

# SOFTIC SYMPOSIUM 2001

Information Distribution and Legal Protection in  
Cyberspace  
- In Search of a New System -

## PROCEEDINGS

Tuesday, November 20 and Wednesday, November 21, 2001

SOFTWARE INFORMATION CENTER(SOFTIC)  
TOKYO, JAPAN

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# **GENERAL INFORMATION**

## Outline

### 1. **Date:**

Tuesday, November 20  
Wednesday, November 21, 2001

### 2. **Venue:**

"Providence Hall", 2<sup>nd</sup> Floor, Tokyo Prince Hotel  
3-1, Shibakoen 3-chome, Minato-ku, Tokyo 105-8560  
Tel. 81-3-3432-1111 Facsimile. 81-3-3432-5551

### 3. **Theme:**

Information Distribution and Legal Protection in Cyberspace - In  
Search of a New System -

### 4. **Organized by:**

Software Information Center (SOFTIC)  
Toto Bldg., 5-1-4 Toranomom, Minato-ku, Tokyo 105-0001, Japan  
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### 5. **Supported by:**

The Agency for Cultural Affairs  
The Ministry of Economy, Trade and Industry  
Japan Information Service Industry Association  
Institute of Intellectual Property  
Japan Electronic Industry Development Association  
Japan Personal Computer Software Association  
Association of Copyright for Computer Software

### 6. **Official Language:**

Japanese and English with simultaneous translation

## Steering Committee

### **Chief-adviser:**

*Ichiro Kato, Professor Emeritus, The University of Tokyo,  
Ex-Chancellor, Seijo Gakuen*

### **Adviser:**

*Zentaro Kitagawa, Professor Emeritus, Kyoto University, Professor of  
Law, Meijo University*

### **Chairman:**

*Hiroshi Saito, Professor of Law, Sensyu University*

### **Vice-Chairman:**

*Nobuhiro Nakayama, Professor of Law, The University of Tokyo*

### **Members:**

*Hidetaka Aizawa, Associate Professor of Law, Waseda University*

*Kenji Ushiku, Patent Attorney, K.USHIKU & Co.*

*Masaharu Ohashi, Attorney at Law, Okazaki, Ohashi & Maeda*

*Masayuki Okada, Managing Director, Japan Information Technology  
Services Industry Association*

*Norihisa Ogawa, Attorney at Law, SOFTIC Special Researcher,  
Kioizaka Law & Patent*

*Hideo Ozaki, Associate Professor of Law, LAW OFFICE Of  
OHBA, OZAKI & SHIMATSUE*

*Kubota Yoshio, Director of Information systems Department, The  
Tokyo Electric Power Company*

*Fumihiko Saito, General Council, IBM Japan, Ltd.*

*Takashi Sawai, General Manager, Intellectual Property Center,  
Nippon Telegraph and Telephone Corporation*

*Keiji Sugiyama, Attorney at Law, SOFTIC Special Researcher, South  
Toranomon Law Offices*

*Yoshikazu Tani, Patent Attorney, Tani & Abe*

*Masato Dogauchi, Professor of Law, The University of Tokyo*

*Akira Negishi, Professor of Law, Kobe University*

*Toyohiro Nomura, Professor of Law, Gakushuin University*

*Masayuki Matsuda, Attorney at Law, MAX Law Offices*

*Tsuneo Matsumoto, Professor of Law, Hitotsubashi University*

*Shigeru Miki, Attorney at Law, Miki & Yoshida*

*Naoki Mizutani, Attorney at Law, SOFTIC Special Researcher,  
Mizutani Law & Patent Office*

*Nobuo Monya, Professor of Law, Seikei University*

*Katsuro Yamaji, Chairman, Intellectual Property Committee, Japan  
Electronic Industry Development Association*

*Toyomaro Yoshida, Executive Director, Institute of Intellectual  
Property*

*Masao Yoshida, Attorney at Law, Miki & Yoshida*

## **-Program**

### **Tuesday, November 20**

9:00 Greetings:

**Kensuke Norichika**, *Executive Director, SOFTIC*

9:10 A. Keynote Speech

**“WIPO Initiatives Meeting the Challenges of Digital Technology and Networks”**

Speaker: **Shozo Uemura**, *Deputy Director General, WIPO*

9:40 B. Legal Protection and Use of Digital Information -Technical  
Progress and Legal Development-

**B-1. Distribution of Digital Information and Copyright**

- Scope of Reproduction for Private Use, The Relation between Private Modification and Moral Rights (right of preserving the integrity)
- Temporary Copy and Reproduction
- Contributory Infringement, Vicarious Liability, Indirect Infringement

10:30-10:50 Break

12:30-13:30 Lunch

13:30 **B-2. Liability of Internet Service Provider**

- Current Implementation of Related Laws in U.S. and Europe, etc.

15:30-15:50 Break

15:50 **B-3. The Relation of the Copyright Management Business**

17:30 End of the first day

17:40 - 19:30 Reception

## **Wednesday, November 21**

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9:00 C. Patent Infringement Suits in Global Network Age  
-Comparison between Japan, U.S. and Europe-

- C-1. • Defense of "Invalid" in Infringement Suits**
  - **Jurisdiction of Foreign Patent and Judgment of "Invalid"**

10:30-10:50 Break

12:30-13:30 Lunch

13:30 **C-2. Joint Direct Infringement, Indirect Infringement**

- Infringement or not
- Cross-border Issue
- Means of Proof for Infringement

15:00-15:20 Break

16:00 **C-3. Major Cases concerning Software-related Patent in Each Country and the Trend of Patent Protection**

16:30 **C-4. Collection of Prior Arts about Software-related Technique**

- Present and Future in Japan, U.S. and Europe

17:30 End of all the sessions

*\*Allotment of time might be changed due to unexpected events.*



## Speakers, Moderators and Panelists

### Keynote speaker:

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**Shozo Uemura**, *Deputy Director General, World Intellectual Property Organization*

### Moderators:

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#### Copyright Session:

**Hidetaka Aizawa**, *Associate Professor of Law, Waseda University*

#### Patent Session:

**Shigeru Miki**, *Attorney at Law, Miki and Yoshida*

### Panelists:

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#### Copyright Session:

**Eric H. Smith**, *Attorney at Law, Smith & Metalitz*

**Shira Perlmutter**, *Vice President and Associate General Counsel for Intellectual Property Policy, AOL Time Warner, Inc.*

**Bernt Hugenholtz**, *Professor, University of Amsterdam*

**Thomas C. Vinje**, *Attorney at Law, Morrison & Foerster*

**Hisamichi Okamura**, *Attorney at Law, Okamura, Hori & Nakamichi*

**Naoki Koizumi**, *Professor of Law, Sophia University*

**Yutaka Tanaka**, *Attorney at Law, Yutaka Tanaka Law Office*

**Tsuneaki Hagiwara**, *Chief Manager, Legal Department, Toppan Printing Co., Ltd.*

#### Patent Session:

**Frederick T. Boehm**, *Assistant General Counsel –Intellectual Property & Licensing, International Business Machines Corp.*

**Randall R. Rader**, *Circuit Judge, United States Court of Appeals for the Federal Circuit*

**Harold Wegner**, *Attorney at Law, Foley & Lardner*

**Jan H.P. Willems**, *Judge, Boards of Appeal European Patent Office*

**Toshiaki Iimura**, *Judge, Tokyo District Court*

**Yoshio Kumakura**, *Attorney at Law, Nakamura & Partners*

**Shigeo Takakura**, *Director of Technology Research Division, Japan Patent Office*

**Masato Dogauchi**, *Professor of Law, The University of Tokyo*

**Naoki Mizutani**, *Attorney at Law, Special Researcher, Software Information Center*

## Themes of Past SOFTIC Symposia

### 1st Symposium

**Date:** October 28-30, 1987

**Theme:** Legal Protection of Computer Software

1. How to Protect New Technology and Creation
2. Scope of Protection of Computer Programs
3. Characteristics of Interface, Protocol and Programming Language and Legal Protection

### 2nd Symposium

**Date:** November 7-8, 1989

**Theme:** Legal Protection of Interfaces

1. User Interface
2. Communication Protocol
3. Operating System Related Interface

### 3rd Symposium

**Date:** December 9-10, 1991

**Theme:** Law's Lag Behind Fast Advancing Software

1. Current Trends Regarding the Legal Protection for Computer Programs-What is happening in Europe, U.S., and Japan?-
2. Legal Aspects of Advancing Software Technology-How to protect advanced computer systems and their output?-
3. International Trends in Patent Protection for Program-related Inventions-How can we harmonize patent and copyright protection?-

### 4th Symposium

**Date:** November 10-11, 1998

**Theme:**

1. Computer Software and Patent Law-Patentability and Scope of Protection-
2. Multimedia Environment and Copyright Law-Discussion Focused on Legal Issues Relating to Multimedia Software-

### 5th Symposium

**Date:** November 29-30, 1995

**Theme:** Problems of Intellectual Property Rights in the Context of Information Networks

1. Present Status of Deliberations of Each Country; Views of the Private Sectors in Japan
2. Panel Discussions on the Main Issues of Deliberations from Each Country
  - i. Copyrights in a Network Environment
  - ii. Protection of Non-Original Databases
  - iii. Copyright Clearances

### 6<sup>th</sup> Symposium

**Date:** November 13-14, 1997

**Theme:** A Balance between Protection and Exploitation of Digital

1. Current Development in Database Protection  
-Developments with Regard to the Sui Generis Protection in Each Country-

2. Balance Between Protection and Exploitation of Information
3. Intellectual Property Infringement Issues in Cyberspace

### 7<sup>th</sup> Symposium

**Date:** December 1-2, 1998

**Theme:** Software Business and Intellectual Property Issues in Asia - Software Development Agreements and Exclusive Distribution Agreements -

### 8<sup>th</sup> Symposium

**Date:** Tuesday, November 30 and Wednesday, December 1, 1999

**Theme:** Electronic Commerce and Intellectual Property Rights

1. Electronic Commerce and Contractual Issues -Current Situations of Japan, US and Europe
2. Electronic Commerce and Copyright Issues -Current Situations of Japan, US and Europe-
3. Electronic Commerce and Patent Issues -Hypothetical Case Study on the Scope of Protection

### 9<sup>th</sup> Symposium

**Date:** Tuesday, November 14, 2000

**Theme:** The Present and Future of Internet and Electronic Commerce in Asia and Oceania - The Current Status of Legislation and the Further Measures for Electronic Commerce -

Part A: Reports by Each Country and Area

-Status of Use of Internet and Related Legislation, Policies of Government, Activities of Private Sectors etc.-

Part B: Individual Issues

- (1) The Present Status of Intellectual Property
- (2) The Liability of Internet Service Provider
- (3) Offer and Acceptance on Network Transaction
- (4) Legislation about Electronic Signature and Electronic Payment
- (5) Securities - Legislation about Protection of Personal Data and Measures against Illegal Access -

# PROCEEDINGS

# **MATERIALS**

**E.H. Smith**

## **B. Hugenholtz**

**T.C. Vinje**



**H. Okamura**

**N. Koizumi**

**Y. Tanaka**

**T. Hagiwara**

**F.T. Boehm**

**R.R. Rader**

**H. Wegner**

**J. Willems**



**T. Iimura**

**Y. Kumakura**

**S. Takakura**

**M. Dogauchi**

**N. Mizutani**

# **APPENDIX**

## Greetings

**MC Yanagisawa:** Good morning ladies and gentlemen, the time has come and so we would like to start the Softic Symposium 2001. I would like to thank you first of all for coming out in such large numbers despite your busy schedules. We would like to start the 10<sup>th</sup> Softic International Symposium. I'll be serving as your moderator over the next two days. I am general manager of the research department of Softic, Yanagisawa. Good morning.

Thank you very much ladies and gentlemen. Now then, we would like to proceed along the scheduled program with some adjustments of time and I hope you will cooperate in that regard. As for the simultaneous translation sets – channel 1 is Japanese and channel 2 is English. Please be reminded to leave your receiver sets on your desk when you leave your seat or at the close of this seminar. Also, please refrain from recording sound or video footage of this conference. I'm sure that many of you have already turned off your mobile phones – please check to see that they are turned off because it will interfere with the simultaneous translation system. If you should receive any urgent messages from your office for example, they will be posted on the white board in the lobby so please browse through the messages on the white board during your leisure time. Now then, may I call upon executive director of the software information center Kensuke Norichika to deliver a word of greeting to you.

**Norichika:** Good morning ladies and gentlemen. We would like to first of all thank you for attending this 10<sup>th</sup> Softic International Symposium despite your very busy schedules. Our thanks also to the members of the steering committee and the moderators and panelists, in particular our panelists who have come from abroad braving the airplane flights despite the fact that this is in the wake of the terrorist attacks in the United States. Our deepest, deepest thanks to all of them. With the arrival of the 21<sup>st</sup> century, Softic is now able to organize the 10<sup>th</sup> International Symposium of its kind and we owe all of this to founding steering committee chairman, Mr. Ichiro Kato and the current incumbent steering committee chairman, Mr. Hiroshi Saito and others who have come before us. Their guidance, their support and assistance have helped us to come this far.

In the past, our symposium had taken up the issue of protection and use of software. We always took up the broadest state-of-the-art topics. However, the theme this year is "Information Distribution and Legal Protection in Cyberspace". The theme itself is not at the cutting edge you may think, as the topics that are to be covered today have already been examined from various angles at different forums. However, I hope you will turn your attention to the subtitle 'In search of a new system.' As we stand at the start of the 21<sup>st</sup> century, what is most required of us is to engage in open and free discussion with top class experts in Europe and the United States on the issues of law and technology, which have already been recognized and discussed during the end of the 20<sup>th</sup> century so that we may together indicate the correct direction to be followed in the future and perhaps in the meantime provide some specific solutions and proposals. Now we have the pleasure of welcoming at this symposium, judges from Japan, the US, and Europe. I believe it may be the first time for judges from Japan, the US, and Europe to gather under one roof to discuss actual court practices in their countries. I personally am looking forward to that discussion. Now then, may I close in the hope that these two days will be truly worth your while and that you will enjoy the proceedings. I hope that you'll make the two days very fruitful and productive by using the Q & A session and the reception tonight to participate actively in discussions and exchanges of views. Thank you. That concludes my opening address on behalf of the organizing committee. Thank you very much.

**MC:** Thank you very much. Now then, may I call upon the Chairman of the steering committee, Mr. Hiroshi Saito to address you please. Mr. Saito, please.

**Saito:** Ladies and gentlemen, good morning. Let me address you on behalf of the steering committee. This is the 10<sup>th</sup> Softic Symposium and although this symposium has advanced with time, it has continued to preserve one very valuable attribute – that is our will to pre-empt cutting edge issues and those issues which most likely will be placed in discussion in the near future. WIPO led by Mr. Uemura, our guest speaker today, has been discussing the various issues, which relate to the cyber age and the Internet era. At this symposium, we have taken up the theme of "Information Distribution and Legal Protection in Cyberspace", in search of a new system to cope with these changes. What would be important is how to combine, in a balanced manner, technology and business with law. Technology is always in a state of flux. Business of course will move in very specific unique directions and it's necessary for the law to be able to adapt very

quickly and flexibly to these movements. Digital delivery of copyrighted works, the positioning of service providers and business patents in the borderless network; these are all issues which put in question the relationship that should be created between technology and business and law. The operation of the Copyright and Related Rights Management Business Law, which was enacted on October 1<sup>st</sup> of this year, and patent infringement litigation and applicable law and jurisdiction are issues that relate to the legal system. Accumulating prior art documentation in relation to software related technologies is another major issue to be overcome. It seems that the corporations have sobered down from the initial frenzy to introduce the latest information technology. I believe this is the optimal timing to conduct a level-headed examination of the various issues at stake in Information Technology. Of course, I am not saying that all of the discussion at this symposium shall be merged into one conclusion. I think the value of this symposium lies in being able to identify the differences between the various systems and to identify the differences in what one expects of future legal systems, and then try to deepen mutual understanding. I'd like to extend my heartiest gratitude to Mr. Uemura of WIPO and the moderators and panelists for their participation and contribution, and thank you very much to our overseas panelists for coming all the way to be here today.

Now then, let me address our distinguished guests from around the world in English. I'm delighted to be here this morning with distinguished guests from different parts of the world who are all experts in the field of intellectual property. We would like to thank the distinguished speakers and the panelists for their effort in helping us make this symposium possible. In particular, they have come long distances in spite of the difficult situation of air transportation since September 11<sup>th</sup>. With their active contributions, this symposium will be a great success. Finally, we wish you a pleasant stay in Japan or in Tokyo and an enriching experience both personal and professional. Thank you so much.

### **Keynote Speech**

**MC:** Thank you very much Mr Saito. Now then, we would like to move on to the keynote speech. We have Deputy Director General Mr. Shozo Uemura of WIPO, World Intellectual Property Organization. Mr. Uemura is internationally active in the field of intellectual property management and E-Commerce.

**Uemura:** Mr. Kensuke Norichika, Executive Director of Softic, Professor Hiroshi Saito, distinguished speakers and participants, ladies and gentlemen, good morning. On behalf of Doctor Kamil Idris, Director General of the World Intellectual Property Organization, WIPO, I bring you his greetings, his compliments and his best wishes for the success of this Softic symposium. It is an honor and privilege for me to be here to speak and to be a part of an event, which involves such a large audience, an outstanding audience, and persons, connected to intellectual property, both speakers and participants. To those of you who might not be so familiar with our organization, WIPO is a specialized agency within the United Nations system. WIPO is unique in many points within the system. One of the most important being that more than 85 percent of our operating funds come directly from our activities with the public. Namely, our registration activities concerning patents, trademarks and industrial designs. Because we deal so sensitively with the public, we are constantly seeking out ways to improve our customer service to expand the boundaries of services and products and to maintain the highest possible customer satisfaction.

WIPO has undergone a rather remarkable evolution under the vision and dynamic leadership of Doctor Kamil Idris since he assumed office in November 1997. As part of that vision, we are striving to stay abreast of any and all developments in a fast changing world, which may have effects on our various constituencies including the market sectors, the public and our member states, currently 177. The most startling and fast changing of the developments, which we are dealing with, is the so-called digital revolution. The digital revolution encompassing areas of the Internet, digital media, digital works and digital technology has not only brought us an unlimited area of new products and services literally right to our desk top, it has also created new problems and new challenges, which have brought to bear severe forces on the international and national IP systems. Make no mistake about this. The IP system as we know it is under fire and on several different fronts. We must make strategic adaptations to the IP system so that it continues to meet our needs and serves the highest and the best interests of the people of the world. In this regard, I assure you that WIPO is allocating its resources and working with focused intent on both short term and long term goals to meet those challenges.

Let me now elaborate WIPO initiatives. First, on copyright and the related rights and then on patents in accordance with the order of the topics of this symposium. Computer software is at the very



heart and soul of the digital revolution. There would, in fact, be no digital revolution without computer systems – without software. The importance of computer software is found and echoed in many of the events, programs and activities, which are currently taking place under the auspices of WIPO and which have historically taken place under WIPO leadership. As a subject matter to be protected under the international and national laws of intellectual property since its creation in the middle of the 20<sup>th</sup> century, many felt that computer software should be protected under the umbrella of copyright law. It was in fact at a WIPO meeting in 1985 in which the international IP community took the decisive decision that computer software was to be protected as a literary work. Following that clarification, the negotiators of the TRIPS agreement decided to formalize the IP status of computer software and did so in TRIPS Article 10, Paragraph 1. The TRIPS provision protects software in source or object code. Does computer software exist in something other than source or object code? It is an interesting question but one which has become moot.

When WIPO hosted a diplomatic conference in 1996, the issue of the protection of computer software programs was negotiated by the worldwide IP community. That diplomatic conference adopted the WIPO copyright treaty – WCT. Its Article 4 states that computer programs are protected, whatever may be the mode or form of their expression. I am pleased to inform you that the WCT and its companion legislation WPPT, WIPO Performances and Phonograms Treaty, will come into force in the near term; there are currently 28 and 26 ratifications and excisions, respectively. Thirty are needed for the WCT and WPPT to come into force and several countries are in the last stages of their national processes to join that important piece of international legislation. A major plank in WIPO's response to the challenges of digital technology was issued by the Director General in September of 1999 at the conclusion of WIPO's first international conference on electronic commerce and intellectual property.

WIPO's digital agenda. In addition to bringing the WCT and the WPPT into force in the year 2001, the digital agenda also called for focus on several other areas which all have as their underpinnings the intent and objective to assist the world in adapting the international IP systems, and by extension, the national IP systems to the changing environment and to the challenges posed by digital technology and to better establish the equitable sharing of the many, many benefits being created as a result of the digital revolution. One cannot help but read between the lines of each item contained in the digital agenda – the protection, enhancement and evolution of computer software are integral to success of each. The issue of piracy is very much a problem today both in the analogue world and in the digital world. If one looks to the numbers and percentages of pirate copies around the world, it is clear that computer software is unfortunately up there at the top of this list. The issue of piracy used to be much easier. Illegal physical copies were made and sold – there was a simplified linear flow to the operations but most importantly, the illegal copies were detectable and capable of seizure. Piracy is a much different animal today from what it was before. With a few strokes on the keyboard of a computer connected to the Internet, millions of illegal digital copies can be made available and downloaded in a matter of seconds. The entire potential market for an otherwise variable and profitable product can be ruined through such an event. WIPO has, as you know, already organized a number of workshops and symposiums on this issue. In addition to these activities, two advisory committees to handle enforcement were created in this millennium to address such issues in industrial property and copyright.

The first meeting of the advisory committee on the enforcement of industrial property was held last year to identify some priority issues to be addressed and the next meeting is scheduled from December 18<sup>th</sup> to 20<sup>th</sup> this year as a joint meeting with the counterpart advisory committee to address copyright enforcement issues. These activities will continue to constitute one of the global intellectual property issues WIPO has committed to addressing in the next millennium and strong support was expressed for such activities and meetings at the WIPO assemblies last September. Seeing this potential problem, the delegates to the 1996 WIPO diplomatic conference, which adopted the WCT, negotiated key provisions into the WCT, which have and will help to meet the challenges posed by digital technology in networked, global environments. The WCT's right of communication of works to the public, including the right of making works available on the Internet, is being implemented into national legislation as more and more member states join the WCT family. The most prominent case to date – the case against Napster in the United States, has clearly supported right holders against massive unauthorized usage of works on the Internet in violation of this provision.

The provision on protection of technological measures is another groundbreaking tool encompassed in the WCT and the WPPT. Here is a sound basis upon which technological and legal protection can create a fusion, a protective net, serving not only right holder's interests, but also the interests of the public, the private sector, and the member states. WIPO's efforts in this area will also focus on the various exceptions and limitations for fair uses of works which are both essential to the widespread acceptance of the treaties and their implementation and which, as well, are necessary to create the fair balance among the different interested circles affected by these provisions.

Exceptions and limitations can present tricky problems to all who attend WIPO, the first, international forum at which reasonable, workable solutions to such problems can be discussed and resolved. At WIPO, we are constantly monitoring the developments, such as those mentioned above, which power our efforts to promote the so-called Internet treaties, WCT and WPPT. We are assisting member states, not only with the task of crafting the right registration to allow gratification acquisition to these treaties, but also with the more difficult tasks associated with effective implementations of the provisions of the treaties into the national IP fabric, into the national institutions, and into the national infrastructures. WIPO, in association with the local member states, recently organized important meetings, focused on the WCT and WPPT, in Rio de Janeiro and in Manila. More of such meetings are under discussion.

Digital Rights Management – DRM. DRM is an area which is evolving quite quickly and has a large impact on many sectors, including respect to E-Commerce and collective management of works in the digital globally networked arena. This issue was included in the WIPO digital agenda, to which I referred before and the advisory committee on management and enforcement of copyright and related rights has already discussed it at two sessions in 1998 and 1999. Most of the developments in this area are undertaken in the private sector, but important government sponsored projects are also in preparation, such as Japan's Copyright Information System, JSIS. WIPO has been providing assistance to different national and regional efforts to create collective management systems in developing countries and countries in transition. While it is generally recognized also in Japan, that each system should be under private control, there is an important question of securing interoperability between the different systems. In this respect, WIPO has been asked by the private sector to function as an observatorium where information can be relayed between different players. We have taken up that challenge, and we intend to continue such informal information exchange meetings in the near future.

The potential liability of Internet Service Providers (ISPs), which is part of the WIPO digital agenda, is another issue ripe for consideration. WIPO is aware of different approaches evolving in different countries, and is engaged in an ongoing review of this issue and the challenges associated with it. Subsequent to the workshop on service provider liability, which WIPO organized in December 1999, our recent conference on E-Commerce and intellectual property held in Geneva in September of this year also focused on this issue among many others. Questions of private international law have assumed an increasing importance for intellectual property as markets have become global. With the advent of the Internet, these questions have become more complex, in particular for applying territorial factors and determining with reasonable certainty which courts would have jurisdiction, and which law will apply.

WIPO has already dealt with issues of private international law in various fields of its work. It organized a meeting in 1998 of a group of consultants on private international law aspects of the protection of works and objects of written rights transmitted through global digital networks. In June 1999, the WIPO standing committee on trademarks, industrial designs, and geographical indications (SCT) discussed a comprehensive study concerning the use of trademarks on the Internet, which addressed aspects of jurisdiction, choice of role and enforcement. In November 1999, information regarding the preliminary draft convention on jurisdiction and foreign judgments of civil and commercial matters prepared by the Hague conference on private international law was presented to the SCT to evaluate the possible implications on trademark law. WIPO organized a WIPO forum on private international law and intellectual property in January 2001 that provided member states and the international intellectual property committee to hear from prominent thinkers in both fields and exchange views on this topic of increasing importance.

WIPO has been following with great attention the work of the Hague conference and participated as an observer at a diplomatic conference organized in June 2001. The question of relationship between intellectual property and private international law has been also largely evoked at the WIPO international conference on Electronic Commerce and intellectual property in September of this year with the two aspects

of jurisdiction and applicable law. Another response to the uncertainty arising from the territoriality of intellectual property law is the development of alternative dispute resolution procedures. Since 1994, WIPO has offered arbitration and mediation services for the resolution of international commercial disputes between private parties. The centre has focused significant resources on establishing an operational and legal framework for the administration of disputes relating to the Internet and Electronic Commerce. For example, today the centre is recognized as the leading dispute resolution service provider for disputes arising out of the registration and use of Internet domain names, and has recently developed, jointly with the Application Provider Industry Consociate (ASPIC), a set of best practices and guidelines for dispute avoidance and resolutions for the ASP industry, which are tailored to meet the needs of the ASP community. WIPO will continue to closely follow the issue of private international law that affect copyright and industrial property rights, as well as Electronic Commerce.

Now future work. At a recently completed meeting of the assemblies of WIPO, the member states of WIPO took many decisions, including the adoption of the program budget for the next biennial, that is 2002, 2003 biennial. Of the decisions and activities which may be of interest to those of you gathered here today, I'll just mention the following. The Assembly concluded that there was a consensus that the protection of audio visual performances was a very important issue, and it was a matter of concern that it had not been possible to reach an agreement overcoming the differences at the diplomatic conference which took place in December last year. Member states agreed to continue their contacts and discussions in order to overcome those differences, and the International Bureau will render its assistance in that regard. The issue is to remain on the agenda of the next session of the general assembly next year. The standing committee on copyright and related rights, SCCR, will convene three meetings during the biennial. Its primary focus will be on the rights of broadcasting organizations and the issue of the protection of uncopyrightable databases on its agenda. It is an important international forum in which issues relative to digital technology and networks can, and most likely will, be raised and reviewed in the future. Further meetings will be organized concerning implementation of the WCT and the WPPT. When those treaties come into force, WIPO will organize the first ever meeting of the assemblies as provided in each of the treaties, which will provide forum to share the implementation information, to identify any issues or problems, and/or to work out solutions.

The issue of licensing IP rights in the digital world was one which was raised in the digital agenda. Our copyright sector will deal with this issue by organizing two or three meetings of experts in this field, and then, by producing a WIPO guide on the licensing of copyright and related rights. Another publication of note is scheduled – a WIPO guide to international treaty provisions on copyright and related rights. WIPO has already issued a guide to the Berne Convention in 1978. In view of a series of important developments in the international copyright norm settings, it is believed that the new WIPO guide will be of significance and use to pack the rather complicated international copyrights and related rights systems based on the Berne Convention, WCT, WPPT, TRIPS, UCLC and etc.

Now patents. These new developments are highly relevant in the area of patent as well. For example, patent offices are facing challenges such as the possibility of using the Internet for electronic filing, dissemination of intellectual property information through the Internet, and enforcement of patents, in particular software patents used on the Internet. In addition, in recent years specialists have raised concerns regarding how to treat information disclosed on the Internet in view of its effects as prior art. This latter issue is highly important, since more and more technical information is put on the Internet before being published on paper, if it is published on paper at all, due to advantages such as speed, convenience and costs for making the information publicly available. Further, in relation to the initiatives to create electronic databases of traditional knowledge for the purposes of prior art search, international harmonization concerning the applicability of information on the Internet as prior art may be vital to the success of such projects.

After successful conclusion of the patent law treaty (PLT) on June 1<sup>st</sup> last year, the standing committee on the law of patents (SCP) of WIPO has started to work on substantive harmonization of patent laws and discussed first draft provisions for the so-called draft substantive patent law treaty (SPLT) in May and early November of this year, covering six basic legal principles underlying the grant of patents, namely the definitions of prior art, novelty, inventive step or non-obviousness, industrial applicability or utility, sufficiency of disclosure, and the drafting and interpretation of claims including a long standing issue, the grace period. The draft SPLT also contains provisions on patentable subject matter; at this stage, it would allow the patentability of inventions in all fields of human activity. This is particularly important in order to ensure that inventions related to new technologies, such as software patents, are not subject to different rules

than inventions in other areas. The latest session of the SCP was held in Geneva last week. Five full days including two night sessions were spent for discussing these issues extensively and deeply. I have to correct one point – the latest session of SCP was held in Geneva two weeks ago, not last week. Although the work is not ripe enough to decide on any point, a better basis is being formed steadily for deepening mutual understanding and narrowing differences. The SCP also agreed to the direction of solutions to establish a seamless interface between the draft SPLT and the PLT, as well as PCT, which already provides for the harmonization on certain aspects of patent law.

As regards, first -to-file-verses first-to-invent, the delegation of the United States of America explained that in view of the deep division among interested circles on this issue and lack of political leadership, the delegation was not able to express a definite position, but nevertheless, they affirmed its support to move forward towards deep harmonization. Obviously, the harmonization of substantive patent law is not an easy task, however the SCP is making progress towards the common goal of greater mutual benefit for all the parties interested in the patent system. In this contest of harmonization, I would like to convey the good news to you that the Republic of Moldova became the first country that deposited its instrumental ratification of the PLT.

In the framework of its discussion on harmonization of prior art, the SCP also discussed the issue of Internet disclosures and their impact on patentability. After having discussed the results of a questionnaire, sent by WIPO in February this year to its member states on their practices in respect of Internet disclosures, the SCP agreed that it would first establish general principles concerning prior art, which would also cover disclosures on the Internet, and consider the need for special provisions specific to Internet disclosures at a later stage. Together with the questionnaire on Internet disclosures, WIPO also submitted a questionnaire concerning the Internet and enforcement of patents. Although this issue was not discussed by the SCP in detail, this topic is highly relevant for patent owners in an environment increasingly characterized by digital technologies and networks, and may well be on the agenda of WIPO's future work. Indeed, since the contents distributable on the Internet may be protected by patents relating for example to software and methods of doing business, an enforcement of these patents would be crucial for E-Business. Further questions concerning applicable law and jurisdiction may arise also in the field of patents. For example, if a patent claims a telecommunications system, the elements of which are located in several countries, what kind of acts would constitute an infringement of the patent, and which national laws would apply? Similarly, which national laws would apply if a patent product or process were offered for sale on the Internet? In this context, it should be noted that in the field of trademarks, the WIPO assemblies held in September this year adopted a joint recommendation concerning the protection of trademarks and other signs that are used on the Internet. This joint recommendation is believed to provide to the users a very quick and efficient reply to the challenges that the global nature of the Internet has introduced, and the territorial nature of industrial property rights.

Finally, the assemblies of WIPO held in September this year have approved a new initiative to be undertaken by WIPO. The initiative called WIPO patent agenda is directed at the development and shaping of the future international patent system by reviewing the current system, identifying challenges and shortcomings, and finding solutions. This work is intended to complement, and even strengthen, ongoing activities including substantive harmonization of patent law, the reform of the Patent Corporation Treaty, and of course, the challenges related to new technologies and the Internet. It is an inclusive and comprehensive global consultation process covering all areas including administration, maintenance, exploitation and enforcement. Details will soon be available on the WIPO web site, and we are now planning to organize an international conference on the international patent system, which will be held in Geneva in March next year.

As I hope I have reinforced, WIPO is firmly committed not only to the promotion of intellectual property, but also to its use as an effective and necessary tool for wealth creation and for economic, cultural and social growth and development. Our program budget clearly reflects this, and I reiterate that it was unanimously approved by our member states. Our activities, our expertise and our resources are all being allocated in this direction, and we have the vision and dynamic leadership of our Director General to lead us to the achievement of our goals and objectives. However, we do not work in a vacuum; we can accomplish little, if anything, if we work alone. Some majestic partnerships and alliances are a key plan in our thinking, our planning and our activities. We actively seek input and assistance from our various and different constituencies including the diverse market sectors, the public and the member states. Conferences such as

this august gathering of distinguished persons can provide us with valuable input and information, and therefore looking to this gathering and to each of you, to let us know how we can better do our jobs, better define our goals and objectives, and thereby better serve the world in a more effective and constructive way. We welcome your comments and suggestions.

In closing, I want to thank the organizer of Softic, and Mr. Kensuke Norichika in particular for extending to me the privilege to be here and to make this presentation. I wish you success in this meeting and your future activities, and I look forward to seeing you all at future WIPO events. Thank you kindly for your attention.

**MC:** Thank you very much Mr. Uemura. So, we would like to move on to the next session, the production and use of digital information, and I would like to ask all the panelists for the first session to ascend to the stage, please. Well, there is a secretariat announcement, those who are using PCs now, if you need power, on the left hand side of the stage, there is a power supply for PCs. Thank you.

## **B. Legal Protection and Use of Digital Information -Technical Progress and Legal Development-**

### **B-1. Distribution of Digital Information and Copyright**

**MC:** So, we'd like to introduce the moderator as well as the panelists of the first session. First, Professor Hidetaka Aizawa and he is a professor of Waseda University of the Asia Pacific Center. Next, I'd like to introduce the members of the panel. I would like to follow the order of United States, Europe and Japan. First, representing the United States is Mr. Eric H. Smith. This is his first time appearing at this Softic meeting and his expertise is intellectual property. Next, Ms. Shira Perlmutter. Ms. Perlmutter is a Vice President and associate general counsel for the intellectual property policy of AOL Time Warner Inc. and two years ago during the 8<sup>th</sup> Softic meeting, she was the person representing WIPO in the copyright and E-Commerce and this time she represents AOL Time Warner Inc. From Europe, we have Professor Bernt Hugenholtz. Professor Hugenholtz is a professor of law at the University of Amsterdam and this is his second appearance at this meeting after the 8th symposium. Next, Mr. Thomas C. Vinje. He is from the Brussels office of Morrison and Foster and he is a US attorney. He attended the 8th symposium so this is his second time to participate.

Next, I would like to introduce the Japanese members. Mr. Hisamichi Okamura. Mr. Okamura is the author of many books on legal issues of the Internet and he is an expert on music distribution, which is the theme of this symposium. He is the author of many books and articles. This is his first time to participate. Next, Mr. Naoki Koizumi. He is a professor of law of Sophia University and I believe that you know him very well. He is an expert on intellectual property and he is very active as a scholar in this field. He has attended the symposiums many times before. Next, Mr. Yutaka Tanaka. He is an attorney at law and he was a judge but currently, he is active as a lawyer and he serves as an advisor of JASRAC and this is his first appearance at a Softic symposium. Next, Mr. Tsuneaki Hagiwara. He is a chief manager of the legal department of Toppan Printing Company Limited. Toppan Printing Company Limited is very active in the distribution of image related information, and as head of the legal department, he has been active and also he has been a member of many committees of industrial associations.

Now, we would like to move on to the first session and those with questions – and there is a questionnaire – a sheet in your packet, so please write down your questions on this questionnaire sheet and there is a box for you to put your questions into. Later the moderator will read those questions on your behalf.

Now, we would like to enter into the first session and we plan to have the break around 10.30. Now, Professor Aizawa, please.

**Aizawa:** Thank you very much. We would like to begin the first session. First, I would like to make a request to the members of the panel. Since simultaneous interpreting is used, when you speak, please speak slowly and clearly for the sake of the interpreters. We have eight speakers for this panel so I hope you will speak very briefly and clearly. I would like to first ask Professor Hugenholtz to make a presentation. So, Professor Hugenholtz, please.

**Hugenholtz:** Good morning. It is a great honor for me to speak at this important symposium for the second time already – I was here two years ago and I am very happy to be back. Last year, we celebrated in Japan and in the Netherlands the 400<sup>th</sup> anniversary of Japanese Dutch relations and I am very happy to continue this cooperation into the 401<sup>st</sup> year. I wonder if Softic will make it into its 401<sup>st</sup> year but we shall see. Let's hope so. As a brief lesson of Dutch, I would like to translate the name of the institute where I work – the Information Institute for Information Law – into Dutch. Our official name is Institute for Informate – IVIR and that's the logo you see on the slide before you. It is also the address of our website, [www.ivir.nl](http://www.ivir.nl) and why am I telling you this? Because on our website you will be able to find a copy of the European copyright directive which was adopted in May of this year and which is very relevant to the topics of this symposium. The copyright directive is difficult to find on the Internet so if you are looking for it, please have a look at our web page and you will find it on its opening page.

I have very limited time in this first session and I would like to discuss with you briefly two of the many issues that are treated in the European copyright directive. First of all, the question of temporary reproduction and next the question of private copying.

First, let me very briefly give you a general overview of the European copyright directive, which was adopted on the 22<sup>nd</sup> May of this year after lengthy and extremely painful negotiations. The directive was finally adopted but it is not yet the law in Europe. It will become the law for the member states of the European Union by 22 December 2002 when the implementation deadline expires. So, the member states have eighteen months to change the copyright laws to comply with the copyright directive.

The directive serves two purposes, the first of which is to implement, to transpose the provisions of the WIPO copyright and neighboring rights treaties for the entire European Union in a uniform manner. That means that the directive contains rules protecting technological measures, protecting rights management information. The second purpose of the directive and possibly the most important, is to harmonize certain economic rights and limitations to the economic rights for the entire European Union. That means that the directive provides for a harmonized right of communication to the public, very similar to the right provided for in the WIPO treaty, which includes the right of making available to the public. It also provides, and this is very relevant to this morning's session, a harmonized right of reproduction and we will be looking at that in a minute. Finally, and that is the largest part of the entire directive, it provides for a very long list of optional limitations to copyright and neighboring rights an optional list that member states may choose from depending on their national priorities. That's why we sometimes refer to it as a shopping list - a shopping list of twenty, even more than twenty different possible limitations of copyright including the right of private copying.

Let's first look at the right of reproduction and the special rule on temporary reproduction that the copyright directive provides. Article two of the copyright directive contains, sets out a very broadly formulated right of reproduction including, I quote "the direct or indirect temporary or permanent reproduction by any means and in any form in whole or in part" so that's a lot. In fact, many scholars in Europe are not very happy with this very broad definition because they believe that not every copy in a technical sense should qualify as a reproduction in a legal sense. But under the directive under European law, the reproduction right is very broad. However, because it is so broad, it has to be limited and that is what Article five, paragraph one of the directive provides for. It provides for a very complicated, highly contested limitation, which we tend to call caching and browsing limitation, which I will try to explain to you now.

It is a mandatory limitation meaning that all member states of the European Union will have to implement it, so it is not part of the shopping list. It is a rule that applies to all member states. It applies to transient or incidental copying. You will note this is not the same as temporary copying. Incidental copying might even be more than temporary copying. It applies only to transient or incidental copying that is integral and essential in a technological process. So, it applies to technical transient or incidental copies. The purpose of these copies needs to be either to enable the transmission in a network by an intermediary, for instance an Internet service provider or and Internet access provider. The prime example, of course, is caching by an Internet service provider or to enable the lawful use of a work to be made. The prime example here, of course, is browsing the Internet, reading digital files from the Internet; that too is allowed under the limitation of Article 5, Paragraph 1. And finally, there is the rather mysterious requirement that all this transient or incidental copying that is allowed under the limitation has no independent economic

significance. What that means, nobody knows. In short, under the new copyright directive, normal acts of caching and browsing will probably be exempted, probably be outside the scope of the reproduction right.

Now, may I turn to the other issue, one of the many other issues treated in the copyright directive, which is also on this morning's agenda, the question of private copying. Under existing European law, private copying is allowed under all copyright laws of the European Union. Under the directive, private copying will still be allowed under a limited set of circumstances. A private copying limitation will be allowed only in respect of natural persons. It has to be private use by natural persons. What that means is that companies or libraries will not be able to invoke a private copying exemption. It also has to serve non-commercial purposes. This is a rule that already exists in most member states.

The third requirement is the most interesting requirement and is different from the existing situation in many member states. That is the requirement of payment of fair compensation to right holders. Fair compensation, which according to the directive and according to Recital 35 preceding the directive, the official explanation of the directive, takes account of the application of technological measures. What does that mean? What that means is that right holders who are in a position to apply technological measures to copyright protected products need not be compensated. The logic behind it is that if you copy-protect your products, you do not expect private copying to occur so there is no need for fair compensation. Fair compensation must also take into account the possible harm to right holders according to Recital 35. What that means is that private copying that does not damage the financial interests of right holders to any degree need not lead to fair compensation. In fact, Recital 35 of the directive makes clear that under certain circumstances, fair compensation may be 0. Note the Euro sign here, the Euro being introduced as of the 1<sup>st</sup> January next year. If you have any European money, please change it very quickly because it's going – it's losing its value rapidly. The new rule on private copying introduced by the copyright directive has raised and is raising a lot of discussion in Europe. The collecting societies particularly have been advocating, on the basis of the directive, a very broad application of copyright levies, copyright taxes, on all digital media and equipment.

I'll give you an example from a German website. A German website a few weeks ago discusses protests by computer user groups against the introduction advocated by the German collecting society, GAMA, which is the largest collecting society in Europe, on handis – that is the German word for mobile phones, and on DVD burners. In fact, collecting societies in Europe would like to impose copyright taxes on mobile phones that have MP3 music playing capabilities and on CD burners. Indeed, there are already a few court decisions in Germany allowing a copyright levy on CD burners. The discussion on private copying has raised the fundamental question whether every piece of equipment, every digital media would be liable for the payment of such copyright levies. Are we heading for a copyright levy on hard disks, on laptop computers, on digital radio and television sets? I think this is one of the issues we will have to be discussing this morning during this panel. I have no answer at this point, I have my doubts. Thank you very much for your attention.

**MC:** Thank you very much, Mr. Hugenholtz. Mr. Koizumi, please.

**Koizumi:** Article 30-1 of the Japanese copyright law says that regardless of the type of copyrighted work, and not necessarily without the requirement of the payment of fair compensation, the act of reproduction for personal use or use at home or within the scope that corresponds to this will not require the authorization of the rights owners. So, the Japanese case is rather rare in that personal use is in principle excluded from protection. Under the American copyright law, personal reproduction at home is just one factor in determining fair use and that in itself will not legalize the reproduction. Also, as Mr. Hugenholtz mentioned, the EC directive on copyright and related rights in the information society, in Article 5-2B only allows reproduction for personal use on condition that fair compensation is paid. There are several reasons why personal copying in Japan has been exempted. The most important reason is that at the time this Act was enacted, reproduction at home was not very common, but as you can see, this reason is no longer very relevant. The other reason may have been that the enforcement of rights in the individual or personal domain was very difficult, but once again, this has changed today because now it's technologically possible to search and identify specific contents on the Internet. Privacy, of course, is another issue. Privacy should be respected; however, it is not something that should take priority a priori over author's interests.

Meanwhile, the Japanese copyright law has gradually adapted to the development of reproductive equipment in its 30-year history. First of all, automatic reproducing machines, which are installed for public use, while this equipment is mostly used for the reproduction of documents and graphics, are excluded from limitation. For example, Internet cafes and videotape dubbing equipment may fall under this category and where they are for personal use, reproduction using such devices will not be subject to exception. However, the user will be immune from penalty. It's only the distributors of such equipment, which will be penalized.

As for digital sound and video recordings, we have the compensation system for private sound and video recordings; that is, for government ordinance designated equipment and media, a certain fee will be pre-collected at the point of purchase and distributed to the rights owners through a management organization. Also, through recent amendment of laws, reproduction, which was enabled by circumventing copy protection, whether for personal use, will not be exempt. So currently, there are only very limited cases where personal reproduction is permitted without any compensation to the rights owners. However, in the First Star Digio case recently, the Tokyo District Court found that reproduction by the Digio users or listeners constituted reproduction for personal use. However, the digital transmission that was performed in that case could not be regarded on the same level as current radio broadcasting. In light of the effect that that may have on right holders from the viewpoint of Article 9-2 of the Berne Convention, I think there is some doubt as to whether we can conclude that this does not do undue prejudice to the legitimate interests of the author.

