

Opportunities in Poland

Interpretive comments on the application of new joint-venture regulations

BY MRS. IWONA MUSZYNSKA*

Implementing the recommendations of the Final Act of the Helsinki Conference on Security and Cooperation, the Polish People's Republic took favorable attitude toward various forms of international economic cooperation.

To this end, there were issued legal acts which determine the principles of the undertaking of business (economic) activity in Poland by foreign capital.

Thus, the activity of enterprises having full foreign capital was determined on Order of the Council of Ministers, of 26 May 1976, concerning issuance to foreign juridical persons and individuals of permits for running some kinds of business activity. This order was later amended with a view to give still greater flexibility to the activities of foreign enterprises.

The financial principles for the functioning of the foreign enterprises are determined on Order of the Minister of Finance of March 28, 1979, concerning the permits for the opening and keeping bank accounts for foreign juridical persons and individuals performing business activity on the territory of the Polish People's Republic.

The principles for the foreign trade performed by foreign firms are determined on Order of the Ministers of Finance, and Foreign Trade and Maritime Economy, of March 28, 1979, concerning permits for some activities connected with the turnover with foreign countries, performed by foreign juridical persons and individuals.

Basic Principles

The basic principles for the creation in Poland by foreign juridical persons and individuals — together with Polish state-owned enterprises and cooperatives of limited-liability companies are determined in Resolution No. 24 of the Council of Ministers, of February

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7, 1979, concerning the creation and activity in Poland of enterprises with the participation of foreign capital (published in a Polish official law journal — Monitor Polski of 1979, No. 4, item 86). The term "foreign juridical persons and individuals" means persons who are residents of countries other than Poland and who — according to the law of the country of their residence — are authorized to perform business activities together with Polish juridical persons

The residence of such companies or business activities is the territory of the Polish People's Republic.

The subject of the activities of such companies should be the production of goods for the Polish domestic market and for export, with such companies being created to the same extent and in the same branches as it has been applied to enterprises of the local state-owned industry and cooperatives.

Such a joint company may be established for a period of 15 years, but in reasonable cases the period of activity of such a company may be extended.

The participation of a Polish state-owned enterprise or cooperative in the initial capital of the joint company cannot be lower than 51%. The articles of association of the company are concluded and registered by parties in a court, after a prior decision by a respective minister or the management of a central union of cooperatives, taken after a prior acceptance by the Chairman of the Committee for the Domestic Market made by arrangement with the Chairman of the Planning Commission at the Council of Ministers, and with the Minister of Finance. The basis for a decision concerning the conclusion of the articles of association of a company are:

— A proposal made by the managing director of a state-owned enterprise or made by the president of a union of cooperatives, and a statement on the character and scope of activity of a company including the substantiation of purpose for the establishing of the company.

— A statement made by a respective (according to the goods being the subject of its trade) foreign trade enterprise concerning the export-feasibility of the goods to be made and exported by the company to countries being convertible currency markets.

Guarantee

Pursuant to the resolution the foreign partner in the company has the guarantee that the following amounts can be transferred abroad:

— The part of the profit, due to him, after paying taxes and fulfilling contractual obligations.

— Money amounts being the equivalent of the amounts due to him in respect of the return of the

brought-in assets in kind and in money, in the case of the dissolution of the company. Moreover, the foreign staff is entitled to have transferred abroad up to 50% of their earnings. It should be noted, however, that both the transfer of profit and the transfer of a part of the earnings can be performed only with the use of the financial means in convertible currencies that have been gained by the company and deposited on its foreign currency accounts.

The activity of the company shall be subject to taxation pursuant to the principles of the Polish taxation law. However, there is a provision for the complete or a partial tax exemption of the company, in respect of its income, for a period of up to three years starting from either the date of the establishment of the company or the date of the starting of the production.

A principle was applied according to which the member of the company's management, who will manage its activity, will be a Polish citizen. Simultaneously, the foreign party of the company has assured their participation in financial control and supervision over the company, in the supervisory board, in the auditing committee (if the articles of association of the company provide for the creation of such organs).

Foreign Exchange

According to his powers, the Minister of Finance, by his order of June 18, 1979, determined some principles for the financial economy of the companies as well as the principles for some activities in the sphere of foreign exchange. The basic provisions of this regulation are as follows:

1. The initial capital of the company, when the company is being established, should amount to at least five million zlotys and cannot be lowered while the company exists. One share in the company cannot be lower than 250,000 zlotys and this amount cannot be lowered either. The foreign partner in the company should have at least four shares in the company, that is about U.S. \$30,000. The paid-in money by the foreign partner in respect of his participation in the initial capital cannot be lower than 50% of his total share, but in reasonable cases the amount of his participation can be lower. The foreign partner may cover the rest of his share with assets-in-kind. The assets in kind mean: fixed assets and capital rights (e.g. licenses) as well as circulating assets in the material form. The assets-in-kind are valued in zlotys after the proving and verifying by experts the purchase price of those items and means in the country of their origin.

2. The conversion of convertible currencies into zlotys and zlotys into convertible currencies is made in conformity with special exchange rates determined by

rived from the assets in money of the partners brought to the initial capital of the company.

