

'Restrictive' License Provisions

'Restriction' has lost precision of meaning; a plea to choose and use words with care and accuracy

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The United States District Court, New Jersey, decided *U.S. v. Ciba-Geigy Corporation* on April 15, 1976. It is not my purpose to consider the merits of this antitrust case but I shall elaborate on one element involved in the litigation which is of paramount importance to members of the Licensing Executives Society.

The suit was based on a number of licenses granted by Ciba involving Ciba's patent on hydrochlorothiazide (HCT). At the risk of oversimplification, the agreements covered, in general, the grant of nonexclusive licenses to make, use and sell HCT in specialty form, or in combination with another product. The point of importance and the heart of this article is that the grant was of something less than all uses of HCT and there were no positive prohibitions stated. This is one of those cases involving bulk sales and drugs formulated in dosage form. There was no express prohibition on bulk sales of straight HCT; simply, there were no grants of a right to sell in bulk.

The Department of Justice suit alleged violation of Section 1 of the Sherman Act on two approaches, (1) each license was a contract in restraint of trade, and (2) the existence of a number of licenses amounted to a conspiracy to divide markets.

The government's position for the purposes of this article, is clear from footnote 96 of the government's pretrial brief which reads as follows:

"While the Abbott agreement does not expressly forbid Abbott from selling bulk form hydrochlorothiazide, it does not include the right to sell the bulk form of that drug. The difference between an unlimited license with a negative covenant against the sale of bulk, on the one hand, and a limited license to sell only in dosage form, on the other hand, is one of semantics. The licensee takes a license because he intends to respect the licensor's patent rights, not because he wants to respect them in some regards and infringe them in other regards; the parties understand that the licensee will operate under the license, not ignore it. The Ciba-Abbott license does not even provide for a method of calculating royalties on bulk sales, which persuasively illustrates the parties' contemplation of and understanding that there will be, only dosage form sales. There is no meaningful distinction between the two verbal formulations of a bulk sales restriction, since the end result is the same; the licensee (Abbott) is in practice prevented from selling bulk."

It seems to me that almost every statement in the quoted **Executive Director, Intellectual Property Owners, Inc., Washington, D.C.*

footnote can be challenged. This article, however, is limited to a rebuttal of the theory that grants of less than total permission to infringe are "restrictions" similar to or identical to express prohibitions, and that, indeed, semantics are important.

Words can be very important. Many a contract has failed and has been subject to litigation because words were misused, or not clearly defined. Every legal document is sound only if word usage is precise. The value of every claim in every patent depends materially on the accuracy with which words are chosen to describe the claimed invention not only in the description but also in the claims. The value of every license agreement depends materially on the semantics employed. It is important that black mean black and white mean white.

Imprecise Choice

One problem in the licensing area is that "restriction" is being used where there is no contractual restraint on the thing licensed and too many, not only in government service but also among licensing executives, law school professors, and the bar, are guilty of imprecise choice of words.

The quoted footnote raises the semantics issue by charging that absence and presence are, in effect, the same thing.

To provide more background, the Department of Justice's viewpoint is further illustrated in an article by Richard H. Stern entitled, "Antitrust Status of Territorial Limitations in International Licensing," which appeared in *IDEA*, Vol. 14, No. 4 (Winter, 1970-71 issue) at pages 580-596.

Howard I. Forman in a later article in the same publication entitled, "Another View of the Antitrust Status of Territorial Limitations in International Licensing," wrote as follows (I quote footnote 3).

"Throughout his paper Mr. Stern uses the terms 'territorial limitations' and 'territorial restrictions' interchangeably. In discussing his premises regarding them the same terms will be employed for ease of reference. However, it is worthy to note that Mr. Stern does not explain what he means by such terms, and without his explanation one cannot be certain what he meant to encompass by those expressions. To illustrate the quandry, *Webster's Seventh New Collegiate Dictionary* defines 'restriction' as 'a limitation on the use or enjoyment of property.' In that sense a statement in a patent license that the grant is effective in one or more specified countries is not a restriction because there is no limitation or restraint on the use or enjoyment of the property which is the subject of the license.

"The licensor may own a patent in one country and grant a license permitting the use of the patent in a portion of that country. Or, the licensor may own corresponding patents in one or more other

countries, and grant a license permitting the use of the patent in one or more, but not all, of those countries. In a negative sense — and perhaps this is what Mr. Stern meant by the term — these may be considered to be territorial limitations since they represent a 'failure' to grant use of *all* of the licensor's patent rights worldwide. But they are not limitations, not restrictions, and not restraints on the use or enjoyment of the property that is licensed; the licensee can use the property *licensed him* without any material restriction being placed upon him. Of course, it is also possible that a patent license may contain an express limitation or restriction against practicing an invention in one or more specified countries where corresponding patents are owned by the licensor, rather than just omitting reference to certain countries, but this probably is a very rare practice if employed at all."

