

of the mounting difficulties ahead of us, we wish to believe that there is a future for us also. We will work hard to develop know-how to develop new resources and to conserve scarce resources; to preserve environment and to make the best use of what the world has.

We should like to offer our know-how and our hard work to the others whenever and wherever they need them, because that is the only way we can survive.

To facilitate such exchange of know-how and human ingenuity I am sure that L.E.S. can do a lot of things and I hope that we could unite our effort to realise such an object for the benefit of the people of the world.

*\*About the Speaker: Mitsuya Okano, General Manager Foreign Department Sumitomo Chemical Company Ltd. Mr. Okano is President of the Licensing Executives Society of Japan and Vice-President of LES International and is well qualified to discuss the contribution which licensing arrangements have made to post-war technological and industrial development in Japan.*



Marcus B. Finnegan

## PRACTICAL AND LEGAL PROBLEMS IN INTERNATIONAL LICENSING

by  
Marcus B. Finnegan

I would like to start out here by mentioning (I'm not sure if it ever came out in the introduction) — but probably many of you know that Dudley Smith is the first winner of the LES Gold Medal. I think the medal was awarded to him for the terrific job he has done in helping various countries organize their own chapters of LES. You will recall that this morning Dudley talked a little bit about negotiations and strategy and tactics in negotiating license agreements. That reminds me of the story of how sometimes a negotiator can give away some of his idiosyncrasies without realizing he is doing it. The story is of a woman who had been married a few years and she was confiding in one of her close woman friends. She said, "You know, I think my husband must have been quite a federal operator before we were married." The other woman said, "Oh, what makes you think that?" "Well, everytime we have a big thunderstorm and there's a flash of lightning through our bedroom window, he jumps up, sits up in bed, holds up his hand and says, "I'll buy the negatives."

Talking about hard negotiation of license agreements (I

don't think Dudley was the person involved in this but I suppose he easily could have been) — this licensing man had been out on a very tough negotiation trying to sign up a licensee and finally he came back in one morning to his boss, the President of the company, looking very much the worse for wear and he said, "I finally got that guy to sign up. I've had him at a night club all week long watching floor shows, but he finally signed up." The boss started looking at the license agreement. He got to the last page where the signature was and he said, "I'm not sure this signature written with a swizzle stick dipped in soy sauce is legally binding."

And, then I think Dudley also mentioned that he tried to work out a formula for determining royalties. The problem really was, I think, Dudley, that you just didn't have an infallible computer — and believe it or not, there is an infallible computer back in the United States and it's proven by the story about the fellow who found this hard to believe. So he was told, "All right, you come and ask the computer some questions." He asked the computer some very difficult, intricate questions, mathematical problems, etc. The computer came through and answered them all correctly. He scratched his head and he said, "I bet I can trip up this computer." They said to him, "O.K., what is your next question?" "The question I want to pose to the computer is, 'Where is my father?'" The lights blinked and the wheels whirled and the computer came out with the answer, "Your father is fishing in Wisconsin." The fellow said, "I've got it now, that computer is wrong. My father has been dead for twenty years." They said, "Well, maybe you didn't phrase the question properly, we can't believe that the computer is wrong. It has always been infallible." So the fellow rephrased the question, and sure enough the answer came back, "Your mother's husband has been dead for twenty years, but your father is still fishing in Wisconsin."

Now, I would like to tell a true story. Our firm represents as Washington counsel for one of the major oil companies in the United States, particularly in the patent area. The head of the patent department is a good friend of mine and he liked to tell this story. About eight years ago he and another man from the company went to Japan to negotiate a very important license on a refining process. A lot of money was involved. They got over there and negotiations started. It was a long day of negotiating, and the Japanese asked a lot of difficult questions, some of them legal questions, some of them technical questions, and, then the team of negotiating Japanese left them at their hotel. The fellows went into their rooms and washed up. An hour later, a second team of Japanese appeared to take them out to the geisha houses and down to the night clubs on the genza. They got back to their hotel about 2:00 a.m. in the morning and, then, they had to stay up trying to figure out how to approach the negotiations the next day. They got about two hours sleep and were exhausted the next day. Finally, at the end of the second day of negotiations, one of them said, "Say, it just dawned on me that the guys at the company back in New Jersey are just reporting for work now. Let's call them on the overseas telephone and give them all these questions — the legal and technical questions." So they did this and then they went out to the geisha houses and down to the genza, had a fabulous evening and came back about 2:00 a.m. At this time, it was about 5:00 p.m. in New Jersey and the fellows there were just ready to leave work. They called them back on the overseas telephone. In New Jersey they had had about three guys in the library all day working on this stuff. So the fellows in Japan got the report; wrote it down; got a decent night's sleep and came back all refreshed for the negotiations. This went on for something like ten days or so and the Japanese were just absolutely amazed at the fantastic stamina these guys had and the tremendous knowledge. It turned out to be a very successful negotiation. I guess I'm giving away some trade secrets here!