2. Means derived from the business activity of the company in Poland and assigned to finance its further activity.

3. Means derived from a part of the export proceeds.

The convertible currency account is designed for the registration of all proceeds and expenditures of the company in respect of exports and imports. It can be replenished with:

—Subsidies in convertible currencies made by the foreign partner and the Polish partner.

—50% of the proceeds gained by the company in respect of exports of goods and services, made through the intermediary of Polish foreign trade enterprises and enterprises authorized to perform so-called inland exports.

The distribution of convertible currency proceeds from the account may also take place after a prior deduction by the company of the equivalent of the costs of the purchase by the company previously covered with convertible currencies.

The company may use this account to cover the expenditures for:

—The purchase of goods and services which will be connected with the production activity and rendering services by the company. The purchases may be made through the intermediary of Polish foreign trade enterprises or enterprises entitled to sales for convertible currencies on the territory of the Polish People's Republic (so-called inland exports).

—The promotion activity outside Poland.

—The foreign partner in respect of his participation in the company.

—The covering of 50% of the payments to the foreign staff employed by the company.

The funds kept on those two accounts are non-bearing-interest funds, whereas the funds of the company — kept at savings convertible currency accounts at Polish banks — bear interest.

4. The settlement of accounts in respect of the domestic market is made in zlotys, according to respective regulations.

5. The company writes off the depreciation rates in zlotys according to the rates determined for Polish state-owned enterprises and cooperatives.

6. The company creates the following special funds:

—risk fund.

—reserve fund.

—depreciation fund.

—housing, social and bonus funds for the staff.

The legal act determines in detail the principles of the creation and utilization of the funds.

7. The company can take:

—Convertible currency credits from foreign banks

ceedings in respect of the assets of the company in the following cases:

- Dissolution and liquidation of the company.
- Withdrawal of the foreign partner from the company.
- Sale by the partner of his share in the company.
- Acceptance of a share in the company through inheritance or legacy for other foreign persons.

On the dissolution and liquidation of the company which resulted from the expiration of the period for its activity as determined in the articles of association of the company, the fixed assets of the company become the property of the Polish partner, and the circulating assets are divided in proportion to the shares of the partners in the initial capital of the company. The foreign partner has the right to have transferred abroad the part which will be assigned to him as the result of the division (distribution) of the circulating assets of the company.

If the dissolution or liquidation of the company takes place before the expiration of the period determined in the permit of its activity, or due to the causes for which the foreign partner is not responsible, then the foreign partner has the right to have transferred abroad a part of the company's assets which is in proportion to his share in the initial capital of the company as determined in the liquidation balance sheet, and consider-

ing the fulfillment of the company's obligations.

If the foreign partner withdraws from the company — according to the terms and conditions determined in the articles of association of the company — he receives the equivalent of his share in convertible currencies.

Similarly, he has the right to have transferred abroad the amounts in convertible currencies derived from the sale of his share in the company. In that case he must pay due income tax on the income gained from the sale.

On acquiring a share in the company through inheritance or legacy for other foreign persons, the entitled maintain the rights of the previous shareholder.

It should be noted, moreover, that the legal basis for the creation in Poland of limited-liability companies are the provisions of Order of the President of the Republic of Poland, of June 27, 1934, the Commercial Code, Book 1, Chapter XI, Article 198 through 306 / published in "Journal of Laws of the Republic of Poland" — /Dziennik Ustaw/ No 57 of 30 June 1934//.

In addition to the provisions contained in the Commercial Code and in other acts mentioned above, the arrangements made by the partners (shareholders) in the articles of association of the company will have the principal importance for the final shape of the company.

An Alternative to Litigation

Arbitration offers advantages not found in court system, including quicker settlement and technical arbitrator

BY NEAL BLACKER*

For the American businessperson, three of the most common words encountered now seem to be not "I love you," but "I'll sue you." In an increasingly complex economic environment and an increasingly litigious society, the prompt and effective settlement of business disputes therefore becomes essential for the successful operation of any venture.

To this end, the Licensing Executives Society has turned to the American Arbitration Association (AAA). The AAA, in cooperation with LES, has developed a set of Licensing Agreement Arbitration Rules and procedures to resolve such disputes swiftly and economically.* These Rules are patterned after our longstanding Commercial Rules, which have been used successfully for many years in a wide variety of commercial contract cases. Last year alone the AAA administered approximately 6,000 such disputes.

The American Arbitration Association is a private, nonprofit, public service corporation devoted to arbitration, mediation, and other forms of voluntary dispute settlement. In carrying out this valuable mission, the AAA conducts educational programs for advocates and arbitrators, performs ongoing research, promotes the use and development of alternative dispute mechanisms in new fields, conducts elections, and administers mediation and arbitration cases under its many tribunals. Those tribunals include, but are not limited to, uninsured motorist, commercial, construction, labor-management, international trade, medical malpractice, textile, employee benefit and pension disputes.

It is first necessary to define precisely what arbitration is. It is not mediation. Mediation is a process that utilizes a neutral, disinterested individual to help the parties to a dispute work out their own voluntary settlement of the issues between them. The mediator has no authority over the parties who, in turn, have no legal obligation to reach settlement.

Alternative

Arbitration, on the other hand, is basically a private

alternative to court litigation. The arbitrator, like the mediator, is a neutral party but is not there to work out a compromise. Rather, the arbitrator's function is the same as the court's; to sit as the trier of fact and law, to render a final and formal determination of the rights and liabilities of the parties, and to issue a written award that will be legally binding upon them. The award is not only enforceable by the courts in most states, but is subject to appeal on only the most limited of grounds.

