

**PATENT LICENCE CONTRACTS IN
ENGLISH, FRENCH AND ITALIAN LAW**

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TABLE OF CONTENTS

ABBREVIATIONS.....	12
English Abbreviations	12
French Abbreviations	12
Italian Abbreviations	12
PATENT LICENCE CONTRACTS IN ENGLISH, FRENCH AND ITALIAN LAW	14
INTRODUCTION.....	14
1 THE USEFULNESS OF THE PATENT SYSTEM WITHIN THE NATIONAL ECONOMY.	14
2 THE RELEVANCE OF THE PATENT LICENCE CONTRACT.	16
3 THE COMPARISON OF LEGAL SYSTEMS.	19
4 THE INDUCTIVE METHOD EMPLOYED.....	22
CHAPTER 1.....	24
THE GENERAL LAW OF CONTRACT IN COMPARISON.	24
Part 1: SOME COMPARATIVE ASPECTS OF THE GENERAL LAW OF CONTRACT.	24
Part 2: SOME ESSENTIAL ELEMENTS OF CONTRACT.	25
1 THE CONCEPT OF 'OBJECT'.	26
2 THE CONCEPT OF 'CAUSA'.	29
3. THE CONCEPT OF 'CONSIDERATION'.	34
Part 3: COMPARATIVE ASPECTS CONCERNING THE CONCEPTS OF 'CAUSA' AND OF 'OBJECT'.	36
Part 4: COMPARATIVE ASPECTS CONCERNING THE CONCEPTS OF 'OBJECT', 'MISTAKE' AND 'FRUSTRATION'.	38
Part 5: THE CONSTRUCTION OF THE TERMS OF THE CONTRACT.	40
CHAPTER 2 THE PATENT LICENCE CONTRACT IN ENGLISH LAW.....	47
Part 1: THE SUBJECT-MATTER OF THE PATENT LICENCE CONTRACT.	47
1 THE PATENTED INVENTION.....	47
1.1 The Patented Invention As Personal Property.....	47
1.2 The Economic Concept Of The Patent Right As A Monopoly.	51
2 THE RIGHT IN THE PATENT APPLICATION.....	51
Part 2: THE LICENCE AND THE LAW OF CONTRACT.....	52
1 ORIGINS, USE AND DEFINITION OF THE TERM LICENCE.	52
1.1 The Definition Of The Term Licence.....	52
1.1.1 Exclusive And Non-Exclusive Licences, Sole Licences.	53
1.1.2 Total And Partial Licences.	54
1.1.3 Implied And Limited Licences, The Exhaustion Of The Patent Right.....	55
1.2 Voluntary Licences.....	57
1.2.1 Contractual Licences.	58
1.2.2 Licences Created By Estoppel.	58
1.2.3 Licences Created By Formal Contracts.	58
1.2.4 The Licence Created In Equity.	59
1.2.5 Licences Of Right.	60
2 THE PATENT LICENCE WITHIN THE AMBIT OF SPECIAL CONTRACTS.	61
2.1 The Principle Of Freedom Of Contract.	61
2.2 The Patent Licence And Special Contracts.	61
2.2.1 The Contract Of Sale.	62
2.2.2 The Leasing Contract.....	62

2.2.3	Agreements With Associative Character.....	64
2.2.4	The Patent Pool.....	64
3	REQUIREMENTS OF FORM AND REGISTRATION.....	65
3.1	Requirements Of Form.....	65
3.2	Requirements Of Registration.....	65
Part 3:	THE INCIDENCE OF ANTITRUST LAW.....	66
1	THE RESTRICTIVE TRADE PRACTICES ACT 1976.....	66
2	THE PATENTS ACT 1977.....	68
3	THE FAIR TRADING ACT 1973, THE COMPETITION ACT 1980.....	70
4	THE RESALE PRICES ACT 1976.....	72
5	THE DOCTRINE OF RESTRAINT OF TRADE.....	73
Part 4:	THE INVALIDITY OF THE PATENT AND THE TERMINATION OF THE CONTRACTUAL RELATION.....	74
1	THE INVALIDITY OF THE PATENT.....	74
1.1	The Invalidity Of The Patent: Estoppel Of The Licensee.....	74
1.2	Putting The Validity Of The Patent In Issue.....	77
1.3	The Repayment Of Royalties In The Case Of The Invalidity Of The Patent.....	78
2	THE TERMINATION OF THE CONTRACTUAL RELATION.....	79
2.1	The Terminability Of The Contract.....	79
2.2	The Post-Expiration Clause.....	81
Part 5:	THE OBLIGATIONS OF THE LICENSOR.....	82
1	THE OBLIGATION OF DELIVERY.....	82
2	THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.....	83
3	THE OBLIGATION OF DELIVERY CONCERNING UNPATENTED SUBJECT-MATTER.....	85
4	THE OBLIGATION OF THE MAINTENANCE OF THE PATENT.....	86
5	THE OBLIGATION OF PROTECTION.....	87
6	THE OBLIGATION OF WARRANTY.....	90
6.1	The Warranty In The Case Of Hidden Defects.....	90
6.2	The Warranty In The Case Of Disturbances In The Enjoyment Of The Patented Invention.....	92
6.2.1	The Warranty In The Case Of Disturbances Through Facts Attributable To The Lessor.....	93
6.2.2	The Warranty In The Case Of Disturbances Attributable To Third Persons.....	94
6.3	The Exclusion Of The Warranty.....	95
6.4	The Recognition Of The Validity Of The Patent By The Licensee.....	95
7	THE MOST FAVOURED CLAUSE AND THE NO-COMPETITION CLAUSE.....	96
7.1	The Most Favoured Clause.....	96
7.2	The No-Competition Clause.....	97
Part 6:	THE OBLIGATIONS OF THE LICENSEE.....	97
1	THE OBLIGATION TO PAY ROYALTIES.....	97
1.1	The Lump Sum.....	97
1.2	Fixed Royalties.....	98
1.3	Proportional Royalties.....	99
1.3.1	Royalties Dependent Upon The Turnover.....	99

1.3.2	Royalties Dependent Upon The Number Of Articles Sold.....	100
1.3.3.	Royalties Dependent Upon Profits.	100
1.2	The Minimum Royalty Clause.	101
2	THE OBLIGATION TO DEFEND THE EXCLUSIVE RIGHT.	101
3	THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.....	101
4	THE OBLIGATION TO EXPLOIT THE PATENTED INVENTION.	102
4.1	The Best Endeavours Clause.	103
4.2	The Minimum Production Clause.....	103
4.3	The Maximum Sales Clause.	104
4.4	The Tie-In Clause.	104
4.5	Price-Fixing.	104
5	RESTRICTIONS UPON THE LICENSEE.	105
5.1	The No-Challenge Clause.....	105
5.2	The Obligation Not To Compete.	106
CHAPTER 3	THE PATENT LICENCE CONTRACT IN FRENCH LAW.	109
Part 1:	THE SUBJECT-MATTER OF THE PATENT LICENCE CONTRACT.	109
1	THE PATENTED INVENTION.....	109
1.1	The Patented Invention As Property.....	109
1.2	The Economic Concept Of The Patent Right As A Monopoly, As A " <i>Droit De Clientèle</i> ".	111
2	THE RIGHT IN THE PATENT APPLICATION.....	112
Part 2:	THE LICENCE AND THE LAW OF CONTRACT.....	113
1	ORIGINS AND DEFINITION OF THE TERM LICENCE.....	113
1.1	The Definition Of The Term Licence.....	113
1.1.1	Exclusive And Non-Exclusive Licences.	114
1.1.2	Total And Partial Licences.	115
1.1.3	Implied And Limited Licences, The Exhaustion Of The Patent Right.....	116
1.2	Voluntary Licences.....	116
1.2.1	Contractual Licences.	116
1.2.2	Licences Of Right.	117
2	THE PATENT LICENCE WITHIN THE AMBIT OF SPECIAL CONTRACTS.	117
2.1	The Principle Of Freedom Of Contract.	118
2.2	The Patent Licence And Special Contracts.	118
2.2.1	The Usufruct.	118
2.2.2	The Contract Of Sale.	119
2.2.3	The Leasing Contract.....	120
2.2.4	Agreements With Associative Character.....	121
2.2.5	The Patent Pool.....	122
2.2.6	The Contract Of Non-Opposition.	122
3	REQUIREMENTS OF FORM AND REGISTRATION.....	123
3.1	Requirements Of Form.	123
3.2	Requirements Of Registration.	124
Part 3:	THE INCIDENCE OF ANTITRUST LAW.....	125
1	THE PROHIBITION OF THE REFUSAL TO SELL AND THE REJECTION OF THE GRANT OF PATENT LICENCES.....	125
2	ANTI COMPETITIVE PRACTICES AND EXPLOITATIONS OF PATENTED INVENTIONS.	127

Part 4: THE INVALIDITY OF THE PATENT AND THE TERMINATION OF THE CONTRACTUAL RELATION.	129
1 THE INVALIDITY OF THE PATENT.....	129
1.1 The Invalidity Of The Patent Entails The Lack Of Object Or Of Causa Of The Contract.	129
1.2 Royalties Paid For The Licence Of An Invalid Patent.	130
1.3 Clauses Excluding The Repayment Of Royalties.....	131
2 THE TERMINATION OF THE CONTRACTUAL RELATION.....	132
2.1 The Terminability Of The Contract.....	132
2.2 The Post-Expiration Clause.....	134
Part 5: THE OBLIGATIONS OF THE LICENSOR.	135
1 THE OBLIGATION OF DELIVERY.....	135
2 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.....	137
2.1 The Communication.	137
2.2 The Term 'Improvement'.	138
2.3 The Legal Basis Of The Obligation.....	139
2.4 The Payment Of Royalties For The Communication Of Improvements.	142
3 THE OBLIGATION OF DELIVERY CONCERNING UNPATENTED SUBJECT-MATTER.	142
3.1 The Communication Of Know-How.	142
3.2 The Supply Of Technical Assistance.....	144
4 THE OBLIGATION OF THE MAINTENANCE OF THE PATENT.	145
5 THE OBLIGATION OF PROTECTION.....	146
5.1 The Infringement Of The Patent By Third Parties.	146
5.2 The Assignment And Transfer Of The Licence.	149
6 THE OBLIGATION OF WARRANTY.....	150
6.1 The Warranty In The Case Of Hidden Defects.	150
6.1.1 Hidden Legal Defects.	151
6.1.2 Hidden Technical Defects.....	153
6.2 The Warranty In The Case Of Disturbances In The Enjoyment Of The Patented Invention.....	155
6.2.1 The Warranty In The Case Of Disturbances Through Facts Attributable To The Lessor.	155
6.2.1.1 The Material Disturbance.	156
6.2.1.2 The Legal Disturbance.....	156
6.2.2 The Warranty In The Case Of Disturbances Through Facts Attributable To Third Parties.	157
6.2.2.1 The Material Disturbance.	157
6.2.2.2 The Legal Disturbance.....	158
6.3 The Exclusion Of The Implied Warranties.....	159
6.3.1 Legal Defects.	159
6.3.2 Disturbances Attributable To The Licensor.	160
6.3.3 Disturbances Attributable To Third Parties.....	162
6.4 The Recognition Of The Validity Of The Patent By The Licensee.....	162
7 THE MOST FAVOURED CLAUSE AND THE OBLIGATION OF NO-COMPETITION.....	163
7.1 The Most-Favoured Clause.	163
7.2 The No-Competition Clause.....	163

Part 6: OBLIGATIONS OF THE LICENSEE.....	164
1 THE OBLIGATION TO PAY ROYALTIES.....	164
1.1 The Reduction Of Royalties.....	165
1.2 The Minimum Royalty Clause.....	165
2 THE OBLIGATION TO DEFEND THE EXCLUSIVE RIGHT.....	166
3 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.....	166
4 THE OBLIGATION TO EXPLOIT THE PATENTED INVENTION.....	167
4.1 The Best Endeavours Clause.....	170
4.2 The Minimum Production Clause.....	170
4.3 The Maximum Sales Clause.....	171
4.4 The Tie-In Clause.....	171
4.5 Price-Fixing.....	171
5 RESTRICTIONS UPON THE LICENSEE.....	172
5.1 The No-Challenge Clause.....	172
5.2 Obligation Not To Compete.....	172
5.3 The Obligation Concerning Customer Restraints.....	173
5.4 The Prohibition Against The Assignment Of The Contract And The Grant Of Sub-Licences.....	173
5.4.1 The Assignment Of The Contract.....	174
5.4.2 The Grant Of Sub-Licences.....	174
CHAPTER 4 THE PATENT LICENCE CONTRACT IN ITALIAN LAW.....	176
Part 1: THE SUBJECT-MATTER OF THE PATENT LICENCE CONTRACT.....	176
1 THE PATENTED INVENTION.....	176
1.1 The Patented Invention As Property.....	176
1.2 The Economic Concept Of The Patent Right, The Patent As A Monopoly.....	178
2 THE RIGHT IN THE PATENT APPLICATION.....	179
Part 2: THE LICENCE AND THE LAW OF CONTRACT.....	180
1 ORIGINS, USE AND DEFINITION OF THE TERM LICENCE.....	180
1.1 The Definition Of The Term Licence.....	180
1.1.1 Exclusive And Non-Exclusive Licences.....	181
1.1.2 Total And Partial Licences.....	182
1.1.3 Implied And Limited Licences, The Exhaustion Of The Patent Right.....	182
1.2 Voluntary Licences.....	183
1.2.1 Contractual Licences.....	184
1.2.2 Licences Of Right.....	185
2 THE PATENT LICENCE WITHIN THE AMBIT OF SPECIAL CONTRACTS.....	185
2.1 The Principle Of Freedom Of Contract.....	185
2.2 The Patent Licence And Special Contracts.....	188
2.2.1 The Usufruct.....	188
2.2.2 The Contract Of Sale.....	189
2.2.3 The Leasing Contract, Lease Of Productive Property.....	190
2.2.4 The Contract Of Industrial Production.....	191
2.2.5 Agreements With Associative Character.....	192
2.2.6 The Patent Pool.....	194
3 REQUIREMENTS OF FORM AND REGISTRATION.....	194
3.1 Requirements Of Form.....	194
3.2 Requirements Of Registration.....	195

Part 3: THE INCIDENCE OF ANTITRUST LAW, THE ITALIAN PROTECTION OF COMPETITION ACT OF 1990.....	196
Part 4: THE INVALIDITY OF THE PATENT AND THE TERMINATION OF THE CONTRACTUAL RELATION.	203
1 THE INVALIDITY OF THE PATENT.....	203
1.1 The Invalidity Of The Patent Entails The Lack Of Object Or Of Causa Of The Contract.	203
1.2 The Equitable Refund Of Royalties Paid For An Invalid Patent.....	205
2 THE TERMINATION OF THE CONTRACTUAL RELATION.....	208
2.1 The Terminability Of The Contract.....	208
2.2 The Nullity Of The Contract In The Case Of The Invalidity Of The Patent.	208
2.3. The Post-Expiration Clause.....	209
Part 5: THE OBLIGATIONS OF THE LICENSOR.	209
1 THE OBLIGATION OF DELIVERY.....	209
2 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.....	210
3 THE OBLIGATION OF DELIVERY CONCERNING UNPATENTED SUBJECT-MATTER.	210
4 THE OBLIGATION OF THE MAINTENANCE OF THE PATENT.	211
5 THE OBLIGATION OF PROTECTION.....	212
6 THE OBLIGATION OF WARRANTY.....	214
6.1 The Warranty In The Case Of Hidden Defects.	215
6.2 The Warranty In The Case Of Disturbances In The Enjoyment Of The Patented Invention.....	216
6.2.1 The Warranty In The Case Of Disturbances Through Facts Attributable To The Lessor.	217
6.2.2 The Warranty In The Case Of Disturbances Through Facts Attributable To Third Parties.	218
6.3 The Exclusion Of The Implied Warranties.....	219
Part 6: OBLIGATIONS OF THE LICENSEE.....	220
1 THE OBLIGATION TO PAY ROYALTIES.....	220
2 THE OBLIGATION TO DEFEND THE EXCLUSIVE RIGHT.	220
3 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.....	222
4 THE OBLIGATION TO EXPLOIT THE PATENTED INVENTION.	222
4.1 The Minimum Production Clause.....	224
4.2 The Maximum Sales Clause.....	224
4.3 The Tie-In Clause.	224
4.4 Price-Fixing.....	225
5 RESTRICTIONS IMPOSED UPON THE LICENSEE.....	225
5.1 The No-Challenge Clause.....	226
5.2 The Obligation Not To Compete.....	227
5.3 The Prohibition Against the Assignment Of The Contract And The Grant Of Sub-Licences.....	227
CHAPTER 5.....	229
CONCLUSIONS.....	229
Part 1: ASPECTS OF PATENT LAW.....	229
Part 2 ASPECTS OF THE GENERAL LAW OF CONTRACT.....	229
Part 3: THE INCIDENCE OF ANTITRUST LAW.....	230
Part 4: THE CONFIGURATION OF THE CONTRACT.....	232

Part 5: THE OUTLOOK.....	233
Part 6: DRAFT MODEL LAW CONCERNING PATENT LICENCE CONTRACTS.....	234
PART I: ASPECTS OF THE GENERAL LAW OF CONTRACT.....	234
Article 1. Subject-matter Of Contract.....	234
Article 2. Conclusion Of Contract.....	234
Article 3. Declaration Of Consent.....	234
Article 4. Confidential Information.....	234
Article 5. Calculation Of Terms.....	235
Article 6. Terms Of Contract.....	235
Article 7. Form Of Contract.....	235
Article 8. Effects Of Contract.....	235
Article 9. Registration.....	235
Article 10. Lapse Of Subject-matter.....	236
Article 11. Refund Of Payments.....	236
Article 12. Mistake And Fraud.....	236
Article 13. Avoidance Of Contract.....	236
Article 14. Avoidance Of Contract In Case Of Act Imputable To Third Persons.....	237
Article 15. Unlawfulness.....	237
Article 16. Nullity Of Contract Or Its Clauses.....	237
Article 17. Interpretation Of Contract.....	237
Article 18. Interpretation Of Contract In Case Of Doubt.....	238
Article 19. Conditions And Standard Terms.....	238
Article 20. Supplying An Omitted Term.....	238
Article 21. Contractual Obligations.....	238
Article 22 Performance.....	238
Article 23. Quality Of Performance.....	238
Article 24. Time Of Performance.....	239
Article 25. Place Of Performance.....	239
Article 26. Payments.....	239
Article 27. Currency Of Payment.....	239
Article 28. Imputation Of Payment.....	239
Article 29. Penal Clause.....	240
Article 30. Notice.....	240
Article 31. Prescription.....	240
PART II: THE SPECIAL PATENT LICENCE CONTRACT.....	240
Article 32. Patent Licence.....	240
Article 33. Option For Conclusion Of Contract.....	240
Article 34. Delivery.....	241
Article 35. Improvements Of Licensed Technology.....	241
Article 36. Making Of Improvements.....	241
Article 37. Obligation Of The Communication Of Improvements.....	241
Article 38. Remuneration For Communication Of Improvement.....	241
Article 39. Maintenance Of Rights.....	241
Article 40. Warranties.....	242
Article 41. Assignability Of Contract.....	242
Article 42. Grant Of Sub-licences.....	242
Article 43. Exploitation Of Licensed Subject-matter.....	242
Article 44. Protection Of Licensee.....	242
Article 45. Defence Of Subject-matter.....	242

Article 46. Duration.....	243
Article 47. Termination.....	243
Article 48. Performance.....	243
Article 49. Non-performance. Definition.....	243
Article 50. Additional Period Of Performance.....	244
Article 51. Rights Accruing From Non-performance.....	244
Article 52. Force Majeure.....	244
Article 53. Penalty.....	244
Article 54. Placing In Default.....	245
Article 55. Royalties.....	245
Article 56. Reduction Of Royalties.....	245
Article 57. Damages.....	245
Article 58. Scope Of Damages.....	245
Article 59. Assessment Of Damages.....	246
Article 60. Interests.....	246
PART III: THE INCIDENCE OF ANTITRUST LAW.....	246
Article 61. Applicability Of Antitrust Law To Patent Licence Contracts.....	246
Article 62. Restraints Of Exploitation.....	246
Article 63. No-competition Clause.....	246
Article 64. No-challenge Clause.....	247
Article 65. Territorial Restraints.....	247
Article 66. Field Of Use Restraints.....	247
Article 67. Restraints Concerning Marketing.....	247
Article 68. Restraints Concerning Exportation.....	247
Article 69. Restraints Arising From Tying Clauses.....	247
Article 70. Restraints Concerning Remuneration.....	247
Article 71. Block Licensing.....	248
Article 72. Grant Back.....	248
Article 73. Most Favoured Licensing.....	248
Article 74. Communication Of Secrets.....	248
Article 75. Post Expiration Clause.....	248
PART IV: DEFINITIONS.....	248
Article 76. Patent Licence:.....	248
Article 77. Exclusive Patent Licence:.....	248
Article 78. Non-exclusive Patent Licence:.....	248
Article 79. Sole Licence:.....	249
Article 80. Cross Licensing:.....	249
Article 81. Improvement Invention:.....	249
Article 82. Grant Back Clause:.....	249
Article 83. Know-how:.....	249
Article 84. Technical Assistance:.....	249
Article 85. Revocation Of A Patent:.....	249
Article 86. Package Licensing:.....	249
ANNEX: A CHART OF THE CONFIGURATION OF THE PATENT LICENCE CONTRACT IN ENGLISH, FRENCH AND ITALIAN LAW.....	250
1 THE CONCEPT OF THE LICENCE.....	250
1.1 THE BARE LICENCE.....	250
1.2 THE EXCLUSIVE LICENCE.....	250
1.3 THE NON-EXCLUSIVE LICENCE.....	250
1.4 THE SOLE LICENCE.....	250

1.5 THE IMPLIED LICENCE.....	250
2 THE PRINCIPLE OF FREEDOM OF CONTRACT AND THE LICENCE CONTRACT.....	251
2.1 THE PARALLEL BETWEEN THE PATENT LICENCE CONTRACT AND OTHER SPECIFIC CONTRACTS.....	252
2.2 THE CONTRACT OF NON-OPPOSITION.....	253
2.3 REQUIREMENTS OF FORM.....	253
2.4 REQUIREMENTS OF FORM AND REGISTRATION.....	253
3 ANTITRUST LAW APPLICABLE TO PATENT LICENCE CONTRACTS.....	253
3.1 NATIONAL ANTITRUST POLICY.....	254
3.2 COMPULSORY LICENSING.....	254
3.3 CLAUSES IN PATENT LICENCE CONTRACTS AND ANTITRUST LAW, ENFORCEMENT.....	254
3.4 CLAUSES CONCERNING THE EXPLOITATION OF THE PATENTED INVENTION.....	255
3.5 TYING CLAUSES.....	255
3.5 THE NO-CHALLENGE CLAUSE.....	256
3.7 THE NO-COMPETITION CLAUSE.....	256
3.8 TERRITORIAL RESTRAINTS AND EXPORT BANS.....	256
3.9 GRANT BACK CLAUSES.....	256
3.10 PRICE-FIXING.....	256
4 THE INVALIDITY OF THE PATENT AND ITS INCIDENCE ON THE CONTRACTUAL RELATION.....	257
5 THE TERMINATION OF THE CONTRACT.....	257
6 THE DURATION OF THE PATENT LICENCE CONTRACT:.....	258
6.1 POST-EXPIRATION CLAUSES.....	258
7 THE OBLIGATIONS OF THE LICENSOR.....	259
7.1 THE OBLIGATION OF DELIVERY.....	259
7.2 THE DELIVERY OF UNPATENTED SUBJECT-MATTER.....	259
7.3 THE COMMUNICATION OF IMPROVEMENTS.....	260
7.4 THE OBLIGATION OF THE MAINTENANCE OF THE PATENT.....	261
7.5 THE OBLIGATION OF PROTECTION.....	262
7.6 WARRANTIES.....	262
7.7 THE EXCLUSION OF THE WARRANTY.....	265
8 OBLIGATIONS OF THE LICENSEE.....	266
8.1 THE OBLIGATION TO PAY THE ROYALTIES.....	266
8.2 THE OBLIGATION OF DEFENCE.....	267
8.3 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.....	267
8.4 THE OBLIGATION OF EXPLOITATION.....	268
8.5 THE PROHIBITION AGAINST THE ASSIGNMENT OF THE CONTRACT.....	269
8.6 THE GRANT OF SUB-LICENCES.....	270
LIST OF LITERATURE.....	271
1. International Treaties.....	271
2. Legislative Acts.....	271
France.....	271
Italy.....	272

Great Britain (UK = United Kingdom).....	272
Others.....	272
3. Monographies.....	273
4. Articles	283
INDEX	286
About the Author.....	289

ABBREVIATIONS**English Abbreviations**

App.Cas. or A.C. = Appeal Cases
 All E.R. = All England Law Reports
 B. & P. = Bosanquet & Puller's Reports (126-7 ER) 1796-1804
 Ch. D. = Chancery Division
 Chart. Inst. = Chartered Institute of Patent Agents, Journal of
 CLJ = Cambridge Law Journal
 DGFT = Director General of Fair Trading
 EIPR = European Intellectual Property Review
 FSR = Fleet Street Law Reports
 H.L.C. = Clark's House of Lords Cases (9-11) 1847-66
 ICLQ = International and Comparative Law Quarterly
 L.Q.Rev. = Law Quarterly Review
 QB = Queen's Bench
 RPC = Reports of Patent, Design & Trade Marks Cases
 Russ. & M. = Russell & Mylene's Chancery Reports (39 ER) 1829-31
 Vaugh. = Vaughan's Common Pleas Reports (124 ER) 1665-73
 Ex. = Exchequer Reports (154-6 ER) 1847-56: Law Reports Exchequer 1865-75
 Ch. = Law Reports Chancery

French Abbreviations

Bull Civ. = Bulletin des Arrêts de la Cour de Cassation, chambre civile
 Bull. INPI = Bulletin de l'Institut National de la Propriété Industrielle
 Cah.dr.eur. = Cahiers du Droit Européen
 Cass. = Cour de Cassation
 Cass. Civ. = Cour de Cassation, chambre civile
 Cass. Com. = Cour de Cassation, chambre commerciale
 D. = Recueil Dalloz (Sommaire)
 JCP = Juris-Casseur-Périodique (La Semaine Juridique)
 Doc.admin. = Journal Officiel documentation administrative
 Gaz. Pal. = Gazette du Palais
 Prop. ind. = La Propriété Industrielle
 Quot Jur. = Quotidien juridique
 Rec. Lamy = Recueil Lamy
 Rev. Comm. = Revue de droit commercial belge
 Rev.dr.prop.int. = Revue du droit de la propriété industrielle
 Rev.int.dr.comp. = Revue internationale de droit comparé
 Trib. = Tribunal
 Trib.civ. = Tribunal civil
 Trib.com. = Tribunal de commerce

Italian Abbreviations

App. = Corte d'Appello
 Cass. = Corte di Cassazione

Foro it. = Foro italiano, Raccolta generale di giurisprudenza

Foro it. mass. = Massimario del foro italiano

Foro lomb. = Foro della Lombardia

Foro pad. = Il Foro Padano

GADI = Giurisprudenza annotata di diritto industriale

GADI Rep. Sist. = Giurisprudenza annotata di diritto industriale, repertorio sistematico

Giur. it. = Giurisprudenza italiana

Giur. compl. cass. civ. = Giurisprudenza completa della corte suprema di cassazione, sezioni civili

Monitore = Il Monitore di tribunali. Giornale di legislazione e giurisprudenza civile e penale

Rep.giur.it. = Repertorio giuridico italiano

Riv.dir.comm. = Rivista di diritto commerciale

Riv.dir.ind. = Rivista di diritto industriale

Riv.propr.int.ind. = Rivista della proprietà intellettuale ed industriale

Riv.soc. = Rivista della società

Temi = Temi, Raccolta di giurisprudenza

Trib. = Il Tribunale

PATENT LICENCE CONTRACTS IN ENGLISH, FRENCH AND ITALIAN LAW

INTRODUCTION

The aim of this thesis is to examine the nature and functioning of the patent licence contract in England, France and Italy. Before undertaking this task, it is necessary at the outset to make some brief introductory remarks which will outline the purpose of the thesis. The study examines the rights and obligations of the parties to patent licence contracts in three countries. The first chapter contains the references to the general principles of the laws of contract insofar as relevant for the subsequent legal analysis. In the second chapter English law is dealt with, in the third French law and in the fourth Italian law. The structure of the second, third and fourth chapters is similar and thus permits the drawing of a comparison on any subject-matter dealt with.

1 THE USEFULNESS OF THE PATENT SYSTEM WITHIN THE NATIONAL ECONOMY.

The patent system with its astral structure,¹ that is to say its nucleus of basic provisions amplified by complementary legislation, serves not only to ensure exclusivity in the exploitation of inventions, to boost research and development and to enrich the public information on inventions, but it may serve also as an indicator of the performance of a nation's economy. This seemingly far-going assertion can be proved by statistics which evidence a relation between a nation's economic performance and patenting activity.² In the United States the increase of the manufacturing output since 1982 is paralleled in percentage by an increase in the number of patent applications and whereas the manufacturing output of Japan increased by 50 per cent since 1979, the number of patent applications doubled during the same time. The number of patent applications increased within the ten years between 1980 and 1990 in the UK from 41.612 to 97.891, in France from 27.898 to 81.884 and in Italy from

¹ Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, p. 23.

² See Needle, Jacqueline, on "The Importance of Intellectual Property", *Chart.Inst.* 1991/2, pp. 51 to 54.

16.340 to 55.569. This is an increase of far more than 100 per cent during this period in each country subject to this survey.

Patents for inventions should be understood as a characteristic type of intellectual property assuring that great quantities of research and development are directed to "discovering what is to be unearthed".³ In this understanding the patent system is a crucial key to economic progress. Intellectual property rights exist as instruments of legal-cum economic policy country by country. Accordingly, all efforts should be undertaken to avoid a misallocation of resources and to permit the exploitation of patented inventions at a minimum cost for the interested parties and society. The importance which inventive activity assumes within an economy is thus twofold: the invention can be labour-saving or capital-serving. The increase in the number of patent applications in the last 10 years indicates a mobility and adaptability of the national economies which face previously unknown constraints from laws protecting the environment and which are exposed to free competition within Europe and within the rules of the GATT.

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Prior to the industrial revolution the rise of the patent system has to be understood before the background of the industrial revolution. In the early days of its existence, patenting activity was more or less static. Having regard to the fact that the laws concerning the English patent system did not change between 1624 and 1835, the number of patents granted in 1692 of more than 20 was not exceeded before 1766, when 31 patents were granted. Causing this inventive activity in 1692 were the wars which William III fought in Ireland and France and which stimulated certain industries.⁴ It was not before the creation of a nation-wide market in the UK and the establishment of large scale industrial production that the value of exclusivity in the exploitation of inventions led to a steady patenting activity, because under such conditions a financial return could be expected for the expenditures of investment, research and patent fees.

The value of the patent system lies in the fact that it incites inventive activity and thus helps to create the conditions for the implementation of innovations in the industry, the creation of a

³ Cornish, W.R., on "The International Relations of Intellectual Property", (1993) Cambridge Law Journal, 46 to 63 at 49.

⁴ MacLeod, Christine, on "Inventing the Industrial Revolution. The English Patent System, 1660 to 1800", Cambridge 1988, p. 151.

climate which is favourable towards a change for better resource allocation, for better processes and products. Machlup and Penrose⁵ identified the four main arguments in favour of the patent system:

- (i) that a man has a natural property right in his own ideas;
- (ii) that justice requires that a man receive and that society therefore secure him a reward for his services in proportion to their usefulness to society;
- (iii) that industrial progress is advanced by granting exclusive rights in inventions, because this ensures a return in research and development;
- (iv) that the disclosure of inventions within the patent system provides a useful service to society, because it helps to promote science and industrial progress.

Even if the patent system has met with criticism, in particular with regard to its ability to advance economic progress, its mere existence should increase the innovator's willingness to invest in research and development.⁶ In the interest of the general public the law has to provide the conditions which stimulate innovation and ensure an optimum allocation of resources. Further, the law should not only strive at a guaranty for the protection of inventions but also provide the beneficial conditions for their exploitation. One of the purposes of the study should thus lie in the examination of those legal conditions which facilitate the exploitation of the patented technology within a national economy.

2 THE RELEVANCE OF THE PATENT LICENCE CONTRACT.

A patent licence is the preferred legal instrument for the patentee who is not interested in exploiting the invention himself. By the grant of the licence the patentee splits the right of exploitation and receives a return in the form of royalties. Accordingly, a licence offers a strategy for an enterprise which constitutes an alternative for the internal expansion. Further, through the grant of a licence the patented products, that is to say those products which are manufactured by means of the patented invention, may gain access to a market which the

⁵ Machlup and Penrose on "The Patent Controversy in the Nineteenth Century", *The Journal of Economic History*, vol. X, New York 1950, pp. 1 to 29 at 10.

⁶ See e.g. von Hippel, Eric, on "The Sources of Innovation," Oxford 1988, pp. 47,48.

licensor himself may not be able to supply, for example if he does not have sufficient facilities for manufacture. The licence thus permits the patentee to avoid the costs and difficulties relating to the stage of production and to the conquest of a market. At the same time the patentee may attempt to improve his position in the market such as by stipulating grant back clauses which obligate the licensee to communicate improvements of the licensed technology to the licensor.⁷ The patent licence thus is an instrument which ensures the exploitation of the patented invention even if the patentee is not able or not willing to make the investments necessary for the industrial application of the patent invention and for the marketing of the patented products. For that reason the patent licence contract is a viable tool for the strategy directed towards an optimum economic exploitation of the patented invention - not only in the interest of the parties to the contract but as well in the interest of the general public. The patent licence contract also serves the optimum allocation of a technology. The stipulation of a royalty ensures that the technology in question may not be used freely - the possibility of exploitation by everyone is likely to cause a disincentive to invest, because anyone may utilise the technology after the first utiliser has proved its successfulness through experimentation and development.

Three different national legal systems are addressed with the purpose to reflect on the law of the patent licence contract from a secondary floor - the aspect of comparative law. The task of comparative law within this context is twofold:

- (i) first, it will be employed as a method to understand the background of the legal rules, applicable to the patent licence contract and the structure of which will often be obvious only to the lawyer who speaks with the tongue of his native law only, and,
- (ii) second, by asking for the reasoning behind the legal rules in order to obtain the 'best' legal order adapted to the needs of national well-being.

The three different national legislations of the UK, France and Italy were chosen, because their economies are comparable, because the inventive activity is similar as shown above by the indication of the numbers of patent applications between 1980 and 1990, and because they are European and have thus undergone already a certain process of approximation. They represent examples from the common law and from the civil law families. The examination of the three European national legal systems will show how municipal law responds to economic needs under similar but not identical circumstances.

⁷ See Korah, Valentine, on "Competition Law of Britain and the Common Market", 3rd ed., The Hague 1982, pp. 123,124.

The reason why a study of this type is important may in part be explained by the attempt to illustrate the differences in legal method. European integration is an evolutionary process, the progress of which depends upon the balancing of conflicting economic and social forces. The EC Treaty uses different terms such as 'approximation', 'harmonisation' and 'co-ordination' but without clearly defined concepts. However, these terms imply a certain process which aims at the approximation of national laws in order to permit creation of the common market. Within this context, the question has been neglected as to the extent to which the differences in the national laws of contract constitute inconveniences for the exploitation of patented inventions within the different European countries. It is the purpose of the 'approximation' to reduce the disparities in the national laws where they form obstacles to economic intercourse which cannot be removed through other legal devices authorised in the Treaty. It is necessary to ask at which point the legal differences necessitate the intervention of the legislator. Such an examination of different legal systems can best be achieved by a study which explains the legal systems from a comparative point of view so that the differences in their structures and methods become obvious.

While the attempts to harmonise the patent law in Europe have shown much success within the recent years, differences in the national systems of contract law may have a considerable impact upon the patent licence contract. These differences relate, in particular, to the 'unwritten' contractual relations between the parties. Thus even if the terms of the contract are identical, the differences in the law of contract may engender different scopes of rights. Within this context one cannot indulge in an analysis of the historic development of the law of contract but it is important to show how similar traits evolved in the different systems. Certainly, the French and the Italian legal systems will have a closer relationship to each other than each of them to the English legal system. The value of the comparison rests not so much in the elaboration of the differences, but rather in the understanding of the other legal system and its functioning. The comparison thus focuses on the legal technique employed as a means to assure an optimum allocation of resources with regard to the economic task of the various patent systems.

Even if the national patent systems of the UK, France and Italy are nonetheless remarkably similar, the different national laws of contract retain a considerable impact upon the configuration of the patent licence agreements. It is the aim of this study to examine the different laws of contract on the freedom of the parties to negotiate the optimum exploitation of the patented invention by granting a permission for its use.

The scope of this thesis is limited to the patent licence contract within the national legal systems of three European states. As such it will not concern itself with the relevant EC law on patent licence contracts, in particular with Regulation (EEC) No. 2349/84 on the execution

of patent licensing agreements. The reason for this is that apart from the fact that the EC law has been the subject of considerable research,⁸ the national antitrust laws of the UK, France and Italy and their incidence on patent licence contracts seem to have been less attractive for legal commentators.

This may be explained by the fact that there are relatively few decisions by courts and the competent cartel authorities on these matters in France and Italy. It seems that the national antitrust laws of these countries would not have been concerned with the patent policy of the industry, possibly, because the industries did not behave in a manner which was considered to justify legislative action. On the other hand, the incidence of the national antitrust laws on the patent licence contract attracted more attention in the UK. This is possibly due to the fact that private industrial activity was, since the 19th century, considered a potential threat to the public interest so that the legislator placed rules on patent licensing in the laws dealing with restraints of competition. These rules appear, in consideration of the lesser threat to the public interest for the reason of the size of the market which is much smaller than the markets of the US or the EC. The probability that contracts on patents may violate the public interest is lesser, if the market is smaller. Under such circumstances a detailed discussion of the intersection between the freedom of the parties to the licence contract and antitrust law which is supposed to work in the public interest, is not felt necessary.

3 THE COMPARISON OF LEGAL SYSTEMS.

The law has long been considered primarily from national perspectives. After the French Revolution many continental European countries developed their own national legal system, founded on national ideals and the concept of national cultural unity. Accordingly, the lawyers of these systems are often trained to conceive of their own system as being the only one possible with no regard for other legal systems.⁹

The patent laws of the European countries are harmonised to a considerable extent. They are streamlined to the European and Community Patent Conventions so that the employment of

⁸ See e.g. Byrne, Noel Joseph, on "Restrictions in Patent Licensing Agreements and Article 85, Treaty of Rome", doctoral thesis, university of Southampton 1978; Korah, Valentine, on "Patent Licensing and EEC Competition Rules: Regulation 2349/84", Oxford 1985.

⁹ Fix-Zamudio, Hector, on "John Henry Merryman and the Modernization of Comparative Legal Studies", in: Comparative and Private International Law. Essays in Honour of John Henry Merryman on his Seventieth Birthday, Berlin 1990, pp. 25 to 47 at 28.

the comparative method may be called in question. But the process of harmonisation has affected the laws of contract to a much lesser degree, so that a particular interest lies in the incidence of the different laws of contract on the more or less harmonised patent laws.

The comparative method employed necessitates some preliminary comments. One has to be aware of the problem which is caused by translation. Here we are not concerned with semantics but with legal terms which often represent elusive ideas.¹⁰ It should be noted that comparative law faces a particular problem of terminology: the standard of comparison has to take into account the ambiguity of the language, because it is impossible to continuously point out that the legal terms are not identical.¹¹ Whenever the use of an English word appears justifiable, it shall be employed. In other cases the foreign term shall be used with an indication of its meaning.

It has to be remembered that the laws of contract of the three countries are not at the centre of this survey. Therefore, they are treated only insofar as necessary for the understanding of the law of the specific patent licence contract.

This study uses the comparative method in order to explain the differences which exist not only in the letter of the law but as well in the differences of approach which is employed by the English, French or Italian contract lawyer. The comparison of legal rules and concepts asks for a functional approach which takes into consideration how the various systems of law deal with a particular problem.¹² The basic difference derives from the fact that the French and the Italian legal systems are based on codification whereas the development of the English legal system is characterised by judge-made law.¹³ The French and the Italian laws of contract are established by principles contained in the civil codes and additional principles elaborated by academic writers which were confirmed by case law. The third book of the French Civil Code relates to "different modes of acquiring ownership". Title 3¹⁴ of this book concerns "contracts or conventional relations in general". Subsequent titles of the third book relate to specific contracts - title 6¹⁵ to the contract of sale, - title 8¹⁶ to contracts of rental or hire. A contractual relation will, generally, be analysed according to the concepts, doctrines and rules which are contained in the civil code. In Italian law, the fourth book of the Italian

¹⁰ See Gutteridge, H.C., on "Comparative Law", Cambridge 1946, pp. 117,118.

¹¹ Gutteridge, H.C., on "Le Droit Comparé. Introduction A La Méthode Comparative Dans La Recherche Juridique Et L'Etude Du Droit", Paris 1953, p. 155.

¹² David, René, on "Structure and Division of the Law", chapter 2 of vol. II, "The Legal Systems of the World, their Comparison and Unification, International Encyclopedia of Comparative Law", Tübingen 1971, p. 6.

¹³ See Adams and Brownsword on "Understanding Law", London 1992, pp. 80,107 et seq.

¹⁴ Articles 1101 to 1369 of the French Civil Code.

¹⁵ Articles 1582 to 1701 of the French Civil Code.

¹⁶ Articles 1708 to 1831 of the French Civil Code.

Civil Code deals with obligations. The first title concerns "obligations in general",¹⁷ the second concerns "contracts in general".¹⁸ Title 3 deals with specific contracts, chapter 1 with "sale"¹⁹ chapter 6 with "lease",²⁰ chapter 8 with "transport".²¹ Once a relation is considered as contractual, with reference to the legal definition, the contract will be defined according to the distinctions which are found in the civil codes.

To the French and the Italian lawyers who are used to solving any problem arising in the law of contract by reference to a code, the English law of contract will thus appear to be difficult to master. The difference in the systems is illustrated by Ascarelli²² in whose view the judge in English law is considered "*viva vox iuris*" so that the English legal system could be explained in its existence as being essentially made by judgements. Neither in France nor in Italy is the law of contract dealt with as an independent legal subject, because the law of contract is considered as part of the law of obligations which contains general principles of the performance of obligations, provisions on torts, unjust enrichment and also specific contractual types which the legislator has considered socially most relevant such as the contract of sale or the leasing contract. This study will attempt to explain the differences which exist not only in the letter of the law but also in the differences of approach which is employed by the English, French or Italian contract lawyer.

In the case of a violation of the terms of a contract the common lawyer uses the concept of breach of contract in order to explain the rights of the parties. The French and the Italian lawyer shall examine the different concepts contained in the civil code in order to solve the legal problems, such as the concepts of faulty performance, impossibility, late performance. It is not within the scope of this study to elaborate these differences, but they should be borne in mind, because the breach of a contractual term may give rise to different remedies, for example specific performance, repudiation and damages. As to the scope and presuppositions for these remedies, the national laws of contract differ again, but the study will not indulge into these matters. What matters is the examination of the scope of the obligations of the parties. Within this context it is of particular interest to examine the different approaches in the construction of the terms of contract.

A first interest of the study lies in the question, whether the standardisation of the language which is used in patent licence contracts does engender a similar treatment of this contractual type in the different legal systems. These differences will be subjected to an analysis and

¹⁷ Articles 1173 to 1320 of the Italian Civil Code.

¹⁸ Articles 1321 to 1469 of the Italian Civil Code.

¹⁹ Articles 1470 to 1547 of the Italian Civil Code.

²⁰ Articles 1571 to 1654 of the Italian Civil Code.

²¹ Articles 1678 to 1702 of the Italian Civil Code.

²² Ascarelli, Tullio, on "*Studi Di Diritto Comparato E In Tema Di Interpretazione*", Milan 1952, p. 179.

explained. Second, the common law of contract has already been influenced during the nineteenth century by the doctrine of Roman-Germanic law.²³ Thus the observation of the doctrine of foreign legal systems is relevant to the English legal system. And, third, there is a tendency towards statutory regulation of contracts in English law. A look into systems which already implement patent licence contracts into statutory law should thus merit some interest.

4 THE INDUCTIVE METHOD EMPLOYED.

The three European national legal systems were chosen in order to show how municipal law responds to economic needs under similar but not identical circumstances. The attempts to harmonise the European national legal systems are rendered questionable unless the attempts at harmonisation comprise the differing methodologies. These differences are displayed as far as possible.

The comparative method employed requires some terms of the general principles of the law of contract to be explained. The specific nature of the contract is indicated by its subject-matter, the patented invention. Their legal qualification is decisive for the ascertainment of the nature of these contracts. Accordingly, some observations will be dedicated to this problem at the beginning of each chapter which deals with the patent licence contract in English, French and Italian law, because the verification of the nature of the subject-matter is relevant for the scope of the obligations of both parties, the examination of which will represent the main part of this study.

Finally, the conclusions deriving from the comparison of the legal conception of the patent licence contracts within the three legal systems will complete the study. Whereas in the English legal system the law of contract developed by court practice in common law, the legislators established the rules on the law of contract in France and in Italy. Accordingly, the court practices of the different countries concerned utilise concepts which are not identical and which overlap only to a certain extent so that an introduction of these concepts has to take place at the beginning of this study in chapter 1.

Chapters two, three and four deal with the national laws on the patent licence contract in England, France and Italy. The law of each country is examined according to a similar

²³ See Atiyah on "The Rise and Fall of Freedom of Contract", Oxford 1979, referring to Pothier at pp. 399 and 400 and to Savigny at pp. 407,408,684 and 685.

pattern. The first part of each chapter deals with the subject-matter of the patent licence contract, the patented invention. The specific nature of the contract is indicated by its subject-matter, the patented invention. Its legal qualification is decisive for the ascertainment of the nature of the patent licence contracts. The classification of the patented invention stood, historically, at the beginning of the doctrine of the patent licence contract in each country. The licence and the law of contract will be dealt with in part 2 where the use of the term licence will be discussed in relation to the patented invention. Part 3 of chapters 2,3 and 4 is dedicated to observations on the incidence of antitrust law on the principle of contractual freedom. The case of the invalidity of the patent and the termination of the contractual relation is dealt with by part 4. In part 5 the obligations of the licensor are examined and part 6 is dedicated to those of the licensee. Finally, the conclusions deriving from the comparison of the legal conception of the patent licence contract within the three legal systems will complete the study.

Having thus justified the value of the comparative method, one may duly rely on Gutteridge: ..."everything depends upon the purpose which the investigator may have, when applying the process of comparison".²⁴

²⁴ Gutteridge, H.C., on "Comparative Law", Cambridge 1946, p. 73.

CHAPTER 1

THE GENERAL LAW OF CONTRACT IN COMPARISON.

Part 1: SOME COMPARATIVE ASPECTS OF THE GENERAL LAW OF CONTRACT.

The differences in the laws of contract of England, France and Italy and differences in the methods of legal analysis call for some preliminary explanations.

For the purpose of illustrating the different attitudes of the judges of different nationalities it may be permitted to quote three sentences from Nicholas on the French Law of Contract:²⁵ "In the conventional French analysis there are only two sources of law: legislation and custom (...) the English courts seeing legislation as an inroad to the basic unwritten law, interpret it restrictively, so as to minimise the inroad. This attitude would make no sense for the French lawyer for whom the basic law is itself legislation". Thus, even if the law on patent licence contracts were codified, the different methods of approach could lead to differences in the application of the code.

A difference in attitude is further necessitated by the fact that the civil laws of France and Italy are codified. Historically, the process of codification may be related to the different historical development of the creation of states in England and on the continent on the other side.²⁶ It should be noted without further indulgence into the history of law that the function of the civil codes is to ensure that effect is given to the will of the parties; its rules, being based on their presumed intentions, are essentially of a supplementary character.²⁷

The comparison between the legal conceptions of the same contractual type in different countries requires a short explanation of some terms of the general law of contract. In each legal system the basic questions for the essential elements of a contract, for its formation, validity, rescission and termination, for the impossibility of performance, may be answered differently without it being possible to indicate the functioning of the relevant national legal system comprehensively. Below I shall thus attempt to illustrate those features of the general

²⁵ Nicholas, Berry, on "French Law of Contract", London 1982, p. 5.

²⁶ See, for example, Ascarelli, Tullio, on "Studi Di Diritto Comparato E In Tema Di Interpretazione", Milan 1952, p. 179.

²⁷ Amos and Walton's "Introduction to French Law", 3rd ed., by Lawson, Anton and Brown, Oxford 1967, p. 137.

law of contract without reference to which the lawyer of a national system will not be able to solve the problems referred to him by the parties to the contract.

The legal terms to be discussed are those of 'object', of 'causa' and also the terms 'consideration', 'mistake' and 'frustration'. The concepts of object and of causa are inherent to the French and Italian laws of contract. In both national legal systems the functions of the concepts of object and of causa are, with all precautions, somewhat similar so that, for the purpose of this study, it is not necessary to draw a clear borderline between the French and the Italian legal systems. These two concepts do not exist in English law. Within the English legal system the concepts of consideration, mistake and frustration fulfil a corresponding task. This chapter shall introduce these concepts to the extent necessary for the understanding of the function they may assume within the framework of the patent licence contracts. It should be noted that the attempt to draft a European statute on contracts has engendered a prolific discussion.²⁸ Finally, some remarks will be dedicated to the construction of the terms of the contract in the different legal systems.

Part 2: SOME ESSENTIAL ELEMENTS OF CONTRACT.

The elements necessary for the formation of a valid contract vary from one legal system to another. Generally it may be said that formation depends upon the conclusion of an agreement which is supported by the mutual consent of the parties. For the purpose of this study it is not necessary to work out the characteristic differences which exist here among the legal systems concerned.²⁹ However, the need to refer to some of these elements in different parts of the thesis necessitates a preliminary explanation of some terms. In French and Italian law the content of the undertakings is subject to the doctrine of 'object'.³⁰ A further peculiarity of the law of contract is the requirement of 'causa' which has a certain similarity in function to the English concept of 'consideration'. These terms will be explained subsequently.

²⁸ See for example, Hartkamp, A.S. et alia., eds., on "Towards a European Civil Code", Dordrecht 1994; Ruffini Gandolfi, Maria Letizia, on "Una Codificazione Europea Sui Contratti: Prospettive E Problemi", Riv.dir.comm. 1991,I,657 to 688.

²⁹ On an elaboration of these differences see, e.g. Rodière, René, ed., on "La Formation Du Contrat", Paris 1976; and on "Les Vices Du Consentement Dans Le Contrat", Paris 1977.