You were talking about your dreams, Mr. Okano. I hope maybe part of that dream will come true and you'll let me come and make a lecture to Sumitomo Chemical.

Now, I'd like to very quickly cover a subject which I am sure will be of interest here in Australia. I mentioned this morning that I think the situation in Australia is probably similar to the situation faced in the United States by the smaller companies when they are trying to evaluate how international licensing can be important to them. They have only 500 employees, or less. They have a good product, but they don't see how they can get into the international licensing field. Well, I'd like to outline a method that I think shows how a small company can often crack into international licensing. It can do this by giving to an overseas or a foreign distributor company the exclusive right to buy and distribute its product in the foreign company's territory, and, it can even give that company additional exclusive or non-exclusive rights to sell the product in other territories, as well as its own territory, and, perhaps use it as a springboard to get into other territories. For example, from the United States we licensed a company in one of the Pacific countries and gave it rights to sell and distribute in other of those countries, with the idea of expanding the territories through the base in the one country.

This immediately gives them one advantage over their competitors, if they offer to this foreign company the right to a license as well as just the bare right to distribute and sell the product. In other words, they are doing a little more than export sales because they write a license agreement and say, "Look, we will make you a licensee as well as a seller and distributor."

How do they become a licensee? Well, this gets us into the second step, which may be distributing or sending to the licensee's country kits of component parts of the product and parts of the assembly can be made in the country of the licensee. That can frequently be the first step and this may make the license operative and bring it into operation. At this point you can say that the licensee is beginning to receive know-how and design information from the licensor and he may, also, through the license becoming operative, begin to pay the licensor royalties and technical assistant fees, under the license agreement. The third step will be to let the licensee begin to make parts locally or procure parts locally and assemble them in his own country, and, this may be done to the licensor's specifications, or it also might be that the licensee may make modifications to fit the situation in his own local territory. That's practically your final step. You shift into the licensee actually producing and making a product and then selling and distributing it all in his own territory. You can convert from this method of a strict export sales situation to a licensing situation where you have a licensee overseas who is actually manufacturing the product and selling it in his overseas market. What does the licensor get out of this? First, he gets the profit from the export sales. Second, when the license goes into effect, he begins to get the royalties and technical assistant's fees. The third step, which can often be the most important, he may even get equity shares in either the licensee's own company or they may create a third company such as a joint-venture company, in which the licensor will own equity shares. The fourth thing that he would get would be the feed back of some valuable research and development carried out by the licensee.

So that's one method or way in which a small company — and it's been proven in the United States by various people — can get into the overseas market and into overseas and international licensing.

Now, the main thing I wanted to talk about in the time remaining, is how the rules of competition affect licensing. I think last night at the cocktail party there was an outline available. I don't know how many of you still have it. It's called "An outline of How Rules of Competition Affect

Licensing." If you want to get that out it might help you to follow my further remarks.

Now I'm going to talk mainly in terms of U.S. practice because, of course, that's what I am most familiar with. However, I think the United States and the anti-trust area and the rules of competition areas have been the pacesetter pretty much for the rest of the world, and, particularly the E.E.C. now is tending to follow the U.S. Rules more and more closely all the time. I think if you understand something about the situation in the United States, where it's the most highly developed and the most complex, then it helps to understand the situation throughout the world and other jurisdictions.

The first item is anti-trust statutes. Now, the only one that you really have to remember for practical purposes is Section 1 of our Sherman Act, which is the original anti-trust statute in the United States passed in 1890 — 84 years ago. The language in the Sherman Act is extremely broad. It says every contract, combination or conspiracy and restraint of trade is hereby declared to be illegal. The key words there are "every" and "contract", "combination" and "conspiracy" — you see that requires joint action of two legal persons. One person alone cannot really violate Section 1 of the Sherman Act. It says that every one of these contracts in restraint of trade is illegal. Restraint of trade in the licensing sense — any restriction, any condition, any limitation that is placed on a licensee can be considered to be a restraint of trade when you're dealing with the Sherman Act.

