1970 that were made by the Federal Court of Appeals, the United States makes a restrictive interpretation regarding the effect of priority based on Article 4 of the Paris Convention (the Hilmer doctrine) that the priority date in the Paris Convention will not be construed to prevent the grant of a patent by another applicant under Section 102(e) and (g) of the US Patent Act.

   This interpretation appears to be in breach of Article 4(b) of the Paris Convention, which explicitly provides “such acts cannot give rise to any third-party right.” This particular
provision has been incorporated into the TRIPS Agreement by virtue of Article 2 thereof. Clearly, the Hilmer doctrine has become an obstacle to trade and investment in the United States. We need to conduct further investigation on the actual operation of the system keeping in mind the effect to the Japanese industries.

**<Box-2> United States’ Unique Patent System**

Among developed countries of the world, the United States has quite a unique patent system: For instance, the United States still maintains the “first-to-invent” system. It would not be appropriate to condemn the United States only because of having such a unique patent system, but it must be pointed out that the United States is one of the biggest markets in the world. Applicants in other nations than the U.S. may face unreasonably high costs using the US patent system and their business prospects may be adversely affected due to the lack of stability in patent rights. Such situations would be obstructive to the liberalisation of trade and investment. It is therefore strongly hoped that the United States take remedial measures on this matter. Shown below are the issues we are particularly aware of concerning the US patent system. Nevertheless, there also exist points to be remedied in the practical aspect of the system, such as practices related to unity of inventions.

(a) **Submarine Patents**

In the United States, it is possible for a patent applicant to keep the application secret and intentionally delay the processing of patent examination. The applicant may seek to have the patent granted after a third party separately succeeds in merchandising the same technology and the market for such goods infringe upon the patent which has expanded enough for the patent holder to obtain a huge amount of royalty on the patent. This is the problem of so-called “submarine patents.” In one case, an application for a basic image analysis technology filed in 1954 stayed latent for 38 years, and after a patent right was granted in 1992, the right stayed effective for a period of 17 years. Two factors cause submarine patents. First, the United States did not have an early publication system. Second, in the United States, the starting date of the patent term was the day on which the patent was granted, regardless of the filing date.

During the US-Japan Framework Talks initiated in October, 1993, Japan requested the elimination of these factors causing submarine patents, and the United States agreed to establish an early publication system before 1 January, 1996, and to calculate a patent term not from the date on which the patent was granted but from the date the first application was filed.

**Starting Date of a Patent Term**

Article 33 of the TRIPS Agreement stipulates that “the term of patent protection shall be a minimum of 20 years from the filing date.” Section 154 of the 35#U.S.C. (The US Patent Act) as amended by the Uruguay Round Agreements Act (URAA) provides that “the term of a patent will end 20 years from the earliest filing date, allowing the patent to be extended for up to five years if the issue of the patent is delayed for specified reasons”. However, this amendment applies only to the patent applications which are submitted on or after June 8, 1995. Consequently, applications filed on or before 7 June, 1995 may remain submarine patents forever.

The US Patent Reform Act (Public Law No.106-113) including the provisions for
“Patent Term Guarantee” was enacted on 29 November, 1999. These provisions reflect the demands of individual inventors and SMEs that were dissatisfied with the contents of the URAA amendment, as well as the demands of pharmaceutical and biotechnology industries that hoped to fully recover their R&D expenses through patent right enforcement. Specifically, in addition to the conventional provisions to extend the patent term for any periods required for receiving regulatory approval such as drugs, and for delays due to appellate review by the Board of Patent Appeals and Interferences (including appellate review by federal courts) or delays due to an interference (a proceeding conducted by the USPTO to determine the first inventor), a new provision was added to approve a term extension for any delays in examination proceeding caused by the USPTO. Also, the Reform Act deleted a provision that limited the maximum extension period to five years for delays due to appellate review or a proceeding of interferences, as well as a provision that restricted the patent term from becoming more than 17 years due to term extension for delays resulting from appellate review.