³⁰ In French the term is "objet", in Italian "oggetto".

1 THE CONCEPT OF 'OBJECT'.

Very generally, the term 'object' is used in the laws of contract of France and Italy to denote the content of the characteristic contractual performances. As such the promised contractual performance, characterised by the term 'object' is treated by the legislator under the general principles of the law of contract. The concept of object thus corresponds to the method of abstraction which is common to civil law systems. However, the system is not necessarily contained in the civil codes. The German legislator did not consider it necessary to introduce the concept within its civil code which comprehends of the contract as the mutual consent to achieve a common purpose in law. Both, the French³¹ and the Italian³² Civil Codes state that 'object' is an essential condition for the formation of a valid contract. The notion is not defined by either code. An often quoted phrase is that 'object' will be ascertained by the answer to the question "*quid debetur*",³³ what is due, put to the party giving the undertaking. In modern legal language it approximates to the content of the agreement,³⁴ the economic sense of the contract³⁵ or of the performance,³⁶ in other words, what the debtor is due. If the promise or

³¹ Article 1108 of the French Civil Code states: "Four conditions are essential for the validity of an agreement: The consent of the party who obligates himself; His capacity to contract; An object certain which forms the subject-matter of the engagement; A licit causa in the obligation".

Article 1126 of the French Civil Code states: "Any contract has for its object a thing which one party obligates himself to do or not to do".

Article 1130 of the French Civil Codes states: "(1) Future things may be the object of an obligation. (2) One may not, however, renounce a succession which is not open, nor make any stipulation regarding such succession, even with the consent of him whose succession is involved".

³² Article 1325 of the Italian Civil Code states: "Indication Of Requisites. The requisites of the contract are: 1) Agreement of the parties (1326 et seq.); 2) Causa (1343 et seq.); 3) Object (1346 et seq.); 4) Form, when prescribed by law under penalty of nullity (1350 et seq.)".

Article 1346 of the Italian Civil Code states: "Requisites. The object of the contract must be possible, lawful, determined or determinable (Articles 1349, 1418)".

Article 1347 of the Italian Civil Code states: "Supervening Possibility Of Object. A contract subject to a suspensive condition (Articles 1353 et seq.) or time limit (Article 1184) is valid, if the performance which was originally impossible becomes possible before fulfilment of the condition or expiration of the time limit".

Article 1348 of the Italian Civil Code states: "Future Things. The contract can involve performance with respect to future things, except when specifically forbidden by law (Articles 458, 771, 1472)".

Article 1349 of the Italian Civil Code states: "(1) Determination Of Object. If determination of the performance provided for in a contract is referred to a third person and it does not appear that the contracting parties intended to rely merely on such third person's discretion, the latter shall proceed on an equitable basis. If the third person fails to make the determination or if his determination is manifestly inequitable or erroneous, the determination is made by the judge. (2) A determination left to the mere discretion of the third person cannot be impugned except by proving his bad faith. In the absence of a determination by the third person, and if the parties do not agree to appoint a substitute, the contract is void (Articles 1418 et seq.). (3) In determining the performance, the third person shall also take into account the general conditions of production to which the contract may relate".

³³ See e.g. Colin and Capitant on "Traité De Droit Civil", vol. II, Paris 1959, p. 389.

³⁴ Carbonnier on "Droit Civil", vol. IV, "Les Obligations", 7th ed., Paris 1972, p. 84; Cian and Trabucchi on "Commentario Breve Al Codice Civile", Padova 1981, p. 552; Sacco, Rodolfo, on "Il Contratto", vol. VI-1 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1975, p. 476; Starck, Boris, on "Droit Civil. Obligations.2 Contrat Et Quasi-Contrat. Régime Générale", 2nd ed., by Roland and Boyer, Paris 1986, p. 166.

³⁵ Starck, Boris, on "Droit Civil. Obligations.2 Contrat Et Quasi-Contrat. Régime Générale", 2nd ed., by Roland and Boyer, Paris 1986, p. 166.

³⁶ Galgano, Francesco, on "Diritto Privato", Padova 1981, p. 230.

performance relates to a patented invention which in fact is unpatentable, the patent has to be revoked, with the consequence that the object does not exist. There is therefore a failure in the formation of the contract. As a condition for the formation of the contract the concept of object thus serves the function that a binding contract may only relate to a meaningful undertaking having an economic or social value in order to merit recognition by the law. The content of the obligation defined, the doctrine of object may regulate the issues of the lawfulness of the performance and it may also cover the problems of the objective and subjective possibility of the performance for the promisor. The doctrine of object (that is to say of the subject-matter of the promised performance) thus assumes different facets which do not necessarily require being dealt with in one concept. Thus, it would be possible to treat the lawfulness of the performance or the objective or subjective impossibility of the performance at different places in the civil code without reference to the doctrine of object.

French lawyers know two different concepts of object, the object of the obligation³⁷ and the object of the contract.³⁸ The legislature has used the terms indifferently, speaking of 'object of the contract' ("*objet du contrat*") in Articles 1126 and 1128 of the French Civil Code, but of 'object of the obligation' ("*objet de l'obligation*") in Articles 1129 and 1130 of the French Civil Code. However, this differentiation is merely of theoretical interest.³⁹ Yet Mazeaud stresses that the 'object of the contract' concerns the legal operation aimed at by the parties, whereas the 'object of the obligation' is the promised performance. Farjat and Martin⁴⁰ state that the object of the obligation is the 'promised performance' of the debtor who undertakes to give, to make or not to make something in the terms of Article 1126 of the French Civil Code. The object of the performance is, within the sense of Article 1128 of the French Civil Code the right in the thing itself ("*chose*") which is the object of the promised performance. The object of the contract is the main obligation around which the economy of the contract is organised. The object of the obligation must exist in order that the contract is valid in the sense of Article 1108 of the French Civil Code.⁴¹

³⁷ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) pp. 11,12, asserts that the object of the obligation is the 'thing' to which the obligation relates. In the case of the patent licence contract this will be the patented invention or the invention for which a patent has been applied, but as well an improvement or additional information.

³⁸ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 9 and at p. 10: "The licence contract thus has as object the enjoyment by the licensee of a patented invention. However this right of enjoyment may be more or less expanded according to the contractual stipulations".

³⁹ Mazeaud, on "Leçons De Droit Civil", vol. II-1, Paris 1973, p. 207; Rodière, René, ed., on "Objet, Cause Et Lésion Du Contrat", Paris 1980, p. 37.

⁴⁰ Farjat and Martin on "Contrats Et Obligations. Objet Du Contrat", in: Juris-Classeur Civil, Articles 1126 to 1130, Fascicule 1 (1985) p. 3.

⁴¹ Farjat and Martin on "Contrats Et Obligations. Objet Du Contrat", in: Juris-Classeur Civil, Articles 1126 to 1130, Fascicule 1 (1985) p. 4.

In Italian legal doctrine Sacco⁴² admits that the discussion on the definition of the term 'object' did not engender significant results insofar as it attempts an explanation which exceeds a strict reference to the code. This legal writer asserts that the definition of the term 'object' as "object which the parties have declared to intend" thus more or less corresponds to the idea of the "content" of the transaction.⁴³ However, Cannata⁴⁴ indicates that the 'object' should not be confused with the assets or services which the debtor of the contractual obligation has to render to the creditor - correctly and more complex, the 'object' would concern a certain "program", that is to say a co-ordination of performances into the development of which the creditor has a right.

The task of ascertaining the object is a question of fact and must not be confused with the consequences of the contract, which is a question of law.⁴⁵ The object of the contract⁴⁶ has to answer to certain presuppositions. It is required that it should be possible, lawful, personal to the promisor, of interest to the creditor, certain and capable of being dealt with.⁴⁷

If the object of the contract is absolutely impossible, the object lapses and this will render the contract null and void. Verification of the absolute impossibility of the object depends upon the nature of the object. Here one must distinguish between the impossibility of an 'activity' ("*faire*" in French or "*facere*" in Italian) - for example the obligation to perform technical assistance in the case of a know-how contract - and of a 'delivery' ("*prestation*" in French or "*dare*" in Italian) - for example the obligation to hand over the documents relevant to the patent grant in the case of a patent licence contract. In the case of performing technical assistance the content of the obligation concerns an 'activity', in the case of an assignment of a patented invention, the obligation concerns a 'delivery'. In the second case there will be absolute impossibility if the invention is not covered by a patent, in the first case if the

⁴² Sacco, Rodolfo, on "Obbligazioni E Contratti", vol. X-2 of "Trattato Di Diritto Privato", Torino 1982, reprint 1984, p. 246.

⁴³ According to Sacco, fn. 42, this understanding of the concept of 'object' can be founded on the intention of the legislator which refers in Article 1322 of the Italian Civil Code to the object of the determination of the parties, calling it "content", and in Article 1346 the legislator speaks of 'object' and of 'performance' in synonyms.

⁴⁴ Cannata, C.A., on "L'Oggetto Dell'Obbligazione", "Obbligazioni E Contratti - I", vol. IX of "Trattato Di Diritto Privato", Torino 1984, pp. 35,36.

⁴⁵ Sacco, Rodolfo, on "Il Contratto", vol. VI-1 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1975, p. 478.

⁴⁶ The French Civil Code differs between two concepts of object, the object of the obligation, Articles 1129 and 1130 of the French Civil Code, and the object of the contract, Articles 1126 and 1128 of the French Civil Code; however, this differentiation is of purely theoretical interest, see Colin and Capitant on "Cours Élémentaire De Droit Civil Français", vol. II, 4th ed., Paris 1924, p. 292; Ghestin, Jacques, on "Traité De Droit Civil", vol. II, Paris 1980, p. 414; and on "Traité De Droit Civil. Les Obligations. Le Contrat: Formation", 2nd ed., Paris 1988, pp. 567, 568; Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 150; Mazeaud on "Leçons De Droit Civil", vol. II-1, Paris 1973, p. 207.

⁴⁷ See e.g. Carbonnier on "Droit Civil", vol. IV, 7th ed., Paris 1972, p. 86; Colin and Capitant on "Cours Élémentaire De Droit Civil Français", vol. II, 4th ed., Paris 1924, p. 293.

promisor is personally unable to perform the contractual obligation which no one else could perform.

As to the object of the obligation, one distinguishes between a performance consisting in either a transfer of rights or things or in a personal obligation.⁴⁸ In the first case, the object must fulfil four conditions: it must (1) exist, (2) be negotiable, (3) be determined, (4) and belong to the transferor. In the second case where the performance consists in a personal act, for example in an instruction or know-how, this act has to fulfil four conditions, it must (1) be possible, (2) be licit (correspond to the public order), (3) be personal to the debtor (no obligation to the charge of a third), (4) be of interest to the creditor.

The concept of object thus embraces very different facts and cases which do not, in themselves, necessarily require common treatment.⁴⁹ Indeed, Italian legal writers have shown a tendency to treat the concept as non-mandatory.⁵⁰ In English law 'object' is not required as an independent contract element, and the facts and cases which are dealt with under this concept may arise under different headings. Thus, for example, the facts which lead to the default of object due to impossibility may turn up under the doctrine of mutual mistake or frustration, and the question of lawfulness of the object may arise under the heading 'illegality'. However, Patchett-Joyce⁵¹ seems to confirm that the concept of object is inherent in English law. He equates the French legal term "*obligation*" with the common law term 'promise', and explains the object as the 'promised performance', but he admits that it would be difficult to give a precise definition of the term. The German legislator did not consider it necessary to introduce a similar concept into the German Civil Code.

2 THE CONCEPT OF 'CAUSA'.

⁴⁸ The "objet du contrat" must fulfil four conditions: (1) it must exist, (2) it must be negotiable, (3) it must be determined, (4) it must belong to the transferor; see Mazeaud on *Leçons De Droit Civil*", vol. II-1, Paris 1973, p. 208; Ghestin, Jacques, on "*Traité De Droit Civil. Les Obligations. Le Contrat: Formation*", 2nd ed., Paris 1988, pp. 571,615,620,659.

⁴⁹ See Gorla, Gino, on "The Theory of Object of Contract in Civil Law: a Critical Analysis by Means of Comparative Law", 28 *Tulane Law Review* (1954) p. 447.

⁵⁰ See e.g. Torrente and Schlesinger on "*Manuale Di Diritto Privato*", 11th ed., Milan 1981, where "oggetto" does not even figure in the index, but well, e.g. "impossibilità (della prestazione)" = impossibility (of performance).

⁵¹ Patchett-Joyce, Michaël, on "Objet, Cause Et Lésion Du Contrat", ed. by René Rodière, Paris 1980, pp. 131,132.

'Causa' is another essential condition for the validity of a contract in French⁵² and Italian⁵³ law, and again this notion has not received statutory definition. Legal writers have engaged in prolific discussion of its definition. More recent doctrine has recognised that it is not possible to find a definition which satisfactorily comprises the whole concept of *causa*, but that this definition must vary according to the function that *causa* assumes. Thus different questions have been recommended to be put to the parties, the answers to which would reveal the *causa*: "*cur debetur*" (why is it due)⁵⁴ or "*cur contractum est*" (why has it been contracted).⁵⁵ Quite apart from the different meanings of *causa*, these two questions allow reference to be made to a characteristic feature of *causa*: its foundation in theory of will; these two questions show how intimately *causa* is connected with the theory of will of contract. This was the aspect which was taken up by classical French legal doctrine, which referred to *causa* as the determining or driving power which induced a party to undertake the obligation.⁵⁶ Thus, Burst⁵⁷ states that the *causa* is the common 'driving power' which determines the parties to conclude the contract. The classical French legal doctrine differs between the 'positive' and

⁵² Article 1108 of the French Civil Code states: "Four conditions are essential for the validity of an agreement: The consent of the party who obligates himself; His capacity to contract; An object certain which forms the subject-matter of the engagement; A licit *causa* in the obligation".

Article 1131 of the French Civil Code states: "An obligation without *causa*, or with a false cause, or with an illicit *causa*, cannot have any effect".

Article 1132 of the French Civil Code states: "An agreement is none the less valid even though the *causa* is not expressed".

Article 1133 of the French Civil Code states: "A *causa* is illicit when it is prohibited by law, or when it is contrary to morality or public policy".

⁵³ Article 1325 of the Italian Civil Code states: "Indication Of Requisites. The requisites of the contract are: 1) Agreement of the parties (1326 et seq.); 2) *Causa* (1343 et seq.); 3) Object (1346 et seq.); 4) Form, when prescribed by law under penalty of nullity (1350 et seq.)".

Article 1343 of the Italian Civil Code states: "Illicit *Causa*. The *causa* (Article 1325 no. 2) is illicit if it is contrary to mandatory rules, to the public order or to the customs".

Article 1344 of the Italian Civil Code states: "Contract Contrary To The Law. Further, the *causa* is considered illicit if the contract constitutes the means to circumvent the application of a mandatory rule (Articles 166-bis, 743, 1418)".

Article 1345 of the Italian Civil Code states: "Illicit Motive. The contract is illicit if the parties are determined to conclude it exclusively by an illicit motive, common to both".

Article 1418 of the Italian Civil Code states: "Causes Of Nullity Of Contract. (1) A contract that is contrary to mandatory rules is void, unless the law provides otherwise. (2) A contract is rendered void by the lack of one of the requisites indicated in Article 1325, unlawfulness (Article 1343) of *causa*, unlawfulness of the motives in the case indicated in Article 1345, and lack in the object of the requisites set forth in Article 1346. (3) A contract is also void in the other cases established by law".

⁵⁴ Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 156; Mazeaud on "Leçons De Droit Civil", vol. II-1, Paris 1973, p. 225; Starck, Boris: "Droit Civil. Obligations. 2 Contrat Et Quasi-Contrat. Régime Général", 2nd ed., ed. by Roland and Boyer, Paris 1986, p. 239; Trabucchi, Alberto, on "Istituzioni Di Diritto Civile", 26th ed., Padova 1983, p. 165.

⁵⁵ Trabucchi, Alberto, on "Istituzioni Di Diritto Civile", 26th ed., Padova 1983, p. 165.

⁵⁶ Aubry and Rau on "Cours De Droit Civil Français", vol. IV, 6th ed., Paris (without date of publication), p. 467; Carbonnier on "Droit Civil", vol. IV, 7th ed., Paris 1972, p. 91; Colin and Capitant on "Cours Elémentaire De Droit Civil Français", vol. II, 4th ed., Paris 1924, p. 298; Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, pp. 166,173; Maury on "Cause", in: Dalloz, "Répertoire De Droit Civil", vol. II, p. 2, nos. 11 et 12 with further references; Planiol and Ripert on "Traité Pratique De Droit Civil Français", vol. VI, Paris 1930, p. 292; Starck, Boris, on "Droit Civil. Obligations", Paris 1972, p. 460.

⁵⁷ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 14.

the 'negative' definition of the term.⁵⁸ In the positive sense, *causa* is the immediate purpose which induced the contracting party to conclude the contract, thus it is in a synallagmatic contract the expected counter-performance. In the negative sense, *causa* is exclusive of any further search for the different reasons which may have induced the contracting party to conclude the agreement and which are generally referred to as motives.

Modern Italian legal theory focuses particularly on the other aspect of *causa*: it is the *causa* which shall make the contract a useful instrument in the service not only of the individual but more generally of society. Italian legal writers developed the doctrine of the economic-social function of the *causa* ("*funzione economico-sociale della causa*") which stresses the relevance of *causa* within the field of economy and society.⁵⁹ In this sense, the question of the subsistence of *causa* exceeds the subjective search for the ultimate motive of the parties which induces them to contract and attains an objective level.⁶⁰ Sacco⁶¹ criticises this objective concept of *causa*, because it imports the concept of the 'typicality' of the agreement - once the contract is conceived of as a contract for sale, the *causa* will subsist by reference to article 1470 of the Italian Civil Code - the subsistence of *causa* is guaranteed by law. Within the reasoning of these conceptual problems this legal writer invokes the classical doctrine according to which the "*patto nudo non genera azione*",⁶² or, as it was said by Bracton: "*nudum pactum non parit actionem*".⁶³ Within the limited space dedicated in this study to the concept of *causa* it suffices to trace the development of the doctrine of *causa* in Italian law, according to which the test for the subsistence of *causa* must reflect the particular transaction intended.⁶⁴ Accordingly, in the case of a contract with mutual obligations the promise of the promisor has a *causa*, if the promisee in turn validly promises a performance, so that the two sacrifices are reciprocal.

⁵⁸ Simler, Philippe, in: *Juris-Classeur Civil*, "Contrats Et Obligations - Cause", Articles 1126 to 1130, Fascicule 10 (1985) p. 6.

⁵⁹ As to this doctrine see e.g.: Galgano, Francesco, on "Diritto Privato", Padova 1981, p. 226: "The *causa* is the economic-social function of the will"; and on "Diritto Civile E Commerciale", vol. II-1, "Le Obligazioni E I Contratti. Obligazioni In Generale. Contratti In Generale", Padova 1990, p. 170; Gorla, Gino, on "Il Contratto", vol. I, Milano 1954, pp. 199,200; Messineo, Francesco, on "Manuale Di Diritto Civile E Commerciale", vol. I, 9th ed., Milan 1957, p. 490; Sacco, Rodolfo, on "Il Contratto", vol. VI-1 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1975, p. 579; and on "Trattato Di Diritto Privato", vol. X, "Obbligazioni E Contratti", vol. II, Torino 1982, reprint 1984, p. 315.

⁶⁰ Scognamiglio, Renato, on "Contratti In Generale", 3rd ed., Milan 1972, reprint 1980, vol. IV-2 of "Trattato Di Diritto Civile", ed. by Grosso and Santoro-Passarelli, p. 126.

⁶¹ Sacco, Rodolfo, on "Obbligazioni E Contratti", vol. X-2 of "Trattato Di Diritto Privato", Torino 1982, reprint 1984, p. 317.

⁶² Sacco, Rodolfo, on "Obbligazioni E Contratti", vol. X-2 of "Trattato Di Diritto Privato", Torino 1982, reprint 1984, p. 317.

⁶³ See Pollock and Maitland on "The History Of English Law", vol. II, 2nd ed., reprint, Cambridge 1989, pp. 194,197.

⁶⁴ As Sacco points out, the *causa* may assume different forms depending upon the different contractual configurations, Sacco, Rodolfo, on "Obbligazioni E Contratti", vol. X-2 of "Trattato Di Diritto Privato", Torino 1982, reprint 1984, pp. 317,318.

The first function of the *causa* is to work as a tool in the ascertainment of the question whether an agreement is a legally binding contract. The contract will be void if it lacks *causa*. In a synallagmatic contract the idea of exchange constitutes the basis of the contract: each party undertakes its obligation in order to procure a counter-obligation⁶⁵ or counter performance.⁶⁶ The *causa* appears as obverse of the counter-obligation or counter-performance, and it explains the interdependence which exists between the reciprocal obligations or performances.⁶⁷ If this interdependence is disturbed, the courts will pronounce a synallagmatic contract void due to absence of *causa*.⁶⁸

Concerning the question of subsistence of *causa*, this term is closely related to the counter-obligation or counter-performance, and courts do not consider it necessary to explore the psychology and subjective ideas of the parties once they have verified the absence of any return ("*contrepartie réelle*").⁶⁹ Further they do not examine whether the performances are equivalent in value, but they will deny the subsistence of *causa* where the obligation does not relate to a counter-performance which is 'serious'.⁷⁰ The test employed for the subsistence of *causa* is thus strictly objective, and often the contract may be void due to lack of *causa* and absence of object. But the two concepts must not be confused. The concept of *causa* is rooted in the theory of will, yet, the absence of *causa* is determined by a test which takes into account objective facts, such as the non-existence of the counter-performance.⁷¹ The lack of *causa* is thus inferred from the lack of the counter-performance, but it is not necessarily to be identified with it.⁷²

The requirement of *causa* as an essential condition for the validity of a contract protects the interests of the individual,⁷³ in particular the interests of the weaker party,⁷⁴ because it refuses

⁶⁵ Colin and Capitant on "Traité De Droit Civil", vol. II, Paris 1959, p. 404.

⁶⁶ Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 162, point out that by extending the *causa* beyond the obligation to the performance, some legal writers and the courts utilise the doctrine of *causa* as a basis for the plea "*exceptio non adimpleti contractus*" (i.e. that if one of the parties of a synallagmatic contract does not execute his obligation, the other party may refuse to carry out his obligation) and for the theory of risks (i.e. that if the execution of the obligation becomes impossible after the conclusion of the contract, then both parties are freed from its obligations and do not have to restore what they received before impossibility occurred) and further for the theory of dissolution (i.e. that a party may apply for a declaration by the court that the contract has come to an end, if the other contractual party does not execute its obligations, see Article 1184 of the

⁶⁷ Mazeaud on "Leçons Du Droit Civil", vol. II-1, Paris 1973, p. 232.

⁶⁸ Ghestin, Jacques, on "Traité De Droit Civil. Les Obligations. Le Contrat: Formation", 2nd ed., Paris 1988, p. 760.

⁶⁹ See Ghestin, Jacques, on "Traité De Droit Civil. Les Obligations. Le Contrat: Formation", 2nd ed., Paris 1988, pp. 769,770; Starck, Boris, on "Droit Civil. Obligations", Paris 1972, p. 465.

⁷⁰ See Ghestin, Jacques, on "Traité De Droit Civil. Les Obligations. Le Contrat: Formation", 2nd ed., Paris 1988, p. 773; Starck, Boris, "Droit Civil. Obligations", Paris 1972, pp. 467,468.

⁷¹ Carbonnier on "Droit Civil", vol. IV, 7th ed. Paris 1972, p. 92; Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 175; Mazeaud on "Leçons Du Droit Civil", vol. II-1, Paris 1973, p. 233.

⁷² See Ripert and Boulanger on "Traité De Droit Civil", vol. II, Paris 1957, pp. 119,120.

⁷³ Galgano, Francesco, on "Diritto Privato", Padova 1981, p. 228; Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 170.

the enforceability of an agreement which is deprived of its end: the exchange of performances. The contract which was supposed to be synallagmatic does not merit being upheld, because it has lost - particularly according to Italian legal theory - its economic and social utility, a notion which is reflected by the *causa*.⁷⁵

French and Italian law not only require the subsistence of *causa* but also its lawfulness.⁷⁶ In fact, this is the second sub-division of the first function of *causa* which has not always been clearly recognised by common law writers.⁷⁷ The task of *causa* under its first function is thus twofold: here it assumes a task which involves the appreciation of the agreement, whether the *causa* is illicit, for example, whether it is prohibited by law or is contrary to good morals or "*ordre public*".⁷⁸ This requirement gives to the courts the power to exercise effective control of the aims which the parties pursue.⁷⁹ For this purpose the term *causa* comprises the motives of the parties, but only insofar as they 'entered the sphere of the contract', whereas those motives which remained personal to the parties, are legally irrelevant.⁸⁰ The unlawfulness of the *causa* is further indicated if it can be inferred from an objective element.⁸¹ Thus, the unlawfulness of *causa* may coincide with the unlawfulness of object.⁸² Within this context, the doctrine of *causa* assumes the function primarily of asserting the public interest or 'public policy'.⁸³

The second function of *causa* lies in its quality as an instrument for the classification of the individual contract within the special contractual types.⁸⁴ This categorisation is decisive in particular for an appreciation of the legal scope of the obligations of the parties.⁸⁵ The extent of these obligations depends not only upon the terms of the contract but also upon the rules contained in the legal codes which may differ considerably, according to the specific contract. Legal writers justify this function of *causa* as follows: it is *causa* which explains the creation

⁷⁴ In this sense Galgano, Francesco, on "Diritto Privato", Padova 1981, p. 228.

⁷⁵ See Gorla, Gino, on "Il Contratto", vol. I, Milan 1954, p. 200.

⁷⁶ See Articles 1108, 1131, 1133 of the French Civil Code, and Articles 1343 to 1345, 1418 of the Italian Civil Code.

⁷⁷ See e.g. Walton, F.P., on "Cause and Consideration" 41 (1925) L.Q.Rev., p. 321, who, seemingly puzzled by the task, the concept of *causa* assumes within this context, asks: is not the reason for annulling these contracts that the motives are immoral?

⁷⁸ Articles 1131, 1133 of the French Civil Code, see fn. 29.

⁷⁹ Galgano, Francesco, on "Diritto Privato", Padova 1981, p. 244; Gorla, Gino, on "Il Contratto", vol. I, 1954, p. 200; Mazeaud on "Leçons Du Droit Civil", vol. II-1, Paris 1973, p. 245.

⁸⁰ Ghestin, Jacques, on "Traité De Droit Civil", vol. II, Paris 1980, p. 583: "The *causa* is, in all these cases, the illicit or immoral motive which has determined the consentment".

⁸¹ However, in this case it is still required that the unlawful *causa* constituted the determining motive of at least one party, whereas the unlawful character must have been known by the other party, see Starck, Boris, on "Droit Civil. Obligations", Paris 1972, p. 471.

⁸² See Markenisis, Basil S., on "Cause and Consideration", 37 CLJ (1978) pp. 53 to 75 at 68.

⁸³ Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 173.

⁸⁴ Galgano, Francesco, on "Le Obbligazioni E I Contratti. Obbligazioni In Generale", vol. II-1 of "Diritto Civile E Commerciale", Padova 1990, pp. 170 to 172.

⁸⁵ Trabucchi, Alberto, on "Istituzioni Di Diritto Civile", 26th ed., Padova 1983, p. 168.

of reciprocal obligations, so that, as a corollary, the nature of the contract depends upon the *causa*.⁸⁶ In this context, *causa* is to be found in the objectively recognisable motives of the parties. This requires that the motives must have 'entered the contractual sphere' so that they may be ascertained from an objective viewpoint.⁸⁷ The classification of a contract as a patent licence contract, in principle, does not pose problems: an agreement may be classified as a patent licence contract, if a licence for the utilisation of the patented invention is granted against the stipulation of the payment royalties.

3. THE CONCEPT OF 'CONSIDERATION'.

In English law a contract requires as an essential element that the promises, unless made formal, are supported by consideration. According to the traditional definition, consideration exists either "in some right, interest, profit, or benefit, accruing to the one party, or some forbearance, detriment, loss or responsibility, given, suffered or undertaken by the other".⁸⁸ In establishing the subsistence of the benefit or detriment it is not necessary that the consideration be adequate;⁸⁹ what is required is that consideration is of some value in the eye of the law and that it emanates from the other party.⁹⁰

The need of economic appreciability is generally understood as 'reality' of consideration.⁹¹ The test applied is strictly objective - it does not relate to any subjective elements which led the promisor into making the promise. Hence, the fact that a person gave his promise in exchange for another is in itself proof that the latter is of some value.⁹² Thus, past consideration cannot constitute consideration, because the act or forbearance to which it corresponds has already been carried out: it does not have a value which could be re-animated to form the consideration for a further promise, although it might well be sufficient from the subjective viewpoint of the promisor.⁹³ "But once it is admitted that the common law regards a promise as consideration for a return promise if bargained for, it must then be acknowledged

⁸⁶ See Maury in Dalloz, on "Cause", in: "Répertoire De Droit Civil", vol. II, p. 5, no. 39.

⁸⁷ Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 176.

⁸⁸ *Currie v Misa* (1875) L.R. 10 Ex. 153 at 162.

⁸⁹ See Pollock on "The Principles of Contract", vol. I, 13th ed. London 1950, p. 139.

⁹⁰ *Thomas v Thomas* (1840) 11 A.&E. 438 per Patterson, J. at 450; Anson's Law of Contract, 26th ed. by Guest, Oxford 1984, p. 82.

⁹¹ See Chitty on Contracts, vol. I, "General Principles", 26th ed. 1989, p. 117.

⁹² Atiyah on "The Rise and Fall of Freedom of Contract", Oxford 1979, p. 451; consideration may itself consist in the promise, see Sutton and Shannon on Contracts, 7th ed., London 1970, p. 68.

⁹³ See Chitty on Contracts, vol. I, "General Principles", 26th ed., 1983, p. 120.

that not every promise is enough to make a return promise enforceable".⁹⁴ The function of the doctrine of consideration is to draw a line between promises which are legally binding and those which are not.⁹⁵

The acts of will, inherent in the promises which lead to the agreement, are not alone sufficient to create contractual liability. Verification of the function does not answer the question for the purpose of this differentiation. Here, one has to take into account the historical development of the doctrine.⁹⁶

Courts avoided taking account of subjective elements which induced the promise, as evidenced, for example, by their inclination to accept invented consideration.⁹⁷ But the concern with objective elements consigned to oblivion the moral idea at the basis of the doctrine, thus facilitating a misunderstanding of the doctrine's ends⁹⁸ and questioning the justification of the doctrine.⁹⁹

Since consideration is appreciated in a highly objective way, the impossibility of performance which, at the time of the conclusion of the contract, renders the contract void due to mistake,¹⁰⁰ will not necessarily render the consideration non-existent,¹⁰¹ because consideration may subsist in the mutual promises of the parties.¹⁰² Likewise, English courts are prepared to base contractual liability on 'reasonable reliance', that is to say that the promisor will be bound where the promisee has reasonably relied on the promise in the legitimate expectation that the promisor meant what he said, but only where the promisee has bought the promise by providing consideration.

⁹⁴ Sutton, K.C.T., on "Consideration Reconsidered", St. Lucia, Queensland 1974, p. 29.

⁹⁵ See Treitel, G.H., on "The Law of Contract", 8th ed., London 1991, p. 63 who states that it is the purpose of the doctrine of consideration to put some legal limits on the enforceability of agreements.

⁹⁶ See e.g. Simpson, A.W.B., on "The History of the Common Law of Contract. The Rise of Assumpsit", Oxford 1975, pp. 452 to 465

⁹⁷ For the concept of invented consideration see Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, pp. 109,110; Treitel, G.H., on "The Law of Contract", 8th ed., London 1991, pp. 67,68.

⁹⁸ See e.g. Lord Mansfield in *Pillans v van Mierop and Hopkins* (1765) 3 Burr. 1663 at 1669, 1670: "I take it that the ancient notion about the want of consideration was for the sake of evidence only" ...; or Gorla, Gino, on "Il Contratto", vol. I, Milan 1954, p. 412: the test of consideration proves the intention to bind oneself legally. Gorla seems to impute an element of will theory as it subsists in the doctrine of consideration.

⁹⁹ Atiyah, on "Consideration in Contracts. A Fundamental Restatement", Canberra 1971, p. 60, explains that consideration "means a reason for the enforcement of a promise" so that it indicates (...) whether there are good reasons for enforcing a promise", (at 9) and Chloros, A.G., on "The Doctrine of Consideration and the Reform of the Law of Contract", 17 ICLQ (1968) p. 140, states: "As a matter of fact, if we assume the present state of the law, it is suggested that no satisfactory reason for the existence of consideration can be found". But he concedes that jurisprudence applied the rules "with a view to avoiding injustice in individual cases".

¹⁰⁰ Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, pp. 233,234, referring to the necessity that the subject-matter of the contract exists.

¹⁰¹ See Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, p. 118; against Markenis, Basil S., on "La Notion De Considération Dans La Common Law: Vieux Problèmes; Nouvelles Théories", Rev.int.dr.comp. (1983) 735,736.

¹⁰² Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, p. 118.

Nevertheless, the doctrine of consideration does not categorically omit any regard of subjective elements. It includes these aspects under the concept of illusory consideration.¹⁰³ This is the case, for example, if the party promises a forbearance or a performance which it would have carried out anyway. In such a case the promise cannot constitute the consideration for the promise of the other party because of its incapability to represent an inducement. This regard is necessitated by the understanding of the mutual promises as a bargain which could not be considered to exist if one party's promise does not, in fact, relate to giving up a position - Chitty writes:¹⁰⁴ "A bargain is an agreement whereby two or more persons exchange promises or exchange a promise for a performance". But even though the doctrine of consideration may characteristically be defined by objective elements, its harshness has been mitigated by inroads such as the concept of the tacit resolutive condition which is applicable if the object of the performance is destroyed without the debtor's fault.¹⁰⁵ Accordingly, a contract will be resolved if this tacit resolutive condition can be considered fulfilled. However, in relation to patent licence contracts this concept has hardly been applied in the case in which the patent was revoked, for example if the unpatentability of the invention was established subsequent to the conclusion of the contract. The possible weakness of a patent seems to have been considered as typically falling within the risks which belong to the sphere of the licensee. This *has not, however, prevented courts from occasionally holding* that the invalidity of a patent which entails its revocation, will lead to a failure of the consideration for the licensee's promise to pay the royalty to the patentee.¹⁰⁶ It seems that the failure of consideration may be pleaded before any estoppel can arise. That is to say, before the licensee has acted on the (invalid) patented invention and fulfilled his contractual duties, if the issue of the validity was discussed and examined and the licence contract concluded subject to the examination of the validity of the patent;¹⁰⁷ or, if the licensor expressly guaranteed the validity of the patent.¹⁰⁸ Generally, the invalidity of the patent will not lead to a failure of the consideration.¹⁰⁹

Part 3: COMPARATIVE ASPECTS CONCERNING THE CONCEPTS OF 'CAUSA' AND OF 'OBJECT'.

¹⁰³ Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, p. 118.

¹⁰⁴ Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, p. 4.

¹⁰⁵ See e.g. Taylor v Caldwell, (1863) Best and Smith's Reports 826.

¹⁰⁶ Chanter v Leese (1939) 5 M.& W. 698.

¹⁰⁷ Wilson v Union Oil Mills (1891) RPC 57.

¹⁰⁸ Nadel v Martin 23 RPC 41; Henderson v Shields (1906) RPC 418.

¹⁰⁹ Taylor v Hare (1805) 1 B. & P. 1 N.R. 260; see below, Chapter 2, part4: 1.3.

The comparison between the doctrines of causa and consideration reveals that both have a similar function insofar as they relate to enforceability. Both doctrines give expression to the importance that the national legal systems place upon the idea of the exchange of promises or obligations.¹¹⁰ Beyond this common function there are considerable differences for two main reasons:

First, the concept of causa is rooted in the theory of will.¹¹¹ By defining causa as determining or driving power, causa appears as the generator of the legally relevant will, the will upon which law bases the contractual obligation.¹¹² This close relation between will and causa is made evident by the questions: "why has the obligation been undertaken?" and "why has been contracted?". Consequently, the concept of causa is apt to raise questions of the intent of the parties. The concept of consideration, on the other hand, is not conceived of as a basically psychological factor, but as an element which is independent of the will and consent of the parties and which is inherent in objective facts. Therefore, the doctrine of consideration cannot allow for the subjective aims which the parties pursue.

Second, consideration can only relate to the promise but not to the contract.¹¹³ In a synallagmatic or executory contract the consideration for each promise has to be looked at separately. The requirement that consideration must have a value could have included wider implications, since the value must exist in the eye of the law. These implications occurred where the consideration concerned the performance of an existing duty, that is to say where the duty was already imposed by law, as in the case of a public officer who "cannot enforce a promise to pay him money for doing his duty as such,⁽¹¹⁴⁾ and generally a person does not provide consideration by forbearing to engage in a course of conduct that is criminal. To allow enforcement of such promises would encourage extortion; and it is this ground of public policy, rather than want of consideration, that accounts for most of the authorities that establish the present rule".¹¹⁵ Causa, on the other hand, may relate to both the obligation and the contract.

¹¹⁰ Markenisis, Basil S., on "Cause and Consideration", Cambridge Law Journal (1978) p. 56.

¹¹¹ See e.g. Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, pp. 166,173.

¹¹² Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 168.

¹¹³ Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, p. 107: "What the law is concerned with is the consideration for a promise - not the consideration for a contract".

¹¹⁴ Treitel, G.H., on "The Law of Contract", 8th ed., London 1991, p. 73, referring to *Wathen v. Sandys* (1811) 2 Camp. 640.

¹¹⁵ Treitel, G.H., on "The Law of Contract", 8th ed., London 1991, p. 73.

Even according to the more restrictive view of some part of French legal writers¹¹⁶ who adhere to the concept of the *causa* of the obligation, *causa* may - depending upon its particular function - assume a wider notion which brings it close to the Italian concept of *causa* of the contract. For that reason, *causa* can be used successfully as an instrument which takes into account aspects relating to the contract itself, for example the categorisation of the contract, the protection of the interests of third parties, or public policy. The role of the concept of consideration is much more limited and it could not fulfil such a task, because it relates to the promise only, which impedes an extension of the concept in the direction of the concept of *causa*.

Summing up, it appears as if the comparison of the law of contract in common law with the French and Italian legal systems can only be outlined, the main difficulty stemming from the fact that from the 13th century onwards, English law developed independently of continental legal systems. In England there were three different institutions, the pledge of faith, the action of debt and the action of covenant, doctrines of the King's court which were to constitute the future law of contract.¹¹⁷ In practice, licence contracts are generally elaborate, written documents so that the legal questions which arise are often questions of interpretation.

Part 4: COMPARATIVE ASPECTS CONCERNING THE CONCEPTS OF 'OBJECT', 'MISTAKE' AND 'FRUSTRATION'.

In all three national legal systems the non-existence of the subject-matter of a contract will engender the nullity of the contract. In English law the prevailing doctrine considers the non-existence of the subject-matter of the contract as a question of mistake,¹¹⁸ in French and Italian law the nullity of the contract is considered to be caused by the absence of object as an independent element of contract without reference to the reality of consent which would be required as a condition for the formation of a contract.

¹¹⁶ On this position of French legal writers see Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, p. 166.

¹¹⁷ Pollock and Maitland on "The History Of English Law", 2nd ed., vol. II, Cambridge University Press, Cambridge etc. 1895, reprint 1989, p. 197.

¹¹⁸ See *Couturier v Hastie* (1856) 5 H.L.C. 673; *Strickland v Turner* (1852) 7 Ex. 208.

English law requires by sanction of voidness that the subject-matter of the contract exists at the time of the conclusion of the contract.¹¹⁹ If it does not exist at that time, the contract is void due to mutual mistake.¹²⁰ Mistake is, according to Pollock,¹²¹ treated as excluding true consent, if it concerns a non-existent subject-matter, but, generally, he says: "mistake does not of itself affect the validity of contract at all" but it "may be such as to prevent any real agreement from being formed; in which case the agreement is void". He argues¹²² that "an agreement fails to become a contract" if it relates to a subject-matter contemplated by the parties as existing but which in fact does not exist. The doctrine of mistake thus reflects the attempt to cure effects which derive from the subjective error of the parties, thus affecting the agreement but not considered as an independent, essential condition and requirement for the validity of the contract.

After the formation of the contract the impossibility of performance will engender the nullity of the contract, in English law in application of the doctrine of frustration, in French and Italian law in application of the doctrines of object and of causa. The concepts of object, mistake and frustration envisage the case where it is impossible to perform the contractual obligation. The doctrine of frustration is relevant in the case of a subsequent event - an event which frustrates the performance of the contractual obligation.¹²³ Frustration does not render the contract void, but it discharges each party from the execution of the obligations for the future. The test to be applied depends upon the circumstances of each case. The test of a 'radical change' in the obligation has found widespread acceptance: "There must be (...) such a change in the significance of the obligation that the thing undertaken would, if performed, be a different thing from that contracted for".¹²⁴

The doctrine of frustration relates to the case of a subsequent impossibility of performance. This case is dealt with as a matter of implied condition: in contracts the performance of which depends upon the continued existence of a thing, a condition is implied that the impossibility of performance arising from the perishing of the thing shall excuse the performance.¹²⁵

¹¹⁹ See Owsia, Parviz, on "A Comparative Study of the Conclusion of Contracts in Persian, Islamic, French and English Law", thesis, London 1965, p. 742.

¹²⁰ Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, pp. 229,233, at p. 229: the common law mistake must concern facts and not a matter of law.

¹²¹ Pollock on "The Principles of Contract", 13th ed., London 1950, p. 401.

¹²² Pollock on "The Principles of Contract", 13th ed., London 1950, p. 401.

¹²³ See Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, p. 240.

¹²⁴ Lord Radcliffe in *Davis Contractors v Fareham U.D.L.* (1956) A.C. 696,729.

¹²⁵ See *Taylor v Caldwell* (1863) 3 B.&S. 826 at 839, quoted by Pollock on "The Principles of Contract", 13th ed., London 1950, p. 242, fn. 1.

Part 5: THE CONSTRUCTION OF THE TERMS OF THE CONTRACT.

The technique of construction of the legal implications of the will of the parties differs in English, French and Italian laws. French and Italian judges construct the terms of the contract with reference to the non-mandatory and mandatory rules contained in the civil code. French and Italian legislatures have regulated the regime of certain special contracts, those contracts which were considered by the legislator as socially most relevant in the civil codes. The codes contain rules which are applicable to those special contracts concluded by the parties. These rules are either of a non-mandatory or mandatory nature. In the case where the parties have not concluded one of the nominate contracts, dealt with by the civil code but an innominate contract, like the patent licence contract, the judge will construct the terms of the agreement with reference to those rules of the nominate contract which are the most similar to the innominate one. In the case of the licence contract, this may be the leasing contract. When discussing the terms of the contract, such as warranties and conditions, reference will be made to the rules applicable to those nominate contracts contained in the civil code. Whereas the construction of terms by the English judge centres on the interpretation of the declarations made by the parties, the French or Italian judge will construct the terms with reference to the rules contained in the code. A short outline of the different methods to the extent necessary for the understanding of the subsequent analysis will follow below.

In French and Italian law the implied terms of a contract are sometimes referred to as 'natural elements' of a contract. French¹²⁶ and Italian¹²⁷ law differ between the essential elements of a contract and the natural elements, in Roman "*naturalia negotii*" and "*essentialia negotii*". The differentiation originates from medieval times. The 'essential' elements are those necessary for the assumption of a certain contractual situation. But in the absence of an essential element, the contract will belong to a different contractual class, for example if the parties did not stipulate a price, there is no contract of sale, and yet the contract will not necessarily be void. The natural elements of the contract are those which will be implied unless the parties waive them expressly, such as, for example, the obligation for warranty in the contract for sale. Further, there are accidental elements, "*accidentalialia negotii*" which the parties are free to agree upon.

In English law the undertakings and promises contained in the contract are known as the 'terms of the contract'. These terms are, generally, classified as conditions and warranties. A

¹²⁶ See e.g. Gaudemet, Desbois and Gaudemet on "Théorie Générale Des Obligations", Paris 1937, reprint 1965, pp. 201,202.

¹²⁷ See e.g. Cian and Trabucchi on "Commentario Breve Al Codice Civile", 3rd ed., Padova 1988, p. 959.

condition is a vital term of a contract, its roots, so that in that case of a breach of the condition an injured party is entitled to rescind the contract and claim damages for non-performance. A warranty is not vital, but a subsidiary term of the contract. A breach thereof does not generate the right to rescind the contract but to claim damages. Additionally, there are innominate terms which combine the nature of a condition and of a warranty. It depends upon the circumstances of the case whether a term amounts to a warranty or a condition.

A term will be implied if it is necessary in order to carry out the presumed intention of the parties, and if it is so obvious that the parties must have intended it to apply to the contract and therefore thought that it was necessary to express it: the term's implication must be necessary to give efficacy to the contract the parties intended.

As Lord Wilberforce said in *Liverpool City Council v Irwin*:¹²⁸ "But there are varieties of implications which the courts think fit to make and they do not necessarily involve the same process. Where there is, on the face of it, a complete bilateral contract, the courts are sometimes willing to add terms to it, as implied terms: this is very common in mercantile contracts where there is an established usage: in that case the courts are spelling out what both parties know and would, if asked, unhesitatingly, agree to be part of the bargain. In other cases, where there is an apparently complete bargain, the courts are willing to add a term on the ground that without it the contract will not work"...

Thus, a term will not be implied merely because it would be reasonable to imply it. A court will not draw up a contract for the parties. Accordingly, an implied term cannot override an express term.¹²⁹ The implication must thus be obvious¹³⁰ and "necessary to give the transaction such business efficacy as the parties must have intended".¹³¹ The courts will not improve the contract which the parties have made for themselves, however desirable the improvement might be.¹³² A more flexible approach seems to be taken by Lewinson:¹³³ "The implication of a term into a contract depends on the presumed intention of the parties. In some cases that intention is collected merely from the express words of the contract and the surrounding circumstances; in others it is collected from the nature of the legal relationship into which the parties have entered". Finally, the implication of a term is distinguished from the rectification of the contract, although in "each case the problem is caused by a deficiency in the expression of the consensual agreement. A term which should have been included has

¹²⁸ *Liverpool City Council v Irwin* (1977) A.C. 239.

¹²⁹ See Charlesworth's *Mercantile Law*, 14th ed. by Schmitthoff and Sarre, London 1984, pp. 33 to 35.

¹³⁰ *Sethia v Partabmull Rameshwar* (1950) 1 All E.R. 51,59.

¹³¹ *Luxor (Eastbourne) v Cooper* (1941) A.C. 108,137; Lewinson, Kim, on "The Interpretation Of Contracts", London 1989, p. 100.

¹³² *Trollope & Colls v N.W. Metropolitan Hospital Board* (1973) 1 W.L.R. 601,609.

¹³³ Lewinson, Kim, on "The Interpretation of Contracts", London 1989, p. 92.

been omitted. The difference is that with rectification the term which has been omitted and should have been included was actually agreed upon; with implication the term is one which the parties might have agreed upon had they turned their minds to it - it is not a term actually agreed upon".

Lewinson¹³⁴ distinguishes between implied terms and those terms "imposed upon the parties irrespective of the express terms of the contract, and sometimes in contradiction of those terms" - for example, an implied repairing obligation imposed upon a landlord under the Landlord and Tenant Act 1985 - "These are not really implied terms at all, but are imposed obligations and stand on a somewhat different footing to terms implied under the Sale of Goods Act 1979 which originate in a statutory codification of the common law". With regard to the patent licence contract one might think of the implication of the statutory terms of the Sale of Goods Act 1979 and the Supply of Goods and Services Act 1982; however, the terms of the Sale of Goods Act 1979 such as to the right of the supplier to supply the goods, or to the description of the goods and to their merchantability and also the terms of the Supply of Goods and Services Act 1982 will generally not be applicable to the patent licence contract, because they do not relate to intellectual property.¹³⁵

In English law the judicial or statutory classification of particular terms as warranties is less common. As stated expressly in Treitel on the Law of Contract:¹³⁶ "The contents of a contract depend primarily on the words used by the parties: these make up its express terms. A contract may, in addition, contain terms which are not expressly stated, but which are implied, either because the parties so intended, or by operation of law, or by custom or usage". Buckley, J. said in *Bristol Repetition v Fomento*:¹³⁷ "It is well settled by authority that, when dealing with a written contract which has been carefully prepared and embodied in a deed the court will not imply terms unless they are necessary for giving effect to what the court conceives to be the true intention of the parties".

Since licence contracts are generally carefully drafted documents, it should be noted that English courts will be particularly reluctant to imply a term - where parties have entered into a carefully drafted written contract containing detailed terms agreed between them.¹³⁸ In the case of written documents, terms may be implied only in the presence of certain circumstances. There are three cases in which terms may be implied:

¹³⁴ Lewinson, Kim, on "The Interpretation of Contracts", London 1989, p. 100.

¹³⁵ Bragg and Lowe on "The Business of Licensing", London 1989, pp. 53 to 55.

¹³⁶ Treitel, G.H., on "The Law of Contract", 8th ed., London 1991, p. 175.

¹³⁷ *Bristol Repetition v Fomento* (1960) RPC 163 at 167.

¹³⁸ *Shell U.K. v Lostock Garages* (1976) 1 W.L.R. 1187,1200.

(i) Terms may be implied in fact, that is to say where the parties did not intend to include terms into a contract but where the parties must have intended to include them into a contract. But as mentioned above, courts will only imply a term if it would have been obvious to the parties to agree upon it.¹³⁹

(ii) Terms may be implied in law, that is to say where terms are imported by the operation of law, if they are contained in statutes.

(iii) Terms may be implied by custom. In such a case the term may not contradict a written contract.

However, as Cornish¹⁴⁰ points out: "In obedience to freedom of contract, English courts have generally left the parties to patent licence and assignments to determine the scope and extent of obligations by mutual agreement between themselves. Whatever they included in their contract, the courts would enforce, resolving any ambiguities by reference to the likely intention of the parties and reading in only such additional terms as might be reasonably necessary to give the agreement business efficacy (...) There has been no regular technique for adjusting agreements in the name of 'fairness' nor did statute intervene, save exceptionally, to prevent abuse of monopoly". This approach with regard to patent licence contracts was sanctioned in *Montforts v Marsden*¹⁴¹ where the Court rejected the implication of a term for the warranty of quiet possession.

The construction of the terms of a contract in French or Italian law is oriented to the civil codes. Whereas in English law the interpretation and construction of the terms of a contract centres on the text of the agreement, French and Italian law undertake the construction of the contract in a two-step method:

(i) first, the logical and grammatical sense of the contractual stipulations has to be identified;

(ii) second, the autonomy of the will of the parties is limited in a certain way so that the agreement will have to fulfil a social-economic sense.

