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LICENSING TO AND FROM THE EASTERN BLOCK COUNTRIES

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LICENSING BETWEEN JAPAN AND E.E.C.

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When the Rome Treaty had been executed, the countries participating to the Common Market were

six: Federal Germany, the Netherlands, Belgium, Luxemburg, Italy and France. Four new countries enlarged this year this first group: Great Britain, Ireland, Denmark and Norway and in a near future, they will officially become full members of the European Economic Community.

But in fact, seen from Tokyo or Osaka, this Europe probably seems more a mosaic than a perfect unity. If most of the European people who have to negotiate a licence or a know-how agreement in Japan are very often surprised by the differences between the various legislations and the various ways of thinking, I suppose that most of the Japanese people who have to work with the E.E.C. are in similar conditions and furthermore are faced to the difficult problems of the various legislations and ways of thinking inside the Common Market.

French is officially spoken in France, Belgium and Luxemburg; English in Great Britain and Ireland; Dutch in the Netherlands and in Belgium and every other country has its own language: German, Italian, Norwegian and Danish.

It would be impossible in half an hour to study extensively the licensing to and from the E.E.C. but I shall try to draw your attention to some important remarks concerning the various problems to solve.

At first, it is easy to understand that a licence from the E.E.C. to Japan is probably more a problem for the European licensor than for the Japanese licensee. Secondly, suppose that, independently from the human relationship, to negotiate a licence with a German company or with an American one is not so different for a Japanese licensing executive. For this main reason, I shall not insist on this importation of European technology.

On the contrary, granting a licence to a European corporation arises more problems, because of the division of the Common Market.

What are the effects of such a division?

If we carefully consider the legislations concerning the licensing in the various countries of the E.E.C., they are not apparently so different and it is not useful to recall the common points between these legislations and the Japanese or the American law.

However the legal systems of the E.E.C. countries are not completely homogeneous and this creates some specific problems which have to be carefully studied when beginning to negotiate a licence or a know-how agreement.

The patent systems are different: for exemple, if we consider the six countries, first members of the E.E.C., Italy does not accept the patentability of the drugs, of any chemical product which could be used as a drug and even of the chemical process for obtaining such products. In these conditions, the protection being different in the five other countries it is possible to grant an exclusive licence on the production of a drug in France because a patentee may prevent a competitor from producing the same, but such an exclusivity is impossible in Italy where the drugs and the chemical products used for their preparation are in the public domain. Furthermore, even if your chemical compound is well protected in France

but if you have a bad protection or no protection for your drug, an Italian competitor may import in France the drug produced in Italy and make inefficient the exclusivity granted to your French licensee.

The problem is the same with the chemical products. However, this situation is now in constant change: Germany has adopted the protection of chemical products and Italy is preparing a law protecting the chemical process for the production of chemical products which can be used as drugs.

Besides the problem of the protection of inventions, I would like to mention that in the six, (and even in the ten), countries of the E.E.C., the protection of the know-how is difficult and not very efficient. The best way for protecting the know-how is to keep the secrecy, as much as possible. The author's rights may be sometimes used. However, the E.E.C. and the Council of Europe try to unify the legislations and we hope that the European Patent System will enter into force in the near future. In the text of the Rome Treaty have been adopted some regulations concerning industrial property rights (Art. 36) and the anti-trust provisions (Arts. 85 and 86) which are permanent nightmares for the European corporations.

I would like to summarize what I think about these European regulations. I shall begin with the history of the anti-trust in the six first countries of the Common Market.

When the Rome Treaty had been executed, France, Germany, the Netherlands, and at a lower degree, Belgium and Italy, already had internal legislations concerning competition and antitrust regulations, and to-day, most of these national laws are still in force. So that if you prepare a licence or a know-how agreement with a European corporation, it is highly recommended to study the European and the national regulations.