Even though there is a provision in the Reform Act which stipulates that “term extension shall be reduced by the period of time during which the applicant failed to engage in reasonable efforts to conclude prosecution,” it still leaves room for applicants to make intentional delays. In addition, an early publication system, which is also included in the Patent Reform Act, is not sufficient because it allows inventions that were only disclosed in US patent applications to be kept confidential. Therefore, inventions filed solely with the USPTO may not be published and kept confidential during appellate review or interferences, and their patent terms may be extended limitlessly due to such delays, causing new types of submarine patent problems. Accordingly, we need to continue observe practices relating to such provisions in the future.

**Lack of Early Publication System**

After 1994, several bills establishing an early publication system were submitted to the 103rd, the 104th, and the 105th Congress sessions. These bills provided for the publication of all applications, in principle, as soon as possible after the expiration of a period of 18 months from the earliest filing date. Unfortunately, the bills were not voted on before the end of each respective congressional session. Due to the United States’ failure to execute the Japan-US agreement for introducing an early publication system even long after the deadline, Japan has been demanding that the United States adopt the system promptly and fully.

Finally, in the 106th Congress session, the US Patent Reform Act, which included a limited early publication system was enacted on 29 November 1999. While the United States had agreed to publish all patent applications in principle, the provisions in the Act provide that a US application that is not filed with another overseas patent office or claims of a US application that are not included in an application filed with a country other than the U.S. does not have to be published upon request of the applicant. All at this indicates that the system is still insufficient. In such situations, well-intentioned third parties may make overlapped investments in R&D or commercialization of the same inventions as those claimed in any unpublished applications, which may potentially cause serious unforeseen difficulties for one’s business.
Therefore, it is necessary to continue to strongly urge that the United States to promptly fulfill the commitments in the Japan-US agreement on the early publication system with no exception.

(b) **First-to-Invent Principle**

The United States employs the first-to-invent principle under which a patent is to be granted to an applicant who invented an item first. This differs from the first-to-file principle under which a patent is to be granted to the applicant who first filed an application for the same invention. The United States is the only country in the world to adopt the first-to-invent principle and while this principle is not in violation of the TRIPS Agreement, the first-to-invent principle involves the following problems: (a) the validity of a patent is neither predictable nor secure because the status of a current patent holder may be negated afterwards by the claim of the first inventor; (b) long time and enormous amount of money are often required in the process of determining who the first inventor is and this can frustrate an applicant’s intention to obtain or commercialize a patent in the United States; and, (c) since there is no system for a third party to start a proceeding of determining the first inventor, such as an interference, if multiple applicants created similar inventions independently and obtained patents for them respectively, a third party would be required to pay royalties to all of such inventors in an overlapped manner, which would be unfair for the third party.

The United States has come to be aware of the problems with the “first-to-invent” principle. In September 1992, the Advisory Commission on Patent Law Reform recommended that the Secretary of Commerce adopt “first-to-file” standards. In order to eliminate these problems and promote the international harmonization of patent laws, the United States should change to a “first-to-file” system. To this end, we need to continuously demand international harmonization of patent systems at every opportunity.

(c) **Re-examination system**

The United States also has a re-examination system which allows review of the validity of a granted patent. However, third parties’ rights of challenge are limited under the system because 1) a request for re-examination can be filed based only on the existence of a prior art document, and requests based on such grounds as inadequacy in specification are not regarded as receivable; and 2) after the request has been filed, the third party requester can have no further involvement in the re-examination process.

During the Intellectual Property Working Group of the US-Japan Framework Talks, Japan demanded the United States to improve the re-examination system. The two governments reached an agreement that the United States revise the current procedures by 1 January 1996. Such revisions include expansion of the reasons for requesting a re-examination as well as allowance of the opportunities for third parties to participate in the process. Similar to the early publication system, an amendment bill covering an improved re-examination system was submitted to the 103rd, the 104th, and the 105th Congress sessions respectively in and after 1994, only to be discarded at the end of each session before the deliberations were completed.

Finally, US Patent Reform Act including an *inter partes* re-examination system was enacted on 29 November 1999. However, when compared to the Japan-US agreement, the following problems still remain: 1) the re-examination procedures do not to expand the
grounds for requesting re-examination to include inadequacy in specification; and 2) the new re-examination procedures do not substantially expand the opportunity for third parties because the new procedures virtually inhibit third parties from using the inter partes re-examination proceedings. Under this system, third-party requestor could lose any further opportunity for challenging the validity because the third-party requestor is estopped from asserting at a later time, in any civil action, the invalidity of any claim on any ground which the third party requester raised or could have raised during the inter partes re-examination proceedings.

