

LICENSING OF INTELLECTUAL PROPERTY RIGHTS

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I too am going to discuss licensing with you. The word "licensing" was used by other speakers, but they dealt with the situation in which the government tells an exporter whether he may export a product. I am going to speak to you instead about private, voluntary licensing, the licensing of intellectual property rights: patents, know-how, trademarks, and copyrights. The subject is of enormous worldwide importance, and it is relevant to our particular discussion of United States exports. Products may be exported which have been manufactured pursuant to a license, and services may be exported which are related to a license; indeed, licensed technology may itself constitute an export. Of course, technology is in great demand as an item quite distinct from the products and services which it may cover. The principles that should govern access to and use of technology have become a focus of the "North-South" dialogue between the developing and the industrialized nations of the world. I would like to discuss these international issues first and then turn to the subject of United States law in greater detail.

The developing nations have a tremendous interest in obtaining access to the technology of the developed nations, which they view as essential to encouraging their national development, increasing their standard of living, and achieving their eventual goal of economic equality. A tension has developed because the developing nations view their disadvantaged position as a vestige of colonialism to be quickly rectified, while the multinationals fear that they will not be compensated for the years of research and development that have gone into the creation of the proprietary technology.

Much of this tug of war has been conducted under the auspices of the United Nations Conference on Trade and Development (UNCTAD), which has been endeavoring to formulate a Code of Conduct on the Transfer of Technology.¹ This exercise in negotia-

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¹ For a review of the negotiations under the auspices of UNCTAD, see Thompson, *UNCTAD Code on Transfer of Technology*, 16 *J. WORLD TRADE L.* 311 (1982); Feinrider,

tion is a fascinating one for international lawyers because it carries with it both delicate political issues and legal content of some substance. The effort is nothing less than the negotiation on a practice-by-practice basis of what should be permissible in the licensing of technology. This endeavor, as noteworthy as it is, is presently stalemated over some important differences.

The negotiations are among various "groups": the "group of seventy-seven", the developing nations which now number over 120; the Group B nations, the developed nations including the United States; and the Group D nations, the Communist bloc. Much of the disagreement in the negotiations between these groups stems from their differing vantage points. The emerging nations are preoccupied with their development, while Group B nations manifest concern for protection of the technology with reasoning based upon antitrust and contract principles. The participating nations have informally agreed that any code developed will be voluntary rather than binding. There still exist, however, important disagreements in the areas of dispute settlement and applicable law. The Western nations assert that the contracting parties should be, on the whole, free to choose the governing law with respect to licensing agreements and free to determine how disputes should be resolved. They further contend that this resolution should generally take place by arbitration. The developing nations maintain, pursuant to the Calvo Doctrine² and similar doctrines, that the host nation should determine which law applies. In this respect they believe that it is the law of the host nation that should apply. On the issue of arbitration, if it does occur, the developing nations contend there should be very severe limitations based on local law. This choice of law versus local law dispute is a major point of impasse, and it is one of the reasons that this Code's future is so much in doubt.

Much of the "piece-by-piece" negotiation concerning the test of the Code has been over the so-called "restrictive business practices." It is particularly here that the conflict, between the developmental viewpoint and the antitrust-type discipline used by the the United States and the European Community, has led to a lack of

UNCTAD Transfer of Technology Code Negotiations, 30 *BUFF. L. REV.* 753 (1981); Roffe, *UNCTAD Transfer of Technology Code - Fifth Session of the UN Conference*, 18 *J. WORLD TRADE L.* 176 (1984).

² For a statement of the Calvo Doctrine, see Freeman, *Recent Aspects of the Calvo Doctrine and the Challenge to International Law*, 40 *AM. J. INT'L L.* 121-22; D. SHEA, *THE CALVO CLAUSE* 19 (1955).

agreement. There is a general consensus that certain specified practices *may* be harmful. The developing nations, however, tend to view these practices as “per se” improper although they do not articulate the “per se” concept, since it is essentially a United States antitrust rubric. The United States and the other developed nations want a “rule of reason” applied; namely, they prefer not to label these practices as invariably improper.

The kinds of specified practices involved include the grant back of technology by the licensee, which is to assign back new technology so that it belongs exclusively to the licensor; the requirement of exclusive dealing, by which the licensee can be limited to dealing in only the goods, products, and technology of the licensor; the use of local personnel by the licensee; the practice of price-fixing on the product of the technology; the ability to adapt the product to his own particular needs; and the “tie-ins” of undesired products or technology to the desired license.