When you have a license agreement you automatically have the ingredients for a violation of the Sherman Act because you always have two parties in a license agreement and here you can say technology is moving, being transferred from the licensor to the licensee. Okay, so that's a very simple explanation of the basis for it.

Now, the second one I have here is the rule of reason. This is Judge-Made Law. This was law made in our courts — the Supreme Court of the United States. Although it started being made in the lower courts earlier, and, it was really an application — a re-instatement of an ancient principle in common law which in essence says — "Look, if you're going to set up a competitor and make it easier for him to compete with you, then you are allowed to put some restrictions on him." This goes back to — you've got a printing business in a small plant in England, and, you're going to set up another printer in the town and show him how to operate. You may be able to confine him to selling only in the north part of town, for example. That would be a very simple restriction or restraint of trade to a guy you set up. In the common law they said that's okay, because you're actually fostering competition or helping to create competitors, and, you've got to give the guy who is going to set up the competition some incentive to do this, and, the incentive is to allow him to place reasonable restrictions or restraints on the licensee or the competitor that he sets up. This same theory still applies today in licensing. We have this rule of reason which is really sort of a restatement of the ancient rule of common law. It has three ingredients.

The first and most important is that the restraint or the restriction must be ancillary and necessary to a main lawful purpose. What does this mean? Ancillary is a synonym for auxiliary or supplementary in the sense that it's used in the rules of reason. This is, it is supplementary to the main lawful purpose, and the main lawful purpose is that you are enhancing competition, you're disseminating and distributing technology through the license agreement, so you can say an honest license agreement has a built-in main lawful purpose, because it is socially desirable and it's in a public interest to disseminate technology and to create competitors.

The second part of that first step is necessary to the main lawful purpose. You have to show that there is some rhyme or reason to the restraint that's being imposed. The simplest

kind of restraint that probably exists in almost every license agreement is the requirement that the licensee pay royalties to the licensor for the use of the technology. Now, the second requirement is that the scope must be reasonable — the scope of the restriction. The third requirement is under the rule of reason that the duration of the restriction must be reasonable. It can't last for a hundred years, for example. There's got to be a reasonable relationship to the technology being transferred. The licensee could generate this technology operating on his own in 10 years. It would probably be not reasonable to restrict him for 25 years because that's a longer period than would have been needed to get the technology independently.

How do you measure what a reasonable duration is? Well, a good rule of form on how long it is — how long did it take you to develop that technology yourself? You probably have records on that and some way of showing that. So, if it took you 10 years to develop the technology, then you could reasonably restrict the licensee for 10 years, or if you want to play it safe, restrict him for 8 years.

Now, one of the scope ideas is very important and essential to understanding the U.S. anti-trust laws. I have a very simple diagram for illustrating it, and, I think it helps a good deal in focusing when you get talking in detail about specific restrictions. Nothing more than two concentric circles here or vaguely resembling circles. The inner circle represents the scope of the technology that is being transferred under the license agreement — the actual valuable technology that the licensee is receiving. The outer scope represents something beyond that and I'll give you that in just a minute.

Then we come to part C of the outline — Licensing restrictions that are illegal under the per se theory. What is the per se theory? Well, that is sort of a countermanding of the rule of reason. The rule of reason was designed to sort of take the "every" out of the Sherman Act — every contract in restraint of trade. So there courts say, "No, that Congress could not possibly have meant every contract — what they meant was only those contracts that are unreasonable in their restrictions." And, so this leads to the evolution of the rule of reason. They they got beyond the rule of reason. The rule of reason came in with the Supreme Court about 1911. Then they got beyond that. In about 1926, the court evolved the per se theory and held that certain restraints are so inherently bad, so pernicious in their evil consequences and having no redeeming social virtue, that we're going to say — as to that kind of restriction — it is per se illegal, regardless of what the economic effect is. In most anti-trust situations, you have to be able to prove that the restraint of trade is having a bad effect on competition, as having economic consequences. But where you have a per se effect, you don't have to show any effect on competition. The court will just say—"Look, it takes a tremendous amount of work to prove an economic effect on competition and the anti-trust law, and we don't think we should have to do that in these cases where time after time we show the effect is there. The first of these in-general anti-trust laws, not patent anti-trust laws, was price fixing. The Court decided any time two competitors get together and fix prices, that is inherently so bad in its effect on competition, we are going to say that is a per se violation of the anti-trust law without having to show any effect on competition. That is mainly horizontal price fixing that created the rule but you can't vertically price fix today either. I say horizontal and vertical — I may be confusing you. Horizontal is two competitors operating at the same level. Vertical is where you have a supplier and purchaser, for example, in the economic change.