We must continue to strongly urge the United States to promptly and completely fulfil the commitments in the Japan-US agreement on re-examination procedures as well as to establish a re-examination system that is fair to both patentees and third parties.

(ii) Trademarks Systems

Section 211 of the Omnibus Act of 1998 states that the US will not recognize the renewal or exercise of rights for trademarks related to assets confiscated by the government of Cuba. This provision appears problematic in terms of the national treatment and most-favored-nation obligations of the TRIPS Agreement. Such unilateral measures by the United States are fundamentally inconsistent with the multilateral trading system and WTO principles. They distort trade and should be immediately improved. (See Chapter 14, unilateral measures.)

The EU requested bilateral consultations regarding the matter on July 15, 1999.

(iii) Section 337 of the Tariff Act of 1930

Section 337 of the Tariff Act of 1930 targets unfair import practices by excluding from the United States imports which infringe upon valid US-registered intellectual property rights. The Omnibus Trade and Competitiveness Act of 1988 removed the requirement of injury in cases involving the infringement of patents, trademarks, copyrights, and layout-designs of integrated circuits. This removal of the injury requirement in 1988 simplified the burden of proving a violation of Section 337, and thus made Section 337 an easily accessible remedy for US domestic industries (See Figure 12-4).

Under certain circumstances, Article XX(d) of the GATT establishes an exception permitting the exclusion of imports that infringe upon patents and other intellectual property rights. In November 1989, however, the GATT Council adopted a panel report that concluded Section 337 procedures violated the national treatment provisions of Article III:4 of the GATT and could not be justified by Article XX (d) (See Reference).

Despite such a clear and definitive statement of inconsistency with the GATT, the United States did not abide by the panel’s decision immediately. With respect to the relatively short and fixed time limits for the completion of proceedings under Section 337, which were found to be inconsistent with GATT, the TRIPS Agreement expressly prohibits the setting of unreasonable time limits on procedures for the enforcement of intellectual property rights.
In its Uruguay Round implementing legislation, the United States significantly amended Section 337 so that it more fully complies with the GATT Council's recommendations. The deadline for final relief has been eliminated, though the ITC still establishes a “target date” for final determination in each investigation within 45 days of the initiation of a investigation, depending on how it is administered, could result in discriminatory treatment of imports. On January 14, 2000 the EU requested bilateral consultations regarding this provision. Japan should monitor developments closely.

**Figure 12-4** Number of Investigations Initiated under Section 337

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<th>Year</th>
<th>Total Number of Cases</th>
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**Figure 12-5** Section 337 Panel and Outline of U.S. Uruguay Round Agreement Act

In April, 1984, the US company Du Pont filed a complaint with the International Trade Commission (ITC) under Section 337 to prohibit the importation into the United States of aramid fibre exported by the Dutch company Akzo, claiming an infringement of its patent. In November, 1985, the ITC issued a limited exclusion order (which covers only products imported by the accused). In October, 1987, a GATT panel was established to examine the case.

In January, 1989, the panel concluded that Section 337 of the United States Tariff Act of 1930 is inconsistent with GATT Article III: 4 because it accorded to imported products less favourable treatment than that accorded to like products of United States origin as a result of six factors:

(i) The availability to complainants of a choice of forum (the ITC or a federal court) in which to challenge imported products, whereas no corresponding choice is available to challenge products of US origin (only a federal court is available);

(ii) The potential disadvantage to producers or importers of challenged products of foreign origin resulting from the tight and fixed time-limits in proceedings under Section 337, when no comparable time limits apply to producers of challenged products of US origin (the period between the publication of the notice of investigation and the final determination is normally limited to 12 months and cannot extend beyond 18 months, while patent-related litigation in federal district courts takes an average of 31 months);

(iii) The non-availability of opportunities in Section 337 proceedings to raise counterclaims, as is possible in proceedings in a federal court;

(iv) The possibility that general exclusion orders may result from proceedings brought before the ITC under Section 337, given that no comparable remedy is available in a federal court against infringing products of US origin;

