

BRITISH TRADE WEEK HAMBURG

ANGLO-GERMAN LICENSING CONFERENCE —
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under License Abroad"

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PROS

1. *Helps penetrate and take advantage of the larger markets*, not only in Europe but also in the Central American regions, the Latin American Free Trade Area, etc.
2. *Helps penetrate closed markets — many markets —* above all outside Europe — are gradually becoming closed for many imports, especially in the consumer goods sector: lack of foreign currencies, tariff barriers, indigenous production, bans on imports, prestige notions of ambitious young nations.
3. *Foreign suppliers operating under license can be valuable* when one's own wage levels endanger competitiveness.
4. *An alternative production unit abroad* can, by manufacturing under license, help to maintain one's own competitiveness. Examples: nowadays well-known United States companies also manufacture in Japan, Spain and elsewhere. In this context anxiety about the availability of labour is also an incentive. The return of many foreign workers to their home countries also leads many employers to consider manufacturing under license.
5. *In the case of long strikes* manufacture under license abroad guarantees better dispositions for supplies, for deliveries can be made independently of the licensing company.
6. *Reserves accumulating abroad from license fees* can be of interest for many reasons. For instance: reinvestment, formation of holding companies, travel, shopping, etc.
7. *Continuing income from license fees* can, after an admittedly often quite difficult initial period, be interesting as an annuity.
8. *Unused machines, tools, appliances, blueprints, etc.* can become the basis for manufacture under license abroad, above all in many developing countries. NB: certain countries forbid the import of second-hand machinery.
9. *Patent and other competition disputes* can lead to licensing agreements on the basis of co-operation rather than conflict. In this connection remember to cover yourself under cartel legislation and consider the exchange of licenses without payment of fees.
10. *Shortage of capital and limited production capacity* in one's own factory are often grounds for granting licenses, perhaps to take advantage of opportunities which might otherwise be unexploited. This ap-

plies particularly to small and medium-size firms, for: one of the main features of licensing is "intellectual expansion" without any commitment of capital.

11. *In the case of nationalisation or so-called socialisation* the loss is smaller than that arising for capital investments. For: manufacture under license can, for reasons of national economy, continue in most socialist countries. The flow of licensing fees might perhaps be somewhat restricted or channelled into blocked accounts, but it does not stop completely. Important: in countries with dirigistic tendencies manufacture under license, which does not rely exclusively on indigenous supplies, can in certain circumstances be advantageous for the licensor, for he or the licensee might thereby be able to exercise gentle pressure on the foreign government.

CONS

1. *The greatest danger: manufacture under license commences with an unsuitable partner.* Hastiness or precipitousness make bad counsellors in a licensing marriage which is to last many years.
2. *Granting a license is an investment* and requires the same preparatory work as any other investment abroad (Pre-investment study). But: so-called licensing analyses are often undertaken in an amateurish way, because this pre-planning includes an array of minor details which are all too often disregarded.
3. *A foreign language version of the contractual agreement* often covers hidden reefs. Pay special attention to: the differences in licensing regulations between various countries. Always have your contracts drawn up or at least checked in draft by a licensing expert.
4. *Variations in quality* between the products of the licensor and the licensee. This can damage the brand name or the goodwill of the licensor, especially if a trade mark license is given along with the patent or know-how license. Causes: inadequate examination of the licensee's production factory or premature start to production. Expert advice: in the case of trade mark licenses lay down a "karenz" period, i.e. only after a definite period can licensed products be given the licensor's trade mark or brand name. Protection against any usurpation of trade marks, etc., can be secured by registering them abroad in good time beforehand.
5. *The absence of double taxation and investment promotion agreements* can lead to serious disappointments.
6. *Political upheavals* cannot be foreseen in a licensing analysis and can lead to economic consequences. Experience of recent decades teaches: they should not be dramatised!
7. *The generation of foreign competition for oneself* is often used as a counter argument. But: no-one can turn back the hands of the clock of world trade.
8. *Licensees occasionally swim free of the licensor* and believe that, after supposedly reaching a certain maturity in production technology, they can do without the assistance of the licensor. This danger exists above all in the case of know-how licenses,

i.e. mainly for processes, production sequences, recipes, etc., which are not protected by patents. Appropriate securities help against this, e.g. the licensor also remains a supplier.