So, in principle, the Japanese laws legalize personal reproduction, but add exceptions later. That kind of legislative process is making it very difficult for the layperson to understand the system. So, I think it's time that there is a wholesale review of the system going back to the spirit of Article 9-2 of the Berne Convention. The Japanese copyright law takes the dual structure of property rights and moral rights of the author, so limitations of rights and exemptions on rights are also provided for separately. Article 30 of the copyright law legalizes personal copying but this is not applied automatically to the moral rights of the author. The Supreme Court ruling in the Tokimeki Memorial case found that the use of memory cards was an infringement of the right to preserve integrity. The ruling is ambiguous as to use by whom will be illegal, but we assume that it would be use by the user, and though the ruling does not specify whom, if use by the end user constitutes infringement, then there must be the presumption that alternation for personal use at home will also infringe the rights to preserve integrity.

There are various views about this ruling in Japan and I am sure Mr. Okamura will refer to this later but there is a lot of criticism against the conclusion that personal alteration of a game software by the user at home would be infringement. Even if mass-produced games stories were altered at home, as long as it is not exposed to public view, it does not run the risk of prejudicing the author's honor and reputation. However, I think it is difficult to generalize the conclusion that alteration at home for personal use will not infringe the right to preserve integrity as long as it is not made public. Article 20 of the Japanese Copyright Law, that is the right to preserve integrity, prohibits alterations against the will of the author. Under the Berne Convention, it is sufficient just to prohibit those alterations that harm the reputation of the rights owner. However, the legislators here in Japan have made clear their intentions to provide greater protection that go over and beyond the Convention. We do not limit the types of copyrighted works where moral rights may subsist as in the case of the US copyright law, and there is no distinction whether it is the original of the copyrighted work or a reproduction.

Infringement of the moral rights of the copyright owner does not necessarily have to be accompanied by an infringement of the social honor or reputation of that author. One could alter a work against the author's will, in his very presence, and even without exhibiting the altered results to a third party, that is, even if the honor and social reputation was not defamed, it will be established as infringement of the right to preserve integrity.

Now in the Tokimeki Memorial case, the act in question will probably not be subject to exclusion under the infringement of the right to preserve integrity. Of course, one may assert that if you can expand or modify or repair buildings, and that would not constitute infringement of the right to integrity, then what is wrong with allowing the user to have some fun by altering game software? But literally, those acts do not fall under the exceptions. Using memory cards to alter the configuration of game software for one's pleasure may be an act of allowing the more effective use of the software. However, there are many



players who play the game without making changes and so, those changes or alterations are not necessarily mandatory. You may claim that it may be an exercise of the right to pursue happiness and well-being under the Constitution, but you don't have to alter the software to play the game, so this is not a compelling or unavoidable reason. So, although the Supreme Court is not explicit on this point, I believe it is difficult to regard the use of the memory card in this case as personal use, and an exception, and therefore legal. The defendant in the Tokimeki Memorial case was the distributor of the card, not the individual users. The Supreme Court found that the act of the card distributor brought about the infringement of the right to preserve integrity of that game software through the use by others; that is presumably the use by users and therefore, must be liable for damages under joint tort. Likewise, there was another case in which the liability of abetment by a distributor of tools or instrumentalities for copyright infringement was acknowledged, and that is the Video Mates Supreme Court ruling. The ruling held that the company leasing commercial karaoke equipment has the obligation to notify the other party to the lease contract as to the need to execute a license agreement with JASRAC and also, to only deliver the equipment to the other party after confirming that such a license contract has been executed or offered. So, recently there is an increase in the number of cases when tortious liability is pursued for the infringement activities of others.

However, under the Japanese Copyright Law, we do not have explicit provisions on secondary or indirect infringement as in the British laws. There are only partial provisions on, for example, the abetment liabilities of distributors of auto reproductive equipment, which are installed for public use, and also partial provisions on the responsibility of distributors of copy protection circumvention equipment. These two Supreme Court rulings acknowledge the liability for damages under tort law, under such circumstances.

Another unique feature of the Japanese law is that the act of the physical user of the copyrighted works is legal, as an exception, but, the individual or person who controls, manages and gains from that activity is considered a direct infringer. The customer singing in the karaoke bar is not performing for profit so this is a legal act but it is the business establishment which abetted that singing and is gaining from that activity that is the direct infringer. That was found by the Supreme Court. So, in comparison with the US laws, the users act is fair use but the likes of Sony and Napster would be liable. Under the American law, there is the principle of vicarious liability, but this presumes the existence of a direct infringer; therefore, it differs from precedence here in Japan. The users' act of usage and the damage that may have on the copyright owners interest may be very small on an individual user basis, but taken as a whole it is not negligible. I believe that is the justification here. Traditionally the copyright law has been structured around the public use of copyrighted works, be it publication or public performances or broadcasting. Meanwhile the act of reading a book, of watching, of listening has been considered legal. This may be a hackneyed phrase but the advancement of technology has rocked these principles at the very foundation.

The newest right installed in Japanese law, that is the right to make available for transmission also includes as part of the right, private acts, which may be conducted before transmission to the public. In contrast, for existing rights such as the right to reproduce or public performance, these cover only acts in public. So, the legal principle to pursue only the liability of the distributors all the while retaining these traditional rights should be considered only a temporary solution until there is a wholesale review of the rights limitation provisions. And I believe in the mid to long-term, perhaps mid-term, that the development of the legal principle of indirect infringement is a necessity.

For the time being, temporary storage does not constitute reproduction under the Japanese law. That is the majority view in Japan but it is also known internationally as a unique local rule here in Japan. The Star Digio ruling found that reproduction under the copyright law is limited to the acts of creating reproductions in a form that may be used repeatedly in the future. More specifically, temporary storage in RAM does not constitute reproduction; however, this case was not about PCs, personal computers, but broadcasting tuners. Therefore the comments on the definition of reproduction may be interpreted as only an addendum and nothing else. The statutory grounds most frequently cited to exclude temporary storage is Article 113-2 of the Copyright Law. The fact that this clause only prohibits malicious use of illegal reproductions is interpreted reversely to assume that to execute legally created software itself is legal. This type of thinking, ever since it appeared first in 1974 in a report by the Copyright Council, has not changed in essence. In my understanding, the 1996 WIPO treaty was ambiguous about whether temporary storage constitutes reproduction. Rather the proposal to consider temporary storage as reproduction did not

materialize in the end. Therefore, under international law there are no rules which state that temporary storage must be regarded as reproduction.

So, with this as a backdrop, I would like to comment on how we should deal with developments of technology in the future. First of all, whether that act of storage is temporary or not is no longer a decisive attribute. There are some types of storage, which are not temporary, but should be considered legal. In 1996, no one imagined there would be an act of storage like caching. Caching cannot be considered temporary or ephemeral but it is indispensable for the act of transmission on the network and so it should not be subject to individual enforcement of rights. Meanwhile, there are examples of temporary storage, which may create a risk of prejudice to the interests of the copyright owner in the future and also in the present. I believe the *Star Digo* case has made us aware of this fact. Back in the 1970's, we only imagined, for example, the installation of software on PCs.

Secondly, in exercising control of the copyright owner on temporary storage, we must consider the balance with his rights at the transmission phase. For example, if we were to engage in two amendments of the law and provide broadcasting rights to the record producer and consider the act of reception or listening by the user as reproduction, then this will greatly hinder the fair distribution of copyrighted works on the network. Of course, laws must be clear but at the same time, they must be flexible enough to respond to development of technology in the future. It is difficult if not impossible to list up all permissible reproductive technologies, and even if we were to legislate in this area, I think we must settle for merely indicating a framework for judgment as in the case of the EC Directive, which was recently issued. Thank you very much.

(Applause)

**MC:** Thank you very much. There is an instruction that we should observe coffee break time properly. So, let's have a break and shall we meet again at 5 to 11 please. It is now 38 minutes past 10. So 5 to 11 please. Thank you. You will please write down your question on the sheet distributed to you. We have a question box, please put them in the question box. Additional materials are available. Mr. David Kappos's C.V. If you don't have that information, it is available at the reception desk – a single sheet. If you missed it, please pick it up during the break. Thank you.

**M.C:** Ladies and gentlemen, may we continue the session? Please be seated. We invite you all to be seated. Let us move on. We are still behind schedule. Let us continue. Mr. Smith, are you ready?

**Mr. Smith:** Thank you all very much for inviting me here for the first time. Because I am new to you, my experience is: I am managing partner of a small Washington D.C. law firm that specializes in copyright matters. Some of you know me because I am President of the International Intellectual Property Alliance, which is a coalition of approximately 1,900 U.S. companies that generate their revenue from the copyright business, and that organization's goal is to work on law reform around the world and better enforcement practices. I thank you very much; it is a pleasure to be here.

Japan is now engaged in a debate on whether or not temporary copies, whether in the RAM of a computer or copied in routers on a network as part of a transmission, are in fact reproductions, or not, and this has been mentioned previously by other speakers. The United States and the European Union have, some time ago, settled this question quite firmly. Mr. Hugenholtz mentioned that in both the Software Directive in 1992, and in the recent Copyright Directive, temporary copies are, indeed, reproductions, though they may be subject – they are or may be subject to certain exceptions, that make them not infringing reproduction. Similarly, in the United States, for some time now, every U.S. Court that has considered this issue – and there are nine or ten cases now – has concluded that transient copies made in the RAM of a computer are indeed reproductions for purposes of the Reproduction Right. The first case to hold this – *My Systems Corporation v. Peak Computer* – held that such copies were reproductions, and no court has come out the other way on this point.

The United States has also concluded that the protection of temporary copies as reproductions is an international obligation of the United States, and of every country that is a member of the Berne Convention or a member of the TRIPS Agreement. This, I think, places the United States somewhat apart from the position now being taken in Japan.

As was mentioned earlier, during the diplomatic conference that led to the adoption of the WCT and the WPPT, so-called Internet treaties – there was no agreement on whether or not temporary copies were reproductions. Though there is an argument for that proposition, it is my view that the countries that took that position – and it was a minority of countries – did so, not so much because they had concluded that such copies were not reproductions, but because there failed to be agreement on what the exceptions to the reproduction right would be. All the remarks that were made during that conference are, I think, consistent with the notion that certain transient copies should be subject to an exception to protection, and it is not necessarily an analytical error to hold that they are reproductions themselves.

So, the global trend is to conclude that all such copies – copies that are fixed in such a manner that they can be perceived, copied or communicated, either directly or through the aid of a machine, are in fact reproductions.

Why is this an important issue, and why is it continually being debated? As Mr. Hugenholtz said, there are scholars in the United States, Japan and Europe that believe that this conclusion that the U.S. government has made in its law, and Europe has made in its law, is not correct. It is important, I think, because the new business models, which are going to drive electronic commerce as we move into the future, depend increasingly on the exploitation of works through the creation, solely – not of permanent copies, but of temporary copies. So, without the ability of the copyright owner to control both permanent and temporary copies, there is a grave risk that the copyright owner will be left without this control over reproduction, which of course is the central right under copyright.

The Internet and intranets (or inside company networks, LANS) now allow, for example, software, to be accessed from a third party server and for operating systems and applications software to be downloaded into the RAM of a computer and to be fully exploited – completely exploited, as if that copy were a permanent copy – as if the person had a CD and put it in the computer. So, that temporary copy serves the same function now in the E-commerce world as in the old, digital, pre-E-commerce world – the permanent copy on a CD Rom served.

Indeed, movies can now be viewed on demand, solely through the creation of a temporary copy on a user's PC; video games can be completely exploited and played through the creation of a temporary copy on a PC; electronic books, a new kind of development, not yet developed fully – books can be completely consumed through the mere creation of a temporary copy in the RAM of a computer. This is why these copies are important, and to call them "not reproductions" means that the copyright owner is completely without a remedy there. More on this...

There is a business model right now in effect, currently in use, called the Application Service Provider Model. It is expected to generate about \$21 billion in 2001, and it is the model that I described earlier, where a company will make a license agreement with a copyright owner or a third party licensee, for software to be made available via a server. If such a company were to condone – silently, directly, whatever – employees who may be outside the license that is obtained, to go up on the Internet and download copies from a pirate site and not pay for those copies, the business benefits, but the copyright owner is not compensated. If that server is outside of the territory of the country – say, outside of Japan – what remedy does the copyright owner have to enjoin such conduct, to prevent such conduct? Even if the server that has made transmittable that copy of software under Japanese law, for example, is in Japan, it might be very difficult to find that server and to obtain a remedy against that kind of piracy. Similarly, there is a growing phenomenon, which I guess we could call the Internet Café or the Virtual Video Game Parlor, in which games can be played through downloading off a server – a business can save a lot of money in a very nuanced way, pointing its customers to a server that has pirate games on it, and charging those customers for playing that game inside the business. The remedy, again, has to be available to the copyright owner to prevent those kinds of reproductions, which completely exploit the work and benefit the company in which this conduct is going on.

There are also many what we call Network Ready Devices – computers or other devices (PDA's, even mobile phones) – which have no capability of making permanent storage, in which, again, it is only a temporary copy that acts to allow the consumer to fully exploit that work, just as if they had a permanent copy.

Now, of course, there are going to be temporary copies that you would not want to make into infringing copies, and we've had a conversation here earlier about certain kinds of copies being subject to an exception to protection. Analytically, this is the way to deal with this issue. All of these copies are reproductions under Article 9(i) of Berne and Article 9 of TRIPS. But if the copy meets the test of Article 9(ii) of Berne – the so-called 3-step test – or Article 13 of the TRIPS Agreement: a special case does not conflict with the normal exploitation of the work and does not prejudice the legitimate interests of the author – then, of course, national legislators may carve out exceptions, which would make those copies not infringing. In fact, many, many countries have done so, for the reason that it would not be fair in the case of these copies to make their creation into an infringement. So, for example, copies made under U.S. law, in the U.S. system, copies made during the course of a network transmission under certain conditions, are excepted from liability for an Internet service provider (and we are going to be talking about that later). The point is, they are reproductions – they are not, "not reproductions", and it is the fact that they are reproductions that creates the possibility of liability in the first place, from which you then make exceptions to liability, and Japan is working on such legislation right now.

Many have answered, "Well, a lot of these copies are private copies, therefore why are we having this argument because they would be exempt anyway"? The answer is, of course they would be exempt. They are still reproductions, though – they are just exempt reproductions, depending on the law of the country, and analytically, we believe that this is the approach that should be taken on this issue.

The United States has just issued a report in which the Copyright Office discusses, at some great length, this whole question of temporary copies. The Copyright Office of the United States concludes, in a detailed discussion and I think a very good discussion, why it is important that these copies be deemed reproductions, and also considers various issues about whether certain types of transient copies, for example, buffer copies that are made during the course of a web cast – whether those copies should be subject to a fair use exception or some other kind of exception – the point being that calling something a reproduction does not necessarily mean that it is an infringing reproduction. The legislator can always create exceptions for it.

In conclusion, we know of no country in the world, to date at least, that has expressly incorporated into its law, the notion that temporary copies are not copies for the purposes of the Copyright Law. Even Brazil, which was one of the countries that voted and spoke to the issue of temporary copies not being reproductions under Article 9(i) of the Berne Convention, two years later in the amendments to its copyright law, specifically legislated protection for temporary copies. So, that is not to say that in the future some countries might not do so, but it is clear that the trend globally is for temporary copies to be classified as reproductions. Thank you very much.

**M.C. (Female - Japanese):** Mr. Smith, thank you very much for your contribution. Let us move on to Mr. Tanaka.

**Mr. Tanaka:** I'm Tanaka, Attorney-at-Law. We have today many experts on intellectual property rights, and many of them are my seniors. I am rather honored to be given the part as a panelist amongst such distinguished guests. Due to time constraints, I would like to move on immediately and briefly to the issues concerned, as well as brief comments of my own.

This year – 2001 – in February and March, we saw remarkable developments in judicial precedents in copyrights related and moral rights related indirect infringement findings, in the U.S. and Japan. The appellate court case in Germany will be touched upon later. This ruling was in March.

First of all, the case you are most familiar with the February 12<sup>th</sup> ruling on Napster by 9<sup>th</sup> Circuit Court of the United States. The second one is the February 13<sup>th</sup> ruling on the Tokimeki Memorial case by the Supreme Court Third Petit Bench of the Supreme Court of Japan and the third one is the March 2<sup>nd</sup> Second ruling on the Videomates case by the Second Petit Bench of the Supreme Court. The Tokimeki Memorial Supreme Court decision, and Videomates case decision, have been mentioned by Professor Koizumi quite concisely. Therefore, I would like to skip my briefing on those cases.

In Japan what are the criteria distinguishing direct infringement and indirect infringement? . Ever since Club Cat's Eye case was ruled by the Supreme Court on March 15<sup>th</sup>, 1988, the

High Court and the District Court have followed the framework of this precedent. It has become an established test to consider who controls the exploitation of the copyrighted work, and to whom does the economical benefits belong? These are the two factors to decide between direct or indirect infringement. This framework for judgment is quite similar to the U.S. vicarious liability concept. The concept of vicarious liability is to who owns the right and ability to control plus the financial benefit to determine whether that is a vicarious liability or not. This line of thought is quite similar to the basic stance of the Japanese courts. However, the U.S. concept of vicarious liability presumes the existence of someone else who could be held liable because of direct infringement. In the case of Japan, the criteria we use is to judge whether one is a direct infringer, i.e. management and control and financial benefits. The direct infringer is considered in a normative framework. In the case of Japan, the basic idea is to consider who manage and control, and receive the financial benefit, as the direct infringer – that is the starting point. But compared to the U.S., vicarious liability criteria of the right and ability to control, and the financial benefit, the Japanese criteria appear to require a more stringent and direct test.

The Videomates ruling on March 2<sup>nd</sup> by the Supreme Court, passed judgement on the duty of care of the providers of tools for copyright infringement. The Supreme Court categorizes the judgement criteria into five elements. What I would like to draw your attention to here, are the two most important elements – that is to say, the nature of the risk that the said tools may produce the effect of copyright infringement. The second factor is whether there is ground to justify placing trust in the other party, which is providing the said . There are the focal points of the Supreme Court ruling. What is important is the first one. This particular case involved karaoke equipment, both hardware and software. The court emphasizes strongly, that without the copyright owner's authorization, the tool will bring about continuous copyright infringement, from the time its use begins, until the use ends. The second point is that when the karaoke equipment lease operator delivers the equipment to the karaoke bar or karaoke restaurant, it has the duty of care to confirm whether the owners have – or at least have applied for – the permission of the copyright holders. In that case, would it be sufficient to proceed trusting that the karaoke establishment owners will act in accordance with legal obligations.

The Supreme Court, presumes that one should predict that some people, even knowing their legal obligation, may infringe copyright, and therefore acknowledged the duty of care of equipment providers.

I mentioned a short while ago, an appellate court ruling in Germany– I would like to come back to this again. This is, the AOL MIDI forum case in Germany. On March 8<sup>th</sup>, the appellate court ruled on this case. I believe Mr. Vinje's report on Page 7 footnote 10 referred to this case. The case involved music genre categorized MIDI-file sites offered by the German AOL Company or its subsidiary. Their liability was questioned. This appellate court ruling closely resembles the Videomates Supreme Court ruling of Japan. The ruling first mentions that the AOL members, protected by the anonymity of the Internet, uploads MIDI-file versions of copyrighted works on the site. Then they can download from that site without clearing the rights. The court states these are typical result that can be predicted with a very high probability. This portion I believe refers to the nature of the risk of that tool, in this case, the site. The court also states that merely warning users to upload only those files which copyright does not cover, is insufficient, because given the anonymity of the Internet, that is not appropriate to deter the risk of rights infringement by AOL members. One must assume from the outset, that the majority of members would disregard such a warning. This portion I believe refers to the court's conclusion that there is no grounds here for trusting the other entity. That broadly covers the Supreme Court's March 2<sup>nd</sup> ruling on indirect infringement. Also, this afternoon ISP liability discussions will be held, and I am sure that this will be a reference case to that discussion as well.

Other points to consider were reproduction for private use and its extension. I believe Professor Koizumi has mentioned this, so I will not discuss the general issue.

There is a limitation on copyright over reproduction for private use and this has been discussed as a problem in the case where large capacity digital recording devices are introduced in the market. In Japan, rental records are quite popular and are a thriving business. From rental records or CDs, one could use large capacity digital recording devices to create a huge library in a very inexpensive manner. Digital radio broadcasts can be downloaded, recorded, and they can also record from illegal sites. It is hard to imagine that they will limit the use of these recording devices to merely those time shifting, and space shifting .

Article 30 of the Japanese Copyright Law seems to literally allow such recording devices, but should such recordings be permissible? This is an issue. Mr. Smith referred to 3-step test in Article 9(ii) of Berne Convention. Based on this 3-step test, we should reconsider whether such recordings can be permitted under Article 30 of the Japanese Copyright Law. A very interesting ruling concerning the 3-step test was reported by the WTO panel on June 15<sup>th</sup> last year (2000). Mr. Smith's report on Page 4 refers to it. A very detailed judgment was given on the U.S. Copyright Act Article 110(5), the right to communicate to the public. I believe this panel report of the WTO basically is, correct, and in reference to the panel report, the Tokyo District Court ruling on the Star Digio case will have to be deemed inappropriate.

Another topic is private alteration and moral rights. In the Tokimeki Memorial Supreme Court case, this player is enjoying the game, at home, in private. That is why the Supreme Court ruling is highly criticized. However, as long as the memory card is used, the integrity of the copyrighted work is always violated. Furthermore, the infringement of the right to maintain integrity, is built into the business model of marketing the memory cards. Every time you use such a memory card, the right to maintain integrity is violated. If that is the assumption, can we simply say that the game player's act is in the private domain? That is too simple to conclude. Therefore, although the ruling fails cite sufficient reason, indirect infringement should be established. So, the Supreme Court basically did the right thing, in finding liability for the memory card provider.

Thank you.

**M.C:** Thank you very much. Now, I would like to ask Mr. Vinje please.

**Mr. Vinje:** Good morning. It is a great honor to be back in Tokyo, and to be invited again to speak at the SOFTIC conference, and I would like to thank the conference organizers very much for that invitation.

I would also like to begin by saying just a few things about the papers that are in your documentation. First, there is a paper concerning liability of intermediary service providers – on-line intermediaries. I will not address the topic of that paper in my speech. That is a topic for the afternoon. Secondly, there are some PowerPoint slides in your binder, and those are the slides for the talk that I am about to deliver. However, I am going to use an updated version of those slides, which I hope and believe is now on the SOFTIC website. So, please, do not be surprised when the slides on the screen at a certain moment depart from the slides on your paper.

So, one of the topics of today – the topic for this morning – is the digital distribution of information. I am going to focus on the digital delivery of music, and the complex and difficult legal issues that arise in that context in Europe.

Let me describe briefly the two basic types of on-line music distribution that we could consider. First – streaming, and by streaming, I mean the delivery of content (in this case, music) to various devices, and in circumstances where permanent copies of the information or music is not kept. I will use two examples of streaming here – one would be web casting, and there are different forms of web casting. One form of web casting is what is known as "simulcasting", which is when a regular terrestrial station, radio station or perhaps a television station, engages in simulcasting of its terrestrial broadcast. In other words, putting on the Internet a radio station that exists in a normal terrestrial sense.

Second – web casting could involve web casting of live events – a concert, for example, could be web cast over the Internet.

Third – there are web specific channels, in other words, a radio station that is only on the Internet. Another form of streaming would be "on demand streaming" – in other words, you, as the user, can demand at a particular moment and in a particular place to be delivered to a particular device certain music. Two examples of that would be sampling, where you can obtain a sample of some music, perhaps to decide whether you want to buy that music and have it delivered to you via a download that you can keep. Another form of on demand music delivery through streaming is what I would suggest may be called – or my colleague, Paul Goldstein and others, call celestial jukeboxes, where you can bring music to you at any given moment, have it streamed to you, listen to it for that period, and then it is gone.

Then the second basic form of on-line music business, I would suggest, is the delivery of music on-line; that is downloads – selling music on-line so that you actually purchase the CD on your computer, for example, and it is delivered over the Internet to your computer, and you have a permanent copy of the music on your device.

Now, what legal issues arise if you were going to enter the business of delivering music on-line? Well, for each activity – for each of those various forms of activity that I mentioned – you need to consider what rights must I obtain, and for which territories must I obtain those rights, and from whom or through whom must I obtain those rights. Then finally, not a legal issue, but you might very well, if you are in this business, or you are considering entering this business – you might very well wish to consider what are the real risks if the purely legal conclusion is that you need many rights from many different people for many different territories. If in fact, the risks of being held responsible through an enforceable judgment for a failure to obtain rights from certain right holders in certain obscure territories is not very high, then you might simply decide to tolerate that risk. So, it is not only a purely legal calculation – there are some practical business calculations to make in this context as well.

Now, beginning our legal analysis to try to answer those very basic questions – and, of course, in this very short period of time I can't go into depth in all these issues; I can only touch the surface – but, we can consider that there are two basic types of protected subject matter that you need to consider in the on-line music business, and secondly, two categories of right holder.

With respect to the subject matter, there is the underlying musical work, the notes, the lyrics, the underlying musical work itself, and then there is the sound recording (sometimes called phonogram), the recording of that music. Secondly, there are two categories of right holder in those types of protected subject matter, namely the author, the composer, the lyricist, the arranger and so forth – and secondly, there is a category of performer and producer.

What rights do those types of right holders have, that you need to consider in your on-line music business? Well, first, authors have the reproduction right, which is often called the mechanical right in this musical business. Secondly, there is the communication to the public, or the "making available" right, which of course is embodied in Article 8 of the WCT, and in another article of the Performers and Producers Treaty. Secondly, as B. Hugenholtz pointed out, it is found in Article 3 of the Copyright Directive, and this right is also found in varying formulations in the existing Member State Laws in the European Community. Indeed, I believe it is fair to say that the provision in the WCT is inspired by existing European legislation on the Communication to the Public right.

Then there is, thirdly, the distribution right, which – at least in Europe – concerns physical copies. So, if you are going to deliver your music on-line, you don't really need to worry about that right. Then, the performers and the producers have, what are called in Europe, neighboring rights, so they have analogous rights to those of the author – of reproduction, communication to the public and making available and distribution.

Now we have discussed the basic types of subject matter, the basic categories of right holder and the basic rights that those right holders have. Now, let us consider who manages those rights – to whom can you go to obtain those rights that you need to undertake a digital on-line music business.

The authors, the professional composers and songwriters, usually transfer their economic rights in the musical works to a music publisher. Music publishers in turn very often entrust the management of those rights to a so-called Mechanical Rights Collecting Society. The neighboring rights of the performers and the producers are sometimes managed by Performance Rights Collecting societies, but in certain cases, quite often the major labels may self-manage their neighboring rights themselves, especially, I believe, on-line rights.

That's a very brief overview of who manages these various rights that you need to consider obtaining for your on-line music business.

Now I'm going to use a specific, very simple concrete example to try to illustrate what you need to do in terms of legal analysis if you are going to enter an on-line music business. Here, I take the example

of a Tokyo on-line radio station – this is a web specific radio channel, which has been only on the Internet; it is not a terrestrial channel. It engages in web casting from Japan – so streaming of music over the Internet from Japan. Now the question – what rights, if any, does this Tokyo on-line radio station need to obtain for Europe, and from whom can you obtain those rights, and under which circumstances and on what terms?

In a very simplistic fashion, I would suggest the three most basic questions to ask yourself in the context of the previous slide are: Which law applies to your activities? Where do the infringing acts occur? Who engages in, or who is responsible for, those infringing acts?

Now, I am summarizing to a very great extent what I believe would be the likeliest results in European courts with respect to those basic issues. Of course, we could have a discussion all day about each of those issues, and in the sense that this conference is intended to address the future and how we can put in place a better legal regime to facilitate the digital delivery of information, I would suggest that this example highlights some of the problem areas that need to be addressed in terms of a future, better regime.

The likeliest result for our Tokyo on-line radio station, I suggest, would be that European courts will apply their own laws, so that if a right holder sues the Tokyo radio station in Germany, for example, or France, for example, I believe the courts in Germany and France will apply French and German law to at least those elements that occur in those countries. Secondly, I believe that those European courts will deem infringement to occur by the Japanese web caster in Europe, and they will conclude that the Japanese web caster will need a communication to the public/making available license for both authors and performers and producers for every European country. I'm speaking only of Europe – but this may well be the case beyond Europe as well. So, that is a lot of rights for a lot of countries. Finally, I would suggest that under the Copyright Directive Article 5(1) - which B. Hugenholtz addressed before, and I could say a few words about later in the panel discussion, if people were interested in my views on the temporary copy question – neither the network copies, the transmission copies in the networks, nor the end-user copies themselves, are likely to need a reproduction or a mechanicals' license. This is in the streaming context, where the copies disappear (this is my definition, at least, of streaming) after they have been listened to. But, if our Tokyo station decides to start selling downloads – to start selling the CD's and delivering them for permanent use to the end-users in Europe, then they would need a mechanicals' license – a reproduction license for those downloads.

Where can you go to get these rights? That, of course, is a long story that I can't possibly describe all of in one slide, but where do you go to obtain these communication to the public and making available rights for Europe? Do you need to go to the National Authors and Performers Collecting Society for each country in Europe? Well, that would be a very substantial task, and of course you would need – after having concluded that as a purely legal matter, you may be infringing rights in Greece and Portugal and various other places in Europe – are you really going to go to the national collecting societies in each of those countries and obtain a license?

Well, progress is being made on this front, and there is one agreement which is already in place – the Santiago Agreement, which addresses web casting, and it's a step forward. It has one-stop shopping so that (let me take a European example now), let's say, you are a German on-line radio station. You can go to GEMA in Germany and obtain a license for all of those collecting societies elsewhere in the world that have entered into bi-lateral Santiago Agreements with GEMA. So, it is a form of one-stop shopping, so you don't need to go to each of the collecting societies, but it is a limited step forward. It covers only authors' rights, so it doesn't cover the neighboring rights of performers and producers. There is another agreement, which I've heard called the Bortloff Agreement, on producers' rights, the exact status of which I'm not sure of. Also the Santiago Agreement, in addition to being somewhat narrowly focused – I should say, also, that it does not cover, as I understand it, simulcasting, so the activities of a terrestrial broadcaster on the Internet would not be covered by Santiago, as I understand it. It also suffers from some rather serious competition law questions, and Mr. Norichika asked me to address competition law questions arising in this context as well, so I shall turn to those now, and first address the competition questions arising in the Santiago Agreement context.

The Santiago Agreement, which is a model agreement to be entered into bilaterally amongst collecting societies, has a provision in it which requires a licensee (someone who wants to obtain rights under Santiago) to go only to the collecting society of their country of establishment to obtain those rights.



So, if you are established in Germany, you can go only to the German collecting society that is a member of this Santiago Agreement. You cannot go to the UK collecting society, the Finnish, the French – whichever collecting society. So you are stuck – you have only one place to shop. It is not only one-stop shopping, but there is only one shop for you, because it is territorially limited. In my view, that is a very clear violation of EC competition law – it is customer allocation, which is prohibited by Article 81, and in fact, I have filed a complaint with the European Commission on behalf of EDIMA, the European Digital Media Association, a grouping of new digital media companies. We filed that complaint with the Commission, and we are optimistic that the Commission will require the collecting societies to abandon that customer allocation provision.

Secondly, the collecting societies' membership rules raise very serious competition questions. There is a long series of cases before the European Commission and the European courts on this question, but I would suggest that the law on this topic needs to be revisited very seriously now, in light of technological changes in the digital environment. The basic problem, as I see it, is that if you are, for example, a professional composer, and you become a member of a collecting society in Europe, you are required to give away virtually all of your rights for a long period – a very heavy degree of exclusivity is required of you in order to be allowed to be a member. Now there are serious questions about the legality of that. Under Article 82, the Article of EC Competition Law governing abuses of dominant positions – it is questionable in the on-line context whether it remains appropriate to require such a high degree of exclusivity – and it would be better (not only for individuals) to have freedom to take, for example, their on-line rights and license them directly (for example, through DRM systems), or they may wish to give them directly to a system run by AOL Time Warner, or whoever. That is another competition question that needs to be addressed.

Thirdly, there are questions which the European Commission has been addressing, especially in merger cases, concerning the concentration in the on-line music industry – there is of course the AOL Time Warner merger, the Vivendi Seagram's merger and now the Press Play and MusicNet initiatives – and Mr. Monti is known to be quite concerned about the consequences of concentration in the on-line music industry for the development of that industry.

Another case pending before the European Commission, which raises competition issues in the on-line music context is the Microsoft case, where the Commission issued a statement of objections in August against Microsoft, where the Commission asserted that Microsoft's bundling of Windows Media Player into the operating system violated Article 82, and that they were, by bundling a media player into the desktop operating system, leveraging their monopoly in the desktop operating system into the server operating system market. There are concerns about the effect upon competing products like RealPlayer and the like, and concern about MP3. In any event, the Commission has asserted that the bundling of Media Player into the Microsoft operating system is a violation of Article 82. I am rather heavily involved in that case and I am bound by confidentiality obligations not to say very much about it, but if people do have questions about the Microsoft case for the panel, I am happy to try to answer them to the extent I am allowed to.

Finally, Bernt mentioned the question of levies, and there are rather intensive efforts by collecting societies in Europe today to impose levies on an array of digital devices and equipment. For example, VG Wort, the reprography collecting society in Germany, has sued Fujitsu Siemens, the PC manufacturer in Munich, claiming levies for personal computers. I would suggest that there are serious competition questions arising in the context of levies as well as very difficult copyright questions, of course. We will see, I think, a great discussion concerning the implementation of the Copyright Directive in Europe, and the implementations of that Copyright Directive with respect to levies.

My conclusion is that, in some ways, progress is being made. For example, the Santiago Agreement is in certain ways a step forward. I would suggest however that the on-line music market is being hindered by some basic issues, e.g., uncertainty about choice of law. Mr. Uemura mentioned this morning that WIPO intends to grapple with that issue – clearly, it is a topic that needs a lot of attention and it needs to be resolved. There needs to be more certainty about choice of law in this context. There is also uncertainty about which rights are required for which territories; there is confusion and conflict and sometimes even secrecy about who can grant which rights for which territories and under which conditions. Finally, and I think very importantly, anti-competitive behavior in particular by the European collecting

societies is hindering the development of the on-line music market. So, with that, I would like to thank you very much for your attention.

**M.C:** Thank you very much, Mr. Vinje. We are a bit behind schedule, and each of the speakers has spoken a little longer than scheduled, so that has shortened our time for discussion a bit. I would like to call upon those individuals who did not make presentations in this session. As for the issue of the collecting, or management organizations, we have time for that later, so those issues will be covered later in the afternoon. Mr. Hagiwara please.

**Mr. Hagiwara:** Thank you very much. I have two comments I wish to make. The first point is about temporary reproduction. In Japan, temporary reproduction is not included under the scope of reproduction rights – that is the current consensus here in Japan. Our viewpoint is that this thinking should be maintained, and, that legislative action to include temporary reproduction in the scope of general reproduction would not be necessary. As has been repeatedly said, the WIPO Copyright Treaty did not include temporary reproduction as part of its coverage. Also, even if you include temporary reproductions in the scope of reproductions, then through limitations, you will have to identify and exclude those activities which are not infringing, and we believe that there is great difficulty in that kind of an approach. In the case of the United States, where the principle of fair use is well established, you may not have these concerns. But in a country like Japan which has these limitations, this may be rather difficult. Even though with temporary reproduction, one can make the distinction between those which are problematic and those which are not infringing, and deal with them on a case-by-case basis. That should be sufficient to deal with these issues. In Japan, such case-by-case dealing has not led to major problems so far.

Secondly, about indirect infringement. As has been discussed so far, in Japan, the ruling on the Tokimeki Memorial Case by the Supreme Court was the case that brought light on this issue of indirect infringement. Whether the users' acts constituted direct infringement or not was the focal point. If there is no direct infringement as in the case of the Star Digio case (in the Tokimeki Memorial Case as well, there were some opposing views that there was no direct infringement on the part of the users), if there is an absence of direct infringement, but the defendant had been unduly enriched, such activities should not be permitted. However, under the current law there is a limit to what we can do to stop these activities. Therefore, I believe this is an area in which we do need the development of some new rules.

**M.C:** Thank you very much. Mr. Okamura, please.

**Mr. Okamura:** Thank you – my name is Okamura. I have two issues to cover. First of all, about temporary reproduction. With the expansion of the networks, the claim that you can totally ignore temporary reproduction or that all temporary reproductions fall under reproductions – those kinds of unilateral views, I believe, have to be put to rest. We are entering an age when we have to deal with these issues on an individual basis, I believe. However, having said so, you have to have a certain, clear framework for making judgments, otherwise, you are bound to cause many problems. For those engaged in business through E-commerce, the limitation criteria must be relatively simple to be applied to business use. So, to allow a multitude of different exceptions without including temporary reproduction as reproduction, or as in the EU Directives, saying that temporary reproduction does constitute reproduction but also allowing various exceptions, and likewise the fair use principles of the U.S. have all diluted the basic concept of reproduction. I believe that, in this society where all people are allowed to use copyrighted works or make a business out of them, it is really a question of to what extent you can maintain a simple criteria. That is, can we create some clear, normative standard to replace the test of temporariness. As you know, copyright is a bundle of different rights that have accumulated on one another. Because of this, the regime of copyright is very complex. I believe that we should take a long-term view and perhaps reduce that complexity of copyright to a more straightforward, simple system. That is my first point.

Second point is the issue of reproduction and alteration for personal use. Our lives – our culture – is based on the use of various copyrighted materials. You will read the newspaper when you get up in the morning, and until you sleep at night, you may watch television and much of the copyrighted materials we use may be arranged and edited in a variety of ways. For example, the resume that I received today, I have edited and added notes to, to quite an extent while listening to your presentations today. But under the current law in Japan, the concept of the right to preserve integrity is a very stringent concept. If editing or altering copyrighted material – even for personal use – constitutes a moral right infringement, and may make

you liable for criminal penalties although you have to be accused first, then just singing a song in your bathroom at home may infringe on the rights of others, if you take it hamming to the extreme. What is noteworthy is that the Tokimeki Memorial case was not a case of illegal reproductions. Under the Japanese law, which takes a dual structure, it is, of course, an issue of moral rights and not property rights. As Mr. Koizumi said, if you are alone with the composer and you sang an obscene parody of the composer's song, what would happen? Both in terms of civil and criminal procedures, this will not constitute defamation, under the current laws. But if a system of damages were to be designed under Article 709 of the Civil code and the monolithic structure, then the fact that singing a parody like that will be illegal and subject to damages, perhaps should be reconsidered. I think one may have to return to these basic issues. I personally do not take the view – in contrast with Mr. Koizumi – that singing that parody is illegal. However, as we see an accelerated use of copyrighted materials over the network by all people, the objective of the copyright law, to balance protection versus use must be reflected upon. So, in the case of the Japanese law, limitations on moral rights should be explicitly provided, in my view. Thank you.

**M.C:** Ms Perlmutter, please.

**Ms Perlmutter:** Thank you. I have a few comments about private copies and about temporary copies. First, I think it is important, when we are talking about private copies, to focus on the making of copies themselves – not a performance, and I think singing a song, for example, if you're not doing it in public, is not even within the scope of a performance or a communication to the public right, because normally those rights are defined by requiring the public to be present. But I think the difficulty today is that it is clear now that the meaning and the impact of private copy exceptions are quite different in the digital environment. As a result, the scope of those exceptions in different countries' laws needs rethinking. The complication is that there are two inter-related issues, and none of them can be addressed entirely on their own. One of the issues is levies, and these of course are systems that were put in place to compensate for the private copying that was permitted by the private copying exceptions. And second, the use of digital rights management technology.

Not all private copies, in my view, should be compensated for, but many of them should. Many of them are the equivalent of a purchase in a store, and substitute for such a purpose. This is especially true when you are talking about perfect, convenient digital copies. So the question is, how should that compensation take place? What is the mechanism for the compensation, and what is the timing of putting that into the law? A levy system, which was relied on in the past, was a form of, what in English we sometimes call "rough justice". It was a way just to make sure that a huge amount of copying was not going on without compensation to the copyright owner. But everyone understood that, of course, there was no exact equivalence between the number of copies made and the money that would be collected.

The use of digital rights management is a much better approach. Here is a situation where technology permits us to improve greatly over what was possible in the past. Digital rights management allows you to collect compensation in a fine-tuned manner that does relate specifically to the copying that's being done. The problem is that for digital rights management to work adequately, it often needs implementation in software or devices, and so it is that need for cooperation – that connection – that makes it difficult. In the United States, the one area where we have a statutory form of private copying is the Audio Home Recording Act, and that statute says that lawsuits may not be brought for consumer home copying of music, but it is phrased carefully. It just says, "suits may not be brought" – it is not a complete exemption, and that limitation on lawsuits was provided in exchange for two things – levies on the digital devices that permitted the home audio copying, and second – digital rights management in the form of the serial copy management system, which did not permit second generation copying. I think that statute, whether or not it is a success story, at least is a good example of how intertwined those three issues have to be, and I think part of the difficulty, again, is timing. In the interim period, where we are moving from an old system to a new system, how do we deal with that transition?

On the issue of temporary copies, I agree with Eric's analysis. I believe there is fairly widespread agreement – and there certainly was at the WIPO Diplomatic Conference in 1996 – that at least some temporary copies should be within the control of the copyright owner, and the question was, which ones? Eric has already described the fact that the chief means of exploitation for at least some types of works will become temporary copies. Just to give an example, Thomas talked about the model of downloading for music on the Internet. The system called MusicNet that my own company is involved in for providing

on-line music delivery will not provide permanent downloads but it will provide temporary downloads, where a consumer can download music and keep it for a certain period of time. I think there will be a certain number of downloads permitted during the period of a month, during which the consumer is paying a subscription fee.

It is very difficult to draw lines across the board as to which copies are too temporary to be considered reproductions. How do you do that? Do you do that by the duration of the copy, because even a photocopy on a piece of paper, while it is permanent in some ways, I could keep it for one second and then burn it. It is very difficult to do. Do you define it by the use of the particular copy? That is hard to do in defining something as either a reproduction or not. In U.S. law the definition is done by talking about copies that exist long enough to be perceived or further reproduced. Of course, that is not very long at all in the digital world. I think the technique of providing exemptions can achieve the same result of no liability, where liability is not appropriate, and an exemption can allow the articulation of specific circumstances that work in particular contexts, rather than trying to do it once, across the board, for all temporary copies. I just point out as an example of a case where that was done, the EU Copyright Directive in Article 5(1) where there is very specific language articulating two types of exemptions for temporary copies. Thank you.

**M.C:** Thank you. As for the temporary copies and copies for private use, I think we have a lot of input by the panelists. Any other comments from the other panelists? Mr. Koizumi, please.

**Mr. Koizumi:** Mr. Smith in his presentation referred to two cases where the right to transmit to the public, may not be enough. First, when you transmit a program from a host computer over a LAN. Is this transmission to the public? In Japan you said, this is not clear, but for your information, under the Japanese law, as for computer programs, alone there is a provision that explicitly includes this as part of the right of public transmission to the public. It is stipulated clearly. The second case is involved transmission from offshore. According to Japanese law, transmission from offshore, may be governed by Japanese law. There is growing consensus that the law of the receiving country will apply. If so, then the public transmission right can cover this particular issue. That is all. Thank you.

**M.C:** Mr. Hugenholtz, please.

**Mr. Hugenholtz:** Thank you. During my presentation earlier this morning, I gave you an overview of the Copyright Directive as it was adopted a couple of months ago by the European legislature. Now I would like to take the opportunity of giving you my personal views on the issue of temporary copying.

In that respect, I would politely disagree with – particularly the position taken by Mr. Smith earlier this morning. His main argument for an expansive interpretation of the reproduction rights to include just about any type of temporary copying is, and I quote from his paper on Page 4, that in future business models, "customers are fully exploiting the value of works solely through making temporary or transient copies". I am not convinced by this argument. In fact, I think it is a false argument because, in my view, customers are not exploiters in a copyright sense. They have never been, and they should not become (such). Customers are consumers. Customers/consumers have been using copyright protected works even without any form of copying for many years. They have been reading books; they have been listening to radio; watching television; playing CD's – without incurring any copyright liability, without engaging in any restricted acts under copyright. That has never been a problem. Why is that? Because the relevant act of exploitation – the relevant acts that should be protected under copyright – occur at the higher level of publishing a book, of distributing a record, of broadcasting music or a television program. That is why the right of communication to the public protected under the WIPO Treaties, protected under the Copyright Directive, protected under many national laws, is so extremely important, and so supremely suited for the digital environment, because that right of communication to the public covers just about any kind of making available works to the Public. In fact, it covers all acts of digital exploitation of works in a network environment, including all of the examples that Mr. Smith gives in his paper of new business models, where works are provided on demand by individual users, even over intranets. So, in my personal opinion, I see no reason for such a vastly expansive right of reproduction. In fact, my personal view is that this discussion is highly unproductive.

Having said that, I must admit this is not the position of the European legislature. As I explained before, the Copyright Directive does follow the broad approach advocated by Mr. Smith and Ms Perlmutter. So, in a sense, much of this discussion in Europe is over, but it is not in Japan, and I think this is a very fruitful and interesting discussion. Thank you.

**M.C:** Thank you very much for your contribution, Mr. Hugenholtz. We are running out of time, so could you please be brief.

**Mr. Vinje:** Yes. Much of what I intended to say has just been said by Bernt, in any event. I would simply like to agree with everything that Bernt has said, and add to that, that although the European legislature has spoken in the Copyright Directive by adopting Article 2 with its very broad reproduction right, and Article 5(1) with its very vague, ambiguous, unclear exception to that very broad reproduction right, although that position has been taken, I believe it is a very unsatisfactory one, and one which Europe will live to regret.