(v) The automatic enforcement of exclusion orders by the US Customs Service, whereas injunctive relief obtainable in a federal court in respect of infringing products of US
origin requires for its enforcement individual proceedings brought by the successful plaintiff;

(vi) The possibility that producers or importers of challenged products of foreign origin may have to defend their products both before the ITC and in a federal court, whereas no corresponding exposure exists with respect to products of US origin. The Panel found that some of these inconsistencies could not be justified under Article XX(d), which justifies measures necessary to secure compliance with laws or regulations relating to the protection of patents, trade, marks and copyrights as exceptions. In the consideration of each inconsistency, the panel found that factor (v) and in some cases factor (iv) can be justified under Article XX(d).

A summary of the significant amendments by the Uruguay Round Agreements Act, is provided below.

- Elimination of time requirements
  There has never been a time limit on the procedures used by a federal court to determine infringement of intellectual property rights by domestic products, but ITC investigations of infringements by imports were required to be completed within a set time frame. This discrepancy has been amended to remove the time limits on ITC procedures. Under the new regulation, the ITC is directed to establish a “target date” for final determination in each investigation within 45 days of the initiation of a investigation.

- Availability of counter claims
  Prior to the recent amendments, it was only possible for accused infringers to file countersuits in a federal court. Now, however, accused infringers are able to file countersuits in both a federal court and the ITC proceedings.

- Restrictions on the situations in which general exclusion orders can be issued
  Federal court injunctions only affect the accused, but the ITC has been able to issue general exclusion orders on products imported by parties other than the accused. Amendments still allow general exclusion orders to be issued, but limit them to situations in which a) they are necessary to prevent circumvention of limited exclusion orders or b) there is a specific pattern of Section 337 violations and it is impossible to determine the source of the infringing products.

- Elimination of double jeopardy
  Infringement of intellectual property rights by domestic products are judged only by the federal court system, but under the old system it was possible for imports to be in double jeopardy of both the ITC proceedings and federal court proceedings. Amendments have made it possible for court proceedings on the same case to be halted at the request of the defendant.

(2) Asian Countries

Asian countries increasingly have been establishing adequate laws, regulations, systems and institutions to protect intellectual property rights. Since the establishment of the WTO, Asian countries have been amending their national intellectual property legislation to conform to the TRIPS Agreement. We appreciate the efforts of some Asian countries to conform to the

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TRIPS Agreement in advance of the end of the transitional period in 2000. We will need to watch both the legal frameworks and the administration to ensure proper fulfilment of agreement obligations.

One joint effort by Asian countries is the "Hanoi Action Plan" that was adopted by the Sixth ASEAN Summit of December, 1998. The Action Plan seeks to improve ASEAN cooperation in the protection and enforcement of intellectual property rights, and in the creation of joint patent and trademark systems. In 1999, the ASEAN working group on international property (WGIPC) began detailed studies of patent and trademark systems in ASEAN countries. We look forward to stronger intellectual property rights protection from this cooperative effect among of Asian countries.

(i) Counterfeit and Imitation Goods in Asian Countries

Availability of Enforcement

The largest intellectual property rights problem in Asian countries, and one that besets virtually every country, is the huge number of cases of infringement in the form of rampant production and distribution of counterfeit trademark goods, design limitation goods and pirated copyright goods (Figure 12-6). This problem is exacerbated by many Asian governments' inability to effectively enforce rights and eliminate infringements. In Indonesia and India a few cases can be seen where a third party registers well-known foreign trademarks.

The introduction of substantive legal provisions and the establishment of a regulatory system by itself will not guarantee the sufficient protection of intellectual property rights. For rights to be sufficiently protected, the granting and registration of rights must be handled efficiently by the relevant authorities and agencies. Moreover, effective and expeditious remedies against infringement of intellectual property rights must be available to prevent and deter infringements. Adequate remedies include court enforced injunctions for infringement, compensation for damages, orders to destroy infringing products, provisional measures to seize infringing products and secure evidence, border measures by customs authorities, and the availability of criminal enforcement and sanctions.