Now, I have listed under there a series of license restrictions that by case law have now been determined to be illegal under the per se theory. Right here I would like to say something about the United States Justice Department, which is very vigorous in its enforcement of the anti-trust laws in the United States, particularly in recent history, and,

it has been particularly vigorous in the patent area or the area of industrial property rights. I think one reason for this is that I don't think the anti-trust lawyer, particularly the theoretician type that you are liable to get in the Justice Department — fresh out of law school, where he has been listening to some Professor of Economics (or somebody) — sees "patent" as a legal monopoly. Well, that's a problem to him because monopoly is a terrible word in anti-trust law. He thinks, "Gee, here's this limited legal monopoly. What the heck is that? We'd better keep that thing under control". Unfortunately that shows the tyranny of words, I think. The word "monopoly" is used in two different senses in anti-trust law and in patent law, and, I think I can illustrate that to you. Is the Bulova (Accutron) watch available in Australia? How many of you in this room are wearing Bulova (Accutron) watches? One, two — Okay, now, the point here is that Bulova has lots of patents covering the Accutron movement for its watches and they are considered very valuable patents by the Bulova Watch Company, but you cannot say that those patents give Bulova a monopoly. Here in this room (we must have about 50 people here) we have two people wearing Bulova Accutron watches, and, the relevant market here has to be wrist watches, because apparently all the rest of us consider other types of wrist watches to be a viable substitute for the Bulova (Accutron) watch. I think the point is that in the anti-trust there is no monopoly granted to the Bulova Company in wrist watches which is a relevant market, but only on the Accutron movement itself, which cannot be a monopoly in the anti-trust sense.

Now, I'd like to tell you a couple of stories here to illustrate the attitude of the United States Justice Department towards licensing and patents and the use of industrial property rights. There was a weekend golfer who was just coming off the 18th hole where he three-putted, and, he disgustedly threw his bags into the golf cart and started for the club house. As he was approaching the club house a policeman (a state trooper) stopped him and said, "Just a minute, buddy. Aren't you the guy who just hit a big duck hook over the woods off the 15th tee a little while ago?" The golfer said, "Yes, I guess maybe I am. I did hit a drive like that off that tee." The trooper said, "I don't know whether you know it or not but your ball landed out on the highway and cracked a windshield and there was a serious accident — six people were badly hurt. Now just what do you propose to do about that?" (This is the cop talking to the golfer you see). The golfer replied, "Well, I'll open my stance a little and turn my right hand to the left a little." That's about the attitude of the Justice Department on the damage that I feel they're doing in making it more difficult for people to license in the United States; more difficult for them to protect their industrial property rights. I guess you can say there's good news and bad news here.

We have a few stories about that. A secretary comes into her boss and says, "I have some good news and some bad news for you." He said, "Well, it's been a bad day, give me the good news first. She (the secretary) says, "The good news is that you're not sterile."

There's another one, about a couple who had a brilliant son who went off to Harvard University. The Dean of the college called them and said, "I want you to come up to Harvard. We have a serious problem with your son and I'd like to discuss it with you first hand." So they got up to Harvard, and, the dean said, "I've got both good news and bad news for you about your son." The parents are naturally upset and said, "Well, tell us what the bad news is first." So the dean said, "Well, I'm sorry, but I think we have discovered that your son has turned out to be the leader of a homosexual ring here at the University." They said, "Oh, my God, that's awful. Now, what's the good news?" The dean brightened up and said, "Well, the good news is, he's been elected Queen of the May."

The anti-trust situation in the United States is that the

bad news is that the Justice Department is making things more and more difficult through its enforcement of the anti-trust laws. The good news is, that it could be worse than it is, possibly.