This second step forms the nexus between codified law and the agreement concluded between the parties. It means that a contract will be upheld by a court only if it is supported by the rules and regulations contained in the codes. In both French and Italian law the legislatures have regulated in the civil codes certain 'typical' classes of contracts - presumed to be the

¹³⁹ *Shirlaw v Southern Foundries* (1939) 2 K.B. 206,277 per Mac Kinnon, L.J.

¹⁴⁰ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trademarks and Allied Rights", 2nd ed., London 1989, p. 185.

¹⁴¹ *Montforts v Marsden* (1895) RPC 266.

socially most relevant - such as sale contracts or leasing contracts. These are the nominate contracts - they have been given a 'name' by the legislator. According to the principle of the autonomy of the will of the parties the latter are, certainly, free to conclude agreements which do not correspond with those contractual types regulated in the civil codes. These are called 'innominate' contracts. But in this case the social-economic sense of the agreement which is assumed to persist in those contracts which are regulated by the legislators, must be 'positively' proved.

Article 1322 of the Italian Civil Code is of particular relevance within this context. This provision says in subsection 1: "The parties may freely determine the content of the contract within the limits imposed by the law and by the corporate rules". In subsection 2 this Article states: "The parties may as well conclude contracts which do not appertain to those types which have a particular discipline (Articles 1323, 1987, 2249), provided that they are directed to realise interests which merit protection following the legal order". The control serves here only to verify whether the practical intention or the interest in question can be coherently understood as a 'causa'¹⁴² that is to say, whether it can be reduced to some of those typical social-economic functions of the private autonomy (causes of the transaction) which are worthy and needy of legal protection according to the general views of the legal order (Article 1322 of the Italian Civil Code).¹⁴³ It helps, in particular, to understand whether the intent pursued, reconstructed in its psychological extra-legal meaning, is not incompatible with the usual causa of the envisaged transaction or whether, on the contrary, it is of such a nature to change, by reason of its illicitness¹⁴⁴ or social futility, the economic-social destination of the chosen contractual type. In short, when constructing a contract one has to be aware, according to Betti,¹⁴⁵ with foremost psychological criteria, of the doctrine of the private autonomy with regard to the coherency - and not the contrast - with the aim and the typical economic - social function of this autonomy which merits legal protection according to the views of the general legal order.¹⁴⁶

In French law, the construction of the terms of the contract may be described as follows:¹⁴⁷

¹⁴² Articles 1325 no. 2, 1343 to 1345 of the Italian Civil Code.

¹⁴³ Betti, Emilio, on "Teoria Generale Del Negozio Giuridica", vol. XV-2 of "Trattato Di Diritto Civile Italiano", 2nd. ed., 3rd reprint, ed. by Vassalli, Torino 1960, p. 332.

¹⁴⁴ Articles 1343 to 1345 of the Italian Civil Code.

¹⁴⁵ Betti, Emilio, on "Teoria Generale Del Negozio Giuridica", vol. XV-2 of "Trattato Di Diritto Civile Italiano", 2nd. ed., 3rd reprint, ed. by Vassalli, Torino 1960, p. 332.

¹⁴⁶ Article 1322 of the Italian Civil Code.

¹⁴⁷ Colin and Capitant on "Traité De Droit Civil", vol. II, Paris 1959, pp. 453 to 455; Mazeaud and Tunc on "Traité Théorique Et Pratique De La Responsabilité Civile, Délictuelle Et Contractuelle", vol. I, 6th ed., Paris 1965, pp. 222,223.

(i) Starting point is the interpretation of the declared will of the parties. The judge will have to consider whether the parties intended to obligate each other to this or that term of the agreement.

(ii) In the case of an express clause in the contract, the clause will have to be measured with public and social order.

(iii) The judge will undertake the construction with reference to the mandatory and non-mandatory rules contained in the codes.

Thus, the interpretation of the will of the parties in order to construct the terms of the agreement differs considerably between English law on the one hand and Italian and French law on the other hand. In French and Italian law the construction of the terms of the contract goes beyond the interpretation of the declared will of the parties - the judge imposes terms which the legislators drafted for those special contracts which are contained in the civil codes. The legislator considered these rules as corresponding to social desirability and, for that reason, incorporated them into the civil code assuming that the envisaged solution fitted best to the parties.

The interpretation of the will of the parties along the guidelines of social desirability works in that the judge measures the terms expressly agreed upon by the parties with the rules contained in the civil code. If the relevant rules in the civil code are non-mandatory, the parties may dispose of it. If the rules are mandatory, the terms will be binding. If the agreement of the parties is silent on this point, the mandatory or non-mandatory term will be implied by law. In the case where the contractual type envisaged by the parties is not regulated in the code, such as, for example, the licence contract, the judge will use a process of analogy and apply those rules of the nominate contract regulated in the code which comes closest to the agreement intended by the parties. The problem that the parties may not have known of the terms implied and considered socially desirable is overcome by the fact that the legislature in France and Italy did nothing but to regulate the legal regime of (a nominate) contract. The legislator thus obligates the parties to create certain terms if and because they agree on the conclusion of a contract.¹⁴⁸ This approach differs from English law "where the cardinal presumption is that the parties have intended what they have in fact said so that their words must be construed as they stand".¹⁴⁹

¹⁴⁸ Mazeaud and Tunc on "Traité Théorique Et Pratique De La Responsabilité Civile, Délictuelle Et Contractuelle", vol. I, 6th ed., Paris 1965, p. 225.

¹⁴⁹ Chitty on Contracts, vol. I, "General Principles", 26th ed., London 1989, p. 514, referring to *British Movietonews v London and District Cinemas* (1952) A.C. 166.

CHAPTER 2 THE PATENT LICENCE CONTRACT IN ENGLISH LAW.

Part 1: THE SUBJECT-MATTER OF THE PATENT LICENCE CONTRACT.

1 THE PATENTED INVENTION.

The patented invention as subject-matter of the licence contract is distinct from the qualification of the nature of the contractual relation. English law before the Patents Act of 1977 was clear in that it was accepted that the rights deriving from a patent were created through the grant only. Section 30(1) of the Act provides that any "patent is personal property (without being a thing in action)". The content of this proprietary right is qualified by the right to transactions (section 30(2) to (7)), and by the provisions regarding infringement, laid down in section 69. According to subsection (2) of this last provision, however, the applicant may bring proceedings concerning an infringement only after the patent has been granted, so that he cannot avail himself of preliminary protection. Before the publication of the application the proprietary character vests merely in the right to transaction and patent law does not provide any protection of this property.

1.1 The Patented Invention As Personal Property.

In English law, the patent is generally referred to as personal property. Since the term property is used but not defined within the Patents Act, some explanatory remarks will be useful. In English law the notion of property, historically, has been understood to signify land and interest in land. The prevalence in favour of real property existed throughout the feudal period where the position of the owner was initially protected by 'real actions' ("*actiones in rem*"), whereby the possession of the real property could be recovered. But damages was usually the only remedy for dispossession or withholding of possession of all other property ("*actiones in personam*").¹⁵⁰ These latter rights were generally called personal property rights. Personal property may be distinguished as chattels. Chattels are subdivided in chattels real and chattels personal. The term chattels real is used for leaseholds, whereas chattels personal

¹⁵⁰ Cheshire and Burn's on "Modern Law of Real Property", 14th ed., London 1988, p. 34: "Property which could be recovered in a real action was itself called real property and thus it resulted that real property consisted solely in the interest of land".

mean all other personal property. Chattels personal are again subdivided into two categories.¹⁵¹ They are either choses in possession, if they can be subject to physical possession and enjoyment, as with corporeal chattels, or choses in action which cannot be enjoyed by possession but generally by performing an action.¹⁵²

The qualification of choses in action as a kind of property indicates an extension of the concept of property which is much wider than the concept of property set out in the systems of civil law. Indeed, from the apt application of the term chose in action to debts the concept was developed to comprise, for example, all rights created by a contract which could be transferred from one person to another and to all other intangible forms of property, which means all incorporeal chattels, i.e. those which have a merely notional existence, not tangible in themselves but recognised by law. However, Vaines¹⁵³ explains that the classification of Roman law - things which can be touched as "*res corporales*" and contractual rights, servitudes etc. as "*res incorporales*" does not coincide with the classification of English law.

In English law the qualification of a right as an incorporeal chattel or as a chose in action has hardly any relevance for the scope of such a right. There are few comprehensive rules or doctrines governing choses in action on incorporeal chattels. It is more the case that the different rights comprised under the headings 'personal property' or 'choses in action' have developed their own contents so that debts, negotiable instruments, documents of title, copyrights or patents, although generally understood to form choses in action, do not receive common treatment. As Gurry says:¹⁵⁴ "In the common law, however, property is a very comprehensive notion and care must be taken to determine the sense in which it is used in this area. The cases indicate that property has been used in two distinct ways: first, in a metaphorical sense to describe the rights which a confider has in contract or equity as the result of a confidential disclosure; and, secondly, in reference to a court practice which is independent of any rights in contract or equity. Both these usages are to be distinguished from the entirely separate question of property in any physical material on which information may be recorded".

According to pre-Patents Act 1977 law, since the 18th century, the patent right was recognised as a property in the form of a chose in action. The patent right was conceived of as purely negative, consisting in the right to exclude others without conferring a 'positive' right to utilise the invention. It was the royal grant of the patent which was relied upon as the decisive factor when considering what rights were accorded by the patent. The form of the

¹⁵¹ Cheshire and Burn's on "Modern Law of Real Property", 14th ed., London 1988, pp. 35,36.

¹⁵² Cheshire and Burn's on "Modern Law of Real Property", 14th ed., London 1988, p. 36; Lawson and Rudden on "The Law of Property", 2nd ed., Oxford 1982, p. 20.

¹⁵³ Vaines, Crossley, on "Personal Property", 5th ed., London 1973, p. 14.

¹⁵⁴ Gurry, Francis, on "Breach of Confidence", Oxford 1984, p. 46.

patent grant contained two clauses, the granting clause and the prohibiting clause. Although the granting clause "gives" the "full power, sole privilege and authority" to "make, use, exercise and vend" the invention, it is only of historical importance. Its purpose was to free the patentee from any restrictions through trade guilds. Thus, it was the prohibiting clause containing provisions to punish infringement, which was decisive for the qualification of the patent right. Lord Herschell said in *Steers v Rogers*:¹⁵⁵ "That is a right which he" (the patentee sc.) "would have equally effectively if there were no letters patent at all. Only in that case all the world would equally have the right. What the letters patent confer is a right to exclude others from manufacturing in a particular way and using a particular invention". Furthermore, the interpretation of the nature of the patent right reflected the emergence of the patent from the royal prerogative during the 17th century. Focusing on the patent right as a privilege, Frost said:¹⁵⁶ "The privilege is a mere naked right, vested in the patentee and it would not be assignable unless the letters patent expressly made it so, for it contains no property within itself, making it of an assignable nature". The reference of authors and courts to the patent right as a monopoly has to be understood within this historical context. At the end of the 16th century, Elizabeth I, by her royal prerogative, granted royal monopolies, and this use of the term monopoly was retained from the 17th century onwards in the patent context, signifying nothing more than the exclusivity which exists in the relation between the patentee and his invention. Farwell, J. explained the right in *British Mutoscope and Biograph v Homer*¹⁵⁷: "I should be disposed to classify it myself as a chose in action; which has been defined to be a right to be asserted, or property reducible into possession either by action at law or suit in equity (...) Now this" (patent) "grant necessarily confers a right to bring an action to restrain infringement and to recover damages. At any rate, it is not a chose in possession (...) the patentee's right is entirely distinct from the right of property in the chattel - it is a right of action to prevent any dealing with that chattel in contravention of the Letters Patent, and such right is not part of or capable of seizure with the chattel, but is outside and antagonistic to the possessory title to the chattel".

The Patents Act 1977 made considerable inroads into these concepts. The Act states in section 130: ("right") that a patent right "includes an interest in the patent" and in section 30 (1) that a patent "is personal property (without being a thing in action)". Thus the Patents Act 1977 confirms that patents are property, but confuses the previous classification, according to which patents were regarded as choses in action. In *Colonial Bank v Whinney*¹⁵⁸ it was held

¹⁵⁵ *Steers v Rogers* (1892) RPC 177; (1893) RPC 245.

¹⁵⁶ Frost, Robert, on "Treatise on the Law and Practice Relating to Letters Patent for Inventions", 1st ed., London 1891, p. 304; vol. II, 4th ed., London 1912, p. 147, referring to *Duvergier v Fellows* (1828) 10 B.&C. 829.

¹⁵⁷ *British Mutoscope and Biograph v Homer* (1901) RPC 177, per Farwell, J. at 179.

¹⁵⁸ *Colonial Bank v Whinney* (1886) 11 App.Cas. 426.

that personal property must be either a chose in action or a chose in possession, "the law knows no tertium quid between the two".

Nevertheless, one may hesitate to classify the patent as a chose in possession, which it would be in consequence of the decision quoted which was upheld by the House of Lords. It would be appropriate here to consider the contents of the parliamentary Bill which culminated in the passing of the Patents Act 1977. Lord Cawley suggested that the words in the Bill "(without being a thing in action)" should be left out. Lord McCluskey held: "The new code is tailored to the nature of patents, whereas the rules governing things in action are not and are in many respects difficult to apply to patents, patent applications and the like. (...) In keeping with the general policy of the Bill to make as nearly as possible the same provisions in relation to United Kingdom patents, applications, and so on, as are made under the European Patent Convention in relation to their counterparts, it becomes necessary for the United Kingdom law to put it beyond doubt that applications of patents are objects of property capable of being transferred and otherwise dealt with"... Hence it follows that it was clearly not the intention of Parliament to create a new species of choses in possession. The purpose of the phrase "(without being a chose in action)" in section 30(1) of the Patents Act 1977 is to free patents and patent applications from rules governing choses in action without transferring them to the category of choses in possession, but to create a new category of personal property, a tertium quid, which follows its own rules.¹⁵⁹

The grant of patent and its form are no longer important for deciding upon the nature of the property, first, because the prohibiting clause has been superseded by the definition of infringement in section 60 of the Patents Act 1977 and, second, because an application for a patent is property, as section 30(1) of the Patents Act 1977 states, and section 31(2) which relates to the patent right in Scottish law, defines the patent right as "incorporeal moveable property". Melville¹⁶⁰ states that the patent should probably be classed as a chose in quasi-possession, and as a right in rem. Among the legal writers Cheshire and Burn's¹⁶¹ or Lawson and Rudden¹⁶² class patents as chattels personal, and Bell¹⁶³ defines, more generally, any intellectual property as "a particular group of choses in action".

¹⁵⁹ It is a different question whether Parliament was aware of the problem caused by the exemption of the patent right from the choses in action through the references of other Acts to choses in action, e.g. the Bankruptcy Acts, Law Of Property Act etc. For further references see Vaines, Crossley, on "Personal Property", 5th ed., London 1973, pp. 13 et seq.

¹⁶⁰ Melville, L.W., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.03, p. 3-4.

¹⁶¹ Cheshire and Burn's on "Modern Law of Real Property", 14th ed., London 1988, p. 36.

¹⁶² Lawson and Rudden on "The Law of Property", 2nd ed., Oxford 1982, p. 20.

¹⁶³ Bell, Andrew P., on "Modern Law of Personal Property in England and Ireland", London 1989, p. 23.

1.2 The Economic Concept Of The Patent Right As A Monopoly.

The use of the term 'monopoly' is common to the codified legal system since the Statute of Monopolies of 1623,¹⁶⁴ the sixth paragraph of which deals with patents for inventions. Even before that time English sovereigns granted monopolies for the carrying out of certain trades. In English law there was not need to justify or explain the patent right in relation to the economic doctrine of monopoly. The common law doctrine of abuse of monopoly fitted within the understanding of market power so that, different from some continental legal systems, the concept of monopoly was not foreign to patent law. The patent right does not give an inventor a monopoly in anything, notwithstanding the liberal use by numerous courts and commentators of the term 'monopoly' in patent related matters. Indeed, the patent gives the inventor only the right to exclude others from manufacturing, using or selling the patented article for a finite period of time. This exclusivity should not be construed as a 'monopoly' in the antitrust sense.

2 THE RIGHT IN THE PATENT APPLICATION.

English law before the Patents Act 1977 was clear in that it was accepted that the rights deriving from a patent were created through the grant only. The difference between the exclusive right deriving from the patent and the invention not protected by a patent was made clear by Frost:¹⁶⁵ "Notwithstanding the fact that the inventor has no property in his invention, unless and until it is made the subject of a grant of letters patent, he has such an interest in an invention for which he intends to take out a patent as to be able to make and enforce an agreement concerning it". Section 130(1) of the Act defines the term 'right' in relation to a patent application, as including "an interest in the application", and section 30(1) of the Act provides that "any application for a patent is personal property (without being a thing in action)". The content of this proprietary right is qualified by the right to transactions, section 30(2) to (7), and, after the publication of the application, by the provisions regarding infringement, contained in section 69 of the Act. In the case where a patent application is licensed, it may be difficult to identify the invention, because the applicant could have had to

¹⁶⁴ 21 Jac. 1,c.3.

¹⁶⁵ Frost, Robert, on "Treatise on the Law and Practice Relating to Letters Patent for Inventions", 1st ed., London 1891, p. 304.

narrow the claims before a patent will be granted. In *Fluflon v Frost*¹⁶⁶ it was held that the subject-matter of the licence for which royalties were payable was the invention as disclosed to the licensee and not the invention relating to the patent application. The *Encyclopedia of UK and European Patent Law*¹⁶⁷ recommends defining the licence by the claims as existing from time to time. If the licensee does no longer work the invention as defined in the application due to amendments of the claims, the licensee should in order to avoid being estopped from raising these issues, stop the payment of royalties and argue that he is no longer working the licensed invention.¹⁶⁸

Part 2: THE LICENCE AND THE LAW OF CONTRACT.

1 ORIGINS, USE AND DEFINITION OF THE TERM LICENCE.

The word licence as used in the English language is of French origin. It derives from the latin word '*licentia*', the noun, and the verb '*licere*' - to be allowed or lawful. In the common language the word is referred to as a permission resting on some general authority; such as the licences given by the government. Applied to individuals the word licence carries with it the idea of special authority.¹⁶⁹

Broadly speaking, patent licences can be sub-divided into contractual or voluntary licences and licences granted by the public authorities. However, the borderline between these two forms may not easily be drawn, since the licences granted by public authorities contain elements of contractual licences. To the contractual licences belongs the licence of right, because its grant depends upon the declaration of the patentee that licences are available as of right. To the licences granted by public authorities belong the compulsory licence and the utilisation of the patented invention by the Crown.

1.1 The Definition Of The Term Licence.

¹⁶⁶ *Fluflon v Frost* (1968) RPC 508.

¹⁶⁷ Vitoria, Jacob, Cornish, Alexander and Clark on "Encyclopedia of UK and European Patent Law", London 1977, issue December 1992, no. 8-420.

¹⁶⁸ *Lyle-Mellor v Lewis* (1956) RPC 14.

¹⁶⁹ Crabb's English Synonyms, London 1816, revised ed. 1916, reprint 1956, "leave", p. 479.

The definition of the patent licence in English law is given in *Heap v Heartley*¹⁷⁰ as nothing more than the permission of the patentee that the licensee may commit acts in relation to the patent which without his consent would amount to patent infringement. Thus, within the legal context the word licence has assumed the meaning of a permission to do what otherwise would be forbidden, or as a permission which makes an action lawful which without it had been unlawful.¹⁷¹ In consequence of this understanding of the licence in a 'negative' sense, it follows that the patentee does not transfer any 'positive' patent right to make use of the patented invention, and thus a licence does not qualify as 'property'.¹⁷² The licensee is merely protected against any suit of patent infringement by the patentee. This may be unsatisfactory, in particular with regard to the licensee's position in the case of patent infringement by third persons. This understanding of the licence can be traced back to the concept of the 'bare licence', by which the patentee makes use of his privilege to permit another person to commit acts which otherwise would constitute patent infringement. This 'bare licence' does not engender any obligations and the patentee may revoke it at any time.

Differing from the concept of 'the bare licence', English law developed the concept of the 'licence coupled with an interest'. Lindley, L.J. defined the term 'licence coupled with an interest' in *Guyot v Thomson*:¹⁷³ he understood this term as indicating that the licensees are not the assignees of the patent and by the implication of a term that the licence is not revocable at will. The contractual licence is therefore "the usual vehicle for a patent licence. It has the advantage that it can be made binding for a fixed period, whereas a licence, on ordinary legal principles, is revocable on reasonable notice".¹⁷⁴

Nonetheless, some doubts have been cast on the value of this definition by the Patents Act of 1977. The Act does not give an exhaustive definition of the term licence but declares in section 130 (which is entitled "exclusive licence"): "'Exclusive licence' means a licence from the proprietor of or applicant for a patent conferring on the licensee, or on him and persons authorised by him, to the exclusion of all other persons (including the proprietor or applicant) any right in respect of the invention to which the patent or application relates"...

1.1.1 Exclusive And Non-Exclusive Licences, Sole Licences.

¹⁷⁰ *Heap v Heartley* (1889) RPC 495, 500.

¹⁷¹ See *Thomas v Sorrell* (1673) Vaugh. 351.

¹⁷² Melville, L.W., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.09(1), p. 3-17.

¹⁷³ *Guyot v Thomson* (1894) RPC 541,553.

¹⁷⁴ Melville, W.R., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.16(5), p. 3-29.

In English law, Falconer, J. explained the difference between the exclusive and the sole licence in *PCUK v Diamond Shamrock Industrial Chemicals*¹⁷⁵ by referring to section 130 of the Patents Act 1977, bringing to recollection that the distinction between the sole and the exclusive licence consists in the fact that the exclusive licence excludes all others, including the proprietor from the utilisation of the invention. The grant of an exclusive licence was understood as a cesser to competition - the validity of which was not cast into doubt in *Linotype and Machinery v Hopkins*.¹⁷⁶ Section 130 of the Patents Act 1977 now defines the term 'exclusive licence' in subsection 1 so that there can be no doubt about the lawfulness of the exclusive licence.¹⁷⁷

Under a 'sole licence' an English lawyer understands a licence which does not prohibit the licensor from the exploitation of the patented invention within the licensed territory, but which obligates him not to grant further licences to third persons.¹⁷⁸

1.1.2 Total And Partial Licences.

In the absence of any limitation stipulated in the contract, the licence will relate to all uses of the patented invention for the whole of the territory for which the patent was granted and for the whole duration of the patent.¹⁷⁹ The licence may be limited to only a part of the patented invention, such as to the manufacture;¹⁸⁰ it may be limited to a certain part of the territory for which the patent is granted,¹⁸¹ or for a part of the patent term,¹⁸² or for a certain use of the

¹⁷⁵ *PCUK v Diamond Shamrock Industrial Chemicals* (1981) FSR 427,430.

¹⁷⁶ *Linotype Machinery v Hopkins* (1910) RPC 109.

¹⁷⁷ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 185, states that the licensor undertakes by the exclusive licence "not only to grant no other licences but also not to manufacture or sell within the licensee's province himself".

¹⁷⁸ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 185, fn. 68; Melville, W.R., on "Forms and Agreements on Intellectual Property and International Licensing, Patents for Inventions", 3rd ed., New York 1984, § 3.13; p. 3-22.

¹⁷⁹ *Dunlop Pneumatic Tyre v North British Rubber* (1904) RPC 161.

¹⁸⁰ *Basset v Graydon* (1897) RPC 701.

¹⁸¹ *S.A. des Manufactures de Glaces v Tilghman's Patent Sand Blast* (1883) L.R. 25 Ch.D. 11; *National Phonograph of Australia v Menck* (1911) RPC 229,247.

¹⁸² Frost, Robert, on "Treatise on the Law and Practice Relating to Letters Patent for Inventions", vol. II, 4th ed., London 1912, p. 190.

patented invention only.¹⁸³ As concerns territorial restrictions, the licence may be limited to a certain district of the territory for which the patent is granted.¹⁸⁴

1.1.3 Implied And Limited Licences, The Exhaustion Of The Patent Right.

Under the law before the 1977 Patents Act, the conduct which constituted patent infringement was listed in the prohibiting clause of the patent grant. By reason of this formulation¹⁸⁵ nobody was entitled to do any of these acts unless he could show a personal licence from the patentee to do so.¹⁸⁶ Therefore anyone who made use of a patented article during its normal lifetime needed a licence if he were not to commit patent infringement. Courts solved this problem by implying a licence, "given by the patentee to the purchaser that he shall use that which he has bought, and, in the absence of condition, this implied licence is a licence too use or sell or deal with the goods as the purchaser pleases".¹⁸⁷ Thus, "the existence of a licence may be inferred from the conduct of the parties".¹⁸⁸ The doctrine is still good law with regard to patent infringement, although section 60(1) of the Patents Act 1977 no longer requires the rebuttal of any licence but the mere consent of the proprietor of the patent if patent infringement shall be established. As Cornish¹⁸⁹ states, "even when the patentee made or authorised a sale of patented goods, restrictions of their further sale or use could still be imposed as part of the patent right: these would bind not only another contracting party but all recipients of the goods with notice of the restrictions". Any subsequent purchaser of the goods who knows about the conditions will be bound.

¹⁸³ *Incandescent Gas Light v Cantelo* (1895) RPC 262; *Incandescent Gas Light v Brogden* (1899) RPC 179; *Dunlop Pneumatic Tyre v Buckingham and Adams Cycle and Motor* (1901) RPC 423; *National Phonograph of Australia v Menck* (1911) RPC 229,247.

¹⁸⁴ *S.A. des Manufactures de Glaces v Tilghman's Patent Sand Blast* (1883) L.R. 25 Ch.D. 11; *National Phonograph v Menck* (1911) RPC 229,247.

¹⁸⁵ The form of the patent grant according to the Patent Rules 1968, Schedule 4, printed in Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, pp. 769 to 771, is worded: "...the written consent, licence or agreement of the patentee"...

¹⁸⁶ *National Phonograph of Australia v Menck* (1911) RPC 229.

¹⁸⁷ *Buckley, J. in Badische Anilin und Soda Fabrik v Otto Isler* (1906) RPC 173 at 180; and see *Betts v Willmott* (1971) LR 6 Ch. App. 239 at 245 per Lord Hatherley L.C.: "When a man has purchased an article, he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his licence to sell the articles, or to use it wherever he pleases as against himself"; *Dunlop Pneumatic Tyre v Neal* (1889) RPC 247; *Hazeltine Corporation v Lissen Ltd.* (1939) RPC 62,68; *Incandescent Gas Light v Cantelo* (1895) RPC 262,264; *S.A. des Manufactures de Glaces v Tilghman's Patent Sand Blast* (1883) 25 Ch.D. 1, 9; *Thomson v Hunt* (1864) 17 CNBS 183; *Frost, Robert*, on "Treatise on the Law and Practice Relating to Letters Patent for Inventions", 4th ed., vol. II, London 1912, p. 181; *Moulton, Fletcher, H.* on "The Present Law And Practice Relating To Letters Patent For Inventions", London 1913, p. 243; *Terrell, Thomas*, on "The Law of Patents", 13th ed., London 1982, pp. 278,279.

¹⁸⁸ *Melville, W.R.*, on "Forms and Agreements on Intellectual Property and International Licensing, Patents for Inventions", § 3.13, p. 3-22, referring to *Tweedale v Howard & Bullough* (1896) RPC 522,529.

¹⁸⁹ *Cornish, W.R.*, on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 165.

Since the patentee, by virtue of his exclusive rights, has the power to prevent anyone from using or dealing with his articles, he has the right to do a lesser thing, that is to say, to impose conditions or restrictions on the sale.¹⁹⁰ "If these conditions are broken, then there is no licence, because the licence is bound up with the observance of the conditions"¹⁹¹ and any utilisation of the patented article may amount to patent infringement.¹⁹²

In order to improve the benefits he receives by reason of the exploitation of his monopoly rights, a patentee may be interested in limiting the licence by binding it up with conditions or restricting it, so that, for example, the licensee may use the patented article in a certain area only or for a certain use only. Since 1895 the courts have been concerned with the systematic employment of limited licences by companies.¹⁹³ The most important question concerned the problem whether the sub-purchaser who did not know of any restriction or condition bound up with the licence acquired the article without restrictions. Buckley, J. relied on the principle that knowledge was not a decisive factor in dealing with the problem whether patent infringement has been committed¹⁹⁴ and stated:¹⁹⁵ "If a person innocently uses a patented invention, not knowing that there is a patent, he is none the less an infringer, and if a person innocently buys and uses a patented invention, deriving title under a licence, not knowing that there are limits under the licence, I conceive that he is equally an infringer".

The Judicial Committee of the Privy Council took a different path to solve the problem in the leading case *National Phonograph v Menck*.¹⁹⁶ It tried to find a balance between the interests of the patentee to exploit his monopoly rights and the interests of the public in the security of trade.¹⁹⁷ Focusing on the difficulty to "adjust the incidence of ownership of ordinary goods with the incidence of ownership of patented goods in such a manner as to avoid any collision of principle" - in the words of Lord Shaw¹⁹⁸ - the Court rejected the idea that the restrictions or conditions ran with the goods, binding any sub-purchasers who even were not aware of

¹⁹⁰ Wills, J. in *Incandescent Gas Light v Cantelo* (1895) RPC 262 at 264.

¹⁹¹ Kennedy, J. in *Incandescent Gas Light v Brogden* (1899) RPC 179 at 183.

¹⁹² *Incandescent Gas Light v Brogden* (1899) RPC 179; *Dunlop Rubber v Longlife Battery Depot* (1958) RPC 473, per Lloyd-Jacob J. at 476: "Ever since the decision in *Incandescent Gas Company v Brogden* (...) there has been no question that a purchaser who buys with knowledge of the conditions under which his vendor is authorised to deal in a patented article is bound by such conditions, not because such conditions are contractual but because they are incident to and a limitation upon the grant of the licence to deal in the patented article, so that if the conditions are not complied with, there is no grant at all".

¹⁹³ The first reported case is *Incandescent Gas Light v Cantelo* (1895) RPC 262.

¹⁹⁴ The Patents Act of 1977 seems to have parted with the strict application of this principle, see section 62(1).

¹⁹⁵ In *Badische Anilin und Soda Fabrik v Otto Isler* (1906) RPC 173,180.

¹⁹⁶ *National Phonograph of Australia v Menck* (1911) RPC 229.

¹⁹⁷ Buckley, J. solved this problem by suggesting that the patentee may be estopped from saying that the purchaser or sub-purchaser who had bought the article without knowledge of any limitation bought it with a limited licence, *Badische Anilin und Soda Fabrik v Otto Isler* (1906) RPC 173 at 181.

¹⁹⁸ *National Phonograph of Australia v Menck* (1911) RPC 229 at 245 per Lord Shaw.

them. It was held that the limitation is effective only if the purchaser or sub-purchaser knew of it at the time of the purchase.¹⁹⁹

Lord Shaw stated the principle²⁰⁰ "that where a patented article has been acquired by sale, much, if not all, may be implied as to the consent of the licensee to the undisturbed and unrestricted use thereof". Lord Shaw's words suggest that the purchaser or sub-purchaser acquires this implied unlimited licence from the licensee and not necessarily from the patentee. This seems questionable as the licensee only has a limited licence. Since he could not grant an express unlimited licence, it is not clear upon which legal basis he should be able to give an implied unlimited licence. It is the patentee who has the exclusive rights towards the invention, therefore a limitation of the licence could only be imposed by him.²⁰¹ One of the functions of patent law is to reward the inventor. By limiting the licence the patentee is in a position to increase his gains directly through the limitation of the use which the licensee may make of the patented invention. He may authorise his exclusive or non-exclusive licensee to sell the articles with a limited licence. The principle appears to be that the purchaser of an article cannot have a greater right in the article than the seller could give him, *Minnesota Mining and Manufacturing v Geerpres Europe*.²⁰² Accordingly, the implied licence has to be attributed to the patentee. The licensee, in turn, may only impose a limitation on the purchaser's use of the patented article if this corresponds with the licence which the patentee has granted him. The restraints which the licensee imposes upon purchasers of patented articles will otherwise bind them only in contract. According to *Blanco-White and Jacob*²⁰³ the licensor may use any condition or limitation, subject, however, to the constraints imposed by competition law, be it on a national or supra-national level.

1.2 Voluntary Licences.

¹⁹⁹ If the purchaser acquires the knowledge after the purchase, he is not bound by the conditions: Bennett J. in *Gillette Industries v Bernstein* (1941) RPC 271 at 279, where it was held that a limitation of the licence printed upon the bottom of a carton would not bind the purchaser "because knowledge of the conditions imposed by the patentee has not been brought home to him at the time of the sale".

²⁰⁰ Lord Shaw in *National Phonograph of Australia v Menck* (1911) RPC 229 at 245.

²⁰¹ Warrington, J. in *Gillette Safety Razor v A.W. Gamage* (1908) RPC 492,499; see Frost, Robert, on "Treatise on the Law and Practice Relating to Letters Patent for Inventions", 4th ed., vol. I, London 1912, pp. 383,384; differing: Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 279, saying that "a licensee may similarly impose restrictions upon articles made and sold by him"... so that "any contravention of them constitutes an infringement in respect of which a patentee or an exclusive licensee may take action".

²⁰² *Minnesota Mining and Manufacturing v Geerpres Europe* (1974) RPC 35,40.

²⁰³ *Blanco-White and Jacob* on "Patents, Trade Marks, Copyright and Industrial Designs", 3rd ed., London 1986, p. 35.

To the voluntary licences belong the licence created by contract, the licence by estoppel, the licence created by formal contract, the licence created in equity and the licence of right. Non-voluntary licences which will not be analysed within this study are the compulsory licence and the licences for services of the Crown.

1.2.1 Contractual Licences.

The conclusion of a patent licence contract does not deprive the licensee of the possibility of asserting his exclusive rights granted by the patent. The nature of the licence as a consent or permission to commit acts which would otherwise constitute patent infringement is not different whether or not the licence is coupled with an interest. The decisive criterion for the question whether conduct simultaneously constitutes both patent infringement and breach of contract, is thus not the problem, or whether the licence has been given in return for a consideration, but decisive is whether the licence was total or partial. The licensee will commit breach of contract and patent infringement if the licence relates, for example, to a certain territory of the national state or to a certain kind of exploitation, such as the sale of patented products, and the licensee sells the articles outside the specified territory or produces the articles himself. Court practice thus accepts that the licensor may act against patent infringement, if the licensee exceeds the terms of the licence.²⁰⁴

1.2.2 Licences Created By Estoppel.

The conception of the licence as a mere consent or permission is inherent in the concept of the licence by estoppel. Here the licence will be presumed, even if the patentee does not expressly consent to the exploitation by the licensee but where his conduct permits him to be considered as estopped from employing his exclusive rights with regard to the licensee. The licence by estoppel is created if the patentee by his own conduct, induces the presumed licensee, to assume that he is a licensee with the consequences that the position of the patentee changes to the patentee's disadvantage.²⁰⁵

1.2.3 Licences Created By Formal Contracts.

²⁰⁴ *Bown v Humber* (1889) RPC 9; *Incandescent Gas Light v Cantelo* (1895) RPC 262.

²⁰⁵ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertrage", 2nd ed., ed. by Langen, Weinheim 1958, p. 177.

In addition, the licence may be created by a formal document. Whether the licence has been concluded by agreement or by formal contract, it produces the same legal consequences. It has been held that the stipulation in the agreement of the execution of a deed was not a condition precedent for the conclusion of a patent licence contract, the licence being enforceable from the agreement.²⁰⁶

1.2.4 The Licence Created In Equity.

A licence may also be created in equity. In *Post Card Automatic Supply v Samuel*²⁰⁷ the plaintiff had granted a licence which the licensee subsequently assigned to the defendant. The licensor accepted the assignment subject to, amongst others, the "preparation and execution of a fresh licence which should contain powers for the licensor to seize machines and revoke licences if the commuted instalments were not punctually paid". By way of analogy to the leasing contract, Stirling, J. denied that the execution of a formal licence was a condition precedent to there being an agreement between the parties: "Here it seems to me that the true meaning of these letters is this, that the parties became bound, the one to grant, and the other to accept, a licence for the use of these patent rights (...). There it follows that, in equity, they stand in the same position, as if the formal legal document had been executed";... However, this means is not easily available, as shown by the following cases: In *Bagot Pneumatic Tyre v Clipper Pneumatic Tyre*²⁰⁸ the plaintiff granted an exclusive licence to the "licensee and his assigns". The parties assumed that the licensee would assign the licence to the defendant company which was in the process of formation. The contract between the plaintiff and the defendant provided for a payment which was dependent upon the profits made by the defendant company. Without there being an effective 'assignment' of the licence between the licensee and the defendant company, Vaughan Williams, L.J. discussed²⁰⁹ whether the defendant was liable in equity since it had the benefits of the licence and has been acting under it. But he denied that such an assumption could be based on the principles of equity. He accepted as good law "that if you had notice of a contract between the person under whom you claim and a former owner of the property (whether real or personal does not matter) whereby a charge or encumbrance has been imposed upon the property of which you thus have enjoyment, you take the property subject to that charge of encumbrance". The question to be asked is, could the assumed licensee be considered as taking the property as which had

²⁰⁶ *Chanter v Dewhurst* (1844) 13 L.J.Ex 198, where the defendant pleaded in vain that the licence was not sealed.

²⁰⁷ *Post Card Automatic Supply v Samuel* (1889) RPC 560.

²⁰⁸ *Bagot Pneumatic Tyre v Clipper Pneumatic Tyre* (1902) RPC 69.

²⁰⁹ Vaughan Williams, L.J. in *Bagot Pneumatic Tyre v Clipper Pneumatic Tyre* (1902) RPC 69 at 75.

to be considered the licence, subject to the conditions as are expressed in the licence agreement. Vaughan Williams, L.J. rejected the equation between the encumbrance and the obligations imposed upon the party by a contract: he did not accept that beyond the imposition of an encumbrance the party who has the property in possession would be obligated to perform the terms of a contract to which he is not a party.

Concerned with a case where a patentee had granted an exclusive licence to one party and subsequently a second licence to a third person, the Chancery Division held that the patentee "had no power" to enter into a licence with the third person, the second licensee, in *British and International Proprietaries v Selcol Products*²¹⁰ and Evershed, M.R. explained the equitable licence as a proprietary interest in *British Nylon Spinners v Imperial Chemical Industries*:²¹¹ "A person who has an enforceable right to a licence under an English patent appears (...) to me to have at least some kind of proprietary interest which it is the duty of our courts to protect".

According to Melville²¹² "there is authority for the proposition that an exclusive licence may amount to an assignment". Melville refers to *Guyot v Thomson*²¹³ and asserts that it is a matter of construction of the agreement whether the contract amounts to an assignment of the patent right. He concedes that in the case where obligations such as the maintenance or the enforcement of the patent rights remain with the 'licensor', it is less likely that the contract will be regarded as an assignment. However, it seems that since the Patents Act 1977 distinguishes clearly between the two contractual types of the licence and the assignment of the patent, there should not be much room for interpretation.

1.2.5 Licences Of Right.

The patentee may wish to offer expressly to anyone the possibility to make use of his patented invention against the payment of a royalty. In this case he may cause an entry into the patent register that licences are available as of right. The licence of right is dealt with by section 46 of the Patents Act 1977. Terms of the licence of right may be settled by agreement, or, in default of agreement, by the Comptroller-General, section 46(3)(a) of the Patents Act 1977.

²¹⁰ *British and International Proprietaries v Selcol Products* (1957) RPC 3,5.

²¹¹ *British Nylon Spinners v Imperial Chemical Industries* (1952) RPC 288,294.

²¹² Melville, L.W., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.06, p. 3-13 and § 3.13, p. 3-22, referring to *Guyot v Thomson* (1894) 3 Ch. 388,398.

²¹³ *Guyot v Thomson* (1894) RPC 541.

2 THE PATENT LICENCE WITHIN THE AMBIT OF SPECIAL CONTRACTS.

2.1 The Principle Of Freedom Of Contract.

In English law the interpretation and construction of a contract depends essentially upon the words used by the parties. Different from the civil law systems, it is not necessary to liken the innominate contracts to the nominate ones in order to establish a set of rules which are applicable by way of analogy. Thus in English law a contractual licence will not be treated as a lease either in direct application of the rules established for a leasing contract or in the indirect manner by applying these rules by way of analogy, the law of contract developed independently of a civil code supposed to represent the satisfactory solution to the socially relevant questions which law has to deal with. Although this does not mean that case law would not borrow a principle applicable to the law of a different contractual type, if this appears appropriate.

Concentrating on the leasing contract and on the licence, it may be worthwhile to investigate the differentiation set out in Halsbury's Laws of England²¹⁴ which referred to the opinion of Lord Denning, M.R. in *Shell-Mex v Manchester Garages*:²¹⁵ The question whether the transaction creates a licence or a tenancy "depends on the nature of the transaction itself (...) whether it is a personal privilege given to a person, in which case it is a licence, or whether it grants an interest in land, in which case it is a tenancy. At one time it used to be thought that exclusive possession was a decisive factor, but that is not so. It depends on broader considerations altogether. Primarily whether (the transaction) is personal in its nature or not". The difference between a licence and a lease thus seems to be that the licence gives the permission to occupy a house or land, whereas the lease gives a stake in the land or house: *Marchant v Charters* per Lord Denning, M.R.²¹⁶ In this sense, the licence does not mean anything *other* than a personal permission, binding in law. Accordingly, the parties of the contract are free to stipulate the terms of the agreement as they think fit.

2.2 The Patent Licence And Special Contracts.

²¹⁴ Halsbury's Laws of England, 4th ed., vol. 27, London 1981, pp. 16 to 23.

²¹⁵ *Shell-Mex and BP v Manchester Garages* (1971) 1 All ER 841 at 843 CA per Lord Denning, M.R.

²¹⁶ *Marchant v Charters* (1977) 3 All ER 918 at 922 per Lord Denning.

When construing the terms of patent licence contracts, courts often refer to other contractual types in order to develop principles of law.

2.2.1 The Contract Of Sale.

In English law it is clear that a licence does not import the assignment of the patent.²¹⁷ The licence is understood as a minus to the assignment in which it is contained. This was made clear by Warrington, J. in *Bowden Brake v Bowden Wire*.²¹⁸ In this case the patentee had granted a licence and afterwards assigned the patent to the licensee. The Court held that the licence "had been merged by the assignment", so that the subsequent surrender of rights out of the licence by the assignee did not effect anything "but matters remained exactly as they were".²¹⁹ In *Heap v Heartley*²²⁰ the differentiation was considered in that the grant of the exclusive licence was not equivalent to an assignment of the patent by the fact that the exclusive licensee was not entitled to sue the infringers in his own name.

2.2.2 The Leasing Contract.

The similarity of a patent licence contract with a leasing contract was discussed by English courts under different aspects. In *Clark v Adie*²²¹ Lord Blackburn confirmed the 'perfect analogy' between these two cases. He based the application of the principle of estoppel upon an analogy to the leasing contract: "The position of a licensee (...) is very analogous indeed to the position of a tenant of lands who has taken a lease of those lands from another. So long as the lease remains in force, and the tenant has not been evicted from the land, he is estopped from denying that his lessor had a title to the land". In *Chadwick v Bridges*²²² the parties to the agreement had failed to agree upon a rate of royalty or on a method of fixing the royalty; Lloyd Jacobs, J. considered whether this omission rendered the arrangement nugatory. He referred to those cases which regarded the agreement on all material terms as necessary for

²¹⁷ *Guyot v Thomson* (1894) RPC 541 at 553 per Lindley, L.J.

²¹⁸ *Bowden Brake v Bowden Wire* (1913) RPC 561,578.

²¹⁹ In *Heap v Heartly* (1889) RPC 500,501, the differentiation was considered in that the grant of the exclusive licence was not equivalent to an assignment of the patent by the fact that the exclusive licensee was not entitled to sue infringers in his own name.

²²⁰ *Heap v Heartley* (1889) RPC 500,501.

²²¹ *Clark v Adie* (1877) LR 2 App.Cas. 423,435.

²²² *Chadwick v Bridges* (1960) RPC 85.

the conclusion of a valid contract,²²³ but then he refrained from applying the principles derived from those cases by stating²²⁴ "that the better parallel will be found in the cases which concern the grant of leases and the like". Accordingly, the court is entitled to fix a reasonable royalty in consideration of the circumstances at the date of the grant of the licence. However, it appears that with regard to the rules concerning the implication of terms in fact, a careful approach will be recommendable as to whether the analogy with the leasing contract will suffice to imply a term in fact as reasonable between the parties if the parties have failed to agree on such an essential point of law.²²⁵

In *Post Card Automatic Supply v Samuel*²²⁶ the similarity between a patent licence contract and a leasing contract or conveyance led Stirling, J. to assume that even where the proposal to assign a patent licence contract had been accepted by the other party, subject to the preparation and execution "of a fresh licence", the grant of the licence had not to be considered as a condition precedent to the conclusion of the contract. He explained: "It is much more like the granting of a lease or the execution of a conveyance than the preparation of a formal agreement which is to embody the formal agreement between the parties; and if an agreement is made for a lease in which all the terms are ascertained, and it is made subject to the execution of a formal lease by the parties, then I take it as granted that nobody would say that the execution of the lease was a condition precedent to there being an agreement between the parties. Here it seems to me that the parties became bound, the one to grant, and the other to accept, a licence for the use of these patent rights (...). Then it follows that, in equity, they stand in the same position as if the formal document had been executed";...

The difference between a patent licence contract and a contract between landlord and tenant was emphasised in *African Gold Recovery v Sheba Gold Mining*.²²⁷ Matthew, J. denied the subsistence of an analogy between the case where the tenant suffers from an eviction and the case where the licensee sees the patent revoked. The term 'eviction' in this sense refers to the case of the legal eviction only, that is to say where the tenant is by legal order obligated to leave the property. In this sense the term 'eviction' differs considerably from the meaning of the term in French or Italian law, where it covers cases of dispossession. It is clear that the revocation of a patent does not imply that the licensee is prohibited from using the patented process, since the revocation affects the exclusive right only and not the subject-matter of the right, the invention. Revocation, in English law, engenders the fall of the invention into the public domain, and this would generally permit anyone to utilise the invention, whereas the

²²³ *Foley v Classique Coaches* (1934) 2 KB 1,12; *May and Butcher v The King* (1934) 2 KB 17,21.

²²⁴ Lloyd Jacobs, J. in *Chadwick v Bridges* (1960) RPC 85 at 91.

²²⁵ See Phang, Andrew, on "Implied Terms in English Law - Some Recent Developments", *The Journal of Business Law* (1993) 242 to 255 at 249.

²²⁶ *Post Card Automatic Supply v Samuel* (1889) RPC 560,562.

²²⁷ *African Gold Recovery v Sheba Gold Mining* (1897) RPC 660.

dispossession of the lessee deprives him of the possibility to utilise the subject-matter of the lease. Also in *Chanter v Leese*²²⁸ the similarity of the licence contract to the leasing contract was rejected in that the licensee was denied to be in a situation similar to that of a tenant towards his landlord. He was considered to be in no way estopped from showing any failure of the consideration for his promise to pay the annuity to the plaintiff since one of six patents was void due to lack of novelty. Thus, a parallel between the leasing contract and the patent licence contract may only carefully be drawn, the rules applicable to the leasing contract cannot 'automatically' be applied; the rules relating to the leasing contract are applicable to the licence contract only, if there exists a parallel between the subject-matters of the contracts and the interests of the parties.

2.2.3 Agreements With Associative Character.

The parties may agree upon the conclusion of a contract with an associative character, for example if they utilise the inventions within the framework of a joint venture, a joint research program, an exchange of patented competing or complementary technology by cross-licensing. The configuration of such an agreement may be complex, depending upon the purpose which the parties pursue, so that the principles of company law will be applicable since such an agreement exceeds the scope of a licence contract.²²⁹

2.2.4 The Patent Pool.

The pooling of patents does not constitute a particular form of the patent licence contract. Generally, it may be said that a patent pool is an independent legal body which administers the patents for the benefit of the parent companies which transfer their property in the patented inventions to the joint subsidiary. The pool will grant licences to the participants for the exploitation of the patented inventions which it administers. Often cross licensing agreements are referred to as pools where there are more than two parties involved.²³⁰

²²⁸ *Chanter v Leese* (1939) 5 M. & W. 698.

²²⁹ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trademarks and Allied Rights", 2nd ed., London 1989, p. 186.

²³⁰ Korah, Valentine, on "Competition Law of Britain and the Common Market", 3rd ed., The Hague 1982, p. 126.

3 REQUIREMENTS OF FORM AND REGISTRATION.

3.1 Requirements Of Form.

It is not required that a licence be in writing or created by a formal contract - a parol agreement will suffice.²³¹ There is no requirement of form for a patent licence contract.²³² In *Tweeddale v Howard and Bullough*²³³ Chitty, J. held that the licence "though it never was granted under seal, it was granted by the correspondence itself".²³⁴

3.2 Requirements Of Registration.

According to section 33(3)(c) and of the Patents Act 1977, the registration of a licence has effect with regard to third persons who claim to have acquired a right as regards the patent by virtue of an earlier transaction if - according to subsection (1)(a) - at the time of the later transaction the earlier transaction was not registered, or - according to subsection (1)(b) - in the case of any application which has not been published, notice of the earlier transaction had been given to the comptroller, and - according to subsection (1)(c) - in any case, the person claiming under the later transaction, did not know of the earlier transaction.

Subsection 1(c) of section 33 of the Patents Act 1977 covers the case of equitable rights. In *New Ixion Tyre v Spilsbury*²³⁵ the defendant concluded a licence contract subsequent to the conclusion of the assignment of the patent. The licensee knew about the assignment. The licence was registered prior to the assignment of the patent. The assignee brought an action against the licensee that the licence was declared void. Kekewich, J. held: "The result is, that I must hold that the licence, although on the Register prior to the registration of the agreement

²³¹ *Morton Norwich Products v Intercen* (1981) FSR 343; Lane, Terence M., on "English Law and Practice Relating to International Licensing Agreements", 2nd ed., ed. by Pollzien and Langen, Indianapolis 1973, p. 120.

²³² Walton, Anthony, M. on "Grossbritannien" in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, pp. 173,174.

²³³ *Tweeddale v Howard and Bullough* (1896) RPC 522,530.

²³⁴ This is true also for the creation of an exclusive licence: "Whether a document does or does not confer exclusive rights upon a party claiming to be an exclusive licensee is a mixed question of law and fact", see Melville, W.R., on "Forms and Agreements on Intellectual Property and International Licensing", 3rd ed., New York 1984, § 3.13, p. 3-22; referring to *Morton Norwich v Intercen* (1981) FSR 337.

²³⁵ *New Ixion Tyre v Spilsbury* (1898) RPC 380,383.