In the TRIPS Agreement, Articles 41 through 61 provide for these enforcement procedures. Specifically, Article 41 requires Members to ensure that enforcement procedures are available to permit effective and expeditious action against infringement of intellectual property rights. A lack of effective and expeditious enforcement measures may constitute a violation of obligations under the Agreement. Japan must watch for legislation of Members, especially developing country Members as their moratorium has expired, from the year 2000, in order to ensure effective and expeditious enforcement procedures. Also if an inconsistent measure has been identified, Japan should consider resolution through WTO dispute settlement mechanism.
### Number of Complaints by Japanese Firms for IPR Infringement in Asian Countries

<table>
<thead>
<tr>
<th></th>
<th>Number of Infringements of Japanese Products (1997)</th>
<th>Number of Resulting Orders to Cease and Desist Importation of Infringing Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(*1)</td>
<td>(*2)</td>
</tr>
<tr>
<td>Number of Cases with Country as the Producing Country</td>
<td>Number of Cases with Country as the Distributing Country</td>
<td>1996</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Korea</td>
<td>66</td>
<td>48</td>
</tr>
<tr>
<td>Malaysia</td>
<td>--</td>
<td>9</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Thailand</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Philippines</td>
<td>--</td>
<td>1</td>
</tr>
<tr>
<td>India</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>China</td>
<td>113</td>
<td>96</td>
</tr>
<tr>
<td>Taiwan</td>
<td>93</td>
<td>76</td>
</tr>
<tr>
<td>Asia</td>
<td>311</td>
<td>280</td>
</tr>
<tr>
<td>World</td>
<td>388</td>
<td>347</td>
</tr>
</tbody>
</table>

The major examples of infringement upon intellectual property rights in Asian nations and regions in terms of the financial loss and the number of items involved. (*1)

Hong Kong: apparel, precision machinery, electronic components
Korea: electronic components, automobile parts, industrial machinery, bags
Malaysia: industrial machinery, bags, electronic components
Singapore: automobile parts, bags, electronic components
Indonesia: industrial machinery, precision machinery, sundries, automobile parts
Thailand: industrial machinery, precision machinery
Philippines: precision machinery, industrial machinery, automobile parts
India: industrial machinery, medical equipment
China: electronic components, industrial machinery, precision machinery, sundries, apparel
Taiwan: industrial machinery, electronic components, automobile parts, precision machinery

Notes:
(*1) Source: Research by the Japan Institute of Invention and Innovation (survey of 5,000 manufacturers)
(*2) Source: Ministry of Finance Customs and Tariff Bureau, orders to cease and desist importation (shipping country)

Another problem of enforcement in Asian countries is limitations regarding enforcement through civil procedures. Civil procedures in Asian countries often make it difficult to identify the producers and sellers of infringing products or to gather evidence.
Indeed, in many cases, the offending parties find it is not worthwhile to bring suit because of these limitations. As a result, administrative and police organizations' criminal proceedings remain indispensable to enforcement.

Some Asian countries recognize the need to strengthen criminal procedures and are actively working to eliminate infringing products. We can already see that the distribution of infringing goods has declined as a result of these efforts. We will continue to evaluate the work of Asian countries and expect these efforts to reduce violations of IPR.

**Actions Concerning Counterfeit Goods and Imitations**

With respect to the issues of counterfeit goods and imitation in Asian countries, we urge that enforcement procedures be brought into conformity with international standards. Adjustments to countries' substantive law and systems will not be enough.

First, it is necessary to secure the necessary personnel to operate an effective intellectual property protection regime, and effort must also be made to train personnel in the field of intellectual property inside and outside of the government so as to increase awareness of the relevant problems. For the granting, registration, and law enforcement agencies to be efficiently and appropriately operated, it is necessary to develop computerized systems and to disseminate information among the agencies and to the public. To assist in achieving these goals, Japan and other developed countries should help developing countries make the necessary institutional improvements and provide technical assistance through expanded training programmes.

Moreover, it is necessary to urge governments to further reinforce registration by administrative authorities, and to educate nationals of the importance and significance of intellectual property protection.

To this end, Japan has greatly enhanced technical assistance to Asian countries, and will continue to promote technical cooperation in the future. For example, the Japanese Patent Office was carrying out training programmes from 1996 to 2000, which will receive approximately a thousand trainees from Asia-Pacific countries. It will also dispatch technical experts and hold seminars and workshops, cooperate in information related areas including providing patent information, and set up a database on Asian countries system of IPR.