**M.C:** Thank you for your input. Mr. Smith, please.

**Mr. Smith:** Thank you very much for your comments, Mr. Hugenholtz and Mr. Vinje. It is not only the European Directive that has decided that temporary copies are reproductions – it is the U.S. law, and virtually the law of every country that has considered the question. So, I agree that there are some scholars who disagree with this issue. But, it is clearly the minority view.

I think Professor Hugenholtz's analysis would lead one to the conclusion that if a consumer – and, of course I use the word "exploitation" in the technical sense, not in the moral sense – if an employee in a business were to make a permanent copy of a piece of software off of a server in an unauthorized manner, his analysis would seem to suggest that that copy would not be an infringing copy, and there is nothing that the copyright owner could do to prevent that.

In the case of a digital environment, whether the copy made by the employee, or even the home user – and I think we need not confuse the private copying exception with whether something is a reproduction – whether that is a permanent copy or a temporary copy, the effect is the same, and it should be a reproduction. I must say, I am quite confused by the notion that the public communication right can extend all the way down to the user who sits at his PC - that somehow that person who is making a permanent or temporary copy, is somehow engaged in the public communication right. That would be contrary to any understanding I have of what that right is geared to protect. That right is to prevent the person from posting a work on the Internet, and making it available – even though that person doesn't communicate that work directly.

One of the professors said that the receipt by a company, or by an employee of a company of a pirate copy off of a server would somehow violate the public communication right. I must say, I am quite confused by that. If that is true under Japanese law, then maybe I don't have any concern, but it is a very odd analysis of what that right would be at the international level, and it would be the first time that I have heard that. Thank you.

**M.C:** Mr. Smith – your last statement – could you explain it a bit more, the part about Japanese law that you have just mentioned?

**Mr. Smith:** I spoke a little quickly, but what I heard being said was that the person who receives the communication and, in my example, makes a temporary copy, and then uses it, like in the software case. I go up to a server, I download without permission of the copyright owner, a piece of software – that somehow I am engaged in a violation of the public communication right when I receive and, in this case, make a copy of it, so I can use the software. That is beyond my understanding of what the public communication right is designed to cover. That is what I heard being said, and if anybody can clarify that....

It would certainly be an odd approach, I think – in the United States, we would not view that as a public communication.

**M.C:** Professor Koizumi – could you go over this?

**MC:** So, I'm a coordinator, it's a bit presumptuous for me to explain. However, in the interests of time, allow me to do so. In Mr. Koizumi's presentation, he mentioned that receiver is not held responsible – not liable. What he said was the transmitter should be held responsible – that's what he said. In that case, Japanese law should be applicable, and the transmitter should be held liable. That's what he said – not the receiver. Mr. Smith, please?

**Mr. Smith:** What about the situation where the server is outside of Japan, where the courts of Japan have no jurisdiction over that transmitter? What remedy does the copyright owner have in that situation? Does the copyright owner have to go to the country of the web site owner to enjoin or achieve damages in that country? Because if that is true, I think it creates huge difficulties for electronic commerce, and for the growth of electronic commerce, if copyright owners have to go to copyright havens in order to get a remedy for conduct that injures that owner in Japan or the United States or Europe.

**MC:** Mr. Koizumi, would you like to answer?

**MC:** Well, I believe that it is too presumptuous for me to make a remark too often, as a coordinator, but Mr. Dogauchi is an expert in this area. The party in a copyright haven – whether that can be actually involved in Japan, I think that is the issue related to that. Concerning the jurisdiction – the international civil procedure in Japan – we should apply that rule. But Mr. Dogauchi, what is the case? The microphone is available, so please use the microphone there. This microphone is not working.

**Mr. Dogauchi:** The receivers – well, actually, what is in question is the transmitter – how the right is enforced vis-à-vis transmitter. So, in a normal case, as Mr. Koizumi said, if the transmission is given to Japan and wherever the party lives, and wherever the server exists, there is the chance of infringement of communication to the public right in Japan, and whether the lawsuit is possible, if that is the case, Japan is a tort for the countries. So, even though the defendant does not live in Japan, there is jurisdiction in Japan. But whether the right can be enforced – whether compulsorily the right can be enforced, that is another difficult question indeed – an infringer must find the location of an infringer. But in terms of just lawsuit, I think the lawsuit is possible in Japan, so jurisdiction can be established in Japan.

**MC:** Thank you very much – I believe that there are many other opinions, but since now is around lunchtime we would like to break for lunch, and the afternoon session. I think there is an announcement from the Secretariat. Well, this discussion will continue during the afternoon, but anyway, let's take a lunch break, and at 1.30 pm we would like to resume the afternoon session. The afternoon session will be resumed at 1.30 pm. Thank you very much.

**MC:** We would like to resume the first session again, and we plan to take a break again at 3 o'clock. So, now I would like to ask Professor Aizawa, the moderator, to begin the session, please.

**Aizawa:** So, we would like to resume the afternoon session. Concerning the morning session, some discussions have not been completed, and we have received questions. But perhaps, questions will be answered at the very end of the session. We would like to move on to the liability of ISP – Internet Service Provider. First, I would like Mr. Hagiwara to give a presentation please.

**Mr. Hagiwara:** I am Hagiwara from Toppan Printing Company Limited. The corporation vantage point I would like to talk about is the liability of the ISP, the Internet Service Provider (ISP). How you define the ISP – there are different ways to define the ISP, I believe – but here, for instance, common carrier, access provider, are included in the category of ISP, and by using Internet, the service is provided, and all the providers involved in this service can be defined as Internet Service Providers, because they are all involved in this issue. For instance, the company and all the home page operators cannot bypass this issue – they are all involved. As for information of infringement, there is copyright infringement information or liable or defamatory information, software are the patent infringement or trademark infringement information, and also the criminal, the court, for instance, there is obscenity or fraudulent information also included.

The Toppan Printing Company Limited has developed a business, which is included in the Internet Service Provider's business; for instance, Rempol the server business, or Retrieval, the service, or the homepage, where the users can easily write. So, among those services, for instance, I would like to take the example of the mapping service on the Internet. You can see, this is what we call "Mapion" – this is the

map information service. Stored information can be uploaded freely, and currently the information about 80,000 stores is all included in the server, and it is possible to upload the stored information at any time and anybody can look at the information.

On the map, there are icons – you can see the symbol (simple) icons on the map – if you click, for instance, the information screen appears. And today, what is displayed here is not an exciting one, and I wanted to show much more exciting information; however, there is a copyright involved similar to Graphicwrite that can be involved, and therefore, allow me to just use not exciting information, but information about our subsidiary. Basically, it is possible to upload information freely. Information that is uploaded – if they include the copyright infringement information or the obscenity information, the defamatory information – there is a chance that they are also uploaded, and so all the information uploaded, whether there is a duty to monitor or take down, it is almost virtually impossible to take down the illegal information or monitor illegal information. Therefore, we always live with the chance or possibility of having illegal information. That is what the Internet Service Provider must be ready for. This is the ISP of liability limiting rule in the United States – there are two major policies already determined, and I believe that later the experts will explain them in detail. Concerning the copyright information, Article 512 – the notice to take down under DMCA is available. Concerning defamatory information or other offensive material, CDA Article 230, there is a "good Samaritan" provision. Therefore, the, actually, liability can be exempted.

Now in the European Community, there is a directive on the E-commerce, and Article 12 to Article 15 of the liability limiting rule for ISP has already been established. There is some difference between the U.S. and the E.U. The horizontal approach is taken and this rule cuts across different legal areas. For instance, with regard to notice and takedown, a very similar procedure is adopted in the European Union just like in the United States. Therefore, if ISP follows a rule, they can be exempted from the liability. And in both the United States and E.U., there is no duty to monitor – this is clearly described.

With regard to Japan, as you know, currently the Diet Session is underway, and the laws concerning the limitation of liability of damages of the telecommunication service providers and the information disclosure of transmitters, and that the Bill was submitted to the concession, and under the concession, this is expected to be enacted. From a corporate vantage point, we would like to see the establishment of this law as early as possible. Here are the specified telecommunications service providers – the definition of this...actually, telecommunication facilities, which can be used for the telecommunication transmission and act as an intermediary for the transmission, or provide the facilities for the transmission of the third parties – that is the definition of specified telecommunications service providers. So, the access provider, the homepage operator or the rental service operators etcetera are included.

I would just like to give you the details about the Bill, and for instance under Article 3, and you can see the liability exemption for the damage, vis a vis the right holders. When there is the infringement, if they know of the infringement of the right through the distribution of information, or also if there is sufficient reason to find that ISP could have known that the distribution of information would cause infringement of another's right, and so for those, either one of the two is applied for the exemption. If the ISP knows that distribution of information constitutes infringement of the rights of the person, or if there is a sufficient reason that the ISP could have known that the distribution of information could infringe another's right, then actually if those are the cases, except for those cases, the ISP can be exempted from the liability. And so, for instance, after the right holder makes a request to take down the infringing information, within seven days after the service providers notify the transmitter, whether or not he agrees on takedown, the transmitter does not actually indicate disagreement.

Now, concerning Article 4, if infringement is very clear, and if it is necessary for the right holder to receive the information on the transmitter because of the lawsuit, etc., then in that case it is possible for the right holder to make the request on the transmitter's information. But ISP – if there is a request for disclosure, must listen to the opinion of the transmitter. Except for the case where it is impossible for ISP to contact the transmitter, that is the exception. So, if the service provider does not respond to the request, the result of intentional or gross negligence, the service provider is not held liable.

Well, that is the Bill currently submitted to the Diet in Japan. As I said in the very beginning, in the United States, liability limiting rules are already established, and therefore, even from the vantage point

of the corporations, we really have the establishment of this rule as soon as possible in Japan that should be established under the current Diet session. But in this Bill, the drafted legislation is not sufficient for us, and therefore, we would like to wait and see, and if there is any room for improvement, we would like to work on improvement. So, if I may, I'll give some of the challenges, which still remain in the United States and Europe, without taking notice and takedown procedure for the service provider, whether they should eliminate and remove the information. Sometimes ISP must make its own judgment, so it is not complete, the safe harbor provision. On the part of the right holders, some of the information, which is infringing can be left unattended for seven days, and as a result, there is the greater damage on the right holder. Also, this is limited to the damage on the infringement of right, so illegal information which falls into the category of the criminal court, cannot be covered under this draft of the legislation. The request for the disclosure of transmitters information – it is necessary to listen to the opinion of the transmitter and on the part of ISP, this sometimes becomes an excessive burden to always listen to the opinion of the transmitter about the information disclosure. So, that is all I would like to report to you. Thank you very much.

**MC:** Thank you very much. Mr. Koizumi, please.

**Koizumi:** Is the microphone on? I would like to say that at least, in relation to the injured party, we do not require special provisions on the duty of care of the ISP. Currently a Bill is pending, in the House of Representatives, and I believe the intent of that Bill is the same– that there are no special provisions necessary. Because, if you were to unduly limit the scope of liability of ISP's, there is a risk of not being able to adapt to future technological advancements. For example, electronic watermarks or robots, which can patrol the Internet for illegal copies, or fingerprinting – are some of the plausible technologies. For example, European rulings have been handed down where the existence of a robot called Scout was cited as grounds to acknowledge the provider's general monitoring duties. Of course, not all providers have such robots today, and these robots are not perfect. However, when in the future such systems or infrastructure is developed, then it will be much easier, compared to defamation cases, for example, to judge the infringement or non-infringement of copyright. If so, providers would no longer be allowed a grace period of seven days, but would be obligated to make immediate takedowns.

Secondly, Japanese precedents on defamation do not pose a very stringent monitoring duty on ISP's. The DMCA on EC directive were deemed necessary to avoid placing too much liability, I believe, on providers. But in Japan, service providers are not considered to bear such a heavy social responsibility, at least for the current time being.

Thirdly, in Japan – unlike the U.S. and Europe – there are not many cases where the ISP's liability for copyright infringement has been questioned. There are several cases relating to defamation; therefore, I believe it is too early to take a horizontal approach, in that sense. As for the current status of Japanese precedents, I believe the duty of care of ISP's as established in the Toritsu-Daigaku Case would be appropriate – that is, the provider's liability should be limited to those extremely exceptional cases when it is obvious and apparent that the contents are infringing. The fact that the service providers' liability for copyright infringement, has never been tested in Japan, at least in any published cases, indicates that the persons skilled in the art – persons in the industry – are already acting on these rules. Changing the general principles of fault of the civil code requires some legislative facts, and I believe such changes are not necessary for time being. The current Bill, pending in the Diet, I believe, is appropriate. Let me also add that it is, of course, preferable that rules on takedown and other rules are formed as voluntary rules by the industry. What I fear is that in this field of very rapid technological development, fixing current rules in the form of law may undermine the protection of copyright owners. Thank you very much.

**MC:** Now, Mr. Okamura, please.

**Okamura:** Thank you for waiting. Well, it may overlap with the other speakers, so I would like to make sure that my presentation is brief. The PowerPoint presentation is basically the same as the distributed material in your handbook. In the U.S. a legislative solution to copyright infringement is the DMCA, and for defamation, the CDA. But before reading this conclusion, there have been many precedents to accumulate legal judgment. In Japan, we do have a certain level of precedents accumulated, but our Bill is still pending. In the United States, for defamation, three parties were identified as potentially liable: the author, publisher and distributor. Some claim that the carrier liability should be there under those categorizations. In the CompuServe case, the court judged that CompuServe was just a distributor,



and its liability should be light. In the Prodigy case, Prodigy had exercised editing control and should bear heavy liability as a publisher, the court held. This created an unreasonable situation where a party which acted in good will, by checking the information closely, and taking voluntary action, was held more liable. That was the reason why the limitation of liability as a publisher on speaker was introduced in Article 230 of the CDA.

An issue still left was should the distributor be held liable? That was the issue in Zeran versus AOL. The Circuit Court ruled that the ISP is not held liable as a distributor. On the other hand, for copyright infringement, the DMCA has been enacted, as I've just mentioned. There were two cases, the ones I have just mentioned, before that enactment, and also the famous Netcom case as well. Based upon these cases, the DMCA was enacted, and the notice and takedown approach has been applied ever since. On the other hand, in Japan, the Zeran verdict in relation to CDA Article 230 is considered to be neglecting the need to protect the victims. The fact that the CDA and DMCA have different systems and requirements for exemption, have also raised questions about the rationale for differentiating the two. Therefore, in Japan, there was a strong view that in enactment, we should address both with a single law.

Meanwhile, past ruling on the network operator's liability, have all been civil cases and as you know, all the rulings have acknowledged that the operators may be held liable in some cases. For example, the PC communication case involving Nifty's "Modern Thought Forum", in its trial and appellate rulings, and the case involving magazine and book forum. As for the Internet, the Toritsu University and Ni-channel case have been noted. As for the Nifty Modern Thought Forum, this first court ruling was the very first one, indeed, in Japan. It established the criteria that the ISP will be liable when it has actual knowledge of the infringing act. The criteria of by natural reason or "jori" in Japanese, which is closest to the concept of equity, has been applied to the duty of action.

In the Nifty Modern Thought Forum case, the appellate court ruling was given on September 5th; unlike the first ruling, the court found that the system operator had performed its obligations, Nifty's and the System Operator's liability were negated. In and around that date, we had the ruling on the Book and Magazine Forum. The case was quite unique. Nifty did not disclose the posted information, to the injured party. The court was asked to order Nifty to respond to the disclosure request, and to pay damages for failure to do so. The court denied all liability. The opposing argument, or moral speech, doctrine has been applied. Because of the time constraint, I have to skip the details. Furthermore, on August 28<sup>th</sup>, a ruling was handed down on the Ni-channel Case seeking an injunction. The case involved the electronic bulletin board, but details have not been disclosed, to our regret. Like I said before, there is also the Toritsu University ruling, which involved the uploading of defamatory contents on a server established by the university founder, the Tokyo Metropolitan Government. The Tokyo Metropolitan government's responsibility has been denied. In this case, the court stated that defamation and virus transmission should be treated differently. – In the case of virus transmission, the ISP should act promptly but in the case of defamation, sometimes one cannot make a clear judgment, the court held. Therefore the court applied an individual criteria in judging this case.

In the 4 cases other than the Magazine and Book Forum the ISP's duty to takedown infringing content, in certain circumstances, was acknowledged. The grounds for that duty to act is found in natural reason, or "jori", in Japanese.

Unlike in PC communication, the defamation of a third party may be a big issue on the Internet. Since it may be difficult to seek legal obligation under contract, in this case, they came up with the principle of natural reason. However, in these rulings, the scope of duty to act varied from case to case, so legal stability has not been established. However, since the networks are quite different from one another, it is rather difficult to establish a criteria that may be applied in all cases. Having said that, in Japan the legislative process has begun and a Bill has been tabled in this Diet session. It is a short bill, consisting of 4 Articles and supplementary clause. Damages liability limitation, and the request for the disclosure of the identity of the originator are its two pillars. This is the outline of the law. As you can see, the limitation on the liability for damages and also the special provision on the disclosure of the identity of the sender of the defamatory information have been included. As I said, the law covers civil cases of copyright infringement. Why was criminal liability left out? Because we hardly anticipate cases where criminal responsibility will be pursued under the laws of Japan. Information that is not illegal, but simply harmful, are excluded. And illegal but not rights-infringing the content are out of the scope of this bill. As long as a case involves the

infringement of rights, then defamation and copyright and other infringements are not distinguished. As some speakers mentioned, the bill refers to the concept of the specific telecommunications service provider, and the definition of the specific telecommunications facility or the specific telecommunication service are nested. They are part of the sub routines in this framework. Liability for damages is limited by Article 3. In relation to the injured party, there is a need to clarify the scope of liability, since it is not clearly established by precedent. As for the transmitter of the information, the ISP may have taken some countermeasures against the transmission, but if the content was found to not infringe, then the ISP may be held liable; so, we have to clarify the scope of their liability. Those were the rationale behind the bill's approach to stipulate only those cases when the ISP can enjoy safe harbor, and be exempt. There may be cases which do not apply, where the ISP may not be held responsible, as well.

Article 3, Section 1 and 2 has been explained by the previous speaker, so I will skip that. Furthermore, in Article 4 the request to disclose the transmitter's information is stipulated. Again, this was explained by the previous speaker, so I would like to skip it. The issues related to the proposed Bill, has been touched upon by the previous speaker. Article 3 Sections 1 and 2 separate the prerequisites for liability, so when the Article 3(2) Notice and Takedown Procedure is taken, would the ISP also be exempt from the requirements of Article 3(1). This point is quite unclear. Furthermore, since much has been left to the providers' subjective judgment, the legal stability may be difficult to maintain. Furthermore, in relation to the disclosure of information related to the sender, in the past, providers had to followed the Telecommunications Business Act and the duty to observe the secrecy of the communication, and because of that they could not disclose the identity of the sender and were sued. The new law may overcome that difficulty. However, unlike the DMCA, the issue of sender information disclosure and immunity are totally separated, and one may question the appropriateness of such a measure. A system to allow courts to swiftly pass judgement, is a better approach for stability. It also would have allowed the provider to exit the legal scene much quicker. If disclosure is allowed outside of the Court, then perhaps stalker-like behavior may occur as a result of such disclosure. Article 4 includes certain provisions for that. But there are no penal measures to ensure compliance, therefore we still question marks whether that is enough. Also, in relation to the disclosure of sender information, the issue of spam mail is left unresolved, because of inability to locate the sender, The question is, van rights be infringed when there is no identified sender. A spam control law is being discussed amongst government ministries and political parties. When it is enacted, perhaps this particular law must be amended promptly in accordance with the new law. Thank you very much for your attention.

**MC:** Thank you very much. Now then, Ms. Perlmutter. Please be reminded to speak slowly. Thank you.

**Ms. Perlmutter:** I will give general comments on what constitutes an effective and fair framework for service provider liability in the copyright area specifically. I will speak from the perspective of a company that is a major service provider, and that also owns many copyrights in all kinds of works of authorship, particularly entertainment products like music, sound recordings, movies, and books.

Let me start with some observations on the international context of the issue. This is an area where international compatibility of legal standards is critical. Divergent standards of liability could hinder or disrupt the smooth operation of global transmission networks. These standards need not and will not be identical, but they must be compatible or interoperable.

We are now at a critical point in time as a number of key countries- key from the perspective of technological development –are all putting liability structures in place. This began with the United States with the DMCA in 1998; and then in 1999, we had the E.U. E-Commerce Directive and a new Singapore law; last year Australia; and now Japan is considering passage of this Bill. And we will next year have implementation of the E-Commerce Directive in the E.U. member states. At the same time Korea, Canada, and New Zealand are all considering and examining the issue. So, decisions are being made now that will shape this area globally for a long time to come. So far, most of the solutions, although not all of them, are compatible. But they use different techniques and varying degrees of detail. Of course, there will always be some difference between regional harmonization, as in the E.U., and the different styles of legislation used in different countries. In the U.S., for example, we tend to have very detailed, complex legislation.

I also want to spend a few minutes talking about what makes copyright different. I'd like to address the view that has been expressed, that the same standards and rules must be applied for all types of illegal content. In fact, copyright is different. Copyright infringement on-line differs from defamation or obscenity, or hate speech, in a number of important respects. First of all, it is ordinarily easier to determine illegality in the copyright context. I would say about 99% of on-line copyright cases deal with straightforward piracy. We are not talking about the use of portions of works for education or comment – we are talking about the exact copying of entire works. There are also more objective standards in the copyright field than in some of these other fields of law. Questions such as: – Was the work copied? Has it been made available to the public? – as opposed to hazier issues of reputation, feelings and degree of harm. In addition, in the copyright area, there is more international consensus on rules today than in many of these other areas, where policies tend to differ widely from country to country. That is because we have considerable harmonization of substantive law in the copyright area through multi-lateral and bi-lateral treaties.

Second – and this is a critical difference – on the complaining side, or the victim's side, when you are dealing with copyright infringement, there are active partners there for the service providers to work with – people who are also in business. Typically, copyright owners or their representatives are companies or trade associations who have a lot of knowledge and resources. So, it is a situation where there are economic interests on both sides; that is, both the service provider side and the copyright owner side.

Third, there are different consequences. With copyright infringement, the consequences, may be more far-reaching than in other areas, in that they go beyond the harm caused by the individual act of infringement. For example, property rights can be entirely destroyed for the future if a work is available on the Internet for a considerable period of time. There is also a different consideration of harm to the public interest, that is, the public interest in the availability of a wide range of valuable creative product on the Internet on reliable and legitimate terms. On the other side, if the particular transmission is prevented, there is generally less impact on free speech interests than in areas like defamation, because copyright does not protect ideas. If you block access to an infringing copy, you are preventing only the hijacking of someone else's expression of those ideas.

For all of these reasons, differing treatment is appropriate in the copyright field, and most obviously in the area of knowledge standards and notice and takedown procedures. For the same reasons, service providers in the United States are content with differing standards for copyright than for defamation and other areas of potential liability.

Now, let me talk about the desired framework here. A fair and effective framework for service provider liability should be based on the fundamental concept of building a partnership to prevent on-line infringement. Such a partnership is possible in an area of economic activity like copyright, and I'm not suggesting that copyright only involves economics, but it is, among other things, an area of economic activity. This requires building into the system appropriate incentives for cooperative behavior, with the incentive balanced against reasonable protections from liability. This has been done in the DMCA, for example, through the establishment of safe harbors for service providers, and to balance that out, assistance for copyright owners in getting quick takedowns of infringing material and assistance in taking action against primary infringers.

In the United States, the DMCA was based on a negotiated compromise. There were two key elements that made that compromise possible. One was the knowledge standard contained in that law: "Knowledge of infringement or awareness of facts or circumstances from which infringement is apparent". This has been referred to as a "red flag" standard. On the one hand it takes away the incentive from the service provider to look in the other direction when there is something suspicious. The service provider does not have any reason to avoid actual knowledge, because the standard in the law is lower than that. On the other hand, the standard is higher than what we call, in our legal system, "constructive knowledge," which is "a should have" or "could have" known standard. Because, when you look at the language, "awareness of facts or circumstances from which infringement is apparent", you can see there has to be actual awareness, and the facts or circumstances have to be so strong that the infringement is apparent – that is a higher standard.

The second key element was drawing a distinction between money damages and injunctions. The result is that a service provider is not treated as the "deep pocket" for copyright infringement, subject to potentially ruinous damages, if you are talking about hundreds of thousands of copies being distributed around the world. But the copyright owner, on the other hand, can always get judicial relief to stop ongoing infringement. So, those elements were key.

But there are also a number of other important elements for a successful liability framework. One is what has sometimes been called a "Good Samaritan" defense. This allows the service provider to be protected from liability if it takes down or blocks access to material in good faith. Without that kind of defense, the service provider is trapped and put in the position of having to resolve competing claims at risk to itself.

Another element is a notice and takedown procedure, put in place to deal with content that is residing on the service provider's system or network. What is critical here is that notice and takedown be very prompt, because again, in the copyright field, the loss of value is immediate. If material is allowed to stay up for several days, hundreds of thousands of copies may be distributed around the world, which then can be further replicated and distributed. So, quick action is critical. Above all, it must be faster than going to court, because this is the main incentive for copyright owners. We want them to use a notice and takedown procedure, and avoid constant litigation over these claims. We need the procedure to be spelled out somewhere in order to ensure that sufficient information is given to locate the infringing material, and to be sure that there are sufficient indicia of reliability. The service provider will then know that it can rely on that notice, and that if the service provider responds promptly, it will have the safe harbor against monetary damages.

A related element that has been useful is what is called a put-back procedure: a mechanism in the law for allowing material that should not have been taken down to be put back on-line. This is used under the DMCA, in those rare situations where there has been a mistake or a misidentification of material or of ownership. It is important that this not be automatic – that material not go back on-line instantly. There must be adequate grounds for complaint, and again, there need to be some indicia of reliability – that in fact the person asking for the material to be put back has grounds for asking. There also should be some deterrent for knowingly providing false information, whether in a notice or when someone is asking for material to be put back on-line. In the DMCA this is done through damage claims: anyone who is harmed by either the takedown or putback can bring suit for damages.

Contact information for copyright owners is very important. If copyright owners are barred from suing those parties who can be found, the service providers, they clearly need the ability to be able to sue the primary wrongdoer – the person who put the material there in the first place. This person is engaged in acts of public distribution and should not be able to hide or avoid responsibility for the infringement. The DMCA deals with this by providing a subpoena process, which is quick and automatic. It allows the copyright owner to go to court and get an order requiring the service provider to provide basic contact information.

I'll mention three other elements quickly. The law should clarify that there is no monitoring necessary by the service provider to qualify for the safe harbors. It is both burdensome to have to monitor the extremely high volume of transmissions over the Internet, and also raises policy concerns about privacy issues. A truly effective framework will also put in place some overall good citizenship requirements. In the DMCA, service providers are required to put in place policies for dealing with repeat infringers – to deal with the situation where the same person keeps posting infringing material over and over, and just moving it from site to site. It is also required that service providers respect digital rights management used by copyright owners in certain circumstances. That could include future technologies if future technologies are standard – if agreed to by a broad consensus of the affected industries, then service providers under the DMCA must accommodate those standard technologies. Finally, the law should recognize and accommodate issues of feasibility and burdensomeness as to what can be done realistically by a service provider while engaging in different functions. For example, what is reasonable to expect a service provider to do when it is acting as a mere conduit in transmitting material is, different from when material is being hosted on its service or network.

Now, a few words about the experience in the United States applying this law. We have now had three years of experience with notice and takedown. It has been very positive. There has been little litigation – a few cases asking courts to interpret particular provisions of the DMCA – but mostly the notice and takedown system has been operating smoothly and extremely effectively. It is interesting that the putback possibility has been very rarely invoked. Both service providers and copyright owners will tell you that there is some burden involved in using the notice and takedown system, simply because notices must be prepared and sent and responded to. But they will also tell you that the burden is considerably less than the alternative would have been without the statute. I have seen some initial statistics – in the video game and record industries alone, trade associations have obtained tens of thousands of takedowns each year. There have been virtually no putbacks in response to the notices from those associations something like one in two years. That doesn't mean that it may not happen with notices from individual copyright owners, but with trade associations, that has not happened so far. As a copyright owner, my company is very pleased with the results of this notice and takedown process. It works at removing infringing material from the Internet, and it does it much faster and at much lower cost than through litigation. As a service provider, we are reassured that by responding promptly to valid and reliable notices, we are protected against liability to either copyright owners or subscribers.

I would like to end by saying a few words about the Japanese Bill. It is of course a horizontal approach, which is not copyright specific, and it is a relatively condensed and minimalist text. I understand that it can and will be supplemented by implementing regulations, and those might be a way to differentiate the treatment of copyright infringement from other forms of liability, as appropriate. I have a number of open questions in my mind about the meaning of the Bill and how it will operate, and these questions are extremely important ones to both sides of the issue, and need to be clarified. I also see some areas where supplementation of the short language in the Bill is needed in the copyright area if the framework is to be truly effective. So, let me list some of those questions and some of those areas that need supplementing.

**Questions:** The Bill is called limitation of liability for damages – does this mean that injunctive relief will be available against service providers? What exactly is the meaning of the knowledge standard, which talks about sufficient reasons to find that the service provider could have known of infringement? That sounds like a lower standard, more like constructive knowledge, than the DMCA, which talks about awareness of facts or circumstances from which infringement is apparent. What is the effect of a service provider's response to notification? Does it affect only liability as to the person who posted the information, or might it also affect liability as to the rightholder? How does the law apply to different service provider activities? It doesn't seem to distinguish among different degrees of involvement of the service provider. For example, what if the service provider did not post the infringing information, but did select or modify it, or selected the recipients? What is the meaning of the term, "technically possible" in the legislation, where it talks about whether it is technically possible for the service provider to take actions to prevent infringement? Does this include within it any concept of proportionality and the relationship of the effect of the action to the burden on the network is functioning? And my final question: What is the meaning of the standards for obtaining the disclosure of information about the transmitter? When is infringement sufficiently obvious, and what would constitute willful or gross negligence by a service provider in not giving that information?

Then, the main areas that have been omitted – areas that I identified as being critical for a successful framework: One is, and the most important – a fast notice and takedown system where infringing material is promptly removed from the networks. Seven days, which seems to be contemplated by the legislation, is simply too slow. It is also important that the removal or blocking of access not be subject to an advance veto by the person who provided the information.

In the U.S. law, the presumption is the other way around. The material is blocked and then it can be put back again. The Bill seems to contemplate the opposite – that the material will not be blocked unless the blocking has not been objected to. This is very important because it is not only important to the copyright owner to get a prompt removal of the material, but it also is what enables the service provider to have security. The service provider then is not relegated to a vague knowledge standard, but knows that once notice comes in, if it responds promptly, the safe harbor will apply. No monitoring: there should be clarification that a service provider does not have to monitor transmissions in order to get the benefit of protection. Disclosure of information: it is important that the procedure be prompt and streamlined, and that the service provider not have the burden of making the decision whether to give the information or not.

Then finally, those good citizenship concepts, particularly, to deal with repeat infringers, who cannot adequately be dealt with through a constant process of individual notices and takedowns. I look forward to hearing about appropriate resolutions of these issues, and to continuing to develop the broader and deeper international understanding that conferences like this permit. Thank you.

**MC:** Thank you for your input. Now, Mr. Tanaka, please.

**Mr. Tanaka:** Ms. Perlmutter really gave me a strong impression. I was moved. As for her comments, I agree mostly with her. Because of the time constraint, I would like to focus on selected issues, and I would like to be brief. My handout material was prepared on October 12<sup>th</sup>. It was after that Provider Liability Bill was disclosed. Mr. Hagiwara mentioned the major parts in his presentation, so please, do refer to them later on. When I drafted this particular material, the Nippon Keizai Shimbun carried a summary of the bill, explaining that, if the sender disagree to takedown, then the ISP does not have to follow the takedown request, and the issue will be resolved through litigation between the sender and the right-holder. Compared to that newspaper report, perhaps this Bill, is better. That is my impression.

The cause of the liability of the ISP to the victim(the right-holder) and the scope of limitation of liability, contemplated in the Bill, are actually interpretations of the duty of care of the Civil Code, written into law by re-modelling them to the world of the Internet Service Provider. Those provisions are not very straightforward – not easy to understand, and may immediately present interpretation problems. Article 3(1) – determines the scope of immunity, and one requirement is that the Internet Service Providers must know that the said particular transmission carried the information. But according to this article, the specific information must be made aware to the ISP, but it doesn't read that way. I expect the issue of the level of actual knowledge to pose grave interpretation problems very soon.

As for the sender information disclosure, I agree with Ms. Perlmutter. Article 4 Section 1 stipulates the prerequisites for requesting to disclose that. But if injunction or the court action must be taken in order to have the identity be disclosed, every time, then a malicious sender may hop from one provider to the other repeating the infringement. We need to create a mechanism for swift disclosure, through the implementation of Art. 4(1).

The last point is whether the request for takedown must be always followed upon receipt of notice, with or without the sender's consent. The notice and takedown procedure was not introduced in this Bill, and from my point of view, this is just a natural matter of course. The biggest reason is that the infringement of the rights may include defamation and sometimes the judgment is very difficult to make. In definition, restoration of rights is said to be possible with opposing argument. So the requirements for obligating ISP's to block transmission, may require a delicate judgment in defamation cases. As for copyright infringement, clear case can be built, even out of court on whether the copyright has been infringed or not. An attempt to stipulate procedures across the board, will strain the system. Therefore, if we decide to adopt the notice and takedown procedure, we would have to pay attention to the problems that I've just raised and consider in detail, when takedown is appropriate; for what rights, and what type of material.

**MC:** Now we would like to ask other panelists to give us comments. Professor Hugenholtz, do you have any comments now?

**Professor Hugenholtz:** I spoke a lot this morning, so I can be short on this issue – also, because it is not so controversial, in my opinion. As you know, the E-Commerce Directive is currently being implemented in the national member states of the European Union. Let me recall, very briefly, the content of that Directive – it is, as the Japanese Bill, a horizontal directive, meaning that it applies not only the copyright, but to the entire field of potential civil law liability, and it even includes criminal law – so that is different from the American DMCA. Is that a good thing? I am not so sure – I do agree with Shira Perlmutter that free speech issues that are behind much of these liability exemptions are much more urgent outside the copyright context than within.

The E-Commerce Directive is different from the DMCA also in a few other respects. It does not provide for notice and takedown rules, which is an omission that has been criticized. As a result of the absence of such rules, service providers in Europe tend to take a no-risk approach towards notifications – meaning that basically, every letter from a lawyer results in immediate takedown, and I am not so sure that

that is the way to go. Also, the directive is different from the DMCA in that it specifically provides for a prohibition of monitoring, so there is no duty to monitor – not even in a situation that technology might enable such monitoring. The E-Commerce Directive follows the technologically specific approach taken by the DMCA – it distinguishes between mere conduits hosting service providers and caching providers. It does not apply to other types of intermediaries, both in the electronic area and in the analogue world such as libraries, printers, cable companies and what have you. That technology specific approach has also been criticized, and I have been one of those to criticize it. I am not so sure, in other words, that this type of rule making will withstand the tide of history. The Directive does not apply – and that too makes it different from the American approach – to so-called information location tool providers – in other words, to hyper-linking and to search engines. There has been some case law in Europe in recent times dealing with that issue, and some of that case law has been treated in my paper, which is in your binder; the part which is on the database right, which I haven't been discussing today. A few courts, particularly in Germany, have considered that providers of search engines are directly liable for copyright infringement. In other cases, no such infringement has been found. So, this is very much an unsettled issue in Europe. Courts also have generally refused to apply the liability exemptions found in the E-Commerce Directive in respect of search engines. So, if there is an area of the law that definitely needs further clarification, it is there, I believe. As to the implementation of the E-Commerce Directive, I refer to the excellent treatment in the paper by Thomas Vinje. I can only add to it that in the Netherlands nothing visible has happened, so there is no bill that I can tell you about. Thank you.

**MC:** Thank you very much, Professor Hugenholtz. Now, Mr. Smith, please.

**Mr. Smith:** Yes, I just wanted to re-emphasize what has already been said here, and that is that the amount of infringement that currently exists on the Internet is truly staggering. For example, the Motion Picture Association of America estimates that 400,000 full-length movies are downloaded every day off the Internet. As Ms. Perlmutter said, unless there is a very, very quick, very, very simple, little discretion mechanism – cooperative mechanism in place, piracy on the Internet will take over the copyright business. In the case of, for example, Japanese copyrights, many of them in the video game area – the video game industry in the United States that represents the U.S. subsidiaries of many of the Japanese companies – have been successful now in automating their notification system, after finding pirate games. I believe that the number of web sites that they have taken down in the United States alone so far this year, exceeds 10,000 web sites. Now, if the situation that persists now in the Japanese Bill that is currently before the Diet with a potential seven-day delay, this simply will not work. I understand that there are some discussions going on about working on a different kind of system that would be automatic or more immediate, involving so-called reliable organizations that ISP's could trust would give good information. This is very much needed, and as we know, the Internet is a global medium. Piracy will come from and enter in every country in the world – in Japan, in the United States, in Europe, in China, in Taiwan – everywhere. It is important that this kind of an automatic quick system be in place to deal with the massive number of infringements that now exist on the Internet. Thank you.

**MC:** Thank you very much. Mr. Vinje, please.

**Mr. Vinje:** I certainly agree with everything that Bernt Hugenholtz said with respect to the E.C. Directive. Maybe I could add just a few words. I do think that the E.C. Directive suffers from the fact that it is a partial copy of the DMCA, and I would certainly be the last to suggest that Europe must blindly follow all U.S. legislation word for word. Indeed, it would be very surprising to see any piece of European legislation be as thick as the DMCA is. But, I do believe that the failure to include a notice and takedown regime, and the failure to include a provision on information location tools, or linking more broadly, will create problems in the future. The fact that there is no notice and takedown regime will continue to mean, I am sure, as Bernt has indicated, that service providers will simply take down everything whenever they receive any sort of notice. Indeed that is my personal experience as a practitioner in Europe – that is, every time I have sent a request for material to be taken down, even if in some circumstances I have some question myself about whether it might have been appropriate – every single time the material has gone down immediately. So, I think that may be a problem from the perspective of those who put material on the Internet. If you look at the case law – turning now to the linking question – I think that with respect to on-line liability, there is more case law concerning linking, than any other topic. That is the big topic in litigation in Europe today, in the context of on-line liability, and it is not addressed by the Directive. I think

that is a serious problem, and it leaves not only search engine providers like Yahoo with a great deal of uncertainty, but it just doesn't address the broader linking problem properly.

Now, some member states – or at least one, Spain, is proposing in its national implementation of the Directive – a provision on linking. I regard that as a positive development. It appears that one or two other member states may also include provisions on linking, and the European Commission appears to favor member states doing so. So, we may see the European Commission encouraging the adoption of provisions on linking. You also see differences in implementation with respect to notice and takedown. With Norway having a provision on notice and takedown modeled almost completely on the U.S. notice and takedown regime; and Finland having a notice and takedown regime quite similar to the DMCA provision. There you have a situation, which is very unusual in the Nordic countries, which usually have very similar legislation in almost every area, where you have Norway and Finland with takedown regimes, and Sweden without one, and Denmark not yet having spoken.

Finally, just one last point – looking to the future, a problem that I think will arise, and I should first say that when the Electronic Commerce Directive was adopted, initially I was extremely optimistic and I was extremely happy to see the copying of certain key portions of the DMCA into the Directive, and in particular the liability provisions. But, as time has gone by, I have become a bit less optimistic, in light of discussions with European academics and European judges and European practitioners. The thing which is causing me concern, in particular, is the knowledge standard, which Shira referred to. You will recall for example, under Article 14 of the E.C. Directive, if the host service provider obtains either actual knowledge or awareness of facts or circumstances from which infringement or illegal activity is apparent, then the service provider must promptly remove the material, or it can be held liable. The problem is in the formulation of the knowledge standard, which of course was copied directly from the U.S. legislation, and I think probably will work quite well in the U.S. context, where judges and lawyers are familiar with the concept of constructive knowledge. I think people have figured out exactly what Shira described – this is something above normal constructive knowledge – essentially between actual knowledge and the normal constructive knowledge standard, and I agree with Shira that that is the appropriate way and substance of dealing with it, and I believe that the U.S. judges will be able to handle that. But the problem – in my experience, after having many conversations with, again, European academics and judges and practitioners – is that that concept is completely foreign to European law, and they just can't figure out how to deal with it. They don't know what it means, and I fear that that may very well lead to great differences and decisions among member states with respect to the liability of service providers, and a very great difference between the application of that precise language in Europe from its application in the United States. So, I am much more pessimistic now than I was on the eve of the adoption of the Directive, because I fear that European courts just won't know how to deal with that knowledge standard. Thank you.

**MC:** Thank you very much. Ms. Perlmutter and others have referred to Japanese laws. So, could some panelists from Japan refer to this?

**Mr. Okumura:** May I? If notice and take down is a good provision to incorporate, then the fact that it was incorporated into defamation procedures as well, brings significance to the Japanese legislative effort. In the Japanese Law, copyright infringement and defamation within the scope of Article 709 share the same framework, so the fact that we did not make a distinction between the two, worked in our favour because it brought us toward the regime of notice and take down.

You also referred to differences with copyright infringement but in the case of privacy right infringement, there are serious cases when once it leaves your control; there is nothing you can do to ban or stop this information from spreading. Both rights would by nature require urgency or promptness of response. So, the meaning may be different, but the result is the same, and I think safe harbours should be provided for both of these regimes.

You also talked about the DMCA type of procedure where access is first blocked, and then put back. I also share your concerns about the reverse mechanism, which the Japanese bill is trying to install. Thank you very much.

**Mr. Hagiwara:** Ms. Perlmutter, may I supplement Mr. Okamura's comments?



I take the corporate viewpoint. We are looking for a secure environment in which to conduct our e-commerce related businesses. If the service provider business, which is an integral part of e-commerce, were to become constrained by the uploading of infringing material, then that would not work in our favour. Therefore, the safe harbour provisions, that is notice take down in the American style, I think would be favourable, would be preferable. And so, we have been lobbying with the legislative and this is what they came up with.

Of course, there must have been various developments that lead up to this bill but the so-called minimalist rule, the minimalist legislation, took priority. The scope was limited only to damages, and injunctive relief is not included by interpretation.

I believe this is in line with current situation in Japan. That is, once you receive a notice from the copyright owner that there was a copyright infringement, if you notify the sender of this notification, then the uploaded information will be taken down voluntarily by the sender in many cases. So, first provide a notice before takedown. This was the thinking behind the “notice and take down” approach taken, I hear.

And lastly about tortious liability, which is a basic principle of Japanese law. I hear that many legislators felt that liability for service providers should not mean total immunity from tortious liability. That's overextending protection.

So, that's how they settled for this scope of protection. I do hope that this bill will be passed as soon as possible, and through its implementation it can be operated flexibly, so that any flaws may be converted later. Thank you.

**MC:** Mr. Tanaka, any supplementary comments?

**Mr. Tanaka:** Ms. Perlmutter mentioned many points. Let me talk about injunctive relief that the others have not touched on. The precedent in Japan is still very unclear, very ambiguous whether injunctive relief will be granted to ISPs.

I believe that injunctive relief should be granted to ISPs as well. I personally feel that way, however that is not necessarily the majority view and when you look at the trial court precedents, there have been no trial cases where a clear judgement has been rendered on this issue. Thank you very much.

**MC:** How about the seven-day grace period? Mr. Tanaka, any comments about the seven-day grace period?

**Mr. Tanaka:** As far as the seven-day grace period is concerned, it is a limitation of liability requirement which will protect you from liability against the transmitter under Article 3(2). This may develop into defacto norm for those cases when notice is received from the copyright owners. Whether the transmitter agrees or disagrees to the take down after the seven-day grace period, in the meantime, the ISP will not be immune from damages claimed by the copyright owner under the current wording of the bill.

**Mr. Okamura:** May I? There are no case precedents in Japan that recognise injunctive relief against ISPs but in the two-channel case... although it were a provisional disposition, the bulletin board operators, though they were not strictly an ISP, we are ordered injunctive relief. So, from that viewpoint, I personally have felt that providers should be ordered injunctions without negligence, and I have written that in my book. It's true that this point is quite ambiguous in the Japanese bill. In any event, the two-channel case does touch upon this issue a bit.

**MC:** Thank you very much. Are there any further comments? Mr. Koizumi?

**Mr. Koizumi:** Nothing in particular. Ms. Perlmutter mentioned the difference between copyright and defamation, which I totally agree with. Also, Japanese laws in relation to copyright holders should be able to allow special interpretations for each type of copyright. The standard, “sufficient reasons to find that the ISP should have known”, is agreement that will change as search technologies and methodologies improve. Thank you.

**MC:** Any further comments?

**Mr. Aizawa:** May I? You talked about the liability against the transmitter. Is this a mandatory provision? May I repeat myself again then? The liability against the transmitter is a mandatory provision or not? The reason I ask is because the provider, in a contract with subscribers may say, I will do notice and takedown. If they exchange such a contract with the user, can they also by contract avoid liability for damages caused by the notice and takedown? Can such a contract be written?

**Mr. Tanaka:** I think that would be possible, yes, because this provision sets requirements for the limitation of liability of ISP's. So if ISPs make a contract with the transmitter you were to that purpose, then I think that contract should be valid.

**MC:** If so, then the provider will provide for notice and take down in the contract, and then hold themselves immune from liability for that act and thereby reduce their risk. They are allowed to do that?