In my view, use of the word "restriction" in connection with a positive grant such as "a nonexclusive license to make, use, and sell in field 'A'" is not restrictive in any dictionary sense. It yields exclusivity in a limited area. It is a limited grant but it does not prohibit nor restrict manufacture, use or sale in any other field. The only limitation with respect to other fields follows not because of any contract or implicit understanding, but because of the existence of a patent. The problem of infringement existed before the license. It has been removed in the license field. No change has occurred in all other fields; the infringement problem remains. The restriction, if any, has been not created by, nor affected by, nor made legally important by, the license provision. Hence, it is improper to impute restriction to the license term.

Misuse of the term is not limited to government. Two examples of the use of "restriction" to cover simple grants are found in Peter D. Rosenberg's "The Metes and Bounds of the Defined — Field Patent License," 53 JPOS 555 and Professor S. Chesterfield Oppenheim's "The Patent Antitrust Spectrum of Patent and Know-How License Limitations: Accommodation? Conflict? or Antitrust

The Importance of Managing Innovation

(Continued from Page 50)

volving the ongoing transfer of technological improvements in design, production techniques, et cetera, trademark rights, nor a commitment to purchase resultant product. Instead, it is my understanding, based on information available in the public domain, that Fiat assisted in setting-up the plant and putting it on-stream; but that it has not updated the technology transferred. Consequently, the Fiat arrangement is no exception to the Soviet penchant for avoiding the type of sustained relationships being sought with Western firms by their Eastern European neighbors (and comprising the focus of this paper).

8. CMEA, or the Council of Mutual Economic Assistance (also known as COMECON) was created in 1949 as a Soviet counter to the Marshall Plan and as a tool of integration. Current members are the U.S.S.R., the Nations of East Europe plus Mongolia, Cuba, and associate members Yugoslavia and Finland.

9. This program is a concomitant to the emphasis placed on improvements in such sectors as housing, roads, sewage systems, and public buildings. See, for example: U.S., Department of Commerce, Domestic and International Business Administration, *Five Year Plan Summary: Poland*, Pubn. No. OBR 73-29B (July 1973).

10. Poland, Ministry of Machine Industry, *Poland-1973* (Warsaw: 1974), p. 1.

11. "Reaping Profits Around the World," *Financial World* 140 (23 January 1974): 23.

12. *Ibid.*

13. U.S., Congress, Senate, *Multinational Corporations: A Compendium of Papers*, 93rd Cong., 1st sess., 1973, pp. 178-85.

14. U.S. Department of Commerce, Domestic and International Business Administration, *Five Year Plan Summary: Romania*, Pubn. No. OBR 73-29G (December 1973).

Supremacy?" *Les Nouvelles*, Vol. 6. No. 3 page 80.

To argue that a mere grant of permission to infringe within an area of extent less than the total area covered by a patent is more than semantics. It is a distortion of word meaning and should not be countenanced by license drafters or parties to a license.

This is not to say that a license never contains prohibitions. Licenses can and do — in which case, assuming the patent rule of reason running from *Bement v. National Harrow* through General Electric, Talking Pictures, Ethyl Gasoline and, now Ciba is properly invoked, antitrust reasoning is applicable.

The problem may be that the Department of Justice, which denies the existence of the patent rule of reason acknowledged in the above-cited cases looks only to the anticompetitive aspects of patents. The Court in Ciba correctly stated, "Any limitation contained in a patent license, by definition results in a restraint of trade. The restraint inheres in the grant of the patent itself which by its terms conveys the power to exclude. Therefore, it seems fruitless to attempt to judge the legality of a particular limitation contained in a license in terms of the competition it prevents from coming into existence. Rather, the legality of a limitation or series of limitations can only be judged with reference to the scope of the monopoly created by the letters patent."

Too many of us have unthinkingly fallen into a trap by accepting the word "restriction" as an accurate description of positive, but partial, grants of a license. We must insist on using "restriction" or analagous terms only when the grant positively forbids or restricts. Otherwise, we find ourselves unfairly and needlessly on the defensive — a burden has been shifted to the licensor.

As a group most involved in licensing, LES and its members, in particular, have an obligation to use words with care and accuracy and to challenge those who don't.

The word "restrict" could be used reasonably accurately to describe a grant. For example, the court in the Ethyl Gasoline case said that a patent owner "may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege . . ." This is not the same thing as claiming that such restrictions are equal to prohibitions.

"Restriction" has become ambiguous and indefinite. It is up to us to restore precision in our usage of the word.

Transferring Technology To Soviet Bloc

(Continued from Page 57)

the larger environment in which it exists. They cannot close their eyes to the fact that the long range is becoming shorter all the time. All too often, the management responsible for an organization cannot trust itself to be objective. Most managements of most organizations spend most of their time on yesterday's problems or in striving to maintain the status quo.

This does not alter the fact that senior management in a large organization holds the prime responsibility for making innovation happen, for approaching planning strategically, for dealing with predictability and uncertainty. No other group has the required overall perspective. No other group can manage innovation.