Why use arbitration? The answer lies in the rapidly growing number of attorneys, businesspersons and industries turning to arbitration because it works. It works because it is faster and cheaper in the long run than the courts, because it is private and utilizes as arbitrators people who have real expertise in the areas of dispute.

Two questions may come to mind: First, why use arbitration if it fulfills the same function as the courts? Second, why use the American Arbitration Association's rules and administration for your arbitral disputes?

American business has become increasingly more involved for a variety of reasons. In the esoteric area of technology licensing especially, it becomes essential to have disputes decided by someone possessing strong knowledge of technical as well as legal issues. Who is better able to do this than someone who deals day-to-day with the very transactions that you are involved with? You are simply not going to obtain this advantage in a court setting.

Choices

Furthermore, the AAA utilizes the valuable concept of letting the parties choose their own arbitrator(s). Instead of unilaterally assigning an arbitrator, we send out an extensive list of proposed names — carefully chosen for the particular case at hand — for the parties' review and evaluation. Each side is free to strike, peremptorily, as many names as desired. Approved names then to be listed in order of preference.

Who, after all, is better able to determine the most qualified people than the parties themselves? The AAA will assign an arbitrator only in the unlikely event that none of the proposed names is agreed upon. Even then, the assigned arbitrator is subject to challenge by either party for good cause shown.

Because the arbitrator selected for the case has expertise in the area of dispute, and in the desire for

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*It should be noted that there may be some issues which are not arbitrable, such as patent infringement and antitrust.

relative informality at hearings, legal rules of evidence are not applicable to the arbitral setting. The result is a great savings of time in the hearing process. Little time is spent educating arbitrators about the industry or business involved since they are already familiar with it. Many formal procedures, such as laying foundation, are greatly expedited. In addition, AAA administrative processing is incredibly fast when compared to the courts. In most major American cities the courts of original jurisdiction have a backlog of from one to three years.

By comparison, when you file your arbitration in any of the AAA's 24 regional offices, you can expect the case to be initiated in one to two days, have a hearing set in 30 to 90 days, and have an award issued no later than 30 days after the close of hearings. While there are exceptions to this timetable, a recent national survey of our commercial caseload showed that the average length of time from filing of the arbitration to transmittal of the award was less than four months.

Time

As the old saying goes, time is money. The sooner the dispute is resolved, the less will be the legal and management time your firm will have to divert to the dispute.

As you can see, the primary advantages of arbitration are its speed and economy (the two are really synonymous), as well as the assurance that the decision will be rendered by an informed and knowledgeable board of arbitrators. There is, however, another benefit. Arbitration is private and confidential. The right to arbitrate and the authority of the arbitrator derive from the parties' private, contractual agreement. Accordingly, the AAA considers its case file and the award itself as confidential. The ability to pursue and resolve contract disputes can therefore remain where it best belongs; with the parties alone. This, of course, makes for the best possible environment for the voluntary resolution of the dispute by the parties even after formal arbitration proceedings have begun. In short, arbitration allows the best milieu for settlement.

We now arrive at the second question I posed. Why use the American Arbitration Association? The answer here rests in our expertise and experience, administrative assistance, ability to identify quality arbitrators, carefully developed rules, and unique function as a neutral agency that can act as an intermediary and buffer between the parties and the arbitrator.

Our expertise is based on over 50 years' experience in the handling of an enormous range of disputes. Last year alone the American Arbitration Association administered well over 40,000 cases. Because of this, we understand fully the most effective way of handling cases. Furthermore, our guidance to both the parties and the arbitrators helps assure that cases are administered in compliance with arbitration statutes and that wide body of arbitrable case law applicable to the arbitration process. I have far too often seen awards vacated by the courts in arbitrations handled by the parties themselves, due to some action or inaction that was not in full compliance with the law.

The AAA assumes the burden of many administrative and clerical details. Arranging for and providing hearing space, calendaring and rescheduling of postponed hearings, providing arbitrators and replacing them when necessary, and other routine matters are all handled by us on the parties' behalf. This allows them or their counsel to devote the fullest possible time to the most important aspects of the case's preparation.

The AAA is uniquely qualified to best identify, recruit and evaluate arbitrators on an ongoing basis. I must emphasize that there is no necessary correlation between an outstanding attorney or businessperson and a competent arbitrator. Judicial or "neutral" capacity and the ability to comply with necessary arbitration procedures do not always go hand-in-hand with a reputation for excellence in a given field.

Each regional office of the AAA has many years of experience in identifying quality arbitrators. The parties' high or low ranking of names proposed to them, their written post-award evaluation of the arbitrators, and the opinions of case administrators and local advisory councils all contribute to a quality evaluation of the 50,000 individuals on our National Panel. I must emphasize here that the key criterion lies in the day-to-day evaluation by the parties of the names we propose. As I said before, who is better able to determine than the parties themselves which among these names is most qualified to judge their case. Accordingly, those people who are most often accepted by the parties are the ones chosen most often. Those who show low acceptability will be chosen less and less often.