**Mr. Tanaka:** Yes, I believe so. I personally believe they can but the restriction requirements may be nullified by other general provisions. That would be the exception; otherwise, it would be valid.

**Mr. Hagiwara:** Well Mr. Aizawa, you asked a question about safe harbor rules against the transmitter, within which the notice, notice and take down has been discussed. When I heard about this bill for the very first time, I was told that the first notice and the second notice to the right holders are both mandatory but that didn't turn out to be the case. It's not an obligation. Then whether to follow this notice, notice and take down procedure is under the discretion of the provider. That's my interpretation. And if any material is put back, then in the end, whether that information is an illegal piece of information or not must be judged voluntarily by the provider.

So, there's a limit to the scope of safe harbour. In practice we include clauses in the general terms and conditions, that we will remove any illegal information that is put up. When we compared that to the Bill, with this law in place, has anything changed in our practice? No. Only that, if there is no put back, then we can enjoy safe harbour.

**MC:** Thank you for your comment. Any input from overseas delegates? No? Then, we have a related question from the floor in regard to the provider's liability. Is this provision positioned as a special law to the law of tort? I think this question has been already answered. So, this is a special provision to the tort. We are ahead of schedule put, let's have a coffee break. Thank you, why don't we have a break until 3.30?

Coffee Break

**MC:** We'd like to resume the session so now I would like to ask Professor Aizawa to begin the session. Everybody, please be seated. So, we would like to talk about the copyright management business. First, I would like to invite Mr. Hagiwara to make a presentation on the copyright management business.

**Mr. Hagiwara:** Thank you very much. Well, I would like to talk about the subject of the promotion of distribution of the digital contents. Now, for the further development of the digital contents business, for instance music, photographs and the moving picture, animation and games, well those are the contents and many of the contents are copyrighted works and therefore, it is necessary to facilitate the distribution of the digital contents and that is very important for further promotion of this digital contents business.

This is the third item and the implementation of the Copyright Management Business Law should be promoted in an effort to promote the smoother distribution of additional contents.

Just like in a previous presentation, I would like to take this opportunity to introduce our digital contents business of Toppan Printing Company Limited and this particular system is called "bitway". The publishing companies, artists are the creators and the game the producers, so they are the contents holders, and contents held by them are intermediated by us and we give it to the Gyp group? and Nifty. We provide to the major service providers so that they can provide the contents to the end users. So, the licensing must be the conducted in order to enable this business and through this channel, you are able to increase opportunities for digital contents distribution and the contents technology will be further upgraded as a result.

In 1997, we started the business and so far the business has been developed in a very smooth, successful manner and contents, which have been dealt with by bitway, are what I would like to introduce this afternoon.

These are photographs of the celebrities, this is the Internet version of Weekly Playboy and Issue Asia is the publishing company, which provides the photographs, and of course, in order to carry them via the Internet, it is necessary to have the licence from them. And very popular are the talents like Reina Tanaka or Ryoko Hirose, Arisa Goto, many of you cannot recognise those names unfortunately. Perhaps you are too old to understand those names, but those are the photographs of the popular talents that appear and using the PC, you can download the photographs and the images, which can be downloaded, can be, for instance, enlarged, you know, to enjoy the pictures. Furthermore, those images and photographs, in order to find out the illegal usage an electronic watermark is sometimes incorporated and in that case, the copyright write management information, that is the information about the copyright holder, is also incorporated and for instance sometimes the search robot, the retrieval, the robot can be used in order to retrieve illegal information and therefore, that is the mechanism to avoid illegal use.

Now, the next thing or example that I would like to show you is Web magazine. This is what we call Internet Friday. The Friday is the name of the magazine, which carries only pictures and photographs and not only the new issue but also back numbers are included and some of the scoop, the photographs, are also covered on this web magazine and this is the third example. This is what we call a digital music score. So, we provide the digital music score and on the PC screen the music score and CD and midi are synchronised in operation and that special function is available so when the music starts, the music score is being scrolled. So, you can identify where, which part of the music is now being played. So, it is quite suited to music lessons, and therefore, the music score can be printed out in a very high quality print. So, using bitway, these contents are mediated and so bitway serves as the intermediary and the server of bitway has more than 10,000 contents and they are provided to service providers.

Now, I would like to talk about the law called "Copyright Management Business Law" and as you know from October 1, the law became effective and in 1939 the law called "Intermediary Business Law" was enacted and this Copyright Management Business Law replaced the Intermediary Business Law enacted in 1939. Under the old law, music or relics of the music or the scripts, well in order to act as intermediary, it is necessary to receive the approval of the head of the Agency for Cultural Affairs. Of course, there has been the process of deregulation and for those copyrighted works, in order to further promote the distribution of those copyrighted works, the approval, the method's disadvantage, needs to be eliminated and also it is necessary to increase the production and therefore, the Copyright Management Business Law was newly enacted this year.

So, under this new law of Copyright Management Business Law all the copyrighted works can be covered and therefore, in other words, this is rather the strengthening of regulation rather than deregulation because all the copyrighted works are under the scope of this new law.

Now with regard to this law, the copyright management business under this law is the business or act to conduct the management of the usage of copyrighted works based on the consignment agreement. So, that is the form of business to manage the copyright works and so between the consignor and consignee, the copyright is transferred and there is a trust agreement under which copyright is transferred and managed. Also, there is a consignment agreement under which the one acts as an agent or a proxy in granting licence for copyrighted works and manage their copyright. So, either of those two categories can apply.

Now, concerning the determination of royalty, the consignee or trustee decides on the royalty. So, that is one of the conditions for the copyright management business. So, the operator engaged in the copyright management work, is the one who conducts this business, and must be registered with the head of the Agency for Cultural Affairs. Also, it is necessary to submit the rule on royalty as well as the management consignment agreement. So, with those conditions met, it is possible to engage in the business and as I said the intermediary, the service which I talked about or intermediary business, well perhaps, does not fall into the category of the copyright management business, which is under this law because always the intermediary, he just mediates the communication between the parties and there is no trust or consignment involved. Therefore, the intermediary does not fall into the category of the copyright management business.

So, it's very difficult to understand. So, if for instance Photo Agency were the PC distributors, which have existed traditionally... Well actually, according to the interpretation of the law, they do not fall into the category of copyright management businesses and this law has already been enforced and some of the businesses, which have been already registered with the Cultural Affairs Agency and with this transition, the mechanisms of law, for instance the four organisations including the JASRAC are registered. Also, other organizations, which newly entered into the music business like ERICE and Tokyo Business Club or TOBY, are actually registered as copyright management businesses.

Under this law, there is what they call "designated copyright management company" and in certain usage, the category, if the management of the business represents a very large portion and if there is a significant influence in terms of royalty etc, in that case, the Director General of the Cultural Affairs Agency will designate this organisation as the designated copyright management company and JASRAC now is a designated copyright management company under this law. So, concerning the list of designated companies, you can just look at the homepage of the Agency for Cultural Affairs to look at the list.

Now, the copyright, the management, the operators, it is necessary to receive the consultation of the royalty with the representative of the users in each usage category. If there is no agreement reached, it is necessary to receive a ruling from the Director General of the Cultural Affairs Agency. There has been some controversy as to the appropriateness of the royalty and this enactment of this law. This mechanism is put in place and users more or less can be fairly represented as a result. But in this consultation mechanism, the users or representative of the users should engage in annunciations of those who should be the users' representative. Actually, this is still an issue that remains to be worked out at a practical level.

Lastly, I would like to talk about JACIS, the Japan Copyright Information Service. As I mentioned earlier, for the copyright management business operators, registration is necessary and for the same copyrighted work, there is a chance a multiple number of operators can exist. In that case, some of the copyrighted work that one wants to use, who manages that particular copyrighted work is very difficult to identify.

So, with the introduction of this system, JACIS in using the copyrighted work; for instance, it is possible to identify the right holder and the copyright management business and it normally is very difficult to find out and therefore by using the computer retrieval, it is possible to find out the right holder and the copyright management business operator.

So, that is a system, represented and materialised by JACIS and today I'd just like to show you the demonstration of JACIS. That's what I wanted, and when I offered this to the Agency for Cultural Affairs they rejected it and this has not been made public and is still under the experimental pilot phase. Therefore, I would just like to show you this screen without going into the actual demonstration unfortunately.

The Agency for Cultural Affairs actually conducts this as part of their own important activities and I believe that that system will become very useful, effective in the near future. In the end, how that is actually implemented, the discussion still remains to be conducted; therefore, we hope that this system can be introduced to the market as soon as possible, so that we can search for the information as soon as possible, and that will lead to the further distribution of the digital contents in Japan. Thank you very much. That concludes my presentation.

**MC:** Thank you very much, Mr. Koizumi please.

**Mr. Koizumi:** Thank you. My comments will be very brief. First of all, with the advent of digitalization and the Internet, how will this change the way that copyrighted work is managed? Of course, this should lead to more individual and diversified collective administration activities. JASRAC's customers, had been up to now, professionals such as artists, karaoke establishments, broadcasters etcetera, but as exploitation on the Internet increases, then there will be an increasing number of cases where they have to deal with individuals. For example, the new law was enacted, or took effect as of October 1, and this opens the door widely to new entrants into the field. We can expect a variety of different new businesses to be developed. It is different to predict, but licence fee collection and distribution, will shift from the traditional blanket type to more individualised management, particularly for management on the network. That is what we expect.

Secondly, if that does happen, the Copyright And Related Rights Management Business Law is said to cover all areas of copyright but the subject matter of its regulations are rather narrow, so there are many issues that fall outside the scope of that Law. Of particular note is its relationship with the compensation system for private sound and video recording. This system is governed by the Copyright Law; therefore, it will not be affected by the enactment of the Copyright And Related Rights Management Business Law. So, these two systems are expected to co-exist without one another, but the future of copyright management business is very difficult to forecast. That is, will the right to remuneration system be maintained or would it be replaced by an individualised management system? As Ms. Perlmutter mentioned, the compensation for private sound and video recordings is often criticised as being rough justice. I am sure that this does not pertain to all of you here in this hall, but the general Japanese public are not even aware of the existence of this system. When I explain to my university students that such a system exists, the response I get is a very light-hearted response. They say, "Well, it's like purchasing an MD with a copying functionality".

In Germany, I believe there was a major lawsuit over the constitutionality of this system but in Japan there are no movements to try and revisit this system, which is criticised for being rough justice, so I guess I have to admit there is a big difference in the level of copyright awareness between the two countries. But this may not last forever.

If I may cite questions off the top of my head, in the future will we distribute compensation to authors of copy-protected software, or should it be paid also to authors who have explicitly opted for individualised management? These are trickier issues, which will increase in the future if this system continues to expand.

As was mentioned this morning, in the EC, the definition of fair and equitable remuneration was not harmonised in the EC directive. In Japan as well, this point that needs to be sorted out in the near future. Thank you very much.

**MC:** Thank you. Mr. Tanaka, please.

**Mr. Tanaka:** Well, the Contents Business and the Copyright and Neighbouring Rights Management Business Law will be discussed in brief. As Mr. Hagiwara mentioned, this new law has been in force since October 1, 2001. For one thing, it expanded the scope of the subject matter to all areas of copyright and neighbouring rights, and second, in order to allow easier entry into this business, the approval system has been changed to registration.

Thirdly, the clients' own management of rights was excluded from the scope of regulation, and fourth, the licence fee approval system has been abandoned and changed to a reporting system. A system for consultation and arbitration in regard to the licence fee has been established. These are the major points of the new law.

So, the Copyright and the Neighbouring Rights Management Business Law has come into force. Maybe some of the issues are not directly related to this law but let me touch upon some of them. The first are issues that arise from a multitude of businesses co-existing in the same market. The user must first confirm where the rights to a work reside. Article 17 of this law says that a management business entity is obliged to make efforts to provide such relevant information to the users. For the smooth clearance of rights management businesses may be required to make the effort to construct a system to respond to inquiries on the network.

For the convenience of the users, we should establish a system that allows a single point of contact for the location of the right at the earliest date that is possible. For example, J-CIS, which has been promoted by the Cultural Affairs Agency, is one of the solutions that we are looking for. For instance, JASRAC, for non-commercial distributions, for instance home page background music, has an offer and acceptance system on the Web.

In June 1996, our Copyright Law was revised so that the alteration of rights management information is now an act of the infringement of copyright according to Article 113(3). The benefits of rights management information are more efficient rights processing, and easier identification of the illegal use. In order to enjoy these benefits fully, we'd have to have a standardised information format for all management organizations, and non-entrusted management entities.

A copyright holder cannot embed the right management information in the material on his own. The user is expected to affix the rights management information provided by the right-holder. Current copyright laws consider the alteration of right management information, an infringement of copyright, but attachment of such right management information is not considered to be an user's obligation. The safe distribution of copyrighted works on the Internet and smooth exploitation, requires measures to address this. In the future, it may be worth considering making the attachment of right management information mandatory.

The next issue is with which countries right management organisation should or can users clear rights at all. Mr. Vinje in this morning mentioned that the applicable law for copyright infringement is still being discussed and no conclusion has been reached yet, but the actual rule for granting the rights has seen some progress. As Mr. Vinje mentioned, there is the Santiago Agreement where CISAC, an International association of performance right management has proposed an additional provision to the mutual management agreement. The basic idea of the supplemental is to allow the management society in the economic residence of the content provider, to license a world-wide distribution with respect to the repertoire of the association that has entered into the contract.

So, a Japanese company may start the interactive distribution of foreign music to a mainly Japanese audience. And this Japanese business entity, no matter where the server resides, should be able to clear rights with the Japanese management business which has entered into a mutual management agreement with the firm managing that foreign music. These were for the performance rights. As for the recording rights, as part of the reproductive rights, we expect that similar arrangements will be developed.

Before I conclude, another issue must be touched upon. That is copyright clearance and the moral right of the authors. What the user receives the licence for when he/she enters into licence agreement for the copyright and the work with a management business operator, is for the copyright only. Attention must be paid that moral rights not be covered by the agreement. According to Article 59 of the Copyright Law, the ownership and the exercise of the moral rights are separate from the copyright and belong solely to the author. No person other than the author can deal with the moral right. A major problem for the use of copyrighted works in the network, would be the right to preserve the integrity of the work because one of the characteristics of the digital technology is ease of alteration. If the user has plans to amend the copyright work or edit it or make other alterations, it is necessary to confirm that this will not conflict with the intent of the author.

In Japan, one very popular form of music interactive distribution is the ringing tone melody or "chakumero" in Japanese. For your information, the latest JASRAC statistics on royalty collected for commercial music distribution was one billion two hundred and seventy million yen, out of which ¥1.22bn are from the ringing tone usage fee. Those ringing tone melodies are rather short; therefore, they use only a segment or part of the song. Usually it is around the 45 seconds. There is a possibility that the author may claim the ringing tone melody is against the intent of the copyright holder. So, in the future, the issue of how to confirm with the copyright holder that a use of the work is not against his/her will, may become a major issue in relation to moral rights. The contents business should be aware of the possibility.

**MC:** Thank you very much. Now I would like to take the opportunity to ask the opinion of other panellists now. Professor Hugenholtz, please.

**Professor Hugenholtz:** Thank you. I apologise. I have no photos of pretty young girls to offer you but I assure you we have lots of them, both on line and off line!

I'd like to say a few things about collective copyright management in Europe. Tom Vinje already gave an excellent presentation of the way it works or doesn't work in the area of online music. I'd like to give a bit more of a general perspective.

Of course, collective rights management in Europe has been extremely important traditionally. In fact, the main players in every copyright debate, in every political copyright debate in Europe are the collecting societies.

The collecting societies are active in a wide range of fields, not only in music broadcasting but also in photocopying and providing licences for educational reprinting for all sorts of secondary uses such as table redistribution for the use of visual works of art and photographs in print media, in broadcasting etcetera, etcetera, etcetera. In fact, only in the Netherlands, which is a country about the size of Tokyo, we have at least 20 different collecting societies – so many that the Ministry of Justice has started an initiative to reduce the number because businesses, users of copyrighted works, are simply going crazy.

The regulation of collecting societies of collective rights management varies wildly within the European Union from one country to the next. In a few countries, collecting societies enjoy statutory legal monopolies such as the Performing Rights Society, Binma, in my own country. But in most countries there are no legal monopolies, just factual monopolies.

In Germany, collecting societies are regulated under a complex system of licensing. In most countries of Europe, there are no rules regulating collecting societies at all, or very little. But the factual situation is that in every segment where collective management occurs, there will be a national monopolist. Competition between collecting societies within a given territory, within one country, will occur only very rarely. In fact, until a few years ago, it hardly happened at all, even though, as Tom Vinje pointed out, competition law applies throughout the European Union, prohibiting the territorial allocation of clientele.

There has been some competition happening, going on for the last couple of years in the field of mechanical rights. Producers of phonographic records, for instance, can shop around Europe to look for the best deals, the lowest royalty rates, but that's about it. In the area of performing rights their territorial monopolies are still very much in place.

The European Union is expected to take an initiative on the regulation of Collective Rights Management relatively soon. In fact, we have been expecting a draft Directive for two years now. It looks like it might happen next year. That is a proposal for a Directive on the regulation of Collective Rights Management will probably be published next year. I have not seen the draft, not even the secret draft, but something's cooking.

The Directive will not in any way be revolutionary. It will not introduce competition between collecting societies on a wide scale. In fact, what is generally expected is that it will accept Collective Rights Management even if it implies national monopolies as an effective mechanism for exercising copyrights and neighbouring rights.

The Directive will probably be restricted to providing rules guaranteeing the transparency of licensing procedures and the supervision of Collective Rights Management Societies. Also, it will probably prohibit any discrimination between nationality in the licensing of such societies.

The big question of course today, this afternoon, is what will be the role of collecting societies of Collective Rights Management in the online environment? Already, as Tom Vinje pointed out in his presentation this morning, collecting societies have begun to offer licences for Web-based services providing music for a number of years. In some cases, collecting societies have been doing that without an effective mandate, without being certain that they actually represent the rights that they have been licensing. In this respect, there are two complicating factors to point out, one of which has already been pointed out by previous speakers; the fact that these collecting societies usually only represent territorial rights, rights of their own territory.

Another complicating factor is the fact that many members or associates of collecting societies, that is, many authors or holders of neighbouring rights, have not transferred or licensed or entrusted their rights for electronic users to the collecting societies. In other words, collecting societies may not even own the electronic rights that they represent, and in this respect, it is interesting to point out that there has been a lot of case law in Europe and in the United States and Canada confirming that grants of rights usually do not include electronic rights unless expressly provided for. The Supreme Court decision in the Tossini Case decided earlier this year is a good example. Freelance journalists were held not to have granted rights in respect of electronic users of their newspaper articles to publishers. And if you apply that kind of reasoning to collecting societies, collecting societies may suffer the same fate as the newspaper publishers.

There are many other problems involved in applying collective rights management to the online environment. The music publishers, particularly, are not enthusiastic about collecting societies taking control of rights that these music publishers consider pivotal for their future in life. They would prefer very much to licence these rights themselves.

And then there's the logistic problem. The practical problem of applying collective rights management in a situation where theoretically, every citizen of the world would qualify as an author entitled to remuneration under a collective rights management scheme. If we applied collective rights management to every form of Internet communication, we would be faced with a problem of re-partitioning, of re-distributing royalties of such gigantic proportions that I don't even want to think about it.

Which brings us to the really big question already introduced by Shira Perlmutter and by Professor Koizumi, are we heading for a future of Collective Rights Management in every area of exploitation of copyrighted works or are we heading for a world where individual exploitation of rights becomes the norm as it was in the distant past? Are we heading for a world of levies or a world of Digital Rights Management? That is the big question.

If you look at the European Copyright Directive, it is clear that the European law maker has not answered that question; in fact, bets on both horses at the same time, promotes the introduction of levies on a very wide scale (look at the private copying rules that I discussed in this morning's presentation), and at the same time it promotes digital rights management by providing for strong protection with technological measures against circumvention.

This is not a criticism of the Directive; it is simply a fact of life that we are not sure which way the copyright world is heading. Possibly it's heading in both directions at the same time. Thank you.

**MC:** Thank you very much. Mr. Okamura, please.

**Mr. Okamura:** Thank you. I have two or three points. First of all, with the enactment of the Management Business Law, the content distribution of businesses will be promoted through the enhancement of competition. We expect and hope that would happen. If that is the case, flexible and diverse modes of usage will be developed. At the same time, under the new law, the management businesses could expand their scope of management, and when that happens, we may have to exercise rights management practices of the past. In the past, when you entrust a photographer to take a photo for you, the contract was very, very ambiguous and I fear we may have to pay the price all at once.

Also, Mr. Tanaka talked about moral rights. We practitioners in Japan make it a practise to obtain in advance, a blanket agreement of the author not to exercise his/her normal rights. We are in constant anxiety over the legal effectiveness of that kind of a blanket approach. But this the only means available now. However, as the management business expands in scope and for the content delivery business to further develop, I think it's necessary to take some legislative measures to deal with that issue once and for all. In particular, in the future you can change the number of dots or formats of a particular material or implant rights management information in a particular material. Various types of editing and processing will be available technologically on the material. If that continues to cause a lot of uncertainty in relation to the right to preserve integrity, the growth of the management business may be hindered.

Also, in the future, we hope for a more flexible set of contractual arrangements so that material processed into a derivative work, and other contents which have undergone secondary or tertiary processing may be licensed or delivered on the Internet. That day may come. I hope that the issue of moral rights can be dealt with through legislative means now, so as to cope with that kind of a situation.

**MC:** Thank you very much. Ms. Perlmutter.

**Ms. Perlmutter:** A few words about first the development of businesses in the digital environment and second about collecting societies. There is a strong need to provide legitimate and licensed distribution of copyrighted works on line as soon as possible. As Eric Smith pointed out, Internet piracy is thriving today; as some of the materials discuss, peer-to-peer technologies allowing for distribution of content directly from one user to another are developing. And while the technology itself is neutral and exciting in many respects, it is



developing and being used without licenses for the copyrighted product. Not only that, but it is becoming every day more efficient and less centralised.

So, litigation is not enough. We need, as copyright owners, to offer lawful and attractive alternatives to the public. The difficulty is that in order to do that, complicated licensing systems have to be worked out, especially complicated in the music area as Thomas Vinje was describing, and technological protections need to be in place. It is, of course, much faster and much easier to proceed without authorization and not need the licences and the technology.

All of this takes time, but the good news is that there are many exciting projects under way. I was very interested to learn about the bitway system from Mr. Hagiwara and of course, in the United States any day now, we will see music on-line being offered through both Music Net and Press Play. Hopefully, that will come to pass soon and it will allow the public access to music through streaming and limited downloads.

In terms of collecting societies, I don't have a lot to add to the very interesting points made by many people including Bernt Hugenholtz, about the changing role of collecting societies. I do believe that the role of collective management is going through substantial changes, almost a revolution, due to a number of factors.

I would identify particularly the fact that a purely territorial system of collective management is becoming more and more difficult, if not obsolete, when we're talking about the Internet, and the web-casting example is a good example. It is possible that in the long run, this will lead to more competition among collecting societies, which would be a good thing.

The second reason is that the traditional model of separate and distinct copyright rights is gradually breaking down. It is getting harder and harder to distinguish between what is a performance and what is a reproduction, and rights that were developed in a very different technological context may not make as much sense in the long run for copyright. That means that in systems where different collecting societies administer different rights, as in the United States, this is causing a great deal of strain.

And third, with digital rights management, as several have pointed out, collective management may in theory be less necessary. It may be easier for individuals to have the ability to exercise rights themselves, and this is especially true as compared to a levy system.

But collecting societies will not become obsolete. They can move into new functions in response to these changes, and in fact many of them are doing so. This includes taking on new roles as agents, as managers of digital rights management and as developers of digital identifiers.

I think what is critical for survival is for the societies not to cling to old models for their own sake and not to be perceived as simply trying to protect their own turf but as serving the interests of the rightholders. And those societies that are capable of evolving and adapting to the changed circumstances will thrive.

**MC:** Thank you very much. Mr Smith. No? Then Mr Vinje.

**Mr. Vinje:** Would it be appropriate for me to say some words about the levy question in Europe? OK. Well, perhaps I might begin with a little bit of background to the question of levies in Europe.

It all began in 1965 in Germany when Germany imposed levies, copyright levies, on analogue recording equipment, and those levies were later extended also to recording media. So, eventually not only things like audio recording machines and videotape recorders but also blank tapes became subject to copyright levies in Germany. And today, of the fifteen European Union member states, all but three of them have levy systems. The only countries within the European Union not to have levy systems are the United Kingdom, Ireland, and Luxembourg. And those three member states do not wish to have levies, I might add.

But among the twelve EU member states that do have levy systems, those systems are very, very different, as Bernt indicated, from country to country. Some countries like Germany impose levies both on equipment and on media; other countries like France impose levies only on media. The Nordic countries also generally impose levies only on media and there are other countries that fall into that category as well.

Now, the battle has shifted to digital equipment and media. What will be done with respect to the imposition of copyright levies on digital equipment and media? And as both Shira and Bernt have said, to some extent this battle, this dispute over the application of levies on digital equipment and media, will help determine the future of copyright management and whether it is a collective form of management or an individual and direct form of copyright management through, in particular, digital rights management systems. And it's also, of course, a battle over the future of the collective societies and some of the collective societies, as Shira indicated, in Europe are more forward looking and progressive. The UK for example has rather forward-looking collecting societies and other countries I will not name have less forward-looking collecting societies.

The battle over digital equipment and media and levies to be imposed upon them, the front lines of that battle now lie in Germany. Germany has always been the country where these things are fought out first and that's where the main dispute lies now. Copyright levies have already been extended to several forms, several types of digital equipment. They have been imposed upon scanners, for example, and the question of the applicability of the existing Germany levy language to digital equipment has been raised in the context of scanners and the German Supreme Court held oral argument in the appeal concerning that issue this last summer and is scheduled to issue a final decision within a few weeks.

So, we should have some answers in Germany from the highest court, the Supreme Court, the Bundesgerichtshof (BGH) in Karlsruhe, within a few weeks to some of the key questions but not all of the key questions concerning the application of German Copyright Law and levies to digital equipment.

Also, Hewlett Packard, HP, was sued by one of the German collecting societies seeking levies upon CD writers in the District Court in Stuttgart, and the court held that indeed the copyright levy system in Germany applied to CD writers. Now, CD writers isn't in my view, perhaps the easiest case for the equipment manufacturers to make because they are the closest thing to the kinds of analogue equipment upon which levies have been imposed in the past.

And now, the most controversial issue of all is, of course, the question of whether copyright levies should be imposed upon PCs, upon personal computers, and VG Wort, which is the Reprography Collecting Society in Germany, has brought a mediation action in the German Patent Office against Fujitsu Siemens, the PC joint venture between Fujitsu and Siemens, seeking the imposition of levies upon personal computers. That mediation process is a necessary predecessor to litigation. In other words, the collecting society is not allowed to sue Fujitsu Siemens in the District Court in Munich until it has first brought this mediation action, and that action has been stayed for a while, but it seems like it will get going again fairly soon.

So, assuming that litigation continues, there will be eventually court decisions in Germany concerning whether levies apply to personal computers. At the same time, there are negotiations going on under the sponsorship of the German Justice Ministry between the collecting societies on the one hand and Bitcom, the representative of industry, on the other hand, the trade association Bitcom.

From the perspective of industry, the problem is that the Justice Minister is, one might say, largely in the pocket of the collecting societies. That's perhaps a negative way of putting it, but the Justice Minister is clearly very favourable to the collecting societies and has been pushing for a resolution very favourable to the collecting societies and at the moment, a so-called pool model is being considered whereby a certain amount would be decided to be paid by industry as a whole on a certain list, a rather unclear list I might add, of equipment which would include so-called multi-functional devices. And then industry would be stuck having to figure out who pays how much on which devices.

PCs, by the way, have a moratorium for three years under this proposed model, but everybody else, printer companies, scanners, CD writers, whatever "multi-function devices" happens to be (maybe it's a mobile phone), all those people have to fight it out amongst themselves as to how to divide up this pot that's to be paid to the collecting societies. In my view, it's a very unsatisfactory approach, but we'll see what happens.

Then, of course, at the same time we have the Copyright Directive as has been mentioned before and as Bernt indicated, the Copyright Directive, and also not really criticising it, but it speaks out of both sides of its mouth. It in some ways favours the expansion of levies in Europe, but on the other hand, it includes language that indicates that levies may, in some circumstances, be zero and that the fair compensation to be paid must take

account of all circumstances and in particular, whether compensation has been paid through direct licensing. And the Copyright Directive also includes several specific references to technical measures and the fact that levies should take into account the application, or non-application, of technical measures.

Now industry, of course, argues that if effective technical measures are available, then levies should be reduced or eliminated, because technical measures facilitate direct licensing rather than collective management, and that, in the view of industry, is in the interest of the actual right owners and also, of course, in the interest of industry.

It's, of course, not in the interest of collecting societies unless they choose to reinvent themselves and essentially put themselves in the position of an intermediary, more along the lines of an AOL Time Warner, one might say.

In any event, it remains very much to be seen how the Copyright Directive is implemented and whether member states come down in favour of Digital Rights Management System's technical measures or in favour of a Copyright Collective Management System. Now, that in itself may have a great effect, in my view, upon the extent to which technical measures are developed and implemented, because if Europe goes down the road of a widespread adoption of copyright levies upon digital equipment, the result will be to take away incentives on the part of the technology industry to develop and implement technical systems, Digital Rights Management Systems.

Why, if you as a PC manufacturer, for example, have to pay levies anyway, would you develop and implement a technical measure that controls copying? Your incentive would be to put as much copying functionality into your device as possible and sell that device on the basis that you can copy lots of things with it and then just pay the levy. So, a lot of this has to do with incentives.

On a final note, I should indicate that many things are going on in other countries as well. In France, there's a very serious discussion about the imposition of levies upon hard discs, hard drives; In Spain there's the beginnings of discussion about all sorts of digital media and equipment; in the Nordic countries a lot of discussion is under way about the imposition of levies on digital media in particular, so things are in a state of ferment in Europe on the levy front and I do think it's probably likely that much will depend on what happens in Germany, and whatever happens in Germany will have a serious possibility of spreading elsewhere in Europe.

So, I hope that wasn't too much about levies, but I think that's the basic situation in Europe on levies. Thank you.

**MC:** Thank you very much for your input. Any other comments please? Yes, Mr. Koizumi?

**Mr. Koizumi:** This is not an opinion, but let me share some of my impressions gained throughout the discussion. Like I said, Japan and Europe have similar situations in terms of grand-scale issues, but the tension here is not as high as in Europe. That's the difference, I would say.

One more thing, I have a simple question. That is, no one today is from the UK. Why do the UK, Ireland and Luxembourg, why do they not wish to have a levy system, if you know the answer could you respond on their behalf?

**Mr. Vinje:** I am not very highly aware of the situation in Ireland or Luxembourg, so I should be very careful. But I have spoken quite a lot with people at least in the UK, and the UK has a system which doesn't really have a private copy exception, so there is not as much scope in the law for private copying as there is on the Continent. So, although many people think it is the opposite, the truth is that less is legal in the sphere of private copying in the UK than in continental countries and, in particular, Germany, which has a very broad permission for not only private copying but also personal copying in the professional context. If you look at Article 53 of the German Copyright Act, copies that you make in your office in Munich are very often included within that "personal use" exception. In the UK, the fair dealing provision does not allow nearly as much copying as Article 53 of the German Copyright Act, for example. And so that requires much more individual licensing, so companies, for example, take licences with collecting societies in the UK for the copies made within those companies. That doesn't really happen to the same extent in Germany, and so the UK Government, from my discussions with people in the Government and in industry feel that that is a better approach, that isn't so much rough justice; it's

not perfect justice but it's less rough and so they just don't favour the rough justice system involved in a levy system.

Maybe others know more about what the UK... As far as Ireland and Luxembourg are concerned, I really just can't say.

**MC:** Thank you for your comment. Yes, Mr. Tanaka?

**Mr. Tanaka:** One question. May I ask a question? I think you mentioned multi-purpose devices. Will multi-purpose devices also be subject to the private recording compensation? They are manufactured as home use devices, but I do not believe they should be included as private recording. In that regard, what is the situation like in Europe regarding to this discussion? Mr. Vinje could you be kind enough to comment on that?

**Mr. Vinje:** OK. I think I understand but Bernt you may very well have observations as well. The question of the scope of the private copy exception is first of all something that has been much debated in the context of the Copyright Directive and the formulation of Article 5-2(b) of the Copyright Directive and the copyright industry has been very active in seeking to formulate Article 5-2(b), the private copy exception, in the Copyright Directive, in a way which limits its scope to really personal, really private uses so that, for example, sharing a song with a friend, making a copy and giving a song to a friend, that would not fall within the private copy exception. And I think the way Article 5-2(b) turned out would not include such activity within the private use exception.

But there was a lot of difficulty in trying to limit it and I think it doesn't necessarily limit it precisely to the household, but I do think that it does limit it solely to private things in the sense that there's this no commercial use requirement, which is not found again in Article 53 of the German Law. In Germany, the personal use copy extends to copies made in the professional environment, in a business environment, if it is nonetheless for personal use. So, if you're sitting at your computer in Munich in your office and making copies for your personal use, that falls within the personal use exception in Article 53.

My view is that's too broad an exception, and my view is that that should be limited. Article 53 should be cut back when Germany implements the Copyright Directive. At the same time, I have heard representatives of the German Justice Ministry say that they will not cut it back, that they will leave it exactly as it is. I think that's a violation, or would be a violation of the Copyright Act.

Another part of your question I understood would be perhaps if you made lots of copies, if you had a PC with a huge hard drive, which of course do exist and will continue... they'll be bigger and bigger and bigger... in your personal context, if you make such copies, does that fall within the private use exception? Well, I think it generally does. I don't really see any limitation on the number of copies being made. I don't think that would turn something into something other than a private copy if it otherwise were a private copy, just because you have a lot of things on your hard disk. Bernt, what do you think about that?

**Bernt:** I agree with that. The way I understood the question interpreted the question was also including the very difficult question of designating what kind of media and what kind of equipment would fall under a levy system. I'm not sure that that was the question but let's presume it is the question.

Then I think it's important to point out that the Copyright Directive does not tell us exactly which machines or which media would be subject to the imposition of the levy, and the same is true for existing legislation in Europe. You cannot read into the German law or in the Dutch law or in the laws of the Nordic countries exactly which media are and are not subject to a levy.

So, one of the discussions we are having today, and Tom Vinje already pointed that out, is to determine the scope of existing levies by interpretation of the law. German courts have, as already explained by Tom, gradually expanded the range of copying equipment to include so-called reader printers, and according to at least one lower court in Stuttgart, to include CD burners, now possibly scanners.

But what about machines that are truly general purpose and that, perhaps in the majority of cases, are not used at all for copying copyrighted works such as your own PC? Of course, all the 15-year-olds of this world use the gigabytes of capacity on their hard disks to copy music from illegal sources and to store them, but

there are also normal people like us who just produce our own works and use the PC basically as a word processor. Should we, as consumers, be subject to a royalty payment as well?

That's the kind of question that will be first to the courts in Europe to decide and possibly next to the legislators. I, for one thing, am not in favour of a system where the collecting society itself decides which media and which types of equipment to impose the levy on. That is the prevailing system in Europe right now, but I would be very much in favour of the system where the legislator or possibly the Ministry of Culture or some government agency would determine that in a more democratic way.

**MC:** Ms. Perlmutter?

**Ms. Perlmutter:** I wanted to add some clarification about US law on this point as long as we are discussing it. I had mentioned already the Audio Home Recording Act in the United States. That is the one area where US law provides for a levy, and it is limited to digital audio recording devices and equipment, explicitly excluding computers.

In other areas, the law in the United States for private copying is very similar to the UK law. Whether or not a private copy is permitted without the consent of the copyright owner depends on whether it qualifies as a fair use. Determining whether any particular private copy is a fair use requires the balancing of factors, including to what extent the use is commercial and to what extent it substitutes for a sale in the market place, and it is because of that structure, so much like the UK, where there is no clear line that says a private copy is always a fair use. It is because of that that in the United States, as in the UK, many corporations enter into licences for photocopying done by their employees. Exactly the kind of thing that Thomas was speaking about.

**MC:** Thank you for your input. Mr. Smith, please.

**Mr. Smith:** A quick addition. I think it's fair to say that in the United States, there is a pretty strong aversion to levy systems, based on history and I think what that leads to is, in the United States there being a tremendous push to create workable digital rights management systems such that, given the background of fair use, that whatever is a compensable use is easily compensable through a DRM system, and I think there's tremendous incentive to do that and I think that's the direction, except in very narrow areas, that the US will go in and I know even today, book publishers are of two minds whether they want to authorise their collective management society, the Copyright Clearance Centre, to licence digital copying. Most of them would much rather licence directly. And of course, on the user side the educators and librarians would very much like to preserve their right to a broad scope of fair use which would allow them to make copies without payment at all.

So, this kind of tension within the United States is going to be with us for a while, but I think, just guessing now, I think that what we'll find is a great spurt of digital rights management technology in the United States along the lines of the kind of incentive that Thomas was talking about, because there will be no levy systems to take up the slack.

**MC:** Thank you very much. You just briefly touched upon the levy system on PCs and any response from Japanese panellists on this point, levy systems on PCs. Mr. Hagiwara, please.

**Hagiwara:** Thank you very much. I am not representing computer manufacturers so I think I feel a bit presumptuous to make comments at this point but the PC which is the general purpose machine, whether the levy can be applied, that is a German development and Japanese computer manufacturers seem to have a very strong sense of crisis against this kind of move in Germany. That's what I've heard from Japanese computer manufacturers.

Now, since that it is a general-purpose machine, the PC, well it has many different usages, for different purposes, and therefore for the machine like this, for the certain confined use, the levy can be applied. I think that is quite questionable to justify this and so if you just look at the situation the copy protect rule, when that was introduced, the for instance general purpose machine like the PC, the circumvention of copy protect can be possible. So, for that reason, there was an argument to include the PC in order to avoid circumvention. So, the PC, which is a general-purpose machine, whether compensation is really needed or a levy is really needed, that is quite dubious or cannot be justified. I think that is the thinking prevailing among the computer

manufacturers in Japan and the German Supreme Court ruling was introduced and that seems to influence the overall movement in Europe and therefore, I think that Japanese computer manufacturers pay great attention to that ruling now.

**MC:** Professor Koizumi do you have any comment on this point?

**Professor Koizumi:** Thank you very much. Whether the levy should be applied on PCs or not, I think I am completely neutral on this matter. But for the foreign guests, just for your information, I'd just like to give you the framework or the way to decide on the matter.

In Germany, whether the levy should be applied on the PC or not is determined by the court. In Japan, under the copyright law, actually the Agency for Cultural Affairs using the Cabinet Order determines this matter. That is the way to decide on the matter and much has been discussed on general purpose machines like PCs and therefore, for instance audio visual, the private recording and all equipment falling under this category and some of the machines, which are not solely used for the copyrighted works copying but still the levy is applied. And the machines, which are purchased by the users, if it is possible to prove that it has not been used for copying at all. In that case the levy can be reimbursed or it can be returned, but so far I haven't heard of any successful cases for the user to actually win back the levy that they have paid at the time of purchase.

**MC:** Thank you very much. So, the arguments so far, for instance covered the collecting society. Currently, they act on a territorial basis, country by country but if there is globalisation or the wider international activities of collecting societies, what kind of regulations should be applicable to the collecting society? For instance, in Europe, the EU internal territory, if there is a collecting society, which entirely covers Europe, what kind of regulation would be applicable? Professor Hugenholtz, please.

Professor Hugenholtz: I am not sure what kind of regulation you are referring to, but if it is about regulation concerning the supervision of collecting societies, I would say national rules would still apply to a collecting society, even if it would provide licences on a global scale. In fact, this is already happening as I said in a few segments, particularly in the area of mechanical rights. So, I don't think that would change much.

I thought you were going to ask a different question, is there a future for territorially organised collecting societies on a national scale in a world where increasingly collective licensing, almost by definition, has global impacts? And as Tom Vinje has explained, the intermediate solution that the collecting societies themselves have opted for is to try to maintain territoriality while at the same time enabling global licensing. But that can only be an intermediate situation. I think in the long term that could in fact be a very short-term. Collecting societies will necessarily merge and transcend national territories into merged and concentrate into very large global collecting societies.

It's always difficult to look into the future but maybe we can learn something from a totally different area of the law. Telecommunications, not very long ago, only a few years ago, the world of telecommunications was divided into national PTTs that were local monopolists, heavily controlled by national legislation and that could easily keep out foreign competitors. In many cases these PTTs were state owned or at least state controlled. Only a few years later many of these PTTs have, most of these PTTs have lost government protection; have lost their national monopolies under the influence of competition law, under the influence of the globalisation of the telecommunications market.

If I can make a prediction, the same is going to happen to collecting societies. Collecting societies, particularly the smaller ones in smaller countries, will be eaten up by the large ones, will merge with the large ones if they are large enough to merge and not be eaten up, and in a few years, there will only be a few very major players remaining. ASCAP will be one of them.

Another scenario of course might be, and Tom Vinje already alluded to that scenario, that collecting societies will become part of large media companies, will possibly be eaten up by the Time Warners of this world, if they have any valuable commodities to be owned and acquired. In other words, I do not see a very bright future for collecting societies organised on a territorial basis.

**MC:** Mr. Vinje, please?

**Mr. Vinje:** Just a few follow-up points. With respect to your specific question about whether there would be any regional law that might apply to collecting societies, I'm afraid not, other than competition law, but competition law can, in some ways, be an effective way of controlling the activities of the collecting societies and the Competition Directorate of the European Commission is currently in the process of investigating and evaluating the practices of the collecting societies in Europe in light of changes rendered, changes brought about by the digital networked environment. It's becoming clear that the Commission believes that the fundamental changes in technology mean that competition law should apply differently to the collecting societies and that behaviour on the part of the collecting societies that has been accepted in the past by the Commission and the European courts should no longer be accepted.

So, for example, with respect to exclusivity, the collecting societies may not in the future be permitted to impose such far-reaching exclusivity requirements on their members as they have been allowed to do until today. So, you might see some significant Europe-wide regulation of collecting societies through competition law.

One other point on that front is the Directive that Bernt mentioned, that is expected to be proposed by the Internal Market Directorate General probably early next year. The thing to note is that the reason that Directorate General, the Internal Market Directorate General previously known as DG15, the reason that it wishes to impose such a Directive is to take the wind out of the sails of the Competition Directorate General. They want to propose a Directive on transparency of the activities of the collecting societies in order to be able to say, look, we have put in place a Directive which will allow for more effective supervision of the activities of the collecting societies and therefore, it's not necessary for these terrible people, DG Competition, to do anything about it. That's what that Directive is all about, and that's really all it's about!

**MC:** Thank you. Any comments from the Japanese panellists? Mr. Koizumi?

**Mr. Koizumi:** In response to Mr. Vinje, I believe your views will apply basically to the Japanese situation. That is, under the Copyright and Related Rights Management Business Law, the subject of that law is limited to those copyrights, which must currently be protected under the copyright law in Japan. However, if JASRAC had entered into, with another organization in another country, a management consignment contract, then there maybe extra territorial application of anti-trust laws, in the event of some anti-competitive issues. Therefore, we must distinguish between the competition law and the management business law in considering these regulations.

**MC:** Mr. Tanaka, any comments?

**Mr. Tanaka:** Nothing in particular. I do agree that things will move in the direction that Mr. Vinje is indicating. I have that general view, yes.

**MC:** The reason I asked that question is because let's say there was a Japanese copyright and it was to be handled by a foreign organization. What would happen in that instance?

Of course I think the reverse can be true. That is, a foreign copyright were to be dealt with by a Japanese organization. What would happen in that case?

Could I ask some other Japanese panellists to comment? Mr. Okamura.

**Mr. Okamura:** In the case of telecommunications businesses, of course, for online and even for mobile communication, such businesses require a lot of capital investment, a lot of facilities. But in the case of management businesses, everything from billing and contractual clearance can be done on the Internet; so wherever those facilities may reside, there is no territoriality. So, I think there is a likelihood that something large and immense may grow out this. As Mr. Aizawa said, there will be no national boundaries. A large global billing system I think can be born. It is one of the businesses that I think take very well to the concept of globalisation.

**MC:** Mr. Vinje, please.

**Mr. Vinje:** A little response. The management by a collecting society in one country of rights under licence to the collecting society of another country, that's exactly what is happening in the Santiago Agreement for example. You can obtain a licence from a collecting society in Germany for rights held by collecting societies in a number of other countries. That is exactly where we are going.

Another point related to what Mr. Okamura just said, is that one of the fundamental changes is that the policing of infringement in the online sphere can be done from virtually anywhere in the world where there are adequate telecommunications connections. Indeed organisations like the BSA, and I believe IFPI, have centralised locations, I believe England in the case of IFPI, where they monitor web sites and police online infringement. So, you don't at all need to have different policemen, online policemen, in each country. But that does highlight, I think, one problem with Bernt Hugenholtz's prediction about the future of collecting societies and them turning into some broader maybe even global organisations, and that is that even in the future, there will be a need to police offline infringement. There will be a need to watch what or listen to what happens in restaurants and bars and the like, and so collecting societies presumably will continue to have a role in that context. But even there the question is, does that really have to be done on a national level, or isn't it possible to have some consolidation even in that offline context?

**MC:** Thank you very much.

As far as the management organisations are concerned, does anyone else have any further comments, anything else they want to add?