When Germany executed the Rome Treaty, the law concerning the limitation of competition was in force. This law contains the following provisions which are placed under the control of a special office, the KARTELLAMT, (Law of January 1st, 1958 against competition restrictions).

1. The agreements which try to create a trust are forbidden.
2. Every provision in technical agreements which restricts competition, imposes prices of products or services is unlawful.
3. Exclusive sale agreement are permitted but have to be previously submitted to the Kartellamt.
4. Licence agreements which impose limitation more restrictive than the legal monopoly granted to the patentee are unlawful.
5. The refusal of sale and unsymmetrical conditions to various clients are also forbidden.

In France the situation is more or less the same as in Germany. A special office: the COMMISSION TECHNIQUE DES ENTENTES has to control the technical agreements which are submitted to the provision of various laws, (Criminal Code, Art. 419, law of Dec. 3rd, 1926, decrees of June 30th, 1945 and

June 24th, 1958: thus last decree is called "CIRCULAIRE FONTANET", Fontanet being the name of the Minister of Economy who executed this decree). Following these regulations, it is forbidden to limit the free competition, to prevent the prices from decreasing, to promote artificially the increase of prices, to refuse to sell when the products are available, to refuse to sell in the conventional commercial conditions, to impose special sale conditions or increases of prices to some purchases, to oblige a purchasee to buy other products or to use another service or to buy a given quantity. It is thus forbidden to oblige a licensee to buy rough products to the licensor or to sell above minimum prices. The legal use of the monopoly granted to the owner of industrial property rights may be an exception to these prohibitions; the notion of exclusivity is thus acceptable if it is not more restrictive than the monopoly itself.

These French regulations and the German laws, are the basis of many jurisdictional decisions which are not so different from each other on both sides of the boundary line between Germany and France.

In the Netherlands, under the law of June 28th, 1956 on the economical competition, an office has also to control such agreements and many decisions have been published. In Italy and in Belgium, the free competition is protected by the civil laws or code and any dispute is submitted to the civil courts. (Arts. 1743, 1567 and 1568 of the Italian Civil Code, Belgian law of May 27th, 1960 against dominating positions)

Besides these internal regulations concerning anti-trust and restriction of competition, the countries of the Common Market, every member country has legal provisions which are still in force and which could apparently create a conflict with the European regulations.

However, in most of the countries the superposition of national and international systems is well defined.

For example, following the French Constitution, as soon as an international treaty has been executed by the government and approved by the National Assembly, the provisions of the treaty have more force than the provisions of the internal law; thus if international and internal rules may correspond to a given case, the international provisions have to be taken in consideration before the internal laws.

The result of such provisions is that national prohibitions have to be added to European prohibitions and national permissions could be invalidated by a European prohibition.

This is apparently very pessimistic but in fact most of prohibitions provided by the national laws are included in those provided by the European regulations.

Futhermore, some countries of the Common Market, United Kingdom and France essentially, have special relationships with their previous overseas territories or colonies, (Imperial preference for the British Commonwealth).

I suppose that most of you would like to obtain from me a simple definition of these famous articles

85 and 86 and of the subsequent regulations.

Many books have been published, many lectures have been made on the matter, and up to now, nobody succeeded in giving an exact and simple outline of the problem. Year after year, new regulations and new decisions appear and every month the situation is apparently more complicated.

However, I am a consultant with a relatively long industrial experience in this matter and I would like to speak as a licensing consultant. If you grant a licence to Europe and if the licensee may sell in the six (or ten) countries of the Common Market, there will be generally no problem with the European regulations. If your patent protection or trade mark protection is as uniform as possible in the six (or ten) countries, you will have the right to grant an exclusive production and sale licence.

If you transfer a know-how without monopoly rights on patents or trademarks the exclusivity has practically to be limited to the production and not to the sale. Thus, if you may divide the whole territory of the E.E.C. for what concerns a production licence or a know-how agreement, it is recommended not to divide the sales territory. (For other well known reasons it is generally recommended to separate a licence agreement from the corresponding know-how agreement).