(...) does not interfere with the plaintiff's rights and that as against them it is not binding. Lindley, M.R.²³⁶ explained: "That proviso cannot be cut down. When it says that 'any equities in respect of such patent', it cannot mean registered equities (...). It means that any equitable rights in any person in respect of such patent may be enforced in like manner as in respect of any other personal property. What are they? Those rights are that they can be enforced in equity against the persons who have taken with notice". This principle is sustained in section 33(1)(c)(2)(3) of the Patents Act 1977 according to which a registered transaction cannot be opposed by a person who knew of the earlier transaction.

Part 3: THE INCIDENCE OF ANTITRUST LAW.

In English law there is no single statute on antitrust law. Some aspects of antitrust law are dealt with by the Patents Act 1977, others by the Restrictive Trade Practices Act 1976, the Competition Act 1980, the Fair Trading Act 1973, the Resale Prices Act 1976 or the common law doctrine of restraint of trade. However, as Cawthra²³⁷ recognises, UK competition law did not have a marked impact upon patent licensing.

1 THE RESTRICTIVE TRADE PRACTICES ACT 1976.

According to the Restrictive Trade Practices Act 1976 contracts by means of which the parties undertake to restrict their conduct have to be registered. According to section 1(1)(a) and (c) of the Act restrictive agreements as to goods or services are subject to registration. According to sections 1(2) and 27 of the Act the Director General of Fair Trading is charged with the maintaining of the register, the filing of such agreements and the right to be furnished with particulars. Section 35(1) of the Act states that if particulars of an agreement which is subject to registration is not furnished within the months established by Schedule 2 para. 5 of the Act, the agreement is void in respect of all restrictions accepted and it is unlawful for any person party to the agreement to give effect to it or to enforce it in respect of any such restrictions.

²³⁶ Lindley, M.R. in *New Ixion Tyre and Cycle v Spilsbury* (1898) RPC 567 at 571.

²³⁷ Cawthra, Bruce Illingworth, on "Patent Licensing in Europe", 2nd ed., London 1986, p. 5.

Yet, generally, the Restrictive Trade Practices Act 1976 will rarely apply to vertical agreements relating to intellectual property.²³⁸

The duty of registration concerns contracts on the supply of goods or services, sections 6 and 11 of the Act, but not the licensing of a patented invention - the grant of licences was not envisaged as a primary concern of the Restrictive Trade Practices Act 1976,²³⁹ so that the restrictive terms in patent licences confined to the patented articles are not registerable.²⁴⁰ Accordingly, the parties may agree upon restrictions relating to the quantity of exploitation, the price, the territory, the relevant market or field of use.²⁴¹

In the case of patent licences it is for the following reasons unlikely that the Restrictive Trade Practices Act 1976 applies:

(i) Intra-brand restrictions of competition to which restrictions relating to the grant of licences for the utilisation of patented inventions and the sale of patented articles are likely to belong are not restrictions of competition in the sense of the Restrictive Trade Practices Act 1976.²⁴²

(ii) A restriction of the licensor to refrain from granting licences to anyone else that is to say, the grant of an exclusive or sole licence, is not a relevant restriction for the purposes of registrability. "The licensee has no inherent right to utilise the proprietary rights and hence a licence, albeit one limited in scope, constitutes a grant of rights and not a restriction on existing rights".²⁴³ In the *Ravenseft v Director General of Fair Trading* case²⁴⁴ it was said that agreements conferring new, qualified rights, as opposed to those limiting pre-existing freedoms, cannot be regarded as containing 'restrictions' for the purposes of the Restrictive Trade Practices Act 1976. Although *Korah*²⁴⁵ criticises this argument as formalistic, the test whether the term in the contract constitutes a partial waiver of the licensor's exclusive right of exploitation in favour of the licensee which does not constitute a restriction in the sense of the Restrictive Trade Practices Act 1976 seems a practical one.

²³⁸ Whish, Richard on "Competition Law", 2nd ed., London 1989, p. 656.

²³⁹ Green, Nicholas, on "Commercial Agreements and Competition Law: Practice and Procedure in the UK and EEC", London 1978, pp. 706,707; Korah, Valentine, on "Competition Law of Britain and the Common Market, 3rd ed., The Hague 1982, p. 124; see *Ravenseft Properties v D.G. of Fair Trading* (1977) 1 All E.R. 47, DGFT Annual Report (1976) p. 36.

²⁴⁰ Merkin, Harding and Wareham on "The Encyclopedia of Competition Law", London 1992, p. 13.

²⁴¹ Cawthra, Bruce Illingworth, on "Patent Licensing in Europe", 2nd ed., London 1986, p. 5; Office of Fair Trading on "Restrictive Trade Practices, Provisions of the Restrictive Trade Practices Act 1976", London 1990, p. 13.

²⁴² *Ravenseft Properties' Application* (1978) QB 52 (1977) 1 All E.R. 47.

²⁴³ Green, Nicholas, on "Commercial Agreements and Competition Law: Practice and Procedure in the UK and EEC", London 1986, p. 707 and see p. 82.

²⁴⁴ *Ravenseft Properties v D.G. of Fair Trading* (1977) 1 All E.R. 47; DGFT Annual Report (1976) p. 36.

²⁴⁵ Korah, Valentine, on "Competition Law of Britain and the Common Market", 3rd ed., The Hague 1982, p. 125.

(iii) In the case of a restriction relevant for the purposes of registration, that is to say a non-competition clause or a tie-in provision relating to unpatented products (see section 6 of the Restrictive Trade Practices Act 1976), the agreement is registerable only if at least two parties to it, for example, the licensor and the licensee, accept restrictions.²⁴⁶ This means that a licence is not registerable if only one party accepts relevant restrictions.²⁴⁷ But the exemption works in the case where the parties grant cross licences.²⁴⁸

(iv) Even if both parties to the licence contract have accepted restrictions, the agreement is exempted from registration if the restrictions relate to the patented invention or to patented goods, Schedule 3, para. 5(1)-(3) of the Restrictive Trade Practices Act 1976.²⁴⁹ Thus, licence contracts will be exempted from the application of the Act, "where the restrictions are accepted only in respect of the invention or of articles made by the use of the invention".²⁵⁰ This means that the inclusion of tying and other terms which go beyond the scope of the monopoly will lead to registration and, possibly, condemnation on public interest grounds. On the other hand restrictions on production - minimum or maximum - on the use of the invention, that is to say on certain forms of usage, and territorial restrictions, are restrictions which relate to the invention.²⁵¹

(v) Para. 5(4) of the Schedule provides that the exemption conferred by para. 5(1) of the Schedule does not apply to patent pooling agreements, defined in para. 5(5) to 5(8) of the Schedule as an agreement with at least "three principal parties", so that, however, bilateral cross-licensing agreements would be exempted.²⁵²

2 THE PATENTS ACT 1977.

Section 44 of the Patents Act 1977 prohibits certain tie-ins and tie-outs.

²⁴⁶ Whish, Richard, on "Competition Law", 2nd ed., London 1989, p. 656.

²⁴⁷ Green, Nicholas, on "Commercial Agreements and Competition Law: Practice and Procedure in the UK and EEC", London 1986, p. 83.

²⁴⁸ Automatic Telephone and Electric (1964) LR 5 RP 1; (1965) LR 5 RP 135 (C.A.).

²⁴⁹ See Chitty on Contracts, vol. II, "Specific Contracts", 26th ed., London 1989, p. 1041.

²⁵⁰ Chitty on Contracts, vol. II, 26th ed., "Specific Contracts", London 1989, p. 1019.

²⁵¹ Green, Nicholas, on "Commercial Agreements and Competition Law: Practice and Procedure in the UK and EEC", London 1986, p. 82.

²⁵² Chitty on Contracts, vol. II, 26th ed., "Specific Contracts", London 1989, p. 1020.

(i) Section 44(1) of the Act states that any condition in a licence contract which requires the licensee to purchase from the licensor or his nominee anything other than the patented product, whether in the form of articles or a process, shall be void; similarly void shall be the condition which prohibits the licensee from acquiring such products from a specified person.

(ii) Subject to section 44(6) of the Patents Act 1977 those tie-in clauses are valid which prohibit the distributor of the patented products from selling other products or which require the licensee to purchase all new parts from the patented machine from the patentee. The prohibition contained in section 44 of the Act may possibly be evaded, if the licence to use the patented products is granted in contracts for the supply of the 'tied-in' products or where the licensor offers financial inducements not to take outside supplies.²⁵³

(iii) The subsistence of the tying clause is a defence to any infringement action brought by the patentee, section 44(3) of the Patents Act 1977, no matter whether the licence contract on the UK patent is governed by the law of a foreign state.²⁵⁴

(iv) The inclusion of prohibited tying conditions has penal consequences.²⁵⁵

(v) Section 44(4) of the Act permits tying clauses, if the licensor was willing to supply the tied product on reasonable terms specified in the licence and if the licensee may terminate the contract with three months' notice. There is not exception for technically necessary supplies, unless the licensor was offered an alternative on reasonable terms without ties and if the licensee is entitled to give three months' notice for the termination of the contract.²⁵⁶

(vi) Section 44 of the Patents Act 1977 invalidates not only tie-ins but also tie-outs: that is to say, it invalidates a term in a licence to prohibit the licensee from using or restricting his right to use articles which are not supplied by the licensor, or a patented process which does not belong to the latter.²⁵⁷

²⁵³ Cornish, W.R., on "Intellectual Property, Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 197, referring to *Tool Metal v Tungsten Electric* (1955) RPC 209,218,221; Merkin and Williams on "Competition Law", London 1984, p. 338.

²⁵⁴ *Chiron v Organon Teknika; Chiron Murex Diagnostics* (1993) FSR 567; Cawthra, Bruce Illingworth, on "Patent Licensing in Europe", 2nd ed., London 1986, p. 111.

²⁵⁵ Melville, W.R., on "Forms and Agreements on Intellectual Property. Patents for Inventions", 3rd ed., New York 1984, §3.16(6), p. 3-30, referring to *Fichera v Flowgates* (1984) RPC 257,289.

²⁵⁶ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 196.

²⁵⁷ Lord Wilberforce and Campbell and Elles on "The Law of Restrictive Trade Practices and Monopolies", London 1966, 2nd Cumulative Supplement 1973, p. 203 with reference to the relevant provision in the previous Patent Act.

Possibly section 44 of the Act may be evaded by granting licences to use patented articles only in contracts for the supply of 'tied' goods. According to Cawthra²⁵⁸ the parties may provide for a tie-in obligation and this will not be a prohibited condition in the sense of section 44 of the Patents Act 1977 if the parties stipulate that any breach of this undertaking will not lead to a termination of the licence. In this case, the licensor could only claim damages for breach of contract. In *Vaessen B.V. v Morris*²⁵⁹ the Court dealt with a tie-in clause: "This clause is likewise not a requirement imposed by the industrial property right, for its deletion would in no way jeopardise the patent holder's exclusive right to work his invention himself or through others", since the products supplied by the licensee to the sub-licensee are not covered by the patent; "the clause thus constitutes an unlawful extension by contractual means of the monopoly given by the patent". This differentiation between the lawful exercise of the patent right and the extension of monopoly power through the use of contractual clauses beyond those limits which are indicated by the grant of the patent is also relevant for the applicability of antitrust law in the Restrictive Trade Practices Act 1976.

3 THE FAIR TRADING ACT 1973, THE COMPETITION ACT 1980.

Within the UK legal system, an abuse of the exclusive rights is controlled by the Monopolies and Mergers Commission under the Fair Trading Act 1973 or the Competition Act 1980.

In the case where certain terms of a patent licence are anti-competitive or contrary to public policy, the Office of Fair Trading or the Monopolies Commission may take action and undertake a remedy subject to the Fair Trading Act 1973. Additionally, section 51 of the Patents Act 1977 permits the Comptroller-General, upon application by the appropriate Minister who acts upon the report of the Monopolies and Mergers Commission or on a reference under sections 50 or 51 of the Fair Trading Act 1973, to cancel or modify any conditions in a licence which restrict the licensee's use of the invention, or to make an entry in the register to the effect that licences are to be available as of right, if the licensor refuses to grant licences on reasonable terms.²⁶⁰

²⁵⁸ Cawthra, Bruce Illingworth, on "Patent Licensing in Europe", 2nd ed., London 1986, p. 111.

²⁵⁹ *Vaessen B.V. v Morris* (1979) FSR 259,265.

²⁶⁰ Merkin and Williams on "Competition Law: Antitrust Policy in the UK and the EEC", London 1984, p. 327.

The Commission is free to investigate all aspects of the patentee's conduct; if it concludes that the public interest is afflicted or injured, the Secretary of State has a wide-ranging order-making power. The Monopolies and Mergers Commission will not define the relevant market as consisting of the patented product alone - the patent right is not understood as a monopoly in the economic sense but in its impact upon the market as a whole.²⁶¹ Thus the ownership in the patented invention itself does not create a monopoly in the sense of the Act.²⁶² The Commission, in defining the relevant market, will take into consideration whether products exist which substitute for the patented articles,²⁶³ in particular whether the control over patents has a significant impact upon competition where substitutes are produced in the market.

The matters which may be investigated are:²⁶⁴

- (i) any conditions in a patent licence relating to the licensee's use of the invention;
- (ii) any licence condition limiting the patentee's ability to grant further licences; and
- (iii) any refusal by the patentee to grant licences on reasonable terms.

It may be assumed that only in the case where the licensor intends a reduction of the output of the patented articles or where he pursues a strategy of defensive patenting without working the invention, will a contravention against the public interest be assumed. If the Monopolies and Mergers Commission or Office of Fair Trading find that such conduct operates or may operate against the public interest, the Secretary for Trade and Industry may attempt to initiate a change in the patentee's conduct by obtaining obligations from him. If this should prove impossible, the Comptroller-General may cancel or modify any offending term or make an entry in the register to the effect that licences are available as of right.

The Secretary of State may, according to section 51 of the Patents Act 1977 as amended by the Competition Act 1980, section 14, order the reduction of the patentee's prices or forbid price discrimination.²⁶⁵ He may apply to the Comptroller General of Patents for an order varying the conditions in a patent licence or making a licence available as of right, Patents Act 1977, section 51, as amended by section 14 of the Competition Act 1980; the Crown may make use of a patent on payment of reasonable compensation for certain purposes, sections 55 to 59 of the Patents Act 1977. Section 51 of the Patents Act 1977, as amended by section 14

²⁶¹ Merkin and Williams on "Competition Law: Antitrust Policy in the UK and the EEC", London 1984, p. 318.

²⁶² Cunningham, James, P., on "The Fair Trading Act 1973", London 1974, p. 71.

²⁶³ See *Colour Film*, H.C.P. (1966) 9,101, para. 248.

²⁶⁴ Merkin and Williams on "Antitrust Policy in the UK and the EEC", London 1984, pp. 320,321.

²⁶⁵ However, the Secretary of State is not permitted to prevent the enforcement of a patent or a patent licence.

of the Competition Act 1980, provides a special procedure for remedying particular matters relating to licensing and found to be contrary to the public interest by the Monopolies and Mergers Commission under a Fair Trading Act monopoly reference or by the Office of Fair Trading or Monopolies and Mergers Commission under an "anti-competitive practice" investigation. However, in the past the Monopolies and Mergers Commission was reluctant to censure companies' patent policy.²⁶⁶

4 THE RESALE PRICES ACT 1976.

The Resale Prices Act 1976 prohibits in section 9(1) the fixation of minimum prices in contracts between suppliers and dealers. According to section 10(1) of the Act the prohibition contained in section 9 of the Act is applicable to patented articles, but section 10(3) of the Act states that nothing in section 9 of the Act shall affect the validity, as between the parties and their successors, of any term or condition of a licence granted by the proprietor of a patent, insofar as it regulates the price at which articles are sold by him. Consequently, the patent licence may contain a clause which regulates the price for the sale of patented articles produced under the licence or sub-licence. Should a clause of the licence contract be void according to the Act, the voidness does not affect the whole contract, section 9(2) of the Resale Prices Act 1976. Thus the patentee may stipulate a selling price to be adhered to by the licensees and this right is expressly confirmed by section 10(3) of the Act. However, section 10(3) of the Act does not permit the patentee to fix prices at which purchasers from licensees

²⁶⁶ In the "Indirect Electrostatic Reprographic Equipment" case (H.C.P. (1976-77) 47) the Commission condemned Xerox's strategy which consisted in the acquisition of patents in order to control the market by refusing to grant licences and restricting the output, thereby foreclosing competition. The Monopolies and Mergers Commission referred to the Report on Restrictive Business Practices Relating to Patents and Licences of the Committee of Experts on Restrictive Business Practices of the OECD: "A large company, or particularly a combination of large companies, holding hundreds or thousands of patents relating to important technology may be able to exercise dominance in an industry and subject it to excessive conditions or royalties. The tremendous number of patents held by large companies may in itself prevent a testing of their validity in the courts". Yet it was not necessary to make an order to remedy the situation, because in the US compulsory licences had been granted.

In the "Chlordiazepoxide and Diazepam" case (H.C.P. (1972-73) 197) the Commission found that Hoffmann-La-Roche's profits were excessive in the sale of librium and valium and recommended a reduction in price and repayment of excessive profits. The Commission refrained from giving its opinion on to what extent an undertaking is justified in charging the costs incurred for research and development by increasing the price of its patented products or whether the lowering of the cost price by innovation should be taken into consideration.

Subsequent to the merger report on the BICC/Pyrotenax case (H.C.P. (1966-67) 490) BICC undertook to grant licences under any patents relating to mineral insulated cable to third parties if requested to do so by the Board of Trade.

can resell the patented goods, so that ultimate resale price maintenance is prevented.²⁶⁷ The patentee is allowed to set the licensee a minimum sale price, but it is not permissible to attempt to control prices after the goods have left the licensee. In conclusion, the licensor may obligate the licensee to sell patented articles at a regulated price, but he may not dictate the price at which the articles are subsequently sold.²⁶⁸

5 THE DOCTRINE OF RESTRAINT OF TRADE.

The doctrine of restraint of trade might be invoked by a party alleging that the terms of a licence are unreasonable.²⁶⁹ In *Petrofina (Great Britain) v Martin*²⁷⁰ Lord Diplock defined the contract in restraint of trade as a contract "in which a party (the covenantor) agrees with any other party (the covenantee) to restrict his liberty in the future to carry on trade with other parties not parties to the contract in such manner as he chooses". In common law originally all contracts in restraint of trade were considered void as contrary to public policy. In *Nordenfelt v Maxim Nordenfelt Guns and Ammunition*,²⁷¹ the Court held that a restriction in trade is justified if it is reasonable in, first, the interest of the parties concerned, and second, in the interest of the public. In *Esso v Harper's*²⁷² Lord Reid applied a novel test: "Restraint of trade appears to me to imply that a man contracts to give up some freedom which otherwise he would have had. A person buying or leasing land had no previous right to be there at all"... Thus it may be doubted whether the restraint of trade doctrine is generally relevant in the case of patent licence contracts, because a licence merely grants a qualified freedom to manufacture and sell rather than imposing restrictions on prior freedom. But the licence may become relevant if the restrictions which the licensor imposes upon the licensee exceed those which can be based upon the patent monopoly. As Merkin and Williams²⁷³ state, "Courts are most likely to strike down any term on the ground of unreasonableness unless blatant inequality of bargaining power can be demonstrated, a remote possibility as in practice both parties will be commercial concerns. It also seems clear that any wider question of

²⁶⁷ Merkin and Williams on "Competition Law: Antitrust Policy in the UK and the EEC", London 1984, pp. 327,328.

²⁶⁸ Merkin, Harding and Wareham on "The Encyclopedia of Competition Law", London, issue December 1992, no. 1-613.

²⁶⁹ Heydon on "The Restraint of Trade Doctrine", London 1971, p. 238; Merkin and Williams on "Competition Law: Antitrust Policy in the UK and the EEC", London 1984, p. 328.

²⁷⁰ *Petrofina (Great Britain) v Martin* (1966) 2 W.L.R. 318.

²⁷¹ *Nordenfelt v Maxim Nordenfelt Guns and Ammunition* (1894) A.C. 535 at 565 per Lord Macnaghten.

²⁷² *Esso v Harper's Garage (Stourport)* (1968) A.C. 269 at 298 per Lord Reid.

²⁷³ Merkin and Williams on "Competition Law: Antitrust Policy in the UK and the EEC", London 1984, p. 328.

reasonableness outside the parties' private interests will be disregarded".²⁷⁴ However, O'Brien and Swann²⁷⁵ do not exclude the applicability of the doctrine of restraint of trade to patent licence contracts. But they consider that in the case of the public interest criterion the onus of proof that the agreement is injurious to the public interest which lies with the person making the allegation is an altogether more difficult task. Thus, the imposition of a penalty for the manufacturing of an excess quota, or a clause, prohibiting the licensee from making articles which would compete with the licensed articles, may be reasonable.²⁷⁶

Part 4: THE INVALIDITY OF THE PATENT AND THE TERMINATION OF THE CONTRACTUAL RELATION.

1 THE INVALIDITY OF THE PATENT.

1.1 The Invalidity Of The Patent: Estoppel Of The Licensee.

The licensor, in the absence of a stipulation, does not impliedly warrant the validity of the patent. But by accepting the licence contract, the licensor may argue that the licensee recognises the validity of the patent and is thus estopped from putting its validity in issue.²⁷⁷ However, this argument was rejected by court practice. As Farwell, J. said in *Janders Arc Lamp and Electric v Johnson*:²⁷⁸ "...the whole argument I have heard comes to this: that when there is a licence granted under patents, that is a representation by the licensees that they are valid patents (...) that absolutely fails". But by accepting the licence and acting under it the licensor is estopped from putting the validity of the patent in issue.

²⁷⁴ In *Tool Metal v Tungsten Electric* (1955) RPC 209, it was held by the House of Lords that a patent licence which sought to limit production by imposing upon the licensee an obligation to make payments in addition to the normal royalty, on goods manufactured in excess of a fixed quota, was not void on the ground that the contract was reasonable as between the parties.

²⁷⁵ O'Brien and Swann on "Information Agreements, Competition and Efficiency", London 1968, pp. 36,37.

²⁷⁶ Lord Wilberforce and Campbell and Elles on "The Law of Restrictive Trade Practices and Monopolies", London 1966, 2nd Cumulative Supplement, 1973, p. 203.

²⁷⁷ Lane, Terence M., on "English Law and Practice Relating to International Licensing Agreements", in: "International Licensing Agreements", 2nd ed., ed. by Pollzien and Langen, Indianapolis 1973, pp. 125,126.

²⁷⁸ *Janders Arc Lamp and Electric Company v Johnson* (1900) RPC 361 at 372 per Farwell.

Charles, J. held in *Wilson v Union Oil Mills*:²⁷⁹ "A man has no right to work the patent of another without enquiry for a long time under an agreement whereby he has contracted to pay royalty, and then, when he is called upon to pay royalty, to say, 'Oh, your patent after all is an invalid patent'". Similarly, Lord Chelmsford stated in *Crossley v Dixon*:²⁸⁰ that the defendant "cannot act under the agreement, and, at the same time, repudiate it. He may, if he pleases, put an end to the agreement, and he may use the machines which he has purchased from the plaintiffs; but he must do so at his peril: he must do so under the liability to be treated as an infringer, and to be subject to an action for damages for that infringement".

In *Clark v Adie*²⁸¹ Lord Cairns observed: ..."the question of validity must be taken as that which the appellant is unable to dispute. So far as he is concerned he must stand here admitting the novelty of the invention, admitting its utility, and admitting the sufficiency of its specification; but, on the other hand, he is of course entitled to have ascertained what is the ambit, what is the field, which is covered by the specification as properly construed (...). In this respect (...) the licensee, stands here upon the same issue as would arise between a patentee and an alleged infringer upon the fact of infringement". And Lord Blackburn²⁸² said: "The position of a licensee (...) is very analogous indeed to the position of a tenant of lands who has taken a lease of those lands from another.²⁸³ So long as the lease remains in force, and the tenant has not been evicted from the land, he is estopped from denying that his lessor had a title to the land. When the lease is at an end, the man who was formerly the tenant, but has now ceased to be so, may show that it was altogether a mistake to have taken that lease, and that the land really belonged to him²⁸⁴ (...). If he has used that which is in the patent, and which his licence authorises him to use without the patentee being able to claim against him for infringement, because the licence would include it, then, like a tenant under a lease, he is estopped from denying the patentee's right and must pay royalty"²⁸⁵... In *Bristol Repetition v*

²⁷⁹ *Wilson v Union Oil Mills* (1891) RPC 57 at 63 per Charles, J.

²⁸⁰ *Crossley v Dixon* (1863) 10 H.C.L. 293 at 310 per Lord Chelmsford.

²⁸¹ *Clark v Adie* (1877) L.R. 2 App.Cas. 423 at 425,426 per The Lord Chancellor (Lord Cairns).

²⁸² *Clark v Adie* (1877) L.R. 2 App.Cas. 423 at 435,436 per Lord Blackburn.

²⁸³ But see *Chanter v Leese* (1939) 5 M. & W. 698,700, where the analogy between the patent licence and the lease of land was denied.

²⁸⁴ Lord Blackburn continues: ..."but during the continuance of the lease he cannot show anything of the sort; it must be taken as against him that the lessor had a title to the land. Now the person who takes a licence from a patentee, is bound upon the same principle and in exactly the same way (...). So may a licensee under a patent show that, although he accepted the licence, and worked the patent, and the patentee could never, therefore, so long as that licence was in existence, bring an action against him, as an infringer, yet the particular thing which he has done was not a part of what was included in the patent at all, but that he has done it as one of the general public might have done it, and therefore is not bound to pay royalty for it".

²⁸⁵ Lord Blackburn continues in *Clark v Adie* (1877) L.R. 2 App.Cas. 423 435,436: "Although a stranger might show that the patent was as bad as anyone could wish it to be, the licensee must not show that. Taking that to be the rule, and I think the analogy between the two is perfect, the question in a suit in which the patentee is claiming royalty from his licensee is, whether what the licensee has done is included in the patent which the patentee or licensee had, and which he gave him licence to use? That must depend entirely upon the construction of the specification. If upon the true construction of the specification it is included, no matter whether it is good or bad, the licensee must pay".

Fomento (Sterling Area)²⁸⁶ Buckley, J. referred to *Clark v Adie*²⁸⁷ and confirmed that it is a well settled principle that a licensee or sub-licensee cannot challenge the validity of that patent. The doctrine of estoppel may work to such an extent, insofar as the licence authorises the licensee to work the invention. This means that the licensee remains entitled to put the validity of the patent in issue insofar as this challenge would go beyond the contractual obligations.²⁸⁸ Lord Hanworth, M.R. stated in *Fuel Economy v Murray*:²⁸⁹ "...there is not an absolute estoppel in all cases and in all circumstances on the part of the licensee under which he is prevented from at any time and under any circumstances saying that the patent is invalid, but only an estoppel which is involved in and necessary to the exercise of the licence which the licensee has accepted".²⁹⁰ Thus, if the licence relates to the manufacture of the patented articles or to a certain territory, the licensee is estopped from putting the validity of the patent in question if the licensor claims the payment of royalties. But if the licensee sells the patented articles and thus exceeds the limits of his licence or if he exceeds his territorial limitations, the licensee may put the validity of the patent in issue, if the patentee brings a suit against him for patent infringement. In practice the doctrine of estoppel has lost much relevance through the provision in section 45(1) of the Patents Act 1977, according to which the licensee may terminate the contract by giving three months' notice if the patent ceases to be effective.

However, in *Chanter v Leese*²⁹¹ which concerned an exclusive licence of six patents, the Court considered the invalidity of one of the patents due to lack of novelty as a failure of consideration. The Court held: "The defendant is not in a situation with respect to the plaintiff similar to that of a tenant towards his landlord,²⁹² and is in no way estopped from showing any failure of the consideration for his promise to pay the annuity to the plaintiff (...). It is admitted by the demurrer that a partial failure of the consideration has taken place, namely that one of the six patents is void (...) The patent being void, no benefit in respect of it could accrue to the defendants; and we think we are not to presume that any such improvident bargain took place".

²⁸⁶ *Bristol Repetition v Fomento (Sterling Area)* (1961) RPC 222.

²⁸⁷ *Clark v Adie* (1877) L.R. 2 App.Cas. 423.

²⁸⁸ See Robertson, Aidan, on "Is the Licensee Estoppel Rule Still Good Law? Was it ever"? (1991) EIPR, 376: "The resulting scope of the licensee estoppel rule is therefore somewhat narrow".

²⁸⁹ *Fuel Economy v Murray* (1930) RPC 346 at 358 per Lord Hanworth.

²⁹⁰ Lord Hanworth adds in *Fuel Economy v Murray* (1930) RPC 346 at 358: "The acceptance of the licence does not cover the action of the licensee in all cases and in all circumstances relative to any user of the patent, but it must depend upon the construction of the specification and of the licence whether or not the action of the licensee is restrained by his acceptance of the licence and the estoppel which arises therefrom".

²⁹¹ *Chanter v Leese* (1939) 5 M. & W. 698 at 700,701 per Tindal, C.J.

²⁹² In this aspect differing from *Clark v Adie* (1877) L.R. 2 App.Cas. 423,435.

If the licensor warrants the validity of the patent, the licensee is not estopped from setting up invalidity. In *Henderson v Shields*²⁹³ Parker, J. held: "This agreement contains a guarantee of validity which is broken ab initio if the patent be invalid, and in such a case I see no reason why there should be any estoppel at all" ... However, it may be inferred that the validity of the patent may be challenged by the licensee, if the licensor expressly warrants the validity of the patent. In the case, where the licence contract does not contain an express warranty by the licensor on the validity of the patent, English law considers the licensee estopped from putting the validity of the patent in issue.

1.2 Putting The Validity Of The Patent In Issue.

According to section 74 of the Patents Act 1977 the validity of the patent may only under certain circumstances be questioned such as, by way of defence, in proceedings for infringement of the patent, see subsection 1(a); it thus can be concluded, that the licensee may not put the validity of the patent in issue if the licensor brings a suit against him for the payment of royalties. As it was held in *Ashworth v Law*,²⁹⁴ in an action on a licence, pleadings putting the validity of the patent in issue are embarrassing. In *Crossley v Dixon*²⁹⁵ it was stated: "I find it impossible to believe that the parties intended that in spite of the payment of the £ 500 on the signing of the agreement and that manufacture should commence forthwith the defendants might set up the invalidity of the patent as an answer to the action for the sums payable under the agreement whilst continuing to manufacture the vehicle. In the second place, it is impossible, (...) to say that this agreement has not been executed, and even if there had been a guaranty of validity by the plaintiff, as there was in the case *Nadel v Martin*,²⁹⁶ this element would, (...) create an essential distinction between the two cases: (see *Henderson v Shields* (1907) 24 RPC 108, 113). It may be said, of course, as was said in the case of *Lawes v Purser* (1856) 6 E. & B. 93 that a person who has got permission to manufacture a thing which is the subject of an invalid patent has got nothing of any value, and that there is no consideration for his payments under his contract; but the answer made by the Court in that case is (...) peculiarly applicable in the present case where the defendants have got the benefit of an inspection of the Hamburg works of Mr. Heyden's drawings and services and have been, and still are in fact, manufacturing under the patent, and have never before action brought to the notice of the plaintiff any infringement of the plaintiff (...). I am,

²⁹³ *Henderson v Shields* (1907) RPC 108 at 115 per Parker, J.

²⁹⁴ *Ashworth v Law* (1890) RPC 231.

²⁹⁵ *Crossley v Dixon* (1863) 10 H.L.C 293.

²⁹⁶ *Nadel v Martin* (1906) RPC 41.

moreover, of the opinion that the doctrine of estoppel applies to this denial by a licensee of this licensor's title".

Boehm²⁹⁷ concedes, "that a licence agreement can be enforced when the patent is invalid appears to be antithetical to the purpose of patent law, which makes the monopoly rights dependent upon the validity of the patent". It may be concluded that English courts will consider the licensee estopped from putting the validity of the patent in issue, unless there is a misrepresentation by the licensor or a clear case of fraud,²⁹⁸ or the validity of the patent has been made a condition of the contract.²⁹⁹

1.3 The Repayment Of Royalties In The Case Of The Invalidity Of The Patent.

Since the licensee who has accepted the licence and worked under it is not entitled to question the validity of the patent, against the licensor's claim for royalties, the licensee remains obligated to continue the payment, even if the patent is revoked, unless the agreement provides otherwise. Even if, as the licensee admitted in *African Gold Recovery v Sheba Gold Mining*,³⁰⁰ the invalidity of the patent results from an action by a third person, the licensee may not avail of the invalidity as a defence against an action for royalties brought by the patentee. However, if the patent is revoked, it was argued that this was a different matter. The licensee relied on the analogy between landlord and tenant. The counsel for the defendants argued: "It is clear that as long as the tenant remains in possession, though under a landlord who has no title, he is bound to pay rent; but the moment he is evicted, he ceases to be liable to pay rent, and the estoppel is no longer binding on him". The counsel saw the analogy between the eviction and the cancellation of the patent. But Matthew, J. denied an analogy between the two cases on the ground of lack of authority and "because there is nothing here to prohibit the use of this patented process. There is no declaration in law that the patent ought not to be used"... In *Taylor v Hare*³⁰¹ the licensee argued that since the consideration for the royalties paid "wholly failed", the licensee derived no benefit whatsoever. "It was the understanding of all parties that the defendant was entitled to a patent right, but it now turns out that they were mistaken; the plaintiff therefore is entitled to recover the money which he has paid under a mistake". The Court rejected the licensee's claim for the repayment of the

²⁹⁷ Boehm, Klaus, on "The British Patent System", Cambridge 1967, p. 98.

²⁹⁸ In *McDougall v Partington* (1889) RPC 216, it was held that a licensee cannot challenge the validity of the patent except in a clear case of fraud.

²⁹⁹ *Henderson v Shields* (1907) RPC 108 at 115 per Parker, J.

³⁰⁰ *African Gold Recovery v Sheba Gold Mining* (1897) RPC 660,662.

³⁰¹ *Taylor v Hare* (1805) 1 B. & P. 1 N.R. 260.

royalties. Heath, J. held: "It might as well be said that if a man lease land and the lessee pay rent, and afterwards be evicted, that he shall recover back the rent though he has taken the fruits of the land". It may be concluded that in English law the licensee is, generally, not entitled to claim back the royalties paid for the licence covering an invalid patent.

2 THE TERMINATION OF THE CONTRACTUAL RELATION.

2.1 The Terminability Of The Contract.

If a contract does not provide for a clause establishing the duration, the question whether or not the contract is terminable, depends upon the construction of the contract and should, as McNair explained in *Martin Baker Aircraft v Canadian Flight Equipment*,³⁰² be considered from the common law approach which where the contract left the matter open, proceeds upon the basis of reasonableness. In this case the plaintiff entered into a patent licence contract with the defendants. The plaintiff wanted to terminate the agreement, but the defendants argued that it was terminable only by mutual consent.

If the duration of the patent licence is general but not limited, it can be determined by the licensor as well as by the licensee,³⁰³ and as Lopes, L.J. explained in *Guyot v Thomson*,³⁰⁴ a licence, if created by deed and for valuable consideration, would still be revocable. In *Tweeddale v Howard and Bullough*,³⁰⁵ Chitty, J. held: "There may be, pending the negotiations for the licence for the whole term of the patent - and those were the negotiations afterwards - an agreement for a licence at will, terminable by either party at pleasure, for a shorter period". Wallace and Williamson³⁰⁶ state: "A licensee, when his licence is not expressly limited to a definite period, may repudiate the licence after which he will not be liable to be sued for royalties but only as an infringer, when it will be open to him to contest the validity of the patent". If, on the basis of reasonableness, the contract cannot be considered as intended by the parties to be permanent, it will be terminable unilaterally on reasonable notice.³⁰⁷ It was

³⁰² *Martin Baker Aircraft v Canadian Flight Equipment* (1955) 2 Q.B. 556.

³⁰³ *Redges v Mulliner* (1893) RPC 21,27.

³⁰⁴ *Guyot v Thomson* (1894) RPC 554, per Lopes, L.J.

³⁰⁵ *Tweeddale v Howard and Bullough* (1896) RPC 522 at 529 per Chitty, J.

³⁰⁶ Wallace and Williamson on "The Law and Practice Relating to Letters Patent for Inventions", London 1900, p. 345.

³⁰⁷ See Lane, Terence M., on "English Law and Practice Relating to International Licensing Agreements", 2nd ed., by Pollzien and Langen, Indianapolis 1973, p. 122.

held, *per curiam*, that even though the general rule was that a contract without a provision for termination is *prima facie* terminable only by mutual consent, those contracts which are "within the wide class of contracts involving mutual trust and confidence" fall within the exception to that rule. The *Encyclopedia of UK and European Patent Law*³⁰⁸ concludes that "where no definite term is specified, the court will in these days be inclined to conclude that the agreement was meant to be terminable".

The parties are free to determine expressly the duration of the contract so that the licence may last for the patent term or for a shorter period.³⁰⁹

Generally, if a licence is coupled with an interest, it is not revocable at will. But if the licensee breaches the conditions and terms of it the licensor becomes entitled to terminate it.³¹⁰ Whether a breach of the terms of the contract entitles a party to terminate the agreement will depend upon the fact whether the term is a condition, in the case of which the aggrieved party may terminate the agreement, or whether it is a warranty, a breach of which entitles the aggrieved party to claim damages only. But also the breach of a term which is no condition will give rise to termination, depending upon the consequences of the breach, for example if the aggrieved party has substantially been deprived of what he bargained for.³¹¹ Also the delay of performance will be treated as a breach of the contract but such breach will be terminating only if time is of the essence. Termination may occur before the date of performance. Under the doctrine of 'anticipatory repudiation' a party may terminate the contract if the other party declares that it will not perform.

The same is true if equity created the relations between the parties which stand in the same positions, as if they had executed a licence, if this licence would have given the licensor a right of revocation for non-payment of royalties.³¹² Terrell³¹³ points out that "it appears, however, not to have been realised that, since the fusion of law and equity by the Judicature Act, the real point at issue is not any purely legal right that an owner may have of revoking his licence, but whether, upon the true construction of the contract between the parties, one or the other is debarred in equity from the exercise of such legal right".

Thus the following principles are applicable in the case of the termination of the licence. First, if the parties did not expressly provide for the duration of the contractual relation, much will

³⁰⁸ Vitoria, Cornish, Alexander and Clark on "The Encyclopedia of UK and European Patent Law", London 1977, issue December 1992, no. 8-405.

³⁰⁹ *Otto v Singer* (1890) RPC 12.

³¹⁰ *Ward v Livesey* (1888) RPC 102.

³¹¹ See on termination, e.g. Ogus, Anthony, on "English Report on Remedies" in: "Contract Law Today", ed. by Harris and Tallon, Oxford, reprint 1991, pp. 243 to 263 at 245.

³¹² *Post Card Automatic Supply v Samuel* (1889) RPC 560,562.

³¹³ Terrell on "The Law of Patents", 13th ed., London 1982, p. 263.

depend upon the criterion of reasonableness. If it appears reasonable that the contract could not have been intended by the parties to be permanent, it can be terminated unilaterally on reasonable notice.

2.2 The Post-Expiration Clause.

English law of contract does not construct any barrier to the freedom of the parties to stipulate an obligation of royalties which exceeds the life of a patent.³¹⁴ This is made clear by a passage of Cross, J. in *Bristol Repetition v Fomento (Sterling Area)*:³¹⁵ "It certainly does not seem very reasonable that one particular person should be obligated to pay for the use of an invention after the monopoly granted to the inventor has expired and the rest of the world can use it free of charge. There is, however, nothing to prevent people entering an agreement to this effect, if they choose to do so"... In *Bristol Repetition v Fomento (Sterling Area)*,³¹⁶ Cross, J. held that royalties also continued to be payable for the utilisation of those inventions "covered by patents which are no longer subsisting". On the construction of the contract Cross, J. denied that the word "patents" meant subsisting patents only. However, in the case of licences which extend beyond the term of the patent, the Restrictive Trade Practices Act 1976 will be relevant, because this may have to be understood as an attempt by the licensor to extend his monopoly right beyond the patent's life, which may be regarded as restrictive. In such a case it may be argued that, subsequent to Schedule 3 para. 5(2) of the Act, the licence does not cover an "invention to which a patent relates".

Section 45 of the Patents Act 1977 allows either party to terminate a licence with three months notice at any time after the expiry of the patent, so that there is now little room for the imposition of extended licences in English law. However, as Denning, M.R. pointed out in *Hansen v Magnavox Electronics*,³¹⁷ this section does not apply to foreign patents.³¹⁸ In the case where the licence extends to improvements of the patented invention, it seems that the rights of the parties to terminate the agreement as contained in section 45 of the Patents Act

³¹⁴ Boehm, Klaus, on "The British Patent System", Cambridge 1967, p. 98; Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 188.

³¹⁵ *Bristol Repetition v Fomento (Sterling Area)* (1961) RPC 222,226.

³¹⁶ *Bristol Repetition v Fomento (Sterling Area)* (1961) RPC 222 at 227 per Cross, J.

³¹⁷ *Hansen v Magnavox Electronics* (1977) RPC 301,308.

³¹⁸ Blanco White, T.A., on "Statutory Determination of Licence Agreements", (1959) *Journal of Business Law*, p. 78.

1977 overrides any stipulation by the parties to the contrary, *Advance Industries v Paul Frankfurter*.³¹⁹

Part 5: THE OBLIGATIONS OF THE LICENSOR.

1 THE OBLIGATION OF DELIVERY.

English courts are not likely to imply a term which obligates the licensor to communicate additional information to the licensee if the patented invention cannot be worked sufficiently without such information but the parties did not expressly provide for it.³²⁰ Since the licence contract is not a contract "*uberrimae fidei*", the licensor is not bound by an implied duty of disclosure.³²¹ Accordingly, the licensor is, in the absence of a particular stipulation, not obligated to disclose to the licensee any other methods or inventions of which he avails and which are useful or better to achieve the aim which the licensee pursues. Thus the licensor is, in the absence of a contractual stipulation, not obligated to supply technical assistance if the licensee cannot cope with the technical difficulties of exploitation,³²² and he is not obligated to supply the licensee with know-how, unless this was stipulated in the contract.³²³ In the case of an express obligation of assistance there is, on the other hand, no doubt that the court will uphold such a stipulation.³²⁴ Accordingly, only if the parties expressly provide for it, will the

³¹⁹ *Advance Industries v Paul Frankfurter* (1958) RPC 392 at 394 per Lloyd-Jacobs; in this case section 58(1) of the Patents Act 1949 was applicable; this rule is now contained in section 45 of the Patents Act 1977; see also Terrell on "The Law of Patents", 13th ed., London 1982, p. 264.

³²⁰ See Melville, L.W., on "Forms and Agreements on Intellectual Property and International Licensing, 3rd ed., New York 1984, §3.09(3), p. 3-18 who refers to *Hunter's Patent* (1965) RPC 416, where a profitable arrangement would have presumed the licensor's ability to control the number of not-patented articles used by the licensee, which was, however, not provided for in the contract, and the Court refrained from implying such a term; Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 188.

³²¹ Nicholas, Barry, on "The Obligation to Disclose Information", in: "Contract Law Today", ed. by Harris and Tallon, reprint Oxford 1991, pp. 166 to 193 at 172; Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertraege", 2nd ed., by Langen, Weinheim 1958, p. 197.

³²² See Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 198.

³²³ See *Cassou's Patent* (1971) RPC 91 which, however, concerned a licence of right. The Comptroller General said that the licensor of right was under no obligation to supply know-how.

³²⁴ An express obligation of assistance was contained in the case *Bagot Pneumatic Tyre v Clipper Pneumatic Tyre* (1902) RPC 69,71, where the licensors undertook "that they will at all times hereafter during the continuance of this agreement do all things in their power to assist the said company in their business".

licensor be obligated positively to perform acts involving more than the mere passing of a copy of the relevant documentation.

2 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.

After the grant of the licence a party may make inventions or develop technologies which improve the licensed patented invention or its application so that the other party may have an interest in the exploitation of eventual improvements of the licensed technology made by the licensor. Thus, patent licence contracts often provide expressly for the right to make use of such improvements.

In the absence of an express contractual stipulation, the licensor is not obligated to communicate to the licensee his new inventions relating to the subject-matter of the licensed technique.³²⁵ According to Walton³²⁶ the patent licence contract is not a contract "*uberrimae fidei*", so that he is not obligated to reveal to the licensee that the licensor is about to obtain further patents on improvement inventions. It is, however, recommended to include into the contract clauses on the exchange of information - grant back clauses - which should define the subject-matter to be exchanged, possibly by use of the term 'improvement' which permit the 'feed-back' of information and provide possibly for the future grant of licences on new technology developed by the contractual partners in particular, if the licensor has established a net of exclusive licences for different territories.³²⁷

In English law, the term 'improvement' generally receives a broad construction,³²⁸ although, as Terrell³²⁹ observes, the term may be defined as being confined to articles or processes which would constitute an infringement of the basic invention. Lord Loreburn³³⁰ defined the term in *Linotype and Machinery v Hopkins* with regard to a machine: "I think that any part

³²⁵ See Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 198.

³²⁶ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 197.

³²⁷ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 189; Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 198.

³²⁸ Cawthra, Bruce Illingworth, on "Patent Licensing in Europe", 2nd ed., London 1986, p. 121; Vitoria, Jacob, Cornish, Alexander and Clark on "The Encyclopedia of UK and European Patent Law", London 1977, issue December 1992, no. 8-415.

³²⁹ Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 270.

³³⁰ Lord Loreburn in *Linotype and Machinery v Hopkins* (1910) RPC 349; (1911) RPC 109.

does constitute an improvement, if it can be adapted to this machine, and it would make it cheaper and more effective or in any way easier or more useful or valuable, or in any other way make it a preferable article in commerce". In this case the Court of Appeal held "that an improvement of a patented machine includes any machine which, while retaining some of those essential or characteristic parts of the machine which are the subject of the monopoly claims, yet by addition, omission, or alteration better achieves the same results, whether such improvement infringes the monopoly claims for the patented machine or not". In *Sadgrove v Godfrey*³³¹ Lawrence J. defined a similar clause with reference to any invention which would relate to a competing machine. Terrell³³² admits that it is difficult to define the term 'improvement' in a general manner since its scope depends entirely upon the contractual stipulations. Thus, if the term 'improvement' is used with regard to a machine, it may relate to some alteration in its design which still enables it to perform its duty better or it may relate to a different machine which performs the same duty in a better way. According to Eve J. in *Vislok v Peters*³³³ the term 'improvement' implies some connection or relation between the original and the improving invention. It may be concluded that the term 'improvement' could be defined by reference to any competing invention which, by reason of the subject-matter, has a connection to the basic invention. In order to avoid doubts it may be preferable to use the phrase 'improvements in or further inventions relating to the licensed invention' instead of the word 'improvement' alone.³³⁴

It appears useful if the parties stipulate at what time the communication of the improvement will have to be made in order to avoid doubts about the time when the obligation arises.³³⁵ Cawthra³³⁶ points out that otherwise the licensee's request for a licence on the improvements may come too late. In *Regina Glass v Schuller*³³⁷ the Court, surprisingly, considered that the licensee's right to demand a licence for improvements survived the expiry of the agreement. In the case of an express clause it may be asked, at what time the obligation of communication arises, that is to say, at what time the improvement is actually developed. This question is of particular importance shortly before the termination of the contractual relations. This could be the case, where the design stage has been passed and an actual three-dimensional object has been constructed which can be seen and tested functionally. The House of Lords held in *National Broach and Machine v Churchill Gear Machines*³³⁸ that on the interpretation of the term 'improvement' the Court had to take into account the

³³¹ *Sadgrove v Godfrey* (1920) RPC 7,21.

³³² Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 270.

³³³ *Vislok v Peters* (1927) RPC 235 at 246 per Eve J.

¹⁸⁶ Vitoria, Jacob, Cornish, Alexander and Clark on "The Encyclopedia of UK and European Patent Law", London 1977, issue December 1992, no. 8-415.

³³⁵ See *National Broach and Machinery v Churchill Gear Machines* (1965) RPC 61; (1967) RPC 99 (H.L.).

³³⁶ Cawthra, Bruce Illingworth, on Patent Licensing in Europe", 2nd ed., London 1986, p. 121.

³³⁷ *Regina Glass v Schuller* (1972) FSR 141.

³³⁸ *National Broach and Machine v Churchill Gear Machines* (1967) RPC 99,100.

circumstances of the particular case and that the answer to the question of at what time the obligation of communication would arise, could vary. If the improvement concerns a major advance, it might arise earlier, since the recipient was entitled to take out a patent on the improvement. If it concerns a minor improvement, it would arise at a later stage, since it might require extensive trials to establish whether it was an improvement at all.

The licensor who communicates improvements of the licensed technology which he may have obtained only after considerable investments to the licensee, will expect to be able to receive a remuneration for the communication of his invention,³³⁹ but in the absence of a contractual stipulation the licensee will not be bound to the payment of an increased royalty. Should the royalty depend upon the turnover or on the sale of the patented articles, it may be assumed that the licensor's gains profit from the increase of the sales of the licensed articles due to the improved technology.

The parties may also take into consideration the stipulation of an option for a licence or any new improvements, the royalty to be negotiated between the parties. It should be observed that in the case where the contractual arrangement for the grant back of improvements involves more than two parties or where both parties accept restrictions, the agreement is subject to registration according to Schedule 3 para. 5(1) of the Restrictive Trade Practices Act 1976.

3 THE OBLIGATION OF DELIVERY CONCERNING UNPATENTED SUBJECT-MATTER.

English law does not consider the licensor impliedly bound to communicate any unpatented information to the licensee in the absence of an express stipulation to this content.³⁴⁰ If such an express term exists, the licensor "must make available whatever information has been described in the contract" - if the licensee "wants a fully operative package, he must secure undertakings from the licensor that this is what will be provided".³⁴¹ Without such an express clause it may be assumed that the licensor will not be obligated to communicate to the

³³⁹ Black, Trevor, on "Intellectual Property in Industry", London 1989, p. 40.

³⁴⁰ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 188.

³⁴¹ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 188.

licensee any additional information or know-how, or to supply him with technical assistance and provide technical staff, should the use of the invention encounter unforeseen problems.

