Canada-United States Law Journal

Volume 2 | Issue

Article 30

1979

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Problems in International Licensing of Industrial and Intellectual Property

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THE LICENSING OF patents, trademarks, copyrights and trade secrets each involves a legally acquired form of monopoly which encompasses specific subject matter for a specific purpose. Interpretations by United States courts show that patent monopolies have many rights in addition to those specified by the patent laws. A patentee can grant licenses to whomever he wishes; he can charge royalties as high as he can get; he can tie royalties to sales volume; he can restrict licenses to territories exclusively or nonexclusively. The patentee can further require assignment of improvement patents and cross licensing, fix the resale prices of single licensees and license for a specified use or field of use.

A patentee may conclusively be presumed to have engaged in illegal practice if he required a licensee to purchase unpatented materials from the licensor; if he restricts the licensee's rights to deal in non-related products or services or, as in the *Timken* case, in trademarks covering both marked and unmarked products; or the right to deal in mandatory packaging and imposes restrictions on a purchasing licensee who is not the manufacturing licensee then the rule of reason is invoked. A general antitrust objective test and rule of thumb is that the use of license as a legal monopoly is permissible if the public is benefited and a restraint on competition does not arise. If the use of the license as a monopoly restrains trade more than if no license were used at all, then the use of the license becomes an illegal use of the monopoly. The United States antitrust laws have an impact on all agreements which relate to industrial property, patents, trademarks, know-how, copyrights, industrial design international licensing and franchising distribution. Since the *Lear, Inc. v. Adkins* decision, 395 U.S. 653 (1969), no contest clauses (clauses in which the licensee agrees not to contest the validity of the patent license from license agreements) should be eliminated. If such a clause is included, the courts would probably consider it to be a patent misuse or an antitrust violation. In *Bendix v. Balax, Inc.*, 164 U.S.P.Q. 485 (7th Cir. 1970), the Patent Court held that such a covenant was one element of an illegal attempt to monopolize under the antitrust laws. Misuse of a patent is any action which tends to enlarge the scope of the patent monopoly beyond the invention defined in the patent claims. Thus, a licensor should insist on the right to terminate a license if his licensee stops paying on a license, and the right to

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These remarks were made at the Canada-United States Law Institute's Antitrust Conference, held September 30, 1977, at the University of Western Ontario, London.

test the validity of the license patent either through a declaratory judgment suit or otherwise. In this manner, the licensor can protect himself and hold a threat of injunction for patent infringement over the head of the licensee who breaches his obligation to pay royalties. The same restriction with respect to these no contest clauses applies in patent licensing agreements in the European Economic Community. There is some question as to whether or not the inclusion of such a clause by a member of a Community Member State would invalidate or nullify the whole agreement or just render that portion void.

It is better to combine patents and know-how in one royalty payment agreement. If the licensee challenges the patent validity, one can still rely on the know-how rights in sustaining the agreement and in supporting continued payment of royalties. There is a view that know-how and patents should be subjects of separate agreements so that royalty payments will not be deemed as an unlawful extention of the patent after the patent's expiration. Another way to accomplish this is to provide a separate agreement for technical assistance in return for specific royalty payments on a periodic basis for as long as the licensee commercially utilizes the subject matters of monopoly. Sometimes royalties may be based on services rather than on know-how.

However, a problem may arise regardless of which method the licensor chooses to expand the life span of the monopoly beyond the patent life or its termination. In practice, in the United States one cannot force the licensee to accept such an extension. Thus, in cases of separate agreements, one may have to be prepared to make an offer of only one of them if the proposed licensee rejects the others. By using rule of reason, these violations which are *per se* illegal would contribute to an abuse of the antitrust laws. One such violation is price fixing. Price fixing has been upheld by many courts in single license agreements. However, in multiple licensing agreements, a variety of cases have held such restrictions to be illegal. A court in one case recently found nothing wrong with the licensor suggesting prices to the licensee for trademark usage. The court's approval of this agreement was based on a lack of evidence of any attempt to enforce the suggested prices. Data showed that the licensee had used different prices. However, technology agreements setting the price of the license product can raise serious problems despite the Supreme Court's famous 1926 decision in the *General Electric* case.