These rules are reinforced if the agreement is corresponding to a large part of the market in the technical field of the agreement; on the contrary, they are attenuated if your licensee will not have a dominating position in the commercial field. This is easy to explain. If for example you grant a licence to a European society for the production of synthetic fibers and if this production corresponds to 1% of the total European market in this field, whatever could be your quality or prices, there would be no danger for the free competition but the situation would be reversed if it were representing 99% of the market. This tendency appeared clearly in some recent decisions which consider that anti-trust prohibitions are reinforced by a dominating position; article 85 corresponding to horizontal agreements between competitors restricting the competition, article 86 corresponding to vertical agreements which give to a company a position which dominated the producers in a given technical field, there is thus a synergetic effect between both articles.

But how have we to consider these decisions?

This is a very important question: for the time being the European Commission in Brussels gives "Advices", the European Court in Luxemburg makes "decisions" but are they really executed or not?

Practically they are submitted to the national courts: if French or Italian judges decide that they are competent and that a case has not to be submitted to Brussels Commission, a decision can be made completely opposite to the advice of the E.E.C. commission. If a dispute arises between a German company and a French company, the German judges may approve Brussels and the French judges take an opposed

position and it is easily understandable that in Amsterdam or in Rome, the point of views and the whole jurisdictional systems are different.

Furthermore, the court of appeal and the supreme court of the various countries are not bound each other and may substantially oppose their opinions.

As there is, for the time being, no European supreme court which could keep the homogeneity of the system, each country remains a relatively independent individual. For example, for what concerns the exhaustion of industrial property rights as soon as the owner of these rights has received either his benefits or his royalties, the Belgian and Dutch courts followed the European authorities, the German courts, after having approved, seem to modify their tendencies, the French courts, after having refused this notion seem to begin to adopt it, the Italian courts remain generally rather reluctant, and the Luxemburger court seems not to have had to make a decision. We wait with curiosity the future reactions of the British, Irish, Norwegian and Danish courts.

I have tried to summarize as much as possible the legal point of view. But it is also necessary to study carefully the commercial and technical context of a licence to be granted in Europe.

A successful product in Japan may not meet the same success in Italy or in Germany. For example polyvinyl alcohol fibers are not well accepted by European women. On the contrary some products not very efficient as drugs for Japanese people could have quite different effects on European people and reciprocally. Furthermore, from north to south of Europe the tendencies, the tastes, the necessities are different. Even on the technical point of view, the conditions may broadly vary. In such fields as metallurgy or petrochemistry the problems are more or less the same every where, but in the fields which directly concern the consumers the reactions are different: for example, in the mechanical and electronical field, the Japanese industry has a large success in most of the European countries, but this success is sometimes limited by a deficient after sale service.

It is thus very important to provide a strong technical assistance in some cases and even to use a joint venture for insuring a good and constant quality without risking a decrease of sales, productions and consequently royalties.

I would like to finish with a personal remark: negotiating a licence or a know-how agreement is mainly a question of human relationship. The language is a first and important communication problem and I suppose that the seven languages of this Common Market are, all together nearly as difficult as the Japanese language alone, but the main question is to understand the way of thinking, the way of living, the natural tendencies of the men who sit on the opposite side of the table. That is why, every time I come to Japan I feel me, every time, better and that is why the European LES invite you to come and meet us for a better understanding and knowledge and a large development of our industrial exchanges.