4 THE OBLIGATION OF THE MAINTENANCE OF THE PATENT.

The question whether the licensor is bound by an obligation of maintenance is a matter of construction of the contract. If the contract contains a clause which obligates the patentee to protect and to defend the patent against infringement, such a clause necessarily involves the obligation of the licensor to maintain the patent through the payment of the renewal fees.³⁴² If the licensor is bound by an obligation to maintain the patent, and the patent expires because he did not pay the renewal fees, English law does not offer a single answer to the question whether the licensee is relieved from the obligation to continue payment of royalties. The licensee cannot argue the invalidity of the patent but he may raise the defence of relief of liability. It depends upon the construction of the terms of the contract whether the undertaking of the licensee to pay the royalties was an independent covenant agreed upon "irrespective of the performance of any obligation on the plaintiff, in other words, that the mutual obligation is the consideration for the contract between the plaintiff and defendant; and that the non-performance by one did not release the other, and, at most, only gave a claim to damages", or whether it is an undertaking "impliedly conditional upon the due performance of the substantial part of the plaintiff's obligations under the contract".³⁴³ However, if the patent lapses due to the non-payment of the renewal fees, section 45 of the Patents Act 1977 gives the licensee the right to terminate the contract since the patent ceased to be in force.

If it follows from the contract that the consideration for the promise to pay royalties was the mere granting of a licence, irrespective of its effectiveness and of its maintenance during the term agreed upon, it seems that the expiry of the patent would not affect the licensee's obligation to pay the royalties apart from giving him a claim for damages. This situation is different if it is possible to imply an obligation according to which the licensor undertakes to maintain the patent, so as to make the licence effective. In such a case the duty to maintain the patent has to be considered as the consideration for the licensee's undertaking to pay the royalties. If thus the continued existence of the patent right was contemplated by the parties, the expiry of the patent will lead to the destruction of the subject-matter of the contract with the consequence that the contract becomes impossible of performance and ceases to be

³⁴² *Cummings v Stewart* (1913) RPC 1,12; *Lines v Usher* (1897) RPC 206.

³⁴³ *Cummings v Stewart* (1913) RPC 1 at 12 per O'Connor, M.R.

binding.³⁴⁴ If there is a practical failure of consideration, for example if the contract relates to several patents, only some of which have expired, due to non-payment of the renewal fees, and if the consideration, the promise to pay the royalties, is not divisible into apportionments, a partial failure of the consideration for the promise to pay the royalties is equivalent to a failure of whole, entailing the release of the contracting party, if the lapsed patent or patents were a substantial part of the subject-matter of the contract.³⁴⁵

The licensor's obligation to maintain the patents will not necessarily have to be stipulated expressly - it may be implied, such as in the case where the licensor undertakes to preclude others from the utilisation of the patent or if the licensor undertakes to maintain the undisturbed enjoyment of the patent right to the licensee.³⁴⁶

Subject to section 29 of the Patents Act 1977 the patentee is entitled to surrender his patent. This provision does not contain a regulation similar to the French or Italian Patent Acts, according to which the registered licensee has to consent to the surrender. Subsection 2 of section 29 of the Patents Act 1977 provides, however, that a person may give notice to the Comptroller-General of his opposition to the surrender of the patent. It may be concluded that a concept according to which the licensor would be impliedly obligated to maintain the patent has not found statutory support in English law. The imputation of such an obligation thus depends exclusively upon the construction of the terms of the contract.

5 THE OBLIGATION OF PROTECTION.

The licensor may undertake to protect the licensee such if he promises to institute proceedings against third parties in the case of patent infringement or to defend the patent against challenges by third persons and thus to protect the licensee. It does not seem as if in English law the implication of such an obligation could be founded upon statutory provisions. Section 30(7) of the Patents Act 1977 states that the exclusive licence may confer upon the licensee the right to bring proceedings for a previous infringement of the patent right. But this does not

³⁴⁴ *Cummings v Stewart* (1913) RPC 1,14.

³⁴⁵ *Cummings v Stewart* (1913) RPC 1,15.

³⁴⁶ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertrage", 2nd ed., ed. by Langen, Weinheim 1958, p. 201; Moulton and Evans-Jackson on "The Patents, Designs, and Trade Marks Act", London 1930, p. 29.

make it clear, whether the licensor is obligated to institute proceedings against patent infringements in the absence of such a clause.³⁴⁷

Section 67(1) of the Patents Act 1977 states that the holder of an exclusive licence shall have the same right as the proprietor of the patent to bring proceedings in respect of any infringement of the patent. This means that in the absence of a particular stipulation in the licence contract, the licensor does not have to defend the exclusive licensee in the case of patent infringement, because the licensee is entitled to undertake the appropriate steps to stop infringing activities. Thus, "unless an obligation to sue is imposed contractually, there is no obligation on either the patentee or the licensee to sue".³⁴⁸

According to Walton³⁴⁹ the licensee generally cannot ask the licensor to take steps against patent infringers, just as he cannot ask the patentee not to grant further licences. This argument, which denies the assumption of the licensor's implied obligation of protection, could only be relevant for the case of the non-exclusive licence. Similarly, the sole licensee cannot bring an action in his own name, but he can get the benefit of the patentee's name by making him either a plaintiff or a defendant.³⁵⁰ If the licence has been created by deed, then the clause which entitles the licensee to start proceedings in the name of the licensor-patentee, has the effect of a mandate and enables the licensee to proceed upon his will.³⁵¹ If the licence is not created by deed, the mandate cannot be given by the licensor before the ground for the proceedings has arisen.³⁵²

The statutory regulation seems to deny an obligation of the licensor to defend the licensee against infringements: in the case of an exclusive licence the licensee may bring proceedings by virtue of section 67 of the Patents Act 1977; in the case of a non-exclusive licence the Patents Act 1977 denies the licensee the possibility to undertake legal steps against infringers. Accordingly, any possibility of the non-exclusive licensee to stop infringers depends upon the contractual stipulations between him and the owner of the patent. The non-exclusive licensee encounters the risk that he may have to pay royalties, whereas the infringing use of the patented invention may be tolerated by the patentee. The licensee would thus pay for that what others obtain freely. To avoid this situation the licence contract may provide that the

³⁴⁷ Brett, Hugh, on "The United Kingdom Patents Act 1977", p. 30, observes that this ability could be regarded as a valuable asset where the potential claim for damages is large.

³⁴⁸ Melville, W.R., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.14, p. 3-24.

³⁴⁹ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzverträge", 2nd ed., ed. by Langen, Weinheim 1958, p. 201.

³⁵⁰ Lord Alverstone, L.C.J. in *Frentzell v Dougill and Mayer* (1904) RPC 641 at 645.

³⁵¹ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzverträge", 2nd ed., ed. by Langen, Weinheim 1958, p. 202.

³⁵² Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzverträge", 2nd ed., ed. by Langen, Weinheim 1958, p. 202.

licensee will be entitled to withhold royalties in the case in which the licensor does not institute proceedings against infringers of the patent. The parties may also provide that the parties shall co-operate in the defence against patent infringements by sharing responsibilities and costs arising from such lawsuits.

Since the exclusive licensee has the statutory right to bring proceedings in respect of patent infringement, it may be argued that, from the lack of a similar regulation in the case of a non-exclusive licence, it may be inferred that unless otherwise provided in the contract, the licensor is not bound by an obligation of protection. However, this assumption is ill-founded if the contract contains a 'most favoured' clause. In such a case the licensor's toleration of patent infringement may be conceived as the grant of a royalty free licence so that any beneficiaries of the most favoured clause could claim that they should also benefit from similar 'conditions'.

In the case in which proceedings are brought against infringers of the licensed patent, Small and Poulter³⁵³ assert that the licensee's and not the licensor's damages will be taken into account, even if the proceedings are brought by the licensor. This means that even in the case where the infringement reduces the sales of the licensee so that the royalty payable to the licensor would be reduced, the licensor is not able to claim the reduction of royalties as damages from the infringer. The award of damages presupposes the registration of the exclusive licensee, section 68 of the Patents Act 1977. Damages will be awarded or an order for the account of profits may be given from the time of the conclusion of the exclusive licence contract provided that it is registered within six months after the conclusion, section 68(a) of the Patents Act 1977,³⁵⁴ or, if it was not practicable to register the exclusive licence within that period, it was registered as soon as practicable thereafter. However, Ford, J. considered in *Optical Coating Laboratory v Pilkington*³⁵⁵ that section 67(2) of the Patents Act 1977 which states that "in awarding damages or granting any other relief in any such proceedings the court or the comptroller shall take into consideration any loss suffered or likely to be suffered by the exclusive licensee as such as a result of the infringement, or as the case may be, the profits derived from the infringement, so far as it constitutes an infringement of the rights of the exclusive licensee as such", relates but to the exclusive licensee. The judge held: "It is not expressed to and does not operate to take any right away from the registered proprietor to claim in respect of loss suffered or likely to be suffered by him". Accordingly, the licensor as well as the exclusive licensee are both entitled to sue and, "if successful, to inter alia, injunctive relief and damages assessed on normal principles".

³⁵³ Small and Poulter on "Remedies for Breach of Intellectual Property Rights: Who Can Sue?" *Intellectual Property in Business*, vol. III-5, Sept./Oct. 1991, p. 2.

³⁵⁴ *Minnesota Mining and Manufacturing v Rennicks (UK)* (1992) FSR 118.

³⁵⁵ *Optical Coating Laboratory v Pilkington* (1993) FSR 310,313.

The question whether the licensor is entitled to assign the contract even without the knowledge or against the will of the licensee is merely one of construction of the licence contract.³⁵⁶ Slesser, L.J. held in *National Carbonising v British Coal Distillation*:³⁵⁷ "So far as concerns the invention and the patents, there can be no doubt that the patent right, being a recognised species of property, can be transferred from the original patentee to any other person, and, so far as the licence is onerous upon the patentee, vested of his rights to the extent of depriving himself from enforcing them under the patent against the licensee in respect of acts which fall within the terms of the licence, can only assign the benefits of the patent under the limitation". Thus, the assignment of the licence does not free the licensor from any contractual obligations deriving from the contract with the licensee.

6 THE OBLIGATION OF WARRANTY.

6.1 The Warranty In The Case Of Hidden Defects.

In English law, courts are not likely to consider that the licensor impliedly warrants that the licensed patent is valid. Terrell³⁵⁸ states that in the absence of an express warranty, the maxim 'caveat emptor' applies to patent licence contracts. Since the patent licence contract is no contract "*uberrimae fidei*"³⁵⁹ the licensor is not bound by a (pre-contractual) obligation to disclose information relating to a possible invalidity of the patent.

In a case where the patentee expressly guaranteed the validity of the patent, the court held that the purchaser of the patented invention was entitled to rescind the contract and to claim back a part of the price paid. In *Berchem v Wren*³⁶⁰ the patentee sold his patented invention together with the goodwill and trade connections. He guaranteed in the agreement that the patent was a valid patent. In fact, the patent proved to be invalid and the defendant claimed to be entitled to a rescission of the contract and to receive back half of the price which he had paid to the plaintiff. Darling, J. focused on the fact that the buyer had made and could make use of the business and that he could produce and sell the articles whether they were patented

³⁵⁶ Romer, L.J. in *National Carbonising v British Coal Distillation* (1937) RPC 41 at 54.

³⁵⁷ Slesser, L.J. in *National Carbonising v British Coal Distillation* (1937) RPC 41 at 53.

³⁵⁸ Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 194.

³⁵⁹ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertrage", 2nd ed., ed. by Langen, Weinheim 1958, p. 197.

³⁶⁰ *Berchem v Wren* (1904) RPC 683.

or not. He then assessed the value of the articles sold and found that the purchaser did not buy a thing of no value at all, but explained "that the business is worth less, because the article has turned out not to be the subject-matter of a valid patent". Darling, J. continued by stating that it indeed makes a difference whether the purchaser buys a patented or unpatented article: "I think it does matter, whether the thing is a patented article and you can prohibit other people from making it". He explained this by reference to the sale of a book - to say that it does not matter whether it is copyright or it is not "that would be to say that copyright has no value and that patent right has no value which I do not believe". In this case³⁶¹ the validity of the patent was guaranteed - the subsistence of the exclusive right thus is of importance in the case of a sale and, more so in the case of the grant of a licence, where the payment of royalties may depend upon the quantity of production of the articles.

The rights which the licensee may invoke against the patentee depend upon the individual contract, in particular upon whether the term stipulated by the parties agreed upon a condition or a warranty. In *Nadel v Martin*³⁶² the parties entered into an agreement to sell patents. The assurance to the purchasers contained a covenant by the vendor guaranteeing the validity of the patents. The plaintiff claimed for the purchase money. The House of Lords held that the basis of the transaction was that the patents were valid. The Earl of Halsbury³⁶³ stated: "The agreement provides for a warranty, the breach of which only entitles to damages. Bigham, J. held that there was no condition, but a warranty. The consequences are entirely different. If the machine has a powerful competitor, the damage would be less than if the patented machine had no competing machine. If there is a condition, then the whole matter can be repudiated, but if there is only a warranty, there is a question of damages which may be greater or less according to the circumstances. Here the purchasers only stipulated for a warranty".

If the parties want to stipulate a warranty they should use unambiguous language. In *Suhr v Crofts (Engineers)*³⁶⁴ it was contested whether the words "on the understanding that the patent rights are sound" amounted to a warranty of the validity of the patent. Lawrence, J. denied, on the construction of the agreement, that there was no guarantee "but that the parties agreed that manufacture should begin forthwith on the assumption that the patent was valid and that they should co-operate to prevent infringement. It is one thing for both parties to agree to perform the agreement forthwith on the understanding or assumption that the patent is sound; it is quite another that one party should guarantee that it is. Whether the patent is sound is generally as much a matter within the knowledge of one party as of the other (*Hall v Conder* (1857) 2 C.B., N.S., 22 at 41, 42)". The judgement seems to confirm the tendency of English

³⁶¹ *Berchem v Wren* (1904) RPC 683.

³⁶² *Nadel v Martin* (1906) RPC 41.

³⁶³ *Nadel v Martin* (1906) RPC 41,50.

³⁶⁴ *Suhr v Crofts (Engineers)* (1932) RPC 359 at 366 per Lawrence, J.

law that an obligation of warranty for the validity of the patent will only be implied, if upon the construction of the contract such an implication appears reasonable. The licensee himself is asked to negotiate for a warranty, if he wants to be assured that the licensed invention is in fact capable of protection by patent law.³⁶⁵ But the express warranty for the validity of the patent may be difficult to obtain. Melville³⁶⁶ mentions the possibilities that the licensor may be prepared to warrant that the invention was not obtained from a third person or that the invention had not been publicly used by the patentee or that the invention was properly described in his patent with adequate experimental details.

One may further think of the implication of a warranty. It could be argued that the rules on the standard of performance should be applicable to the patent licence contract, since, as Lewinson³⁶⁷ states "in a contract to make an article (...) there will be an implied term that the article made will be reasonably fit for its purpose. A similar term will be implied into a licence of land, but not into a lease. In a contract to perform services, there will generally be an implied term that the party performing the services will do so with reasonable care and skill, but in exceptional circumstances there will be an implied warranty that he will achieve the desired result". But there is no authority on the assertion that the licensor will be impliedly obligated to warrant the fitness of the licensed technology for the intended purpose. One may, further, think of the application of the doctrine of misrepresentation. Although the patent licence contract is not considered to be a contract "*uberrimae fidei*"³⁶⁸ which obligates the party in an especially strong position to know the material facts and which, consequently, places this party under a duty to make a full disclosure of those facts, such as contracts for the sale of land in which the vendor has a general duty to disclose the existence of latent defects in the title, however, the misrepresentation must relate to facts and not a mere puff,³⁶⁹ and in the case of a patent licence it follows from *McDougall v Partington*³⁷⁰ that there must be a clear case of fraud.

6.2 The Warranty In The Case Of Disturbances In The Enjoyment Of The Patented Invention.

³⁶⁵ This tendency of English law seems to be in coincidence with the principle 'let the buyer beware himself'.

³⁶⁶ Melville, W.R., on "Forms and Agreements on Intellectual Property. Patents for Inventions", 3rd ed., § 3.10(1), p. 3-19, referring to *V.D. v Boston Deep Sea Fishing & Ice* (1934) RPC 303,328; *Otto v Steel* (1886) RPC 109,112.

³⁶⁷ Lewinson, Kim, on "The Interpretation of Contracts", London 1989, p. 120.

³⁶⁸ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 197.

³⁶⁹ See Allen, David K., on "Misrepresentation", London 1988, p. 14, referring to *Scott v Hanson* (1829) 1 Russ. & M. 128.

³⁷⁰ *McDougall v Partington* (1889) RPC 216.

In English law, the leasing contract has developed as a common law institute and is not governed by statute. Thus a warranty will not be implied by statute, but the contract may, upon the construction of its terms, create the implied obligation of the licensor to warrant the peaceful enjoyment of the patented invention. However, it is not likely that a court will imply a warranty of quiet possession, where the parties could have expressly dealt with this problem in the contract.³⁷¹

6.2.1 The Warranty In The Case Of Disturbances Through Facts Attributable To The Lessor.

This warranty concerns the cases which arise from the fact that the licensor himself impedes the peaceful enjoyment of the patented invention by the licensee. In English law the obligation of the licensor to refrain from acts which may expose the patent to revocation can be based on *Gonville v Hay*.³⁷² In this case a patentee granted a licence and subsequently sold the patent and then disputed the validity as against the purchasers, because he wanted to continue the utilisation of the invention. Buckley, J.³⁷³ stated: "...it is familiar law that a licensee who takes under a patentee cannot, as against the patentee, dispute the validity of the patent. That is not the question here. The question is whether, when there are four people interested in a licence the licence of which of course depend upon the validity of the patent, the vendor can as against his purchasers say: 'That what I have sold to you is worth nothing because I am going to dispute the validity of the patent'. I think not. *Chambers v Critchley* shows that this is so (33 Beav. 374). It is consistent with common sense, and I think common sense is still good law". It may be inferred that the licensor is not entitled to dispute the validity himself and thus expose the patent to the risk of revocation.

The licensor is estopped from alleging as against his assignees that the patent is invalid, but, as *Terrell*³⁷⁴ observes: "The estoppel in such cases is of a personal nature". Estoppel can only operate in the same transaction as that in which it arises,³⁷⁵ since this estoppel works only between the parties. Thus it may be assumed that the licensor impliedly warrants not to commit acts which may disturb the licensee's right of enjoyment of the patented invention.

³⁷¹ *Montforts v Marsden* (1895) RPC 266; but see *Microbeads v Vinhurst Road Marking* (1976) RPC 19, where the Court held that a purchase of articles implied a term that the seller would be in breach of a warranty for the purchaser's right of quiet possession, if later it is ascertained that the articles were patented; Moulton, Fletcher H., on "The Present Law and Practice Relating to Letters Patent for Inventions", London 1913, p. 244.

³⁷² *Gonville v Hay* (1904) RPC 49.

³⁷³ Buckley, J. in *Gonville v Hay* (1904) RPC 49 at 51.

³⁷⁴ *Terrell*, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 257.

³⁷⁵ *Fuel Economy v Murray* (1930) RPC 346,353; *V.D. v Boston Deep Sea Fishing* (1934) RPC 301,331.

However, Terrell³⁷⁶ points out that a person estopped from disputing the validity of the patent is, "nevertheless entitled to give evidence and assist in attacking its validity in proceedings to which he is not himself a party".³⁷⁷ The author³⁷⁸ asserts that, in the absence of a contractual stipulation, it will not be implied that the licensor warrants that the use of the licensed invention will not infringe a third person's patent, however, the legal writer concedes that knowledge of and concealment of such a fact by the patentee may be constitutive of fraud and entitle the licensee to a rescission of the patent licence contract. However, in English law a licensor is not impliedly obligated to warrant the licensee against cases of disturbances of the enjoyment. But such an obligation may result from the construction of the contract. In *Acrow v Rex Chainbelt*³⁷⁹ a company granted a licence to the plaintiff and ordered chains from the defendant required for the manufacture of the patented articles. Later, the licensor purported to terminate the licence and ordered the defendant not to supply the plaintiff with chains. Lord Denning, M.R. held that the licence contract contained an implied term that the licensor would do nothing to impede the licensee in the manufacture of the patented article. However, Lord Denning, M.R. did not consider whether such an implied obligation is generally inherent in a patent licence contract. He did not indicate the reasons which induced him to assume the implication of such a term in the specific case concerned. Thus it seems difficult to deduce a rule from this decision when, and under which circumstances the licensor is bound by an implied obligation not to impede the licensee in the exercise of his rights. In *PCUK v Diamond Shamrock Industrial Chemicals*³⁸⁰ Falconer, J. did not strike out the plea of the plaintiff that even if he was only a sole licensee he might be able to rely on protection against interference of trade.

6.2.2 The Warranty In The Case Of Disturbances Attributable To Third Persons.

In *African Gold Recovery v Sheba Gold Mining*³⁸¹ a third person obtained the revocation of the patent and the licensee asserted to be evicted similar to the lessee in a case of a lease so that his obligation to pay royalties would terminate as the lessee's obligation to pay rent. The Court, however, rejected the analogy between the lease and the licence contract, holding that nothing would prohibit the licensee from using the licensed technology.

³⁷⁶ Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 258.

³⁷⁷ *London and Leicester Hosiery v Griswold* (1886) RPC 251.

³⁷⁸ Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 261.

³⁷⁹ *Acrow v Rex Chainbelt* (1971) 1 W.L.R. 1676,1680,1681.

³⁸⁰ *PCUK v Diamond Shamrock Industrial Chemicals* (1981) FSR 427.

³⁸¹ *African Gold Recovery v Sheba Gold Mining* (1897) RPC 660.

In conclusion, it may, therefore, be assumed that the licensor is, in the absence of a stipulation to the contrary, not bound to warrant the licensee against 'disturbances' in the enjoyment of the licensed invention, attributable to third persons. In the case of an exclusive licence the licensee himself may bring proceedings against patent infringements by virtue of section 67 of the Patents Act 1977, but subject to section 68 of the Patents Act 1977 damages, generally, may only be awarded after registration of the licence. It may be assumed that in the absence of contractual stipulations, the licensor is not obligated to undertake steps in order to protect the licensee, whether exclusive or non-exclusive, against disturbances in the right of enjoyment.

6.3 The Exclusion Of The Warranty.

Since in English law a court will not easily imply a term as to the licensor's warranty, generally patent licence contracts do not have to contain an express provision that warranties will be excluded, if the parties agree on this point. Melville³⁸² states that it is common for the licensor to exclude any warranty for the validity of the patent. This author asserts that a parallel may be drawn to maritime law or to the law of carriage of goods by sea where "a party seeking to rely on a clause which exempts him from liability, has himself been guilty of a serious breach of contract, he will not be allowed to rely on the exemption clause". Accordingly, Melville infers, "a licensor who excludes any warranty as to validity but undertakes to pursue infringers would not, it appears, be able to enforce minimum royalties from his licensees if there is an infringer which the licensor refuses to pursue by legal proceedings if necessary even though that may expose the rights to a finding of invalidity. Indeed it is arguable that that is the case even if there be no express undertaking to sue infringers". In such a case, however, the licensee may be able to rely on section 45 of the Patents Act 1977 and terminate the contract by giving three months' notice, if the patent ceases to be in force.

6.4 The Recognition Of The Validity Of The Patent By The Licensee.

³⁸² Melville, W.R., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.12; p. 3-21.

In English law, Boehm³⁸³ asserts that the validity of a patent in the case of a contractual licence is irrelevant. He explains: "unless, of course the validity is specified in the contract. However bad the patent is in law, the licence terms will be enforced upon the licensee." He concedes, however, "that a licence agreement can be enforced when a patent is invalid, appears to be antithetical to the purpose of patent law, which makes the monopoly rights dependent upon the validity of the patent." Cornish³⁸⁴ indicates that "it has been traditional practice to require the payment of royalties, whether the patent is valid or not". No matter what the parties agreed upon in the contract, the licensee has a right based on statute to terminate the licence if the patent ceases to be in force, section 45(1) of the Patents Act 1977.

7 THE MOST FAVOURED CLAUSE AND THE NO-COMPETITION CLAUSE.

7.1 The Most Favoured Clause.

The non-exclusive licensee is exposed to the risk that the licensor grants further licences at better terms. The licensee who also benefits from exclusivity within a part of the territory to which the patent relates may encounter this risk with regard to the other parts of the territory. By the most favoured clause, or, as it is suggested, the "equal terms clause",³⁸⁵ the licensor undertakes not to grant licences to anyone else to conditions more favourable than those which he granted to the licensee. As Viscount Simonds³⁸⁶ said, it is the purpose of the clause to protect the competitive advantage of the licensee; and similarly Lord Denning stated in *Fomento (Sterling Area) v Selsdon Fountain Pen*:³⁸⁷ "The object of that clause is to ensure that if the licensors should grant a new licence, then the agreed royalty should be reduced to the level of the new lower royalty". The clause comes into operation, for example, when a licence at a lower royalty has been granted. In *Dunlop Rubber's Patent*³⁸⁸ the licensee's obligation to pay royalties could not be extended beyond the duration of the term of the patent and two years afterwards - the actual term under which the patentee had granted a licence to a

³⁸³ Boehm, Klaus, on "The British Patent System", Cambridge 1967, p. 98.

³⁸⁴ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 190.

³⁸⁵ Melville, W.R., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, §. 3.16(4); p. 3-29.

³⁸⁶ Viscount Simonds in *Fomento (Sterling Area) v Selsdon Fountain Pen* (1958) RPC 8 at 14.

³⁸⁷ Lord Denning, M.R. in *Fomento (Sterling Area) v Selsdon Fountain Pen* (1958) RPC 8 at 22.

³⁸⁸ *Dunlop Rubber's Patent* (1968) RPC 1.

third person. It is important that the licensor undertakes to inform the licensee of any new licence contract he concludes with third persons.

7.2 The No-Competition Clause.

In English law, the licensor is not impliedly obligated to refrain from exploiting new patented inventions developed by him after the conclusion of the licence contract.³⁸⁹ In *Bagot Pneumatic Tyre v Clipper Pneumatic Tyre*³⁹⁰ an express obligation of no-competition imposed upon of the licensor was contained in the contract, however without the validity being discussed. It may be assumed that such clauses will be valid in English law, insofar as they correspond with the doctrine of restraint of trade.³⁹¹

Part 6: THE OBLIGATIONS OF THE LICENSEE.

1 THE OBLIGATION TO PAY ROYALTIES.

The remuneration for the grant of the licence may be a lump sum, but more often the licensee will be obligated to pay royalties, the amount of which may depend upon the scope of exploitation - upon the number of articles sold, the turnover or profits of the licensee. Even if the parties did not fix a royalty in the contract, an English court may imply that the licensee should pay a royalty, the reasonableness of the royalty being determined "in the light of circumstances as they were at the date of the licence or agreement".³⁹²

1.1 The Lump Sum.

³⁸⁹ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 198.

³⁹⁰ *Bagot Pneumatic Tyre v Clipper Pneumatic Tyre* (1902) RPC 69,71.

³⁹¹ See below, Chapter 3, part 6: 5.2 and part 3.

³⁹² Vitoria, Jacob, Cornish, Alexander and Clark on "The Encyclopedia of UK and European Patent Law", London 1977, issue December 1992, no. 8-412.

In the case where the remuneration assumes the form of a lump sum, it may be difficult to distinguish the patent licence contract from a contract which transfers the ownership of the patent, a contract which concerns the sale of the patented invention. Here it will be of decisive importance whether the parties have agreed upon a temporal limitation of the exploitation of the patented invention through the licensee or whether the 'licensor' parts with his rights for the whole duration of the patent's life. In the latter case, if the parties have stipulated upon the exclusivity of the licence, it may be appropriate not to consider the agreement as directed towards the grant of a licence but to the assignment of the patented invention.

In practice, the contracting parties often combine the obligation for the payment of a lump sum with the obligation for the payment of royalties. Stipulations of this kind are of particular interest to the licensor where his obligations exceed the mere grant of the enjoyment of the patented invention but involve additional activities which may concern technical assistance or the communication of know-how. If this lump sum has to be considered as the remuneration for the performance of technical assistance or the communication of non-accessory know-how, which are independent of the remuneration for the patent licence, the licensor avoids a discussion about the repayment of the remuneration should the patent turn out to be invalid, at least insofar as the lump sum is concerned. The rate of the royalty may either be fixed or proportional. If the rate is fixed, it may be difficult to distinguish the agreement from a contract for the sale of the patent where the payment for the price is payable in instalments. Again, the distinction between the contractual concepts should be kept in mind; the patent licence contract engenders obligations which correspond to its continuing nature, whereas the contract for sale is generally a contract of instantaneous satisfactory performance.

1.2 Fixed Royalties.

The rate of the royalty may either be fixed or proportional. If the rate is fixed, it may be difficult to distinguish the agreement from the contract of sale of the patent where the payment for the price is payable in instalments. Again, the distinction between the contractual concepts should be kept in mind; the patent licence contract entails obligations which correspond to its successive nature whereas the contract of sale is generally a contract of instantaneous satisfactory performance. Further, the royalties may be progressive or digressive.

1.3 Proportional Royalties.

Generally, it can be said that from the stipulation of proportional royalties results a right of control for the licensor so that the licensee is obligated to give his contractual partner access to account books, even when this has not been stipulated expressly in the contract. But normally the licensor will expressly obligate the licensee to keep records concerning the production and the sale of the licensed articles. In addition, it may be of interest to the licensor that the licensee keeps books concerning the sale and purchase of spare parts, because these figures could serve as an indication of the correctness of the records relating to the production and sale of the patented articles. It can be helpful to obligate a licensee to send to the licensor duplicates of the invoices or to fix plates with continuous numbers onto the patented articles. The licensor would also be well-advised, to expressly obligate the licensee to give him access to the books which contain the figures relevant for the scope of the exploitation of the licensed technology. It should be laid down whether the licensor himself or an independent expert should have the right to examine the licensee's books. Additionally, the parties may stipulate terms according to which a control of the production may take place within the plants of the licensee, either by the licensor himself or an independent expert.

In *Dunlop Pneumatic Tyre v North British Rubber*³⁹³ the clause which provided for the payment of royalties related to the articles 'manufactured and sold' under the licence. It was held that - just as in the case of a licence which entitles the licensee to make or use or exercise or vend the patented articles, without obliging him to combine all those uses - the licence intended the factor which triggered the obligation for the payment of royalties to be taken not in combination but separately and that equally, no matter whether the licensee manufactured or sold the article, the licence was payable in either case. This was the opinion of Stirling, L.J. in *Dunlop Pneumatic Tyre v North British Rubber*.³⁹⁴ It does not matter whether the patent is actually granted or not, the parties are free to stipulate the payment of royalties in their agreement from an earlier time, *Lyle-Meller v A. Lewis (Westminster)*.³⁹⁵

Proportional royalties can be stipulated according to three basic modalities.

1.3.1 Royalties Dependent Upon The Turnover.

³⁹³ *Dunlop Pneumatic Tyre v North British Rubber* (1904) RPC 161 at 183 per Stirling, L.J.

³⁹⁴ *Dunlop Pneumatic Tyre v North British Rubber* (1904) RPC 161 at 183 per Stirling, L.J.

³⁹⁵ *Lyle-Meller v A. Lewis (Westminster)* (1956) RPC 14,16.

First, they may be fixed depending upon the turnover. The parties should define the term 'turnover' in the contract. They should stipulate, whether the turnover is calculated from the price of the end product or from the use of the licensed parts. The parties have to ask themselves whether the point of reference is the in practice hardly ascertainable part of a process, or whether it is the value of the finished product in which, naturally, the value of the process assumes only a limited part. They will have to decide whether the turnover is calculated from the ex-factory price, from the retail price or from the net-invoice price. Then the question has to be solved which reductions may be admissible such as for wrapping, packing, transport, discounts, spare parts, insurance fees etc. Furthermore, the contract should provide for the time when the royalties are due: at the time the product is finished, at the time the contract is concluded between the licensee and the purchaser, at the time the product is charged to the purchaser or at the time of receipt of the payment from the purchaser. The advantage of this method of calculating royalties consists in the protection of the licensor against inflation, the disadvantage lies in the possibilities which the licensee may apprehend to manipulate the turnover if he sells below the market price, for example to subsidiaries which are outside of the scope of the contract.

1.3.2 Royalties Dependent Upon The Number Of Articles Sold.

A remedy against the disadvantages of royalties calculated on the basis of the turnover is the stipulation of royalties which are calculated on the basis of sold units. Here the royalty is composed of a fixed amount which is charged for each patented product. Either the finished, the sold or the leased product serves as a basis for the calculation. The advantage of this method lies in the fact that the account is easier to settle than in the case of royalties depending upon turnover, but it is a disadvantage that the licensor is not protected against the risk of inflation.

1.3.3. Royalties Dependent Upon Profits.

As a third method, the royalties may be fixed on the basis of the profit obtained by the licensee through the sale of the patented products. But this method is not often agreed upon, because it presupposes a great element of trust between the parties and efficient control of the licensee's business by the licensor. If the parties agree upon this method of calculation, it is very important that they should define exactly those profits which may be taken as the basis for calculation.

1.2 The Minimum Royalty Clause.

The stipulation of a minimum royalty clause appears accepted by English courts. In *Chemidus Wavin v Société Pour La Transformation*³⁹⁶ Buckley, L.J. stated: "What he" (the plaintiff) "is really complaining about is that he has made a bad bargain"... and the Court of Appeal upheld the contract although the defendant pleaded its incompatibility with antitrust law. Thus, the minimum royalty clause does not violate UK antitrust law, but its stipulation "merely forms part of the financial bargain made between licensor and licensee".³⁹⁷

2 THE OBLIGATION TO DEFEND THE EXCLUSIVE RIGHT.

Section 67 of the Patents Act 1977 entitles the holder of an exclusive licence to bring proceedings in respect of any infringement of the patent committed after the date of the licence. However, it does not appear as if the licensee would be obligated to defend the patent against infringements by third persons with regard to the licensee. Section 67(1) of the Patents Act 1977 states that the exclusive licensor "shall have the same right as the proprietor of the patent to bring proceedings in respect of any infringement of the patent" - in consequence, the exclusive licensee does not encounter a statutory obligation to defend the patent right against infringement. According to previous law, the licensee, whether exclusive or not, could not sue.³⁹⁸

3 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.

³⁹⁶ *Chemidus Wavin v Société Pour La Transformation* (1977) FSR 181 at 187 per Buckley, L.J.

³⁹⁷ Melville, W.R., on "Forms and Agreements on Intellectual Property and International Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.16(3); p. 3-29.

³⁹⁸ See, e.g. Fulton, David, on "The Law and Practice Relating to Patents, Trade Marks and Designs", 2nd ed., London 1902, p. 126.

Just as the licensor,³⁹⁹ the licensee is not impliedly obligated to communicate improvements of the licensed patented invention which he makes during the contractual relation to the other party.⁴⁰⁰ If the parties provide for such an obligation, they may stipulate alternatively that the licensee shall grant a licence to the licensor, whether royalty-free or not, to make use of them or that the improvements shall be deemed the property of the licensor or that the licensor shall have the option to acquire them.⁴⁰¹

Concerning the obligation arising from a grant-back clause which provided that the licensee had to communicate all improvements to the licensor who could then take out a patent on the improvement invention, in which case the licensee was entitled to an exclusive licence, the House of Lords⁴⁰² held that on the construction of the terms, the licensee was bound to communicate improvements which he made shortly before the termination of the patent licence contract, but that with the termination of the original agreement, he could not claim a right to an exclusive licence in the patent for the improvement invention, because the rights in the agreement were to end with its termination. Grant back clauses in patent pool agreements may be subject to registration according to section 5(5) to (8) of the Restrictive Trade Practices Act 1976.⁴⁰³

4 THE OBLIGATION TO EXPLOIT THE PATENTED INVENTION.

In English law, courts are not likely to impute an obligation of exploitation.⁴⁰⁴ The licence gives the right to do those acts which without it would constitute patent infringement. In the absence of an express term in the contract, the licensee is not obligated to work the invention.⁴⁰⁵ Thus, under English law the stipulation of a minimum royalty or any other clause which ensures that the licensee undertakes the exploitation of the patented invention is of particular importance.

³⁹⁹ See above, Chapter 2, part 5: 2.

⁴⁰⁰ Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzverträge", 2nd ed., ed. by Langen, Weinheim 1958, p. 198.

⁴⁰¹ Cawthra, Bruce Illingworth, on "Patent Licensing in Europe", 2nd ed., London 1986, p. 122.

⁴⁰² *National Broach and Machine v Churchill Gear Machines* (1967) RPC 99,100.

⁴⁰³ See above, Chapter 2, part 3: 1.

⁴⁰⁴ Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 262.

⁴⁰⁵ Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, p. 262, referring to *Re Railway and Electrical Appliances*, 38 Ch.D. 597 and *Cheetham v Nuthall* (1893) RPC 321; Walton, Anthony M., on "Grossbritannien", in: "Internationale Lizenzverträge", 2nd ed., ed. by Langen, Weinheim 1958, p. 197.

4.1 The Best Endeavours Clause.

Since even the exclusive licensee is not impliedly obligated in English law to exploit the patented invention, it is recommendable for the licensor to obtain an undertaking from the licensee that he will employ his best endeavours to exploit the invention.⁴⁰⁶ Geoffrey Lane, L.J.⁴⁰⁷ defined the best endeavours clause in *IBM UK v Rockware Glass* as an obligation "to take all those reasonable steps which a prudent and determined man, acting in his own interests (...) would have taken". Attention should be paid to the definition of the object of the best endeavours clause in the contract.⁴⁰⁸ The execution of the obligation does not require that the licensee does more than could reasonably be expected from him under the circumstances.⁴⁰⁹ In *Terrell v Mabie Todd*⁴¹⁰ Seller, J. was concerned with the licensees' express undertaking to use their best endeavours to exploit the inventions and designs of the licensor. The licensees contended that the exploitation of the invention and the marketing of the articles had been commercially impracticable. The judge held that the clause obligated the licensees to use their best endeavours not in a manner to ruin their company, but before this extreme position could be reached there might arise questions as to the amount of money to be expended on the production and how far money was to be borrowed for the purpose. Accordingly, the licensee can be expected do what is consistent with running a company efficiently and prudently and in the interests of the company taking into account his contractual obligations. The standard of reasonableness is that of a reasonable and prudent licensee acting properly in the interests of his company and applying his minds to his contractual obligations to exploit the inventions. But the licensee should also take into account the interests of the licensor in the avoidance of the grant of compulsory licences.

4.2 The Minimum Production Clause.

⁴⁰⁶ See Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 189.

⁴⁰⁷ Geoffrey Lane, L.J. in *IBM UK v Rockware Glass* (1980) FSR 335 at 345 (the clause related to the obtaining of a planning permission for the sale of land).

⁴⁰⁸ Goff, L.J. referred in *IBM UK v Rockware Glass* (1980) FSR 335 at 348 to *Bower v Bantam Investments* (1972) 1 W.L.R. 1120, pointing out that in this case a difficulty on the uncertainty over the clause arose, because the object in the best endeavours clause to be used was left indefinite.

⁴⁰⁹ Melville, W.R., "Forms and Agreements on Intellectual Property and international Licensing. Patents for Inventions", 3rd ed., New York 1984, § 3.16(3); pp. 3-28,3-29, states: "A best endeavours clause, whilst no light obligation, does not require a licensee to do more than he reasonably can in the circumstances".

⁴¹⁰ *Terrell v Mabie Todd* (1952) RPC 234 at 236.

The parties may define the obligation of exploitation more precisely by stipulating a minimum production, for example a number of articles to be manufactured or sold. Such a clause will give the licensor the guarantee that the licensee achieves a certain amount of production which is of particular relevance, if the payment of royalties depends upon the exploitation of the patented invention.⁴¹¹

4.3 The Maximum Sales Clause.

The patent licence contract may provide for a clause establishing a maximum of exploitation by, for example, fixing an upper limit for the number of sales. In English law the general assumption is that the licensor affords protection from competition by the licensee - otherwise licences would not be issued. Thus the limitation of intra-brand competition between the licensor and the licensee through the imposition of the maximum sales clause will be considered as the legitimate exercise of the rights which appertain to the patentee.⁴¹²

4.4 The Tie-In Clause.

Generally, in English law clauses which impose upon the licensee obligations in relation to goods not subject to the licensed patent would appear to render the licence registerable under the Restrictive Trade Practices Act as a restrictive agreement as to goods, section 6(1)(c) to (f) of the Act.⁴¹³ Most common tie-in forms are prohibited by section 44 of the Patents Act 1977.⁴¹⁴

4.5 Price-Fixing.

⁴¹¹ See Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 189.

⁴¹² See above, Chapter 2, part 3: 4.

⁴¹³ Merkin and Williams on "Competition Law", London 1984, pp. 336,337.

⁴¹⁴ See above, Chapter 2, part 3: 2.

In English law the licensor is not prevented from determining the price of sale of the patented goods according to sections 10 and 9 of the Resale Prices Act 1976,⁴¹⁵ however, terms which fix the resale price are void according to the Resale Prices Act 1976.⁴¹⁶

5 RESTRICTIONS UPON THE LICENSEE.

5.1 The No-Challenge Clause.

The promisor of the express no-challenge clause is, in English law, prohibited from putting the validity of the patent in issue, be it in the form of proceedings for the revocation of the patent, be it as a defence against an action brought by the licensor, for example for infringement of the patent. The no-challenge clause has the purpose of maintaining the industrial property right between the parties, even if the patent is invalid and revocable, so that the licensee would have to pay royalties, even if the patent would not meet the statutory requirements. Thus in English law no-challenge clauses are valid,⁴¹⁷ and their stipulation in patent licence contracts is common, *V.D. v Boston Deep Sea Fishing and Ice*.⁴¹⁸ However, the validity of this clause has been placed in doubt by Clauson, J.: "It should seem (...) to be very remarkable, if a Court which is bound by the provisions of the Statute of Monopolies can be called upon to give effect to a covenant between individuals, that that which may by reason of the statute turn out to be an invalid monopoly and an illegality shall be, as between the parties, held to be valid and legal. Under modern conditions the question seems to me to be so important that it is best that, as it has not been argued out before me, I should say nothing more about it".⁴¹⁹ In *Campbell v Hopkins and Sons (Clerkenwell)*⁴²⁰ there was an express term in the agreement that the defendant would not dispute the validity of the plaintiff's patent. Farwell, J.⁴²¹ explained that this express term would preclude the defendant from setting up the defence by putting in issue the validity of the patent. He explained: "It is not a question of estoppel. It is a question of express covenant. They are seeking to do something which they have expressly covenanted not to do, and in my judgement it is not open to them

⁴¹⁵ Merkin and Williams on "Competition Law", London 1984, p. 339.

⁴¹⁶ See above, Chapter 2, part 3: 4.

⁴¹⁷ See Terrell, Thomas, on "The Law of Patents", 13th ed., London 1982, pp. 258,259; Wallace and Williamson on "The Law and Practice Relating to Letters Patent for Inventions", London 1900, p. 342.

⁴¹⁸ *V.D. v Boston Deep Sea Fishing and Ice* (1935) RPC 303,331.

⁴¹⁹ Clauson, J. in *V.D. v Boston Deep Sea Fishing and Ice* (1935) 303,332.

⁴²⁰ *Campbell v Hopkins and Sons (Clerkenwell)* (1932) RPC 38.

⁴²¹ Farwell, J. in *Campbell v Hopkins and Sons (Clerkenwell)* (1932) RPC 38 at 45.

to do it". However, this view is contested - Cornish⁴²² asserts that the stipulation of a no-challenge clause would constitute an unreasonable restraint of trade and be invalid accordingly. With this respect it seems appropriate to focus on the scope of the clause. Since the licensee is already, in application of the principle of estoppel, denied the possibility of challenging the validity of the patent, it is unlikely that an express clause would appear to be unreasonable in the public interest - even if one assumes that the maintenance of an invalid patent cannot be a public concern.

5.2 The Obligation Not To Compete.

By means of the no-competition clause the licensee undertakes not to use technologies which may replace or substitute the licensed technology and not to manufacture articles which could replace the licensed patented articles in the market. In English law, it seems that a court would uphold a clause which obligates the licensee to abstain from competing activity,⁴²³ subject to the doctrine of restraint of trade according to which a clause will be upheld if it is (a) reasonable as between the parties and (b) in the public interest, *Nordenfelt v Maxim Nordenfelt Guns & Ammunitions*.⁴²⁴ There may be a general rule that the wider the geographical area, the shorter the period of time that might be considered reasonable and vice versa.⁴²⁵ However, the agreement containing a no-competition clause may be registrable according to the Restrictive Trade Practices Act 1976, section 6(1)(c) to (f).⁴²⁶ In *Gonville v Hay*⁴²⁷ the Court had to decide on a deed of dissolution of partnership between the plaintiff and the defendant. The latter covenanted that he would not at any time, either directly or indirectly, exercise, carry out or be concerned in, the trade or business of a manufacturer of caramel, manufactured under or by virtue of the process protected by the plaintiff, during the term of the grant or any extension thereof. The defendant, in spite of the clause, manufactured and carried on business in respect of caramel protected by the patent. The Court granted an injunction for the breach of a covenant. Thus it may be recommendable to include in the contract a clause which restricts the licensee's possibility to use competing technology,⁴²⁸ in particular after the termination of the licence.

⁴²² Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 190, fn. 83, referring to *V.D. v Boston Deep Sea Fishing and Ice* (1935) RPC 303 at 331 and *Mouchel v Cubitt* (1907) RPC 194,200.

⁴²³ *Gonville v Hay* (1907) RPC 161.

⁴²⁴ *Nordenfelt v Nordenfelt Guns & Ammunitions* (1894) A.C. 535 (H.L.).

⁴²⁵ *Fitch v Dewes* (1921) A.C. 158 (H.L.).

⁴²⁶ See above, Chapter 3, part 3: 1.

⁴²⁷ *Gonville v Hay* (1907) RPC 161.

⁴²⁸ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 189.

5.3 The Prohibition To Assign The Contract And To Grant Sub-Licences.

Hall, V.C. held in *Lawson v Donald Macpherson*:⁴²⁹ "I do not think it would be safe for me to hold that a mere licence to work a patent is in itself assignable unless there is more. But if there is anything which shows that there was an intention that the licence should not be limited exclusively to the individual, then other considerations arise and other defences are open". In the case of assignments of contracts there is no general principle, "except perhaps this, that a contract which involves the exercise of personal skill on one side or the other, or which is based upon the confidence that one party has in the other, is prima facie unassignable".⁴³⁰ As Romer, L.J. stated in *National Carbonising v British Coal Distillation*:⁴³¹ "In application of this principle one has to consider the particular contract and its obligations which bind the parties". Thus "in all cases the question whether the particular contract is assignable or not is merely one of construction". Since the contractual licence does not confer to the licensee any 'property', the licensor does not grant to the licensee an assignable right, unless the parties stipulate otherwise.⁴³² Moulton⁴³³ states: "Generally speaking, a licence is strictly personal, and the rights granted by it cannot be transferred to others in the absence of special terms".

The express prohibition to grant a sub licence or to assign the contract does not prevent the licensee from having articles manufactured by his agents, however, in English law not even the exclusive licensee has an implied right to grant sub-licences⁴³⁴ or to employ an independent contractor to manufacture for him.⁴³⁵ Concerning the possibility to grant sub-licences, such a right will not be implied, not even in the case of an exclusive licence,⁴³⁶ and the exclusive licensee will not impliedly be considered authorised to have the patented invention used by an independent contractor who manufactures the patented articles for him.

⁴²⁹ *Lawson v Donald Macpherson* (1897) RPC 696 at 697 per Hall.

⁴³⁰ Romer, L.J. in *National Carbonising v British Coal Distillation* (1939) RPC 41 at 54.

⁴³¹ Romer, L.J. in *National Carbonising v British Coal Distillation* (1939) RPC 41 at 54.

⁴³² Melville, L.W., on "Forms and Agreements on Intellectual Property and International Licensing. Patents on Inventions", 3rd ed., New York 1984, § 3.09(1), p. 3-18, referring to *Clore v Theatrical Properties* (1936) 3 All E.R. 483 (C.A.).

⁴³³ Moulton, Fletcher, H., on "The Present Law and Practice Relating to Patents for Inventions", London 1913, p. 241.

⁴³⁴ Melville, W.R., on "Forms and Agreements on Intellectual Property. Patents for Inventions", 3rd ed., New York 1984, §3.18; p. 3-31.

⁴³⁵ Vitoria, Jacob, Cornish, Alexander and Clark on "The Encyclopedia of UK and European Patent Law", London 1977, issue December 1992, no. 8-407.

⁴³⁶ Melville, W.R., on "Forms and Agreements on Intellectual Property. Patents for Inventions", 3rd ed., New York 1984, §3.18; p. 3-31.

But in the absence of an express clause the licensee is not restrained from having articles manufactured by his agents.

CHAPTER 3 THE PATENT LICENCE CONTRACT IN FRENCH LAW.

Part 1: THE SUBJECT-MATTER OF THE PATENT LICENCE CONTRACT.

1 THE PATENTED INVENTION.

The patented invention is the subject-matter of the patent licence contract. Its legal nature is thus decisive for the qualification of the transaction which the parties create. The discussion about the legal nature of the patent right dates back to the 19th century when patent legislation was less comprehensive, with the result that legal doctrine had to take recourse to general legal concepts such as 'property' in order to explain the transaction in the patented invention.

1.1 The Patented Invention As Property.

The French Intellectual Property Code explains in Article L.611-1 the effects of the patent right, stating that the patent confers on the patentee "the exclusive right to exploit for his profit" the invention, but it does not give a further explanation as to the nature of this exclusive right of exploitation. On the contrary, the first French Patents Act of 1791 stated in Article 1: "Any discovery or new invention in all kinds of industry is the property of its creator".⁴³⁷ This legislation reflects the "*jusnaturalistic*" concepts prevailing at the time of the French revolution: it was considered to be in conformance with justice and the rights of the individual that a person who made a discovery should have a right of property in it. Consequently, this right was understood as originating in the act of the invention, whereas the function of the state was confined to a mere declarative act in creating the patent right.

This idea that an invention belongs as the 'natural' property to its inventor, did not outlast the next codification of the French Patents Act in 1844. This Act avoided carefully any utilisation of the term property in order to prevent any metaphysical implications which this term raises.⁴³⁸ And this caution was not abandoned by the French Patents Act of 1968 which adopted the relevant provisions from its predecessor. However, within the French Patents Act of 1968, the legislators, without expressly stating the 'proprietary' nature of the patent right, occasionally referred to the patent as property and to the patentee as the proprietor of the patent.⁴³⁹ The French Intellectual Property Code of 1992 focuses on the language of the Paris Industrial Property Convention according to which the patent is understood as an intellectual property right.⁴⁴⁰

The interest in the qualification of the patent right within traditional legal concepts such as the concept of property, derived from the conceptual weakness of the patent right at the beginning

⁴³⁷ See Renouard, Augustin-Charles, on "Traité Des Brevets D'Invention", 3rd ed., Paris 1865, p. 93.

⁴³⁸ Renouard, Augustin-Charles, on "Traité Des Brevets D'Invention", 3rd ed., Paris 1865, p. 201.

⁴³⁹ Part IV of the French Patent Act of 1968 was headed: "The Patent As Object Of Property".