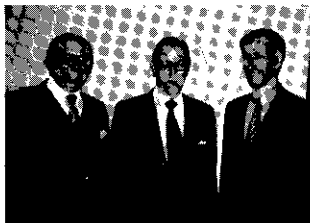
9. *The freezing of licensing fees in a blocked account* can sometimes occur in many overseas countries. But: the possibility always exists that international credit measures can lead to a thaw, so that the license fees can eventually be transferred to the licensor. Furthermore: this danger can be transformed into an advantage for the licensor. The frozen funds can be used in the licensee's country to meet his company's or even his own personal needs. The possibility also often arises for participation in an enterprise that hitherto was merely a licensee.
10. *Language difficulties* stand in the way of many a licensing project. In contrast to transactions in goods much more writing and negotiating is involved in licensing business. Many potential licensors shun the work that is arising from this. However, the multifarious written exchanges can be taken care of by an experienced correspondent in the appropriate foreign language. Drawing in an interpreter is advisable for licensing negotiations, since the use of an international auxiliary language (e.g. English or French) does not completely remove the dangers of misunderstanding or false interpretation.

CONCLUSION

Manufacture under license abroad usually leads to mutual success if the following three "essentials" are secured: —

1. The RIGHT licensing partner
2. The RIGHT licensing analysis
3. The RIGHT licensing agreement.

Left to right: Peter F. Casella; U.S. Commissioner of Patents, the Honorable Robert Gottschalk; David Dougherty.



(On the evening of the adjournment of the Midwest Regional Meeting, David Dougherty, President of the Niagara Frontier Patent Law Association and Peter F. Cassella, his co-worker, invited several LES Members to be their guests at the meeting of the Niagara Frontier Patent Law Association. Commissioner Gottschalk was the speaker of the evening. The text of his remarks appear below:)

An address by The Honorable Robert Gottschalk Commissioner of Patents, U.S. Department of Commerce, delivered before the Niagara Frontier Patent Law Association, Continental Inn, Tonawanda, New York, April 25, 1972.

THE NATION'S NEEDS AND THE SCOTT AMENDMENTS

The Constitution, you will recall, contemplated that Congress would establish a patent system to promote the progress of the useful arts.

I have long held a deep conviction that our patent system, so established, is sound in principle, morally right, and desperately important — and that we are all under a heavy obligation to make as sure as we can that the system functions effectively, as the founding fathers intended.

We had an open house at the Patent Office a few weeks ago on a Sunday afternoon. It was an all-time first. It was a great thing to see our Patent Office people — of all grade levels, and all ages, professionals and non-professionals alike — come and bring their families. One of our objectives, of course, was to help bring home to all of them the nature of our work and a sense of our mission — and some appreciation of the many contributions we have made over the long course of our history.

The thought struck me rather forcefully that afternoon that while there are today a great many Government agencies — and while we're not the biggest by a long shot — none are older than we are, and very few, in the long view, have been more important than we have.

There is no question that, from the very beginning, our patent system has been a vital factor in the growth and the progress of this country. To me it's particularly important to realize this at this time — because, as I see it, our country is facing today a challenge greater than any that has confronted it in perhaps more than a century — a challenge to our national stature, our industrial and commercial leadership, our quality of life and our social progress.

You'll recall that some-years ago the launching by the USSR of "Sputnik" had a tremendous impact on this country. It gave us a jolt. It did a lot to stimulate and reshape the thinking here about education, technology, and many aspects of our national life.

Our response was dramatic. There was a great upsurge in technological activity, and, literally, we shot for new highs. We put men on the moon. We really made history at a terrific clip.

Well, it seems to me that we are facing today something that I think of personally as Sputnik II. We've had another shock, another rude awakening. We have another challenge.

We've come to realize, as the President put it, that we're no longer "running against the clock" — today we're running against very real competition. And unless we're successful in this new contest, the very things that we have taken so often for granted, as basic and inherent in the American way of life, will be lost to us.

We've taken for granted our progress, convenience, high standards of living, and superiority across the board.

We're no longer justified in making those assumptions. We're no longer wise, if we pursue our activities on the basis that we're way out front — when