Now, getting into these restrictions. Time is short, so I'll just hit upon them lightly. The first one is a tie-in clause. There has been mention of that already here today. You have a tie-in clause when you have something desirable that the licensee wants and you give him that; you have something undesirable that he doesn't want or may not want. You say, "Look, you want the desirable thing, so you've got to take the undesirable thing along with it." That's the case in the United States with the International Salt case, where International Salt had a patent on a machine called a saltomat for injecting salt tablets into cans at the end of a food assembly line. They required every licensee for the saltomat machine to buy all of its requirements for salt tablets from International Salt Company. The Supreme Court was horrified by this — salt being about one of the most basic and ancient commodities you could think of, and, certainly an unpatented commodity. So they said, "Here International Salt is using the leverage granted by the power of the patent on the saltomat to force the licensee to buy salt from them." International Salt defended on the basis that you needed a little detail in the salt tablet — a little niche in there that would make it feed properly in the saltomat. The Supreme Court said that that was unworthy of belief that some other company could not make salt tablets that would have the necessary niches in them to make the machine operate smoothly. That's just one case — there are many more illustrious cases. Tie-ins can get into very subtle things in the United States and if we have more time I would like to talk to you about some of those where you have an implied license. The implied license is the idea that you are forcing the implied licensee to buy an unpatented product from you in order to use the patented process.

Moving on, the second per se illegal restriction is any restriction on the licensee's right to deal in competitor's products. The first thing I mentioned — the tie-in clause, we call it "tie-in" or we call it "tie-out" and that has also been mentioned here. You cannot restrict a licensee's freedom to deal. If you try to do so, tell him he can't steal any competitor's products and that's a tie-out and that is per se illegal.

The third thing is mandatory package-licensing. You cannot coerce or force or involuntarily make a licensee take a license under more than one patent in a package. If all he wants is one patent, and he actually makes a request to you and there is a refusal, you're going to have a violation of the anti-trust laws. This gets subtle — what do you do about this? Package licensing is any time you are licensing more than one patent at a time, two patents to the smallest package; sometimes these things get up as high as 500 patents being licensed at one time. The only thing you can do as a licensor, is to document the negotiations, make sure it's clear that the licensee voluntarily accepted licenses under all of the patents that were offered to them. The other thing you can do is to write in the whereas clause of the license agreement and make it clear too — "Whereas the licensee desires a license under all of the patents listed in Schedule A" — and you can trump up the language. Then, of course, the licensee signs the agreement and he is going to be very hard put at a later date to say that he was forced to do this and coerced into taking a license under all the patents. You see a package license is really nothing more than a variation of the tie-in. You see you've got Patent A which the licensee wants and desires and you've got Patent B which he doesn't want. You say "Look if you want a license under Patent A you've got to take a patent license and get a license under both Patents A and B."

Mandatory total sales royalties — there are variations on this. The main one is when it came out of the Hazeltine v.

Zenith case where Zenith was the licensee of Hazeltine and was required to pay royalties on all of its sales of television and radio receivers regardless of whether they came under one of the patents in the package or not. There were 500 patents in the package. Obviously, that's an administratively convenient thing to do when you've got 500 patents. Who wants to sit down each time they come out with a new radio receiver and analyse all the circuits in those patents to determine whether it falls under one of the patents and therefore is covered (properly covered) by the license agreement. So the Supreme Court says, "Look, can you show us that this was done for the administrative convenience of the parties and was not coerced on Zenith?" They sent the case back to the lower courts where it was settled, so we never found out if there was coercion or not. If you can show it was done for administrative convenience, then it's okay, but if you rammed it down their throats and forced it on them, then it's not okay and that's a per se violation. You see this gets back to your inner circle now. If the patent covered the radio receiver, then you're operating within the scope of the license technology. If it doesn't cover it, then you're out of line and you're in trouble. That is, if it's mandatory. If it's voluntary you're okay. You get into questions, too, where 25% of a machine is covered by the patents and the other 75% isn't and you make the licensee pay the royalty on the full sales value of the machine.

