least equal to the probable period of secrecy of the trade secrets, but possibly not for an unlimited period of time.

4. *Caveat:* In the EEC, the sales territory should generally include the entire EEC; other foreign countries have policies against License Agreement terms which restrict exports.

BACKGROUND CITATIONS

STATUTE: 35 USC 261 — "The . . . patentee . . . may . . . grant and convey an exclusive right under his . . . patents to the whole or any specified part of the United States."

LITERATURE: "The Antitrust Status of Territorial Limitations in International Licensing", pp. 580 to 596, *IDEA*, Vol. 14, No. 4, Winter 1970-71, by Richard H. Stern.

"Another View of the Antitrust Status of Territorial Limitations in International Licensing", pp. 27 to 45, *IDEA*, Vol. 15, No. 1, Spring 1971, by Howard I. Forman.

"Federal Antitrust Laws, Cases and Comments", pp. 954 to 986 and 1001 to 1008 (Chapter 15), Second Edition 1959, by S. Chesterfield Oppenheim.

CASE LAW: Brownell v. Ketcham Wire & Mfg. Co., 211 F.2d 121, 9th Cir. 1954.

PATENT CASES UPHOLDING TERRITORIAL LIMITATIONS: Dorsey Revolving Harvester Rake Co., et al. v. Bradley Manufacturing Co., Fed. Case No. 4,015, 7 Fed. Cases 947, 1874.

General Talking Picture Corp. v. Western Electric Co., 304 US 175, 183; 82 L.ed. 1273, 1938; affd. 305 U.S. 124, 1938.

American Optical Co. v. New Jersey Optical Co., 58 F. Supp. 601, 606, D. Mass. 1944.

Deering, Millikin : Co. v. Temp-Resisto Corp., 160 F. Supp. 463, 480-81, S.D.N.Y., 1958, affd. as to misuse aspects but reversed for invalidity of the patents, 274 F.2d 626, 2nd Cir., 1959.

Osmose Wood Preserving Co. of Canada, Limited, v. Osmose Wood Preserving Co. of America, Inc., 74 F. Supp. 435, W.D.N.Y., 1947.

U.S. v. Birdsboro Steel Foundry & Machine Co., 139 F. Supp. 244, 261, W.D.Pa. 1956.

CARTEL CASES: Timken Roller Bearing Co. v. U.S., 351 U.S. 593.

U.S. v. National Lead Co., 63 F. Supp. 513; 332 U.S. 319.

U.S. v. General Electric Co. (the Carboloy case), 80 F. Supp. 989.

PENDING LITIGATION: United States of America v. Westinghouse Electric Corporation, Mitsubishi Electric Corporation and Mitsubishi Heavy Industries, Ltd., Civil No. C70-852, District Court, Northern District, California, 1970.

**About the Speaker: 1940-41 — attended Dartmouth; 1944 — graduated MIT— BS in Physics; served two years in the United States Army Signal Corps; as an enlisted man, and after OCS as a junior officer; 1947 — graduated MIT with a Business and Engineering Administration Degree (BS degree); attended night law school at George Washington University while working as a Patent Examiner; 1951 — received LLB from George Washington University, member of the honorary society "Order of the Coif"; 1951-58 — employed as a Patent Attorney at Bell Laboratories; 1958-59 — employed as Assistant Patent Counsel at Engelhard Industries; 1960-present — employed as a Patent Attorney for Litton Industries, Beverly Hills, California, Director of Patents and Licensing since 1967; 1971 — Western Regional Vice President of Licensing Executives Society; 1972-73 — Licensing Executives Society Trustee, member of the US/USSR Delegation to visit the Soviet Union from July 10-29, 1973.*

Walter R. Thiel

LICENSING IN EUROPE 20/20 FORESIGHT

by
*Walter R. Thiel**

LITTON ORGANIZATION

My comments concerning licensing in Europe will generally be made as an over-view developed from my association with the corporate headquarters of an international corporation, Litton Industries. Litton has organized its legal staff so that each of our Divisions has been assigned, as a client, to a particular lawyer, who then handles all patent and licensing matters arising from that Division. Thus, many of our Division Patent and Licensing Counsel are in day-to-day contact with various licensing programs for their clients in Europe. Corporate office is primarily concerned in such licensing activities only as an overseer and in the management approval cycle.

Since Litton Industries has subsidiaries active in many technologies, at the present time there are current negotiations with European licensees in the fields of paper products; business machines; material handling equipment; machine tools; medical products; and military systems, to name but a few.

TECHNOLOGY LICENSING

There appears to be a considerable continuing interest on the part of European companies in U.S. technology, and I stress "technology." My experience has indicated that a patent, or even a family of patents, is of little interest in a straight licensing transaction in Europe. European companies, as true with most licensees, are more interested in technical assistance and technical information. Since, when a company has decided to take a license under specific technology, such decision has been reached as an alternative to in-house development of the technology.