The AAA does not have a single set of rules for all disputes. It does have over 20 different tribunals and sets of rules, each designed to best suit the particular needs of each business, profession, or area of dispute. The applicable LES Rules and its 52 rule sections do not represent the efforts of bureaucrats to red-tape the process. Each section has been carefully devised over 50 years of hard-learned lessons. Each represents the combined expertise of our legal and administrative staff and has been developed to assure the swift and efficient flow of every case. In other words, the rules are designed to assure that any potential problem can be dealt with.

Challenge

What happens if a party challenges the arbitrator's qualifications to serve halfway through the hearings? What happens if one side forwards new evidence to the arbitrator in post-hearing proceedings that are supposed to be limited to summary arguments only? What do you do if one party continually requests postponements, delays in responding to correspondence, or even refuses to participate in the proceedings at all? How do you deal with a dispute over hearing locale when the arbitrator would have a direct interest in the ruling? These and many other possible difficulties are clearly addressed in the LES Rules and many of them could only be dealt with by a neutral agency.

This brings us to one final advantage of AAA

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administered arbitration, and that is the benefit of simply having a neutral agency interposed between the parties and the arbitrators. The AAA rules provide that all communications between them must go through the local AAA office. This safeguards the integrity of the process by helping prevent any ex-parte communication with the arbitrator over the merits of the case. It also assures, for example, that a frivolous challenge to the arbitrator will not be communicated to him/her, should we determine that such objection has no merit. It allows the AAA *on its own behalf*, to deal with an arbitrator who is late with an award. It allows us, and not the parties, to negotiate an arbitrator's compensation on prolonged cases. This is clearly preferable to having the parties directly negotiate a fee with the same person who will be ruling on their case.

The American Arbitration Association is committed to the use and growth of voluntary dispute settlement. It has clearly shown its ability to overcome many of the deficiencies found in the court system and furnishes advantages the courts do not provide. Not only in the handling of domestic disputes but in the area of international business as well, we find the growing utilization of arbitration as an alternative to litigation. In those countries that have adopted the U.N. Convention it is often easier to enforce an arbitral award than a

court award in a foreign court. It provides for the possibility of an arbitrator who is not a national of either country involved in the dispute. For more information on international arbitration, please write the Legal Department at our New York office, or contact your local AAA Regional Office.)

To take advantage of our arbitration mechanism, all you need do is insert our recommended arbitration clause (included in the front cover of the Licensing Agreement Arbitration Rules into your licensing agreement contracts. That clause binds the parties to the use of those rules and to AAA administration of cases filed pursuant to them. It gives any party to the agreement the unilateral right to demand arbitration of a dispute that cannot be settled voluntarily. It assures the most effective method of resolving your business disputes. We do encourage use of our arbitration clause language as is. If, however, you feel it necessary to modify or add to that language, let me strongly encourage you to first contact us for comment before doing so.

In closing, let me please add that each of you should always feel free to contact your local AAA Regional Office on any questions you might have concerning arbitration in general or the LES Rules and procedures in particular.

Recent Developments in the Law Relating to Licenses

BY BRIAN G. BRUNSVOLD*

PATENT POLICY FAILS TO SHIELD LICENSE TERMINATION FROM ANTITRUST SCRUTINY

The United States Court of Appeals for the Third Circuit reversed a summary judgment holding, and decided that a patent licensee was entitled to try to establish a violation of Section One of the Sherman Act against a licensor who allegedly acted in concert with plaintiff's competing licensees when terminating plaintiff's license. *Mannington Mills, Inc. v. Congoleum Industries, Inc.* (Docket No. 78-2431, filed August 1, 1979).

Plaintiff Mannington Mills, Inc. (Mannington) and defendant Congoleum Corporation (Congoleum) manufactured and sold chemically embossed vinyl tile in the United States and in foreign countries. In 1966, Congoleum obtained two United States patents covering the manufacture and use of embossed vinyl products. Congoleum secured similar patent protection in 26 foreign countries. Litigation which ensued between the parties ended in May 1968 with the execution of two licenses, one covering the United States patents and the other covering most of the foreign patents.

A letter agreement governed Mannington's license rights in 20 of the foreign countries in which Congoleum held patents. This agreement permitted Mannington to sell U.S. manufactured products in the specified foreign countries. However, it also provided for revocation of the agreement without cause by either party upon giving six months' written notice to the other party.

Congoleum had other licensees for its foreign patents besides Mannington. Some of these other licenses contained more favorable provisions than the Mannington letter agreement. For example, Congoleum licensed GAF Corporation in 1970 to sell in six more countries than were covered by the letter agreement with Mannington. Moreover, the GAF license permitted manufacture in the foreign countries after January 1, 1974, in addition to the right to sell.

Mannington desired to expand its foreign license rights to include Canada, Australia, New Zealand, Japan, Ireland, and Holland. Its distributors in these countries demanded supplies of the vinyl products which its competitors, holding the more favorable licenses from Congoleum, were able to offer. After losing one of its Canadian distributors, and in danger of losing yet another, Mannington pressed **Finnegan, Henderson, Farabow, Garrett & Dunner, Washington, D.C.*

Congoleum for a license to sell under the Canadian patents. Congoleum declined to grant any additional rights under any of its foreign patents until it resolved its pending patent litigation against Armstrong Cork Co.

Canadian Distributors

Mannington began selling to its Canadian distributors in November or December of 1970. It maintained the loyalty of its distributors in Australia and New Zealand by supplying them the vinyl products starting in 1968, despite the fact that it had no license in those countries. Mannington supplied its distributors in Japan with the patented products in 1972.