Next is restrictions on resale. You cannot, absolutely cannot, place any restriction on the resale of a patented product once you've sold the product. The classic case is United States vs. Glasco, where Glasco, a British Pharmaceutical House licensed Johnson & Johnson as a purchasing licensee to sell its patented form of greenshield fulman (which is a fungicide). They required that Johnson & Johnson not make any bulk sales of the patented product to others. What they were trying to do was to cut off the generic drug houses (which are price cutters) from getting access to this finely divided (greenshield fulman). The court got hold of that — that's an absolute violation, because you cannot place any restriction on what somebody does with a product. Patented or unpatented, once they've purchased it, that's the ancient common law principal. Sometimes it's called "exhaustion of the patent monopoly by the first sale." You can buy a Toyota automobile and drive it off the harbour bridge — Toyota can't say anything about it because you own the automobile, even though they might like to do so. The funny thing is in the Glasco case, Johnson & Johnson would have been the last company in the world to want to sell the product to a generic drug manufacturer (I mean if they were self enforcing, so they didn't). This happens all the time in this area. Be very careful, you are not putting some hairbrain restriction in the license agreement which you know is self-enforcing. Johnson & Johnson is not going to go out and sell that drug in bulk, and you know they are not. So it was completely unnecessary, but it made the patent unenforceable and was held to be a violation of the anti-trust law. Incidentally, that's the big problem in this area, if you put an invalid restriction (an illegal restriction) in a license agreement and you go to enforce a patent that is licensed under the agreement. We have this doctrine called Patent Misuse, which in essence says, "When you go into court with a patent you are going into a court of equity and asking them to enforce the patent, particularly where you're seeking an injunction." He who comes into equity must come with clean hands, so if you've got a license agreement or you have one of these bad restrictions, the court will say you've misused the patent. The patent is unenforceable. Even though the defendant may be infringing the hell out of it, and, even though it may be valid as the dickens, you still cannot enforce it unless, if you can purge the misuse, then it can become enforceable again. There are some kinds of misuse that are almost impossible to purge. For example, if someone can show that you've procured your patent by fraud in the patent

office, there's no real way of going back into the patent office and getting the fraud removed so that you can purge the misuse.

Here, again, the misuse is sort of a lesser included offence within an anti-trust violation. Think of the circles again. The outer circle would be patent misuse, the inner circle would be anti-trust violation.

With most anti-trust violations, other than a per se violation, you've got to show some economic effect coming from the restriction. But you could have a situation where you couldn't show the economic effect, but you could show that the restriction is bad, and, that would amount to a patent misuse and would still make your patent unenforceable. Anti-trust violation is much more serious because the defendant is entitled to treble damages if he can prove that you violated the anti-trust law. Sometimes it is hard for a defendant to prove that he has actually been damaged, however, and the damages may be nominal; but there are situations you can think of where there could be substantial damages and they can be trebled. So it's nothing to fool around with.

The post-expiration royalties is the last of these per se violations. I mentioned that briefly during the question session at the end of the last session, where I said that you get per se violation to collect royalties for use, based on use, once the patent has expired. It's an almost silly rule, in a way. The licensor is trying to help out the licensee by giving him a low royalty over a longer period but he was measuring the royalty on use and the use went beyond the period when the patent expired. What he should have done was to have made it a high royalty during the period of use and then let him make deferred payments and that would have been okay. So, it's an easy thing to avoid, if that's what your objective is. You might say there's more than one way to attach a problem, and, that illustrates it.

I want to tell one quick story that illustrates that. Jock and Hamish were two old, fast Scotch friends. They'd been fast friends for over 60 years. Jock was dying, and, he said to Hamish, "I didn't wanna tak the hie road widout a last nip to see me on my way, so I've saved a bottle of fine old whiskey. I've been saving it for twenty years. Hamish, I want you to promise me when I'm dead that you'll take that bottle and slowly pour every last drop of it over my grave." Hamish, choking with grief said, "Jock, would you mind if I added a bit of a personal touch in tribute to our friendship by straining it through my kidneys first?" So you see, there's more than one way to attack our problem.

The next portion I have here in the outline are licensing restrictions that are virtually illegal under the per se theory. Well, what does this virtually mean. This means that the Justice Department would love to take a test case and establish that these are per se violations, but they haven't been able to get quite that far yet, and, you can still theoretically put a price-fixing restriction in a license agreement if you have a licensee who is a manufacturing licensee and you have a product patent and you are also manufacturing the product yourself. You have to fulfill all those conditions. We even have a case which says if you have two licensees, you can't price fix. What happens is that everyone is aware of the Justice Department's attitude about price fixing, so everyone advises their client to keep anything about price fixing out of the agreement, so the Justice Department can't find a test case that it wants to take up to the Supreme Court and get the rule forever established that there can be no price fixing whatsoever.