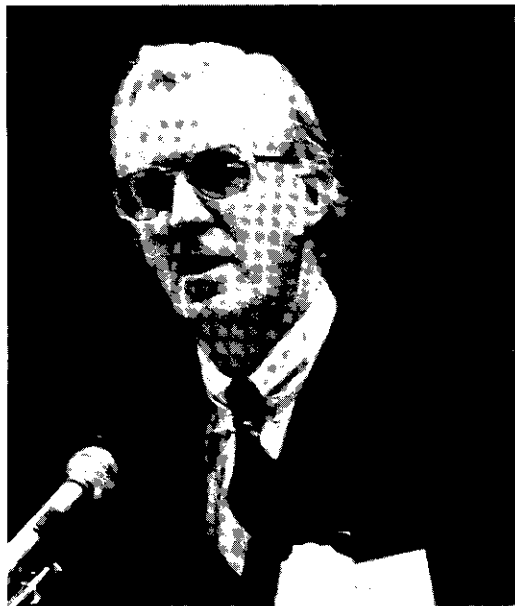
PANEL DISCUSSION

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ANTITRUST PROBLEMS IN LICENSING IN THE UNITED STATES AND THE EEC

by
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PART I

ANTITRUST LAW OF THE UNITED STATES

I. INTRODUCTION — THE GENERAL NATURE OF UNITED STATES ANTITRUST LAWS AND THEIR APPLICATION TO LICENSING TRANSACTIONS

A. A Brief Outline of United States Antitrust Statutes

The United States antitrust laws seek to prevent acts and practices which have anticompetitive effects. The actual antitrust statutes are brief and contain broad sweeping language.

It is usually necessary to look to case law to determine how the antitrust laws would be applied to a particular licensing transaction. For example, Section 1 of the Sherman Act prohibits contracts and conspiracies which unreasonably restrain trade. The express terms of the statute prohibit contracts, combinations and conspiracies in restraint of trade. Case law

has supplied a "rule of reason." Thus, the law prohibits only *unreasonable* restraints of trade. *Standard Oil Co. v. United States*, 221 U.S. 1 (1910).

In addition to Section 1 of the Sherman Act, the main antitrust statutes are: (1) Section 2 of the Sherman Act which bars monopolization, and attempts and conspiracies to monopolize, and (2) Section 7 of the Clayton Act which prevents corporate acquisitions which may substantially lessen competition or tend to create a monopoly.

In addition to the above-described provisions of the Sherman Act and the Clayton Act, Section 5 of the Federal Trade Commission Act prohibits "Unfair Methods of Competition in Commerce." Under this broad mandate, the Federal Trade Commission (FTC) can proceed against a business on the same antitrust theories as are set forth in the Sherman Act and the Clayton Act.

The text of the United States antitrust laws most frequently applied against licensing transactions are attached to this paper as an Appendix.

Certain uses of patents and know-how, and license restrictions in connection with the use, manufacture, or sale of products, which embody, or are the result of patents or know-how, are subject to the antitrust laws.

The United States antitrust laws are designed to protect and promote competition. They prohibit agreements or collaboration among persons to limit competition unreasonably. They prohibit attempts to create — and the exercise of — illegal monopoly power, that is, the power to control market prices or to exclude competition.

B. The Nature of United States Patent Rights

Each holder of a United States patent receives from Congress a limited and temporary monopoly, that is ". . . the right to exclude others from making, using or selling (an) invention throughout the United States." 35 U.S.C. §154. The patent grant, by statute, vests its owner with an interest, the right to exclude, having certain attributes of personal property (35 U.S.C. §261) in that it may be disposed of by the patent owner *in toto* (by assignment), or *in part* (by license).

American courts have established the principle that the *right to license* is governed by the law of contracts and the public interest is expressed by the antitrust laws, and not by the patent law.

United States antitrust policy and tradition drastically affects the options available to a patent owner who wants to license his patent rights.

C. The Application of the Antitrust Laws to the Restrictive Aspects of Know-How Licenses

(a) Restriction on Disclosure

The fundamental restriction imposed by a know-how licensor is the restriction against disclosure of the secret information or know-how to third parties. Such a restraint, however, is ordinarily not unreasonable under Section 1 of the Sherman Act.

It is a general practice in the United States to limit the obligation of secrecy to a period of years, or until the information becomes part of the public domain by activities of a third party. Such a time limitation is a practical recognition of the duration of