⁴⁴⁰ The Paris Industrial Property Convention of 1883, subsequently revised.

of patent legislation in the 19th century. The understanding of the patent right as 'property' reflects the attempt to classify this right within existing legal categories and to use the existing theoretical doctrines in order to both fill gaps of patent legislation and base the patent legislation on a thorough theoretical background. The prevailing modern legal theory thus relies on the concept of property in order to explain the nature of the patent right. This is made possible by a remarkable flexibility which the legal definition of the term property permits in Article 544 of the French Civil Code: "Property is the right to enjoy and dispose of assets in the most absolute manner, provided that use is not made of them which is prohibited by laws or regulations". Modern doctrine focused on the detachment of the right of property from its subject-matter, the asset ("*bien*"). However, Mazeaud⁴⁴¹ carefully objected that, in spite of their name, intellectual property rights are not property rights but intellectual rights which are subject to a different regime. Similar to property rights they are enforceable against third persons and they may be transferred, but they lack one of the essential elements of property rights: perpetuity, which is the nexus between the absolute right and the thing. Josserand⁴⁴² pointed out that it was the confusion existing between the property right and its respective subject-matter which led to the limitation of the right of property to "*choses corporelles*", that is to say to corporeal things. The abstraction from the rules of Roman law, which subjected the rights to the senses ("*tangi non possunt*"),⁴⁴³ led to a dematerialisation of the right of property and to a liberalisation of the right from its subject-matter. The interest of the Romans in the distinction between corporeal things ("*res corporales*") and incorporeal things ("*res incorporales*"), which vested in the particular rules for the acquisition of corporeal things thus disappeared. In legal terminology the term 'incorporeal property' which means rights which do not relate to corporeal things, but which, by reason of their legal nature, namely their enforceability against third persons, are understood as property, with the purpose, however, to stress the nature of the subject-matter of these rights. The term incorporeal property thus indicates the subject-matter of these rights and explains the particular rules which concern, for example, their appropriation or transfer, without however affecting the structure of the right which is given by special legislation.

The essential element of the French right of property is the direct and exclusive relation between the owner and his asset, the owner being entitled to the maximum advantages which the asset may offer and to profit from the opposability of the right with regard to third parties. This concept of property is not qualified in relation to a definition of the concept of asset ("*bien*") in the French Civil Code. The term asset is not interpreted by the Code. Originally, the term indicates "*choses*", that is to say corporeal things. But this meaning developed further and the French Civil Code uses it in a sense which comprises "everything which is an element of wealth, susceptible of appropriation". Mousseron⁴⁴⁴ accentuates that the legislators of the French Civil Code did not define a restrictive notion of property, attached only to the concept of an absolute right in a corporeal 'asset', but rather envisaged a dynamic notion of the term, comprising all assets which can be subjected to human control, so that the patent right may well fall within this category. This development of the doctrine of property was recognised by the legislature, which states in section 3 of the French Patent Act of 1968 and in Article L.611-2, clause 1, of the French Intellectual Property Code: "Titles to industrial property

⁴⁴¹ Mazeaud on "Leçons De Droit Civil", vol. II-2, 4th ed., Paris 1969, p. 17.

⁴⁴² Josserand on "Configuration Du Droit De Propriété Dans L'Ordre Juridique Nouveau", in: "Mélanges Juridiques Dédié A M. Le Professeur Sugiyama", 95 et seq., quoted by Mazeaud on "Leçons De Droit Civil", vol. II-2, 4th ed., Paris 1969, p. 17.

⁴⁴³ "Tangi non possunt" means: they cannot be touched.

⁴⁴⁴ Mousseron, Jean Marc, on "Traité Des Brevets. Introduction Générale", Paris 1984, p. 49; and on "Le Droit Du Breveté D'Invention. Contribution A Une Analyse Objective", Paris 1961, p. 275.

protecting inventions are as follows: 1. Patents for inventions"... The patent right is thus conceived as an industrial property right, the subject-matter of which constitutes the invention.⁴⁴⁵ The use of the term 'property' is adopted by the French Intellectual Property Code,⁴⁴⁶ in particular concerning co-ownership, Articles L.613-29 to -32.

1.2 The Economic Concept Of The Patent Right As A Monopoly, As A "*Droit De Clientèle*".

Occasionally, the patent right is referred to as a monopoly right.⁴⁴⁷ However, this interpretation is not used in order to explain the nature of the patent right - it is employed to stress the relevance that the rights of exclusivity and their enforcement may assume with regard to the exploitation of the invention, and within this context, to disclose a supposed conflict of the patent right to the law of competition.⁴⁴⁸

The following features of patent law support this doctrine: first, the invention, that is to say a certain form of knowledge, is per se not susceptible of individual, but of universal exploitation. Second, the regime of exclusivity is a creation of the legal order and the result of an evaluation in favour of the interests of the patentee. Third, the position of exclusivity does not exist with regard to the invention per se, since it is not susceptible of individual appropriation, but only with regard to the economic utilisation. Fourth, the position of exclusivity has the purpose of attributing to the patentee the advantages which derive from the economic exploitation of the invention. However, the availability of the economic doctrine of monopoly to explain the patent right is in a general manner rejected by Schmidt⁴⁴⁹.

French legal theory refers to the patent right as a regime of exception.⁴⁵⁰ This marks a considerable shift from the conception which viewed the patent as the 'natural' property of the inventor. Roubier⁴⁵¹ rejected the equation of the patent right to property. By focusing on the function of the patent right, on its economic utility, he observed that the patent right is directed towards the conquest of the market, of customers, and thus called the patent right a right in a market share ("*droit de clientèle*"). Roubier⁴⁵² argued that new forms of economy entail new rights, and specified that the patent right has the purpose of ensuring a certain position with regard to the customer towards whom it is directed, and the stabilisation of this position insofar as it is compatible with a system of competition and a free economy, reasoning that values in economy are defined by the quantity of customers that they represent.

⁴⁴⁵ Sabatier, Marc, on "L'Exploitation Des Brevets D'Invention Et L'Interet Général D'Ordre Economique", Paris 1976, p. 54.

⁴⁴⁶ See for example Articles L.611-1(1);(3); L.611-2(1);-3;-5;-8(1); L.612-11;-13(3);-16;-18;-21;-23; L-613-3;-4;-6;-7;-10;-12;-14;-15;-16;-17;-18;-19;-21;-22;-24;-27;-29;-30;-31;-32 of the French Intellectual Property Code.

⁴⁴⁷ See e.g. Sélinsky, Véronique, on "L'Entente Prohibée", Paris 1979, p. 153, who refers to the patent right as a legal monopoly.

⁴⁴⁸ See e.g. Mousseron, Jean Marc, on "L'Abus De Monopole Conféré Par Le Brevet D'Invention", in: "Etudes De Droit Commercial A La Mémoire De Henri Cabrillac", Paris 1968, pp. 357,358.

⁴⁴⁹ Schmidt, Joanna, on "L'Invention Protégée", Paris 1972, p. 20.

⁴⁵⁰ See e.g. Mousseron, Jean Marc, on "Traité Des Brevets. Introduction Générale", Paris 1984, p. 42; Plaisant, Robert, on "Le Titre Constitué Par Le Brevet D'Invention. Droit En Résultant. Interprétation", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XVII (1970) p. 2.

⁴⁵¹ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. I, Paris 1952, p. 98.

⁴⁵² Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. I, Paris 1952, p. 104.

In his view the customers constitute a value and therefore an asset in the legal sense. Still, Roubier⁴⁵³ asserts the exceptional character of this right in a market share ("*droit de clientèle*") which it assumes with regard to the basic principle of freedom of trade and industry. However, modern legal doctrine did not adopt this theory which Mousseron⁴⁵⁴ criticised by pointing out that the mere ascertainment of a function of a right would not be helpful in contributing to the definition of this right, since if the patent right grants a privileged position in economic competition, so does the ownership of a well placed store. In conclusion, it cannot be expected that the economic doctrine of the monopoly may yield a significant contribution with regard to the understanding of the legal concept of the patent right.

2 THE RIGHT IN THE PATENT APPLICATION.

Cass.com. 30.11.1981⁴⁵⁵ held that from the moment of the filing of the patent application, the invention for which a patent application is filed may constitute the subject-matter of agreements, and this court practice is an illustration of Article L.613-8 of the French Intellectual Property Code which states that the rights deriving from the patent application can be the subject-matter of a licence contract. The French Patents Act of 1844 attributed to a patent application the essential role in the creation of the patent right by instituting a system of "automatic" grant without prior examination. Thus it was generally accepted amongst legal writers that the application was constitutive of the creation of the right, since it was impossible to refuse the grant once an application had been filed.⁴⁵⁶ Further, the subject-matter of the right received its definitive fixation in the application. Consequently, the French Patents Act of 1844 provided that the rights deriving from a patent came into being with the filing of the application. However, the 'automatic' grant subsequent to the filing of a patent application is no longer characteristic of French patent law, since the administration may refuse the grant: Article L.612-12 of the French Intellectual Property Code.

Up to the grant the patent application does not have a definitive character, because different "*initiatives*" may bring an end to the application. These "*initiatives*" may be filed either by the applicant himself or by the administration, but in any case they will have a retroactive effect. In addition, the right of the applicant cannot be considered as perfect, because the claims and specification may still be changed or amended before the grant.⁴⁵⁷ According to prevailing French legal theory⁴⁵⁸ it is through the application that the constitutive element in the creation of the patent right is formed and which, it is conceded, becomes perfect and definitive through

⁴⁵³ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. I, Paris 1952, pp. 104,107.

⁴⁵⁴ Mousseron, Jean Marc, on "Traité Des Brevets. Introduction Générale", Paris 1984, p. 42; and on "Le Droit Du Breveté D'Invention. Contribution A Une Analyse Objective", Paris 1961, p. 270.

⁴⁵⁵ Cass.com. 30.11.1981, PIBD 1982,III,73.

⁴⁵⁶ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. I, Paris 1952, p. 229.

⁴⁵⁷ See for example Articles L.612-13 and L.612-15 of the French Intellectual Property Code according to which the applicant may file new claims or transform his patent application into an application for a certificate of utility.

⁴⁵⁸ See Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. I, Paris 1952, pp. 229,230; Schmidt, Joanna, on "Le Droit Du Breveté Entre La Demande Et La Délivrance Du Titre", in: "Mélanges En L'Honneur De Daniel Bastian", vol. II, "Droit De La Propriété Industrielle", Paris 1972, p. 402 with further references.

the grant. The doctrine can claim support in Article L.613-1 of the French Intellectual Property Code, which provides that the exclusive right of exploitation conferred by the title to industrial property, is effective as from the filing date, so that the law-generating effect still remains with the application. This view is further underlined by Article L.615-4 of the French Intellectual Property Code which states: "(1) By way of exception to the provisions of Article L.613-1, acts which have occurred prior to the publication of the patent application according to Article L.612-21 or to the notification to any third person of a certified copy of the application shall not be considered as having affected the rights attached to the patent."⁴⁵⁹

Prevailing legal theory,⁴⁶⁰ thus adheres to the view that the application assumes a constitutive character. The grant of the patent assumes a mere declarative function. This concept shows the strengthening of the law-creating and definitive aspects which progress during the period between the application and the grant. From the correlation between Articles L.613-1 and L.615-4 of the French Intellectual Property Code it appears that, generally, an applicant would have to be considered as the 'proprietor of a patent', the utilisation of the invention by a third person constituting infringement within the sense of Articles L.613-3 to L.613-6 of the French Intellectual Property Code. Otherwise, it seems that the wording of Article L.615-4 of the French Intellectual Property Code would be illogical in that this Article exempts those acts done prior to the publication or notification to a third person of the acts which infringe the patent rights. However, Article L.615-4 of the French Intellectual Property Code has to be seen in the light of the last subsection: "The Court dealing with the proceedings against the infringement of a patent application shall suspend its judgement until the patent has been granted". Thus the grant confirms the exclusive right with declarative effect as confirmed by Article L.613-1 of the French Intellectual Property Code, which establishes: "The exclusive right referred to in Article L.611-1 is effective as from the date of filing of the application".

Part 2: THE LICENCE AND THE LAW OF CONTRACT.

1 ORIGINS AND DEFINITION OF THE TERM LICENCE.

1.1 The Definition Of The Term Licence.

⁴⁵⁹ Article L.615-4 of the French Intellectual Property Code states: "(1) By way of exception to the provisions of Article L.613-1, acts which have occurred prior to the publication of the patent application according to Article L.612-21 or to the notification to any third person of a certified copy of the application shall not be considered as having affected the rights attached to the patent. (2) However, between the date envisaged in the previous subsection and that of the publication of the patent grant: (clause 1) the patent is not enforceable unless the claims have not been extended after the first of these dates; (clause 2) if the patent concerns the utilisation of a micro-organism, it is not enforceable before the date when the micro-organism has been rendered accessible to the public. (3) The Court dealing with the proceedings against the infringement of a patent application shall suspend its judgement until the patent has been granted".

⁴⁶⁰ See above, fn. 459.

The patent licence is mentioned in the French Intellectual Property Code,⁴⁶¹ without however providing a definition. According to the classical definition a licence contract is the contract by which the holder of the patent grants to a third person, in whole or in part, the enjoyment of his right of exploitation against the payment of a royalty.⁴⁶²

1.1.1 Exclusive And Non-Exclusive Licences.

The French Intellectual Property Code expressly allows the possibility of the licensor to grant exclusive and non-exclusive licences.⁴⁶³ In France, most legal writers⁴⁶⁴ and, to a considerable extent court practice,⁴⁶⁵ concede that the patentee who grants an exclusive licence nevertheless retains the right to exploit the invention himself. Since the judgement of Paris 01.05.1902⁴⁶⁶ French courts⁴⁶⁷ interpret the exclusive licence as being a waiver of the licensor's right to grant further licences but not as the transfer of a part of his exclusive rights, so that the licensor retains the right to use the patented invention. However, Cass.civ. 26.01.1955⁴⁶⁸ held that the grant of an exclusive licence may well be interpreted as prohibiting the licensor from exploiting the invention himself. Cass.com. 08.12.1970⁴⁶⁹ stressed that the licensor of an exclusive licence grants to the licensee, in the absence of contractual restrictions, a "monopoly of manufacture and of sale". Some legal writers⁴⁷⁰ assent to this view, stressing that there is no exclusivity in the exploitation of the patented invention by the licensee, if the patentee retains the right of exploitation. However, prevailing French legal doctrine⁴⁷¹ asserts that the exclusive licensor remains the proprietor of the patent and that, accordingly, he could not be presumed to renounce his personal rights of exploitation if the contract were silent on this point. This seems in conformity with the

⁴⁶¹ See for example Article L.613-8(2) of the French Intellectual Property Code which states that the rights attached to a patent application or to a patent may form the subject-matter of a licence of exploitation, exclusive or non-exclusive.

⁴⁶² Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 2; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 260.

⁴⁶³ See Article L.613-8(2) of the French Intellectual Property Code.

⁴⁶⁴ Burst, Jean Jacques, on "Brevet Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, 117 to 122 at 121; Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", *Rev.Comm.* 1982,177; Mathély, Paul, on "Le Droit Français Des Brevets D'Invention", Paris 1974, p. 388; Pouillet, Eugène, on "Traité Théorique Et Pratique Des Brevets D'Invention", 6th ed., Paris 1915, p. 343; Roubier, Paul, on "Le Droit De La Propriété Industrielle" vol. II, Paris 1954, p. 266: "The licence is exclusive, when the patentee renounces the right to grant further licences".

⁴⁶⁵ Paris 01.05.1902, A. 1903,258; Paris 07.03.1912, A. 1912,299; Trib.com. Seine 21.12.1917 and Paris 07.11.1919, A. 1920,50; T.G.I. Paris 18.12.1985, PIBD 1986,III,175.

⁴⁶⁶ Paris 01.05.1902, A. 1903,258.

⁴⁶⁷ Trib.com.Seine 21.12.1917 and Paris 07.11.1919, A. 1920,150; T.G.I. Paris 18.12.1985, PIBD 1986,III,175.

⁴⁶⁸ Cass.civ. 26.01.1955, A. 1956,1.

⁴⁶⁹ Cass.com. 08.12.1970, *Gaz.Pal.* 1971,II,Som.74.

⁴⁷⁰ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, pp. 218,219; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", *Juris-Classeur Commercial Annexes, Brevets D'Invention*, Fascicule XXIV (1971) p. 10.

⁴⁷¹ See Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", in: *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 10; and on "Licence De Brevets. Effets Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 8 with further references.

general principle of French law according to which the renunciation of a right cannot be presumed.⁴⁷²

1.1.2 Total And Partial Licences.

The patent licence can be granted for all or for some forms of exploitation of the invention,⁴⁷³ for a part of or for the whole national territory,⁴⁷⁴ and for a part of the duration of the patent protection or for all of it,⁴⁷⁵ for complete or limited exploitation⁴⁷⁶ and for some or all applications of the invention,⁴⁷⁷ see Article L.613-8(2) of the French Intellectual Property Code. The scope of the patent licence contract should be carefully defined, because, as Paris 12.10.1965⁴⁷⁸ held, a person who renounces his rights, as it is the case in the grant of a patent licence, cannot be presumed to give up more rights than he expressly gives away.

The right of the licensor to restrict the licence territorially is accepted by French court practice.⁴⁷⁹ Cass.com. 08.12.1970⁴⁸⁰ held that the exclusive licensor must warrant the territory of his exclusive licensee against importation of patented articles from other territories where he has granted exclusive licences. Burst⁴⁸¹ considers the clause valid and asserts that the clause should be considered impliedly agreed upon. Concerning antitrust law, Burst⁴⁸² doubts, whether the clause may escape the prohibition of the refusal to sell.⁴⁸³ French court practice proceeds upon the validity of the clause of non-exportation beyond the licensed territory and

⁴⁷² Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", in: Juris-Classeur Brevets, Fascicule 490 (1990) p. 11.

⁴⁷³ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 243; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 11; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 269.

⁴⁷⁴ Plaisant, Robert, on "Propriété Du Brevets. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 11; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 269.

⁴⁷⁵ See Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 11; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 269.

⁴⁷⁶ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 269; Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 10.

⁴⁷⁷ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 10.

⁴⁷⁸ Paris, 12.10.1965, A. 1966,32.

⁴⁷⁹ Cass.com. 25.04.1968, D. 1968,Som.103; Roubier, Paul, on "Le Droit De La Propriété Industrielle" vol. II, Paris 1954, p. 269.

⁴⁸⁰ Cass.com. 08.12.1970, Bull.civ. 1970,IV,337.

⁴⁸¹ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 14.

⁴⁸² Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 236.

⁴⁸³ The explanation which Burst gives, seems to allude that Burst understands the principle of the exhaustion of the patent rights in such a way that by the grant of the licence the patentee would have 'exhausted' his rights, whereas the principle of the exhaustion of the patent right focuses on the first marketing of the patented product; Article 30 of the French Freedom of Prices and Competition Ordinance of 1986 prohibits the refusal to sell; the provision replaces Article 37 of the Ordinance no. 45.1483 of 30 June 1945.

treats a contravention of the clause as patent infringement,⁴⁸⁴ or respectively, if the licensor is not the patentee, as breach of contract.⁴⁸⁵

1.1.3 Implied And Limited Licences, The Exhaustion Of The Patent Right.

It is not required by law that a patent licence be expressly stipulated. Plaisant⁴⁸⁶ points out that the (implied) patent licence may be accessory to a contract of sale, for example, if the sale concerns a not-patented machine, the seller of which is the owner of a patent concerning a method which will necessarily be carried by using this machine. Alternatively, if the owner of a patented process sells an unpatented product, he may, impliedly, grant the licence to use the article for the patented process. Article L.613-6 of the French Intellectual Property Code confirms the principle of exhaustion: "The rights conferred with the patent do not extend to acts concerning the product covered by the patent and performed in French territory after the product has been put on the market in France by the proprietor of the patent or with his express consent". Thus the patentee may not bind the sale of patented products to conditions the contravention of which could infringe the patent right.

1.2 Voluntary Licences.

To the voluntary licences belong the contractual licence and the licence of right. Non-voluntary licences which are in French law: the licence of dependency, the compulsory licence and the use of the patented invention by the state will not be analysed.

1.2.1 Contractual Licences.

Historically, French law conceived of the licence contract as an obligatory contract without any real right effect,⁴⁸⁷ thus distinguishing it from the assignment of the patent right. Cass. 08.03.1852⁴⁸⁸ distinguished between the licence for the right of exploitation and the partial assignment of the patent right. Cass. 27.04.1869⁴⁸⁹ held that a licence, as different from an assignment, does not affect the property of the patentee in the patented invention, and Trib.civ. Seine 21.08.1879⁴⁹⁰ concluded that the licence creates no real right in the patent. Thus the licence has to be distinguished from the assignment: the former does not create a right in the patent property, and, consequently, not the right to institute proceedings against patent infringement. The assertion of the 'real right' character of the licence had the purpose to

⁴⁸⁴ Paris 21.12.1989, PIBD 1990,III,243.

⁴⁸⁵ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", in: Juris-Classeur Brevets, Fascicule 491 (1990) p. 14.

⁴⁸⁶ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 7.

⁴⁸⁷ Roubier, Paul, on "Licences Et Exclusivités", Annales De Droit Commercial Et Industriel Français, Etranger Et International 1936, p. 292.

⁴⁸⁸ Cass. 08.03.1852, D. 1852,1,80.

⁴⁸⁹ Cass. 27.04.1869, S. 1869,1,421.

⁴⁹⁰ Trib.civ. Seine 21.08.1879, A. 1883,5.

permit the licensee to act against patent infringement. By this court practice, French law achieved a clear distinction between a patent licence contract, a partial assignment of the patented invention and an assignment. Roubier⁴⁹¹ points out that the licence may have a 'negative' character, in the case where the licensor merely renounces his right of prohibition with regard to the licensee; however, the author considers that, essentially, the licence contract has a 'positive' character in the sense that the patentee grants to the licensee the enjoyment of the right of exploitation which is a part of the economic content of his property.

1.2.2 Licences Of Right.

Upon the application of the patentee, the Director of the National Institute for Industrial Property may make a decision that a non-exclusive licence for the use of the patented invention is available as of right (Article L.613-10 of the French Intellectual Property Code). The application must contain a declaration in which the proprietor of the patent authorises any person to exploit the patented invention against the payment of an equitable royalty. Failing agreement, the amount of royalties shall be settled by the First Instance Court, Article L.613-10(2) of the French Intellectual Property Code. According to subsection 2, the licence can also be non-exclusive and the licensee can renounce the licence at any time.

2 THE PATENT LICENCE WITHIN THE AMBIT OF SPECIAL CONTRACTS.

Whereas the 'mere' or 'simple' licence in the ordinary sense consists of a permission to do something which otherwise would be forbidden, a licence contract is the legal instrument by which two parties undertake to perform different obligations; the recognition of the licence's nature as 'positive' signifies that the grant of a licence does not merely obligate the licensor to abstain from impeding the licensee in the utilisation of the patented invention. Rather the licensor is, first, bound by an obligation of delivery and, second, he is the debtor of the accessory obligation to warrant both the undisturbed enjoyment of the exclusive right in the invention and the absence of defects.⁴⁹² On the other hand it has to be noted that the legal disposition concerning the nominate contracts such as the contract for lease of things will find supplementary application only and, unless the statutory provision is mandatory, the solution adopted by the parties to the contract will prevail;⁴⁹³ and often the patent licence is combined with other obligations which extend beyond the 'delivery' of the patented invention and thus create a complex contractual configuration.⁴⁹⁴

⁴⁹¹ Roubier, Paul, on "Licences Et Exclusivités", *Annales De Droit Commercial Et Industriel Français, Etranger Et International* 1936, p. 292.

⁴⁹² Joliet, René, on "Le Contrat De Licence De Brevet En Droit Belge Et Français", *Rev.Comm.* 1982,175.

⁴⁹³ See Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention. Hommage A Henri Desbois. *Etudes De Propriété Intellectuelle*", Paris 1974, p. 169.

⁴⁹⁴ Burst, Jean Jacques on "Licence De Brevets. Nature Et Qualification Juridique, Formation Et Validité Du Contrat", *Juris-Classeurs Brevets, Fascicule 490* (1990) p. 3.

2.1 The Principle Of Freedom Of Contract.

Roman law accepted only those contractual types which were expressly recognised by law, the so-called 'nominate' contracts. The French legislator adopted the opposite principle in Article 1107 of the French Civil Code,⁴⁹⁵ namely the principle of the freedom of contract. However, the freedom of the parties to conclude a contract and to decide on its content is qualified in a particular manner. French law distinguishes between 'nominate' and 'innominate' contracts.

The purpose in the differentiation may be indicated briefly as follows: if the parties conclude a nominate contract, like the contract of sale, without making up their minds as to certain points, the judge will, for the purpose of the construction of the terms of the contract, refer to the non-mandatory or mandatory rules established for this contractual type by the legislators. The construction of the terms of an innominate contract is more delicate, because the judge will have to classify the innominate contractual type, for example whether the contract is a patent licence or a know-how contract, and if the parties did not agree upon the terms of the contract in detail, the judge may have recourse to those mandatory and non-mandatory terms of the nominate contract which appear to have the closest similarity, in order to achieve the appropriate construction of the agreement.⁴⁹⁶

Insofar as the obligations which derive from a contract are concerned, the French Civil Code again distinguishes between non-mandatory and mandatory terms, the difference being that the parties, upon their mutual consent, may deviate from non-mandatory terms, whereas mandatory terms cannot be contractually waived. The effect of these terms is that the parties will only have to decide upon the essential elements of a contract. The further terms of the contractual relation will be construed with reference to those terms which are deemed to have been agreed upon by the silence of the parties.⁴⁹⁷

2.2 The Patent Licence And Special Contracts.

The classification of the contract is of considerable importance, because the construction of the terms of the contract will depend not only upon the interpretation of the stipulations agreed on by the parties but also upon the analogous application of those mandatory and non-mandatory terms of the nominate contract to which the patent licence contract, by reason of its *causa*, can be likened.

2.2.1 The Usufruct.

⁴⁹⁵ Article 1107 of the French Civil Code states: "Contracts whether they have a name of their own or whether they do not have, are subject to general rules, which are the subject of the present Title. Particular rules for certain contracts are established under the Titles relating to each of them; and the particular rules for commercial transactions are established by the laws relating to commerce".

⁴⁹⁶ See Marty and Raynaud on "Droit Civil", vol. II-1, Paris 1962, pp. 43,44: "The set-back of the freedom of contract, the development of mandatory legal rules specially enacted for certain contracts, renders often this qualification particularly important".

⁴⁹⁷ Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention. Hommage A Henri Desbois. Etudes De Propriété Intellectuelle", Paris 1974, p. 169.

According to Article 578 of the French Civil Code "the usufruct is the right to enjoy things of which another has ownership like the owner himself, but with the responsibility of conserving the substance of it". Article 581 of the French Civil Code states: "It may be established on any kind of personal or real property". French court practice in particular of the 19th century drew a parallel between the usufruct and the patent licence.⁴⁹⁸ Thus Rouen 02.01.1869⁴⁹⁹ held that the grant of the exclusive right to exploit the patent during a determined time and with the express reservation of the property which remains with the grantor, could not be considered as a transfer but as a usufruct of the patent. However, subsequent French court practice refrained from the application of the rules concerning the usufruct to the patent licence contract. Trib.com. Seine 17.01.1903⁵⁰⁰ denied the applicability of the rules derived from this concept when rejecting that the licensee would be obligated to pay the annuities of the patent. The Court stressed that the contract did not have the 'character' of the grant of a usufruct. Roubier⁵⁰¹ points out that the application of the rules of the usufruct would not suit the patent licence contract, because it would not be conceivable that there may be several parallel rights of usufruct, whereas the licensor might grant an indefinite number of licences.

2.2.2 The Contract Of Sale.

In French law the assimilation of the patent licence contract to the contract of sale is denied on the reasoning that the patent licence contract does not transfer the ownership in the patented invention.⁵⁰² However, the verification of this differentiation may be difficult in practice, because the circumstances are often not as obvious as in the cases of a sale or of a lease of things.⁵⁰³ The problems may arise from the fact that the patent is not a corporeal right, that the royalties provided for in the patent licence agreement may assume the form of a lump sum, and that the licensee himself may, under certain prerequisites, act against infringers. According to Plaisant⁵⁰⁴ the will of the parties has to be interpreted in the favour of the person who undertook the obligation, Article 1162 of the French Civil Code, having in mind that the grant of a licence deprives the patentee to a lesser degree of his rights than does the assignment of the patent. On the other hand, court practice treats the assignment of the patent right since the 19th century by way of analogy to the contract of sale.⁵⁰⁵ A contract whereby the parties agree upon a thing constituting the object of the contract, and a price for

⁴⁹⁸ Allart, Henri, on "De La Propriété Des Brevets D'Invention", Paris 1887, pp. 165,166.

⁴⁹⁹ Rouen 02.01.1869, S. 1869,II,300.

⁵⁰⁰ Trib.com. Seine 17.01.1903, Gaz.Pal. 1903,I,454.

⁵⁰¹ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 264.

⁵⁰² Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 8: "Generally the transfer and the licence are as different as contracts of lease of things and of sale"; Pouillet, Eugène, on "Traité Théorique Et Pratique Des Brevets D'Invention", 6th ed., Paris 1915, pp. 340 to 342.

⁵⁰³ Pouillet, Eugène, on "Traité Théorique Et Pratique Des Brevets D'Invention", 6th ed., Paris 1915, pp. 340 to 342, and the cases quoted by the author.

⁵⁰⁴ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) pp. 8,9.

⁵⁰⁵ Cass.req. 25.05.1869, D. 1869,I,367; Paris 12.07.1971, PIBD 1972,III,28; Toulouse 06.05.1976, Gaz.Pal. 1976,II,651; Paris 02.10.1978, D.S. 1980,139.

which the thing is transferred from the property of the person to the other, contains all the characteristic elements of the contract of sale.⁵⁰⁶

2.2.3 The Leasing Contract.

Prevailing French doctrine,⁵⁰⁷ supported by court practice,⁵⁰⁸ asserts the similarity of the patent licence contract with the leasing contract. Accordingly, the rules on the leasing contract contained in the French Civil Code⁵⁰⁹ would be applicable to the licence contract by way of analogy. But there are also particularities of the patent licence contract which are not common to the leasing contract, namely, the patent licence contract is a contract of "*intuitus personae*".⁵¹⁰ By reason of the element of trust between the parties, the licensee may neither assign the licence,⁵¹¹ because the patentee cannot be sure that the third person will exploit the invention sufficiently,⁵¹² nor may he grant sub-licences,⁵¹³ unless provided otherwise in the agreement. But it is accepted that the rights deriving from the contract may be transferred together with the business.⁵¹⁴ A second particularity with regard to the leasing contract is the obligation of exploitation which rests upon the licensee and which does not find a correspondence in the case of the contract for the lease of things.⁵¹⁵ These particularities of the patent licence contract which are determined by its subject-matter, prompted Mathély⁵¹⁶ to assert that this contractual type represents a contract "*sui generis*". Roubier⁵¹⁷ alludes, more carefully, to the particular qualities of the licence contract which give it a character "*sui generis*". However, with regard to Article 1107 of the French Civil Code, the practical importance of this differentiation is diminished. It provides: "Contracts whether they have a

⁵⁰⁶ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 14.

⁵⁰⁷ Allart, Henri, on "De La Propriété Des Brevets D'Invention", Paris 1887, p. 175; Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeurs Brevets, Fascicule 490 (1990) p. 4; Casalonga, Alain, on "Traité Technique Et Pratique Des Brevets D'Inventions", vol. I, Paris 1949, p. 432; Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 215; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 264.

⁵⁰⁸ Orléans 13.07.1892, D. 1893,329, comment by Planiol, Marcel; Paris 22.06.1922, A. 1922,353; Trib.civ.Seine 20.10.1922, A. 1923,288.

⁵⁰⁹ Book 3, Title VIII of the French Civil Code concerns contracts of rental or hire, Articles 1713 to 1778.

⁵¹⁰ Trib. Seine 23. and 28.06.1933, A. 1934,33,34; T.G.I. Paris 14.01.1970, PIBD 1970,III,152; T.G.I. Paris 07.03.1974, Gaz.Pal. 1974,1,390, confirming the "*intuitus personae*", holding that this element is even stronger in the case of an exclusive licence; Paris 06.01.1983, Dossiers Brevets 1983,III,6, which held that the licensor may refuse the intention of the trustee of bankruptcy to continue the contractual relation.

⁵¹¹ Paris 13.12.1882, A. 1884,88; T.G.I. Paris, 14.01.1970, PIBD 1970,152; Roubier, Paul, on "Licences Et Exclusivités", Annales de Droit Commercial et Industriel Français, Etranger et International 1936, p. 296.

⁵¹² Paris 13.02.1882, A. 1884,88.

⁵¹³ Trib. Seine 23. and 28.06.1933, A. 1933,33,34; Mousseron, Jean Marc, on "Brevets D'Inventions", Dalloz Répertoire De Droit Commercial, 2nd ed. 1972, p. 37: according to Article 1717 of the French Civil Code the lessee may sub-let but in licence contracts no sub-letting is permissible because of the "*intuitus personae*" between the parties; Roubier, Paul, on "Licences Et Exclusivités", Annales De Droit Français, Etranger Et International, 1936, p. 296.

⁵¹⁴ Mathély and Guardia on "Frankreich", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 153; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 266; Paris 05.03.1884, A. 1885,42, held that the transfer by the exclusive licensee of a part of the right of exploitation to a third person was valid, however, the case concerned legal proceedings between the licensee and the sub-licensee and the Court was not concerned with the relations between the licensor and the licensee.

⁵¹⁵ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 286.

⁵¹⁶ Mathély, Paul, on "Le Droit Français Des Brevets D'Inventions", Paris 1974, p. 385.

⁵¹⁷ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 286.

name of their own or whether they do not have, are subject to general rules, which are the subject of the present Title"... Summing up, it should be noted that the prevailing doctrine and court practice assimilate the patent licence contract to the leasing contract so that the appropriate dispositions of the Articles 1713 to 1778 of the French Civil Code may be applied by way of analogy.⁵¹⁸

2.2.4 Agreements With Associative Character.

Often a patent licence contract is an element of a more complex contract concerning industrial co-operation. Thus, if the licence agreement contains elements relating to the creation of a pool or a joint venture for example, one may think of applying rules of company law. The interest of the parties may lead them to create a common subsidiary which has the task of exploiting the patents by means of licence contracts between the subsidiary and its controlling companies.⁵¹⁹ Modiano⁵²⁰ suggests that even in the case where there is no express agreement to this aim, it may be inferred from a close connection and co-operation between companies over years that the rules of company law will have to be applied by analogy.

Mainly two different forms of industrial co-operation can be created: first, the establishment of a new company to which the parent companies transfer the rights of exclusive exploitation of patents with the purpose that this company shall exploit the inventions under the control of the parent company, or, second, the transfer of the rights of exploitation of the companies to another organisation with the aim of achieving a certain limited purpose. The introduction of a patent for use in a company forms another category of the operations which are destined to organise the exploitation of the patent. This form of exploitation of the patent does not transfer the ownership but creates a successive obligation for the contributor which is identical with the obligation of the licensor and places the benefiting company in the factual situation of the licensee.⁵²¹

Roubier⁵²² stresses that because of this element of industrial co-operation, where the parties have to fulfil the obligation to communicate improvements and where the licensee is obligated to exploit the invention, the licence contract extends beyond the parallel with the leasing contract so that according to this author the patent licence contract should be dealt with appropriately by company law. However, the aspect of co-operation will have to be considered with caution, since in the case of an association the parties share gains and losses, whereas in the case of the licence contract, the financial risk remains generally with the licensee and the worst thing which may happen to the licensor is that he may lose in

⁵¹⁸ Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 215.

⁵¹⁹ See Modiano, Giovanna, on "Le Contrat De Licence De Brevet. Droit Suisse Et Pratique Communautaire", Geneva 1979, p. 50.

⁵²⁰ Modiano, Giovanna, on "Le Contrat De Licence De Brevet. Droit Suisse Et Pratique Communautaire", Geneva 1979, p. 50.

⁵²¹ Amiand, André, on "L'Apport Des Brevets D'Invention En Société", in: "Mélanges Marcel Plaisant", Paris 1960, pp. 2 to 7; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D' Exploitation De Brevets", thesis, Montpellier 1974, pp. 20,21.

⁵²² Champeaud, Claude, on "Les Méthodes De Groupement Des Sociétés", Rev.Comm. 1967, p. 1003, designates the licence contract as a means of "concentration contractuelle"; Roubier, Paul, on "Licences Et Exclusivités", Annales De Droit Commercial Et Industriel Français, Etranger Et International, 1936, p. 323.

royalties.⁵²³ In all of these cases it has carefully to be distinguished between the introduction of the property of the patent in the company or the introduction of the enjoyment of the patent, because in the first case there is a transfer of the ownership in the patent so that only in the second alternative is the situation similar to the patent licence contract.⁵²⁴

2.2.5 The Patent Pool.

The owners of different patents may consider it advantageous to transfer the property in their patents to a common enterprise in which they participate, with the aim of a better exploitation of complementary inventions.⁵²⁵ In French law the two judgements of Cass.com. 18.01.1971⁵²⁶ indicate that 'the bringing in of a patent into a pool' does not necessarily transfer the ownership in the patented inventions but merely has an obligatory effect. Similarly, Burst⁵²⁷ indicates that each undertaking participating in a pool may retain the property in the patent which it independently exploits; the present and/or future patents are, upon a certain basis provided for in the contract, attributed to each of the participants, but any of the other participants may use them similarly to a licensee - it is the essential purpose of the pool to organise the common exploitation and administration of patented inventions. It is commonly provided that the patentees and the licensees obligate each other for the mutual grant of licences for improvements.⁵²⁸ The parties are free to stipulate that the ownership in the patent is transferred to the pool. In the case where the pooled patents do not offer many or different possibilities of application or where few improvement patents will entail, the management of a pool should not encounter difficulties; otherwise, however, the rights of the different participants in the pool will need balancing.

2.2.6 The Contract Of Non-Opposition.

French law makes a distinction between the patent licence contract and the contract of non-opposition. According to Lyon 09.06.1981⁵²⁹ such a contract is characterised by the obligation on the part of the patentee not to avail himself of his patent rights in the case of an exploitation of the invention through the other party to the contract, which in turn promises to remunerate the patentee's "intellectual co-operation" without undertaking any positive engagement concerning the exploitation and without the transfer of any rights to the contractual partner.

⁵²³ Modiano, Giovanna, on "Le Contrat De Licence De Brevet. Droit Suisse Et Pratique Communautaire", Geneva 1979, p. 51.

⁵²⁴ Amiard, André, on "L'Apport Des Brevets D'Invention En Société", in: "Mélanges Marcel Plaisant", Paris 1960, p. 7; Lambry, Paul, on "De La Licence De Fabrication", thesis, Paris 1911, p. 40.

⁵²⁵ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 5; Plaisant, Robert, on "Brevets D'Invention. Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 32.

⁵²⁶ Cass.com. 18.01.1971, Bull.civ.IV,14; Bull.civ.IV,15, p. 16.

⁵²⁷ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 5.

⁵²⁸ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 5.

⁵²⁹ Lyon 09.06.1981, Dossiers Brevets 1981,VI,5.

The importance of such a contractual type is considerable at a time when in French law the courts tend to aggravate the obligations derived from an implication of contractual terms, resting both upon the licensor - such as the obligation of warranty - and upon the licensee - obligation of exploitation.⁵³⁰ Cass.com. 05.01.1983 which confirmed the judgement of Lyon 09.06.1981⁵³¹ held that in the case of an agreement of non-opposition the user of the patented invention is not impliedly obligated to exploit the patented invention. Lyon 09.06.1981 explains the concept of the contract of non-opposition by reference to the doctrinal concept of the 'negative' patent licence, however, without compelling it into the category of a patent licence contract which has meanwhile assumed a more complex configuration. Vivant⁵³² points out that the contract of non-opposition is characterised by an obligation of 'mere passivity', the contrast to the patent licence contract vesting in the fact that the licensor is obligated to grant the enjoyment of the invention. In the view of Burst⁵³³ cross-licensing is a typical example of the contract of non-opposition, since these contractual arrangements can be described as agreements of 'non-aggression', that is to say that the patentee will not avail himself of his exclusive rights with regard to the other parties to the contract. In general, the conclusion of a contract of non-opposition appears of interest if the patentee exploits the invention himself and markets the patented articles so that exclusive licensing or the establishment of a network of licences will not be of importance to him. Also the payment of the remuneration is likely to assume a simple form such as the payment of a lump sum or fixed royalties.

3 REQUIREMENTS OF FORM AND REGISTRATION.

3.1 Requirements Of Form.

Article L.613-8(5) of the French Intellectual Property Code prescribes the written form for those transactions which concern the licence of a patent. A violation of this requirement entails the nullity of the contract.⁵³⁴ However, according to Cass.com. 17.07.1957⁵³⁵ the nullity is 'relative' that is to say that a court cannot declare the voidness 'ex officio'. The voidness has to be pleaded by the person in the interest of which the legal provision was established, that is to say by the party to the contract which is at a disadvantage by the violation of the form prescribed by the law.⁵³⁶ The assumption of 'relative nullity' is sustained

⁵³⁰ Burst and Mousseron on "Droits Et Accords Industriels", JCP C.I., 1982,I,11.084, p. 393.

⁵³¹ Cass.com. 05.01.1983, Dossiers Brevets 1983,I,5.

⁵³² Vivant, Michel, comment to Cass.com. 05.01.1983, JCP C.I. 1984,I,14.261, p. 340.

⁵³³ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeurs Brevets, Fascicule 490 (1990) p. 4.

⁵³⁴ Cass.com. 04.11.1976, Dossiers Brevets 1977,II,7; T.G.I. Bordeaux 22.11.1987, PIBD 1988,III,435; Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 327.

⁵³⁵ Cass.com. 17.07.1957, D. 1958,Som. 10.

⁵³⁶ Cass.com. 17.07.1957, D.1958,Som. 10; Ponsard and Blondel in: "Dalloz Répertoire De Droit Civil", vol. V, 2nd ed. 1974, "Mise A Jour" 1983, p. 4, nos. 44,45.

by Burst⁵³⁷ who points out that the provision requiring the written form works but in the interest of the contracting parties. Azéma⁵³⁸ considers it to be logical that nullity might also be pleaded by a third person, if this third person could show an interest in the pronouncement of the nullity of the contract.

3.2 Requirements Of Registration.

The licence contract, in order to be enforceable against third persons, must be registered with the national patent register, at the National Institute of Industrial Property. This is unanimous amongst court practice⁵³⁹ and legal writers⁵⁴⁰ who infer this rule from the provision, now contained in Article L.613-9(1) of the French Intellectual Property Code stating in subsection 1 that any acts transmitting or altering the rights attached to a patent or to a patent application must be registered with the national patent register kept at the National Institute of Industrial Property in order to be enforceable against third persons.⁵⁴¹ Article L.613-8 of the French Intellectual Property Code provides in subsection 1 that the rights attached to a patent application or to a patent are transferable. Subsection 4 states that subject to the case provided for in Article L.611-8, a transfer of rights envisaged by the first para. does not prejudice the rights acquired by third persons before the date of the transfer. But the registered non-exclusive licence will be enforceable with regard to a subsequently concluded exclusive licence.⁵⁴² From Paris 05.02.1992⁵⁴³ it follows that the registrations concern patents and not companies so that a court may take into consideration mistakes or errors made by the person who files the application for registration. According to T.G.I. Marseille 30.06.1975⁵⁴⁴ and Cass.com. 25.05.1976⁵⁴⁵ the general principle of French law will still find application, according to which a contract is enforceable against a third person who knows of its existence. This principle is qualified by the modification of the French Patents Act 1968 in 1978 which was sustained in the French Intellectual Property Code of 1992 in Article L.613-9(2). According to this provision a not registered transaction is enforceable against third persons who acquired rights in the patent at a later date, if they knew of the former transaction at the time of the acquisition of the right. It is argued that this exception to the rule according to which the not registered patent licence contract is enforceable against third persons should be subject to a strict interpretation,⁵⁴⁶ so that a not registered licensee could not act against third persons but within the presuppositions of Article 613-9(2) of the French Intellectual

⁵³⁷ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 6.

⁵³⁸ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 883.

⁵³⁹ T.G.I. Paris 29.05.1971, A. 1971,162; T.G.I. Paris 26.03.1975, PIBD 1976,III,5; T.G.I. Marseille 30.06.1975, PIBD 1975,III,404; Cass.com. 12.03.1979, A. 1979,237; Paris 05.02.1992, A. 1992,127.

⁵⁴⁰ Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 219; Mousseron and Sonnier on "Le Droit Français Nouveau Des Brevets D'Invention (Loi Du 13 Juillet 1878)", Paris 1978, p. 195.

⁵⁴¹ The previous regulation was contained in Article 43(4) of the French Patents Act of 1968 as modified in 1978 was modelled after Article 40(2) of the Community Patent Convention; Paris 29.05.1971, PIBD 1972,III,15; Mousseron and Sonnier on "Le Droit Français Nouveau Des Brevets D'Invention (Loi Du 13 Juillet 1978)", Paris 1978, p. 195.

⁵⁴² Paris 05.02.1992, A. 1992,127,133.

⁵⁴³ Paris 05.02.1992, A. 1992,127,133.

⁵⁴⁴ T.G.I. Marseille 30.06.1975, PIBD 1975,III,404.

⁵⁴⁵ Cass.com. 25.05.1976, PIBD 1976,III,413.

⁵⁴⁶ Mousseron and Sonnier, on "Le Droit Français Nouveau Des Brevets D'Invention (Loi Du 13 Juillet 1978)", Paris 1978, p. 195.

Property Code, that is to say, if the would-be infringer knows about the licence contract.⁵⁴⁷ Chavanne and Burst⁵⁴⁸ point out that according to the former court practice a non-exclusive licensee could intervene in infringement proceedings brought by the patentee, because the infringer knew of the existence of the licence contract.⁵⁴⁹ Accordingly, only the registered exclusive licensee is competent to institute proceedings against the infringer of the licensed patent,⁵⁵⁰ and the non-exclusive licensee may intervene in infringement proceedings brought by the patentee against an infringer only after the registration of the licence.⁵⁵¹ The intervention of the licensee is effective, even if the registration is subsequent to the summoning of the claims (for patent infringement),⁵⁵² because the reason for the nullity of the intervention has disappeared. In the case where the patentee concludes several contracts on the patent right, such as two exclusive licences, not the contract which was concluded at an earlier date will prevail but the one which is registered first; this is similar in the case of non-exclusive licences, if the earlier licence is not registered, unless the registered licensee knew of the earlier licence.⁵⁵³ The registration constitutes a prima facie evidence of the licence contract until the proof of the contrary by the other person.⁵⁵⁴

Part 3: THE INCIDENCE OF ANTITRUST LAW.

French antitrust law relevant to the patent licence contracts centres on two issues: the prohibition of the refusal to sell and the prohibition of discriminatory practices.⁵⁵⁵ With regard to patent licences the applicability of French antitrust law remains limited: there are few cases which relate to the subject. Lebel⁵⁵⁶ points out that the principle of freedom of contract is the rule. This attitude was not modified by the French Freedom of Prices and Competition Ordinance of 1986.

1 THE PROHIBITION OF THE REFUSAL TO SELL AND THE REJECTION OF THE GRANT OF PATENT LICENCES.

⁵⁴⁷ Mousseron and Sonnier on "Le Droit Français Nouveau Des Brevets D'Invention (Loi Du 13 Juillet 1978)", Paris 1978, p. 195.

⁵⁴⁸ Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 220.

⁵⁴⁹ Cass.com. 25.06.1976, A. 1978,170; the reason being that the infringer should be responsible to pay for the damage caused to the licensee on the condition that he knew of the existence of the licence contract.

⁵⁵⁰ T.G.I. Paris 10.03.1976, PIBD 1976,III,353.

⁵⁵¹ T.G.I. Paris 10.03.1975, Dossiers Brevets 1975,IV,7.

⁵⁵² Paris 05.02.1992, A. 1992,127.

⁵⁵³ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 7.

⁵⁵⁴ Paris 05.02.1992, A. 1992,127.

⁵⁵⁵ See Azéma, Jacques, on "L'Incidence Du Droit Français De La Concurrence Sur Le Droit De Propriété Industrielle", in: "Dix Ans De Droit De L'Entreprise", Paris 1978, pp. 763,764.

⁵⁵⁶ Lebel, Claude, on "Les Règles De La Concurrence En Droit Français", Paris 1972, p. 5.

Article 30 of the French Freedom of Prices and Competition Ordinance of 1986⁵⁵⁷ states: "It shall be prohibited to refuse to sell a product or supply a service to a consumer save for legitimate reasons, and to make the sale of a product conditional on the purchase of a specified quantity or on the simultaneous purchase of another product or another service, and to make the provision of a service conditional on that of another service or the purchase of a product".⁵⁵⁸ However, according to Azéma⁵⁵⁹ the refusal to grant a licence cannot be analysed as a refusal to satisfy the demand for the purchase of a product or for the performance of a service. Nevertheless, the author⁵⁶⁰ considers, whether the patent grant is susceptible to render the patented product non-available. The refusal to sell may be justified by Article L.611-1 and L.613-3 of the French Intellectual Property Code which grants to the patentee the exclusivity in the production, utilisation and commercialisation. Until the exhaustion of the patent right (Article L.613-6 of the French Intellectual Property Code), the patentee is thus entitled to restrict the licensee in the production of the patented articles by an appropriate clause, unless such an agreement may be considered as falling within the scope of those concerted actions which are prohibited by Article 7 of the French Freedom of Prices and Competition Ordinance of 1986 as restraining competition. But even in this case such a licence contract may be considered as exempted from the prohibition of the refusal to sell by reason of Article 10 of the Ordinance of 1986, since it can be based on a legal provision and since it may contribute to economic progress. However, Burst asserts that clauses which obligate the licensee not to sell the patented articles to certain potential customers⁵⁶¹ or that a territorial restriction of the licensee⁵⁶² may contravene the prohibition of the refusal to sell.

Article 30 of the French Freedom of Prices and Competition Ordinance of 1986⁵⁶³ prohibits tie-in practices and Article 37(4) of the Ordinance⁵⁶⁴ prohibits resale price maintenance. However, the applicability of this provision to tie-in clauses of licence contracts seems

⁵⁵⁷ Article 37(1)(a) of Price Ordinance No. 45-1483 which was repealed by the Ordinance of 1986 made it an offence "for any producer, trader, person engaged in industry or craftsman (...) to refuse to satisfy to the best of his ability and upon the customary trade terms, any request for the purchase of goods or the performance of services, which has no abnormal character and is made in good faith; and provided that the sale of such goods or the performance of such services is not forbidden by law or by government regulation".