Congoleum gave notice to Mannington that the letter agreement was to be revoked as of January 31, 1975, thereby revoking all Mannington's rights under Congoleum's foreign patents. Moreover, Congoleum brought infringement suits against Mannington in Canada, New Zealand, Australia, and Japan. (See *Licensing Law and Business Report*, Vol 2, No. 2, p. 132).

Mannington responded by bringing this suit in October, 1974. It made contractual and equitable claims seeking license rights, and sought injunctive relief based upon antitrust claims. It amended its antitrust complaint in January 1978 to seek treble damages for violations of Sections One and Two of the Sherman Act.

The district court severed the license claims from the antitrust claims. The Third Circuit Court of Appeals affirmed the district court's judgment of dismissal on the merits of the license claims. (See *Licensing Law and Business Report*, Vol. 1, No. 2, p. 24.) Prior to the close of discovery, the district court granted Congoleum's motion for summary judgment on the antitrust claims under Sections One and Two of the Sherman Act. The Court of Appeals affirmed the summary judgment on the Section Two claim, but reversed the judgment of the lower court on the Section One claim.

The district court ruled with respect to the Section One claim that the summary judgment record did not create a material issue of fact as to the existence of a conspiracy. Moreover, the district judge ruled that Mannington's allegation that Congoleum conspired with one or more of its foreign licensees to cancel Mannington's foreign sales licenses failed to state a claim under Section One because of the deference which the law accorded to the licensing decisions of a patent owner.

The Court of Appeals agreed that the record lacked sufficient evidence of conspiracy to avoid summary judgment in

favor of Congoleum. However, it held that summary judgment was premature because Mannington had not been afforded sufficient opportunity for discovery on the conspiracy allegation. The Court of Appeals held that discovery during the license phase of the case was not adequate discovery for the purposes of the antitrust phase of the case. The reason behind the license termination was a fact that was not fully litigated in the license phase, but of pivotal importance in the antitrust phase of the case.

The concurring judge preferred to end the court's analysis at this point. He would have reversed only to permit discovery to go forward. The majority opinion, however, held that the alleged conspiracy received no immunity from antitrust scrutiny by virtue of the patent licensing context in which the complained of conduct occurred.

Balancing Analysis

The court performed a balancing analysis in arriving at its conclusion. It first assessed the risk of injury to competition from the type of conduct which Mannington had alleged. The conduct was found to pose significant risks because it could serve to mask horizontal cartels from judicial scrutiny, and would be an effective policing arrangement for other horizontal anticompetitive behavior. Next, the court assessed the effect of the threat of antitrust scrutiny upon patent policy, and licensing in particular. The court concluded that the primary beneficiaries of such conduct were the licensees, not the patent owners. It also agreed with those commentators who reasoned that, "any incremental increase in patentee income that might result from permitting licensing schemes that would otherwise violate the antitrust laws would be unlikely to effect (sic) a patentee's initial decision to invest in innovative activity." Finally, it did not think that antitrust scrutiny of license terminations would cause patent owners to license more restrictively.

This analysis convinced two members of the Court of Appeals that its decision would materially encourage competition without posing any serious threat to patent policy. The third circuit judge saw no need to make this decision on the record before the court.

Finally, the court declined comment "on the possible interaction between foreign patent policy and the extraterritorial application of the American antitrust laws." (See *Licensing Law and Business Report*, Vol. 2, No. 2, p. 132.)

AUTHOR'S NOTE: The court purported to express no view on whether this Section

One claim called for the application of the rule of reason or the *per se* rule. However, since its own analysis acknowledged the possibility that such conduct might be designed primarily to secure the lawful rewards of the patent, rather than to increase the licensee's benefit, the rule-of-reason analysis would seem proper.

PATENT OWNER-LICENSOR LOSES FORUM-SHOPPING CONTEST

Circumstances growing out of patent licensing negotiations convinced the United States District Court for the District of Minnesota that a controversy existed between the parties to support subject matter jurisdiction under the declaratory judgment statute, 28 U.S.C. Sec. 2201 and 2202. However, jurisdiction was not present with respect to the parent company of one of the negotiating parties because the parent neither owned nor was licensed under either of the patents which formed the subject matter of the controversy. *Medtronic, Inc. v. Mine Safety Appliances Co.*, 468 F. Supp. 1132 (D. Minn. 1979).

Plaintiff Medtronic, Inc. (Medtronic) was a Minnesota corporation engaged in the manufacture of cardiac pacemakers. Some of its pacemaker devices relied upon lithium-iodine (Li/I) power sources which were manufactured by defendant Catalyst Research Corporation (CRC). CRC was the sole owner of two patents (the Moser and Schneider patents) which covered Li/I power source technology for pacemakers. Defendant Mine Safety Appliances Company (MSA) owned CRC, the latter being a subsidiary of the former.