**(ii) Licensing restrictions (Malaysia)**

Asian countries often regulate international licensing contracts between foreign and domestic companies under special legislation governing technology transfer or under intellectual property rights laws. These licensing regulations often restrict or ban specific contractual clauses with the effect of limiting the ability of foreign licensors to use their intellectual property rights or placing foreign licensors in extremely disadvantageous contractual positions. The TRIPS Agreement allows appropriate measures to be taken to prevent detrimental influence on and practices concerning international transfers of technology (Article 8), and to prevent or restrict anti-competitive practices in licensing contracts (Article 40). The TRIPS Agreement also contains a safeguard provision that attempts to prevent abuse of licensing restrictions by requiring that they not violate other provisions within the TRIPS Agreement. When considered in this light, many of the licensing restrictions imposed by Asian countries would seem to be contrary to the TRIPS Agreement.
Examples of restrictions that are contrary to the TRIPS Agreement include the following.

(i) Limitations on the terms of licensing contracts or the periods for which royalties can be collected. The TRIPS Agreement gives the owners of patents the right to assign licensing contracts of their patent rights (Article 28.2), and obligates countries to protect patent rights for twenty years (Article 33). Government regulations that restrict rights under international licensing contracts to anything shorter than its valid right term are contrary to the TRIPS Agreement.

(ii) Prohibitions regarding clauses that obligate licensees to maintain confidentiality of technology after the contract period has expired, and prohibitions regarding clauses limiting re-transfers to third parties. Licensors should be able to prevent the disclosure to and use by third parties of undisclosed information included with the licensed technology. Article 39.2 of the TRIPS Agreement provides for such measures.

(iii) The setting of ceilings on royalty rates. This constitutes an actual limitation on the right to conclude licensing contracts and is probably contrary to Article 28 of the TRIPS Agreement.

Other restrictions that may not be contrary to the TRIPS Agreement include:

(iv) Obligations on the licensor of licensed technology not to infringe third parties rights or to guarantee that certain levels of technology will be met.

(v) Prohibitions regarding contracts clauses restricting exports. Both of these impose extremely disadvantageous conditions on the licensor of technology and may discourage licensing contracts.

The above licensing restriction issues may be inconsistent with the Agreement after January, 2000, because their transitional period has passed yet. Therefore, licensing restrictions contrary to the TRIPS Agreement should be amended and brought into conformity with the Agreement. Other limitations that discourage or impede licensing and thereby, cause barriers to international technology transfers should also be eliminated. (see also Chapter 16 regarding China and Vietnam)

(iv) Patent Protection for Pharmaceutical and Agricultural Chemical Products during the Transitional Period (India)

Even during the transitional period, the TRIPS Agreement stipulates two obligations on developing countries if they do not make pharmaceutical and agricultural chemical products available for patent protection. Those developing countries must (a) provide means for applications of patents for such inventions (so-called “mailboxes”) (Article 70.8), and (b) grant the exclusive marketing rights to pharmaceutical products for which patent applications have been filed, under certain conditions (Article 70.9). Although more than four years have passed since the Agreement entered into force, many countries still do not have systems in place, a matter that has been taken issue with in the TRIPS Committee. The United States initiated WTO dispute-settlement procedures seeking correction from Pakistan and India on this issue. With respect to Pakistan, a bilateral agreement was reached for Pakistan to correct its system. With respect to India, the Appellate Body concluded the measures by India to be in violation of the TRIPS Agreement and recommended that the DSB request India to meet its obligations under Article 70.8 and 70.9 of the TRIPS Agreement. India promulgated the Patent Amendment Ordinance 1999 in order to implement the rulings and recommendations of the DSB.
Panel on India - Patent Protection for Pharmaceutical and Agricultural Chemical Products

India’s Patents Act of 1970 did not make available “products patents” on pharmaceuticals and agricultural chemicals. Because of this, the President of India promulgated the Patents Amendment Ordinance of 1994, providing supplementary measures for the transitional period that would bring India’s system into conformity with Article 70.8 and 70.9 of the TRIPS Agreement. This was done on 31 December 1994, at which time the TRIPS Committee was informed of the amendments.