Of course, you can make an agreement with a small manufacturer when he cannot supply the market and he needs a big licensee with whom he ought to be able to control the price at which that licensee can sell the product. So, if it's a small carburetor company licensing General Motors, they're not going to be locked out of business by General Motors lowering the price on them.

The next one is clauses giving the licensee power to deter granting of further licenses. We were talking about this this morning in Dudley's class, and, I mentioned that exclusivity is even a problem today, so far as the Justice Department is concerned. They feel that this rule that a licensor and a licensee are competitors, it is pretty clearly per se illegal for a licensee to have a veto power over the licensor granting any further license. The idea is that it takes joint action of two legal persons to grant a further license and that's what the Justice Department objects to. They want anyone who wants a license to be able to go to one legal person and get the license and they say that if you have an exclusive licensee he should be given the power to grant sub license. Otherwise, you have implicit in the arrangement a veto power, because we have an exclusive licensee with no power to grant sub licenses then. If any more licenses are to be granted, the exclusive licensee has to come back to the licensor and say, "How about giving me the power to grant sub licenses?" Or the licensor has to go to the licensee and say "Look, I'd like to grant another license but you're an exclusive licensee so how about letting me do it?" We generally advise clients to go ahead and give that exclusive licensee the power to grant sub-licenses. You can put some controls in (such as the sub licensee must be financially sound); the licensor cannot have any real veto over who is selected to be a sub licensee.

I see I'm fast running out of time. Let me hit these other things very quickly.

An exclusive or assignment type of restriction illegal under the per se theory is the grant back. Recently the Justice Department attached one that the Research Foundation had, and, it was settled with a consent decree. The feeling is that even though we have a 1947 Supreme Court case that an assignment grant back is okay, that case would be overruled today or reversed in effect. So, in the United States an exclusive or assignment grant back is a dangerous thing to stick in a license agreement.

Jumping down to the next section of the outline, a non-exclusive grant back will be tested under the rule of reason and that just means (as I think Dudley would say) if the licensee makes an enormous profit, it might be unfair for you to add a royalty-free non-exclusive grant back from him. One thing that is probably pretty clearly legal anywhere would be a royalty bearing non-exclusive grant back where the licensee is obligated to give you a license, but it may carry a royalty if the improvement is major enough, or if your patent expires before the new patent that he gets expires. Then maybe you'd better start paying him some kind of a royalty.

Quantity or volume restrictions — the Justice Department feels these things are bad. We have still a case law in the United States that says it's okay to restrict the quantity of products that a licensee can produce during a given year — say 100,000 units, if you've got a product patent. It's not okay to do it if all you have is a process patent. That's similar to your situation with know-how licenses that we talked about this morning.

Then we come down to licensing restrictions that classify the rule of reasons to determine legality. There is a very important one here; field of use restrictions, and another very important one is territorial restrictions. I've already covered non-exclusive grant-back, course licensing and patent pooling. Let me say that field of use restrictions is that you get into the main lawful purpose question of the license agreement. It's the purpose of the field of use license to divide market between competitors — that's one of the great sins of general anti-trust law. It divides market between competitors. It's going to be held bad. The classic case on this which is still in the courts in the United States is the United States vs. Fysons, another British pharmaceutical house — it seems to get into a lot of trouble with the United States anti-trust laws. I think that illustrates a little bit of a warning

to a foreign company who comes into the United States, that they need to be pretty sure they get good advice on what they can do on licensing and what they can't do. Fysons licensed a new drug; it was an iron compound for fighting anemia. It was useful both with humans and animals so they licensed Colgate in the human field and they licensed Armour Co. in the animal field. Colgate and Armour competed in both fields; in other words, Colgate made drugs for use by humans and animals, and Armour did the same thing. The Justice Department came along and sued Fysons and said — you're dividing markets between competitors; you're setting up artificial fields of use.

I've got to tell this story. It illustrates the Government's point in the case.