We have about fifteen minutes remaining so could we go back to what we covered this morning because I have before me several questions from the audience. If I read them all, it's too long, but the crux of the matter is about the right to make available for transmission and the right of automatic transmission to the public.

With the admittance of these two rights, there is sufficient protection. Would it not be necessarily to allow temporary copyrights? No? Then please explain. Is that your view, Mr. Koizumi?

**Mr. Koizumi:** No, what I wanted to say was that there are different categories of temporary copying. In the Star Digio case, some of the temporary copies had to be considered as reproduction. So it is multi-dimensional. IF amongst the different array of temporary reproductions, there are some that must be incorporated newly into the concept of reproduction, we have in Japan, committed to the right of transmission to the public, so you have to be aware of that balance of rights. That is what I wanted to say.

**MC:** One question has to do with the Star Digio case. "Star Digio is broadcasting and it is treated the same as other broadcasting systems so there should be no problems". Mr. Koizumi any comments on this?

**Mr. Koizumi:** What do they mean by saying that it is not problematic? That it's not problematic through it is personal reproduction? Would that mean that it's alright because there is already the right to make available for transmission? Is that the argument?

**MC:** That is, they already have licensing as a broadcaster. That is, they are already paying compensation for the broadcasting.

**Mr. Koizumi:** There is already a right to make available for transmission, and the person asking the question is not talking about the need to create an additional right at the receiving storage?

**MC:** That's right. As long as there's the right to make transmittable, then that's sufficient, so there's no need to protect against temporary reproduction. Could we ask the person who asked the question to explain?

**Questioner:** Thank you. I'm sorry to have been so wordy in my question. I know it's very difficult to read. We have to thank you for the effort. What I meant is, the Star Digio ruling is often cited as the grounds for judging that temporary reproduction does not constitute reproduction. But I believe the crux of the Star Digio ruling was that this business was a broadcasting business and storage is a temporary fixation of broadcasting. Therefore, it does not constitute reproduction. Therefore, it did not render a judgement as to



transmission on the network. It only rendered its decision in the context of broadcasting. Therefore, to say that in transmission on the network as well, temporary reproduction does not constitute reproduction, I think is overstating the ruling. Even if it were a transmission on the network, in Japan, we have the right to make available for transmission, which part of the automatic transmission right to the public which already protects storage at the starting point of the transmission.

Temporary storage during the transmission is also protected as part of the right of transmission. So, I wanted to point out that discussing this issue in particular, would only complicate matters further.

**Mr. Koizumi:** OK. I understand. You're saying that that ruling was for broadcasting and temporary fixation for broadcasting, and therefore is in line with the statutes. For those people who have their rights protected for broadcasts, that's fine, but those who don't enjoy that right may have to capture the transmission on the receiving side. I was mostly talking about reproduction on the part of the listener. I did not refer very much to the Digo broadcasts, so I misunderstood your question. I'm sorry.

**MC:** I did not realise that you were using temporary reproduction differently from temporary storage. Sorry for the confusion. There is another question about the Internet Service Provider. Let's say someone uploaded information on the Internet Service Provider site but the identity of that uploader, the person who posted the information, is unknown. What kind of remedies are available for the injured party in that case, and how would the limitation of liability for that provider be handled, legally speaking?

**Mr. Okamura:** I'm sorry if I have misconstrued your question, but that is the reason why you have the system to disclose information of the sender. You have to identify who the offender was so as to allow you to go directly to court for settlement. That is the intention of this current bill, and that's why I think the bill is necessary. Is that the intent of the question?

**MC:** No, I don't think so. There may be cases when the identity of the uploader is not known. Could we presume that the identity is always known to the provider?

**Mr. Okamura:** No, there are cases when the identity is not known to the provider. I agree.

**MC:** In that case, what happens? What can you do? What happens to remedies for the aggrieved party?

**Mr. Okamura:** Under the Service Providers' Liability Law, ISPs will be exempted in this case as well. That is a loophole, I agree. One cannot provide remedies for all cases under the current law.

**MC:** Ms. Perlmutter.

**Ms. Perlmutter:** Under the DMCA in the United States, the service provider would be required only to give contact information that it has in its possession. So, if it doesn't have the information, it can't give it. But I would like to say that that still doesn't leave the copyright owner any worse off than they would have been without the law. I mean, the fact is that sometimes that information may not be available, but at least it's preferable to have a structure in place that allows the information to be provided if it exists.

**Mr. Smith:** I think that's the value of the Notice and Takedown System because very often the service provider either cannot determine the IP address of the sender or the sender immediately switches its IP address. You cannot find the infringer and of course this happens all the time. Copyright is infringed and you don't know who does it or you can't find that person or that person disappears. But in the Notice and Takedown System at least you take down the infringing material and it gives you some comfort that it isn't widespread over the Internet.

**Mr. Tanaka:** The intention of this particular question may not be met with an answer but let me make some statement. The bill does not say that unless the person who uploaded the information is identified, the ISP will not be held liable. So, damages liability may reside with the ISP even with this bill being enacted. And another point of the injunction. In addition to the direct uploader, can you also ask for an injunction against the ISP?

If we take the position that as long as we cannot identify the direct infringer, then we cannot ask for an injunction. Against the ISP, then rights are not protected, but if we do not take that position, there could be some room for protective measures including injunctions, by devising the interpretation of law.

**MC:** Thank you for your input. Mr. Hugenholtz.

**Hugenholtz:** In Europe, under the E-commerce Directive, as you know, we do not have notice and takedown requirements so this would be a very easy question to answer. Anonymity is of no concern. If you simply put the provider on notice of infringing material residing on the server and he doesn't take down, then the provider becomes liable for damages.

Anonymity does play a role and did play a role and in some countries in Europe outside the digital environment, there are some countries in Europe such as Belgium and the Netherlands that have rules that protect printers and publishers from liability under criminal law. According to a so-called cascade system, a system of cascade liability, there the intermediary, the printer or the publisher escapes liability in a situation that he can identify the original source of the infringing material, so there anonymity does play a role in allocating liability. But under the E-commerce Directive that system cannot survive, at least not in the digital environment.

**MC:** Well I think it's about time for us to close our discussion. I would like to thank all the panellists for your active participation as well as the audience for your attention and thank you to the interpreters as well.

I may not have summarise the session well but I would like to close the session and I thank you all.

**Secretariat:** Mr. Aizawa, panellists, thank you very much. With this we would like to conclude today's session.

Some announcements. Sunflower Hall Room. We will have a reception party. You are all invited. Please stay... Sunflower Hall is on the same level. And please leave the simultaneous receiver system on the table. Thank you.

## **C. Patent Infringement Suits in Global Network Age**

### **C-1. • Defense of "Invalid" in Infringement Suits**

#### **• Jurisdiction of Foreign Patent and Judgment of "Invalid"**

**MC:** Following yesterday we would like to proceed with Day Two of the Softic Symposium 2001. This is the second session. Global Network Era and Patent Infringement Cases. Let us introduce the moderators and the panellists. As for today, our moderator is, Mr. Shigeru Miki, Attorney-at-Law. Mr. Miki is part of the steering committee and he has been a very central figure in planning for this event. Let me introduce the panellists. In the order of US, Europe and then Japan.

First, Mr. David Kappos, Corporate Council Intellectual Property Law, IBM Corporation.

Mr. Boehm was the originally scheduled speaker but because of his ill health, he is represented by Mr. Kappos.

Next we have Judge Randall Rader, Judge of the United States Court of Appeals for the Federal Circuit. He is an active Judge at CAFC. This is his second participation in our program.

Next, Mr. Harold Wegner, Attorney-at-Law. Mr. Wegner has taught at various universities including Georgetown and he is an expert of patent laws, both in Japan and the United States. He was a visiting scholar at Kyoto University and has many friends in Japan.

Next, from Europe, is Mr. Jan Willems. He served as a Judge in the Netherlands and is currently with the Board of Appeals, European Patent Office. This is his very first participation in our program.

From Japan, Mr. Toshiaki Iimura. Mr. Toshiaki Iimura is a Judge at the Tokyo District Court Civil Court Section 29 which specializes in IPR. He has contributed greatly to the reform of IP-related litigations and because of his efforts, I would say we have seen much reduction in the duration of the actions. This is his first appearance.

Mr. Yoshio Kumakura, Attorney-at-Law. He is a notable figure in this field for IPR and he is currently Vice-President of AIPPI, the International Association for the Protection of Intellectual Property. This is his first appearance.

Next, we have Mr. Shigeo Takakura, Director of Technology, Research Division, Japan Patent Office of the government of Japan. He is an expert not only in software technology but also biotechnology and he also taught at Kyoto University as a visiting professor and has appeared at many international conferences. This is his first appearance with our program.

Last, but not least, we have Mr. Naoki Mizutani, Attorney-at-Law. IPR is his central area of interest. He is a special researcher at Softic and one of the core planners of this particular session.

Excuse me. I missed Mr. Dogauchi, Professor at Tokyo University. I'm very sorry that I skipped him.

I would like to transfer the microphone to Mr. Miki, the Moderator soon, but let us have some housekeeping announcements. Receivers for the simultaneous interpretation system please leave them in this room before you leave. No recording in terms of video or tape. Cellular phones or mobile phones, please switch off the power in order to avoid radio interference with the interpretation system. And perhaps you are aware of this already, we have some additional handouts. Please pick them up as you go. Now, we would like to move on to the session. I would like to have a coffee break at 10.30. Mr. Miki, please.

**Mr. Miki:** Good morning ladies and gentlemen. Can you hear the Moderator? This is Day Two, Patent Session. Let us proceed.

When you take a look at the program, this morning and the afternoon are divided into two parts. First, for the morning we have two parts, one would be Europe, Japan and US invalidity procedures. We would like to offer and share general knowledge about invalidity procedures. Individual speakers are invited to speak based on the papers they have prepared. Then, after that, we would like to hear from European and the US on procedure related issues. After clarification on the issue, we would like to move on to the cross-border jurisdiction in regard to the patent cases.

Before we start, I would like say that we have active judges on the panel. Of course, they normally offer rulings and decisions based on specific circumstances. For our hypothetical cases, the judges' input will be their personal opinions. I would like to make special note of that. First speaker of the day, please, Mr. Willems.

**Mr. Willems:** Let me continue in English because they were the only words in Japanese I happen to know. I will tell you a little bit about invalidity proceedings in Europe concerning European patents.

As you probably know, European patents are granted centrally by the European Patent Office but after they are granted they fall apart, as is usually said, into a bundle of national patents, each patent only valid for that designated state. These European patents can be attacked on validity issues in two different ways. Patents are never a secure possession but in the case of a European patent, it's even worse; it can be attacked along two different ways.

The first way is to start opposition proceedings before the European Patent Office, possibly followed by an appeal before the Boards of Appeal of that office. These opposition proceedings have to be instigated within nine months after the day the patent is granted. So, there is a strict time limit. That's a disadvantage but the advantage of this way of attacking the patent is that if you get an invalidity decision, a revocation of the patent, the patent is revoked for all countries for which it was granted. So, you only have to start these proceedings only.

The other way to attack the validity of a European patent is to start revocation proceedings before a national court. There is no time limit for this action. It can even be started after the patent already has expired. So, that's an advantage. The disadvantage is that a revocation of a patent by a national court only has effect in the country of that court. So, if you have a European patent granted, let's say for instance for nine countries, theoretically, you have to start revocation proceedings before nine national courts of nine different states.

The grounds on which a revocation action or an opposition against a European patent can be based are the same for all member states of the European Patent Convention because they are stated in the European Patent Convention itself. The main ground is that there is not a patentable invention in the sense of the Articles 52-57 of the European Patent Convention. The second ground is that the invention is not enabling disclosure in the description of the patent. In other words, that the man skilled in the art of reading the patent will not be able to perform the invention.

The third ground is that the patent has been extended beyond the application as it was filed. These three grounds are valid, both in opposition proceedings before the Office as also in proceedings before the national court. In revocation proceedings before the national court, there are two further grounds for possible revocation, the first being that the scope of protection of the patent has been extended beyond that of the patent as it was granted. For instance, by changes made in the claims during opposition proceedings. And the second ground is of less importance, that the proprietor of the patent was not entitled to the patent.

As I said, the main ground for revocation of a patent is that there was no patentable invention in the sense of the Articles 52-57 of the EPC. These Articles require for a patentable invention that there be a novel invention that is industrially applicable. Not regarded as inventions are discoveries, scientific theories, mathematical methods, aesthetic creations, rules and methods for performing mental acts, playing games and two important items, doing business or computer programs. All these items as such, whatever that may mean.

What are inventions but not industrially applicable inventions according to the EPC are methods for medical diagnosis and treatment. Finally, the invention should not be contrary to public order or morality. The exception from patentability of medical methods for treatment or diagnosis does not extend, as is explicitly

stated in the European Patent Convention to, for instance, pharmaceuticals or apparatus used in these medical methods. But The borderline can be very difficult to distinguish.

Everybody knows that a pharmaceutical can be patented but under certain circumstances it's difficult to tell the difference between a pharmaceutical and a way of treatment. There has been a case in Europe for a pharmaceutical against ovarian cancer, which had to be prepared at the bedside on the basis of the body weight of the individual patient. In that case, the Dutch court in the first instance and also the UK court, United Kingdom court in the first instance, have come to the conclusion that if you have to prepare a potion every time for an individual patient, you have crossed the borderline between a pharmaceutical and a way of treatment and you have come into the realm of dealing with a way of treatment of a patient.

The last item I mentioned that a patentable invention should not be contrary to public order or morality has played an important role in the discussion about the patentability of the so-called "Onco mouse", a genetically manipulated mouse that developed cancer very easily and was an item desirable for people experimenting with anti-cancer drugs and the item was very much opposed, the patent was very strongly opposed, on the grounds that to create an animal that spontaneously was destined to develop cancer was contrary to public order. Also, not an easy issue but let's leave it at that for the moment.

I mentioned also that the invention not only has to be industrially applicable but also has to be novel, and in this context I should stress that in Europe we use a so-called absolute novelty criterion. As soon as the invention is available to the public, somewhere, somehow, sometime, its novelty and thereby its patentability is destroyed. So, if there is an ancient scroll somewhere in the mountains of Tibet describing the invention that's deadly for a patent. Of course, that's a situation that in practical daily life does not happen. What however does happen very often is that professors of universities make inventions and describe them in literature or during sessions like these symposiums to their colleagues, to the public in general. For a European patent application that is deadly. Even if the inventor himself has disclosed the invention, novelty has gone and a patent is not available any more. Other than in the US, in Europe, the inventor does not have a so-called grace period, as we call it in Europe, of a year after the disclosure to apply for a patent. It's a problem, especially for US university professors who are pressed to publicise their inventions as soon as possible but not always realise that in doing that they destroy the patentability of their invention in Europe.

Personally, but as a strictly personal view, I think it would be a good idea to have such a grace period, because there is no sense in destroying a good patent on the basis of a good invention, just because the inventor himself described the invention to the public a little bit early. But for the moment that's not the case in Europe and I'm not sure that it will ever be the case because part of industry in Europe is, for some reason or other, opposed to this grace period.

Let me touch shortly about theoretical problems because of these dual revocation possibilities. On the one hand the patents can be revoked by the EPO itself or its boards of appeal. On the other hand, that can be done by national courts. That means that there is a danger that there will be a split, a divergence in jurisprudence in Europe about issues as novelty, inventive step, priority dates etcetera, because there is no supreme court in Europe bringing together all decisions and unifying the jurisprudence of these national courts and of the boards of appeal of the EPO.

Luckily, that seems to be only a theoretical problem. There has been a small survey when the EPC existed fifteen years for the Netherlands and for Germany. They were the only two countries where data were available, and it turned out that in the few cases where a patent was revoked by a national court while it was upheld by the EPO, the revocation by the national court was done on the basis of new material that was not known to the EPO when deciding about the patent. There was no basic disagreement about reasons or about the grounds of the decision. So, the risk of divergence is there, but it seems in practical life to be manageable.

Let me talk a little bit more about the revocation before national courts. This is done mostly by way of counter claim in the framework of infringement proceedings. In most European countries, it's a kind of Pavlov reaction of an alleged infringer who is accused of infringing a patent to start a counter claim for a revocation of the patent. That's only different in Germany and Austria where there are different courts such as the situation in Japan, I believe, for questions of nullity and questions of infringement. In Germany, validity of the patent is decided upon by the Federal Court, the Federal Patent Court of Germany, while the infringement actions are decided by the state courts for first instance, the normal civil courts, in Austria the validity issue is

decided by the Austrian patent office, while infringement actions are decided upon by the commercial courts, the civil courts.

In all other European courts, validity and infringement are decided upon by the same civil courts. And in these courts, invalidity can be raised only as a defence but in most cases it will be raised in the form, like I said, by way of counter claim. There is no big difference between these two options and it concerns only a patent for the country involved.

Problems exist, however, as soon as we are dealing with infringement actions, not only concerning infringements in the country of the court concerned, but infringement abroad, infringements in another country. The European jurisdiction rules allow that possibility and that creates problems, a lot of problems, about which we will be talking later separately, so I'll skip that jurisdiction problem for the moment.

I think that I have covered what I wanted to say, Mr. Chairman, about infringement annulity actions in Europe for the moment. Thank you so much.

**MC:** Thank you very much. May I call upon Mr. Iimura

**Mr. Iimura:** Thank you very much for giving me this opportunity to speak at the Softic Symposium 2001. I would like to discuss the Japanese situation, especially in relation to the general principles of administrative law citing some specific cases and examples.

First of all, the hearing of IP cases in Japan has undergone dramatic change over the past few years. In the past, the hearing of IP cases in this country was severely criticised for being too time consuming. Statistically speaking, until just a few years ago the average hearing took more than 24 months at the Tokyo District Court but currently, the majority of cases are concluded within 12 months. Even in comparison with other countries, the speed of the IP case hearing by the Tokyo District Court now is on par with the speediest of countries around the world.

The hearing system for IP infringement law suits have undergone great change and various measures have been devised to speed up the examination process. In the past, however much we tried to expedite the hearings, there was a bottleneck that could not be overcome, and that bottleneck was that the court charged with the infringement law suit did not have the authority to judge on the validity of the patent on which the plaintiff based his claim. This was the major hindrance to speeding up processes in Japanese courts.

But in relation to this, last year a Supreme Court ruling was issued which totally changed the situation of hearing infringement lawsuits in Japan. The name of the Supreme Court ruling is the Fujitsu Semiconductor Infringement Suit or the Kilby Patent Law Suit taken from the name of the parties involved and the inventor, and as a result of this, the validity or the presence of causes for invalidity of a patent can now be judged by the courts.

Now then, let me discuss the situation leading up to the Supreme Court ruling and the content and significance of that ruling.

In Japan, the court remedy to patents, which were erroneously granted, is to file a suit to revoke an appeals decision rendered against a claim for a ruling for invalidation. Therefore, third parties who may be affected by the erroneous granting of a patent must first file for a ruling of invalidation with the Patent Office to nullify or invalidate the patent. Under this system in Japan, even if there were causes for invalidity in that patent, once it is registered then unless a decision to nullify that registration becomes final and conclusive, the patent will continue to be valid. Therefore, the court hearing the infringement case was not allowed to render judgement on the presumption that the patent is invalid. That was the logical consequence of this system. That is, as far as such a system existed, no easy bypass was allowed.

Past Supreme Court rulings had repeatedly emphasised this point. However as I said, on April 11, 2000 the Supreme Court substantially changed the long-established precedent and found that the court hearing the infringement case can render judgement on the presence or absence of causes for invalidity and if it is apparent that there are causes for invalidity in that patent, then the claim based on that patent right will not be allowed because it is an abuse of rights.

This Supreme Court ruling meets the public request for an expeditious settlement of patent infringement lawsuits. In explaining the ruling, the Supreme Court said that it is preferable to resolve any dispute in a short period of time within a single proceeding. The Supreme Court has emphasised the need for litigation economy and speeding up the examination process. Also, although the Supreme Court did not explicitly state this in their explanation, the ruling was most likely handed down at this particular timing because of the recognition that litigation should be administered in harmony with the international norm.

Ever since the Supreme Court ruling, lower courts began to examine the validity of patents in the hearings of infringement law suits and when the invalidity was apparent, then they began to promptly dismiss the claim based on that patent right.

In the past, in general, lower court practices did not change after a Supreme Court ruling. However, as far as this ruling is concerned, the lower courts immediately changed their practices, though this was a very rare case in Japan. In that view, the Supreme Court ruling had a major effect on practices of infringement lawsuits in Japan.

I would like to discuss two theoretical points about this Supreme Court ruling. One is in relation to the general principles of Administrative Law. When an administrative agency performs an administrative act which is an exercise of public authority, even if that act were illegal, unless those prejudiced by the administrative act file an administrative suit for revocation and then receives a revocation decision from the court, that erroneous administrative act will continue to be valid, as I mentioned earlier. Those administrative acts include, for example, development permissions, business licensing, driving licences and nuclear reactor installation permissions, a variety of different administrative acts. This is a characteristic that runs through all of these administrative acts.

Of course, there are some exceptions to this rule. That is, if the administrative act was performed erroneously, if that error was grave and apparent, then all agencies are allowed to treat that administrative act as invalid. However, in Japan there have been very few cases when a certain administrative act was deemed to have been in grave or apparent error.

The Patent Office Commissioner examining and issuing a decision to grant a patent to the applicant and registering that patent right is an exercise of public authority. So, it is a prime example of an administrative action. However, patent rights similar to property rights is a purely private right; therefore, the act of patenting is the act of granting a private right by an administrative act. And as I said earlier, there are a variety of different administrative acts including permission to install a nuclear reactor, for example, but from the viewpoint of the grantee, all often administrative acts are acts of granting a legal status defined by public law whereas patenting is the granting of a private right which distinguishes it very greatly from other acts of administrative agencies. So, from the uniqueness of this patent right, it is too rigid to say that unless one files for invalidation procedures and the invalidation decision becomes final, one cannot use the causes for invalidity as a defence in infringement litigation. Also, this is disadvantageous for a third party wishing to take rational economic action.

Even if an applicant acquires a patent, that would induce unnecessary and frivolous invalidation claims from third parties and will increase the costs on the part of the patent owner to bar these claims. This will also increase the overall institutional costs for the society. Despite the fact that there are no individual or specific disputes between the plaintiff and the defendant, if it is still necessary for the Patent Office in an invalidation procedure, to make the decision whether that patent is effective or not, and then for the court to examine the justness of the Appeals decision, then the costs and time burden will increase greatly. So bearing these social costs in mind, the Supreme Court shifted the general stance our courts have traditionally taken toward administrative acts, in its ruling last year. It was a diminimous modification, in consideration of the impact it may have on the established principle of administrative law..

The Supreme Court when they change a precedent must do so in an en-banc decision, but this decision was made at the Petite Bench of the Supreme Court.

Now then, let me discuss some specific issues about how to read between the lines, of Supreme Court's the explanation and changes in practice often. Of course the Supreme Court may render a dismissal if there are causes for invalidity but in those instances, the Supreme Court ruling said that in addition to the

existence of grounds for invalidity, the causes of invalidity must be evident and apparent. The apparentness or patency criteria are not really clear; it has very strong normative and evaluative element. For these normative and evaluative requirements, there are always problems relating to predictability and legal stability. So, in the future, I believe it is necessary to accumulate jurisprudence at courts hearing these infringement lawsuits and analysing these practices so as to extract a certain judgement criteria from this, and thereby achieving legal stability.

As for future challenges, let me point out the following. The court hearing the infringement lawsuit will listen to the argument and evidence rendered by both parties and make a decision based on that. There may be instances when they will hear testimony directly from a witness; therefore, viewing from the uniquenesses of the courts hearing these infringement cases, the criteria of apparentness or patentness may change. For example, there is the case of usurped application when a person who is not the inventor claims to be the inventor in filing a patent application. In those instances, or when the inventor or the applicant had already used that invention in public, the courts will examine the witnesses and the facts of the case directly. And these factual matters will not require technical expertise to make the judgement; therefore, if the court because convinced that it is invalid, then they can make the judgement of invalidity.

The Supreme Court claims that the causes for invalidity must be patent or apparent but if the infringement court is convinced that there are grounds for causes of invalidity, then that is almost synonymous with the phrase that the existence of the causes for invalidity is evident. as the same holds true for novelty. As for invalidation based on the lack of inventive step, because this judgement requires extremely high levels of expertise, the court hearing the infringement case will most likely respect the appeals procedure or the lawsuit to cancel the appeal decision.

So, I believe this is a general trend; however, let me add that the Tokyo District Court and other lower courts, from the viewpoint of speeding up the process and from the viewpoint of litigation economy, have dismissed many cases by citing apparency of lack of inventive step.

Now, if the court hearing the infringement case determines that there is cause for invalidity and then dismisses the plaintiff's claim, and that decision is inconsistent with the results of the Board Appeals of the lawsuit to cancel the appeal decision, what happens? Let me talk about this.

If the court hearing the infringement case judges that there are clear causes for invalidity and that dismissal ruling became final and conclusive, but the Patent Office or the court hearing the claim to cancel the Appeal decision decided that there was no cause for invalidity, then what happens? There are no remedies against the judgement rendered by the court hearing the infringement case in this case. That is, the Supreme Court ruling had made it possible for the defendant to use invalidity as a defence, and against this defence the plaintiff must submit evidence, on its own responsibility to preclude that defence. And if they could not convince the court, then the consequences will have to be borne by the plaintiff. So, there is no ex-post remedy, no restoration.

Now then, what about in the case that a decision to admit the patent was rendered by the infringement court on the basis of no grounds for invalidity and that decision became final and conclusive but after that a Board of Appeal's decision to nullify the patent became final and conclusive? No such cases have occurred, but many argue that if an administrative act on which the infringement lawsuit was based becomes invalid for all persons and all agencies, then there will be grounds for retrial. And if there was a payment of money based on the decision to admit or if there was an injunction already performed, then there will be ex-post remedy against that court decision to allow the patent.

Now then, I would like to talk about the future of infringement lawsuits. First of all, with that Supreme Court ruling, how will the court practices regarding infringement lawsuits change in the future? I believe for one the dispute resolution ability of courts hearing infringement cases has expanded greatly. In modern day infringement lawsuits, there are no cases whatsoever where the defendant does not argue invalidity of the patent. However, before the Supreme Court ruling, the court hearing the infringement case could not judge on the causes for invalidity outright, so they were not able to demonstrate their dispute resolution functionalities fully. However, because of the Supreme Court ruling, we are now able to overcome this problem. However, examination of the infringement lawsuit has now become extremely complex and difficult. The judge in charge of the infringement law suit must be well versed in the most recent appeals decisions or



court decisions on causes for invalidity, they must be well versed with the current practices. The parties involved must have a sophisticated ability to advise the most efficient examination, and they also must have a good understanding of the need to expedite the hearing.

Secoundly, until the Supreme Court ruling was rendered, the plaintiff or patent owner bore no risk in filing the infringement law suit. If he filed for 100 million yen in damages, his risk was 100 million yen, maximum. Even if he lost, the plaintiff had nothing to lose beyond what he/she had demanded.. However, after the Supreme Court ruling, the plaintiff now runs the worst-scenario risk of having his patent invalidated in the infringement lawsuit.

As a result of this, in bringing action for infringement, the plaintiff must conduct very extensive and diligent prior research on validity and also may have to opt for a settlement and other solutions, depending on the proceedings of the case in order to avoid a worst-case scenario.

**MC:** Thank you very much. We have just covered Europe and Japan, the patent system in those two regions. I believe that now you have increased knowledge about those regions.

Next, we would like to move to the United States and this time Mr. Boehm is sick and cannot attend the session, and on his behalf we have Mr. Kappos, so we would like to ask him to make presentation please.

**Mr. Kappos:** Ohayo gozaimasu and good morning. I would like to start by thanking Softic for inviting IBM again to participate in this conference. We have been fortunate enough to participate for many years, I believe starting with the first conference by Softic quite a few years ago. We're pleased to be back again and look forward to continued cooperation with Softic.

Turning then to the US legal system concerning invalidity, I'd like to start off by explaining briefly what the substantive grounds are for invalidity of a patent in the US and then I'll talk along the lines that the previous speakers did about the court system for invalidity and the US Patent Office system that considers, in some ways, invalidity of patents.

To be valid in the US, a patented invention must be novel, useful, non-obvious, of course to one of ordinary skill in the art and must be statutory subject matter. All of those requirements are embodied in United States Code Title 35, Sections 101, 102 and 103. Additionally, an invention must also be adequately described and claimed and that is embodied in 35 USC Section 112.

Unlike other patent systems, such as that in Europe, as you heard before, the US has a system in which novelty is not absolute but is instead based on a one-year grace period that permits various acts which otherwise would bar patent protection to take place. For example, a US patent application should be rejected if the invention was published or patented anywhere in the world more than a year before the application was filed, and similarly, a patent granted on such an application should be invalid.

35 USC102E as recently amended, provides that a granted patent or published application for the first time in the US now patent applications are being published, so a published application is prior art as of its effective filing date. What this means is that a patent granted on an application with a filing date of November 21, 2001, for instance today, would become invalidating prior art against any patent application filed on or after November 22, 2002.

Now, I'll pause at this moment just to talk just a little bit about the publication system in the US, because within the last month, the US Patent Office has released some early statistics that I know will be interesting to practitioners, academics in the Patent Office here in Japan. There has been significant concern that the opt out provision in the US publication system would enable large numbers of US filers to avoid publishing their patent applications. Well, I'm happy to say that the statistics published by the US Patent Office just recently have indicated that, in fact, that is not happening, and instead, well over 90% of the applications that have been filed are being allowed to go to publication after eighteen months. So, our fears of many opt outs are not coming to bear.

The US novelty requirement also provides that a patent is invalid if the patented invention was sold, on sale or in public use in the US more than a year before the patent's effective filing date. Section 102 also

ensures that a patent is granted to only the first inventor provided that she is diligent and has not abandoned, suppressed or concealed the invention. But a patent is not valid if the invention was known or used first by another in the US. The 102E filing date that I mentioned just a moment ago can indeed be used to show that kind of prior knowledge.

Now, let's turn to bases for invalidity. Under US law, a patent is presumed valid, that is, according to 35 United States Code Section 282, a challenger against the patent must show invalidity by clear and convincing evidence. A very high standard of proof under US law. If another party believes that a patent is invalid, it can seek re-examination in the US Patent Office, or it can challenge the patent in the US Federal Court, OK? And we'll talk about both of those approaches.

A Federal Court challenge must occur in a US Federal District Court as a general proposition. In the US, only the Federal Court system as opposed to the state court systems that exist in each of the 50 states can adjudicate patent validity. Validity is considered either in the context of an infringement suit brought by the patent holder or it can also be considered in the context of a declaratory judgement action that can be brought by the potential infringer. If the potential infringer can show that she is in apprehension of being sued by the patent holder.

Appeals from the Federal District Court holdings are taken to the single US Federal Court of Appeals that handles all patent appeals. It's known as the Court of Appeals for the Federal Circuit located in Washington DC. Appeals from CAFC Holdings on validity can be requested from the US Supreme Court through the US process known as *shoshori*. But in practise, the US Supreme Court rarely accepts such appeals. In those cases where it does accept appeals, the holding of the US Supreme Court is, of course, final and not further appealable.

Now, let's turn to the other basis for challenging validity. I mentioned before, re-examination. Re-examination is a process that takes place in the US Patent Office and it can be pursued by either of two processes. Either *ex parte* or *inter partes*, *ex parte* being a process that is filed and then taken out almost solely between the Patent Office and the patentee and *inter partes* involving some level of participation by the challenger.

For *ex parte* re-examination, it can be requested by the patent holder, a third party, or in some cases even the US PTO itself. A substantial new question of patentability is the standard required for re-examination to take place, a substantial new question of patentability.

In *ex parte* re-examination, the requestor has little opportunity to participate in the process beyond the initial request for re-examination. The process is therefore, in practice, frequently not successful from the requestor viewpoint – as a result it's relatively infrequently used, I think, in comparison to systems in some other countries.

*Inter partes* re-examination was recently enacted in the US for the first time via the American Inventors' Protection Act, the AIPA of 2000. It provides for a process by which a re-examination requestor can participate quite significantly in the re-examination process in the USPTO. However, it suffers from two very significant flaws. The first one we refer to as asymmetrical appeals and the second one we refer to as strict estoppel. Both of these problems penalize the requestor so severely that the *inter partes* process has been used in only a few cases to date and none that I'm aware of that involve controversial areas like software and business method patents.

Legislation is pending in the US to partially fix the problems and to create yet another kind of re-examination proceeding modeled significantly on the Japanese and European opposition procedures. So, we'll see if that gets enacted. It will mean that the US will have not one and not two but three opposition or re-examination type procedures. Thank you very much.

**MC:** Thank you very much. Europe, Japan and US, these patent systems have been discussed. Before we proceed to the next sub-session I would like to have some clarification., In the case of Europe, like it has been explained by the speaker, the invalidity of a European patent will not bind the national courts of the member countries. . Mr. Willems referred to the German case, where a court reached a different conclusion from the European Patent Office decision. I have some questions. Are there cases where the patent office of Europe, can

give a binding ruling of invalidity against the national courts? then the German case, it appeared to me that there was, a difference in the the fundamental grounds for invalidity. Could you explain that case a little further, please?

**Mr. Willems:** Like I explained, tried to explain in my presentation, there is a certain risk of diverging views between national courts and the European Patent Office. That was realized, I think, when the European Patent Convention was enacted but accepted then by the member states as the price they had to pay to maintain their own jurisdictions.

In practice, however, it's very exceptional that these diverging views come to expression in decisions. Like I said, when national courts come to a different opinion, different decision than the EPO, that is in the large majority of cases because new material has been added and not because of a principle difference of view. However, when I say that that is the case in the large majority of cases, that means that there are cases, like you mentioned, when a national court has, on a matter of principle, a different view than the European Patent Office has.

Theoretically, that's not a big problem because the national court has the last say as regards revoking a patent, while the European Patent Office has the last say when it decides not to grant the patent. So, the European Patent Office stopping a patent has the last say but granting a patent has to expect that in some cases that patent will be revoked by the national courts. When a national courts revokes a patent, it does that with only effect for that state and there are no consequences for other parts of that European patent.

Up until now, we have managed to live with the few cases of diverging views. There are different mechanisms to bring these views together but they are all informal. One of the most important initiatives, in my view, towards harmonization in Europe of the European Patent Office is the initiative of the Office to organize every second year a conference for European patent judges where the different national judges and the members of the Boards of Appeal of the Office discuss hypothetical and real cases and discuss items of importance of patent law. It has turned out to be of major importance that judges of national courts and of the boards of appeal get to know each other on a personal basis because in personal discussions these views, different views, can be explored and in many cases brought to a further development. But like I said, it's totally informal and it's probably an issue that will become of some importance, too, here in Japan now that the Supreme Court has taken its courageous and, in my view, wise decision in the Fujitsu Case.

Now, also the Japanese practitioners will have to live with the idea that there could be different views on matters as inventive step or novelty between the JPO and the district courts, civil courts. Of course, I realise that the Supreme Court has said that the non-patentability should be apparent. I think, however, that's of little avail because I can tell you from my day-to-day experience from the European Patent Office where we sit in panels of three, with two technicians and one lawyer, that it often happens that the lawyer thinks that a certain invention is clearly obvious, while the technicians think it's quite an inventive step. So, if the same thing should happen between the JPO and the Civil Court; that could be a problem, also. So, it's not too early perhaps to think about mechanisms to avoid that and I realise that there is no patentable solution for this.

With some divergence we have to live but there are in Europe some initiatives, which could lessen this risk. One of the things is such conferences on a more or less personal basis from time to time between judges and EPO officials. Another possible solution also practised in Europe is to appoint judges on Boards of Appeal of the EPO on a part-time. In this informal way, and probably there are many others, you can try to diminish the risk, but like I said, patent is never a very safe possession and living always has some risks. Living in the patent world has some special risks. I don't have a clear-cut solution for the problem but I hope to have suggested some ways of diminishing the risks. Thank you.

**MC:** Thank you for your input. I am sure that the audience knows the Japanese patent system, so let us study re-examination in the US context. When you start re-examination while there is a pending infringement case, the Patent Office procedures and the court procedures, handled? Could you revisit the re-examination matter again Mr. Wegner?

**Mr. Wegner:** First, I would like to join Judge Willems when he calls the Fujitsu Case courageous and wise. Indeed, I completely agree and I congratulate the Supreme Court on probably the most important patent case in the world of any of the courts in the major countries of the world in recent years. And I also wish to

congratulate Judge Iimura and his colleagues for their aggressive, vigorous approach to seeing prompt justice. This is truly remarkable what you have done, so I wish to offer my congratulations to the Supreme Court for its opinion and to the judges for their excellent aggressive action in taking a leadership role in the world in what they're doing.

Now, with respect to re-examination, one of the striking contrasts that we have seen from the speeches this morning is in Europe and Japan, you have oppositions. We have nothing like that. You have revocation proceedings. We have nothing like that. We do have re-examination. We have two kinds of reexamination. We have the old ex parte re-examination. This is the system that began in 1981. It still exists today. And we have the new inter partes re-examination, which became law on November 29, 1999. It's just starting to come into being.

You can choose either proceeding today. The condition for inter partes re-exam, however, it only applies to patents where the original filing date of the application was after November 29, 1999. So, there are very few cases in litigation, which even could be considered applicable.

Now, to the specific question of the Moderator, Mr. Miki, in re-examination you can, during litigation, have a suspension for re-examination. It's the discretion of the trial court. Re-examination, and we're talking about the old re-examination, the ex parte re-examination, can be described in one word: failure! The re-examination in the United States, the ex parte re-examination, permits the third party to make arguments only in the initial stage of a request for re-examination and during an optional response to a preliminary paper.

Once re-examination starts on the merits, this is entirely an ex parte proceeding. So, there is only the participation of the patentee without the participation of the third party. In the typical re-examination, approximately 85% of the re-examinations result in some claims being allowed. It is a very one-sided procedure and, in my view, totally ineffective. So, hopefully we can have an opposition system in the United States, a real opposition system. I am personally pushing for legislation to do this and perhaps with the inspiration of the success that the Japanese Patent Office now has with moving invalidity trials more quickly and the courageous efforts of the Tokyo District Court, maybe this inspiration can lead to our being able to have courage to do this, too. Thank you very much.

**MC:** Thank you for your input. You refer to the issue of re-examination. This is a very interesting issue indeed, but we have to focus and zero in on the specific issues involved. So, let's talk about the patent invalidity defense.

Can the US participants, in particular, Mr. Kappos, make any comments about this. If you could point out the differences in causes of invalidity between Japan, the US and Europe, which have been referred to by Mr. Boehm in his paper, and then after that input, perhaps we can go to a coffee break. In the following session, we can talk about foreign patents in relation to causes of invalidity. So, if you could talk about Japan, US, Europe and the differences in causes of invalidity between these three countries?

**Mr. Kappos:** OK. I'm going to respond to that question by focusing mostly on the US system that I am most familiar with. In practice... I'll start out with a sort of an overview here. In practice, the showing of invalidity of a patent has changed a bit in recent years in the US and it has come to focus very significantly on charges based on specific prior art under the Statutes 35USC 102 and 103 in specific. There were phases that our court system went through in which significant numbers of challenges were raised on inequitable conduct, which is a part of the US Statute that links into the requirement of attorneys to behave before the US Patent Office according to a standard of very high candour, good faith and full disclosure. The district courts, and particularly the Court of Appeals have not looked very favorably upon those kinds of defenses and so those kinds of defenses have become more muted in recent years.

Other defenses to validity that have had some amount of an upsurge in popularity, have increased in popularity, include defenses based on sufficiency of disclosure, written description and the US-specific requirement of best mode. Particularly, in the area of software patents and business method patents that will be discussed a little bit more later on, defenses based on written description, best mode, sufficiency of disclosure, may actually become very interesting in the future, and the reason for that is because so many of these patents have disclosures that are dramatically exceeded by the scope of their claims, including what we refer to as

"single means claims" or claims that cover every way to achieve a result, even though the inventor has only disclosed perhaps one way to achieve the result.

So, to summarize, defenses like inequitable conduct are not very popular in the US these days. Defenses to patent validity that is, based on prior art under 102 and 103, that is novelty and obviousness, remain very, very popular and those are the most common and most successful ways to challenge patent validity, basic prior art defenses, and in some areas defenses based on disclosure types of requirements, written description, best mode, sufficiency of disclosure, what we call Section 112 of our Patent Statute, seem to be encountering increased popularity and may indeed garner the attention of the courts going forward, given the very broad claims that many applicants are filing in some areas these days. Thank you.

**MC:** Let us continue. First, prior to Mr. Dogauchi, we would like to have Judge Rader to present on the differences in grounds for invalidity under the U.S. Patent Law.

**Mr. Rader:** Thank you very much. I'd also like to start by acknowledging the magnificent achievement of the Japanese Judiciary in reducing the time it takes to litigate patent cases. I commend Judge Iimura and his colleagues for their tremendous achievement.

I've been asked to discuss very briefly the differences between validity challenges in the United States and in Europe and Japan. There are several important differences. Perhaps one area of difference is the emphasis that the United States places on disclosure doctrines. In the first place, the United States has a best mode disclosure requirement, which is unique in the world. It requires the disclosure of the best way of practicing the claimed invention.

In addition, the United States has, in recent years, very strictly construed the enablement and written description requirements. In the field of biotechnology, the written description requirement has become the primary doctrine for policing validity. It is based on a requirement that the applicant disclose the precise structure of the biotechnological invention nucleotide-by-nucleotide, smallest element by element.

Enablement has similarly been used to strictly confine the scope of the claimed invention. This emphasis is perhaps stronger in the United States than in Europe and in Japan. The prior art based validity challenges of obviousness and novelty are much the same. Although the United States obviousness test does not use a problem-solving basis that you would find in the European system. I have always been a little worried that the problem-solving basis of analyzing inventive step can allow hindsight to creep into the inventive step analysis. Very often the definition of the problem is the inventive step itself and so, learning how the inventor defined the problem and thus solved it, can be very indispensable to determining inventive step, yet that is often where the European process begins its analysis. Nonetheless, those tests of prior art invalidity are quite similar in each of our jurisdictions.

Finally, eligibility or subject matter patentability as it is sometimes called, is far less an issue in the United States than it is in Europe or even Japan. As Judge Willems suggested earlier, there are significant hurdles to showing that a software invention is eligible for patent protection in Europe. You must have some technical application, if I understand European law correctly, whereas in the United States we have no such limitations on the eligibility of subject matter.

Those are a few of the differences. More emphasis in the United States on disclosure doctrines, a slightly different application of inventive step with particular emphasis on objective criteria in the United States law, and eligibility standards which are also much relaxed in the United States as compared to the rest of the world. Thank you.

**MC:** Thank you for your input Judge Rader. Well US, Japan and European validity challenges have been discussed, and I would like to move on to the next session. I would like to invite Professor Dogauchi to speak about jurisdiction over foreign patents, in relation to the Hague Convention.

**Mr. Dogauchi:** Thank you for your kind introduction. My name is Dogauchi. I would like to be brief, or that is the instruction given to me! I think my presentation would be a lengthy one because I have so many screens, and for a Japanese audience, I can speak faster but that's not the case here today.

Well, I would like to give three points, the outline of my talk before I start. One, the Hague Conference on Private International Law currently is discussing a connection on international jurisdiction and foreign decision recognition and enforcement in the matter of civil and commercial areas. Should jurisdiction over foreign patent infringement lawsuit be the exclusive jurisdiction if the courts of the country of registration or the habitual residence of the defendants as in general civil and commercial cases or the place of tort or choice of court agreements? Can these be permissible? That's the first issue. And in order to discuss that I would like to introduce the outline of the Hague Convention, although I may deviate from the IPR in general.

The second issue would be that in Japan there are two precedents at the Lower Court, not at the Supreme Court level, and admitting jurisdiction over infringement cases involving foreign patents. Of course the rulings on the merits have many problems, but the points is the courts did, rule on the merits, and jurisdiction was granted. However,, I am sure that Mr. Kumakura, Attorney at Law, would discuss the detail of those cases. I would like to be very brief about this but that is part of the assumption of my talk.

The third topic. If Japanese courts are granted jurisdiction over foreign patent infringement cases, then ruling or judgement must be rendered on the merits. As has been discussed, if in the said litigation, the defendant alleged the invalidity of the foreign patent, can the Japanese court, though limited to inter-partes proceedings, rule that the foreign patent is invalid?

Well there are many discussions about this but as a general principle of private international law, the act of granting a patent as an act of the foreign government. If so, how should one treat such an act? Also, as Judge Imura mentioned, even if these infringed cases were untouchable, would it not be possible to use the abuse of rights theory to get around the issue, and still do justice, in substance?

That is the third point I would like to raise. In brief, this would be the gist of my speech and I can finish here but I would like to nevertheless go through my slides. The Hague Conference on Private International Law is called a conference, but it is a permanent international organization established in 1955 and now has 56 member states. It originated from an old Conference which began at the end of the 19th century in the Netherlands. The Hague Conference so far has adopted, I believe, forty conventions, since 1955.

Japan has entered six conventions. However past conventions did not cover all matters of civil and commercial jurisdictions and recognition of foreign judgements that we are discussing today. Therefore they did not have much impact. The pending convention has so much impact, that various views are raised from many disciplines, and that's why it took so much time. As for the history of the draft convention, it was proposed by the US in 1992, and since then feasibility studies were conducted, and a special committee was set up for the preparation of draft to submit to the diplomatic conference. In 1999, finally, the preliminary draft of the convention was completed.