The amendments were, however, temporary presidential legislation, which the constitution of India allows in cases of urgency when Parliament is out of session. In accordance with the constitution, the ordinance expired on 26 March 1995, six weeks after Parliament reconvened. The Government submitted an amendment bill to Parliament in March, 1995, but it was not passed and the bill expired when Parliament was dissolved on 10 May 1996.

Under this situation, India has received patent applications for pharmaceuticals products through “administrative instructions.”

The United States requested bilateral consultations under GATT Article XXIII claiming that (1) India does not provide a legal basis for filing “mailbox” applications, and (2) India does not provide a system for granting exclusive marketing rights, in violation of Article 70.8 and 70.9 of the TRIPS Agreement. Bilateral consultations failed to produce a resolution, so a panel was established on 20 November 1996.

India rebutted the complaints of the United States by arguing that (1) establishment of a “mailbox system” through administrative procedures is justified by Article 70.8; and (2) the events listed in Article 70.9 had not yet occurred, and there is no obligation to make a system for the grant of exclusive marketing rights system immediately.

On 5 September 1997, the panel concluded that India was in violation of the TRIPS Agreement for the following reasons: (1) India’s “administrative instructions” do not provide a legal basis to preserve novelty and priority of applications; and (2) Article 70.9 required legal mechanisms to be in place by the time the Agreement took force. The panel report recommended that India brings its legal regime into conformity with the TRIPS Agreement, taking care to protect the rights of applications already filed. India appealed the panel decision to the Appellate Body, but the Appellate Body upheld the conclusion and submitted the report to DSB on 19 December 1997. The Appellate Body report and the panel report were adopted by the DSB in January, 1997.

(3) European Union and others

Greece – Enforcement of Intellectual Property Rights for Motion Pictures and Television Programmes

In the TRIPS Agreement, Articles 41 through 61 provide for enforcement procedures. Specifically Article 41 requires Members to ensure that enforcement procedures are available to permit effective and expeditious action against infringement of intellectual property rights.
The United States has initiated WTO dispute-settlement procedures seeking correction from the European Union and Greece on inappropriate copyright protection for motion pictures and television programmes. The United States claimed effective remedies against copyright infringement do not appear to be provided or enforced in the EU and Greece, otherwise a number of television stations in Greece broadcast motion pictures and television programmes without the authorization.

**<Box-4> Canada - Patent Protection of Pharmaceutical Products (DS114)**

In December, 1997, the European Union requested consultations with Canada regarding the protection of inventions in the area of pharmaceuticals under the Canadian Patent Act in relation to its obligations under the TRIPS Agreement. After consultations, which were held twice, the EU requested establishment of a panel in November 1998. The EU claims that Article 55 bis of the Canadian Patent Act is inconsistent with obligations under Article 27, 28, and 33 of the TRIPS Agreement.

More precisely, under the Canadian Patent Act, (1) a person who is not the patent possessor may make, construct, use, or sell a patented invention without permission for uses reasonably related to the development and submission of information under any law of Canada, and (2) a person who is not the patent possessor may make, construct, or use a patented invention, during the applicable period provided for by the regulations, for the manufacture and storage of articles intended for sale after the date on which the term of the patent expires.

The EU pointed out these provisions are not consistent with the TRIPS Agreement, (i) different treatment between inventions on any technological field violates the obligation under Article 27.1 of the TRIPS Agreement, (ii) allowance of using the patented invention to obtain marketing approval of a copy of the patented medicines before the expiration of the patent violates the obligation under Article 28.1 of the TRIPS Agreement, and (iii) making and stockpiling patented medicines for sale after expiry for the period up to six months before patent expiry also violates the obligation under Article 33 of the TRIPS Agreement. In February, 1999, a panel was established to examine the case.

Canada requested consultation with the EU regarding the protection of inventions in the area of pharmaceutical and agricultural chemical products under the Council Regulation (EEC) No. 1768/92 and European Parliament and Council Regulation (EC) No. 1610/96. Canada claims these regulations are incompatible with the obligation of the EU not to discriminate on the basis of field of technology as found in Article 27.1 of the TRIPS Agreement.