A farmer had a prize bull and it won all kinds of blue ribbons and awards at county, state and national fairs. All the surrounding farmers for 500 miles wanted to improve the blood lines in their herds by breeding their cows with this bull. They would bring their cows in for servicing by the bull. The bull was young and vigorous. He could handle two cows a day without any problem. The farmer was charging \$200 to these guys bringing their cows in. He was collecting \$400 a day. He quit ploughing the fields and he just sat up on the front porch in a rocking chair with his feet up on the rail and collected \$400 each day. Things were great. Then one day he penned the bull up with a really good looking cow — nothing happened. The bull was very listless, hung his head between his legs and was completely indifferent to the cow. The farmer panicked and called the veterinarian and he said, "Doc, you've got to get over here right away; something is wrong with my bull." The vet came over and examined the bull. He gave him a complete examination and said, "You're very lucky, Sam, I'm going to give you this little bottle of green pills that have just come out manufactured by Eli Lilly. You give the bull two of these little pills every day, and, I think you'll see a remarkable improvement fast." So the farmer did this and about the afternoon of the second day the bull was out in the pasture and all of a sudden he started snorting and pawing the ground and he just charged into the next pasture. The farmer was elated — he took the bull back into the paddock and let the word get around. Now the bull was terrific — he handled five cows a day. The farmer was collecting \$1,000 a day. The word got around. His neighbor came over and he was told the whole story. The neighbor said, "Gee, that was really remarkable, Sam. What do you suppose is in those little green pills?" Sam said, "Hell, Henry, I don't know what's in them, but they taste like peppermint."

There's really no distinction between the human use field and the animal use field, at least according to the Government when they tell that story.

I'm afraid we're out of time. Is that right Paul? I'd say I'm probably a little over time. I don't want to hold you here any longer — but —

I would just like to mention one thing. In this Kewanee case that I talked about this morning — That, as Ron Bannerman mentioned at lunch, was not really a licensing case. That was a case where employees were working for Kewanee and they had access to a lot of technology in making synthetic scintillation crystals. It had taken Kewanee 17 years to develop the ability to make 18 inch crystals and they (the employees), as the court put it, left voluntarily and others left involuntarily. In other words, some quit and some were fired. They formed their own company called Bicron Corporation and they amazingly were able to make these crystals after nine months. Nine months after they started the company. The court pointed all this out. Kewanee alleged that 40 distinct trade secrets had been stolen. The lower court found that indeed 26 trade secrets had been stolen by these employees and posed an injunction upon them and kept this opinion secret. The Court of Appeals got hold of the things and said there's a conflict between the patent laws which

are provided for by the Constitution and State Laws of Contract which guarantee the sanctity of trade secrets and that under our federal system when Congress acts, we call that "Federal Pre-emption", and that the trade secrets laws were in conflict with this and therefore they weren't going to enforce the trade secrets law. So that's the basics of the case. But what it boils down to is, that this means that you can't protect any trade secrets or know-how in the United States. I'm over-simplifying it a little bit, but that's really what the decision comes down to. So, if that case is not reversed in the United States, then we are going to have to get some act of Congress or something to create a federal law of trade secrets to protect this technology.

Okay, well, I certainly enjoyed this opportunity to speak to you about these things, and, I think you can see from all the different topics we've talked about today, that licensing is indeed a complex and varying subject, and, we could have spent probably three hours just talking about grant backs, for example, which is one small segment of this broad area which I covered very quickly. I understand that at an organizing meeting in Canberra, Pete Horgan called on people to speak and the first person up questioned whether there was any need at all for a LES/Australia. I hope we have been successful today in this one day conference in answering that question. Yes, there is a need for an LES/Australia and you'll be able to benefit from it and will benefit it a great deal.



*Mr. Jean Ray, former Commissioner of the European Economic Commission, luncheon speaker at LES Conference in Brussels looking at LES gold pen he just received. Florent Gevers, President LES/Benelux, Carl Weil, Chairman of Program Committee and Peter Mars, Vice-President LES/Benelux.*

#### INTRODUCTORY SPEECH FOR THE LES CONFERENCE IN BRUSSELS

by  
Florent Gevers\*

Ladies and Gentlemen:

As President of the Licensing Executives Society of Benelux I am happy to welcome you here at this international symposium concerning licensing.

LES Benelux, the last but one new society of LES International has been founded during a meeting held last January in the Vincent Van Gogh Museum in Amsterdam and its