

New Risks in Germany

Nonexclusive licensees face new risks as a result of German Supreme Court's controversial decision

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The decision of many licensing parties in the past to grant and *take* nonexclusive licenses rather than exclusive ones in Europe in order to avoid problems with the ECC Commission, could now prove to have been precipitant and the worst of two evils, at least as far as Germany is concerned.

After the favorable decision of the European Court of Justice toward exclusive licenses in the *Maize Seed Case* the German Federal Supreme Court issued a decision — published in English in 15 IIC 371 (1984) — which may make the taking of nonexclusive licenses a hazardous gambling adventure. In this decision the Court held that a nonexclusive patent license is not binding on a subsequent assignee of that patent.

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Without exaggeration one can say that this decision is one of the most controversial in German Patent Law in many years. Its legal and practical impact is very simple: the assignee of a patent, even if he knows that a nonexclusive license has been granted for this patent, acquires unrestricted property rights without being bound by any nonexclusive licenses previously granted by the assignor.

It is true that a minority of legal commentators had previously argued this way. The law of license contracts, which is not regulated by the law as to the formalities and legal effects (except for some antitrust rules and the regulation in Section 15 Patent Act providing that a patent can be subject to an exclusive or nonexclusive license), is to a great extent judge-made law with many disputed areas as to the practical effects under civil law.

Commentary

In one of the leading patent commentaries (Benkard, 7th ed., 1981) authored exclusively by judges of the Federal Supreme Court and two appellate courts, controversial statements could be found as to the issue determined in the above decision, namely, whether in an assignment of a patent the assignor is bound by a nonexclusive license contract concluded prior to the assignment. Partly in reliance on general civil law, which protects the tenant in case of the sale of the house, and partly in reliance on

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Section 33 of the Copyright Act, which expressly provides for the continuing validity of a nonexclusive license vis-a-vis the assignment of exclusive exploitation rights, the licensing community felt pretty secure in its belief that no court would ever deceive the "faithful believers." They felt this way particularly because of the "impossible effects" on hundreds and thousands of license contracts which had been drafted in the belief that the question whether "exclusive" or "nonexclusive," is one of marketing strategy and possibly of European antitrust law (before the decision of the ECJ in the *Maize Seed case*). Their belief was strengthened by the Luxembourg Patent Convention where Article 40 Paragraph 2 expressly provides that "a transfer shall not affect rights acquired by third parties before the date of transfer."

That the legislature, when harmonizing the German patent law with the European Patent Convention, did not include a corresponding provision into the German Patent Act was regarded by the Court as an indication that German law was not intended to be harmonized as to this point as well. This argument is not very convincing, since one may well assume that the legislature regarded this area as settled and therefore saw no need to expressly include a corresponding provision in the German law. However, it must be admitted that many other rules of European law had been included in the Patent Act, although they were even more settled by well established case law. Therefore it may have also been an oversight by the legislature.

Affect

It may be that the majority of nonexclusive license agreements will never be affected by this decision. The assignment of a patent without a provision which guarantees that the nonexclusive license will be honored by the assignee constitutes a breach of contract, and the licensee can claim damages against the licensor.

However, licensees who have made enormous investments for the production of the licensed article, and who could not be faced with an injunction by the new patent owner, might find the individual inventor from whom they had taken the license not in a position to guarantee the payment of such damages. Also, in other cases the permanent watching for the financial health of one's licensor might be too much of a burden for a satisfactory business relationship. It may be added that as a result of the Supreme Court's view that a nonexclusive license has only an *inter partes*-effect, the grant of an exclusive license by the patent owner—instead of an assignment—would also invalidate a nonexclusive license.

It is not surprising that all authors who commented

on this decision have criticized its result (cf. the critical comments by VOLP, 1983 GRUR 45; MAGER, 1983 GRUR 51; BRANDI-DOHRN, 1983 GRUR 146; ROSENBERGER, 1983 GRUR 303; HOEPFFNER, 1982 GRUR 413). It also appears that nobody can offer a solution, i.e. a contractual provision which could avoid such harmful effects. Neither a clause which would prohibit the assignment of the patent nor the obligation that the contract shall be binding upon assignees or successors in title are effective under German law. A stipulation between two parties is not binding upon a third party if that party does not agree. This means that a violation of any such clauses would only give rise to claims against the licensor. It is therefore not surprising that the Supreme Court in its decision did not even discuss the question whether the assignee had knowledge of the existence of a license—the result would remain the same. For the same reason the registration of the license in the Patent Office which is only possible for exclusive licenses, would be of no help, either.

Limit Consequences

Three points may however be mentioned that somewhat limit the consequences of the decision.

1. The Court did not decide a situation where the assignment took place with the intent of the assignor and assignee to expropriate the licensee. The parties could not foresee that the Supreme Court would take a view which was contrary to the prevailing opinion of scholars. Therefore, a case might be decided differently, if the assignment is executed with the intent to invalidate a nonexclusive license.

2. The Court leaves a loophole for future cases when stating: "Whether it is possible in individual cases, that even simple licenses may have absolute effects, need not to be determined in the present case."

This could be interpreted that certain forms of nonexclusive licenses might have an absolute, i.e. *erga omnes*, effect if they have all the features of an exclusive license. Before the Maize Seed decision of the European Court of Justice many license contracts were called "nonexclusive" because the parties were afraid of adverse consequences after possible investigations of the EEC Commission, and they often called a contract "nonexclusive" although it was meant to be an exclusive one and was in fact also carried out this way. However,

which features the Court would require in order to grant a contract such absolute effects, is an open question.

Only one proposal discussed in legal literature could constitute a safeguard, but it is legally rather complicated. KORNER (Mitt. 1983, 230) proposes that the licensee must insist that the patent owner assigns the co-property of the patent to the licensee in case the patent is ever assigned to third parties. This means that the grant of co-ownership would only become effective in the case of an assignment and upon a request of the licensee which he has to make within two months after receiving notice of the assignment from the patentee. In such a case the licensee could—and would—only make this request if in the transfer contract concluded with the third party his nonexclusive license is not transferred to the new owner. This conditional assignment of co-property would indeed have an effect *erga omnes* and limit the contractual freedom of the patentee. However, in order to insure an effective protection, this conditional assignment must be agreed upon also for any second or third assignment, and it must, furthermore, not restrict the patentee to grant other nonexclusive licenses which he normally is able to. Therefore, in order to reach the required result sophisticated drafting is required and it would be difficult to explain to non-German parties.

3. Finally, although this is only a faint and theoretical possibility, the decision could also be overruled in future cases. The case discussed here was decided by the Cartel Chamber of the Federal Supreme Court, because antitrust aspects were also at issue. It could well be that another case would be decided by the Patent Chamber which perhaps might not be willing to follow suit, although some of its members were sitting with the Cartel Chamber. In the case of a diverging opinion of another chamber the latter must call upon the so-called Enlarged Senate of the Federal Supreme Court, which might then resolve the issue, i.e. make a binding decision for the Court as a whole.

Those who argue that at least the patentees are better off after this decision, since their contractual position has been strengthened by the Court, are probably highly unrealistic; it may well be that more patentees might now be ready to grant (nonexclusive) licenses. It remains to be seen, however, whether there are enough licensees who are willing to take them. Too much (protection) is sometimes too little. Did the Cartel Senate anticipate this result?