Medtronic wanted an in-house capacity to supply Li/I power sources for its pacemakers. It attempted to purchase CRC from MSA outright. MSA refused to sell. Medtronic began a series of patent license negotiations with CRC in the summer of 1975, hoping to be able to acquire the right to employ the Li/I technology covered by the Moser patent and the Schneider patent. Parallel with these negotiations, Medtronic investigated the validity of both patents. Its investigations convinced it that both were invalid. It also executed during this period a technology transfer agreement with Wilson Greatbatch Ltd., (Greatbatch), CRC's sole licensee under the Moser-Schneider patents. The information obtained pursuant to this agreement enabled Medtronic to begin its own manufacture of Li/I power sources. Shortly after it produced its first test cells using its recently acquired Li/I technology, Medtronic brought this action for declaratory relief against MSA and CRC.

Medtronic sought a declaratory judgment of patent invalidity and non-infringement against the Moser and Schneider patents owned by CRC.

Both defendants moved for dismissal on grounds of lack of subject matter jurisdiction. CRC claimed that Medtronic had no

reasonable basis for a belief that CRC was going to institute a patent infringement action against Medtronic. Thus, no controversy existed between the two, and without a controversy the court lacked jurisdiction. MSA contended that any controversy involving the patent could only exist between CRC and Medtronic, because CRC, not MSA, owned the patents in suit. MSA was not even licensed under the patents.

Reasonable Apprehension

Viewing the record as a whole, the district court concluded that Medtronic had a reasonable apprehension that CRC would sue for patent infringement. The court based its conclusions on the combination of three factors: (1) the conflict of interest between CRC and Medtronic; (2) CRC's knowledge of sufficient facts to enable it to bring suit; and (3) CRC's expressed intent to sue. Faced with a patentee who possessed the motivation, ability, and intent to bring suit for patent infringement, Medtronic could anticipate the patentee's suit by bringing an action for declaratory relief. The court so held and denied the motion to dismiss filed by CRC.

Medtronic sued MSA on the grounds that the control and domination exercised by MSA over CRC was so complete as to make MSA the real party in interest despite the corporate separateness between MSA and CRC and despite the fact that CRC alone owned the patents in suit. The court regarded the issue presented by MSA's motion for dismissal as a request by plaintiff for the court to "pierce the corporate veil." Thus, the court examined the facts for any possible unfairness or injustice that might be prevented by retaining jurisdiction over MSA.

The court determined that MSA's presence was not required to grant any relief due Medtronic. A declaration of patent invalidity and non-infringement would be valid notwithstanding the absence of MSA. Discovery could proceed without MSA. Medtronic did not request monetary relief, and in any event CRC was financially capable of satisfying a judgment without resorting to MSA. Finding no hint of unfairness, the court granted MSA's motion to dismiss for lack of subject matter jurisdiction.

XEROX'S AGREEMENTS FOR ACQUISITION AND LICENSING OF PATENTS NOT UNREASONABLE RESTRAINTS OF TRADE

Sitting without a jury, the United States District Court for the District of New Jersey held that the patent acquisition and patent licensing practices of Xerox Corporation (Xerox) did not violate either Section 1 or Section 2 of the Sherman Act (15 U.S.C. Sec. 1 and 2). *Van Dyk Research Corporation v. Xerox Corporation*, ___ F. Supp. ___ (D.N.J., Docket No. 75-419, decided 8/20/79).

For the second time in as many years the courts have subjected Xerox to anti-trust scrutiny. See *Licensing Law and Business Report*, Vol. 1, No. 9, p. 110. Once again Xerox emerged unscathed.

In 1961, the corporate name Xerox Corporation had evolved from the names Haloid Company (Haloid) and Haloid-Xerox, Inc.

The relationship of Xerox to the development of xerography was marked by numerous agreements for acquiring patents and know-how. The first of these agreements was executed between Haloid Company (Haloid) and the Battelle Memorial Institute (Battelle) on January 19, 1947. It granted what was in effect an exclusive license to Haloid covering the United States and its possessions. The agreement permitted Haloid to make, use, lease, or sell products related to the electrophotographic technology possessed or subsequently acquired by Battelle. The term of the license was to extend 10 years beyond the date on which Haloid either had reached a specified level of sales or rental fees or had reduced its research expenditures in electrophotography below a set amount, whichever occurred first. Battelle received an initial payment of \$10,000 and an 8% royalty based upon net sales and rental fees of licensed products. Both parties agreed to expend definite sums on electrophotographic research over a three-year period. Though it was Battelle's general policy to refrain from granting exclusive rights to its inventions, Haloid received certain exclusive rights in consideration for its agreement to spend a minimum of \$25,000 per year on xerographic research at Battelle facilities.

The 1947 agreement was modified in certain respects in 1948 and 1951. For example, worldwide patent rights were granted to Haloid by Battelle in 1951. However, the major changes in the arrangement between Haloid and Battelle occurred in 1956.

In an agreement effective January 1, 1956, Haloid obtained the four pioneering xerographic patents in exchange for 50,000 shares of its stock. The remaining xerographic patents were assigned to Haloid as of January 1, 1959, in exchange for payments in equal amounts of cash and Haloid stock. These payments were to be made in each of the years 1959 through 1965. Under the agreement, future Battelle inventions relating to xerography would be conveyed to Haloid providing Haloid continued to maintain a \$25,000 per xerographic research program at Battelle.