⁵⁵⁸ According to the Ordinance no. 86-1243 of 1 December 1986 the refusal to sell engenders tortious liability.

⁵⁵⁹ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 903, referring to the opinion of the "Commission de la Concurrence" on the situation of competition in the branch of "céréales de paille, de maïs et des endives" of 10 October 1985, Report of the "Commission de la Concurrence" for 1985, J.O. doc. admin. of 12 March 1986, p. 12.

⁵⁶⁰ Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 903.

⁵⁶¹ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Brevet", Paris 1970, p. 243.

⁵⁶² Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Brevet", Paris 1970, p. 236.

⁵⁶³ Article 37(1)(c) of Price Ordinance No. 45-1483 makes it an offence "provided always that such sale or performance is not governed by any special regulation to make the sale of goods or the performance of a service conditional upon the purchase of other goods or upon the purchase of a stipulated quantity or upon the performance of another service". Article 30 of the French Freedom of Prices and Competition Ordinance 1986 states: "It shall be prohibited to refuse to sell a product or supply a service to a consumer save for legitimate reasons, and to make the sale of a product conditional on the purchase of a specified quantity or on the simultaneous purchase of another product or another service, and to make the provision of a service conditional on that of another service or the purchase of a product".

⁵⁶⁴ Article 37(4) of Price Ordinance No. 45-1483 makes it an offence "for any person to fix, maintain or impose minimum prices for goods or services or trading margins by means of lists or scales of charges or by means of a combine of any nature or form whatsoever".

doubtful. Burst⁵⁶⁵ considers that the licensee may validly undertake to purchase his supply exclusively from the licensor.⁵⁶⁶

2 ANTI COMPETITIVE PRACTICES AND EXPLOITATIONS OF PATENTED INVENTIONS.

Article 7 of the French Freedom of Prices and Competition Ordinance of 1986 which replaces Article 50 of the French Prices Ordinance of 1945, prohibits cartels, that is to say concerted actions which have the object or may have the effect of preventing, restraining or distorting competition.⁵⁶⁷ Article 8 of the Ordinance of 1986 states: "It shall likewise be prohibited for an enterprise or group of enterprises to abuse 1. a dominant position in the internal market or a substantial part thereof; 2. the state of economic dependence on that enterprise or that group of enterprises of a customer or supplier enterprise which has no equivalent alternative. Such abuse may consist in a refusal to sell, tied sales or discriminatory conditions of sale and in the termination of established business relations on the sole ground that the other party refuses to submit to unjustified conditions of business".

The Technical Commission Of Concerted Actions And Dominant Positions was occasionally concerned with the applicability of the French antitrust law to agreements involving patents. The opinion of 08.10.1955 concerned a cartel in the magnesium industry. It was held that the parties to the concerted action distorted the working of the competition by including clauses into their contracts which exceeded the monopoly rights granted by the patent. Reprehensible terms were held to be, in particular, tying clauses or clauses establishing conditions for the resale of patented articles.⁵⁶⁸ In another opinion of 22.06.1962 which related to a concerted action in the industry of nylon spinning, the Commission held that the diversion of customers towards the members of the cartel was by reprehensible means, in particular by cartellised rebates. In both cases the parties to the cartel claimed the benefit of the exemption⁵⁶⁹ according to which the prohibition of cartels⁵⁷⁰ is not applicable to agreements which can be based on the application of a legal text, sustaining that the agreement intended the application of intellectual property rights recognised by the legislator. But the Commission observed that no concerted action on intellectual property rights may escape from the application of the legal provisions of public order - an agreement between patentees, licensees or sub-licensees

⁵⁶⁵ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 11.

⁵⁶⁶ However, the duration of the obligation may not exceed 10 years according to the law of 14.10.1943, see below, Chapter 3, part 6: 4.4.

⁵⁶⁷ Article 50(1) of Price Ordinance No. 45-1483 prohibited "any concerted action, agreement, express or tacit understanding or any trade combine in any form and for whatever purpose, which has the object or may have the effect of preventing, restraining or distorting competition", the Article explains as a form of restriction the impediment of technological advance; and subsection 5 prohibits "the activities of an enterprise or group of enterprises holding on the home market, or a substantial part thereof, a dominant position that is characterised by a monopoly situation or by the manifest concentration of economic power, where such activities have the object or may have the effect of interfering with the normal operation of the market".

⁵⁶⁸ See Azéma, Jacques, on "L'Incidence De Droit Français De La Concurrence Sur Le Droit De Propriété Industrielle", in "Dix Ans De Droit De L'Entreprise", Paris 1978, p. 774.

⁵⁶⁹ Now Article 10 of the Ordinance of 1986.

⁵⁷⁰ Now Article 7 of the Ordinance of 1986.

is subject to cartel law, if its members have limited the possibility to compete against each other or if they undertook measures to impede others from doing it.⁵⁷¹

With regard to the application of cartel law to individual patent licence contracts, the scarce court practice does not permit more than a few lines of orientation to be indicated.⁵⁷² Thus the prolongation of the exclusive effects of the patent right beyond the term of the patent will be reprehensible.⁵⁷³ On the situation of competition in the market of disinfectants the Competition Commission stated: "Even if the agreement did not have the effect reckoned upon, the agreement assumes a particularly strong character to the extent it concerns a product which had, for some time, terminated to be protected by a patent. The company C (...) which was the owner of a patent until 1975 and which up to that date, benefited from a legal protection, insofar as (... the patented articles) were concerned, which permitted it to occupy an important market during 17 years, has attempted by means of a concerted practice to obstruct the competition which should have been built up after the lapse of the patent". The Competition Commission⁵⁷⁴ stated in its report for 1983: "Further, once the patents have lapsed and once the law no longer recognises the benefit of a restriction of competition to the previous patentee, it is obviously reprehensible to prolong this restriction by means of an agreement with those who are susceptible to place products on the market which are, from now on, in the public domain". The Competition Commission does not exclude the applicability of cartel law during the term of the patent. Whilst it recognises the contracts for the exploitation of the patent, it does not exclude the condemnation of anti-competitive conduct, even if related to the grant of a licence, in particular in the case of agreements on the fixation of prices.⁵⁷⁵ It may further be stated that the Commission does not favour clauses by which the owner of intellectual property imposes conditions upon those who want to use it which exceed the 'normal' exploitation; this concerns the tie-in clause, the systems of preferential prices and obligations relating to the use and resale of the product.⁵⁷⁶

Grant back clauses do not seem to counter objections from French antitrust law even if a party is obligated to transfer the property in the ownership of the improvement invention to the other party.⁵⁷⁷ Also post expiration royalty clauses which may be combined with the stipulation for non-secret know-how can have a beneficiary effect for the licensee, because they avoid, at least temporarily, the heavy increase of the cost price "so that there is good reason to maintain the economy of the contract, freely determined by the parties".⁵⁷⁸

⁵⁷¹ De Roux and Voillemont on "Le Droit Français De La Concurrence Et De La Consommation", Paris 1979, p. 71.

⁵⁷² Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 904.

⁵⁷³ Competition Commission, opinion of 28.04.1983, Rec. Lamy no. 211.

⁵⁷⁴ Competition Commission, report for the year 1983, J.O. doc. admin. 17.04.1984, p. 9.

⁵⁷⁵ Azéma, Jacques: "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 905; see below, Chapter 3, part 6: 4.5.

⁵⁷⁶ Azéma, Jacques, on "L'Incidence De Droit Français De La Concurrence Sur Le Droit De Propriété Industrielle", in: "Dix Ans De Droit De L'Entreprise", Paris 1978, p. 774, referring to the Report of the Commission for the years 1954 and 1955, J.O.Doc.Admin. 14 January 1960, p. 5.

⁵⁷⁷ Paris 07.11.1991, A 1992,309.

⁵⁷⁸ Paris 22.05.1990, Dossiers Brevets 1992,V.

Part 4: THE INVALIDITY OF THE PATENT AND THE TERMINATION OF THE CONTRACTUAL RELATION.

1 THE INVALIDITY OF THE PATENT.

1.1 The Invalidity Of The Patent Entails The Lack Of Object Or Of Causa Of The Contract.

The invalidity of the patent may affect the licence contract by rendering it without object or causa. Since the revocation of the patent has retroactive effects, French law is in particular concerned with the incidence of the invalidity on the contractual relation before the revocation. Many judgements are concerned with the problem whether the licensor has to refund the royalties paid by the licensee for an invalid patent. Contractual clauses which also deal with these questions will be examined. According to Article L.613-27 of the French Intellectual Property Code a decision on the nullity of a patent shall generally have an absolute effect. The declaration of nullity of a patent has retroactive effect. This means that the object of the contract, namely the invention protected by a patent, would be lacking at the moment of the conclusion of the contract with the consequence of the retroactive invalidity of the contract according to Article 1108 of the French Civil Code.⁵⁷⁹

According to French court practice, the invalidity of the patent right entails the nullity of the patent licence contract.⁵⁸⁰ However, court practice is not unanimous as to the effects of the invalidity of the patent on the patent licence contract. Cass. 25.05.1869⁵⁸¹ considered that the contract, in spite of the revocation of the patent, was not deprived of its object up to the date of the revocation of the patent. Paris 22.06.1905 and Cass. 29.01.1907⁵⁸² confirmed the court practice according to which the performances of the patent licence contract are of consecutive character as in the leasing contract and of a factual nature so that they could not be rescinded for the past - with the consequence that the royalties would not have to be paid back. However, jurisprudence denies the applicability by way of analogy of the principles of the leasing contract, a contract which can be terminated for the future only, and holds that the revocation of the patent entails the nullity of the contract due to lack of object⁵⁸³ or of causa.⁵⁸⁴

Nancy 20.03.1986⁵⁸⁵ held that in a case of a mixed contract, the invalidity of the patent leads to the nullity of the whole contract, if the know-how is accessory to the patent licence. French

⁵⁷⁹ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 11.

⁵⁸⁰ Cass.req. 05.12.1881, D.1882,360; 29.06.1933, A. 1935,78; Cass.civ. 05.04.1960, A. 1965,176; Paris 20.01.1963, A.1963,363; T.G.I. Paris 29.06.1973, PIBD 1973,III,62; Paris 17.12.1982, PIBD 1983,III,79; T.G.I. Paris 20.01.1986, Dossiers Brevets 1986,VI,3; T.G.I. Nancy 20.03.1986, Rev.dr.prop.ind. 1986,6,128; T.G.I. Rennes 19.12.1988, PIBD 1989,III,654; Lyon 12.01.1989, D. 1990,Som.152.

⁵⁸¹ Cass. 25.05.1869, A. 1869,393.

⁵⁸² Paris 22.06.1905 and Cass. 29.01.1907, D. 1912,1,396; similar Paris 05.12.1907, A. 1908,32.

⁵⁸³ Trib.civ. Seine 26.07.1917, A. 1926,353.

⁵⁸⁴ Trib.civ. Seine, 19.03.1930, A. 1933,247; and 27.07.1944, A. 1940-48,119.

⁵⁸⁵ Nancy 20.03.1986, Rev.dr.prop.ind.1986,6,128.

legal writers⁵⁸⁶ are unanimous that the invalidity of the patent which leads to its revocation entails the nullity of the licence contract with retroactive effect, Article 1108 of the French Civil Code, due to lack of object or of causa. Thus prevailing French court practice considers that the declaration of the nullity of the patent entails the voidness of the contractual relation.

1.2 Royalties Paid For The Licence Of An Invalid Patent.

The annulment or rescission of a contract has retroactive effect.⁵⁸⁷ This means that the contract is considered as non-existent from the time of its conclusion, so that the licensor would have to reconstitute the royalties received from the licensee during the execution of the rescinded contract.⁵⁸⁸ Some French courts decided in this sense.⁵⁸⁹ However, prevailing French case law⁵⁹⁰ takes into consideration the performance of the contractual obligations by the parties to the contract and concludes that the licensor is not obligated to repay the royalties. Thus if the licensee has, during the execution of the rescinded contract, enjoyed the advantages of the factual exclusivity in the exploitation of the invention, he is not entitled to claim back the royalties paid to the licensor during this period.⁵⁹¹ Similarly, Paris 31.05.1889 and Cass.civ. 29.07.1891⁵⁹² held that the licensee cannot claim back his royalties for the past time in the case of the revocation of the patent, when he has exploited the patented method without interference and competition by third parties and when the execution of the rescinded contract in good faith was of real benefit. In the note to this decision⁵⁹³ the factual monopoly was considered as causa for the payment of the royalties. Cass. 17.05.1839⁵⁹⁴ focused on the character of the patent licence contract as of consecutive performances. The Court held that the contract could only be terminated for the future, if the party which pleads the nullity has obtained the advantages which it expected: "If the patent licence contract is 'rescinded' because of a subsequent revocation of the patent, the licensee cannot claim back the royalties from the proprietor of the revoked patent, if he could draw the expected profits from the utilisation of the patented method". In the reasons the Court explained: "To decide otherwise means to decide against the principles of justice and equity, because then one of the parties would obtain everything without that he would have had to give anything whereas the other party would have had to perform without receiving anything". Cass. 23.07.1891⁵⁹⁵ held that

⁵⁸⁶ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 898; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 21; Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 337; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 19.

⁵⁸⁷ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 22.

⁵⁸⁸ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 22.

⁵⁸⁹ Trib.com. Nantes 28.12.1912, A. 1913,217; Trib.civ.Seine 19.03.1930, A.1933,247; Trib.civ.Seine 27.04.1944, A. 1940-1948,119.

⁵⁹⁰ Orléans 18.07.1892, D. 1893,2,329; Paris 31.05.1889 and Cass.civ. 29.07.1889, A. 1893,172; Trib.com. Seine 11.12.1911, La Loi 13.01.1912; Paris 22.06.1922, A. 1922, 353; Trib.com. Boulogne-sur-mer 20.10.1923, A. 1924,32; Paris 29.07.1963, A. 1963,361; T.G.I. Paris 03.11.1986, PIBD 1986,III,245.

⁵⁹¹ T.G.I. Paris 03.11.1986, PIBD 1986,III,245.

⁵⁹² Paris 31.05.1889 and Cass.civ. 29.07.1889, A. 1893,172.

⁵⁹³ Comment to Paris 31.05.1889 and Cass.civ. 29.07.1891, A. 1893,172.

⁵⁹⁴ Cass. 17.05.1839, S. 1839,I,677.

⁵⁹⁵ Cass. 23.07.1891, A. 1893,178.

the invalidity of the patent does not prevent the contract being of particular use for the licensee in the time preceding the revocation of the patent by reason of which the licensee is obligated to settle accounts with the inventor. The Court thus set aside a decision of the lower court which had denied the existence of such an obligation with the reason that the contract would be void from the beginning due to lack of *causa*. Paris 22.06.1922⁵⁹⁶ applied to the patent licence contract the rules applicable to the leasing contract so that the licensee had to pay royalties until the declaration of the nullity of the patent. Thus the prevailing case law considers the licensee not bound to return the royalties received before the declaration of the nullity if the licensee exploited the invention in factual exclusivity - whether the contract is understood as of consecutive performances so that the nullity may have future effect or whether the *causa* of the agreement is considered to be the exploitation of the invention in factual exclusivity.

Mathély⁵⁹⁷ states that the contract, whether annulled or rescinded, is supposed never to have existed, and that, accordingly, the royalties should be restituted. The opinion of the author differs, however - if the licensee has, before the annulment or rescission of the contract, in fact peacefully enjoyed the exclusive right, the royalties paid have a *causa* and will not have to be paid back; but if the licensee did not draw an advantage from the contract, the royalties will have to be paid back by the licensor.⁵⁹⁸ Roubier⁵⁹⁹ asserts that exceptionally the repayment of royalties is excluded, if the licensee could draw from the patented invention those advantages which he expected at the time of the conclusion of the contract or if the licensee exploited the invention without interference, disturbance and competition by third persons and if the contract was, reciprocally, executed in good faith and had a real and useful effect before its rescission. Taking into account that the contractual relation cannot serve as a basis for the judgement, Roubier⁶⁰⁰ recommends that an account should be made between the parties "*ex aequo et bono*". As shown, French law offers different possibilities for solving the problem, but it emanates that whatever legal construction is chosen, the practical effects of most solutions will allocate the royalties paid up to the moment of the declaration of the nullity of the patent to the licensor, if the licensee benefited from the factual monopoly afforded by the sham patent.

1.3 Clauses Excluding The Repayment Of Royalties.

Paris 10.11.1988⁶⁰¹ upheld a contractual clause which provided that in the case of the lapse of the patent for non-payment of royalties, the licensor should retain the paid royalties. Similarly in the case, where the parties stipulate that the licence is granted at the risks and perils of the licensee, the licensee cannot claim back any royalties paid for the licence of an invalid patent.⁶⁰² The parties may stipulate that the licensee undertakes not to avail himself of the

⁵⁹⁶ Paris 22.06.1922, A. 1922,353.

⁵⁹⁷ Mathély, Paul, on "Le Nouveau Droit Des Brevets D'Invention", Paris 1991, pp. 338, 339.

⁵⁹⁸ See as well Cass.civ. 05.04.1960, A. 1965,176; Cass.comm. 26.02.1968, A. 1969,36.

⁵⁹⁹ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 284.

⁶⁰⁰ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 284.

⁶⁰¹ Paris 10.11.1988, PIBD 1989,III,105.

⁶⁰² Paris 02.10.1978, D. 1980,Som.139, concerning the case of a transfer of a patent with comment by Mousseron, Jean Marc, at p. 146; Burst, Jean Jacques, on "Licence De Brevet. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 6.

rights which fall to him in consequence of the invalidity of the patent. Plaisant⁶⁰³ points out that such a carefully drafted clause creates an even more subtle situation than the no-challenge clause or the clause by which the licensee expressly recognises the validity of the patent. It might be argued that in the case of the invalidity of the patent, the contract is void for lack of object and, in consequence, the clause as well; but it is suggested that the clause might be treated as the clauses of no-warranty so that its effects would survive the contract. The clause of no-warranty concerns only an exclusion of a possible claim of damages of the licensee, if the patent proves to be invalid. It does not entail the consequence that the licensor would not have to reconstitute royalties paid during the execution of the contract and before the revocation of the patent. Insofar the equation of the clause not to avail oneself of the invalidity of the patent and the clause of no-warranty does not seem justified and it may be doubted that a court would uphold such a clause.

2 THE TERMINATION OF THE CONTRACTUAL RELATION.

2.1 The Terminability Of The Contract.

In the absence of an express clause on the termination of the contractual relation, the licence contract may be terminated in French law by cancellation, rescission or annulment thereof.⁶⁰⁴ The annulment of the contract may be founded upon the reasons of the general law of contract, such as lack of *causa* or of object, that is to say a fault in the formation of the contract. The most frequent reason for the annulment of a contract is the declaration of nullity of the patent, which renders the contract without object or without *causa*.⁶⁰⁵ In the case of the declaration of nullity of the patent the prevailing view of legal writers⁶⁰⁶ is that the contract will be annulled in application of Article 1108 of the French Civil Code.⁶⁰⁷ The annulment of the contract generally has retroactive effect, that is to say the contract is considered to be non-existent not only for the future but also for the past, as if it never existed.

In the case of a breach of the contract, according to Article 1184 of the French Civil Code,⁶⁰⁸ a party is entitled to demand the rescission of the contract.

⁶⁰³ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", *Juris-Classeur Commercial Annexes. Brevets D'Invention*, Fascicule XXIV (1971) p. 22.

⁶⁰⁴ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 19.

⁶⁰⁵ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 21.

⁶⁰⁶ See above, Chapter 3, part 4: 1.1.1.

⁶⁰⁷ Article 1108 of the French Civil Code states: "Four conditions are essential for the validity of an agreement: - The consent of the party who obligates himself; - His capacity to contract; - An object certain which forms the subject-matter of the engagement; - A licit *causa* in the obligation".

⁶⁰⁸ Article 1184 of the French Civil Code states: "A resolutive condition is always understood in synallagmatic contracts for the case where one of the two parties does not satisfy his engagement. In such case the contract is not rescinded as a matter of law. The party towards whom the engagement has not been executed has the choice either to force the other to execution of the engagement when it is possible or to ask the rescission of it with damages. Rescission must be requested at law and the defendant may be granted a delay according to the circumstances".

The rescission may be declared by the court on demand by the licensor or licensee, for example in the case of the breach of a contractual obligation of a party to the contract. The rescission of the contract has retroactive effect, it works "*ex tunc*". Since the patent licence contract is, like for example the leasing contract, of successive performance, courts often declare not the rescission but the cancellation which is without retroactive but with future effect, "*ex nunc*".⁶⁰⁹ The importance of the difference between the rescission of the contract and the cancellation was explained by Paris 21.01.1991.⁶¹⁰ The case concerned the transfer of the patented invention against the payment of a lump sum and a proportional royalty which was, however, not paid. The assignor 'terminated' the contract by using the word 'rescission' (= "résiliation") and claimed the payment of royalties. The defendant asserted that the 'termination' in the sense of Article 1183 of the French Civil Code ("résolution") had retroactive effect so that the obligations had to be considered as non-existent and the performances restituted. However, the Court held that the word 'rescission' ("résiliation") as used by the assignor had to be construed as meaning "résiliation", a cancellation with effect from the date of the pronouncement by the judge. This construction was based upon the use of the word "résiliation" in the contract and upon the contractual stipulation that according to which the "résiliation" of the contract will be effective from the moment onwards of the entering into legal force of the judgement which ascertains the breach of the obligation of the payment of royalties.

In French law the patent licence contract is considered to be of indeterminate duration, unless the parties stipulate otherwise.⁶¹¹ If the contract is of indeterminate duration, it may be cancelled at any moment upon notice by any of the parties,⁶¹² without any liability for damages⁶¹³ for example if the patent lapses, because the patentee did not pay the renewal fees, or if the licensee did not exploit the patent sufficiently or did not pay the royalties.⁶¹⁴

However, it may result from the declarations of the parties, even in the absence of an express clause, that the contract is concluded for the term of the patent.⁶¹⁵ Roubier even considers⁶¹⁶ that if a certain duration of the contractual relation is not fixed by the parties, in case of doubt, the licence is then of determinate duration, having the same duration as the patent and coming to an end with it. Paris 01.03.1963⁶¹⁷ held that, in the case where it results from the will of the parties that the licence contract is concluded for the duration of the patent and its improvements, it cannot be considered as indeterminate but as lasting for the duration of the patents, respectively the improvements. If the contract is of determinate duration, the contract

⁶⁰⁹ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 21.

⁶¹⁰ Paris 21.02.1991, A. 1992,198.

⁶¹¹ Paris 01.03.1963, A. 1963,28; Paris 10.08.1958 A. 1960,38; Chavanne and Burst on "Propriété Industrielle", 3rd ed., Paris 1990, p. 237.

⁶¹² Paris 10.11.1959, A. 1960,58; T.G.I. Paris 01.02.1985, PIBD 1986,III,59.

⁶¹³ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", *Juris-Classeur Commercial Annexes. Brevets D'Invention Fascicule XXIV* (1971) p. 11.

⁶¹⁴ See Mathély, Paul, on "Le Nouveau Droit Des Brevets D'Invention", Paris 1991, p. 337.

⁶¹⁵ Paris 01.03.1963, A. 1963,28; Mathély, Paul, on "Le Droit Français Des Brevets D'Invention", Paris 1974, p. 391; however, Mathély and Guardia on "Frankreich" in "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 153, were less decided, stating that some authors assert that the contract runs for the term of the patent and others that the contract is of indeterminate duration.

⁶¹⁶ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 273.

⁶¹⁷ Paris 01.03.1963, A. 1963,28.

terminates at the end of the period for which it was concluded.⁶¹⁸ It is noteworthy that any ambiguity as to the duration of the patent licence contract should be avoided by the parties, in particular if the parties connected the duration of the contract with the duration of the life of the patent and any improvements thereof, because, as it will be shown below, the term 'improvement' may be difficult to agree upon between the parties.

It may be asked, whether the licensee is entitled to use up the stocks of the patented articles he has built up during the contractual relation, if the contract terminates and the patent is still in force. In principle, it seems not, because the patent right in the articles is not exhausted, since the licensee has not put the articles on the market during the subsistence of the licence, see Article L.613-6 of the French Intellectual Property Code which sustains the principle of exhaustion of the patent right, introduced by its predecessor, the French Patent Act of 1968.⁶¹⁹ Accordingly, it seems recommendable that the parties regulate expressly, whether and to which conditions the licensee may sell the stocks built up during the subsistence of the licence after the contract terminates.

2.2 The Post-Expiration Clause.

According to some French legal writers⁶²⁰ the licence may not exceed the duration of the validity of the patent, since otherwise, it is asserted, the contract would lack the object or the causa. The post-expiration clause extends the duration of the obligation to pay royalties beyond the patent term. Paris 29.01.1963⁶²¹ held that the parties may by an express stipulation diverge from the principle that the payment of royalties is limited to the legal duration of the patent. However, this decision met with strong criticism by Burst.⁶²² The starting point for this observation is the doctrine of causa. According to the prevailing French legal concept any obligation has its causa from the moment where the corresponding obligation is promised. After the termination of patent protection there will be no obligation of the licensor which would correspond to the licensee's undertaking to pay royalties, and the licensor knows perfectly well that from a certain moment onwards he will not have any obligations. Thus the absence of causa for the period which exceeds the validity of the patent is present at the very moment of the conclusion of the contract. Deprived of causa from the beginning, the contract is void insofar as it extends beyond the term of the patent. But this principle is not without qualification. It has to be observed that the licence contract is a means for the patentee to draw profits from the patented invention. The patentee may have an interest in stretching these profits beyond a certain period. Thus Burst⁶²³ considers a clause as valid by which the parties agree to prolong the obligation of the payment of royalties beyond the term of the patent, if this extension is coupled with a reciprocal diminution of the royalty rate; for

⁶¹⁸ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 898.

⁶¹⁹ The French Patent Act of 1968 introduced the principle of exhaustion in section 30-bis, see Chavanne and Burst on "Propriété Industrielle", 3rd ed., Paris 1990, p. 238.

⁶²⁰ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 261; Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Inventions", Paris 1991, p. 327.

⁶²¹ Paris 29.01.1963, A. 1963,361.

⁶²² Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 261.

⁶²³ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 261.

example, if the obligation to pay royalties extends to a period which corresponds to twice the patent's life, then the rate for the royalties should be half of the normal rate.

In a case decided by Paris 22.05.1990⁶²⁴ the parties stipulated that the licensee's obligation to pay royalties should extend to 50 years. The clause was considered valid. The Court held that the royalty remunerated both the patent licence and the communication of know-how - the expiry of the monopoly attached to the patent could not reduce the value of the know-how to nothing, that the parties agreed to schedule the royalties for a remuneration of 50 years (instead of concentrating only on the period of the validity of the patent) in the interest of the licensors (and their heirs) and in order to avoid for the defendants a considerable aggravation, even temporarily, of their costs of production; the economy of the contract freely decided by the parties should thus be maintained, and that thus the causa of the obligation of the defendants vested in the patent licence and in the transfer of the know-how, the benefit of which subsists beyond the lapse of the patent monopoly.⁶²⁵

Part 5: THE OBLIGATIONS OF THE LICENSOR.

1 THE OBLIGATION OF DELIVERY.

Generally, the obligation of delivery means that its debtor has to render the subject-matter of the contract at the disposition of his contractual partner. This obligation relates also to the patentee who grants a licence of his patent.⁶²⁶ According to French legal analysis⁶²⁷ the obligation of delivery is a principal obligation of the licensor. The precise extent of the obligation of delivery is disputed. Burst⁶²⁸ states that the obligation of delivery has a merely negative content. This means that the patentee must not erect an obstacle to the undisturbed enjoyment of the licensed patented invention by the licensee. Mercadal⁶²⁹ explains that in the absence of a particular contractual stipulation, the patentee has to hand over a copy of the patent grant containing the text of the patent, plans and drawings and the information which is necessary for the realisation of the production which relates to the patent. Azéma⁶³⁰ indicates that the grant of the licence implies an obligation to hand over to the licensee a certificate of the patent.⁶³¹ Plaisant⁶³² asserts that in the case, where the licence concerns the patented

⁶²⁴ Paris 22.05.1990, PIBD 1990,III,598.

⁶²⁵ T.G.I. Paris 26.03.1986, and Paris 22.05.1990, Dossiers Brevets 1992,V (The first instance Court, T.G.I. Paris 26.03.1986 considered that the causa of the contract vested in the patent right, so that the causa could not subsist beyond the lapse of the patent right, because the information necessary for the manufacture of the patented articles could not in itself justify the payment of the royalties.

⁶²⁶ See Articles 1614 et seq. of the French Civil Code which concern the contract of sale.

⁶²⁷ See for example Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 3.

⁶²⁸ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 3.

⁶²⁹ Mercadal, Barthélémy, on "Les Contrats De Coopération Inter-Entreprises", Paris 1974, p. 254.

⁶³⁰ Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 893.

⁶³¹ Accordingly, the licensee may demand the dissolution ("résolution") of the agreement, if the licensor surrenders the patent, or, if the licence concerns a patent application, the application is rejected.

invention only, without additional personal performance of the licensor, the obligation of delivery is reduced to the delivery of a copy of the patent grant. The author acknowledges, however, that the licensor is, in the absence of any clauses on this subject, obligated to perform certain personal acts which will either have to be directed towards the revelation of the conditions under which the invention can be applied or towards the development of the invention up to the point where it can be effectively utilised. Plaisant defends this legal opinion with the reasoning that the (exclusive) licensor participates in the exploitation of the licensed invention by the licensee so that the contractual relation between the parties would entail a spirit of co-operation, different from the transfer of the patented invention in the case of a sale. Otherwise it would be the "negative" obligation, similar to the conception of the patent licence in the English legal system, not to pursue the licensee for patent infringement.⁶³³ On the other hand, Mathély⁶³⁴ assumes that from the 'nature of the things' and from the principle that contracts be executed in good faith it may result that an obligation of "explication" or of "teaching" is imposed upon the licensor.

An extensive interpretation of the obligation of delivery was undertaken by Paris 19.12.1929⁶³⁵ which applied the relevant provisions of the French Civil Code concerning the contract of sale,⁶³⁶ according to which the "obligation to deliver the thing" comprises its accessories and all the elements directed towards its perpetual use. The Court held that in the case of an exclusive patent licence contract, where the licensor had undertaken to ensure the working ("*mise en marche*") of the invention, the licensor did not fulfil his obligation of delivery by refusing to reveal to his licensee the secrets of manufacture which he pretended existed, and the ignorance of which were, according to him, the reason for the failure of the production.

The basis for the extensive interpretation of the obligation of delivery is not always clearly established, but likewise Paris 19.12.1929⁶³⁷ seems to have taken into account Articles 1614 and 1615 of the French Civil Code which concern the obligation of delivery in the case of the contract of sale and authors mostly refer to the principle of good faith in the execution of the contract, Article 1134 of the French Civil Code, and to trade usage and customs.⁶³⁸ However, the application of the principle that contracts be executed in good faith, could, on the other hand, support a restrictive interpretation of the obligation of delivery. In the case where the licensed technology concerns sophisticated information, Mousseron observes⁶³⁹ that it might be justified to assert a limited view of the obligation of delivery if the licensees are involved in high technology or where the licence is non-exclusive and the remuneration in the form of

⁶³² Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 13.

⁶³³ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 13.

⁶³⁴ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, pp. 329,330.

⁶³⁵ Paris 19.12.1929, A. 1930,143.

⁶³⁶ Article 1614 of the French Civil Code states: "(1) The thing must be delivered in the condition in which it is at the time of the sale. (2) After that day all the fruits belong to the buyer". Article 1615 of the French Civil Code states: "The obligation to deliver the thing includes its accessories and all that what was designed for its permanent use".

⁶³⁷ Paris 19.12.1929, A. 1930,143.

⁶³⁸ Mercadal, Barthélémy, on "Les Contrats De Coopération Inter-Entreprises", Paris 1974, p. 255; Mousseron, Jean Marc, on "Brevets D'Invention", in: "Daloz Répertoire Du Droit Commercial", 1972, 2nd ed., "Mise A Jour" 1983, p. 39.

⁶³⁹ Mousseron, Jean Marc, on "Brevets D'Invention", in: "Daloz, Répertoire Du Droit Commercial", 2nd ed. 1972, "Mise A Jour" 1983, p. 39.

a lump sum, because in this case the scope of obligations of the parties would be limited.⁶⁴⁰ the contract lacking the spirit of co-operation.

Recent French case law seems cautious in the implication of terms concerning the 'delivery' of the licensed invention. T.G.I. Paris 20.03.1976⁶⁴¹ held that in the absence of a contractual stipulation the licensor is not bound to give technical assistance.

In conclusion, it seems appropriate to assess the scope of the obligation of delivery with due regard of the circumstances of the individual case. If the licensee is versed in the technology concerned it would be excessive to consider that the licensor is, by implication of a duty, bound to communicate know-how or technical information to the licensee. This means that only in exclusive patent licence contracts or in contracts which involve a spirit of co-operation, the extensive interpretation of the obligation may be appropriate whereas in the case of non-exclusive licences generally the transfer of a copy of the relevant documents concerning the patent grant will suffice.

2 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.

The validity of an express clause on the obligation of the communication of improvements is not contested in French jurisprudence.⁶⁴² But in the absence of a clear contractual clause which obligates the licensor to communicate improvements of the patented invention, the position of French law is controversial.

2.1 The Communication.

The term 'communication' is understood in a broad sense in French law. Here it does not only refer to oral information on the content of the improvement but will also include the grant of a licence, if the information constitutes a patented invention.⁶⁴³

However, it seems that such a conception may conflict with the principle that the subject-matter of a contract has to be determinate. Since the subject-matter is generally a patented invention, it appears as consequent to assume that the obligation of communication does not concern improvements of the licensed patented invention, because even if one conceived of the licensor's obligation of delivery as appertaining to accessories and appurtenances, 'improvements' of the licensed subject-matter may hardly fall within this category. This might be different if the parties had agreed upon the licence of a certain technical invention and if at

⁶⁴⁰ Mousseron, Jean Marc, on "Aspects Juridiques Du Know-How", Cahiers De Droit De L'Entreprise, 1972, no. 1, pp. 12,13.

⁶⁴¹ T.G.I. Paris 20.03.1976, JCP 1978,IV,68.

⁶⁴² T.G.I. Avesnes-sur-Helpe 02.02.1961, D. 1961,652; Paris 01.03.1963, A. 1963,28.

⁶⁴³ Hauser, Martin, on "Der Patentlizenzvertrag Im Franzoesischen Recht Im Vergleich Zum Deutschen Recht", Munich 1984, p. 150.

the time of the conclusion of the contract it was recognisable that the licensor would very likely make improved inventions during the continuation of the contractual relation.

2.2 The Term 'Improvement'.

The French Patent Act of 1968 did not provide a definition of the term 'improvement'. Starting point for a definition was Article 62(1) of the French Patent Act of 1968 which provided for certificates of addition:⁶⁴⁴ "Throughout the term of the patent, the owner of the patent may apply for certificates of addition in respect of inventions whose subject-matter is related to at least one claim of the main patent".⁶⁴⁵ However, this provision was abolished in 1990.⁶⁴⁶

French case law assumes, in the absence of a contractual solution, a differentiated attitude: Paris 06.11.1961⁶⁴⁷ asked for a subtle approach when concerned with the definition, especially if the licensed inventions are covered by several patents and if a 'spirit of collaboration' exists between the parties, and Paris 01.03.1963⁶⁴⁸ seems to favour a broad interpretation in cases of doubt whether the broad or the narrow interpretation should be adopted. Lyon 05.12.1974⁶⁴⁹ held that even if the notion 'improvement' was given a wide definition, so as to comprise competing patents, a new patent could not be considered as an improvement when it concerned a different method and a distinct material device with regard to a particular result; and from Cass.com. 16.07.1957⁶⁵⁰ the conclusion may be drawn that the licensee cannot claim rights in inventions which, upon comparison, do not relate to the licensed technology. Paris 07.11.1991⁶⁵¹ upheld a contractual clause which related to "any improvement, modification or new application whatever their origin" of the licensed patented invention.

Paris 07.11.1991⁶⁵² concerned a case where the licensee undertook to communicate an improvement to the patentee consisting of any invention concerning the exploitation or a new exploitation of the invention granted or of the articles manufactured by means of the invention. The Court held that the patent which the licensee obtained for the improvement of an article which was made by using the licensed patent has to be considered as an improvement of the articles manufactured by means of the threading machine which was the subject-matter of the licensed patent. The Court held that by reason of the contractual stipulation which obligated the licensee to communicate improvements to the licensor, the licensee had to transfer the property in the patent concerning the improvement to the licensor. In fact, the contract obligated the licensor in turn to render the exploitation of improving inventions made by him possible to the licensee.

⁶⁴⁴ Certificates of addition are abolished by the modification of the French Patent Act 1968 by the law 90.1052 of 26.11.1990 as of 01 January 1993 in order to achieve a harmonisation with the European Patent Convention.

⁶⁴⁵ Industrial Property Law And Treaties, WIPO, vol. II, France, Text 2-001, page 012.

⁶⁴⁶ Law 90.1052 of 26.11.1990.

⁶⁴⁷ Paris 06.11.1961, A. 1963,19, comment by Mathély, Paul.

⁶⁴⁸ Paris 01.03.1963, A. 1963,28.

⁶⁴⁹ Lyon 05.12.1974, A. 1974,39.

⁶⁵⁰ Cass.com. 16.07.1957, D. 1958,407,408.

⁶⁵¹ Paris 07.11.1991, PIBD 1992,III,98.

⁶⁵² Paris 07.11.1991, A. 1992,309.

Amongst legal writers the definition of the term 'improvement' is controversial. Mathély⁶⁵³ argues that there will be an improvement where the invention contains and reproduces the essential elements constitutive of the basic invention. Vasseur,⁶⁵⁴ referring to the licensor's obligation to execute the contract in good faith, Article 1134(3) of the French Civil Code, asserts a broad interpretation of the term, comprising all patented inventions which relate to the object of the licence contract. Burst⁶⁵⁵ bases the definition of the term 'improvement' basically on economic considerations: improvements are those 'competing' inventions which, if employed by the licensor, will substitute the licensed technology so that the licensee will be deprived of the fruits of the fulfilment of his obligations under the contract. Competing inventions are those which may be clearly different from the legal point of view but which are susceptible of replacing the first invention in the choice of the customers. On the other hand, Burst⁶⁵⁶ interposes that it would appear excessive to consider any competing invention which does not have any relation to the basic invention from the technical point of view as an improvement.

It appears that a satisfactory approach has to take into account the contractual stipulations. In the case in which the royalty depends upon the turnover achieved by the licensee from the number of sales, it would seem reasonable to consider that the subject-matter might also relate to inventions which improve the licensed invention by increasing the number of sales or the turnover. Under such circumstances it appears reasonable if the parties expressly define the scope of the term 'improvement', either by reference to the technology of the licensed patents or to the concept of 'competing' inventions.

In conclusion, French case law offers the choice between a narrow definition of the term 'improvement' which is based on patent law aspects and a broad definition of the term which focuses on economic aspects. The preferable approach will have to take into consideration the contractual arrangements. In the case in which the licence concerns a single patented invention and if the scope of the licence is clearly defined by the patented invention itself, it appears that the term should be interpreted narrowly. The narrow interpretation seems justifiable with respect to two considerations: First, the licensor or licensee, who, after the conclusion of the licence contract continues to invest in further research and development in relation to the licensed technology will not expect that any results of his work should be freely available to the other party. Second, a broad definition would, in the absence of an express contractual definition of the term, unduly restrain the party's incentive to work on new inventions subsequent to the licensed invention unless he could draw a personal benefit. Certainly, it is unlikely that the parties, in the absence of a contractual regulation concerning this point of law, will have thought about the statutory implication of the obligation of delivery and its scope in relation to future patented inventions. Accordingly, a narrow interpretation of the obligation implied by statute would be appropriate.

2.3 The Legal Basis Of The Obligation.

⁶⁵³ Mathély, Paul, comment to Paris 06.11.1961, A. 1963,19; and on "Le Droit Français Des Brevets D'Invention", Paris 1974, p. 389.

⁶⁵⁴ Vasseur, Michel, comment to T.G.I. Avesnes-sur-Helpe 02.02.1961, D. 1961,652,657.

⁶⁵⁵ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 50,51.

⁶⁵⁶ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 12.

In French law it is disputed whether the licensor is impliedly obligated to communicate improvements of the technology made before the conclusion of the licence contract. Azéma⁶⁵⁷ asserts that the licensee is entitled to an extension of the licence to all certificates of addition⁶⁵⁸ - the institution was abolished in 1990; but in the case of improvements concerning independent patents, the licence contract will not be affected, unless this factor would vitiate the licensee's consent.⁶⁵⁹ Burst⁶⁶⁰ asserts that the obligation for the communication of improvements can be based on the obligation of delivery which comprises the accessories and all elements necessary for its perpetual use.

T.G.I. Avesnes-sur-Helpe 02.02.1961⁶⁶¹ stated that the licensee would be entitled to improvements, even in the absence of a contractual stipulation, but this is an obiter dictum, the Court being concerned with an express clause to this effect. Azéma⁶⁶² rejects the view that the obligation of the communication of improvements could be based on the concept of the warranty against disturbances through facts personal to the licensor, as indicated by this Court's decision,⁶⁶³ because such an obligation may be analysed as an obligation to remain inactive whereas the obligation of communication of improvements presupposes positive acts by the licensor. Since prevailing French case law conceives of the exclusive licence as the licensor's waiver to grant further licences; the exclusive licensor retains the right to exploit the licensed invention⁶⁶⁴ so that it should surprise that the exploitation of other competing inventions could be understood as a contravention of an implied warranty against disturbances. It would be even more excessive to infer from an implication of such an obligation the licensor's duty to communicate improvements to the licensee. Accordingly, neither the exclusive nor the non-exclusive licensee can be considered impliedly obligated to communicate improvements.

From Cass.com. 16.07.1957⁶⁶⁵ it may be concluded that the licensee cannot claim a right to a new patent of the licensor, if a comparison of the patents reveals that they relate to a totally different system and concern neither a development nor an improvement. Paris 04.02.1959⁶⁶⁶ held that the scope of the obligation of communication to improving inventions would be a question of the circumstances of each case. As a presupposition of such an implication an obligation of collaboration between the licensee and the licensor must be inferable from the circumstances. According to this decision, 'collaboration' will exist where a licensor promises to the licensee to develop the licensed invention or where he takes over the job of a technical director of the licensee with the task to pursue research within the ambit of the undertaking. Also Chavanne and Burst⁶⁶⁷ point out that the licensor has to be considered obligated to communicate improvements, if the contractual stipulations show that a true collaboration was aimed at by the parties.

⁶⁵⁷ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 894.

⁶⁵⁸ On the 'certificate of addition' see above, Chapter 3, part 5: 2.2.

⁶⁵⁹ The author seems to allude to a fraud committed by the licensor.

⁶⁶⁰ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", Juris-Classeur Brevets, Fascicule 490 (1990) p. 12.

⁶⁶¹ T.G.I. Avesnes-sur-Helpe 02.02.1961, D. 1961,652.

⁶⁶² Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 894.

⁶⁶³ T.G.I. Avesnes-sur-Helpe 02.02.1961, D. 1961,652.

⁶⁶⁴ See above, Chapter 3, part 2: 1.1.1.

⁶⁶⁵ Cass.com. 16.07.1957, D. 1958,407.

⁶⁶⁶ Paris 04.02.1959, D. 1959,348.

⁶⁶⁷ Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 222.

French legal doctrine is not unanimous. Plaisant⁶⁶⁸ bases the licensor's obligation for the communication of improvements on the principle of equity,⁶⁶⁹ Burst⁶⁷⁰ on economic considerations: the licensee who has undertaken investments for the commercial exploitation of the licensed invention should not be deprived of the results of the satisfaction of his contractual obligation through "competing" inventions made by his contractual partner after the conclusion of the contract. If the licensor acquires improvements, the author suggests⁶⁷¹ that the licensee is entitled to ask for the communication of these improvements by reason of the "*suites naturelles*" of the contract, Article 1135 of the French Civil Code,⁶⁷² that is to say, that the obligation to communicate improvements impliedly belongs to the contractual obligations, unless the parties waive it expressly.⁶⁷³ Burst⁶⁷⁴ asserts that the licensee would not be entitled to claim a sub licence for those improvements which have been granted to the licensor by a third person, because the relation between the licensor and the third person would be of "*intuitus personae*". The author⁶⁷⁵ recognises one exception. If the licensor obtains a licence for an improvement, he is, by threat of liability for damages (Article 1142 of the French Civil Code), obligated to apply for a licence of dependency, now Article L.613-15(2) of the French Intellectual Property Code, in favour of the licensee of the basic invention.

Azéma⁶⁷⁶ attempts to base the licensor's duty to communicate improvements on the obligation of maintenance of the patent. This obligation is interpreted as meaning that the licensor has to maintain the leased thing in a state so that it may serve the purpose for which it has been leased. Accordingly, up to the extent where an improvement renders the licensed technology obsolete, the licensor has the obligation to communicate them to the licensee. The communication must place the licensee in a position to exploit the improvements, which presupposes that he is granted a licence on the improvements or, where the improvements comprise know-how, the information is passed on to him. Mathély⁶⁷⁷ infers from the obligation that contracts must be executed in good faith that the licensor is impliedly obligated to communicate to the licensee those improvements which substitute the patented articles in the choice of the customers.

In conclusion, in the absence of an express statutory provision which would establish the obligation of delivery in the case of patent licence contracts, it appears excessive to obligate

⁶⁶⁸ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 14.

⁶⁶⁹ Article 1135 of the French Civil Code states: "Agreements obligate not only for what is expressed therein, but also for all the consequences which equity, usage or the law gives to an obligation according to its nature".

⁶⁷⁰ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 50,51.

⁶⁷¹ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 66,67; on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 3.

⁶⁷² Article 1135 of the French Civil Code states: "Agreements obligate not only for what is expressed therein, but also for all the consequences which equity, usage or the law give to an obligation according to its nature".

⁶⁷³ Gaudemet, Desbois and Gaudemet on "Théorie Générale Des Obligations", Paris 1937, reprint 1965, p. 201.

⁶⁷⁴ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 66,67; on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 3.

⁶⁷⁵ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 73,74.

⁶⁷⁶ Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 894.

⁶⁷⁷ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 333.

the licensor, upon, for example, the analogous application of the terms implied by statute concerning the obligation of delivery in the case of the contract of sale, to extend the licence to inventions which improve the licensed invention. With this respect, it should be taken into consideration that the parties to the licence contract are, generally and different from the contract of sale, persons which take part in commercial life so that the licensee (who cannot be assumed to be in the 'weaker' position, equivalent to the purchaser) does not need to be protected by statute-implied terms which the legislator provided for the socially most relevant contract. Other attempts, for example, the resort to the principle of good faith, appear even less convincing, because this principle could bind the licensor only if the other party could have reasonably expected that the obligation of delivery would also relate to such improvements. It appears realistic to assume that neither party would have thought about this possibility at the conclusion of the contract. The principle cannot also be used to serve as a basis for a main obligation whereas it is, generally, applicable only with regard to the execution or performance of an obligation.

2.4 The Payment Of Royalties For The Communication Of Improvements.

Concerning the payment of royalties for the communication of improvements, it is suggested that the licensor may demand a new royalty if the basic licence was given for a lump sum, because the licensee only paid for the basic invention; in the case of a proportional royalty dependent on production, it may not be necessary to modify the relevant clauses in the contract, because the improvement will augment the output and thus lead to an appropriate increase of the remuneration for the licensor.⁶⁷⁸ On the other hand, the opinion is voiced that the obligation to communicate improvements means that the licensor will have to offer to the licensee the conclusion of a new contract with regard to the new invention, but only to equal conditions, with regard to other applicants, and with a right of preference.⁶⁷⁹

3 THE OBLIGATION OF DELIVERY CONCERNING UNPATENTED SUBJECT-MATTER.

In French law there are many different conceptions as to whether the licensor should, and if, up to which extent, communicate unpatented technology to the licensee in order to enable and support the exploitation of the licensed patented invention.

3.1 The Communication Of Know-How.

⁶⁷⁸ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 75.

⁶⁷⁹ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, p. 190.

In the case of an express clause relating to the communication of know-how T.G.I. Lyon 15.11.1973⁶⁸⁰ held that the parties should carefully define the know-how and the modalities of the transfer, as it may be difficult to prove the execution of such an obligation. T.G.I. Paris 27.11.1986,⁶⁸¹ concerned with the contractual transfer of a patented invention without a particular stipulation establishing the scope of the obligation of delivery, attempted a solution which does justice to patent law: the Court held that the grant of letters patent is in itself sufficient and must permit a person versed in the art to execute the invention with regard to the descriptions and the information contained in it, so that the patentee, in the absence of a stipulation to the contrary, is not obligated to transfer his know-how. This seems to reflect the prevailing case law.⁶⁸² However, some legal writers seem to accept that, if it proves necessary, the communication of know-how should be considered as impliedly stipulated in the contract.⁶⁸³ It is argued that the licensor who is obligated to communicate the improvements of the licensed invention should definitely be obligated to communicate the know-how necessary for the working of the licensed invention. Mousseron⁶⁸⁴ stresses that without doubt the patentee would be obligated to communicate to the licensee the know-how which is necessary for an industrial realisation of the invention. Burst⁶⁸⁵ draws the same conclusion from the duty to execute the contract in good faith, Article 1134 of the French Civil Code.⁶⁸⁶ If the licensor develops the know-how during the execution of the contract, Burst⁶⁸⁷ argues that the obligation of communication is an implied obligation as a consequence which equity, usage or the law gives to an obligation according to its nature, Article 1135 of the French Civil Code.⁶⁸⁸ Chavanne and Burst⁶⁸⁹ consider the licensee at least not impliedly bound to communicate know-how to which he has no access, but if the licensor disposes of know-how necessary for the working of the invention, the principle of the execution of contracts in good faith imposes upon the licensor the duty to communicate this information. Roubier⁶⁹⁰ stresses that the licensor has to deliver the patented invention in a state which permits the use for which it is destined by the contract. Accordingly, the licensor must reveal to the licensee this know-how, the ignorance of which by the licensee led to the failure of the production. Plaisant⁶⁹¹ asserts a restrictive view: because of the secrecy which surrounds the know-how, the obligation of communication would require close co-operation

⁶⁸⁰ T.G.I. Lyon 15.11.1973, Rev.Com. 1974,269, comment by Chavanne and Azéma.

⁶⁸¹ T.G.I. Paris 27.11.1986, D. 1988,Somm. 354, comment by Mousseron and Schmidt.

⁶⁸² Cass.com. 12.02.1969, Quot. Jur. 27.-29.05.1969, no. 62.10; Paris 12.05.1970, PIBD 1970,III,227 seem to consider the licensor not bound to communicate his know-how.

⁶⁸³ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 81; Mercadal, Barthélémy, on "Les Contrats De Coopération Inter-Entreprises", Paris 1974, p. 255.