If there is a misuse finding by the court that the patent has been extended beyond the scope of the patent claims, patent rights cannot be enforced under the license. If misuse does not constitute an antitrust violation, the patent owner can purge his abuse as terminating the unreasonable practices thereby making the agreement legal. However, if the misuse violates the antitrust laws, the monopoly owner may be subject to treble damages. The Clayton Act provides that any person injured in his trade or business can recover three times the amount of his injury plus attorneys' fees. A violation of the Sherman Act is now a felony carrying the risk of up to three years in jail for individuals and up to one million dollars in fines for corporations. There are a number of court interpretations with respect to antitrust violations. For instance, IBM tried to tie the use of its machines to the manufacturer of IBM manufactured cards. This tie-in was declared illegal. In the *Minneapolis Honeywell* case, the Minneapolis owners of the patent on the heating system tied the use of a heating system patent to purchases of their unpatented switches. The court held that the patent was used to protect a market for which no patent was granted, and the effort made to control competition by this device plainly violated the antitrust laws. However, other courts have endorsed such tying agreements. In one case where a manufacturer's unloaders (which are patented) failed to operate satisfactorily without use of its own manufactured silos in at least fifty percent of the cases, the court held that the evidence was sufficient to support the tie-in and ruled that there would be no antitrust violation in so doing. In other words, the patented device would not work properly unless their particular unpatented silos were used.

In another case the licensee of a nationally advertised trademark was required to purchase materials from a particular supplier for the purpose of maintaining the quality of the nationally advertised methods. The court had no objection.

In instances where injury occurs as a result of the antitrust violation, the Clayton Act prescribes that treble damages are mandatory. Cross licensing is not *per se* unlawful, but agreements for cross licensing between patentees and division of royalties are illegal when used to effect monopoly, fix prices or unreasonably restrain interstate commerce.

In one case, there was no factual showing that a provision of cross licensing between gasoline refiners for division of royalties was illegal. Licenses from the patent licensee to licensor respecting improvements by the licensee were further held not to be violations of sections 1 through 7 of the Sherman Act as long as such licenses were non-exclusive and provided no cause for restraint or monopolization of trade in such improvement. In *Dunlop Co., Ltd. v. Kelsey-Hayes Co.*, 1979 U.S.P.Q. 129 (6th Cir. 1973), the patentee's foreign license agreement forbade exportation of patented disc brakes by foreign manufacturers to the United States. The court held that this did not constitute a violation of the antitrust laws.

With respect to territorial limitations creating difficulties in cross licensing, there are cases which hold that manufacturers can be prevented from shipping into a particular country and that such areas can be reserved. But antitrust problems will arise practically every time if one of the companies is big enough.

Settlement agreements used as part of a scheme to monopolize trade, have been held in many cases to violate the antitrust laws. The question is whether a license was taken out in order to control the market. Perhaps the companies banded together on the basis that they would be able to exclude everybody else. It is a question of the good faith exercised in entering into the settlement agreement.

Packaging agreement licensing is not illegal *per se;* however, as stated above, one must be prepared to offer a part parcel or a whole package.

When a dominant patent expires, if the royalty rate is the same on the remaining patents in order to preclude being vulnerable to an antitrust action, one must be able to prove the unequal worth; the safest course is to provide for a lesser royalty rate after the expiration of the dominant patent, since the value of the license is diminished by the expiration of that patent.

A defense of fraud in obtaining a patent may be raised to show an antitrust situation or the defense may be joined with an antitrust allegation. Upon an application for Letters Patent, the regulations require full candor in one's dealings with the Patent Office and the applicant must inform the Patent Office of any publications or patents or public use he may know of which are pertinent to the invention of the patent which he seeks. Any presumption of validity of the patent is destroyed if it is shown that pertinent knowledge was not revealed to the Patent Office. Also, fraud in obtaining a patent may act as a ground for an antitrust claim if other elements of an antitrust violation are proven. A treble damage suit for monopolization which, but for the existence of the patent, would be violative of section 2 of the Sherman Act, may be maintained if two conditions are met: first, the patent was obtained by fraud on the Patent Office, and second, all the other elements necessary to prove an antitrust violation are present. Differential discriminatory royalties can create antitrust and misuse problems. A checklist of such prohibited limitations should be compiled and any agreement examined to ensure that no provision thereof violates an antitrust regulation. This checklist should be updated periodically as court decisions expand and redefine antitrust violations. Basically, any time competition or free enterprise is substantially affected, the risk of violating the antitrust laws is present.