For a moment I would like to speak about what I see in European licensing in the military systems area. Activity has already commenced in many NATO countries, notably Belgium and Holland, concerning the procurement of a next-generation fighter aircraft. As yet, the European countries have not formed a consortium, as was formed relative to the procurement of the F-104, so that the proposals being developed by our Guidance and Control Systems Division concerning the inertial navigation system for this new generation of aircraft are being made to specific countries. One thing that appears significant in this forthcoming procurement is the requirements by the country for significant in-country

manufacture. Such requirements will necessitate the establishment of detailed Technical Assistance and License Agreements with European manufacturers. It is my opinion that ultimately a consortium will be formed for the procurement of this aircraft and related systems but, as I have just mentioned, at present Litton is dealing with independent companies. The establishment of a consortium should simplify the licensing procedure.

TERRITORIAL LIMITATIONS

In many regards I view the licensing of technology into most European countries as not significantly different from licensing in the U.S. In the main, license agreements with European companies contain many of the same provisions as included in U.S. agreements. However, the question of the territory covered by such licenses, when dealing with a country considered a member of the E.E.C., is a perplexing question, and one to which I have not been able to develop a satisfactory answer. It is my opinion that any agreement which defines the sales territory as less than all of the countries of the Common Market is questionable. There is authority for the grant of an exclusive Manufacturing and Sales License in particular countries of the E.E.C. where licensor holds issued patents. However, I have not found any authority which supports such restricted territory licenses when only know-how is involved.

Patent Licenses

The wording of Article 85(1) of the Treaty of Rome, which relates to the general provisions against restraints of competition, permits the inference that, if the limitations contained in a license agreement are within the scope of the protective rights granted by the applicable national law, such limitations are not prohibited by the Treaty. This means that restrictions imposed on a licensee, which are inherent in the licensor's exercising his protected industrial rights, are permitted when the limitations are prescribed or allowable by domestic law. Applying this reasoning to Patent License Agreements, it appears that the E.E.C. can be validly divided into sales territories when the licensor holds issued patents.

Recent Case

This issue was recently discussed (March 15, 1973) in a decision of the Federal Supreme Court of Germany in the case Förder-und Regeltechnik Lagemann KG v. Geveke Werktuigbouv N.V. (Lagemann). This case had an interesting fact situation. An inventor, and partner of a licensor, brought suit against an exclusive distributor-licensee for payment of delinquent royalties. The licensee had been granted an exclusive license in certain European countries. The license expressly excluded the licensor from selling in, or exporting into, the territory granted the distributor-licensee. The agreement further provided that the licensor would supply to the distributor at fixed prices, and that sales by both parties to third persons in their territories were subject to a minimum price. Apparently the exclusive distributor-licensee, after entering into the agreement, went to his patent attorney who, as you might suspect, discovered prior art which placed in question the validity of the licensed patents. Thereafter, the distributor stopped paying royalties and a suit resulted.

The distributor argues that the license agreement was null and void since it violated certain sections of the Act against Restraints of Competition of Germany and Article 85(1) of the E.E.C. Treaty because of the geographic division of markets. The court held that the agreement only restates in part what appears to be the logical result of granting an exclusive license. The licensor, by granting an exclusive license, was prevented from selling products which were patented in these countries. The company's obligation not to sell in licensee's exclusive territory constitutes an independently stipulated restraint of competition only to the extent that the license agreement relates to countries where a patent has neither been granted nor applied for. The court stated that the license agreement does not violate Article 85(1) of the E.E.C. Treaty, since it did not contain a restraint of competition which affected trade between member states.

It is interesting to note on the price-fixing question that the German Act against Restraints of Competition appears to authorize the fixing of prices for sales made by licensee where the licensor may have a legitimate interest in influencing the price level of the products manufactured in accordance with the patent rights because the amount of royalty to which licensor is entitled is measured by a certain percentage of the sale price of the product. The court further stated that even in specific areas the licensee may have an interest in fixing the prices of the licensor, especially when the licensee assumes the risk of introducing the patent product on the market, and thus bears the full marketing risk. The court did not feel there was any such justification present in this case.

Know-How Licenses

While is appears fairly clear that a geographic division of the E.E.C. in a Patent License is permitted, there have been no communiques issued by the Commission of the European Economic Community concerning such divisions in Know-How Licenses. It would appear from comments made in 1970 by Dr. Herman Schumacher, a Director of the Commissions general Directorate for competition, that territorial restrictions in Know-How Licenses are in violation of Article 85(1). He stated that know-how is not a right protected by national industrial property right legislation, but only by limited laws relating to unfair competition. This does not mean that such Know-How Licenses could not obtain clearance or approval under Article 85(3) of the Treaty. This is a subject I do not intend to discuss now.