There is a deep ideological difference on the subject of export restrictions. Developed nations tend to permit these restrictions in the sense that technology may be licensed country-by-country, allowing the licensor to bar each licensee from territory entrusted to another. The developing nations place particular emphasis on their exports and thus want to dissuade any restraint that may inhibit exporting.

Another major area of disagreement concerns the rights of the licensee with respect to use of the technology when the contractual arrangement has expired but the underlying patent or trade secret rights remain viable. The developing nations maintain that as soon as the agreement has expired the licensee is free to utilize the technology as he sees fit. This view rests on their rationale that technology is not private property, but the universal heritage of mankind.

Extended negotiation has also occurred concerning what types of guarantees and obligations each party to a license agreement should accept. There is general agreement that fair and honest practices should be used in negotiation and that “unpackaging” of the various elements of technology should be permitted by the licensor where feasible. There remains, however, a major point of difference which affects many portions of this proposed Code concerning whether parent-subsidiary relationships should be governed by different rules from those applicable to agreements between parties that are independently owned. The Western nations, of course, maintain that there should be a more permissive stan-

dard where a company is dealing with its affiliates. Much of the North-South trade, however, involves dealing among affiliates, so the developing nations are not prepared to grant so much leeway in that regard.

Well, so much for the proposed UNCTAD Code. Its acceptance is still stalled, as I have indicated, because of these deep philosophical differences. Indeed differences even exist within the "group of seventy-seven." There are different strains within the group about the degree to which the members even want this sort of code, and they disagree about what kind of provisions they feel are acceptable. As a result, I understand that no meetings concerning the Code are scheduled for 1984 and that the participant states are going to try to make further progress in 1985. Keep in mind that a number of the developing nations, including Mexico, India, and Brazil, have national schemes providing for governmental screening of international licensing agreements. The proposed license may be struck down in whole or in part if the developing nations' concerns on the issues we have discussed have not been met in the agreement.

Let us make one more international foray, this one involving the European Economic Community (EEC), before we discuss the United States legal scene. The EEC legal system has demonstrated an abiding interest in the implications of intellectual property licensing from its early days. Of course, the national economies of France, Germany, the United Kingdom, and the other members, have a significant reliance, as we do, on the fruits of technology, and they have their own patent, trademark, and copyright laws. Since the integration of these nations into the European Communities, there has been a special problem concerning the effect to be given the national property rights insofar as they can be used to restrict the flow of products across the national lines in the Common Market. Conflicting concerns are posed in this regard; invention and innovation are to be encouraged through the creation and protection of intellectual property rights, but such rights are capable of being utilized as barriers to the integration of the national economies.

The first major confrontation on this issue was the 1966 case of *Etablissements Consten SARL and Grundig-Verkaufs-GmbH v. Commission of the European Economic Community*,³ in which re-

³ 1966 E. Comm. Ct. J. Rep. 299, [1961-1966 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8046.

straints were tested under Article 85 of the Treaty of Rome,⁴ one of the Treaty's competition provisions. The *Consten and Grundig* case involved an effort to territorialize the countries of the Common Market on the basis of trademark rights. Grundig, a German manufacturer of electronic products, entered into an exclusive distributorship agreement with Consten, a French company, providing that Consten could not sell Grundig products outside of France. Through the national distributor, as well as through restrictive contractual provisions like the one affecting Consten, the agreement sought to prevent "parallel imports" from one Common Market country to another. The European Court of Justice in Luxembourg declared that these attempted restraints were violative of Article 85, which prohibits concerted practices and agreements that restrict trade within the Common Market.⁵ The reasoning of the Court was that Article 85 precludes such agreements which bring about absolute territorial protection within Member States and restrain the flow of goods.⁶

The same problem was raised in the patent context in 1974, when both the European Commission and the Court of Justice considered the case of *Centrafarm B.V. and Adriaan De Peijper v. Sterling Drug, Inc.*⁷ Both bodies applied similar reasoning to strike down the purported restraints along national lines, this time not under the competition provisions of the Treaty of Rome but under Articles 30-34, which ensure the free movement of goods. The Court of Justice held that the territorialization of the Common Market cannot be accomplished through the application of national patent rights.⁸ Although the patent holder is entitled to receive compensation for the use of his invention at its initial point of use,⁹ once the product has been marketed with his consent, he cannot limit its movement by the erection of national barriers.