The initial plan was that in autumn of 2000 we will hold the diplomatic conference for adoption but the 1999 preliminary draft convention was too pro-Europe, and most of the US proposals were negated, it has been said, and the U.S. may not be able to enter the convention even if the diplomatic conference were held.

The European delegation said this is OK, but Japan, and other non-European countries, and non-US countries came to say a convention without the US is meaningless. So, in May 2000 the idea of adopting the convention in one go at the diplomatic conference in autumn was abandoned, and as the fruit of some compromise, it was decided to have a diplomatic conference in two parts, one in June this year and then six months later, another one.

The first conference would decide on a consensus basis and the second one would decide by majority vote. The first diplomatic conference was held in June. Originally, the 99 draft, when we counted the words, was 12,000 words in length, but with the consensus method if, even one country suggests something to be added, it cannot be deleted. So, all the defeated proposals including Japan's were restored in the next draft, so that the number of clauses increased dramatically. Different variations of clauses, were options and so many brackets and parenthesis added up to 24,000 words in the main text, plus so many footnotes, so including footnotes,

48,000 words. So, the information was multiplied by four. Academically this is interesting but practically, it made it near impossible to adopt the draft in the original schedule of 6 months.

So, at the end of the first conference, we decided to postpone the second session. So, currently the respective countries are discussing, how should we proceed. Forcing a role may cause more confusion. One idea would be, can we make it a small convention that covers only areas where there is consensus, or keep it to the core with small additions. But how small is another major discussion.

So, to be extreme, some countries say just a jurisdiction by agreement would suffice. That's the US proposal. Others would like this to have more meaning. Exclusive jurisdiction for IP and all that would be dropped if we go to the extreme of just jurisdiction by agreement so, we do need discussion as to what we should do.

How can we make the convention smaller? Maybe it's easier for you to understand this by looking at the structure. This is what we call a mixed convention. The causes of jurisdiction are divided into three categories. There is a white list; and a black list and some grey area in between. White listed jurisdiction would be obligatory for the contracting parties to admit and the other contracting parties must recognize and enforce those rulings.

As for the black list these causes cannot be cited as grounds for granting jurisdiction, and if any court should rule on such a case, it is the obligation of the contracting parties, to not recognize or enforce the ruling.

And in between, we leave a grey area which the convention covers, but the member countries may continue their current practice. No restrictions or prohibitions under the convention, but the rulings would be handled as before.

So, in order to make the convention small we expand the grey area, and perhaps in some cases, we may give up the black list. That is a serious matter. The USA, supports that view, but some countries, which would like to have some of the US jurisdiction under the black list, do not want to do away with that it. And there are some major problems. I cannot go through them all, but the first two are US-related ones. This is the biggest issue.

The US approach on the causes of jurisdiction is based on the due process clause according to the US Constitution. So, if the defendant performs some activity in a particular location, then jurisdiction may be granted depending on the degree, of the activity if it is not against justice. Setting clear and precise rules will take away the flexibility to cope with change. So, setting general principles should be enough. That is the US approach.

Whereas Japan and the continental law countries use the system of ordinary jurisdiction (i.e. place of residence of the defendant) and special jurisdiction, for example place of tort where property exists and so on. These countries feel jurisdiction should be precisely and exactly, prescribed, or else one has to go court every time to determine jurisdiction. And intellectual property issues fall into some of these areas of conflict. So, we do have a lot of big problems and for The Hague conference it could be part of the option to drop these issues from the Convention all together.

As for the intellectual property rights, what is the current thinking under the convention? Industrial rights and copyrights and neighboring rights are separated under the convention. This is a basic principle. Matters involving industrial property rights including patents or, at least the validity and grant, registration and revocation issues should be the exclusive jurisdiction of the state of registration, whereas copyrights and neighboring rights don't require special treatment. -Of course, applicable law is a big question but as far as jurisdiction is concerned, copyright can be treated as one right under private law. That is the majority view. There are some dissenting opinions but the majority say that the general jurisdiction rule would be suffice.

The problem is, how to treat foreign patent infringement. Like I said, the country of registration has exclusive jurisdiction in validity cases and nobody denies that. But for infringement cases, what should we do? For example, the validity of the patent may be challenged in cases involving license agreements. The consensus is, that for license issue, the normal course of legal action would be sufficient. The assumptions are the same,

but patent infringement is given a special treatment. Theoretically, this is the problem but since these cases are so frequent, the conference has focused on the matter.

There are three possibilities as to how it will be handled. The bottom one, we are going to give up and exclude from the convention because this is too difficult. If the top two were to be included within the scope of the convention, then we have to determine what we shall do. Should it fall under the exclusive jurisdiction of the state of registration or be treated like a normal tort case? Article 12 Option A of the current draft reflects the first idea; that is exclusive jurisdiction. I will not read the text, but as you can see, line 4, infringement will be followed by the words exclusive jurisdiction

Another alternative option, B, says infringement must follow Articles 3-16; that is, it should be explicitly mentioned that the general rules should be followed. This includes trademarks as well, not only patents. It reflects the second approach that I've just listed, to apply the normal rules of procedure.

So, there is a dispute, and exclusive jurisdiction has been traditionally promoted by the UK, and recently, many are in favor of that approach. But the US and Europe have not made their position clear yet. Japan, also, has reserved our position on the matter. The movement to apply normal jurisdiction rules is spearheaded by Switzerland, who says general handling is fine. But the Swiss also support the idea of arbitration. This ignited the dispute even further because, it raises the question, can arbitration be used to decide on patent-related matters? Those who are against it don't like the idea.

But anyway, Japan, has reserved its positions. Why? Well, traditionally academic scholars, here hardly ever discussed the possibility of exclusive jurisdiction, and, the majority of us believed that we could apply the general principles of jurisdiction. In the two cases I would like to discuss later today nobody questioned the courts' decisions to admit jurisdiction. But because this Hague Convention draft came up, it will be unbearable to have many started to discuss the issue. Economic organizations like the Keidanren started to say, Japanese patent infringement cases fought in US courts, under the U.S. system of discovery, trial by jury and all that. They were scared. So from a very realistic statements viewpoint people began to consider alternative such as exclusive jurisdiction, or removal from the scope of the Convention. There is a growing view now that regular procedures for ordinary cases will not apply. Let me cite two cases. One involved the infringement of a Manchurian patent. It was fought over whether the act of importation to Manchuria, infringed the patent in Manchuria. The second one, involved a product manufactured in Japan, whose export from Japan was alleged to infringe on a US patent. The second case involved the extra-territorial application of the US Law, so the second case is more complex. Like I said at the beginning, I would like to refrain from the details but anyway jurisdiction was granted.

Why was that? Well neither the plaintiff nor the defendant said anything about that. It is a natural reaction in infringement cases, like a Pavlov's reaction, for the defendant to challenge the validity of the patent but in those two cases I've cited here, the Pavlov's reaction was not observed, and nothing was said by the defendant. In exclusive jurisdiction, it does not matter what the parties said. What matters is public interest. It's the courts judgement and if the court denies foreign jurisdiction, nothing the defendant may say or not say will change the decision. In any event, the defendants were silent. So, in Japan that has been the discussion up to now.

How should this issue be handled? What is the proper way to treat this? Let's assume that jurisdiction is granted then, what will happen? In that case, since I'm a specialist on Japanese Law, so let me talk about the patent system in Japan. I think it has been explained already that, according to our Patent Law, patent invalidity is determined by the Board of Appeal of the Patent Office of Japan, not by the courts. And several old Grand Jury cases have been quoted. The underlined section says that a registered patent should not lose its effect insofar as it continues to be registered. Therefore, the court had refrained from judging.

But this forced the courts to make very uncomfortable decisions. Or else, they could suspend the litigation and wait but again, it meant more time required and was not very realistic. So, scholars discussed this problem rather extensively. I won't name them but there were some bold individuals who said we should allow courts to declare invalidity. How that decision will be positioned in relation to the administrative law system leaves room for discussion, but some argued it could be worked out.



As it has been explained, to assert rights based on an obviously invalid patent, is an abuse of rights. That was the Supreme Court judgement. and this ruling has afforded a significant number of ensuing cases, although the jurisdiction is still short. The Supreme Court ruling is being followed..

So, this is the current law in Japan. And in the arena of private international law, there is a controversy over how to treat a public act of state, when its validity is questioned in a lawsuit in another country. If the defendant is the state, then sovereignty immunity is invoked so there is no case. Commercial activity is an internationally accepted exception, but still, one can not sue the state in court for damages, over a public act of state. However, an act of state may be questioned as an assumption in a private person to private person litigation could an act of state be declared invalid in such cases? Well, this is what they call in the US the Act of State Doctrine. Courts should refrain from judging on the validity of an act of state by a foreign country within the country's territory..

The same principle holds true in Japan, although we have only one case under this category. The case was back in the 1950s, when there was a revolution in Japan and the oil business was nationalized. A Japanese company bought oil from the nationalized, state-owned petroleum company, and transported the oil to a Japanese port. Then the Iranian owner of the oil fields, named the Anglo Iranian corporation alleged it was their oil, and asked for an injunction. The issue is, although it was a case between private persons, there was a transfer of title of the Iranian oilfield, and was the transfer valid under Japanese laws as well?

Both the courts of first and second instance, refused to handle the case, saying that there is no established principle under international law, that allows a court to invalidate an act effectively performed by a foreign state, within its own territory. Maybe the state ownership, in Iran may have been violating International Law; maybe fair compensation was not given. But the Court refrained from judging on the matter.

In case of patents how should we approach the issue? Like I said at the beginning, it depends on how we view an act of state. The granting of patents, the creation of such rights, is one of the public acts of state. So, this is a bit different from the discussion over administrative law. If so, courts should refrain from deciding on the validity of foreign patents. That would seem to be the conclusion.

However, like I said since we had the April 11 ruling, if the patent is clearly invalid, it may be possible that claims based on that clearly invalid patent could be interpreted as an abuse of rights. But is discussion to such detail really necessary? Can the granting patents be discussed on the same plane as the nationalism of a petroleum company? Article 12 of the Hague Convention says that the validity of the incorporation of a firm, and resolutions of a firm or agency all fall under exclusive jurisdiction. The Incorporation of a firm is considered a public act and there could be a variety of levels. State ownership seems like an obvious act of state and a patent does not,, but you see there is a continuum of different levels, based on which the act of for??? company may be considered an act of state

But some may say, instead of having a lengthy discussion, why don't we vote for exclusive jurisdiction? If that is too risky, then why not drop the issue this time? But we may already have some cases like this, so the problem does exist. If that's the case, we have to think about what to do. That case in Japan is still pending at the Supreme Court, I'm excited to see what the Supreme Court would say.

**MC:** Thank you very much. As was in the explanation of Professor Dogauchi, the Hague Conference is discussing jurisdiction over patents, particularly for infringement action and the ruling of invalidity. the Conference has talked 2 scenarios, alternatives A and B. The members of the panel who today, are all patent practitioners, so, we would like to set aside the Hague Convention for a while and discuss how a foreign patent should be handled when a court or the Patent Office found grounds for invalidity. There must be some practical problems involved. We would like to hear about the present status in Europe, Japan and the US and recent cases, involving jurisdiction over foreign patents.; I would like you to give brief comments. First, Mr. Willems please.

**Mr. Willems:** Thank you Mr. Chairman. Jurisdiction in Europe is a national matter in principle, but in practice, it's regulated by two conventions, the Brussels and Lugano Conventions, giving rules for jurisdiction. Very simple rules in principle. Competent court is the court of the domicile of the defendant. If there are more defendants, then the plaintiff can have a choice. Second, competent is also the court in whose territory the

infringement is taking place. Third important rule, for the validity of registered rights, let's say patents, there is an exclusive competence for the courts of the country where that right is registered.

It's easy to see how these simple rules can cause problems in the case of the infringement of a foreign patent. For instance, a Dutch company infringing a German patent, there is jurisdiction for the Dutch Court to give an injunction against the infringement of the German patent against the Dutch defendant. However, if the defendant raises the defense of invalidity of that German patent, there is a conflict with the rule that to decide about the validity of a patent is the exclusive competence of the court of the country where that patent is valid or granted, in this case Germany.

There are different ways the European courts have tried to solve this puzzle. Dutch and German courts have decided that they were not competent to decide upon the validity, so they had to stay the infringement proceedings and to await a revocation action in that foreign country concerning that foreign patent.

The UK courts have gone one step further and they have held repeatedly that as soon as the defendant in a case about patent infringement raises the issue of the validity, the invalidity of that foreign patent, the competence of the UK court totally disappears. Whatever solution was taken, the consequence was and is that a patentee has to go to every court in every country concerned. That's why I'm quite abhorred by the suggestion that the Hague Convention possibly could contain a rule that for patent infringement, there should be an exclusive competence of the country, the courts of the country where that patent is registered.

In a case of a European patent where you have, for instance, nineteen designated countries, that would mean that in case of infringement, you would have to start infringement proceedings in nineteen different countries. That would be a large step backwards in my opinion.

Perhaps the world is confronted with the same problem that Europe is wrestling with during some time now, having one market in Europe because of the EC Treaty and the world as a consequence of the economic globalization, having one market but having inside that market different jurisdictions. I think the experiences of the Europeans in this difficult matter could be of some value.

We have tried different solutions. For instance, cross-border injunctions, making use of a rule in the Brussels and Lugano Conventions saying that when there are more than one defendant, you can sue all these defendants for the same court, being the court of the domicile of one of those defendants. That had as a consequence a lot of foreign companies tried to have their cases tried in a certain jurisdiction just by taking one more defendant aboard. If you wanted to go to a German court you just had to show next to the important defendant, which you really wanted to enjoin, you just had to get hold of a German defendant and you could sue both defendants in Germany where you wanted to go for some reason or other. If you wanted to go to the Netherlands, you just had to take care that you had a Dutch co-defendant.

That did not turn out to be a totally good solution. It's workable until a certain height but as soon as the defendant raises the invalidity of the foreign patents, you are in deep trouble. Of course, it could be an idea to apply the Japanese invention of the Abuse of Right Doctrine of this new decision of the Supreme Court. But I, personally, would have some hesitations there because it's one thing to be in Japan and decide that probably the patent is invalid on the basis of Japanese law. It's quite something different to have to decide as a Japanese judge about patent law in France or in the Fiji Isles or to decide as an American judge about the validity of a Japanese patent according to Japanese law. So, I would have some hesitations in the application of the Abuse of Law Doctrine in that direction.

I think these two remarks will have to suffice for the moment Mr. Chairman. One, in heaven's name, let's not go back to creating exclusive competencies for infringement in all separate countries and thereby turning the clock backwards and second, let's be careful applying this Doctrine of Abuse of Rights when applying foreign law which we are not that conversant in as we are in our own domestic laws. Thank you.

**MC:** Thank you very much. We have just heard the cases of Netherlands, Germany and UK concerning the judgement cases. Thank you very much for your very practical explanation. I already understand, as practical problems, how we should deal with the issues. Since we will deal with hypothetical cases, I think you will touch upon those points later again. Thank you very much for your input.

Now, I would like to ask Mr. Kumakura to give a presentation. Can you just describe the recent cases?

**Mr. Kumakura:** Thank you very much. I am Kumakura. Thank you for this opportunity. Today it is indeed my great pleasure to be invited to the Softic symposium.

Since the very beginning, the Kilby case has been discussed today. Judge Imura was the judge of the court of first instance and Judge Makino was the judge of the court of the second instance. Makino decision, the case at the Supreme Court, is very well known, and I represented TI, which was the losing side, and Mr. Mizutani represented the prevailing side. And so, I'm in the worst position among all the parties involved, so I feel somewhat uncomfortable today because I only represent the losing side.

And today, in connection with the Hague Convention, I'm asked to make a comment, so from the vantage point of a practitioner, I would like to give some of my comments. And with regard to the Hague Convention, as was mentioned by Professor Dogauchi, it has a broad range and for instance in foreign countries if there is a judgement the Japanese and how that judgment is recognized and enforced in Japan and whether or not the jurisdiction is exercised Japanese judgement is enforced in foreign countries, what kind of jurisdiction rule is used in the Japanese court to to enable enforcement the judgement in foreign countries.

Well, a multilateral framework is used in order to have harmonization and I believe the purpose of the convention itself is quite significant and meaningful. For instance, the Munich case in the Nagoya District Court, there was a case to enforce the judgement of Munich court. in Nagoya. Actually in Japan and Germany, the civil procedure on enforcement of foreign judgement remain quite close, very similar.

In spite of the similarity, there is a reciprocity and therefore, if Germany enforces the Japanese judgment, Japan will do soothe same. This is the reciprocal principle and therefore, unless one side takes a step, the other side can not move and therefore, for that reason it took a long time, At the Supreme Court in German, how this could be interpreted and was considered and studied and finally the recognition was given.

And so, without the convention, like Hague Convention, it takes a long time and it requires a large amount of energy for that reason the Hague Convention was necessary. And why, on the IP issue, was such a long dispute conducted? In October 1999, actually the draft was proposed by the Hague Conference on Private International Law and WIPO at that point seemed to believe that the draft could work quite well and particularly concerning Article 12, they did not place much emphasis and AIPPI was asked to give an opinion and expected to do so within one month. When we actually asked the members of the AIPPI throughout the world, it took a long time and no agreement was reached the next year. Even in Melbourne this year, no consensus was reached at AIPPI. And in the end, the AIPPI's opinion became quite negative.

From the vantage point of practitioners, as was mentioned by Professor Dogauchi, there was a different feeling between practitioners and academia. In many countries IP, intellectual property, particularly the patent, the patent is deemed as a territorial right and not only the legislative jurisdiction but also the judiciary jurisdiction belongs to the territory. That kind of feeling has existed widely among the practitioners.

In AIPPI in March, the report was given from various countries. That was the opinion of AIPPI; this is not the government opinion, this was the opinion of practitioners. And in the case of the United States, concerning the invalidity of the foreign patent, the United States believes that that is on matter of exclusive jurisdiction and a country of grant has the exclusive jurisdiction. That's the US position.

Concerning infringement, for example in the Boatman Case there is a chance of no exclusivity. The US court, may deal with the case about the foreign patent, there is the possibility. However this is not quite certain, and enforcement at the court is not quite certain. And so reflecting this reality, the practitioners expressed their opposition.

Canada takes an even more conservative position. And concerning invalidity of a foreign patent, they believe that this is completely exclusive jurisdiction and concerning Canadian patent, only the Federal Court can make it invalid, as to infringement both the Provincial as well as the Federal Courts can judge on the infringement. So, this is different from the US federal system or German federal system.

So, Canada is characterized as a very conservative position. The UK was discussed earlier and there was reference about the constant opposition as pressed by the UK, and Professor Dogauchi mentioned that before the US jury, the UK kept on saying that it could not tolerate their patent being judged before the jury of the US. Concerning the validity or invalidity, the UK believes that there is exclusive jurisdiction. And if there is any infringement case, there is suspension. And perhaps this means that the jurisdiction can be eliminated as a result. As for the infringement case, under the Brussels Convention, is the UK follows just ordinary jurisdiction, but outside the EU or against the non-contracting states, it is not certain or perhaps more negative.

Switzerland is facilitator of the Hague Convention and the report helps us understand the convention and they have a very unique statutory law on Private International Law. Concerning international jurisdiction, there is a clear provision about intellectual property and... infringement is under the ordinary jurisdiction and invalidity is under the exclusive jurisdiction. But as to incidental matters, or incidental questions, it is possible for the infringement court to give judgement about incidental questions. And when we ask questions in Switzerland who will be involved in the judgement, if the Japanese patent is contested in Switzerland? They say that Swiss court seeks expert opinion from the Japanese and the Swiss Court will give judgement in light of the opinion. And that is the procedure they follow very often. I haven't had experience myself but anyway, with those diverse positions from different countries and the AIPPI showing a negative opinion and Keidanren, the Japan Patent Attorneys Association and Intellectual Property Institute have been seriously thinking about this matter. From the practitioners in Japan, there was strong opposition. Theoretically there is no sufficient ground to question the exclusivity of the jurisdiction and it is perhaps after all a matter of economic consequences or trust in other countries' courts.

In June 2001 those reactions influenced the Hague Conference. According to the draft in June, the three alternatives A, B and C were included therefore it is quite flexible and we do not know which course the convention will take in future.

Simply put under alternative A, the infringement is under the exclusive jurisdiction and validity; also, exclusive jurisdiction and incidental issues, ordinary jurisdiction.

In the case of alternative B, the infringement is under ordinary jurisdiction. For instance, the domicile is a more than sufficient condition. Invalidity is under exclusive jurisdiction, and the incidental issues, ordinary jurisdiction.

And under the third alternative, there is a memo describing that concerning intellectual property and patent, there is no provision incorporated into the Convention. That is a third alternative.

What about Japan's position, that's what I'd like to mention. In 1953, there was the Manchuria case. Ever since 1953, the Japanese court has been silent about this matter. Concerning evaluation about the Manchuria case, from time to time under the US court, expert opinion is sought as a reference. For instance, in the US court, although a patent in question is a US patent, that the case is brought by the Japanese litigants and therefore, the forum should be Japan. And if that kind of opinion is given by the court, the plaintiff may say that they will not have the proceedings in Japan, and the defendant may have a different opinion. How is that matter decided? Only the case law available is the Manchuria Case, but it is still very difficult to interpret the application of the Manchuria Case.

So, among the practitioners, opinions are divided and private international law experts say that because the court has remained silent, that means that jurisdiction is recognized by the court. That seems to be the interpretation of the practitioners. But a new opinion emerged in 1999. In the Tokyo District Court and in the Tokyo High Court, the new interpretation was given, the case moved to the Supreme Court. In this case, the plaintiffs and defendants were Japanese corporations and one Japanese corporation produced the FM, demodulation equipment. Or, the product was referred to by different names, too. That kind of machine was produced and exported to the United States. That particular equipment, demodulation equipment or what they called a card reader. Corporation X, another Japanese company owned the US patent on the product and that patent infringement was alleged.. Under the normal circumstances that should be a US court case, but in this case, the producer and the exporter were Japanese and therefore, that was sued as contributory infringement case.

For that reason, they brought the suit and is the plaintiff focused on the act that the products was produced and exported from Japan to the US, and they claimed for injunction and damage in this case. The plaintiffs used the defence of invalidity of the US patent during the first instance.

Concerning the jurisdiction, as was mentioned by Mr. Dogauchi, both the High Court and the District Court of Tokyo, did not give any clear opinion and the fact that they did not give any clear opinion means that with ex officio they have to find the jurisdiction and even though the parties reached the settlement, the jurisdiction cannot be accepted if the court could not find it valid. Therefore, on this matter concerning the jurisdiction, there was no argument among the parties. The foreign patent issue, the Japanese court has remained silent but handled the case. It was generally interpreted that but both the High Court and District Court were deemed to recognize the jurisdiction.

Concerning the contents of the judgement, there was the difference between the High Court and District Court and concerning the injunction claim in the Tokyo District Court, this was decided as the matter of US patent. Therefore, the applicable law should be the US patent law and the US patent law should be applied. That can be applicable to the production as well as export activities within Japan. Whether the Japanese court order the injunction for the act within Japan under the US patent law. So, because there is the principle of territoriality and I believe that this is legislative as well as judiciary jurisdiction here and under US patent law, the territoriality means only the United States and ex-territorial application of the US patent laws is against the basic objective of Japanese patent system. This is the Act 33. And therefore, once the US patent law was applied, then that was dismissed by the rule restricting application of foreign laws into public, moral and order questions.

Under the Tokyo High Court, concerning the claim for injunction, since domicile and the place of act for plaintiffs are in Japan and therefore, there is no problem about applicable law. Therefore, they did not use the US patent law as applicable law.

So, the act took place in Japan, it could not be judged by using the US patent law and as a result, the case was dismissed.

Now the claim for damages. The interpretation was just the opposite and at the Tokyo District Court, the country of tort was Japan and the Japanese law should be made applicable. That's the District Court judgement. So the act, as far as that took place within Japan, the patent of the plaintiff could not be infringed and therefore, this case was dismissed because the act did not constitute tort. And so, this is very complicated opinions and interpretations and there is the likelihood that we tend to misunderstand this ruling. But anyway, the case was dismissed. Legally protectable interest should be that of US patent.

Now, on the other hand, the Tokyo High Court concluded that . there was infringement of US patent in this case. And therefore, international private law should be applicable, since the acts took place in Japan, Japanese law should be applied. The court decided that plaintiff's claim for infringement of US patent did not constitute a tortuous act under the Japanese law and the claim was dismissed. As to the private international law – how that should be applicable in this context, we really do not understand. But US patent is the first to be deemed as protectable legal interest and therefore, this is the US patent issue. Therefore, in terms of jurisdiction, the Japanese court is finally made a bold step to deal with the US patent, in order to make judgement about the case. So much for the discussion about Japanese law, the present status and comparison with the Hague Convention.

So, I think that's all that I would like to mention now so the Hague Convention or Japanese case that's what I wanted to cover. So, if I just give a conclusion on the consumer card reader case. Compared with the drafted Hague Convention, we should say that the interpretation or the ruling is quite progressive. And in this case, the defense of invalidity about US patent was used initially but later, this was not touched upon. How the defense ounder invalidity of the US patent law should be treated has remained an open question. Thank you very much.

**MC:** Thank you very much. You talked about the AIPPI and explained the situation in various countries. I am sure this has brought you up-to-date on the situation in the various countries.

Before going into the various hypothetical cases Mr. Rader, I believe, will discuss the jurisdiction over foreign patents. There was the MARS Case in the United States, so I am sure he will explain this as well. Mr. Rader, please

**Mr. Rader:** It's a great pleasure to be back in Japan. I have traveled to more than fifty nations discussing intellectual property, but I always like best to come to Japan. I find that the lawyers here understand the law better than anywhere in the world. I also have many wonderful friends here like Mr. Norichika and Professor Nakayama and Judge Shitara and many others. So, it's a great joy to be here with you.

I'd like to discuss with you the question of cross-border enforcement under United States law. Before I begin the legal commentary, let's make sure we understand the problem. Assume that we have a marvellous software patent. Assume also that IBM is infringing that patent worldwide. It has placed our patent on every one of its machines. How do we get a remedy for infringement that occurs in many nations?

We could start by trying to sue for infringement in each separate nation. Think of the difficulties of that. We would have to find and supervise a law firm in each separate nation. We would have to translate all our documents into every separate language. We would have to send our top executives and researchers to one nation after another to testify about this infringement. You can quickly imagine that the expense of enforcing our patent would be beyond our ability to bear. We would probably have to let the infringement occur in many nations.

On the other hand, we might try to sue in one forum and ask that court to apply the law of many different nations to address the whole infringement problem in one place, at one time. My court, the Court of Appeals for the Federal Circuit in the United States, has addressed one case where a patent owner asked the United States courts to decide issues of infringement under Japanese law. This is the case of Mars versus Kabushiki Kaisha Nippon Conlux. That was decided in 1994.

The patent covered a coin sorter machine. Mars, a United States company, alleged that KKNC, the Japanese company, had infringed in the United States under US law and also in Japan under Japanese law, and it brought both claims to the Trial Court in the United States. The United States Trial Court assumed that it had jurisdiction, but dismissed the Japanese law claim for lack of comity. Comity is a doctrine that means the United States court respects the rights of Japanese courts to interpret their own law and thus, declines on its own privilege to hear the Japanese law matter.

The case went on appeal to the Court of Appeals for the Federal Circuit. The Federal Circuit did not assume that it had jurisdiction but instead, examined the question of whether United States courts could exercise supplemental jurisdiction over Japanese law claims. Let me explain what supplemental jurisdiction is.

Supplemental jurisdiction in US law allows courts to adjudicate non-federal claims attached to patent law claims. Usually these non-federal claims are state law trademark actions or state law torts that arise under the law of a different state in the United States. We might have a non-federal California trademark action and a California business tort action accompanying a United States patent action. Usually that's what supplemental jurisdiction covers. But a non-federal claim could also be perhaps a Japanese law claim. The test for supplemental jurisdiction is whether the non-federal claim, in this case Japanese patent law infringement, has a common nucleus of operative fact with the United States patent law claim.

Our court examined whether the Japanese law claim had a common nucleus of operative fact with the United States patent law claims, and it found that in that case, it did not have a common nucleus. The court noted that the Japanese patent claims were different from the United States patent claims. Specifically, the Japanese patent covered a coin sorter apparatus; the United States patent covered a coin sorter method.

The court also examined the accused devices. It noted that the Japanese law claim accused nine different devices of infringement. The United States law claim accused only one device of infringement. Therefore, the Court of Appeals for the Federal Circuit said these cases were too different, they did not have a common nucleus of operative fact.

This case actually raises an important question. If the patents from separate nations and the accused devices in those nations were more similar, could the United States actually assert supplemental jurisdiction over

foreign law claims? We have not received yet another case to test that proposition but I would talk just a little about the concerns about cross-border enforcement where a United States court would enforce Japanese law or a Japanese court would enforce United States law.

Perhaps the most important fear is that Japanese consumers may object to paying higher prices because a United States court has found infringement under Japanese law. Similarly, United States consumers may object to paying higher prices because a Japanese court has enforced United States law.

There is also a concern that nations may erect legal barriers to cross-border enforcement. For example, Switzerland already has a law that forbids any corporation with its headquarters in Switzerland from releasing their trade secrets to a foreign corporation, even in litigation. This, of course, frustrates foreign enforcement of patents because you cannot learn exactly what the Swiss company is doing. It pleads inability to release its trade secrets. Those are two big concerns, the reaction of the public and politicians, the concerns about erecting legal barriers.

Let me just mention a few policies, however, that address these concerns. First, each nation would have courts that would have the option of determining whether a foreign court has fully and fairly applied their local law. In other words, if a Japanese court enforces United States law, you would still need to bring that judgement to a United States court for enforcement. At that point, the court in the United States could examine whether the Japanese court has fully and fairly applied the United States law. We call that doctrine in the United States the Blonderton Doctrine, which has been a part of our jurisprudence since the Supreme Court case of that name in 1971. This would offer protection against a court unfairly or inaccurately applying a foreign law.

It's also important to note that the TRIPS Treaty and WIPO efforts are already bringing unity in international intellectual property standards. This means that courts will perhaps learn to rely on each other. They can perhaps recognize judicial economy in acknowledging the judgements rendered in other nations. It's important in this respect to note that Europe has already had considerable success in this area. Judge Willems has noted that there are many questions open but we have seen cross-border injunctions, cross-border enforcement in Europe that has worked quite well.

In conclusion, intellectual property crosses international borders. The world is an international market place. The market will continue to drive courts to find a way to efficiently enforce rules across borders. Courts will inevitably need to consider more invitations to apply foreign law. Ultimately, the benefits of this international enforcement may outweigh the concerns. Thank you very much.

**MC:** Thank you very much. As you refer to in the Mars case, it was a Japanese patent which was the subject matter there. How would the analysis in the Mars ruling, be applied to specific cases. We have created a hypothetical to study this point.

Now, as Mr. Kumakura mentioned earlier, the Tokyo District and High Courts have rendered decisions on the Card Reader and case somebody wanted a comment on this from Mr. Dogauchi. So, if you could comment on this Mr. Dogauchi

**Mr. Dogauchi:** Thank you. The card reader or the FM Modulator case. I thought that I could skip that issue safely but I guess I can't. Under the High Court ruling, the claim for injunction and the claim for damages were separated because they were different in nature. That was the logic.

The former is a public, or legal public law type of issue and therefore, in Japan only the Japanese patent law will be held in question. So, the discussion of applicable law itself does not apply. Whereas in the case of damages, the rules of private international law are applied to determine applicable law. Of course, it could have been judged that US law would be the governing law for damages but the decision was to make it Japanese law. In any event both claims were rejected, but, the two issues were dealt with very, very differently and whether that separate dealing can be justified is a big question. Because it's the same rules, just different modes of relief. But public laws are applied for injunction and for damages, private law. Is that kind of a distinction actually justifiable?

Of course, it can be done because under Article 196 of the Patent Law, infringement of patent rights will also be subject to criminal penalty, so an offence of a provision, whether it be civil or public or private law, can be remedied by injunction or damages. At the same time, the nation can impose a penalty or panel servitude or other criminal penalty as well.

So, although they are under one and the same provision, the nature of the remedies are different because this provision does have two different characteristics. So, the non-criminal portion can be divided into rules that apply under public laws and those to which private international law is imposed. That's not impossible, but I've never heard that logic before.

So, I hate to evade the question but I look forward to how the Supreme Court rules on this.

**Kumakura:** Can I ask you a question about this?

**MC:** Yes please. Please make it brief.

**Kumakura:** On this point, when you look at the High Court ruling, as you say, for injunctions, the US law would not be applied, and for damages, it cites Article 11 of Horei so it appears as if the US patent law may not be applied, for damages either. So for both injunction and damages, the US patent law is not applied. That is, there is no reason to judge on jurisdiction under the American patent law. That's a point I wanted to question you about because I was a little bit unclear about this.

For legally protectible interest, it says the US patent law may apply but for injunctions it applies Japanese laws, as the law of the country of tort.

**Mr. Dogauchi:** Yes, for damages Horei, Article 11 was applied which means that the US law may have become the governing law, and so I was saying that this is different from other rulings. But in conclusion, the court said this was not a problem that involved US laws. So, it was not an issue of infringement of a foreign patent right, but it was infringement of a Japanese patent right. Therefore, the issue of jurisdiction did not come into question.

But when you acknowledge jurisdiction it has to be done on the premise of the plaintiff's argument. So, if the court truly believed in exclusive jurisdiction over foreign patent infringement, then I am sure the court could have dismissed the case outright. But it didn't.

**MC:** There are several issues here and time is pressing but I would like to Mr. Wegner to comment. As far as the card reader case is concerned, let's say it was not a jurisdictional issue. The act of infringement was in Japan; the exportation of the infringing product to the United States, and so it's the US patent law being applied to an infringement act in Japan. In this case, is the court separated the issue of injunction and the damages. So, if a similar case happened in the United States, that is, the product in question was exported from the US to Japan, and the claimed infringing device was actually produced in the United States and was exported to Japan. In that case would the issue of injunction and the issue of damages be treated separately? Would that kind of an approach be taken?

**Mr. Wegner:** That's a very good question. First, let's talk about the extraterritoriality issue. Infringement can occur only in the United States for there to be US infringement as to what we call direct infringement. But inducement to infringe, active inducement under Section 271(b) can occur in any country of the world if the direct infringement occurs in the United States.

So, the famous case on foreign inducement is Honeywell versus Mets. In about 1975, Mets, a German flash manufacturer, sold flash units with a title was transferred in Frankfurt airport and delivered to Chicago. So, the direct infringement occurred by the Altman Camera Company in Chicago, which sold the infringing Honeywell flash units in Chicago in Illinois. So, Mets was charged with active inducement. Mets never came to the United States, never sold in the United States. It transferred title in Frankfurt and the seventh circuit in the United States said that this was active inducement and liability for infringement, even though those acts were entirely outside the United States.



Now, in the question that you gave, you were talking about exporting to Japan so we would have manufacture in the United States with a US patent there would be infringement of the US patent. Was it a different question?

**MC:** Let's take a mirror image of the card reader case. In the United States, they don't have a patent. They only have a patent in Japan. Both the plaintiff and defendant are incorporated in the United States and the defendant produced the accused device in the United States and exported it to Japan. In Japan that would constitute infringement of the Japanese patent. In that case what would happen?

**Mr. Wegner:** I'll have to think about that.

**MC:** All right. Let me go to the hypothetical cases. Perhaps you can give us your answer then, all right? OK. I hope that you will mull over the hypotheticals during lunchtime. There is an appendix in your file and therein you will find the hypothetical cases, and we will go through the questions one by one.

If we can comment on the hypothetical before lunch that would be very nice and then after that, in the afternoon we can continue. Initially, we had thought that we could conclude the hypothetical cases up to the issue of jurisdiction, but timewise this is very, very tight. But I think you gained a good insight of the situation in various countries with the presentations of the panelists, so perhaps we will be able to smoothly proceed with the hypotheticals.

Now then, could we go into the appendix? The hypotheticals. Do you have the overhead for this?

Firstly, about jurisdiction over foreign patent and judgement of invalidity. I think you will see the chart beneath, which is easier to understand. The plaintiff or the patentee is a company called X, X Corporation. And the patent that that company holds, although it does not specify, is an apparatus patent.

It's an article or product invention. And X Corporation has a patent consisting of the elements a, b and c in A country. At the same time, he has the same patent with identical claims in country B. I think that is an important point. Meanwhile the defendant or the offender Y Corporation's system is a server client terminal and its elements consist of a', b' and c'. That is, it exactly corresponds to the element of X Corporation's patents a, b and c. So, this is an exact working of the elements of X Corporation's patent and this is operated in both countries A and B. X and Y plaintiff and defendant are both incorporated in country A.

Now then, if we could ask the panelists to assume that your country is country A. The chart here indicates that the patent in country A, is infringed by company Y's system in A country. The same for country B. That is Y's system infringes the patent in country B.

Alright then, going on to the first question, can X Corporation file, in County A, infringement lawsuits against corporation of its patents in both country A and B together. That's the first question.

This is of course a hypothetical case as I said. And the incumbent judges who will be commenting on this will speak on the assumption that it is hypothetical. Now then, may we ask Mr. Willems to comment?

**Mr. Willems:** Thank you Mr. Chairman. This is a situation that actually happens quite often in Europe because, as I told you earlier, the European Patent Office issues patents for, in principle, all member states of the European Patent Convention. And all these patents are literally the same. So, this situation quite often happens and the answer in case one for Europe is quite simple because of the Brussels Convention.

I Corporation is domiciled in A and the main rule of the Brussels Convention is that there is jurisdiction for the court of the domicile of the defendant. So, the infringement should against I Corporation be brought before the courts in A country. It doesn't matter whether that's an infringement in A or an infringement in B or even an infringement in C. That's only different as soon as the invalidity issue is brought forward. The court in A country can decide and should decide about the validity of the patent in A country, but it cannot decide about the validity of that same patent in B country.

In practice, European courts, probably most European courts, will stay proceedings in that case as regarding the infringement in B country until the moment that there is a decision of the court in B. That's only different, I think, in cases of interlocutory injunctions when there is some urgency. In those cases, anyhow, the Dutch courts will not stay the injunction proceedings but try to make an educated guess about the outcome of the validity issue in B country. And if it's a European patent having exactly the same description, exactly the same prior art, exactly the same claims and it's concerning exactly the same product, that guess should not be that difficult. That's the answer for Europe I think. Thank you.

**MC:** Well, question one, was a jurisdiction issue. Whether the plaintiff can sue, in country A, the accused company, for its infringement in country B. According to Mr. Willems' paper it appears as if judgment on whether it's an identical claim seems to not be required. Is my interpretation of your paper correct?

**Mr. Willems:** I'm not sure I understood it.

**MC:** Well you see, in this particular case, there are patents in country A and country B. Can we bring the case as a uniform litigation in country A? In regard to this particular question, Mr. Willems, I believe you answered yes; yes you can in country A.

**Mr. Willems:** Yes.

**MC:** Then, in that case, do the patents in country A and patent in country B have to be identical?

**Mr. Willems:** They don't have to be identical. They can be quite different patents. It can be only a patent in country B. Nevertheless, it is the court in country A where the Y company is domiciled but I was referring to the hypothetical case where the claims were identical. It is not necessary.

**MC:** Thank you for your response. Anyone from Japan? Mr. Kumakura.

**Mr. Kumakura:** Well, I once again talk about the card reader or Manchuria cases. If you just follow that discussion, it is quite possible. And whether that should be an identical claim is not a question. Actually, it's irrelevant because first of all... a jurisdiction rule of the international civil procedure states that the domicile of the defendant is the place where the jurisdiction exists and therefore, and the subject matter includes the foreign patent as well. The difference of the claim is not a problem.

**MC:** So, now I'd like to ask Mr. Rader to give the US case, please.

**Mr. Rader:** This situation looks very much like the Mars versus KKNC case that I mentioned a moment ago. Therefore, in order to determine whether the Courts in the United States would have the supplemental jurisdiction to enforce the law of another country, we would have to see if there is a common nucleus of operative fact. That would probably, in this case, require an examination of whether the United States patent and the patent of the foreign country were very similar, if not identical, and whether the accused devices in each place were very similar, if not identical. And if they were, the US Court may have supplemental jurisdiction. That would not answer the question of whether the United States would exercise that jurisdiction or whether under doctrines of comity, they would decline to enforce foreign law. But at least the jurisdiction may well be present and that would allow courts to proceed if they felt that the common nucleus of operative fact were present.

**MC:** As was mentioned, for instance, in the case of Mars the supplemental jurisdiction is very important. So, for instance, the nucleus of the facts or the identical cases. Well, that is a very important point and in that connection, then I would like to ask Mr. Kumakura in your paper restriction can be the existent and for instance for the identical inventions and if there are identical defendants and in the case of a claim for damage, the jurisdiction can be granted. That's what you mentioned in the paper.

So, Mr. Rader talked about identical patents. Do you think this is very similar to what Mr. Rader mentioned now?

**Mr. Kumakura:** I think there is a great commonality, but if you move a step further to answer a question about jurisdiction, depending on whether that is a claim for the injunction or for damage the more delicate

distinction is necessary; and the reason I wrote so in my paper is that international civil procedure provides for a rule determining for jurisdiction according to that domicile of the defendant is a place of jurisdiction. So, except for the special circumstances observed by the Supreme Court, the same claim the same domicile, the same apparatus indicate that there are no special circumstances. That is the reason I wrote that in my paper.

**MC:** Mr. Willems also pointed out that the jurisdiction should be accepted by a court of the country where the defendant is domiciled. If there is a patent in both country A and country B, that constitutes we call the consolidated jurisdiction.

Well, that represent a condition in Japan, but in case of Europe, if the defendant resides in a country, the court in that country has the jurisdiction. In Japan according to Mr. Kumakura, perhaps that is slightly different and becomes a issue of consolidated jurisdiction. Can you elaborate on that?

I do not think that is the case here , in a ordinary forum of the defendant, for instance US patent litigation, I think jurisdiction is exercised for the foreign patent.

**MC:** So, in both country A and country B, litigation is brought only for a patent in country B.

**Mr. Kumakura:** Well I haven't reached any conclusion yet but I think that seems to be the direction indicated by the Japanese Court.

**Mr. Dogauchi:** Since B is the country of defendant's domicile, jurisdiction is exercised with only country B patent. But in the US, only the supplementary jurisdiction is exercised. In that case, does it cover patents in both country A and B? Even when the domicile in country B, isn't it difficult to recognize jurisdiction with only a patent in country B?

**MC:** Anybody? Mr. Rader, do you have any idea ? If the lawsuit is brought in the United States concerning the act of infringement conducted in Japan, do you think that US court accepts jurisdiction? That is the question.

**Mr. Rader:** Patent on B?

**MC:** That's right.

**Mr. Rader:** I'm not sure.

**MC:** Please clearly answer that.

**Mr. Rader:** I'm not sure of the answer.

**MC:** Uh-huh. Mr. Kappos, do you have any comments on this matter?

**Mr. Kappos:** The Mars case that Judge Rader has already fully addressed. I don't know of any case in the US that involves a patent from Japan brought into the US, litigation brought in the US. I think the only chance you would have of a court accepting jurisdiction is, again, if the patent claims are the same or virtually the same and personal jurisdiction or requirements are met. In other words, that the defendant has significant contacts with the US such that it is fair for the court to assert jurisdiction.

**MC:** In the hypothetical, the defendant is domiciled in the United States and the plaintiff is also domiciled in the United States. So, what is at issue here is that they have both a patent in the US and an identical claim based patent in Japan as well. Mr. Dogauchi's question was, of course, you can sue based on infringement of the US patent but if you did not choose to do that and you chose to sue only for infringement in the United States of the Japanese patent, then would jurisdiction be granted?

From the viewpoint of the Mars case, I guess the idea is that only supplementary jurisdiction, and no other type of jurisdiction will be allowed. So, what is your view, Mr. Rader?

**Rader:** Yes. Without a United States patent in question or a United States law claim in question, there could be no jurisdiction supplemental to that, so you could not bring an independent case under the law of Japan without having a United States Patent law claim to which you would attach the Japanese law claim. There is no other source of jurisdiction over foreign law claims in the United States that I am familiar with.

**MC:** Thank you very much.

**Mr. Willems:** In Europe it is quite different because we attach much more importance to the domicile of the defendant and we don't see any reason to force two European parties to go to Japan to litigate there about a dispute they have.

**MC:** Yes I see. Thank you very much. We have heard from Japan, the US and Europe and I personally feel that the issues have been clarified. I'd like to go on to the issue of invalidity but it's already past 12.30. I'm very sorry. The issue of invalidity, the next question, will be deferred until the afternoon. So, perhaps you can mull over these issues during lunchtime. So, we will break until 1.30. Thank you.

Mr. Iimura has to attend a meeting of judges so he will have to leave us now, and we would like to thank him for sharing his valuable time with us this morning. Thank you very much Mr. Iimura.

**Mr. Iimura:** I'd like to thank you once again for giving me this opportunity to present to you. I had hoped to attend the discussion in the afternoon but unfortunately, I'll be taken away by another meeting. If you have any questions if you could contact the Secretariat of this symposium I would like to answer to the best of my abilities. Thank you.

**MC:** So, we will break for lunch. The afternoon session will begin at 1.40, and not 1.30. Those of you with questions please jot them down on the question sheet and deposit them in the small box, for questions.