Not Unreasonable

The court found that the 1956 agreement did not amount to an unreasonable restraint of trade in violation of Section 1 of the Sherman Act. Xerox contended, and the court agreed, that the purpose of the

changes embodied in the 1956 agreement was to upgrade the financial structure of Haloid by reducing its taxes and increasing its cash flow. There was no purpose to accumulate patents to maintain dominance in the field of xerography. This finding of the court differed from the finding by the jury in *SCM Corporation v. Xerox Corporation*, 463 F. Supp. 983 (D. Conn. 1978). In *SCM* the jury found that the 1956 agreement was an unreasonable restraint of trade.

Xerox over the years actively pursued potential licensees for its patents in the field of coated paper technology (electrofax process). It managed to license IBM, RCA, General Electric, General Dynamics, and Bell & Howell. These licenses customarily contained nonexclusive grant-back provisions for inventions developed by the licensee, including plain paper copier technology. The inventions which Xerox acquired through these licenses were insignificant and were not used in any product manufactured by Xerox. The court concluded as a matter of law that the grant-back provisions did not violate the antitrust laws, nor would they have been violations had Xerox been a monopolist.

In the field of plain paper copier technology Xerox followed a policy of refusing to grant licenses. Xerox preferred instead to exploit this area of the copier field on its own.

The plain paper copier field did not constitute a separate relevant product market in the view of the court because of the interchangeability between plain and coated paper copiers. Xerox had invested millions of dollars, years of basic research, and years of product development in the application of xerography to copying and duplicating on plain paper. The court held as a matter of law that the refusal to license competitors of Xerox "to manufac-

ture xerographic plain paper copiers was justified and not unlawful."

Outside the United States and Canada Xerox marketed its products, including plain-paper copier products, by means of joint-venture agreements and corresponding patent licenses with the Rank Organizations, Ltd., of Great Britain (Rank) and Fuji Photo Film Inc., of Japan (Fuji). The joint venture between Rank and Xerox resulted in the formation of Rank-Xerox, Ltd. (Rank-Xerox). In 1969, Xerox obtained voting and managerial control over Rank-Xerox. Rank-Xerox received an exclusive license under all present and future patents in xerography from Xerox outside the United States and Canada. An exclusive grant-back of rights in the United States and Canada to Xerox covering any invention or "know-how" relating to xerography was a provision of the license. Rank-Xerox in turn entered into an agreement with Fuji to create the jointly held Fuji Xerox Co. Ltd. (Fuji-Xerox). Fuji-Xerox received an exclusive license in Japan and a nonexclusive license with respect to eight other Far Eastern countries from Rank-Xerox. The grant-back arrangement between Rank-Xerox and Fuji-Xerox was limited to rights in patentable inventions in xerography. In practical operation the flow of technology to Fuji-Xerox has come directly and almost exclusively from Xerox itself.

Share Patents

Xerox, Rank-Xerox, and Fuji-Xerox agreed to share their patents and know-how among themselves to the exclusion of all others. The technology transferred to Xerox as a result of this arrangement was not significant in view of the overall development scheme of Xerox products. Fuji-

Xerox and Xerox have refrained from competing against one another. Both the Rank-Xerox and Fuji-Xerox ventures were speculative business enterprises.

The court found that these foreign joint-venture agreements were not agreements between potential competitors in restraint of trade. They did not involve anticompetitive agreements such as an agreement to fix prices. The purpose of the agreements was to enable the parties to penetrate commercial markets that would have been impenetrable in their absence. The patent licenses were ancillary to the execution of what were essentially speculative business ventures. The joint ventures were not created in order to cross license patents for the purpose of eliminating competition. Specifically, there was no purpose to allocate exclusive territories to the parties by means of the patent licenses which contained grant-back provisions. The court held that no illegal patent pooling existed under these circumstances.

The monopoly claims of plaintiff Van Dyk Research Corporation (Van Dyk) also failed. The court found that the Xerox patent policy did not involve any unlawful purpose of foreclosing competition. Xerox pursued its research and development activities in order to improve its products and develop new ones. These research and development efforts produced patentable inventions. Patents were obtained for the dual purpose of preventing copying by other companies and avoiding instances of being blocked by the patents of others from commercializing new product innovations. Moreover, having exonerated the foreign joint-venture agreements from all anti-competitive allegations by Van Dyk, the court could not be persuaded that these agreements evidenced a conspiracy to monopolize by means of an unlawful international cartel.

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Licensing and Industrial Property Organizations Meeting

1980

March 6-7

LES Australia Annual Conference
Adelaide, South Australia

March 12

Patent and Trademark Institute of Canada
Fourteenth Midwinter Meeting
Chateau Laurier Hotel
Ottawa, Ont.

April 24

LES U.S.A./Canada
Eastern Region
Meeting
Mayflower Hotel
Washington, D.C.

April 27-30

International LES Conference and Board
of Delegates Meeting, LES International
and LES Switzerland
Geneva, Switzerland

April 30-May 4

USTA Annual Meeting
The Diplomat Hotel
Hollywood, FL

May 13-16

Tech-Transfair '80
Utrecht, Holland

May 28-30

APLA Spring Meeting
The Capital Hilton
Washington, D.C.