The Commission of the European Community has for some time

⁴ Treaty of Rome, March 25, 1957, art. LXXXV, 298 U.N.T.S. 3, 47-48.

⁵ *Consten & Grundig*, 1966 E. Comm. Ct. J. Rep. at 309-14, [1961-1966 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8046, pp. 7624-30.

⁶ *Id.*

⁷ 1974 E. Comm. Ct. J. Rep. 1147, [1974 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8246.

⁸ *Id.* at 1161-67, [1974 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8246, pp. 9151, 52-58.

⁹ *Id. Cf. Parke, Davis & Co. v. Probel, Reese, Bientema-Interpharm & Centrafarm*, 1968 E. Comm. Ct. J. Rep. 55, [1967-1970 Transfer Binder] COMMON MKT. REP. ¶ 8054 (patentee could bar imports from Italy to the Netherlands because of the absence of patent protection in Italy).

been considering a Draft Group of Certain License Agreements, a detailed policy statement as to which categories of restrictive provisions are permitted in patent licensing contracts.¹⁰ A variety of drafts were circulated over a period of years by the EEC staff with the expectation that the policy could be finalized when the Court of Justice at long last issued its decision in *L.C. Nungesser KG and Kurt Eisele v. Commission of the European Communities*,¹¹ which is also called the "Maize Seed" case. The court did hand down the Maize Seed decision in 1982, but it failed to resolve the outstanding issues as definitively as had been anticipated. The court's opinion essentially declared that the conferring of exclusive production and marketing rights in terms of a particular Common Market country is not necessarily incompatible with the Treaty, but that the absolute territorial protection precluding "parallel imports" went too far.¹² The Court left open a good many questions concerning what kinds of restraints might be permissible to protect the exclusive producer-marketer's investment.

Let us turn now to the picture in the United States. The basic federal laws applicable to licensing are the patent laws, the Lanham Act,¹³ which deals with trademarks, and the copyright laws. State law dealing with torts and contracts protects unpatented trade secrets. Much of the litigation in the area of licensing involves either disputes between the parties, infringement suits, or antitrust claims. Because intellectual property rights are in the nature of legal monopolies, and because the antitrust laws are designed to challenge monopoly, there is a tension between these two sets of rules that often comes into play. The question, thus, is whether the bounds of the lawful monopoly have been transgressed.

A number of the antitrust laws are pertinent: section 1 of the Sherman Act, which deals with agreements;¹⁴ section 2 of the Sherman Act, which deals with monopolization;¹⁵ section 5 of the Fed-

¹⁰ After these remarks had been presented, on July 23, 1984, the Commission issued the long awaited regulation. Commission Regulation (EEC) No. 2349/84 on the application of Article 85(3) of the Treaty to certain categories of patent licensing agreements.

¹¹ 1982 E. Comm. Ct. J. Rep. 2015, [1981-1983 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8805.

¹² *Id.* at 2058-74, [1981-1983 Transfer Binder] COMMON MKT. REP. (CCH) ¶ 8805, pp. 7539-46.

¹³ Trade-Mark Act of 1946, Pub. L. No. 489, 60 Stat. 427 (1946).

¹⁴ 15 U.S.C. § 1 (1982).

¹⁵ 15 U.S.C. § 2 (1982).

eral Trade Commission Act which prohibits unfair methods of competition;¹⁶ and more specific statutes which are also trade laws. The specific statutes include section 337 of the Tariff Act, which deals with the importation of products using unfair methods of competition,¹⁷ and section 526 of the Tariff Act, involving importation of products which bear trademarks owned by a domestic owner.¹⁸ Also pertinent is the doctrine of patent misuse, which has a relationship to antitrust doctrine but is not an antitrust law as such. The patent misuse doctrine permits an infringer, in effect, to successfully carry out the infringement so long as the patent owner is guilty of misuse.

Because of the breadth and scope of the United States antitrust law, its potential application to voluntary licensing transactions is tremendous. The "effects doctrine" is still the law in the United States, although it has been modified by some refining doctrines. Under the "effects doctrine," domestic antitrust law can apply to any transaction, entered into by anyone anywhere in the world, if that transaction has a substantial, direct, and reasonably foreseeable effect on the commerce of the United States. The United States antitrust laws, then, can apply to a licensing transaction regardless of the nationality of the licensor, regardless of the nationality of the licensee, and regardless of whether there are United States property rights or foreign intellectual property rights involved.¹⁹ It is possible, therefore, for United States antitrust law to apply to a licensing agreement between one foreign company and another, even if the agreement involves only foreign rights.