EXPORT-IMPORT BANK

Recently our office in Zurich brought to my attention an interesting problem which developed information which I believe might be of interest to all of you. Specifically, the question proposed to me was whether the Export-Import Bank would finance a Technical Assistance Agreement with a Polish company. More specifically, the technology to be transferred to the Polish company is German technology which, to qualify for Export-Import Bank consideration, would be transferred to a U.S. corporation. Setting aside the tax considerations of such a transfer, I discussed with the Export-Import Bank whether they would finance Technical Assistance Agreements with Polish companies, and specifically whether they would finance such an agreement when the technology was of German origin. I was very gratified to learn from a staff lawyer at the Bank that if the technology was transferred under an agreement which provided basically for a lump-sum payment or, as I had outlined, for a relatively large front-end payment coupled with lump-sum payments made during the first year, such transaction would qualify for Bank financing. They explained that the money would not be loaned directly to the Polish company, but would be financed through Bank Handlowy of Warsaw, who in turn would enter in appropriate agreements with the Polish company. I was surprised to learn that the Bank would even consider financing payments concerning technical assistance if such amounts could be definitively established. However, they would not finance technical assistance on an open-end basis.

As it turned out, the particular transaction which I discussed with the Bank does not qualify, not because it is a license agreement but because the agreement relates to technology which does not have significant U.S. content.

I had thought that the Export-Import Bank would not finance Technical Assistance Agreements. The Bank will consider the financing of Technical Assistance Agreements with foreign companies other than Polish companies where the amounts are definite. If any of you have any questions as to whether a particular transaction would qualify, I suggest that you forward your inquiry directly to Mr. Warren Glick, Ex-

ecutive Vice-President, Export-Import Bank, Washington, D.C.

WITHHOLDING TAXES

A problem came to my attention this week which caused me to reconsider some of the provisions included in our foreign licenses. It appears that one of our Divisions has been receiving royalties from a French licensee for a considerable number of years and the French licensee had not been paying any income tax on such royalty payments. The French-United States Income Tax Treaty of 1967 for the avoidance of double taxation of income set forth that such royalties are subject to only a 5% tax in France if they are paid to a recipient who does not have a permanent establishment in France or, if he has, the royalties are not associated with such establishment. The problem came to my desk because the French tax authorities are apparently attempting to now assess these taxes against our Division. This is particularly troublesome to us since, in one of those rare corporate moments, Litton has closed this Division and, of course, we are not interested in making any payments. In this instance, you might say we are saved by the agreement, because the agreement clearly set forth that all royalties will be paid in U.S. dollars, free from any and all French taxes. The point to be made here, I believe, is that under the French-U.S. Tax Treaty if such taxes are not paid by the French corporation, the French Government will attempt to assess the taxes against the U.S. entity. Therefore, it is imperative that, if you are not able to negotiate an agreement which places upon the foreign company the obligation to pay their own national taxes, an effort be made to monitor the royalty payments to ensure that withholding taxes are made at the time of payment. I feel that this is better than waiting until a subsequent time and receiving assessment notices from the foreign tax authorities. Of course, such tax payments can be applied as a credit against U.S. taxes due on foreign-source income.

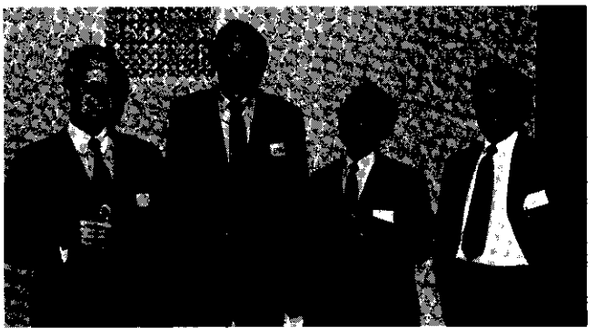
**About the speaker: Mr. Thiel has been on the patent staffs of Hughes Aircraft Company and Douglas Aircraft Company and is presently Assistant Director, Patents and Licensing, Litton Industries, Inc., Beverly Hills, California. His education includes a B.S. in Engineering from UCLA and an L.L.B. from Southwestern University. He was admitted to the California Bar, Federal District Court and U.S. Patent Office. Thiel is presently Treasurer of the National Council of Patent Law Associations as well as being a member of the Special Committee on Patent Office-American Patent Law Association; Patent Law Association of Los Angeles; PTC Section-American Bar Association; Intellectual Property and Unfair Competition Section-Los Angeles County Bar Association. He is Past President and member of the Board of Governors of the Patent Law Association of Los Angeles. Thiel's Community Activities include: Past Vice-President and Member-Board of Trustees, UCLA Alumni Associaton; Past General Chairman-UCLA Alumni Association Scholarship Program; and Past President-Westside Bruin Club. Currently he is Elder and Trustee of the Brentwood Presbyterian Church.*

"AUSTRALIA 1974" LICENSING CONGRESS

WENTWORTH HOTEL, SYDNEY, AUSTRALIA

March 6-7, 1974

Marc and Betzy Finnegan with Alan and Julia Limburg at the LES-Australia cocktail party.



Marc Finnegan, Dudley Smith, Ron M. Bannerman, and E. F. (Pete) Horgan at the LES-Australia cocktail party.

Mitzuya Okano presents to Paul Grant, incoming President of LES-Australia, a woodcut print of Mount Fuji, a present from the members of LES-Japan.