June 22-24

ACPC Spring Meeting
Grove Park Inn
Asheville, NC

July 31-August 15

ABA Annual Meeting
Honolulu, Hawaii and Australia

September 7-11

International Licensing Conference
and Board of Delegates Meeting
Sponsored by LES International and
LES Scandinavia
Inter-Continental Hotel
Helsinki, Finland

October 8-10

APLA Annual Meeting
Twin Bridges Marriott
Arlington, VA

October 13-16

LES U.S.A. Annual Meeting
Lake Buena Vista, FL

October 15-18

Patent and Trademark Institute of Canada
Fifty-Fourth Annual General Meeting
Hyatt Regency Hotel
Montreal, Quebec

November 16-21

AIPPI
Buenos Aires, Argentina

1981

January 25-28

APLA Mid-Winter Meeting
Doral Country Club and Hotel
Miami, FL

February 4-11

ABA Midyear Meeting
Houston, TX

May 10-13

USTA Annual Meeting
Fairmont Hotel
San Francisco, CA

May 19-21

International Licensing
Conference
LES U.K.
London, England

May 31-June 2

APLA Spring Meeting
Houston Oaks Hotel
Houston, TX

August 6-12

ABA Annual Meeting
New Orleans, LA

Sept. 17-19

LES U.S.A. Annual Meeting
Peachtree Plaza Hotel
Atlanta, Ga.
Chairman: Dave Dougherty

September 16-19

Patent and Trademark Institute of Canada
Fifty-Fifth Annual General Meeting
Banff, Alberta

1982

January 27-February 3

ABA Midyear Meeting
Chicago, IL

January 31-February 4

APLA Mid-Winter Meeting
Camelback Inn
Scottsdale, AZ

April 30-May 2

APLA Spring Meeting
Waldorf Astoria
New York, N.Y.

May 5-9

USTA Annual Meeting
Fairmont Hotel
New Orleans, LA

August 4-11

ABA Annual Meeting
San Francisco, CA

October 8-17

LES U.S.A. International Meeting
San Francisco, CA
Chairman: Milton Schlemmer

1983

February 2-9

ABA Midyear Meeting
New Orleans, LA

July 27-August 3

ABA Annual Meeting
Atlanta, GA

September 18-22

LES U.S.A. Annual Meeting
Hilton Hotel
Quebec City, Canada
Chairman: G. Houle

1984

October

LES U.S.A. Annual Meeting
Diplomat Hotel
Hollywood, FL

1985

October 19-25

LES U.S.A. Annual Meeting
Broadmoor Hotel
Colorado Springs, CO

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The Licensing Executives Society International

March 1980

International President's Message

BY JOHN STONIER

Many of you will have seen the notes I prepared for inclusion in the December 1979 issue of *Les Nouvelles* and the Program for the International Licensing Conference in Geneva in April 1980, where I briefly referred to the fact that we were on the threshold of the 1980s and reflected on our situation 10 years ago.

While I do not feel this theme needs repetition or elaboration at this time, I must acknowledge and pay tribute to our 1979 President Jacques Gaudin, whose term of office has seen the first organized attempt to recognize and build on the pioneering work of earlier presidents and bring the organization and administration of LES into the 1980s. This was made necessary by the recent and anticipated growth in both the number of Societies and the individual members.

The thrust of Jacques was to involve more of the members in the activities of LES International by, in particular, using committees who carried the initial responsibility for their particular areas or subjects.

Some of you will be aware, from Madrid last October

and elsewhere, that I have supported Jacques' efforts and intend to continue and consolidate them. I believe this is very important, at least in the short term. To this end the delegates' meeting in Geneva will be preceded by, on Saturday 26th April, a meeting of the Officers and the Committee Chairman, as well as meetings of all of the Committees.

I am confident that these slightly more formalized meetings will generally enhance the effectiveness of the organization as well as facilitate the subsequent delegates' meeting. I look forward to reporting on these meetings and the resulting initiatives and decisions.

There are two delegates' meetings during 1980, and they are being held immediately prior to the International Licensing Conferences: in Geneva from 28-30 April, and in Helsinki from 7-10 September.

I strongly recommend that you should attend these Conferences, and for those who find this impossible then at least attend the principal meeting of your own Member Society.

I am looking forward to these occasions and seeing and meeting with as many of you as possible during this year.

A Call for Understanding

BY JACQUES GAUDIN

(EDITOR'S NOTE: Mr. Gaudin, 1979 president of LES International, made the following remarks at the opening of the UNIDO 'dialogues' in Lisbon on October 8-9 between the heads of technology transfer registries of developing countries and members of LES.)

We are living in a period of a worldwide redistribution of economic and political forces and of populations which will greatly modify the industrial map of the world.

For something to change in the present world, developing countries are certainly right to cause a number of shocks and assume vigorous political positions. The interdependence of world economy is well recognized today: it has become clearly apparent that the economic progress of industrial countries depends on the development of developing countries and that the development of developing countries remains dependent on the prosperity of industrial countries.

However, it is vital for the dialogue to lead to genuine cooperation based on the respect and complementarity of mutual interests and for this cooperation to lead to a harmonious development of the world as a whole. Otherwise, war would ensue.

Despite its 3,500 members, LES International is certainly unable to solve this great and vital problem, and it is not its business to do so. However, as it groups together professionals from 50 countries, some of which are only buyers of technology and others, alternatively sellers and buyers of technology, as these men and women are daily engaged in "in" or "out" technology transfer operations, and as LES International is a professional and nonpolitical association without any lucrative aim and has a worldwide calling, it encourages the grouping together of these executives. And these men and women, without having to renounce their personal or national interests, meet together to inform one another, discuss together and come to understand one another.

(Continued on next page)