There has been a refinement in this area of the law, a court-created refinement which applies to the "extraterritorial" reach of United States antitrust rules generally. A new doctrine, articulated initially by the United States Court of Appeals for the Ninth Circuit in the case of *Timberlane Lumber Co. v. Bank of America*,²⁰

¹⁶ 15 U.S.C. § 45 (1982).

¹⁷ 19 U.S.C. § 1337 (1982).

¹⁸ 19 U.S.C. § 1526 (1982).

¹⁹ For discussion of the extraterritorial application of United States antitrust law, see J. ATWOOD AND K. BREWSTER, *ANTITRUST AND AMERICAN BUSINESS ABROAD* 82-105 (1981); *PERSPECTIVES ON THE EXTRATERRITORIAL APPLICATION OF U.S. ANTITRUST AND OTHER LAWS* (J. Griffin ed. 1979); Sanford, *The Application of the Sherman Act to Conduct Outside the United States*, 11 *CORNELL INT'L L.J.* 195 (1978).

²⁰ 549 F.2d 597, 613-15 (9th Cir. 1978). On remand the District Court, applying the standards set out in *Timberlane I*, dismissed on the ground of *forum non conveniens*. *Timberlane Lumber Co. v. Bank of America Nat'l Trust & Savings Assoc.*, 574 F. Supp. 1453 (N.D. Cal. 1983). For further discussion of the *Timberlane II* decision, see *Annual*

has now been adopted by some other circuits. The *Timberlane* case applies the basic "effects" test but also inquires whether, as a matter of international comity and fairness, United States jurisdiction *should* be asserted in a given case.²¹ It may well be, therefore, that a transaction between two foreign parties involving foreign technology which has little impact on United States commerce would be exempt from the application of United States antitrust laws.

There has been some recent legislation which is pertinent to this general area. In 1982 Congress considered two proposed pieces of legislation to deal with the complaint that the United States antitrust laws were inhibiting our export efforts. Both of these measures were passed, although they had initially been conceived as alternatives. One became the Export Trading Company Act,²² which provides for the issuance of certificates of antitrust immunity to exporters who meet specified conditions.²³ The other law is the Foreign Trade Antitrust Improvements Act,²⁴ which narrows, or at least clarifies, the scope of the antitrust laws to carve out exceptions for exporting transactions which do not injure domestic consumers or competing exporters. This formulation raises an interesting question as to whether a United States licensor or licensee can now agree with a foreign party that he, the American, will not ship products of the technology into countries that are unprotected by patents. Apparently such an agreement is permitted.

There are a number of issues that recur as to the kind of restraints in intellectual property licenses which will prompt antitrust concerns. These issues include: (1) territorial limitations which arise because licensors seek to reserve for themselves or other licensors particular areas; (2) field of use restrictions; (3) ef-

Survey of Developments in International Trade Law, 14 GA. J. INT'L & COMP. L. 65, 112-13 (1984) [hereinafter cited as *Trade Law Survey*]; see also *Extraterritorial Suit Against Bank is Doomed by Lack of Jurisdiction*, 45 ANTITRUST & TRADE REG. REP. (BNA) No. 1142, at 903 (Dec. 1, 1983).

²¹ *Timberlane*, 549 F.2d at 613-15.

²² Export Trading Company Act of 1982, Pub. L. No. 97-290, 96 Stat. 1233 (codified at 15 U.S.C. §§ 4001-4021, 12 U.S.C. § 1843 (1982)). For a discussion of the export trading company's advantages and purposes, see *Trade Law Survey*, *supra* note 20, at 85-88.

²³ The Secretary of Commerce has promulgated regulations concerning how to obtain such a certificate. Export Trade Certificates of Review, 15 C.F.R. §§ 325.1-325.14 (1984). For more information on the value of certificates of review, see *Trade Law Survey*, *supra* note 20, at 87 n.117 (quoting Donald Zarin, a former Commerce Department official).