**< lunch >**

**Secretariat:** Please do take the seats at the front of the room with the white cloth coverage, especially if you want to ask questions. If you could take the seats at the front, please. Ladies and gentlemen. Thank you for waiting. We would like to start the afternoon session. The next break will be at about 1500 hours. Mr. Miki. Thank you very much.

**Mr. Miki:** We don't have very much time so we would like to proceed quickly. First of all, question 2, could I read it? This is in your appendix, the hypothetical on page one. It's also shown on the screen. If it's possible to file an infringement suit of its patents in both A country and B country, in country A, can the court in A country judge on the validity of X Corporation's patent in A country and how about its patent in country B? We would like to ask each of the panelists to speak on this issue please. So, from Europe, Mr. Willems. What do you think about this hypothetical case? Of course, if you have a realistic case that you can talk about that might help. Thank you.

**Mr. Willems:** The issue for Europe is quite clear as it regards the validity of the patents. The court in A country can judge about the validity of the X Corporation's patent in A, and it's the only court that can judge about that. The problem is, of course, with the patent in B country. The rule is simple. It can't judge about that but like I said this morning, there is a problem as soon as the validity issue is raised by way of defense or by way of counter claim in an infringement action.

In that case the court has the choice between two evils; either to stay the proceedings or to make a total abdication of its jurisdiction like the UK judges do. It's because of this kind of unsolvable puzzles that in Europe, too, new initiatives are developing at the moment, which I would like to sketch briefly because they refer quite directly to the sub-title of this conference - In Search of a New System.

The first initiative is the European Commission considering a proposal for a regulation, that's an European law directly applicable in the member states for regulation creating a community patent. Practically, this would be done by changing the European Patent Convention so that the European Union as a super national organisation can become a member of the European Patent Organisation and then the European Patent

Office should be able to grant European Community patents that would be a normal European patent with the only difference being that as a designated state, there would not be mentioned the national state but the European Union.

It's a very exciting initiative also theoretically because as far as I know, it would be the first patent that was really supra national; a patent that was not granted by a member state, by a national state, by a super national organisation but be valid in the whole European Union as a unitary title. It would be either valid or invalid for the whole European Union.

There are a number of political problems. Probably, we will know more about this initiative at the end of this month because on 25 or 28 November, there will be an internal market council of the European Union, which probably will have to take major decisions in this respect.

The second initiative I would like to mention is the idea of a number of European patent convention member states to create an appendix treaty, an appendix convention to the European Patent Convention on an optional basis so member states can join the protocol, as it is called, or not. But those member states who would accede to this protocol would together create a supra national Patent in two instances. The first instance and appeal instance having their own procedural rules.

Also, a very exciting initiative. As far as I know, it would be the first real supra national Civil Court deciding on facts, not only answering questions of law. The problem here could be that the European Commission seems to take the position that the member states of the European Union are no longer in a position to negotiate things like this but that it should be an exclusive competence of the European Union.

Also, here we will have to wait and see what will happen, but it's not to be excluded that this initiative could be of some importance, especially because the European Community Patent is not without its own problems. The European Union Community Patent would need unanimity and some member states seem to be inclined to use that as a leverage to realise some national wishes, which could dilute the whole project that much that it is not any longer attractive to industry. Furthermore, the European Union at this moment does not have a legal basis to create a new judiciary. That basis was created in the Nice Treaty, but as you probably know the Nice Treaty has not been ratified at this moment and it's a problem because the Irish population in the referendum have said "no", and it is unclear what will happen in this respect.

But these are two quite novel developments, which I think show that we are living in exciting times and that economical pressures are working also in the field of intellectual property towards new ways of thinking. Anybody who would be interested in further details about one of these two initiatives, please apply to the Secretariat who will probably be happy to put the questions further to me and I will be happy to reply if you just specify your email address. That's what I would like to say Mr. Chairman. Thank you.

**MC:** Thank you very much. You talked about UK judges. With, UK judges, if Y Company were to put up a defense of invalidity, would the proceedings of the court be totally stayed or would it be pending? Would it be totally stayed or would it be pending? What was the situation in the case that you mentioned about the UK court?

**Mr. Willems:** After some hesitation as I have perceived it, the UK judges have accepted that the Brussels Convention gives them the power and the jurisdiction to deal with intellectual property cases, intellectual property rights outside the United Kingdom. There is a difference, however, between, for instance, copyright as a non-registered intellectual property right and things like trademarks and patents.

**MC:** My question had to do with the invalidity of country B's patent, if the defendant were to put up a defense of invalidity. You said in your paper that UK judges would most likely suspend the proceedings, and my question is would they stay the proceedings or would it continue to be pending? That's my question.

**Mr. Willems:** There is a difference between the way they deal with patents and, for instance, copyright. In copyright, there would be no problem. Also, when the defendant raised the issue of the validity of the copyright. With patents, however, there would be a problem because the Brussels Convention says that in the case of patents, the only courts having competence, having jurisdiction for the validity question are the courts of

the country of registration. And the UK judges do read that passage thus, that they say, "as soon"... They start with saying we have jurisdiction but as soon as the defendant raises the validity issue, we lose that competence and the whole procedure not only has to be stayed but a claim will be dismissed because they say we can't judge about just the infringement of a patent without being able to establish whether that patent is valid or not.

So, my answer is they would dismiss the whole proceedings in that case.

**MC:** Thank you very much. Now then, going on to the case of Japan. Mr. Kumakura, please.

**Mr. Kumakura:** Thank you very much. I would like to give you the case in Japan. I'd just like to talk about just hypothetical cases. Since the question is hypothetical, my answer should be hypothetical. During the morning, I talked about the case and I said that silence, in other words, the court did not have any explicit opinion concerning foreign patent, on whether jurisdiction is given to the Japanese court; the Japanese courts have remained silent. I think they should explicitly express their opinions. We do not know what kind of opinion will come out from the Supreme Court and therefore, what I can tell you is only hypothetical, the answer. And perhaps, I assume that there are the disagreements, objection to my idea. But based on that case, what should be the hypothetical answer for the foreign patent if it is possible for the court to give the invalidity judgement.

Therefore, for instance if there is a counter claim and the US claim can be invalid, if there is the counter claim like that, I don't think there is any jurisdiction given to the Japanese court. So, what about defense? I think the defense-related issue is a topic this afternoon and for instance, in the case of Kilby, the case along those lines whether we should think this as an incidental question. There is alternative A and B for the Hague Convention, so the third party is not bound. So, as far as that, we can use it as an incidental question or of course, there is the issue of committee or territoriality or the state, act of state. If those factors are also considered, the right cannot be exercised. Well, it is quite uncertain at this moment. And first of all, there is no case like that in Japan so far. We haven't had any cases.

Well, if you look at the papers, which have been issued so far by those who are very close to courts, they just say that that point would be avoided. That's the only comment given. So, if I may just describe my own view; for the foreign patent right, if there is any judgement given by the Japanese court at least just like a Japanese patent, the incidental questions or the validity in many cases, there is the defense of invalidity. Perhaps those will not be used.

But if the assumption or the jurisdiction is given at the time of defense, that should be granted otherwise, I think unless the defense is granted otherwise, jurisdiction cannot be granted. And in the morning, we discussed the Kilby case and Mr. Willems talked about the point, the grounds for invalidity and the misuse of right for the foreign patent. Japan should be very careful about that, very cautious about that. But the issue in question is different from that. This is just considered in connection with the Japanese Patent Laws and in the case of foreign patent related to that patent, what kind of validity issues should be raised? But this is a matter of applicable law under the framework of the applicable law, what kind of defense can be approved should be considered. And therefore, jurisdiction, the matter and what kind of applicable law should be applied? Those two questions, well they are intricately intertwined with each other, so we must be very careful and in Japan this is very clear ground for invalidity; so, Japan is very strict about that. But in the case of foreign countries, clear and convincing is what they say. So, very similar but concerning the patent issue of other countries, if the more or less strict requirements of the patents are approved, perhaps there is enforcement. Without the clearer ground, defense cannot be possible but in the foreign countries because of the different situations if the defense is possible, the litigation takes place in Japan and other Japanese laws become invalid under the foreign country that becomes valid and if that is the case, there is lack of consistency. In those cases, if they are brought to the foreign country and if you expect the enforcement in the foreign country, I think this becomes very difficult. Therefore, invalidity, there should be invalidity of the Brussels or Hague Convention, unless we establish the convention like the Hague Convention, it is very difficult to reach a definite conclusion.

**MC:** So, your conclusion is it's difficult. Thank you very much. Now I would like to ask somebody from the United States. Mr. Kappos, can I have your comment please?

**Mr. Kappos:** Well, the answer for the US is similar, particularly for the second sub-question. Very difficult. To give a little bit more detail, the first sub-question is trivial for the US. The US court would be authorized of course to rule on the validity of the US patent. This is the first part of question two. Of course, federal question jurisdiction would attach and both parties in this hypothetical, as I understand it are in the US, and so there is personal jurisdiction and the venue requirement would not be difficult to meet. So, the first sub-question, not a difficult problem for the US court to rule on validity of a US patent.

The second sub-question is where I say the answer is very, very difficult. Here, we are asking for a US court to rule on the validity of a patent granted by another country. The Court would likely consider validity to be a matter of the exclusive jurisdiction of the nation that granted the patent. The granting nation's sovereignty would dictate that the patent rights that it grants for exercise within its borders should be upheld or denied by its own courts. So, practically the ability of a foreign forum to invalidate another country's patent raises some serious questions. Can the foreign forum properly apply the different laws, policies, precedents of the granting country? Right, in the case could the US court properly look into those issues? How does the foreign forum enforce its judgements in the granting country, in this case how would the US be enforcing a judgement regarding a foreign patent?

So, it would seem that the US, like a lot of other countries would not decide the fate of another country's patent, if that were the sole issue. Now, I should go on and mention one other point which is that in the hypothetical question, there seems to be a bit of a nuance, which is that validity is being raised in the context of an infringement action in the hypothetical, and in that context, it is a bit more unclear how the US court would address the issue because while there is consensus among countries, it seems that validity is to be decided solely by the granting country.

We discussed earlier that infringement determinations are not viewed quite so strictly. As Judge Rader explained, supplemental jurisdiction can be potentially applicable. So, with that perspective, it's possible that a court would view an invalidity defense in the context of an infringement action a bit more positively.

Another issue to consider that I would think a court may consider, is that if it were willing to dismiss a validity defense in the context of an infringement action, then you basically would never have the ability to adjudicate any infringement action because every defendant would raise a validity defense, at least in general. So, there seems to be reason to believe that under the right set of circumstances, it could be possible for a validity defense to be considered in the context of an infringement action.

**MC:** Thank you very much. Any other comments? Mr. Wegner, please.

**Mr. Wegner:** Mr. Kappos is right but a US Court, I would hope, would disagree with Mars first of all, and take jurisdiction and it would be a case of first impression to deal with invalidity in the context of an infringement defense. I would like to think that the court could accept jurisdiction but I don't think that the answer is clear.

**MC:** Thank you very much.

**Mr. Kumakura:** May I ask you a question? Well, anybody at the front, a representative of the US, I would like to raise this question. There is a *Blonder-Tongue* case, how do we interpret a *Blonder-Tongue* case? That is a case, which was mentioned by Judge Rader and this case for invalidity of the judgement in the context of an infringement case. When invalidity was given, this becomes binding for the subsequent proceeding. That's how we understand it in Japan, so this interpretation is correct and if this is correct, for instance in Japan if the US patent or in the case of the Hague Convention, in other countries the US patent is judged and the court in that country hears the case and the defense was raised and judgement was given. So, just like *Blonder-Tongue*, within the United States that becomes a binding effect for the subsequent cases in the United States. This is, of course, hypothetical, the question that I would like to ask you.

**Mr. Wegner:** I can very well see this happening that if, for example, the Japanese courts were to routinely accept jurisdiction in two-country cases, I could see the following happening. A Japanese company is sued in Miami or some court that takes more than two or three years for a judgement. So, immediately the Japanese party brings a suit to declare invalidity on infringement in Japan and the United States. And with the speed of the Tokyo District Court, within one year, you would have a ruling of invalidity of the US patent. Then

immediately, you would go to Miami and make a motion for summary judgement to dismiss the case under *Blonder-Tongue*. This would then be a case of first impression. Would the court in the Miami District Court and then ultimately, the Federal Circuit, would they attach a *Blonder-Tongue* ruling of collateral or stop all?

And what Judge Rader mentioned earlier today, one of the critical criteria would be, is this a fair forum? So, is the Tokyo District Court a fair court? Was a fair opportunity given to test the validity? These questions would be raised and if it was fair, there would be some chance that the *Blonder-Tongue* would apply, and then the US case would be dismissed. This is a case of first impression, so it's a very live idea. So, to the extent that the Japanese courts would decide validity of a US patent and find a US patent valid, it would be a very live question and one that is very practical. A very good question Mr. Kumakura.

**MC:** Well then, I think we have heard all the answers to this question from Europe, Japan and the US. Rather negative views, in impression. But anyway, let's go to the next topic, joint direct infringement and indirect infringement Mr. Willems? Any comments on Joint direct infringement or, indirect infringement? If not, you can explain the super-national court system, whichever suits you.

**Mr. Willems:** We have a lot of harmonized laws in Europe but not so harmonized are joint infringement and contributory infringement to a large extent. So, that will be up to the national courts according to national law. I can't give you therefore a real European answer on this question.

Does the system of S Corporation and the system of W Corporation infringe the X Corporation's patent? That should be clearly "no" because a system doesn't infringe, people infringe and companies infringe. Whether here in this case S Corporation and W Corporation infringe depends on the corporation. I think I'm now giving you the answer according to Dutch law, the only law I'm familiar with in this respect.

I think if they have done this in accordance with each other, it has a common plan laying as a basis under this activity the answer would be clearly "yes". There is, however, a grey zone. Personally, I think the standard should be more or less the TRIPS idea of knowingly infringing or having good reasons to know that you are infringing. I suppose that that would be the standard to be applied by the Dutch Courts but I must remain hypothetical also in this respect and I can't answer for the other European countries. Thank you.

**MC:** Thank you for your input. Then, as for Japan, Mr. Mizutani.

**Mr. Mizutani:** In our country as well the joint direct infringement of patents has become an issue recently and although this is a unique situation in Japan, there is discussion about possible revisions of provisions on indirect infringement, so I would like to touch upon these issues now.

As you know, the patent system was organized bearing in mind the industrialization of societies and it presumes the grant of a patent right to technology used to manufacture products in factories. However, as software became diffused and the network society arrived, the patent regime in Japan encountered a totally different situation and it had to adapt to these new requirements. In view of the situation, the Japanese PTO Patent Office revised the examination criteria in the beginning of this year and decided to allow software, as such, as patentable inventions. Also, for business method inventions, as long as they satisfy the patentability requirement the JPO will, aggressively grant patents to business methods as well.

Even if the granting of patent rights were to be promoted under this new regime, when it comes to the enforcement of patents, there are many open issues. Let me discuss issues of joint direct infringement and indirect infringement.

Now, about joint infringement. If a patent is awarded on a system invention composed of a plurality of different servers on a network, then the claim will include a plurality of servers as its constituent elements. So, if there arose an issue of patent infringement on this kind of a patent then it's natural to assume that there will also be within the accused system a plurality of servers being used as constituent elements. In that case, the various sites on which the individual servers of that accused system are installed would most likely be operated by different legal persons, not the same person but different legal persons.

Despite this, when patent infringement per se becomes the issue then infringement would be judged for the entire system, although it is comprised of the interconnected multiple number of servers. So, in this case



one must judge whether there is joint infringement by a plurality of persons or joint direct infringement. What is given as practical advice for these kinds of cases is to formulate the claim in such a way that you don't have joint infringement. Then, you'll be able to deal with the issue as infringement by a single person and not by a plurality of persons.

Of course there are a number of cases where you can get by with just formulating the claim a bit differently. But would that solution be applicable to all cases? I do not think that is the case. And can a plurality of persons jointly infringe a patent right; would that kind of a situation really occur under current law? I think it's necessary for those who practise law to fully consider this matter.

So, I would like to discuss this issue now. The basic issue is that patent infringement, will be established when the accused products or methods have satisfied the so-called "all element rule". That is, if it includes all of the constituent elements of the claim. Based on this premise, when there is joint infringement by a plurality of persons, each individual person will perform or work only a part of the constituent elements of that claim and not all. In other words, if one assumes that joint infringement of patent rights by a plurality of persons may be established, then each individual will be required to bear liability for the results of working the claimed elements in which they themselves were not directly involved. And would that kind of a result be permissible from the viewpoint of the all elements rule? I believe is the question.

Needless to say, if a single person were practising all of the claim elements, then patent infringement will be constituted for sure. But if a plurality of persons were jointly involved in working the claim, and if patent infringement were to be denied simply on account of the fact that several people were involved, then that would lack balance. In the future, we can assume that patent infringement on the network would arise as a result of joint action several sites. So, if there is room to admit patent infringement even when a plurality of persons are involved, then we should admit this kind of infringement more actively.

Then, the next question arises when a multiple number of people were jointly involved. What requirements must be satisfied for establishing patent infringement like in the case of involvement of a single person? Well, there are no discussions on this yet so these are just my personal comments, but in this case, if the acts of involvement of a multiple number of people, have unity or are deemed to be integral as a whole, then I believe there shall be cases where we can evaluate this as a single act. In other words, even when several people are involved, if there is unity as a whole in the accused acts, then one may regard this as one single act.

So, on this premise, I would like to talk about the objective and subjective aspects of the activities of these multiple persons. Let's talk about the objective aspects first. Let's say that the individuals are each working a part of the constituent elements of the claim and when their acts are considered together as a whole, the claimed invention is worked or practised. In that case, I think there is room to admit that there was one single act as a whole from the objective viewpoint. Let's go on to the subjective viewpoint.

Likewise, let's say that each of the individuals comprising the plurality were aware of the content of the portion of the claim he or she was working, as well as those practised by the others, and was also aware of the overall system in which that individual person was partially involved. In that instance, even from the subjective viewpoint, I believe that one can admit there was a unity of activity, therefore an awareness of joint working. I think there is room to construe that there was awareness of joint working.

When several people are involved in patent infringement and if the objective and subjective requirements are all met, then even if it were an act of involvement of several persons, I believe it is possible to construe that together as a unified or single act and if that is so, then like in the case of an act by a single person, one may establish joint infringement or joint direct infringement by this plurality of people.

So, in what specific cases would these abstant requirements be considered to be met? I believe the foregoing may fall under this category. A multiple number of servers comprising a system were interconnected with each other on the network, and the servers were operated by a plurality of persons. And amongst these plurality of persons, there was a continual contractual relationship for the joint provision of specific services to customers. And in actuality, these specific services are already being delivered to customers through the collaboration of the servers. I believe in this kind of a case, both from the objective and subjective viewpoint, there would be a unity of act. That is, both the objective and subjective conditions would be met.

There are no established precedents as to whether joint or direct infringement can be constituted by a plurality of persons and also there are many unpredictable factors in determining the requirements to establish infringement. So, I would merely like to submit the aforementioned model for discussion. That concludes the portion on joint direct infringement.

Now, going on to indirect infringement. As you know, Article 101 of the Japanese Patent Law has the following provisions on indirect infringement: "The aforementioned acts are considered infringements of exclusive license or patent rights. In the case of invention of a product; to produce, assign, lease, or to import, or to offer for assignment and leasing; articles to be used exclusively for the manufacture of the product". I will cut out Section Two.

As I just read out, under the Japanese patent law, indirect infringement may be established only when the accused article can only be used, exclusively used, for working that particular invention. That is, when the usage or application is limited to the working of that particular invention. In other words under the Japanese Patent Law, whether indirect infringement is constituted or not is determined solely by the presence or absence of such objective requirements, and the presence of subjective requirements such as whether the parties were aware of the fact that the article will be used for direct infringement is not considered. Let's look at an example.

When indirect infringement is at issue for a piece of software, let's say a large system is directly infringing a patent right and there is a business that provides software for that directly infringing system, would indirect infringement be established for that business?

Software, as you know, is inherently multifunctional so there is a question whether it satisfies the "exclusively for" requirement that I just read out for establishing of indirect infringement. There's been a lot of discussion on this point, but many people feel that software does not satisfy that "exclusively for" requirement because of its multi-functionality. Likewise, when the case involves the infringement of a patent right on an invention of a system comprised of several servers on a network... I discussed joint direct infringement earlier, but aside from this, for individual servers, we must consider whether indirect infringement can be established or not. I believe the same issues would arise in this case as well, because servers are not single function devices but in many cases are multifunctional. So, it's a question whether the servers, in the light of indirect infringement, satisfy that "exclusively for" requirement. Many people doubt that they do.

Because of this, for software and servers which are multifunctional, if indirect infringement is denied because of its multifunctionality, the provisions on indirect infringement of the Japanese Patent Law may be considered too strict and such views have been actually raised.

So, the Japanese Patent Office, in view of this, decided to revise the indirect infringement provisions of the Patent Law in order to cover software and servers, and on the web site of the Patent Office various proposals are being up loaded.

The content of that revision is to add subjective elements to the requirements for establishing indirect infringement and to relax the objective requirements. And when this is realized, there should be an increasing number of cases involving software and servers and others where indirect infringement of patents rights are acknowledged.

**MC:** May I cut you short because of the time. We have three US speakers who all wish to speak and we are running out of time. So, I'm very sorry. Mr. Kappos, please.

Fifteen minutes for three speakers, that is all the time we can allocate, so perhaps each speaker has five minutes, roughly.

**Mr. Kappos:** So, I'll tell you everything there is to say about joint infringement and indirect infringement in five minutes! Under US Law the basic requirement for patent infringement is that anyone who makes, uses or sells or imports only part of a claimed invention is generally not a direct infringer. Direct infringement (this is under 35USC271a) ordinarily requires that the invention, that is all elements of the claim, be made, used, sold or offered for sale in the US. OK? However, there are exceptions to this rule that similar to here in Japan, may be taken under a label of joint infringement. In the case *Paper Converting Machine vs. Magna Graphics*, a defendant sought to avoid infringement by testing parts of the accused device separately, shipping

sub-assemblies to the customer and advising the customer not to assemble the operable unit until after the patent expired. The court in that case found a sufficient level of testing coupled with sale and delivery of a sufficiently completed machine to give rise to direct infringement.

Another case, *FMC Corp vs. Upright Inc*, the court found that when infringement results from the participation and combined or successive action of several parties, those parties are joint infringers and are jointly liable. Now, to be complete, I should say these cases are unusual and may not have broad acceptance by US courts and you may hear more comments on that from both Judge Rader and from Mr. Wegner.

However, they do suggest some recognition that parties acting sufficiently in concert with one another can, under the right set of circumstances, be deemed joint infringers. To have any hope of success under this sort of theory, it's clear the parties must have at least knowledge of each other's acts and that their separate steps or parts will be combined into a single process or system. Now, beyond knowledge, the more connected the parties are to each other, such as acting as agents of one another, the more likely it is that a theory akin to joint infringement would potentially be accepted.

The best that can be expected though, is that joint infringement concepts would be narrowly applied and highly dependent on the facts. Now, a more likely basis for successfully alleging infringement by a party providing less than all elements of a claim is contributory infringement. That's handled under 35 United States Code Section 271c and it provides that whoever offers for sale or sells in the US or imports into the US a component of a patented machine, and I'll do some abbreviating here, "for use in practice of a patented process constituting a material part of the invention knowing the same to be specially made or specially adapted for use in infringement and not a staple article or commodity of commerce suitable for a substantial non-infringing use shall be liable as a contributory infringer".

Now, I've abbreviated the statute but there are some important requirements there. If one or more material parts of the invention are sold or imported into the US knowing they would be used in an infringing combination and the parts are not staple articles suitable for substantial non-infringing use, a charge of contributory infringement could apply. Note though especially that in order for there to be contributory infringement there must be some actual direct infringement. Also, the knowledge requirement significantly distinguishes contributory infringement from direct infringement under Section 271a.

Now, if I can, I will mention one other theory, which is the Inducement Statute in the US. In addition to contributory infringement, US Law establishes liability for those who actively induce infringement, and that's under 35 US Code 271b. Case Law has further imposed a knowledge requirement on this kind of infringement. The inducer must aid or abet in a way the inducer knows will result in infringement. However, unlike contributory infringement, an inducer need not provide component parts. Providing instructions or directions may indeed be enough.

To avoid overrunning my five minutes, I think I'll stop there.

**MC:** Thank you very much. Mr. Wegner. Don't overlap please, OK?

**Mr. Wegner:** I just totally disagree. Basically, joint infringement in the Supreme Court, every Appeals Court decision uses joint infringer. There must be at least one complete direct infringer. Must be. The Paper Converting Case does support the idea of this theory of joint infringement but that was substantially overruled this year by Judge Rader in the Waymark Case.

Contributory infringement can never apply because there must be direct infringement. Inducement can never apply because there must be direct infringement by someone. The exceptional thing, I agree with the Japanese speaker, where there is a contractual relationship, where one of the parties could be the agent of the other, then there might be considered to be a single act of infringement by one party. So, if there is a contractual relationship and it is not unfair because one should be able to draft claims where one actor is an infringer of everything in the claim. The problem here, it's a combination claim. Combination claims are difficult to infringe.

Judge Rader.

**MC:** Thank you very much. So, you say it is covered but Judge Rader, do you have any comments?

**Mr. Rader:** So, I can reserve my comments for later.

**MC:** OK. Thank you very much. Thank you for being so aware of time restrictions Judge Rader. Alright then. We have heard from the three countries, so we have many questions under our hypothetical and we will probably not be able to cover all of them, but as far as joint infringement and indirect infringement is concerned, in 1999 during the Softic Symposium, we devoted a lot of time to these issues. So, if you are interested, then please refer to SOFTIC's publications.

So, we would like to go on to the hypothetical, if we may. So let's go on to the appendix. Second page. Joint Direct Infringement and Indirect Infringement.

Let me briefly read this out. This is Figure 1. Corporation X has a patent on a system that consists of the elements of a server and client terminals and so on. 2. S Corporation owns and operates sites a', b' and W Corporation owns and operates the site c' and those are interconnected and interoperated with each other via a network. Both systems practise X Corporation's patent, when they are connected and operated. 3. The software for S Corporation's system was developed by alpha Corporation and the software for W Corporation's system was developed by beta Corporation. So, Question 1: Do the system of S Corporation and the system of W Corporation infringe X Corporation's patent?

During the last symposium, we wrote down the patent claims and specifications in detail and also specified in detail the accused device, the defendant's device. But this time, this is worded very abstractly, and therefore most of, the replies we received from the panelists were, that it all depends on the factual situation. And in the previous presentation, Mr. Wegner, for example, pointed out that if both parties, that is the joint direct infringers are in a contractual relationship then infringement may be allowed. Mr. Mizutani also explained about this, I believe.

But in this case, we don't know if there was a contractual relationship between them or not. So, in other words, if you could tell us what conditions or what requirements must be satisfied for infringement to be acknowledged? Now then, Mr. Willems, do you have any comments on this?

**Mr. Willems:** Yes, thank you. I think in the Netherlands anyway, in any case, their requirements are less stringent than Mr. Wegner has pointed out, described them for the US. I don't think a contractual relationship between S Company and W Company will be necessary. Where the standard is precisely, I wouldn't be able to predict. I suppose it would be enough if both S Corporation and W Corporation had reasons to know that acting together, they were infringing the patent that otherwise they were fulfilling all the requirements of the claims of the patent. I think that would be enough to assume a direct infringement there.

The software corporations are a much more difficult question because they only supply part of a part of a part of infringement.

**MC:** But we are not referring to the software companies' liability yet. We're still on Question 1.

**Mr. Willems:** That other than in the United States, I think the end of the matter is not whether there is a party with a direct infringement. We should not forget that besides patent infringement, there are other torts and especially unfair competition. A certain way of doing business can be tort and lawful even if there is no patent infringement. And so far, unless I have gotten a false impression from the situation in the US, the situation in Europe seems to be different to me. Thank you.

**MC:** Thank you for your response. The case in question is rather hypothetical and abstract, so you can assume many conditions before you answer the question. Mr. Oka of Fujitsu, who is present today, and I had a discussion, about what happens when the sites of S Company and W Company, both being interconnected. Technically speaking, what could be done in that case? I would like to invite Mr. Takakura's input.

Currently the Japanese Patent Office is discussing this matter of what constitutes the working of a patent. For example, W Company's system incorporates S Company's system; that's downloading from the

Network. That's one case. And the other is Company S as an Internet service provider allows W Company or other users to use its system, so that the users purchase W Company's system.

In Japan we are discussing whether the act of sending data should be included in the concept of working the patent. Well, this is a specific question in Japan. For the other territories, please specify the conditions of which would constitute infringement. Any comments from Mr., in regard to the question I've just raised?

**Mr. Willems:** For me, Mr. Chairman, because as you already know, in Europe there are not that many software patents as elsewhere in the world and we have an inclination to concentrate on the technical problems solved and whether that's done by software or another way, that's of secondary importance. The software systems as such are not an important issue at this moment in Europe. Therefore, I try to abstract a little bit and view the whole question in the framework of the general infringement and tort laws. From that point of view, I don't think the exact technical way in which these systems are incorporated and/or connected to each other, matters very much. What, in my view, for European standards is of importance is whether these companies should know that acting together, as they do, in whatever technical way, they satisfy the requirements of the claims of the patent. If so, if they should have known that, they're liable in my view. If not, there is no infringement. Thank you.

**MC:** Mr. Mizutani or Mr. Takakura from Japan, please.

**Mr. Takakura:** For your reference, let me provide you information on the discussion on that the Japanese Patent Office is having over the concept "cooking" a patent. As Mr. Miki said, maybe this is a peculiar situation in Japan but of the concept of working a patented invention particularly a software related invention, requires some study. As Mr. Mizutani mentioned, starting January this year, the Patent Office of Japan began to treat the category of computer programs as legal subject matter for a product patent under the Patent Law. However, according to the current Patent Law the rights substituting in a product invention include the rights of manufactures and assignment, or transfer. If that is the case, would the transmission of the invented program constitute manufacture or transfer, or something else? That is not clear. Technically, the act of transmission or a higher level concept such as to put onto the market or supply which are broader economic terms, should be introduced so that the right holder can clearly claim that the working of the patented program by a third party is an infringement in case of litigation.

The issue of indirect infringement and joint direct infringement, are discussed as well, but I think Mr. Mizutani has just referred to this and his resumé contained that. So, I would like to skip my comment in regard to that point.

**MC:** Thank you very much for your input.

Then for Question 1 Mr. Mizutani, these will be infringement if there is a contractual relationship, correct?

**Mr. Mizutani:** Yes. But to be more exact, I said a typical case where the unity of the acts of several parties can be acknowledged, is where there is a continual contractual relationship. But that is not the only case. On the contrary, let's say for a given time period by accident the systems of companies S and W were connected on the network and a certain operation was performed. When it is power to be accidental, there will be no unity of act, and joint infringement will be denied

**MC:** So if Company S's system was incorporated via the network, into W's system, then there is a possibility that joint infringement will be found?

**Mr. Mizutani:** By incorporate, do you mean physically?

**MC:** To amend, I suppose, as I interest the case.

**Mr. Mizutani:** Well, the two companies' systems are connected, to perform one work. So the use of the systems constitute an act of working, I believe.

**MC:** Oh, I see. Then let's say through the network, S's system and W's system are used by consumers. This is also use of the invention?

**Mr. Mizutani:** By the consumer. In that case, the system of S and W concertedly operating and offering a certain service to the consumers may be interpreted as a use of the invention.

**MC:** What about US parties? Judge. Rader.

**Mr. Rader:** I'll speak first and my American colleagues can try to overrule the court. I'm sure they will both enjoy that opportunity.

In simple terms, you can say that under American Law there must be, in all instances, one party who infringes, in other words, commits each and every act required by the patent claim. Contributory infringement, inducement, all require at least one act of direct infringement by a single party. Thus in our hypothetical, it does not appear that there is, with S and W acting independently, any single party that has infringed. The only possibility as I think both of my colleagues mentioned, is that if either S or W were an agent of the other acting under some contractual obligation or some formal organization, which in effect made them one party; that's the only way you could have infringement. Otherwise, there is no single party that has infringed and therefore, no infringement under the hypothetical. My colleagues will now rush to correct me, but remember, I get the last word.

**Mr. Kappos:** I'll make one more jurisdiction comment, which is that in the United States, federal judges are appointed for life and therefore, it's an act of basic good judgement not to disagree with federal judges. I will avoid doing that.

I will make one other comment though which is, as I see these hypotheticals getting past joint infringement, as we all agree that's a very difficult concept that whether any infringement that is actionable has taken place here will depend on the basic concepts of inducement and contributory infringement which get down to these issues such as material parts, staple articles of commerce and knowledge, being all three key requirements. And of course those points aren't specifically stated in the hypothetical, but if they're present of course, then you have those doctrines applicable.

**Mr. Wegner:** I disagree. You cannot have inducement or contributory infringement unless there is a single actor who is an infringer. And as Judge Rader said in the beginning, you can only have infringement if there is a direct infringer, somewhere. So, there can never be a contributory infringer inducer unless there is a single infringer.

**MC:** I see. Thank you very much. So, we'd like to move on to the second one. The same case and also the Question three. This is the case where consumer, individual is involved. So, since those are very similar, so I would like you to answer them together. And the Question two is concerning infringement by S and W. The question is that there is infringement and alpha and beta manufacture of the product, are they automatically liable? If there is a certain fact, are they not held liable? That's what I would like to ask you. So, Mr. Willems can you answer those questions first?

**Mr. Willems:** Like I said, for W and S to be joint infringers, it is necessary that they at least have good reasons to know that they're infringing the patent. If so, they are joint infringers, I suppose. If not, there's no infringer and then alpha and beta go free.

The question whether alpha and beta are liable in case of a hypothetical infringement by W and S depends on the question whether they provide an essential part of the invention and know that it will be used for infringement. I have difficulties imagining how to prove that in court, but suppose that the patent proprietor has written warning letters giving clear evidence that there is an infringement, then I suppose that both alpha and beta could be held liable, but it's a far shot.

**Mr. Willems:** The question about the place where the system of W Corporation is set up escapes me a little bit. According to European law, patent infringement can only take place in the framework of economical commerce and as such, I can't see that a private consumer is infringing a patent, but that's not what I deduct from the question. If the system belongs to W corporation it seems to be ex-officio commercial business and whether the...

**MC:** So, the W system is owned by the individual consumer, so that is assumption of the question. So, once again let me repeat that as is written in Question 3, a consumer who is individual, has ownership of W Corporation's systems. That is assumption based on which we asked you to answer the question.

**Mr. Willems:** Yes. I have difficulties in imagining a system where the consumer operates such a system, but I try to imagine what is meant participating in a one-click system. I don't think that if the only participation of the consumer is to use the system that could be an infringement of the part of the consumer. But that's not the way the question is framed.

If W and S together infringe the patent...

**MC:** May I clarify t?

**Mr. Willems:** Yes please.

**MC:** If I clarify the question once again, the assumption about this question is... perhaps I think if I interpret the question, I can interpret it as follows. Under the Japanese patent law the individual consumer, if he or she uses W company's system, and of course that should be connected to system and... actually, this is not conducted as business because that is a consumer and therefore, he does not infringe the patent because he does not conduct this as business. But in Europe, if a consumer who is individual uses the W and S system and if they are connected to the network, what would be the consequence? And in the Netherlands in particular, what would be the result in the Netherlands? That's what I'd like you to answer.

**Mr. Willems:** The consumer would not be an infringer but W Corporation would still be an infringer. Does that answer your question?

**MC:** Yes, I can understand very well. Thank you. So now, can I ask the Japanese representatives to answer the same question? Mr. Mizutani first of all, please.

**Mr. Mizutani:** Well, first of all, as an assumption to answer this question, S and W systems, can they constitute the joint direct infringement? That is a very important assumption question. And first, I'd like to use the assumption that the joint direct infringement is already established. Now alpha develops the S system and beta develops W company's system, and therefore, they are in a position to provide parts to S and W, the joint direct system, so they are in a position to provide parts to the joint direct infringers. As for infringement, whether there is any indirect infringement or not, that is a question that must be addressed.

In the case of Japan, as I mentioned earlier, S Corporation's system and W Corporation's system are connected to each other over the network and they form the entire system. So, that is a joint system, now a key question is whether the software provided by alpha and betais used only by the joint system of S and W combination? In Japan, as I said the objective, the requirement "exclusivity" is met the indirect infringement is established. Software is multifunctional by nature, and therefore, the establishment of indirect infringement will very often be denied. I think there is a chance that indirect infringement is denied.

And if W Corporation's system is owned by an individual consumer, what would happen? If this is owned by an individual consumer, W company system perhaps is a small server or PC. And if at home, the consumer has a system like that, and in a typical case over the Internet, that is connected to S Corporation's system to, for example, purchase products or to receive services, And in that case, whether or not the joint direct infringement can be established is a major question to be addressed because in this case the consumer is just temporarily connected to the system and therefore as to the question of, whether there is any room to recognize the unity of the act between S and W, in many cases I think unity of act is denied.

If however the joint direct infringement is established, well perhaps, the next question emerges, under

the Japanese patent law –, if the invention is used commercially, the infringement of the patent is established. And therefore, Questions whether the consumer who owns W Corporation's system uses it commercially needs to be asked. In normal cases, he does not use the system, commercially; therefore the commercial requirement is not met on S Corporation's system and W Corporation's system. So, the assumption is that, there is a joint direct infringement if the business is conducted by both S and W and the consumer uses the system that for a commercial purpose. This condition is not met in many cases because the system is used by a consumer. So, if I may give a conclusion, formally the joint direct infringement can be possible but since the consumer does not do it commercially there is no infringement of the patent as a result.

And, that is just the ground that is used formally but whether we always arrive at the conclusion in this form or whenever a consumer uses it, the patent infringement is denied are not known. Those issues may cause serious consequences, and perhaps, I think I have to tell you what Judge Makino told me. Concerning S Corporation's system and W Corporation's system as a whole. The joint direct infringement can be established but as for consumer, since he does not use it commercially and therefore, liability is exempted through elimination of illegality. The infringement act of S is established, but liability of the consumer is exempted. This is a very flexible approach according to Judge Makino.

**Mr. Kumakura:** Just give me one minute. As an algorithm. I think there is the Lens Case. The exchangeable lens and a body are in the claim. The consumer owns the body and the combination of the lens and the body that constitutes the infringement. This is indirect infringement case, Even without a direct infringement, an indirect infringement can be possible and when W Corporation's system is connected to S Corporation's system, and if it is manufactured for that purpose only, there is a chance that indirect infringement is established.

**MC:** So, now I would like to invite the comments from the US, Mr. Kappos please.

**Mr. Kappos:** Well, in this area US law is fairly well established – that patent protection will not be denied merely because a technological advance is in software rather than hardware form. The claim in this case to ABC may recite functions performed by the software supplied by alpha or beta or both. So, for example, the claim might recite the server as a means for sorting enquiries or performing another function implemented by the supplied computer. Even if the software only represents a portion of the claim, if the software qualifies under Section 271c, the software suppliers could potentially be charged with contributory infringement. Again, I'm assuming in these comments that there is some direct infringer to be found. If that's the case then the software supplier could potentially be a contributory infringer.

Now additionally, under the US Inducement Doctrine, if S and W owned and operated hardware, and if alpha for instance, instructed S to install and operate the software knowing that such operation would result in infringement, alpha could become liable as an infringer under the Inducement Statute.

**MC:** Mr. Rader.

**Mr. Rader:** I agree with what Mr. Kappos has said, and I was just going to add one small point, and that is the case is probably going to turn on whether the small contribution of C, the material part that is added into the combination, whether that has a non-infringing use. If that component had a non-infringing use outside of this combination, then there would not be contributory infringement. And again, as he pointed out, all of this assumes that somewhere in this, there is a single direct infringer, and I think we've all agreed it's a little hard to find that in this particular hypothetical. But the key question may be whether the component added by either alpha or beta has any non-infringing uses.

**MC:** Yes, I agree. Thank you very much Mr. Rader. We have covered up to Question 3 so far; it's time for a coffee break, so let us take coffee until 3.30. Let's break. Thank you. We have several questions and we hope to cover them later. Thank you.

### **Break**

**MC:** Let us resume the session. Please be seated. Let us continue with the program. Well, I still have some more questions to the panel. I would like to complete most of the questions raised and also, I would like to invite Judge Rader to speak on the Feisto case. I would like to extend the program a little and we hope to



finish by 5.50. A 20 minutes extension is expected.

Let us go back to the hypothetical case, page 3; it carries the figure for the last Question 2. Cross-border issue. Assumptions. X Corporation has a patent in country A but not in country B. And the system of S Corporation is set up in A country and the system of W Corporation in B country. Both systems are connected and operated via network and viewed objectively practise X Corporation's patent in A country when they are connected. X Corporation S Corporation, W Corporation are all incorporated in country A. That is the assumption.

In the previous symposium, we also discussed a cross-border case, which was similar to the given assumption here on this page. However, today we would like to revisit that as part of our assumptions. The question raised here is as follows: Can X Corporation in country A sue S Corporation and W Corporation for the patent infringement on the grounds of its patent in A country? This is still abstract. I would like to invite panelists' comments. Mr. Willems first.

**Mr. Willems:** On this question my first impulse is to answer “yes, of course”. It's not that simple, of course, if you think about it, but law after all should be a practical matter and if you want software patents and I think most of us do to a certain extent, then the answer here should be yes. Because if the answer here is no, there is no value at all in software patents because they would be too easily circumvented to have any substantial value.

The problem here, of course, is that patent rights are of a territorial nature and territorium is a concept that's not any more of this era, of this period of time. In the cyber age, it's very difficult to say where certain acts do happen, and that's the question here. If the effect is taking place in country A where the patent is valid, then there should, in my view, be an infringement.

Let's take another example. If I am back in Europe and I'm standing at the border between Netherlands and Belgium, I'm just in Belgium, I take an axe and I kill somebody who is just on the other side of the border. Shouldn't that be murder? Just because my feet are somewhere else from where my axe was? But to make it clearer, let's exchange the axe for a gun and I'm 100 meters away from my victim. I shoot him across the border. Isn't that murder? Probably, it would be considered as murder both in Belgium where I pulled the trigger and in Holland where the victim fell.

I think the same should be applicable here. If the effect takes place in country A then there should be an infringement in country A, because otherwise like I said, you can do away with software patents because they wouldn't have any value.

But again, this is a purely personal opinion. As far as I know, there is in Europe no judicial decision about matters like this hypothetical. Thank you.

**MC:** Thank you for your input. Anyone from Japan? Mr. Mizutani, Mr. Kumakura?

**Mr. Mizutani:** Let's assume country A is Japan. In this particular case, part of the claim requirements, is practised in Japan and the others are worked in other countries. So, this is cross-border working, but other than that, a specific patent right is being fully worked as a whole. The issue is that not all requirements or all elements are worked in Japan. Since there is network connection W's system in B country is connected to that of company S in Japan. But physically speaking, W's system resides out of Japan and as for the territoriality of the patent is concerned, in such can such a cross-border system which do exist in large number, be treated as an infringement of a patent right in just one country?

This exemplifies a very fundamental issue. For example, Article 2-3-3 of the Japanese patent says these are cases when something manufactured outside of Japan is imported to Japan, and that constitutes an infringement of a Japanese patent on a method of production. So, there is some effort to extend the effect of a Japanese patent to acts outside Japan. However generally speaking, this W Corporation system's server is located outside of Japan. Just because it is commented to Japan through a communication system, can we consider it an act done in Japan?

Let's say, this W Corporation system in country B is totally remote-controlled by S Corporation's

system in Japan. Even then, unless the W Corporation's system located outside of Japan is technically interpreted as an extension of Japanese territory, it will be difficult to interpret this as an act of patent infringement carried out in Japan. That is my personal opinion. However there will be reater social need in the future, to admit such cases as patent infringement. We are carefully considering now, to what extent we can deal with these issues under the current law.

**MC:** Thank you. I would like to invite US colleagues to speak later on about this, but under the current Japanese patent law when you assume that Company S and company W's relationship, was that of a parent and subsidiary. W Corporation is a 100% subsidiary of S Corporation, or S and W are connected with a leased line.

If that is the case can W's system outside of Japan be incorporated as part of the act of infringement done in Japan? Mr. Mizutani?

**Mr. Mizutani:** Well if the US active inducement theory or contributory infringement, principle exist in that country, then to a certain extent, we can stretch the national law to acts outside the country, but under the Japanese patent, according to this figure, S Corporation resides in Japan and W Corporation's system is outside of the country.

Let's say, to simplify to the question, we consider the system in the foreign country to be party of the S corporation system. But part of the system, nevertheless, is outside of the country so the conclusion I've just derived may not be altered so greatly.

The additional question was that if the defendant S Corporation substantially owns and controls that system directly or indirectly, even in that case, W Corporation's server is located outside of the country and is out of the scope of jurisdiction, so that it will not constitute infringement. Is that correct?

**Mr. Mizutani:** Well, this is in cyber space. In real space, is the server may be in another country, but in cyber space and there are no borders. So, this is the same space. So, there is the temptation to admit patent infringement for the entire scheme. However, we still have to study whether that is permitted under the current framework of the law.

**MC:** Thank you. Mr. Dogauchi.

**Mr. Dogauchi:** Well, as for the patent question, I should stay out of that., but, Plus, since the issue is the concept of "working" a patent under the Japanese Patent Law, it involves the interpretation of Japanese laws. As Mr. Willems mentioned, criminal penalty may be applicable. If this is a defamatory act or, illegal gambling sites, and Japanese betters are allowed to participate. It's not well balanced to say no to patents, and not others. As someone mentioned, there are special provisions on imports. If that provides grounds for a reverse interpretation, we have to clarify the situation.