²⁴ Foreign Trade Antitrust Improvements Act, Pub. L. No. 97-290, 96 Stat. 1246 (codified at 15 U.S.C. § 6a (1982)).

forts to control disposition of the unpatented product of a patented process; (4) "tie-in" clauses, with which the licensor requires the licensee to accept products or technology in addition to that sought; and (5) customer limitations. A wealth of case law exists, of course, concerning the propriety of these and other restraints emanating from the fertile imagination of technology owners.

The Justice Department enforcement philosophy in this area has not been consistent, to put it mildly. The philosophy has, from time to time, been articulated by Antitrust Division officials in their speeches, which are referred to affectionately as "luncheon speech law." During the time of the Carter Administration and some of its predecessors, the "nine no-nos" were espoused in a series of speeches. The thesis of these speeches was that certain practices in licensing should be deemed *per se* objectionable; that is, they are inherently anticompetitive and thus cannot be justified on any basis. The practices in question include tie-ins of unpatented materials to a patent license, exclusive "grant backs" which require the licensee to assign new technology back to the licensor, licensee "veto" rights over the designation of other licensees, price fixing, and others.

In 1981 one of the first pronouncements of the Reagan Administration antitrust officials was a reversal on the issue of the *per se* rule and the nine no-nos, a course wholly consistent with Assistant Attorney General William Baxter's desire to liberalize antitrust proscriptions affecting "vertical" relationships. The present regime, accordingly, considers that "in order to maximize the incentives to innovation, firms should be allowed freedom to exploit fully their legitimate patent rights in ways they find most efficient, so long as their licensing practices do not threaten to suppress competition between the patented technology and substitutes for that technology, and so long as no other identifiable risk of suppressing innovation or competition in an industry is created."²⁵

There was extensive testimony before congressional committees in addition to the luncheon speeches by government officials, to the effect that all licensing restraints should be subject to scrutiny under the rule of reason and not the *per se* standard. Not surprisingly then, the Administration's proposed "National Productivity

²⁵ *Hearings Before the Subcomm. on Employment and Productivity of the Senate Comm. on Labor and Human Resources, 97th Cong., 2nd Sess. 488 (1982) (statement of William F. Baxter, Assistant Attorney General).*

and Innovation Act of 1983"²⁶ includes a provision for rule of reason analysis and a limitation to actual rather than treble damages in private cases, when intellectual property licensing agreements or joint research and development ventures are involved. Moreover, the legislation would eliminate the misuse defense to patent and copyright infringement except where the conduct asserted to be misuse constitutes a violation of the antitrust laws.

Finally, let us discuss the United States statutes that permit the exclusion of imports where the rights of domestic intellectual property owners are concerned. Section 337 of the Tariff Act of 1930²⁷ authorizes the exclusion from entry into the United States of articles concerned with unfair methods of competition or unfair acts. This provision has been heavily used against imports deemed to infringe United States patent rights. Section 602 of the Copyright Act²⁸ similarly bars the importation of articles that violate the copyright of a domestic owner. Also, section 526 of the Tariff Act²⁹ provides that a product bearing a trademark identical to that owned by a United States trademark owner can be excluded by the customs authorities. Much of the case law under this statute has involved products bearing pirated trademarks, situations in which the imported product has no legal claim to use of the mark. The vexing question which still defies resolution is whether the United States trademark owner should be permitted to exclude a product which lawfully carried the mark abroad, through a license or otherwise. One argument is that the language of section 526 accords the exclusionary right with no qualification, while the counterargument is that such monopolistic use of the statute is unjustified. The Customs Service some time ago promulgated a regulation providing that exclusion under section 526 would not be available in those situations in which the product has been marketed abroad lawfully by the United States owner of the trademark or by his licensee.³⁰ There has been recent litigation questioning whether this interpretation of the law is correct. I understand that a lawsuit has just been brought in the District of Columbia which directly challenges the Customs Service regulation as inconsistent with the sweeping exclusionary language of the statute. This and other po-

²⁶ H.R. 3878, S. 1841, 98th Cong., 1st Sess. (1983).

²⁷ 19 U.S.C. § 1337 (1982).

²⁸ 17 U.S.C. § 602 (1982).

²⁹ 19 U.S.C. § 1526 (1982).

³⁰ See 19 C.F.R. § 133.21(c)(1984).

tential litigation should resolve the questions concerning the scope of the right of United States holders of intellectual property trademarks to petition for and win exclusion of imports which allegedly infringe that mark.