But you otherwise, the location of the server, does not have much significance. Through the Internet, these companies are strengthening their arms across the world, and carrying out activities in the real world. That's how I would like to interpret this, but do you think that 's stretching the law?

**Mr. Mizutani:** Well, I suppose in some criminal cases, for example, drug-related cases, a transfer of drugs which took place outside the country, may be dealt with under Japanese law. There are provisions in the Patent Law for imposing criminal penalty on acts of patent infringement. However, the law does not go as far as imposing criminal penalty on an act of patent infringement outside the country. If an act within the country infringes a patent, and if the level of unlawfulness is very great, then criminal penalty will be inflicted. That is the idea.? So again, for this server, the question is whether it is assumed as a domestic activity or not.

**MC:** I see. This is a difficult problem. Like I said, if company W is a 100% subsidiary of company S, and S Corporation from country A can exercise full control over W Corporation they will have the power of economic decision making. But if W's system just happens to be physically located in country B, unless we clear that standard, there will be no infringement. What about the US case? Mr. Kappos and then Mr. Wagner and Mr. Rader. I would like to invite comments in that order.

**Mr. Kappos:** This hypothetical raises issues under a couple of additional sections of the US Patent Statute

that we have not addressed yet. They're at 35 United Code Section 271f and then there are Sub-sections 1 and 2 and those sections address a case that was rendered years ago by the US Supreme Court known as, The Deep South Packaging vs Laytron Corporation Case, in which a company sent unpatented components outside the US to be assembled into a patented combination. Now, in that case, the US Supreme Court found that there was no infringement, and in response US Congress passed this section of the US Patent Statute 271f.

271f: I won't read the whole thing but basically, it's roughly similar to a kind of international inducement statute, if you will. It goes to infringement by supplying all or a substantial number of components in a way that induces infringement of a patent, if such combination had been made in the US.

Now, in the present hypothetical, the facts would need to be reviewed to determine if S first is supplying a substantial portion of the components of A, B and C and secondly, is inducing someone such as a customer to combine the components into an infringing combination. Because the Statute was prompted by the Deep South Case, it is directed mainly to physical combinations.

A number of other issues may actually arise with respect to a more virtual combination such as the one we are talking about in this case. For example, a court might question whether S is "supplying" A prime and B prime because S never transfers ownership or possession of the elements to another to be combined.

Now lastly, I'll just briefly mention Section 271f2. I mentioned that 271 contains a Section f1 and a Section f2. F2 can be very roughly thought of as similar to a kind of international contributory infringement statute. It involves supplying a component, at least a component, especially made to result in infringement. So, in this case the facts would need to be reviewed to determine if there is a component that is tailored to be used in the invention as required by the statute and that the supplier has knowledge and that the component is not a staple article of commerce.

As with Section f1, there is, of course, a question as to whether A prime or B prime is being supplied and whether Section f2 was intended to cover this kind of a combination.

MC: 271f1 and f2 – if you consider the application of those two sections, S is held responsible. Is that what you're saying? W is not held responsible but S company is held responsible, liable although it is necessary to review the facts carefully? Is it the right interpretation S is held liable but not W?

**Mr. Kappos:** Yes. The hypothetical is of course not clear. It would seem that S and W might not be practising all elements of the invention but that a consumer in country B may be practising them. It is unlikely that a US court would or even could act extra-territorially to reach the consumer who's actually making the infringing combination overseas. The consumer would not be making using or selling in the US or importing into the US the infringing goods but S might be liable under either 271f1 or 271f2 if a court concludes that S provided A prime B prime to the consumer knowing that the consumer would create the combination that would infringe the US patent.

**MC:** Thank you very much. Well, we assume that your country is assumed as country A, so that's the basis of the discussion.

Mr. Rader, Article 271; if you have additional comments, please do so.

**Mr. Rader:** Mr. Kappos has given a good overview of US law in this area. I think Mr. Wegner is just noting that it will be hard again to find that single direct infringer that has performed all the acts, but if we assume the facts as Mr. Kappos has reviewed them, then the US law will apply as he suggests.

**MC:** Thank you very much for your comment. Moving on to the next case, page 4. There is a difference in the ownership of the patent, so let me read the assumptions. Number 1 is different. X Corporation has a patent in country A and also has a patent with the same claim in country B. And in terms of interconnectivity, it's the same as the earlier assumptions, and the third point, all of X Corporation, S Corporation, and W Corporation are incorporated in country A. A country is your country. So, can X Corporation file in your country infringement suits of its patents in A country and B country against S Corporation and W Corporation? We are shifting the issue from jurisdiction to actual infringement lawsuits.

For patent B, the claim is identical but a part of the servers are placed in country B. So, this is a very complex situation and therefore, may be difficult for you to answer but of course, the hypothetical itself is very complicated. So, if you could just give us your comments or impressions if you do not have a concrete answer. Mr. Willems, please.

**Mr. Willems:** Thank you. As regards country A there is not much difference with the former question in my view. Always assuming that both S and W Corporation know or have good reason to know that they're together fulfilling all the requirements of the claims of the patent, there will be, in my view, an infringement in A.

I have more difficulties with the hypothetical infringement in B. It is all a little bit philosophical. It's not about importing material goods, it's about doing something, and the question, the philosophical question, is where are you doing something? Are you doing something where you actually move your limbs or are you doing something at the place where the effect occurs? Or perhaps, are you doing something at both places at the same time?

I have little difficulty in assuming that you are doing something where the effect occurs. I have a little bit more of a difficulty in assuming that you are doing something where you only fulfil part of the requirements like here in B without there being any effect in B. So, tentatively, I would reply here that under the conditions presumed, there would be an infringement in A but probably no infringement in B. Thank you.

**MC:** Thank you very much. Then from Japan please? Mr. Kumakura, OK?

**Mr. Kumakura:** Basically speaking, this appears to be very difficult compared to the earlier case, but I believe that the results would be the same as in Case 2. As long as it is an apparatus patent as Mr. Mizutani said, they exist separately in countries A and B. And so, all of the constituent elements reside in neither of these two countries. Therefore, you may be frustrated Mr. Dogauchi, but we have to rely on the traditional principle of Patens territoriality, that is, no infringement.

So, because of these access, business method patents or program patents in this world of the Internet or networks. I don't know why systems are considered apparatus patents in the first place, but as long as we interpret systems to be apparatus patents, that's the conclusion. If it were a method patent then the provision of the method is done partly in country B and this is accessible from country A and company S may promote access by W or S and W may jointly advertise this. So, in that sense, there is inducement and joint will or awareness of joint activity and accessibility. If so, then it can comprise joint tort. But, if you consider systems as an apparatus patent, then that conclusion would be very difficult to draw. Thank you.

**MC:** Thank you. You talked about it being an apparatus patent, that is a product patent, implemental inSoftware which is an electromagnetic media and can transcend borders very quickly. I understand that the apparatus patent, in this case is difficult to consider an infringement, but Mr. Dogauchi talked about the relationship to criminal cases; that's a very interesting approach. So, I think that's something that may be of reference for us in the future.

**Mr. Kumakura:** But to take up criminal cases is very difficult because of the *Zaikeihoutei-shugi* doctrine (*nullum crimen sine lege*). Under the Japanese law the concept of working or reducing to practice is considered strictly and all of the penalties are weighed against that act of working. So, unless the patent law redefines the act of working, it's difficult to draw the conclusion that it's the same thing as gambling.

**MC:** So, if you included the act of transmission, would this issue change?

**Mr. Kumakura:** Yes. I think the issues would change.

**MC:** In that case, you can establish infringement.

**Mr. Kumakura:** But if the claim was for an apparatus, then it's the same conclusion.

**MC:** I see, OK. Now then, going on to the States. Mr. Kappos.

**Mr. Kappos:** This question implicates significantly the Mars Case that Judge Rader addressed earlier. So I don't think we need to spend a lot of time on it from a US perspective. First of all W would again be a bit of a problem because all of its acts are occurring in country B under the hypothetical but the more interesting problem is that the US Court could potentially invoke supplemental jurisdiction to consider the infringements, both inside and outside the US, based on this "same nucleus of facts" approach.

As noted earlier, the Federal Circuit did not exercise that kind of jurisdiction in the Mars Case, thereby not extending US Patent Law territorially under facts that are similar enough to this that I would think that would be an issue here.

**MC:** Thank you very much. Mr. Wegner? You mean both, for both?

**Mr. Wegner:** In A there is no infringement. I don't know about country B.

**MC:** Going on to the next question. The next question is an even more difficult question. X Corporation has a patent only in country B. X has no patent in country A. The system of S Corporation is established in country A and the system of W Corporation is set up in country B. Both systems are interconnected and inter-operated via a network, and viewed objectively, practise or reduced to practise X Corporation's patent in country B when they are connected. X Corporation, S Corporation and W Corporation are all incorporated in country A.

So on these assumptions, of course there are various supplementary facts that you can add on to these assumptions but the question is, can X Corporation sue S Corporation and W Corporation in country A for patent infringement on the grounds of its patent right in country B?

**MC:** Mr. Willems yes, please.

**Mr. Willems:** This question seems to me the mirror side of the former question and the answer doesn't seem that difficult to me. There, in my view, will be no infringement in A nor in B. In A because there is no patent there and in B because there is no effect there because the longer I think about this, this difficult matter, the more I get convinced that the criterion should be where is the effect taking place. We should try to get away from the idea that something is present only there where all its components materially are.

I know that patents are territorial rights but we are not talking about a territoriality of the patent here. We are talking about territoriality of a device or the territoriality of practising certain methods of doing something. And I think we should concentrate there on the effect because that's, in my view, what the legislator of the different Patent Law had in mind. That was what is important to them and that's what is important to the patent holder; where is the effect taking place?

Applying that rule to this question the answer is simple Mr. Chairman. No, no infringement. Thank you.

**MC:** Thank you very much. From Japan? Mr. Mizutani, please.

The point at issue was also discussed in the morning, that is whether jurisdiction will be established, and if jurisdiction is established then can you establish infringement? I think these are the two key issues. As for jurisdiction, we heard from the US participants about the supplementary jurisdiction way of thinking and under that sort of thinking there will be no jurisdiction and according to the EU participant there will be jurisdiction.

In the case of Japan, judging from Mr. Dogauchi's presentation this morning, jurisdiction will be established. When it comes to the issue of finding infringement of a foreign patent for acts undertaken in a foreign country, the only case that I can think of in Japan is the Manchurian Patent Case. And since Manchuria then was a colony of Japan it's a very special case.

Personally speaking, I think this point does require discussion here in Japan. In June of this year there was a Supreme Court ruling on a copyright called Ultraman and the ownership of a Thai copyright and

whether Japanese courts would have jurisdiction. Viewing from this ruling as well, various individual factors were taken into consideration and as a result the court concluded that it can establish jurisdiction.

So for patents as well, if an act occurring in a foreign state allegedly infringes a foreign patent, we should not draw a yes or no conclusion to this without considering the individual factors or circumstances involved. In any event, if jurisdiction is established for Japan then, this would be a substantive issue but in that case if country A were Japan then this will require judgement on infringement or non-infringement of a foreign patent. Country B may be the United States, it may be Europe, but if not all of the systems resided in the United States or if not all of the system's components resided in a particular country in Europe, would you still say that there is infringement? I think the comments that have been presented by the other speakers would then apply.

**MC:** Thank you very much. You talked about the Manchurian Patent This is Manchuria before World War II and so there was a very special relationship between Japan and Manchuria. That's what you're saying, right?

**Mr. Mizutani:** Yes. That's my point.

**MC:** And there was also the Tsuburaya Case. The US, and European participants probably are not aware of the Tsuburaya Case. This is where jurisdiction was granted. If you could explain the factual circumstances of this case. Mr. Kumakura.

**Mr. Kumakura:** Well for the Tsuburaya Case, this June, the Supreme Court ruling was given. It was a Japanese case brought against a defendant corporation in Thailand. The Thai Corporation sent a warning to the Japanese Corporation, which was alleged to be violating the Unfair Competition Prevention Law. The case also involved other acts of Tort and a request for a declaratory judgement that the copyright in Thailand was held by the plaintiff. In brief, the court admitted consolidated jurisdiction because of the intertwined relationship with the other claims of Tort. As part of that decision the Supreme Court said that although the case involves a foreign intellectual property right, it shares the same basic facts with the other consolidated claims, and therefore acknowledged jurisdiction over the declaratory action on a Thai copyright. So jurisdiction over a foreign copyright was approved by a Japanese court This is something new, but as Mr. Mizutani mentioned, these matters should not be as purely independent matters. You have to grant Japanese jurisdiction by considering various factors involved. In that sense, I believe this ruling was fair.

**MC:** Do you believe that jurisdiction for copyrighted work and patented work should be handled differently?

**Mr. Kumakura:** Well, I have always felt that copyrighted work and patented work are different. The Hague Convention treats them differently and for a copyright is not established with the involvement of an administrative or state power. It's based upon a Convention and it can be generated without formality. So copyright is different quite from patent right.

**MC:** US case please. Mr. Kappos.

**Mr. Kappos:** Well this hypothetical presents an issue in which the patent in country B but infringing acts in the US would likely prevent an action, legal action from succeeding in the US. So the result as Mr. Mizutani correctly anticipated, is probably no recovery in the US. It is likely that the Law of the State Principle would apply pretty simply to prevent a Court from exercising jurisdiction. And as Mr. Mizutani already mentioned, supplemental jurisdiction would simply not be applicable here.

**MC:** Mr. Rader, do you have any comment?

**Mr. Rader:** Yes, Same Answer.

**MC:** Thank you. I think we have completed the hypothetical case discussion. For the cross-border case, the last one in particular, we find it very difficult to find infringement. I think it has been discussed in the previous symposium.

As a practitioner of patents, how should we address this? Mr. Wegner indicated in his handout, the claim drafting of patents could be one solution. I'd like to invite him to discuss the claim drafting. He gives some examples using servers, terminals and all those articles.

**Mr. Wegner:** The key first step is to have a single actor direct infringement claim. So in all of the discussions we've had so far, we have assumed that elements a, b and c were actual elements of the claim that required an operation. The goal should be to have claims where only one of the elements is the actual step required for the claim. So, for example, the optimum business claim is to attack the owner of the server. The person who operates the server. This will be the business that deals with the customer, that distributes the... that runs the business.

So what can we do? If the server is B, the claim would be receiving a signal from A at B so the step is by B. Receiving the signal at B and then conducting the operation at the server B and then transmitting another signal from B to C. So the only action required in the claim is at the server. So you still have the three elements described in the claim but the only operation in the claim would be at the server. Then the operator of the server is the direct infringer.

Now, is that the end of the exercise? Absolutely not, because as we've seen, you can move the server offshore and whether it's cyber world or physical world or Disney World, it doesn't matter. If it's extra-territorial, it's extra-territorial. So we must have a second claim that guards against the situation where the server is moved offshore.

Now under US law what I would like to do is have a single actor claim where the customer... If you have a system where the customer operates one of the computers, where the only action is by the customer, whereby the claim might be where the customer transmits a signal and then you can have a functional description of what happens to the signal at the server and delivery to something else, but the only operation in this single actor claim that is required by the claim is the transmittal of the signal by the customer.

Now, am I going to sue the customer? Absolutely not. I'm not stupid, I don't want to sue the customer. But if the customer is using a specially-adapted computer or, more importantly if he is induced to use this computer to send a signal, then the server, the owner of the server, the operator of the server B, no matter where he is, is an active inducer.

Now again, remember that if we have the direct infringer, the customer, in our territory A, the inducement can be from anywhere in the world. It doesn't matter where in the world this takes place. The inducement can take place outside the United States, so now we have a way to capture the situation where the server is offshore.

So again, the goal should be to have single actor, single operation claims. You describe the three elements A, B and C but the only operation in the claim is at one of these positions. Is that less than ten minutes?

**MC:** Yes. Thank you very much. Now then, we've been talking about the hypotheticals and since we do have many practitioners here today, perhaps we can ask Mr. Rader first of all to talk about the Festo Case which was issued recently in the United States and any other matters of your interest.

Mr. Rader please.

**Mr. Rader:** I'd like to thank Mr. Miki for giving me two chances to make a few remarks about Festo. As many of you may know, United States Patent Law has been very interested in the Festo Case. The Festo Case has been cited as one of the most important patent cases ever decided by the Federal Circuit. It has been discussed by commentators, by law professors... It has been widely reported in the press. The case has gone to the Supreme Court. Our Supreme Court has announced that it will hear the case on January 8. I would imagine that the Supreme Court's final judgement in the case would be available to us by May or June of next year.

I'd like for one moment to pretend that you are my patent law class at George Washington University and discuss this case with you as I would with my patent law class. If you were my class I would start by

asking you a question. Why do you think that this case is so important? And of course many of you would raise your hands and then I would give you the answer I wanted to give anyway.

Actually, the case does not appear on its face to be important. It deals with very simple technology, a piston that slides back and forth on a cylinder used primarily in robotics technology. It deals furthermore with the doctrine of prosecution history estoppel. Those of you who know American Law know that that's one of three limitations on the Doctrine of Equivalence.

The Doctrine of Equivalence is itself an exception to the standard rules of infringement, so in Festo we are talking about one of three limitations on an exception to the standard rule of infringement. Nevertheless, the case has generated tremendous attention. You might ask why that is, and I'd like to discuss that question with you today.

I think one reason it's very important is because this particular limitation on the Doctrine of Equivalence has become the central limitation used by the Court of Appeals for the Federal Circuit to limit the scope of the Doctrine of Equivalence. This case is thus an important indication that the Federal Circuit is construing claims very narrowly and it is not extending the Doctrine of Equivalence in very many circumstances. In fact since 1995, when the court first reviewed en banc the Doctrine of Equivalence, I can only think of one or two cases where our court has sustained infringement under the Doctrine of Equivalence. That is perhaps the first reason it's important. It suggests significant limitations on the doctrine of equivalence.

The second reason is something that I think we have some need to discuss today, and that is the effect of Festo on patent acquisition practices. Festo does have a significant effect on the way we apply for patents and I'd like to discuss four ways in which it will effect that. First I need to make clear the rule that the Festo Opinion has enunciated. Under the en banc Festo decision, any narrowing amendment during prosecution prevents a patentee from asserting any range of equivalence for that amended claim limitation. In colloquial terms, if you amend you cannot extend.

Remember that the purpose of prosecution history estoppel is to prevent a patentee from recapturing under the Doctrine of Equivalence, any claim scope that they had surrendered during the application process. Because they surrendered it during the prosecution process, they cannot attempt to recapture that same surrendered material under the Doctrine of Equivalence.

Prosecution history estoppel has been significantly strengthened by Festo. I've suggested that the primary effect of it is that when you amend your claim you will not have an opportunity to assert the Doctrine of Equivalence on that amended claim limitation. Moreover, even without amending a claim, an applicant can forfeit equivalence by making arguments during prosecution that disclaim or narrow claim scope.

This new Festo Doctrine, if it survives Supreme Court review, erects substantial new challenges to the task of drafting claims. A claim drafter must draft claims that do not need any protection from the Doctrine of Equivalence. In other words, the claim drafter must anticipate future efforts to circumvent the claims and draft language that captures literally any known interchangeable features for each limitation of the claims.

Even with this added care, however, the Festo Doctrine may undermine an important purpose of the Doctrine of Equivalence, namely protection in the event of after arising technology. By definition, a patent applicant cannot have surrendered coverage of after arising technology. After arising technology would not have been in existence at the time of any claim amendment or any argument that narrowed the patent's scope. This after arising technology could not have been surrendered and therefore should be available for coverage under the Doctrine of Equivalence.

Indeed, it may be an important form of protection. An example that comes to mind is the way we claimed radio technology in 1948. We claimed radio technology in terms of tubes with anodes and cathodes. If you had an invention that was a knob for fine tuning a radio and you claimed it, in your claim you would have mentioned how it affected anodes and cathodes.

In 1949 someone invented transistors. Transistors do not have anodes and cathodes, they have emitters and receivers. Your technology, your fine tuning knob, would nonetheless have lost all coverage because under the Literal Infringement Doctrine anyone now could use a transistor rather than anodes and



cathodes and your claims would be obsolete. The Doctrine of Equivalence accounts for this after arising technology and permits you to still assert infringement, even though technology has changed the terms of the art.

In any event, the judges of the Federal Circuit were unanimous on one point. The new Doctrine of Prosecution History Estoppel will significantly affect the application of the Doctrine of Equivalence. In the event of any amendment, you will find it impossible to assert the Doctrine of Equivalence, even if it involves after arising technology.

Thus the new Festo Rule changes the strategy an applicant must pursue to acquire patent rights. To protect the scope of a million dollar or billion-dollar invention, you would have to guard against the forfeiture of your patent rights in the future. This might change the way you would apply for your patent.

Before Festo standard claim drafting courses told you to start with a broad claim and narrow it to several specific smaller claims, narrower claims. After Festo, however, a claim drafter has to worry that that broad claim is likely to draw rejection from the examiner. Because any narrowing amendment or disclaiming argument to overcome that rejection endangers the patent's coverage, a claim drafter will likely avoid those broad claims and go directly to narrow claims and perhaps many more claims.

From the applicant's perspective this blizzard of narrower and more numerous claims will more likely avoid prior art objections. From the examiner's perspective that means more work. A narrow claim by definition contains more limitations, each of which the examiner must check against prior art. More of these narrower claims may multiply the work of examiners and cumulatively may slow patent issuance.

Besides more and narrower claims after Festo, applicants will also use more functional claims. Under United States Law an applicant receives a statutory right to equivalence for functional claims. No doubt standard patent prosecution strategy after Festo will suggest using means plus function claims because even if they are amended they still receive an equivalent.

Another ... So we've looked at two changes to patent application after Festo already. One, there will be more claims and narrower claims; second, more use of means plus function claims or functional claims, which include a statutory Right of Equivalence. The third change that we will probably see in patent acquisition practice will occur in the continuation practices. Continuations are unique to United States Law. Under continuation practice an applicant can elect to place any claims rejected by an examiner into a separate continuing application. This continuing application remains confidential. Because it's confidential, the applicant can continue to discuss with the examiner the scope of these claims and by paying one continuation fee after another, the applicant will be able to continue claims as long as they wish under US Law. Thus with an invention of considerable economic value, a patentee may elect to pay the fees necessary to continue that application throughout the life of a patent. In other words, any claims in a patent that an examiner objects to, you will continue. The rest of the claims that the examiner has not objected to and not amended will issue as a patent. Thus applicants can use continuation procedures to protect those patents against damaging prosecution history, which might deny them the coverage of the Doctrine of Equivalence. You will continue the applications that have that damaging prosecution history in them.

Finally, the most obvious change in prosecution strategy occasioned by Festo will counsel attorneys to never amend and never make concessions to the examiners. Amending a claim or conceding a narrow interpretation forfeits any coverage for equivalence of that limitation. Therefore, once again, we will expect to see more difficult prosecution, perhaps more delays in the issuance of patents. It's interesting that I have had the occasion to discuss each of these four potential changes in US application strategy with patent officials at the US Patent and Trademark Office. They have suggested that they are already seeing more continuances. I should explain, however, that many of those continuances may be simply awaiting the final outcome in Festo. If, however, Festo is not changed, perhaps those continuances will stretch on indefinitely to protect claims that issue without amendments.

Similarly, I am told that more patent applications are indeed using means plus function claiming techniques. Even in biotechnology areas, which don't intuitively lend themselves to means plus function claiming. The examiners claim that they are having extreme difficulty getting applicants to concede any claim scope during the process and they are finding it even harder to get an applicant to make any amendments.

In conclusion, Festo really isn't a case just affecting one of three limitations on an exception to the standard rule of infringement. It does have an effect on the way that patents are prosecuted and the way they are enforced, and perhaps ultimately on their value. To protect the value of patented inventions I would expect that patent drafters will adjust their claim drafting and prosecution strategies to account for the Festo rule. We'll have to, of course, wait and see if the Festo rule is modified at all by the Supreme Court or if it's adopted as it is. There have been many briefs filed on both sides that very excellently argue the merits of the case. I think the Supreme Court will understand the case and I, like you, look forward to seeing their final result. Thank you.

**MC:** Thank you very much Mr. Rader. In regard to the Festo Case, Mr. Kappos presented to us one of the briefs and I would like to invite his brief comment in regard to this Festo. Yes please.

Please confine your reply to five minutes, can you?

**Mr. Kappos:** Thank you Miki-San. Judge Rader has done an excellent job of summarizing the case and many of the impacts that the holding will have. I would like to add one more and that is that I believe the Festo Case will cause patent applicants in the US to conduct many more pre-filing prior art searches. So instead of the prevailing practice in the US before Festo of filing patent applications without bothering to conduct prior art searches, applicants now will be highly incented to conduct those searches.

In the case of my particular client, who filed by far more patent applications in the US Patent Office year after year than any other applicant, we are searching before filing virtually all of our patent applications.

A second comment that I would make is that the presence of narrower claims or the use of practices that involve the filing of what I would characterize as more reasonable claims is actually a very good thing for the patent system. The US has been somewhat affected by a claiming strategy that we sometimes refer to as "lottery claiming", meaning the filing of almost wildly broad or very broad patent claims in the hope that they will make it through the Patent Office and then enjoy the US statutory presumption of validity that requires clear and convincing evidence to overcome.

As Judge Rader pointed out, Festo has the effect of discouraging that practice by creating somewhat of a penalty for filing lottery claims if those claims are rejected by a Patent Office examiner. So a very beneficial effect of Festo will be to encourage the filing of reasonable claims or what we refer to as "careful claiming practice".

Lastly I'd like to mention one of the arguments advanced in the briefs filed by some of the Amici in favor of overturning the Court of Appeal's judgement. This particular argument is quite interesting in the context of a symposium such as this one and the argument was that the Festo judgement was incorrect in part because it is contrary to foreign laws and would cause the US to violate international treaties.

The additional assertion was made that Festo would render the US inconsistent with international harmonization efforts. This is a rather interesting position. It was not accompanied in any of the Amicus briefs or in the Festo brief by substantive analysis. It was simply a position that was taken.

It would be interesting to hear comments from others here on whether they feel that a narrow Doctrine of Equivalence in the US would be somehow inconsistent with international treaties or would somehow deharmonise US patent law with the patent laws of the other major jurisdictions being Japan and Europe in general.

Our view is that that would not be the case, that Festo could not violate international treaties because there is no single accepted international standard for the Doctrine of Equivalence and in any event, as a matter of US Constitutional law, the Congress of the US is empowered to render judgements or to pass laws relating to international treaties and that the Supreme Court of the United States should not properly be considering them in rendering its judgement.

**MC:** Thank you very much. So, I think there are two themes remaining. First I'd like to ask Mr. Wegner to make a presentation and, then I would like to ask Mr. Takakura to discuss the present status about the computer software database. as to the jurisdiction of a foreign patent, for instance, in the Mars Case, the supplementary jurisdiction is not excused. So, if we look from the reverse angle, in our network age, if the

supplemental jurisdiction, is exercised for a foreign patent, what emerges next is the use of forum where the infringement decision is likely to be given. Forum shopping is likely to increase.

So, if the patent is granted in one country, perhaps in other countries the lawsuit can be brought for all of them. That is likely to happen in the network society. So that is referred to in Mr. Wagner's paper. So in the case of the United States, within the United States, the circuit court was established, because of the forum shopping. So now I would like to ask perhaps 10-15 minutes further comments from Mr. Wegner on that point please.

**Mr. Wegner:** Thank you very much. Forum shopping, it's the idea of going to pick a court. You go to a supermarket, you pick a particular grocery or something, so you pick a particular court. Many of us thought that forum shopping had ended in 1982 when we created the Federal Circuit and before 1982 there were many different circuit courts, which had very different views. So, you would pick a court in one of the various circuits.

Appellate forum shopping is now ended for 20 years, since the Federal Circuit was created in 1982. So there is no longer appellate forum shopping, but the disparity of the district courts in America is enormous. We have heard, and you've read many times, about the wonderful examples of Alexandria in Virginia, the Northern District California, Delaware. In Utah we have some very wonderful courts, but we have a total of 94 district courts. So when we talk about the courts with great patent expertise we're talking about a relative handful of courts that are really top of the line courts where patents are exciting and have gotten the interest of the judiciary and what does it mean if we're in the wrong court.

If we're in a court like in Miami, Florida where there are a lot of drug criminal cases, human rights freedom comes ahead of criminal cases come ahead of patent or other civil cases, so it may take a few years, a couple of years at least to get to a final decision. You don't want that if you want a fast decision. Juries may vary widely. The composition of juries is local depending upon which part of the country we're in.

So the court in which you have your case brought can be very, very outcome determinative. Now we can say, well isn't it true that the Federal Circuit harmonises the Law? Well yes, but that's a very remote possibility from a practical standpoint for many cases. Why is that? If we go to a court where a Judge is reluctant to grant summary judgement, maybe even in a clear case where the patent might be invalid, the court perhaps will not grant summary relief. This may mean that the jury will decide and you may lose at the district court level.

Well, that's not a problem, is it? Because we will take an appeal to the Federal Circuit. Well, think about the *Kodak vs Polaroid Case* where Polaroid had a patent on an instant film camera and Kodak was the accused infringer and at the end of the trial before the Federal Circuit would reach its decision, the factory was shut down. Thousands of workers were laid off. The product line was ended. So if your goal is to stay in business and not be shut down for three months, ten months, one year, however long it takes for the Federal Circuit to reverse an opinion, you cannot rely upon the final decision of the Federal Circuit. It's a little bit late after your factory's been shut down.

So, how do we do forum shopping if we're the accused infringer? If we're threatened with infringement? If you are sued for infringement, of course you can file a declaratory judgement action suit in a different court. But the general rule is if the first court is a reasonable forum for the parties and there's jurisdiction, then the first forum will control as opposed to the second forum. So what this means is if you are going to be the accused infringer, you have perhaps to file a declaratory judgement for invalidity and non-infringement in a forum of your choice.

The classic example, perhaps the first patent case with a Japanese party which was very famous many years ago involved the Zenith Color Matrix Patent where Zenith was going to attack a whole lot of Japanese companies for color television and Mr. Norichika in his first big case back in 1970 for Toshiba brought a declaratory judgement action of invalidity in Delaware and fought hard for three years and won and killed the Zenith patent. So is it important to be the plaintiff to declaratory judgement plaintiff in a jury trial as opposed to being the accused infringer and being the defendant?

Professor Kimberley Moore recently did a study which is cited in one of my papers, where she said

that if you are involved in an infringement suit and the patentee brings the suit as plaintiff, the patentee should win 58% of the time. If the accused infringer is the plaintiff in a declaratory judgement action then it goes down to 44% win rate for the patentee. 58% versus 44%.

Now this is not all psychological by being plaintiff versus defendant, it may also include being better prepared, maybe parties that are willing to be the plaintiff move quickly or are better prepared. There may be other factors also. So in the global world of... if we get to the idea of getting beyond Mars and if we get to the idea of perhaps the Tokyo Court will rule on validity of a US patent, a lot will depend upon who gets the first judgement. It could mean a great deal of difference. So you may have a reverse forum-shopping situation. If you are sued in America in a court that will take two years for a decision, if you can bring a suit in Japan to have both the Japanese and the US patents decided and if a decision can be done in one year and you can find invalidity in Japan about the US patent, then we have a case of first impression. A test case. Because if you win the case in Japan you would come immediately to the US court and make a motion for judgement on the basis of invalidity in the Japanese action. This is the so-called Blonderton Rule. Will you win? I don't know, it's a case of first impression.

Now, finally I would like to add one thing. Don't kill the messenger. Judge Rader gave a very excellent summary of Festo Case, but it is not his fault that Festo came out the way it did. He was dissenting Judge in Festo and he was also very careful and only objectively explained what the case was about, he did not characterize the decision as good or bad, he did not say what the chances of success would be for reversal. I think that the most important brief that was filed in Festo was the Solicitor General's brief. The US Government filed a brief in the case and they took a view very similar to Judge Rader's dissent, so there is some chance that the Supreme Court will reverse the second issue in the case, which is the only issue on which Judge Rader, Judge Lang and Judge Michelle dissented on. So it's not fair for Judge Rader to talk about what he thinks about the opinion because it's pending, but these are also objective facts that are present. So, in May or June, probably in that timeframe find out that Judge Rader was correct after all.

**MC:** Thank you very much. With regard to forum shopping, I think information helps us understand forum shopping, and the issue, which comes next, is summary judgement. Well perhaps the counter action will be taken in different countries. That is the possibility, which must be considered. And the last subject is non-patent document database for examination of software-related inventions and I'd like to ask Mr. Takakura of JPO to give us a presentation. You have a lot of time.

**Mr. Takakura:** This is our very last presentation. At the end of the two days of the symposium I thank you very much for this opportunity and the theme that I would like to describe here is slightly different from the Doctrine of Equivalence or International Law. This is a very domestic issue. I am the one who takes part in International Conferences many times, but this is the first time that I make a presentation on this theme. The domestic theme in Japan. And since I was given the theme to make presentation, and I discovered that this was a very important theme indeed. And for that reason I would like to take this opportunity to express my gratitude to the members of the Secretariat who gave us the opportunity to make this presentation. I think although you said that I had plenty of time, perhaps 10 minutes, 15 minutes would be more than enough. So I would like to talk about the computer software base and what is the position of the JPO and what is the future trend, particularly for practitioners who work for Japanese companies.

I would like to take this opportunity to listen to opinions of practitioners working for Japanese corporations. That should be what I'd like to achieve here. So, without further ado I would like to talk about the situation, statistical situation. The JPO received 440,000 patent applications last year. In the US this was 300,000, so we received the largest number of applications. It's very difficult for us to know until the publication of an examined patents are actually laid open. And so it's 18 months after the application and you can see 360,000 applications published as unexamined patent applications.

We do have the computer category, which is GO6F. So out of 360,000 publications, computer-related applications represent 6% or 23,000. But just in terms of the absolute number, I think the number of applications is quite large compared with the Western countries. Also, 2300 are business model patent filings published.

So, in terms of the software-related applications Japan has seen a very large number of filings. So in order to expedite the examination, the JPO examiners must search the prior art and when the prior art search is

conducted by examiners, they conduct searches in two different areas. One is the patent documents and the other area is non-patent documents, which include magazines or the articles, dissertations, papers etc.

And so, the concerning the search for the patent documents we have F-term automation system at JPO. With regard to non-patent documents we have online search system for the commercial purposes. We have been using that. But in the case of software, there are many documents which are not incorporated into the commercial database yet and there is a necessity for us to search them. So in addition to magazines or journals etc, a manual for program needs to be searched. And for that purpose, four years ago, since 1997, at JPO, the patent documents in Japanese were copied and digitized and they were put into database for in-house use purposes.

This is an exception to the copyright law and an exemption is applied and we carry out reproduction of documents. So frankly speaking, without having explicit consent or authorization of right holders, we actually reproduce them and put them into database.

So, in terms of Patent Law, there is no problem in this act but the issue in question here is when this should be made public. Applicants often have a very strong request to publish those documents and therefore computer or the software-related data base called CSDB, and I would like to continue to use the word CSDB in my talk, CSDB in light of Copyright Law, is it possible for us to make this available to the public online? That is a very important issue.

And the second issue to be addressed relates to examiners. In their reason for refusal when the documents in CSDB are cited, whether or not examiners can send the cited document to the applicants and whether or not it is possible to actually deliver the documents to the applicants? Because they're cited in a notification of reason for refusal and those two issues need to be addressed and that's what I'll take up in my presentation.

I'd like you to look at C7 and I would like you to look at Table 1. This is the rate of the patent documents cited or which are sent by the examiners for notification of reason for refusal.

For the last year the number of documents cited were 540,000 documents were cited last year and out of 540,000 documents cited, what is the percentage of non-patent documents cited? That is indicated in Paper 1. And last year, 2000, if you look at all the fields, the percentage of the rate of non-patent documents cited was 5% but as to the computer field alone, this percentage is slightly higher, 11% last year.

Now the business method field. This percentage is higher and that accounts for 19%. And therefore there are two messages I would like to convey to you using this table. The majority of documents cited are actually patent documents. That's a very important point, and the second important point is the computer-related field, particularly business model area is The area where there is a very high percentage of citing non-patent documents. That is the background against which we decided to introduce the CSDB database for computer-related software.

So, you may say that in this table, the citation of the non-patent documents is only 5%. In other words, the remaining 95% is patent documents. So you may think that this percentage for non-patent document is very low but based on my experience of serving as examiner, I can tell that, in the patent documents and in the magazines, if the same technology appears in those two documents, considering the availability of the document, we normally notify the patent documents rather than non-patent documents to the applicants. That is the reason the citation of the patent documents is relatively high compared the citation of non-patent documents.

Under the current CSDB, we have more than 130,000 articles or books stored. So under Copyright Law what are the problems? That's what I'd like to cover next. I think I can divide the issue into two, and the CSDB as a whole system whether we should be able to make this available to the public, and the second, is in a notification for reason for refusal, whether or not the documents cited should be reproduced and delivered to the applicants.

Concerning the first question whether or not, making CSDB available to the public under the current Copyright Law, it is very difficult to do so. The reason that I have already described is that the CSDB in-house use is possible, because the copyright law application can be exempted, if that is used in-house. However

when it comes to making this available to the public, this is outside of the original purpose and therefore under copyright law, this act is prohibited.

Therefore, what would be the realistic method going forward. Without revision of the law, if you try to meet the needs of applicants, although there are very limited ways available, but I think there are a couple of ways to make this possible. For one thing, when the magazines and program manuals are copied by the JPO, we actually receive authorization of the copyright holder to make this public or make this available to the public. In this way, we published this. The second way is that we make abstract or summary made by JPO and the abstract and bibliographic data are only made available to the public.

But as for the first method, where it is very difficult to get the authorization from each individual right holder, it's not realistic and second, using the abstract or bibliographic data, if you strictly interpret the Copyright Law, perhaps difficult cases can be found, so we must be very cautious about this approach too.

So, in any case the best way is to use Article 42 of the Copyright Law and we actually revised the exemption provision in order to deal with this matter. As to what should be the revised wording, I think there are many arguments about the revision but just as one possibility, Article 42 of the Copyright Law, and under this law in-house database can be reproducible only when it expedites the examination process and enables rigorous selections of claims by the applicants and for the betterment of the administrative process. That is made possible.

In other words, the communication between now the JPO and applicants should be deemed as part of the administrative process and if that is deemed so, it is possible to make CSDB available to the public. However there is a chance that the copyrighted works can be reproduced without authors, knowledge and therefore I think this method is quite controversial in many ways. Without wholly or entirely making the CSDB available to the public, some or a part of a cited document can be released to applicants because documents which are even difficult for JPO to make available cannot be made available to applicants.

With the JPO for instance, electronic filing and official action notification can be sent electronically to the applicants, if so, we do not send the fax or paper perhaps, electronic information will be transmitted to applicants. And in order to make this transmission service legally possible, the citation under the Article 32 of the Copyright Law should be applied.

But with regard to citation, there are many definitions and for instance in the patent infringement case law does exist. I'll just give two major conditions. Clarity and also the master servant relations. And clarity is to show which part is the copyrighted work and which are the cited portions. And that distinction should be made clear. That is what we mean by clarity.

And master servant relations need to indicate, which is main and which is minor so major minor relations must be clearly distinguished. The portion which is cited should be the minor and the main text should be the major. And therefore the document of the notification of reason for refusal is an official document of the Japanese Government and the citation of the document is an act by the Government. And therefore under the copyright law, citation and exploitation are allowed and exploitation includes reproduction and transmission. And if this becomes legal under Copyright Law it is possible to transmit the cited document to each applicant.

But in major-minor relations perhaps, cited documents are a bit thicker in terms of the number of pages it's larger and perhaps the cited document in terms of sheer volume, is larger in many cases, although is the minor part qualitatively. Those are issues that I'd like to raise and I would like to, of course, hear some of your comments about this point and here I also would like to take this opportunity to talk about the Patent Law revision which is being planned for next year.

Well this is the revision, reflecting the change of technology etc in the information era. And there are three major areas, the two are already described previously. And first with regard to invention on the program, concept of the working of the invention should once again be reviewed. And therefore the transmission, which is a technical word, needs to be defined and the term like "put on the market", for instance, is newly introduced to the Patent Law, revised Patent Law. That is being discussed currently.

And, the second point is indirect infringement and software patent. And third, this is quite a new issue. The applicants before filing must carry out a prior art search and if they know the results, it should be disclosed in the application document and so the revision of the Law to oblige applicants to disclose the results of the search in the application documents.

So, if the law is revised this way, the software patent protection will be further strengthened. So the software-related filing will increase as a result. For that reason, the improvement of CSDB becomes all the more important.

For the applicants, the need, to have access to the CSDB will be higher in coming years and therefore as I said previously we need to take stock of what we can do now and what we can do after the revision of the Law, and study them. So I always welcome your comments and opinions on those matters. I thank you very much.

**MC:** As for the publicly-known literature accumulation in three regions, US, Europe and Japan, have you been contacting the other patent offices? And if you have any contacts I would like to know the status. Then I would like to invite Mr. Kappos on the copyright issue in the USA. I think you briefed me on that but could you once again give us input?

**Mr. Takakura:** Japan, US, and Europe exchanging information under the CSDB may exceed the limits of Article 42 of the Copyright Law, so we are rather careful about that. But information on what types of databases the other Offices are using, including CSDB, is exchanged between the three Offices, so that the examiners would be aware of different databases which they might want to try. US, Europe may have a commercial online database for business models, which the JPO may want to access.

It's not the exchange of database contents. That will be more problematic so we are rather careful. And from the US and European point of view they would not want to give the JPO direct access to their databases because that may violate National Laws.

**MC:** Mr. Willems, Mr. Kappos in regard to this, any input from you? If not... yes Mr. Kappos.

**Mr. Kappos:** ...address briefly a couple of issues that are arising in the US. One is the US Patent Office has explained to the public that they are undertaking a very similar process to the one that was just explained and very similar issues arise relative to copyright infringement. The US Patent Office is, for the first time, trying to systematically scan incoming non-patent prior art submissions, particularly in the software and business methods area, and to make them full text searchable for use in subsequent examinations. We consider this to be very important because it's an excellent way to build up a prior art database within the patent office.

Of course, issues arise under the Copyright Laws, similar to the ones that are being considered here in Japan. The US Patent Office has explained to date that they plan to make their system available only within the Patent Office, not for searching outside the Patent Office at this point. There has been discussion over whether the US Copyright Laws as currently written will accommodate even internal use and while I am not aware of any clear decision, and it's not clear whether US Fair Use Doctrine would protect the Patent Office, it appears that they're going forward on the internal use theory anyway and I think with the understanding that it would pose very little risk to private copyright interests.

One other point I'd like to mention relative to online databases is the US Patent Office recently published a notice in our Federal Register in the US that listed dozens and dozens of databases, online, publicly available databases that the Patent Office uses to search software and business method related patent applications. And they took input from the public as well on additional databases. So you may see additional publications coming in the future.

And the last comment that I'll offer is the US National Academy of Sciences has been conducting a statistical analysis of business method patents and apropos some of the statistical comments that were made a few moments ago, I should mention a couple of the findings that they have made available in a draft of their report.

One of the findings is that indeed business method patent applications in the US are citing more prior

art than other kinds of patent applications. They also contain more claims. More of them are going to smaller entities, in other words, small companies and individuals, than for other types of patent applications. And lastly, a point that this audience probably will be very interested in, there was only one country specifically mentioned in the study, and it is Japan, and that country Japan is mentioned because the statistical analysis revealed that Japan has a low patenting rate in the US in business method patents compared with its rate of patenting generally in the US. Thank you.

**MC:** Thank you for your input. We have now consumed all the issues for the patent sessions. Any additional remarks or comments, input? No. Well I'd like to thank you all, for your attendance and all the practitioners you have been seated all day like Law school students, all of you, both from Japan and both from abroad. Thank you for replying very politely to my questions. Thank you very, very much indeed.

The interpreters, have been interpreting non-stop, our run away, discussion, and thank you interpreters for following us. The interpreters also thank the speakers as well.

With this I would like to conclude our session. Thank you.

Mr. Miki, panelists, I thank you very much. Before we conclude, Mr. Norichika of Softic is going to greet the audience and panelists.

**Mr. Norichika:** Well ladies and gentlemen, thank you for your hard work, especially the panelists who worked all the way through. You were caged into the stage I would say as if you were housed in a cage there, and I congratulate Mr. Miki for your hardest work of all.

Yesterday Mr. Uemura Deputy General Secretary of WIPO started off the two-day program we had Mr. Aizawa's session on copyright yesterday and today for one full day we had Mr. Miki's patent session. Some of the speakers and panelists came all the way down to Japan, a very long distance. I thank you very much for travelling down to Japan. I know this is an endless session but I think we have been able to raise some of the important matters to the public. Before mid next year, we are going to publish proceedings in English and in Japanese. You're expected to have those copies. When you have the book in hand please review the issues raised. We appreciate if you could revisit the themes that we jointly discussed. Please do look forward to the proceedings.

With this we would like to conclude the two-day meeting. Thank you and thank you for your hard work.

**Secretariat:** With this we would like to close the two-day program. This is the end of the Softic Symposium 2001. We thank all the moderators and panelists for the full two days. Appreciation goes to all of you. Thank you.

And audience, thank you very much for your patience and endurance. Please return the name tags before you leave and please leave the receiver set on the desk. Thank you.

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