⁶⁸⁴ Mousseron, Jean Marc, on "Brevets D'Invention", in: "Dalloz, Répertoire Du Droit Commercial", 2nd ed. 1972, "Mise A Jour" 1983, p. 39.

⁶⁸⁵ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 89,90; on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 4.

⁶⁸⁶ Article 1134 of the French Civil Code states: "(1) Agreements legally made take the place of law for those who make them. (2) They may be revoked only by mutual consent or for causes which the law authorises. (3) They must be executed in good faith".

⁶⁸⁷ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 90,91; on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 4.

⁶⁸⁸ Article 1135 of the French Civil Code states: "Agreements obligate not only for what is expressed therein, but also for all the consequences which equity, usage or the law gives to an obligation according to its nature".

⁶⁸⁹ Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 223.

⁶⁹⁰ Roubier, Paul, on "Licences Et Exclusivités", Annales De Droit Commercial Et Industriel Français, Etranger Et International 1936, p. 308.

⁶⁹¹ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 15.

between the parties. Thus, in the absence of a clear clause to this effect, the licensor is not obligated to communicate any secret know-how to the licensee. Azéma⁶⁹² states that the principle of the freedom of contract has an important role to play so that the parties are advised to draft carefully any clauses to this effect. However, the obligation of delivery may justify the implication for the obligation of communication of know-how, in the case where the amount of royalties depends upon the scope of the exploitation by the licensee which creates a spirit of co-operation between the parties. Joliet⁶⁹³ who considers that the licensor is not bound to communicate the know-how developed after the conclusion of the contract suggests that the licensor may be obligated to offer to the licensee the conclusion of a new agreement providing for a particular remuneration. With regard to the remuneration for the communication of know-how, Burst refers to Cass.com. 06.11.1957⁶⁹⁴ and says that the know-how which is an inseparable accessory to the licensed patent cannot create a distinct claim for a royalty by the licensor, not even in the absence of an agreement.

The different solutions adopted by French legal writers to the problem permit the following observations. First, the question whether and up to which extent the licensor is bound by an implied obligation of communication of know-how depends upon the circumstances of each case. In principle, the obligation of delivery relates to the subject-matter of the contract - the patented invention. Generally, the licensor impliedly undertakes to facilitate the exploitation of the invention. He will comply with these obligations if he transmits to the licensee a copy of the patent documentation. But unless otherwise agreed upon, the licensor does not undertake that the patented invention can be exploited in a commercially satisfactory manner. The borderline may be drawn by reference to the technical instruction of the patented invention. Since the subject-matter of the patented invention concerns always an instruction, it may be assumed that the parties to the contract intended that the grant of the licence should render the licensee susceptible to making use of this technology to which, in the individual case, may belong the information concerning accessory know-how. Only in such a case does it seem justified to consider the licensor impliedly bound to communicate know-how to the licensee.

3.2 The Supply Of Technical Assistance.

According to T.G.I. Paris 20.03.1976⁶⁹⁵ the licensor is not obligated to furnish technical assistance in the absence of a contractual stipulation. Mercadal⁶⁹⁶ asserts that, where necessary for the exploitation of the invention, the obligation of delivery would comprise the licensor's duty to give technical assistance. Similarly, Mathély⁶⁹⁷ considers that the licensor may be bound by an obligation of explication and teaching, if this should result from the implication of an obligation⁶⁹⁸ or from the principle that contracts be executed in good faith,

⁶⁹² Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, pp. 888,893.

⁶⁹³ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, pp. 190,191.

⁶⁹⁴ Cass.com. 06.11.1957, Bull.civ. 1957,III,257.

⁶⁹⁵ T.G.I. Paris 20.03.1976, JCP 1978,G.,IV,68.

⁶⁹⁶ Mercadal, Barthélémy, on "Les Contrats De Coopération Inter-Entreprises", Paris 1974, p. 254.

⁶⁹⁷ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 330.

⁶⁹⁸ Mathély, fn. 697, refers to the "suites naturelles" of the contract. French law differs between the essential elements of a contract and the natural elements. In the absence of an essential element, the contract will belong

but otherwise this legal writer asserts that the patentee has fulfilled his obligations by delivering to the licensee the "legal monopoly" which he holds and that it remains with the licensee to organise the development of the invention from the conception to the state of the industrial production.⁶⁹⁹

Chavanne and Burst⁷⁰⁰ admit that it would be excessive to impose a duty on the licensor to furnish technical assistance, if the contract is silent on this point. However, with reference to Cass.com. 04.11.1958⁷⁰¹ they consider such an obligation implied, if it is proved that such assistance was useful for the exploitation of the invention. Such an assertion may claim in support Article 1615 of the French Civil Code, according to which the obligation to deliver a thing comprises the accessories and all that what was designed for its permanent use. Further, Burst⁷⁰² points out that there is a tendency in case law which imposes upon the purchaser or the lessee of technological subject-matter an implied obligation of assistance, if the purchaser or lessee is not sufficiently experienced. If, however, the recipient of the technological subject-matter is himself a specialist, the assistance is not considered accessory in the sense of Article 1615 of the French Civil Code, because here the recipient is capable of drawing from the invention any utility which the transferred information offers.⁷⁰³ As regards the right of the licensor to a particular remuneration for the supply of accessory technical assistance, Mercadal⁷⁰⁴ stresses that this would depend on each case.

Summing up, the licensor may, upon a statute-implied obligation of delivery, applied by way of analogy, have to communicate to the licensee information or render technical assistance if the purpose of the contract, the exploitation of the patented invention, cannot be performed by the licensee in the absence of such acts.

4 THE OBLIGATION OF THE MAINTENANCE OF THE PATENT.

In French law, the implication of the licensor's obligation to maintain the patent can be based on Article 1719(2) of the French Civil Code⁷⁰⁵ according to which the lessor is obligated to permit the lessee during the lease the utilisation of the leased thing in conformity with the

to a different contractual class, e.g. if the parties did not stipulate a price, there is no contract of sale, but the contract will not necessarily be void. The natural elements of the contract will be implied unless the parties waive them expressly, such as the obligation for warranty in the contract of sale. Further, there are accidental elements which the parties are free to agree upon. See on the doctrine of the elements of the contract Gaudemet, Desbois and Gaudemet on "Théorie Générale Des Obligations", Paris 1937, reprint 1965, pp. 201,202.

⁶⁹⁹ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 328.

⁷⁰⁰ Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 223.

⁷⁰¹ Cass.com. 04.11.1958, Bull.civ. 1958,III,372, p.315; Paris 19.12.1929, A. 1930,143; Burst, Jean Jacques, on "L'Assistance Technique Dans Les Contrats De Transfert Technologique", D. 1979,chron.1.

⁷⁰² Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 4.

⁷⁰³ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 4.

⁷⁰⁴ Mercadal, Barthélémy, on "Les Contrats De Coopération Inter-Entreprises", Paris 1974, p. 255.

⁷⁰⁵ Article 1719 of the French Civil Code states: "The lessee is obligated, by the nature of the contract, and without there being need of any particular stipulation: (1) to deliver the lessee the thing leased; (2) to maintain use for which it was rented; (3) to provide peaceful enjoyment to the lessee for the duration of the lease; (4) to assure also the permanence and quality of plantings".

destination provided for in the contract. Applied to the patent licence contract,⁷⁰⁶ this means that the licensor shall maintain the patent in force by paying the renewal fees. This is a corollary from the successive nature of the obligations of the patent licence contract and will be implied unless the parties stipulate otherwise.⁷⁰⁷ In consequence of the obligation to maintain the patent right, the licensor is bound not to renounce the patent protection, a right which is provided for by Article L.613-24 of the French Intellectual Property Code. If the patentee exercises this right in spite of his contractual obligation, it will have effect only if the licence contract is not registered with the patent register. In this case the renunciation is, according to Article L.613-24(3) of the French Intellectual Property Code, subject to the consent of the licensee.

If the patent lapses as a result of non-payment of the renewal fees by the licensor, the contract is void according to Paris 03.03.1953⁷⁰⁸ from the moment of the lapse of the patent, because the contract requires necessarily for its validity the subsistence of the granted rights; it is without object, and the obligation of the licensee is without causa. Douai 31.03.1953⁷⁰⁹ held that in such a case the contract may be terminated by the licensor but not rescinded with retroactive effect, "*ex nunc*". Roubier and Chavanne⁷¹⁰ criticise the judgement, because the contract lacks causa so that it would be void and the licensor would have to restitute the royalties paid by the licensee. At the same time the licensor might have a right to claim an indemnity for the services rendered to the licensee and the court may fix the indemnity with regard to the amount of royalties paid. In fact, the non-payment of the renewal fees will not invalidate the patent with retroactive effect but only work from the moment at which the patent is revoked. Accordingly, also the contract will not be void "*ab initio*" but only from the moment of the declaration of nullity of the patent.

5 THE OBLIGATION OF PROTECTION.

5.1 The Infringement Of The Patent By Third Parties.

⁷⁰⁶ Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 894.

⁷⁰⁷ In Paris 30.01.1991, PIBD 1991,III,302 the parties stipulated that the exclusive licensee was obligated to maintain the patents. The Court, at p. 304, inferred from the exclusivity of the licence that the licensee's obligation is the more aggravating than it might have been in the case of a non-exclusive licence; Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Relations Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 115,116 bases the obligation of maintenance on the warranty against disturbances through facts personal to the licensor; Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, p. 180 bases this obligation on the principle to perform contractual obligations in good faith; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 234; Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 328; Mercadal, Barthélémy, on "Les Contrats De Coopération Inter-Entreprises", Paris 1974, p. 256; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 14; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 282.

⁷⁰⁸ Paris 03.03.1953, A. 1953,1.

⁷⁰⁹ Douai 31.03.1953, Rev.Comm. 1954,344.

⁷¹⁰ Roubier and Chavanne, comment to Douai 31.03.1953, Rev.Com. 1953, p. 344.

Article L.615-2(2) of the French Intellectual Property Code provides that "the holder of an exclusive right of exploitation may, unless otherwise agreed in the licensing agreement, institute an infringement action if, after service of notice, the proprietor of the patent does not do so".⁷¹¹ Article L.615-2(4)⁷¹² offers the same solution to the holder of a licence of right or of a compulsory licence. This right of action of the licensee is subject to three conditions: First, the licence contract must be registered - the licensee may act against infringers only subsequent to the registration;⁷¹³ second, this right must not have been excluded in the contract, Article L.615-2(2) of the French Intellectual Property Code; and third, the patentee, after service of notice by the licensee, must not have instituted his own proceedings against the infringer, Article L.615-2(2) of the French Intellectual Property Code.⁷¹⁴ Thus the licensee's right of action is subsidiary in nature to the patentee's right to act against infringement of the patent.

The licensor may authorise the licensee to bring proceedings against the infringer in his, the licensor's name and thus give him a mandate, but he may not authorise the licensee to start proceedings in the licensee's own name, because the licensee is not the owner of the patent.⁷¹⁵ Views differ on the question whether the licensor is entitled to give the licensee a general mandate⁷¹⁶ or whether the mandate has to be conferred on a case by case basis.⁷¹⁷ The cost of the legal proceedings in such a case are generally borne by the licensee; if the action fails, because the patent was not infringed, Burst⁷¹⁸ argues that the licensee may not recover the costs incurred by him from the licensor as damages - the defect being apparent so that according to Articles 1641 and 1642 of the French Civil Code⁷¹⁹ the licensor is not bound by an obligation of warranty against hidden legal defects.

It is controversial whether the licensor is, in addition, obligated to protect the licensee against infringements of the patented invention by third persons. This question will be of particular interest to the non-exclusive licensee who cannot rely on Article L.615-2 of the French Intellectual Property Code in order to prevent infringements of the patent by third persons. Jurisprudence is divided on this point. In the case of a non-exclusive licence, a part of French

⁷¹¹ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 7, observes that the legal terminology is not clear, since in French law it is compatible with the exclusivity of a licence that the patentee exploits the patented invention himself; accordingly, the right of the exclusive licensee would not be 'exclusive' in the sense of Article L.615-2(2) of the French Intellectual Property Code.

⁷¹² Article L.615-2(3) of the French Intellectual Property Code states: "The patentee shall be entitled to intervene in the action for infringement taken by the licensee in accordance with the preceding paragraph".

⁷¹³ T.G.I. Paris 29.05.1971, A. 1971,182; Paris 09.05.1978, A. 1980,47; T.G.I. Paris 05.02.1981, PIBD 1981,III,128; T.G.I. Paris 08.05.1981, PIBD 1981,III,223; Paris 30.09.1983, A. 1983,246.

⁷¹⁴ T.G.I. Paris 18.03.1990, PIBD 1990,III,567.

⁷¹⁵ Burst, Jean Jacques, on "Licence De Brevet. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 7.

⁷¹⁶ In this sense Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", *Rev.Comm.* 1982, pp. 298,299.

⁷¹⁷ In this sense Plaisant, Robert, comment to Cass.com. 08.07.1958, JCP 1959,II,10981; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 7.

⁷¹⁸ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 7.

⁷¹⁹ Article 1641 of the French Civil Code states: "The seller is held to a guarantee against hidden defects in the thing sold which render it unsuitable to the use for which it is intended, or which so diminish such use that the buyer would not have purchased it, or would have given only a lesser price for it, had he known of them". Article 1642 of the French Civil Code states: "The seller is not liable for patent defects which the buyer could have discovered himself".

jurisprudence⁷²⁰ asserts that the licensor is not bound by an obligation to defend the non-exclusive licensee against infringers of the patented invention by instituting legal proceedings, because the patentee is free to grant a licence to anyone, and also to an infringer. For others⁷²¹ this argument is not conclusive, since the non-exclusive licensee is put at a disadvantage with regard to competitors who do not have to pay royalties for the use of the patented invention. The obligation of protection may be deduced from the warranty for the undisturbed enjoyment of the patented invention.⁷²² Like the lessor the licensor is obligated to warrant the undisturbed enjoyment during the duration of the lease and from this results the obligation to warrant the enjoyment of the leased thing, undisturbed by third persons.⁷²³ Joliet⁷²⁴ points out that an initial difficulty which encountered the application of the rules concerning the warranty relating to the leasing contract to the patent licence contract is the fact that the third person will generally not claim a legal right in the patented invention but attacks its validity. The activity by the third person constitutes a material disturbance. In the case of these disturbances, Article 1725 of the French Civil Code⁷²⁵ excludes any obligation on the part of the lessor. However, Article 1725 of the Code proceeds upon the assumption that the lessee avails himself of his own rights to repel an attack against the lease.⁷²⁶ Burst,⁷²⁷ states that the licensor is obligated to act against patent infringement, because the obligation to warrant against the factual disturbances attributable to third parties envisages precisely the situation of the prevention, interruption or reparations of the enjoyment caused by disturbances attributable to third parties.⁷²⁸ In the case where the patentee does not act upon notice by the licensee, the licensee may, according to Burst, terminate the contract. The prevailing legal doctrine in France⁷²⁹ seems to consider the licensor bound to institute proceedings against infringers of the (non-exclusive) licensed patented invention, because the obligation for the warranty against the disturbance in the enjoyment of the patented invention is estimated to envisage the disturbance in the enjoyment through third persons. In the case where the contract exempts the licensor from the obligation of warranty against disturbances

⁷²⁰ Paris 11.01.1876, A. 1876,81; Trib.civ. Boulogne-sur-mer 02.10.1923, A. 1924,32; Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", Montpellier 1978, pp. 26,27; Pouillet, Eugène, on "Traité Théorique Et Pratique Des Brevets D'Invention", 6th ed., Paris 1915, p. 349.

⁷²¹ Cass.com. 26.02.1969, Bull.civ. 1969,IV,83, p. 69; Burst, Jean Jacques, on "Brevet Et Licencié. Leurs Relations Juridiques Dans Le Contrat De Brevets", Paris 1970, p. 136; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 244; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 16; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 279.

⁷²² In this sense Burst, Jean Jacques, comment to Paris 02.03.1971, A. 1971,127; Mercadal, Barthélémy, on "Les Contrats De Coopération Inter-Entreprises", Paris 1974, p. 256; Roubier, Paul, on "Licences Et Exclusivités", Annales De Droit Commercial Et Industriel Français, Etranger Et International 1936, p. 311; see below, Chapter 3, part 6: 2.2.1.

⁷²³ See below, Chapter 3, part 6: 2.2.1.

⁷²⁴ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, p. 184.

⁷²⁵ Article 1725 of the French Civil Code states: "The lessor is not required to warrant the lessee against disturbance which third persons cause by acts of violence against his enjoyment, without claiming otherwise any right in the thing rented, reserving to the lessee suit against them in his own name".

⁷²⁶ See below, Chapter 3, part 6: 2.2.1.

⁷²⁷ Burst, Jean Jacques, on "Licence De Brevets. Effet Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 6.

⁷²⁸ Paris 14.03.1901, A. 1901, 349; Paris 23.12.1927, A. 1928, 118; Cass.com. 26.12.1968, Bull.civ. 1968,IV,28; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 279.

⁷²⁹ Paris 14.03.1901, A.1901,349; Paris 23.12.1927, A. 1928,I,118; Burst, Jean Jacques, "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 6; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 279.

caused by third persons, Diener⁷³⁰ correctly observes that the licensor is not obligated to undertake legal steps against infringers.

The implication of an obligation of protection may in the case of the non-exclusive licence claim further support in the presumption that the parties might not have concluded the contract, if the licensor conceded the free exploitation of the patented invention to third persons. Accordingly, Joliet⁷³¹ proceeds upon the assumption that the patentee's promise to protect the licensee against third persons who infringe the patent is implied, since it is not open to the licensee himself to bring a suit against infringers of the patent; Article L.615-2(5) of the French Intellectual Property Code gives the licensee the right "to intervene in an infringement action commenced by the proprietor, in order to obtain compensation for his own loss". If the licensee does not intervene in the proceedings for the patent infringement by a third person, the licensor is not entitled to demand the payment of damages sustained by the licensee through the patent infringement.⁷³² But the licensee may intervene in infringement proceedings and claim damages only after the registration of the licence, Article L. 613-9 of the French Intellectual Property Code.⁷³³

However, an important argument against the obligation of warranty seems to vest in the fact that in the case of a successful attack by a third person against the patent, the patent will be declared invalid so that it would not be appropriate to speak of a dispossession of the licensee and even if the licensee suffered damage, it would not be equitable to impose upon the licensor an obligation for compensation of these damages, when he did not commit any fault.

5.2 The Assignment And Transfer Of The Licence.

In French law, the non-transferability of the licence may be deduced from Article 1237 of the French Civil Code,⁷³⁴ which states that an obligation to do may not be discharged by a third person against the wish of the creditor, when the latter has an interest that it be fulfilled by the debtor.⁷³⁵ It may also be argued that the patentee is obligated not to transfer the patent right or rights deriving from the patent licence contract by reason of the personal relationship between the parties, the "*intuitus personae*". The "*intuitus personae*", the personal qualities of the parties which induced the parties to conclude the contract and which thus entered into the legal relationship stems from the technical and the financial point of view; - technical, because the licensor is the debtor of the obligation to deliver the invention, know-how, technical assistance or improvements, and because the technical qualification of the licensee to utilise the patented invention will have been a decisive factor in the licensor's determination to conclude the contract, not least with the view to assuring the optimum exploitation by the contractual partner; - financial, because the licensee has an interest in

⁷³⁰ Diener, Michelle, on "Contrats Internationaux De Propriété Industrielle", Bordeaux 1986, p. 95.

⁷³¹ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, p. 185.

⁷³² Paris 02.03.1971, A. 1971,119; Burst, Jean Jacques, on "Licence De Brevets. Effects Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 7.

⁷³³ Paris 30.09.1983, A. 1983,246.

⁷³⁴ Article 1237 of the French Civil Code states: "An obligation to do may not be discharged by a third person against the wish of the creditor, when the latter has an interest that it be fulfilled by the debtor himself".

⁷³⁵ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Inventions", Paris 1991, p. 332.

strong protection through the licensor.⁷³⁶ Thus by reason of the synallagmatic nature of the contract, the licensor is not permitted to transfer his contractual position unless he has obtained the consent of the licensee.⁷³⁷

According to Hauser⁷³⁸ there is no obligation upon the patentee-licensor which would bind him not to assign the patent right. Hauser⁷³⁹ derives this reasoning from the argument that it is the purpose of this provision which concerns the registration of patent licence contracts, now Article L.613-9 of the French Intellectual Property Code,⁷⁴⁰ to provide protection for the licensee in the case of such transactions. If the registered licensee does not consent to the assignment of the patent right, the assignee does not become a party to the patent licence contract. In contrast to the reasoning of Joliet⁷⁴¹ that the licensor-patentee may not assign the patent because of the "*intuitus personae*" between the parties, Hauser argues that the protection of the licensee is provided by the register so that the licensee who does not register the licence contract does not merit protection. This argument is attractive, however, it does not take into consideration that French law imposes upon the licensor far-reaching duties of communication and delivery which relate to unpatented information and improvements of the licensed technology even if they are made after the conclusion of the contract. Accordingly, a change in the identity of the licensor will affect the contractual interests of the licensee. Thus, French lawyers generally consider the relation as of "*intuitus personae*" whereas in English law the personal quality of this relationship is denied.

6 THE OBLIGATION OF WARRANTY.

In French law the licensor is bound by an obligation of warranty which relates to defects and to disturbances in the enjoyment of the licensed patented invention.

6.1 The Warranty In The Case Of Hidden Defects.

⁷³⁶ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 123.

⁷³⁷ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 125.

⁷³⁸ Hauser, Martin, on "Der Patentlizenzvertrag Im Franzoesischen Recht Im Vergleich Zum Deutschen Recht", Munich 1984, p. 163.

⁷³⁹ Hauser, Martin, on "Der Patentlizenzvertrag Im Franzoesischen Recht Im Vergleich Zum Deutschen Recht", Munich 1984, p. 163.

⁷⁴⁰ Article 46 of the French Patent Act of 1968 stated: "To be valid against third parties, any act transmitting or altering the rights attached to a patent application or to a patent must be entered in a register, so-called National Patent Register, kept at the National Institute of Industrial Property". Article L.613-9(1) of the French Intellectual Property Code states in subsection 1 that any acts transmitting or altering the rights attached to a patent or to a patent application must be registered with the national patent register kept at the National Institute for Industrial Property in order to be enforceable to third persons.

⁷⁴¹ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, pp. 179,180.

According to the prevailing doctrine in French law,⁷⁴² the licensor is bound by an implied obligation of warranty against hidden defects, whether technical or legal, of the licensed patented invention. Whereas the technical defects relate to the concept of the invention, the legal defects concern the patent right. A basis for this implied warranty can be found in Article 1721 of the French Civil Code which establishes in subsection 1: "A warranty is due the lessee for all defects and faults in the thing rented which impede use of it, even when the lessor did not know of them at the time of the lease", and subsection 2 states: "If there results from such defects or faults any loss to the lessee, the lessor is required to indemnify him".⁷⁴³ According to Article 1721 of the French Civil Code the licensor has to compensate the licensee for the damages suffered; the licensee may terminate the contract or ask for a reduction of the royalties, depending upon the importance of the financial loss caused by the defect and the licensor has to refund any payments which the licensee had to make for damages caused to third persons by reason of the defect of the invention.⁷⁴⁴

It may be doubted whether the licensed patented invention can be affected by a hidden defect entailing an obligation of warranty, in particular, because the 'defect' is not repairable.⁷⁴⁵ The patented invention as an intellectual property right will either exist or, if the conditions of patentability are not fulfilled, be revoked. But the applicability to the patent licence contract of the concept of the statute-implied warranty may, in particular, be relevant in the case of an amendment of the patent. The justification for the obligation to warrant for the absence of hidden defects in the case of the leasing contract lies in the fact that the lessor is in a better position than the lessee insofar as the relation to the leased thing is concerned. It may be argued that in the case of the patent licence contract there is no justification for such a provision, since, differing from the leasing contract, the position of the licensor of the patented invention is not better than the position of the licensee. For example, it could not be expected that the licensor knew more about the state of the art concerning the patented technique than the licensee or the patent office which grants the patent after an examination. Prevailing doctrine and jurisprudence nevertheless apply the concept of warranty against hidden defects to the patent licence contract.⁷⁴⁶

6.1.1 Hidden Legal Defects.

⁷⁴² Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) pp. 4,5; Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", *Rev.Comm.* 1982, pp. 203,204; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, pp. 43,44; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", *Juris-Classeur Commercial Annexes. Brevets D'Invention*, Fascicule XXIV (1971) pp. 18,19; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, pp. 280,281.

⁷⁴³ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 4.

⁷⁴⁴ Burst and Chavanon on "Droit De La Propriété Industrielle", 3rd ed., Paris 1990, p. 224; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) pp. 4,5.

⁷⁴⁵ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", *Rev.Comm.* 1982, p. 218.

⁷⁴⁶ Cass.civ. 24.06.1975, D.S. 1976,193; Riom 02.04.1979 and Paris 18.03.1974, *Dossiers Brevets* 1980,IV,7; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 4; Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention, Hommages à Henri Desbois, Etudes De Propriété Intellectuelle", Paris 1974, p. 157.

Legal defects are those which render the patent open to revocation according to Article L.613-25 of the French Intellectual Property Code.⁷⁴⁷ The licensee who invokes the warranty must plead the defect, that is to say that he must put the invalidity of the patent in issue. The proof of the invalidity will lead to the revocation of the patent which, in turn, will render the patent licence contract void due to lack of object or causa, Article 1108 of the French Civil Code.⁷⁴⁸

It may be asked whether the obligation of warranty against legal defects which includes the licensor's obligation to pay damages may subsist beyond the invalidity of the contract. Prevailing French doctrine⁷⁴⁹ asserts that the invalidity of the contract does not affect the obligation of warranty, with the reasoning that this is a statutory principle which is recognised by Article 1693 of the French Civil Code⁷⁵⁰ which provides that in the case of the invalidity of a contract concerning the sale of a claim or another incorporeal right for lack of object the obligation of warranty would subsist. Though the applicability of Article 1693 of the French Civil Code to contracts for the sale of patents and, in particular, for the licensing of patented inventions, is doubtful, prevailing doctrine accepts the theory of the divisibility of the effects of the voidness, according to which the voidness does not affect all parts of the contract so that the obligation of warranty may subsist.⁷⁵¹ Toulouse 17.06.1976⁷⁵² considered the seller of an invalid patent bound by the obligation of warranty, although it had to declare the nullity of the contract for lack of one of its essential elements. The court did not consider the obligation of warranty to be affected by the voidness of the contract in question. In a case which concerned a patent licence contract combined with a contract for the communication of know-how, Paris 22.05.1990⁷⁵³ held that the causa of the contract vested in both the patent licence and in the transfer of the know-how, with the consequence that the invalidity of the patent did not render the contract invalid for lack of causa, because the benefits of the transfer of the know-how continued beyond the termination of the patent monopoly.

In conclusion, French legal doctrine accepts that facts leading to the invalidity of the patent will entail the licensor's warranty against legal defects (of the leased thing). Although the legal defect renders the contract void "*ab initio*" due to lack of object and of causa, the warranty which the licensor is due subsists the voidness of the contract. Even if this legal construction does not encounter strong objections by French lawyers its legal basis does not

⁷⁴⁷ Cass.civ. 29.07.1891, S. 1891,393; Cass.civ. 01.04.1921, A. 1924,235; Amiens 18.02.1958, Gaz.Pal. 1958,1,350; Cass.civ. 05.04.1960, A. 1965,176; Paris 29.01.1963, A. 1963,361; Paris 19.03.1963, A.1963,385; Cass.com. 02.10.1964, Bull.civ. 1964,III,361; Cass.com. 07.12.1964, A. 1965,174; Cass.com. 19.04.1967, Quot.jur. 27.01.1968; Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, pp. 99,100,102,105,108; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 45; Schmidt, Joanna, comment to Cass.civ. 24.06.1975, D. 1976,193,196.

⁷⁴⁸ Article 1108 of the French Civil Code states: "Four conditions are essential for the validity of an agreement: - The consent of the party who obligates himself; - His capacity to consent; - An object certain which forms the subject-matter of the engagement; - A licit causa in the obligation".

⁷⁴⁹ See Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, pp. 98,99.

⁷⁵⁰ Article 1693 of the French Civil Code states: "One who sells a claim or other incorporeal right must guarantee the existence of it at the time of the transfer, even though it be made without guarantee".

⁷⁵¹ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, pp. 98 to 100.

⁷⁵² Toulouse 17.06.1976, A. 1976,219, did not consider the obligation of warranty as affected by the voidness of the contract for the transfer of a patent (Cass.civ. 07.05.1963, D. 1963,545 held that the clause of arbitration was not affected by the voidness of the contract in question.)

⁷⁵³ Paris 22.05.1990, PIBD 1990,III,598.

appear persuasive. If the applicability of this doctrine be rejected, the performances rendered under the void contract will have to be restituted according to the principle of unjust enrichment. This solution would avoid not only resort to the theory of the divisibility of the effects of the voidness of the contract but also do justice to the position of the licensor who otherwise would be liable to warrant for the invalidity of a patent which was examined and granted by public authorities. It appears that the liability of the patentee might have been justifiable at a time when French patent law did not provide for a thorough examination of the patent application before the grant. Under the present patent law, a patent will only be granted after the successful examination of the conditions of patentability. For that reason, it may be excessive to consider the licensor bound to warrant for the consequences of the lack of these conditions of patentability with regard to the licensee.

6.1.2 Hidden Technical Defects.

There is unanimity in French law that a difficulty in the working of the invention may, under certain required prerequisites, constitute a technical defect of the subject-matter of the contract, which falls within the scope of Article 1721 of the French Civil Code.⁷⁵⁴ It is not the exclusive right - the patent - which is affected by a technical defect, but the patented invention as subject-matter of the contract. Clearly, it cannot be the patent, that is to say the exclusive right, which may be affected by a technical defect. Nevertheless, French legal writers⁷⁵⁵ and the prevailing case law⁷⁵⁶ do not seem to place emphasis on this differentiation, using the terms 'defect of the patent', 'defect of the invention' and 'defect of the patented invention' interchangeably.

French law distinguishes between the defect in the conception and the defect in the production. Whereas the first issue concerns the realisation of the invention, falling within the warranty which the licensor is due,⁷⁵⁷ the second relates to the problems which rest exclusively with the licensee. In the case where it is impossible to obtain an industrial result, the invention lacks a prerequisite of patentability, entailing a legal defect. There is unanimity⁷⁵⁸ that the licensor does not warrant against a "commercial" defect of the working of the invention. Paris 26.07.1975⁷⁵⁹ held that once it was proven that the invention could be worked, the patentee did not bear the consequences of the practical failure of the exploitation,

⁷⁵⁴ Article 1721 of the French Civil Code states: "A warranty is due the lessee for all defects and faults in the thing rented which impede use of it, even when the lessor did not know of them at the time of the lease. (2) If there results from such defects or faults any loss to the lessee, the lessor is required to indemnify him".

⁷⁵⁵ See e.g. Schmidt, Joanna, comment to Cass.civ. 24.06.1975, D. 1976,193 at 195.

⁷⁵⁶ See e.g. Paris 16.03.1963, A. 1963,385, according to which a defect of conception of a patented machine may represent a hidden defect of the patent.

⁷⁵⁷ Cass.civ. 24.06.1975, D. 1976,Som.193; Paris 18.03.1974, Dossiers Brevets 1980,IV,7; Riom 02.04.1979, A.1980,360.

⁷⁵⁸ See e.g. Cass.civ. 16.07.1957, A. 1959,219; Cass.com. 19.06.1963, A. 1964,126; Cass. com. 17.11.1965, A. 1966,287; Cass.civ. 24.06.1975, D. 1976,193; Paris 04.02.1958, A. 1959,224; Paris 16.03.1963, A. 1963,385; Paris 02.03.1971, A. 1971,119; Paris 24.02.1975, PIBD 1975,III,275; Riom 02.04.1979, A. 1980,360; Lyon 22.10.1981, A. 1982,237; Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 111; Casalonga, Alain, on "Traité Technique Et Pratique Des Brevets D'Invention", vol. I, Paris 1949, Supplement 1958, no. 779; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974 p. 42; Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 329; Schmidt, Joanna, comment to Cass.com. 24.06.1975, D. 1976,193 at 195.

⁷⁵⁹ Paris 26.07.1975, A. 1976,232.

whether the failure is due to requirements of customers or the establishment of new norms, unless these are hindering the commercialisation of the products in question. T.G.I. Paris 24.06.1975⁷⁶⁰ stressed that the patentee is not required to warrant the licensee more than the 'materiality', that is to say the subsistence of the invention, but not that the cost of production may be such as to permit a competitive sale price.

The success of the commercial exploitation depends essentially upon the quality of the licensee, his commercial experience and his knowledge of the market, so that the 'commercial' failure of the exploitation of the patented invention is 'exterior' to the warranty against defects.⁷⁶¹ Lyon 22.10.1981⁷⁶² held that the licensor does not have to warrant the commercial value of the invention but only its technical exploitability, whereas the development of the invention for industrial purposes and the problems of the commercialisation are at the licensee's risk. According to Riom 02.04.1979⁷⁶³ the licensor does not warrant against defects in the manufacture, unless the licensor undertakes the control and supervision of the process of manufacture, and Paris 24.06.1975,⁷⁶⁴ exempting the defects of production from the scope of the warranty, held that the remedying of certain imperfections of the industrial invention remains with the licensee. Paris 26.06.1991⁷⁶⁵ concerned a case where the licensor and the licensee undertook to make a prototype of the patented article whereupon another party to the contract would have financed the manufacture of series of the patented article. The Court noticed that the invention could be realised technically, but the licensee and the licensor were not able to make the prototype. Since the licensor and licensee did not achieve but a model which could not be reproduced for manufacture, the other party to the licence contract was held entitled to refuse the financing of the manufacture of series of the patented article.

On the other hand, the licensor remains responsible for those defects which relate to the concept of the invention.⁷⁶⁶ Thus the licensee may invoke the warranty where the technical realisation of the invention is appropriate but not apt to achieve the contractual purpose.⁷⁶⁷ This will be the case, for example, if a risk of fire or of explosion⁷⁶⁸ results from the execution of the invention so that, according to Riom 02.04.1979,⁷⁶⁹ the concept of the invention itself will have to be considered as dangerous, or if, in spite of efforts and attempts which the licensee is obligated to undertake,⁷⁷⁰ those defects which concern the application of the invention⁷⁷¹ are not remedied. If the invention can only be performed in the laboratory, or at a cost price which prohibits market access, the invention must also be considered not exploitable from the technical point of view.⁷⁷² Burst⁷⁷³ indicates that the court practice thus

⁷⁶⁰ Paris 24.06.1975, A. 1976,127.

⁷⁶¹ T.G.I. Paris, 24.02.1975, PIBD 1975,III,401; Paris 26.05.1975, A. 1975,232; Paris 24.06.1975, A. 1976,127; Paris 09.06.1977, A.1978,275.

⁷⁶² Lyon 22.10.1981, A. 1982,237.

⁷⁶³ Riom 02.04.1979, A. 1980,360.

⁷⁶⁴ Paris 24.06.1975, A. 1976,127.

⁷⁶⁵ Paris 26.06.1991, PIBD 1992,III,31.

⁷⁶⁶ See Paris 16.03.1963, A. 1963,385; Riom, 02.04.1979, A. 1980,360.

⁷⁶⁷ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, p. 204.

⁷⁶⁸ Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention, Hommage A Henri Desbois. Etudes De Propriété Intellectuelle", Paris 1974, p. 162.

⁷⁶⁹ Riom 02.04.1979, A. 1980,360.

⁷⁷⁰ See Riom 02.04.1979, A. 1980,360.

⁷⁷¹ Schmidt, Joanna, comment to Cass.com. 24.06.1975, D. 1976,193 at 196.

⁷⁷² Mathély, Paul, on "Le Droit Français Des Brevets D'Invention", Paris 1984, p. 392; Paris 02.06.1988, D. 1988,I.R. 202, held that the technical impossibility of the working of the invention must derive from insurmountable difficulties which have to be proved by the licensee.

weakened the principle according to which the licensor does not impliedly warrant for the commercial success of the patented invention - in particular an invention is considered as non-exploitable if the cost price of the patented products is too high in order to permit the access to the market, see T.G.I. Paris 18.12.1985.⁷⁷⁴

It is further required that the defect must be hidden, that is to say that the licensee normally could not have taken notice of it.⁷⁷⁵ Paris 16.03.1963⁷⁷⁶ held that a licensee could not assert the existence of a hidden defect, affecting the concept of the invention, where he had, before the conclusion of a contract, studied and tested the machine which embodied the invention and additionally declared himself satisfied with the working of the machine.

The concept of the technical defect may be at odds with the principles of patent law insofar as a patent will only be granted if the invention is technically realisable. The technical character of the invention is a presupposition of patentability. However, concerning the defect of the practical applicability of the invention the contractual purpose of the licence has to be taken into account so that the concept of the technical defect of the invention may, as sustained by French case law, come into play if the invention proves to be unfit for the contractual purpose, notwithstanding the applicability of the standards of patentability.

6.2 The Warranty In The Case Of Disturbances In The Enjoyment Of The Patented Invention.

The cases which give rise to the invocation of the warranty in the case of disturbance are generally divided into two groups: to the first group belong those cases where the warranty may be invoked as a result of facts which are personal to the lessor, to the second group belong those cases where the invocation of the warranty is due to facts caused by a third person.⁷⁷⁷ Article 1719(3) of the French Civil Code provides the legal basis for the implied warranty. According to this Article the lessor is obligated to provide the peaceful enjoyment to the lessee for the duration of the lease. This provision is applied by way of analogy to the patent licence contract.

6.2.1 The Warranty In The Case Of Disturbances Through Facts Attributable To The Lessor.

Traditional legal theory differs between the warranty against material disturbance and against legal disturbance.⁷⁷⁸

⁷⁷³ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 5.

⁷⁷⁴ T.G.I. Paris 18.03.1985, D. 1987, Somm.133.

⁷⁷⁵ Cass.civ. 24.06.1975, D. 1976,193 at 194; Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets. Hommage A Henri Desbois. Etudes De Propriété Intellectuelle", Paris 1974, p. 165.

⁷⁷⁶ Paris 16.03.1963 A. 1963,385.

⁷⁷⁷ Mazeaud on "Leçons De Droit Civil", vol. III-2, 5th ed., Paris 1980, p. 436.

⁷⁷⁸ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 195; Mazeaud on "Leçons De Droit Civil", vol. III-2, 5th ed., Paris 1980, p. 436.

6.2.1.1 The Material Disturbance.

In French legal doctrine Allart⁷⁷⁹ infers from the licensor's obligation of warranty against disturbances through facts personal to him that the licensor must abstain from the exploitation of improvements of the licensed patented invention or that he, alternatively, will have to communicate the improvements to the licensee.⁷⁸⁰ However, it is argued that this obligation of warranty which is commonly referred to as accessory is not an appropriate basis for a "positive" duty of the licensor to communicate improvements.⁷⁸¹ It is further doubtful, whether the obligation restrains the licensor from competing activity, because the undisturbed enjoyment, promised by the licensor, relates only to the contracts, so that the licensor, exploiting an invention which replaces the licensed one, does not disturb the enjoyment of the licensee.⁷⁸² It may be doubted whether the licensor can, by reference to the implication of this warranty, be considered obligated to abstain from the exploitation of competing inventions if even the exclusive licensor may, according to the prevailing French doctrine,⁷⁸³ continue the exploitation of the licensed invention.

6.2.1.2 The Legal Disturbance.

The other group of cases which entails the warranty for the disturbance of the enjoyment of the patented invention through facts attributable to the licensor concerns the legal disturbance. This warranty covers the following cases:

- (i) The licensor may not enjoin the licensee from exploiting the licensed patented invention by means of the licensed patented invention⁷⁸⁴ or a dominant patented invention.⁷⁸⁵
- (ii) The licensor may not conclude with a third person an agreement which is not compatible with the first patent licence contract,⁷⁸⁶ he may not, for example, assign the patent licence contract.⁷⁸⁷
- (iii) The licensor will breach the warranty, if he does not pay the fees for the maintenance of the patent or surrenders the patent protection.⁷⁸⁸

French courts seem to have extended the scope of the obligation of warranty in a considerable way. Toulouse 17.06.1976,⁷⁸⁹ concerned with the sale of a patented invention, held that "the

⁷⁷⁹ Allart, Henri, on "Traité Théorique Et Pratique Des Brevets D'Invention", 3rd ed., Paris 1911, p. 170.

⁷⁸⁰ See Vasseur, Michel, comment to T.G.I. Avesnes-sur-Helpe 02.02.1961, D. 1961,652.

⁷⁸¹ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 223.

⁷⁸² Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 223.

⁷⁸³ See above, Chapter 3, part 2: 1.1.1.

⁷⁸⁴ Paris 21.03.1977, PIBD 1978,III,1.

⁷⁸⁵ Burst, Jean Jacques, on: "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 8.

⁷⁸⁶ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 8.

⁷⁸⁷ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) pp. 16,17.

⁷⁸⁸ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 223.

⁷⁸⁹ Toulouse 17.06.1976, A. 1976,219,220,228; similar Paris 02.10.1978, D.1980,Som.139.

legal defect which affects the patent and which entails the nullity of the contract of sale" (due to lack of causa or of object) "by reason of the pronouncement of nullity of the transferred right, entails the warranty against dispossession". This decision is remarkable insofar as it does not, in contrast to legal writers, consider that the revocation of the patent entails the warranty against hidden defects but the warranty against legal disturbances. The practical relevance of this differentiation lies in the fact that the warranty against hidden defects may be contracted out, whereas the warranty against legal disturbances may not easily be contracted out, as will be shown below. Yet the Court did not consider that nothing prevented the licensee from making use of the technical instruction representing the subject-matter of the patented invention which was, in turn, the subject-matter of the patent licence contract. Accordingly, it might be appropriate to deal with the lack of presuppositions of patentability as a legal defect and not as a disturbance in the enjoyment of the patented invention.

6.2.2 The Warranty In The Case Of Disturbances Through Facts Attributable To Third Parties.

In those cases where the disturbance in the enjoyment of the patented invention results from facts caused by a third person, one has to distinguish whether there is a material disturbance or a legal disturbance.

6.2.2.1 The Material Disturbance.

As a material disturbance one has to consider the infringing exploitation of the patented invention by a third person. Since Article 1725 of the French Civil Code⁷⁹⁰ states that the lessor is not obligated to warrant the lessee against material disturbances by third parties if the lessee may act himself, and since French law provides⁷⁹¹ that the exclusive licensee may bring proceedings against third persons who infringe the patent, Mazeaud⁷⁹² assumes that the lessor does not have to warrant the lessee against disturbances by third persons.

Lestrade⁷⁹³ argues that Article 1725 of the French Civil Code does not free the licensor from the obligation to warrant against disturbances by third persons, if the licensee does not avail himself of the possibility to act against third persons or if this possibility would be less efficient than the possibilities which the licensor employs. This is the case, for example, where the licence contract is non-exclusive so that the licensee cannot employ the right to institute his own proceedings against infringers, because Article L.615-2(4) of the French Intellectual Property Code is not applicable, or in the case of an exclusive patent licence contract, the licensee cannot defend the patent satisfactorily in an action brought against an infringer, if the infringer puts the validity of the patent at issue.⁷⁹⁴ Also Mathély⁷⁹⁵ asserts that

⁷⁹⁰ Article 1725 of the French Civil Code provides: "The lessor is not required to guarantee the lessee against disturbance which third persons cause by act of violence against his enjoyment, without claiming otherwise any right in the thing rented reserving to the lessee suit against them in his own name".

⁷⁹¹ See Article L.615-2(4) of the French Intellectual Property Code.

⁷⁹² Mazeaud on "Leçons De Droit Civil", vol. III-2, 5th ed., Paris 1980, p. 437.

⁷⁹³ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 248.

⁷⁹⁴ See, for example, Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 895 who states that the licensee may take recourse to the warranty, if the licensor, duly asked to act upon a patent infringement, does not undertake the appropriate steps.

⁷⁹⁵ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 330.

in the case where the licensee himself may act against infringers, the licensor seems acquitted of the obligation of warranty, but if the licensee cannot institute proceedings against infringement of the patented invention, the licensor remains bound to warrant; yet Mathély concedes that this obligation does not cover automatically any case of patent infringement by a third person - it is a presupposition that the patent infringement causes 'real and appreciable damage' to the licensee.

However, the application of the concept of the warranty against disturbances concerning the leasing contract to the licence contract seems doubtful for the reason that, should the third person succeed, this would not entail a "dispossession" of the licensee with regard to the patented invention comparable to a dispossession of the lessee. Anyway, the licensor is not obligated to make any payments for damages suffered by the licensee through the infringement of the patent by a third person, since the licensee may intervene in any proceedings brought by the licensee in order to recover compensation for the damage sustained. This intervention is possible after the registration of the patent licence contract.⁷⁹⁶

6.2.2.2 The Legal Disturbance.

The obligation of warranty against legal disturbances in the enjoyment of the patented invention concerns the case where a third person

- (i) is the proprietor of a dominant patented invention,⁷⁹⁷ or
- (ii) claims a right in the patented invention,⁷⁹⁸ or
- (iii) claims a right of prior use.⁷⁹⁹

If the third person has already patented the licensed invention, and succeeds in proceedings for the revocation of the licensed patented invention, the licensor will, according to the prevailing view of French law, be obligated to warrant against the legal disturbance in the enjoyment of the patented invention, although one might think of the invocation of the warranty against legal defects.⁸⁰⁰ The licensor is obligated to assist the licensee in any proceedings brought by third persons who assert that the use of the licensed patent infringes their patents and to repay any damages which the licensee of good faith will have to make if he is sentenced for infringement of a third person's patent. In the case of successful proceedings for patent infringement, brought by a third person, the licensee may terminate the contract and claim damages.⁸⁰¹

⁷⁹⁶ T.G.I. Paris, 12.07.1972, PIBD 1973,III,75; if the patentee has granted several licences, each licensee may intervene, T.G.I. Paris 20.01.1988, PIBD 1988,III,252.

⁷⁹⁷ Burst, Jean Jacques on: "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 8.

⁷⁹⁸ Paris 24.04.1968, A. 1968,76; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 8; Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", *Rev.Comm.* 1982, p. 206.

⁷⁹⁹ Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", *Rev.Comm.* 1982, pp. 206,207; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 310.

⁸⁰⁰ See above, Chapter 3, part 6: 2.1.2. ???

⁸⁰¹ Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 896.

It should be observed that the disturbance caused by third persons must be imputable to the licensor.⁸⁰² It seems that French legal writers are willingly prepared to accept the subsistence of this prerequisite. For example in the case where the third person has a dominant patent, the nexus may be seen in the relation between the two patents which the licensor created unknowingly, when he filed the application for the patent which he subsequently licensed.⁸⁰³ However, Mathély⁸⁰⁴ denies in this case any subsistence of warranty and liability of the licensor for the repayment of damages to the licensee for infringement of a dominant patent, and states that the licensee's condemnation for patent infringement would not relate to the licensed patented invention but to its exploitation, the risk of which remains with the licensee.

6.3 The Exclusion Of The Implied Warranties.

Article 1627 of the French Civil Code establishes: "The parties may, by particular agreements, add to such obligation by law or diminish the effect thereof; they may even agree that the seller will not be subject to any warranty". This provision which concerns the contract of sale is applied by jurisprudence to other contracts, for example to the leasing contract, where such a statutory provision does not exist.⁸⁰⁵ Chavanne and Burst⁸⁰⁶ consider whether it is appropriate to apply the jurisprudence according to which the professional seller is always presumed to act in bad faith so that a clause which limits or suppresses the warranty with regard to a 'non-professional' licensee is void. The application of this provision which shall protect the weaker party of the contract of sale by way of analogy to the patent licence contract may only be justifiable if the licensee merits such protection for reasons which are recognisable to the licensor. The application of the rules concerning the warranty in spite of their express exclusion may not be fair when the licensee has benefited from a lower royalty than he would have had to pay had the licensor not expressly agreed to exclude the warranty.

It seems that the clause by which the licence is granted at the licensee's perils and risks and which excludes any warranty but for disturbances caused by the licensor will be valid in French law.⁸⁰⁷ In this case, the licensee does not merit protection, because he knows that the licensed patented invention may be invalid and this circumstance will also be reflected by the amount of the royalty payable by the licensee.

6.3.1 Legal Defects.

⁸⁰² Thus the licensor will, e.g. in the case of a right of prior use, be obligated to warrant, if he has himself communicated the invention to the third person who claims the right, see Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, pp. 319,320.

⁸⁰³ See Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 330.

⁸⁰⁴ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 329.

⁸⁰⁵ Differing: Roubier, Paul, on "Licences Et Exclusivités", *Annales De Droit Commercial Et Industriel Français, Etranger Et International* 1936, p. 312; and on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 280.

⁸⁰⁶ Chavanne and Burst on "Propriété Industrielle", 3rd ed., Paris 1990, p. 226.

⁸⁰⁷ Toulouse 17.06.1976, A. 1976,219; Cass.com. 03.05.1978, D. 1979,Som.247.

The parties may exclude any warranty for the validity of the patented invention that is to say against any legal defects of the patent right.⁸⁰⁸ The legal dispositions which create this implied warranty have a non-mandatory character so that the parties are free to stipulate otherwise. Thus the clause which totally excludes any warranty against legal defects will be upheld.⁸⁰⁹ The express exclusion of this warranty exempts the licensor from the obligation to pay damages for any injury by the legal defects of the patent.⁸¹⁰ According to court practice the warranty for the validity of the patent will be excluded, if the licensee undertakes not to put the validity of the patent in issue.⁸¹¹ However, if the licensee merely recognises the validity of the patent, this will not deprive him of the possibility to take recourse to the warranty for the validity of the patent.⁸¹²

Paris 09.06.1977⁸¹³ held that the clause of non-warranty for defects of the patented invention is valid, insofar as the licensor is of good faith, that is to say that he does not know of the defects. Azéma⁸¹⁴ indicates that the application of Article 1627 of the French Civil Code according to which the parties to the contract of sale may exclude the warranty presupposes the good faith of the seller so that in the case where the licensor of a patented invention knows about the defects of the patented invention, he cannot validly exclude the warranty.

It should be noted that French jurisprudence presumes the bad faith of the seller, unless the purchaser is a professional of the same branch as the seller; in application of this principle, Colmar 18.04.1984⁸¹⁵ held that a clause excluding the warranty is valid if it is stipulated between professionals of the same branch.

6.3.2 Disturbances Attributable To The Licensor.

The warranty against disturbances in the enjoyment of the patented invention through facts which are personal to the licensor cannot be excluded, because this warranty belongs to the "*ordre public*" (public order).⁸¹⁶ This doctrine can find support in Article 1628 of the French Civil Code which states: "Although it be given that the seller will not be subjected to any warranty, he remains, however, held to one which results from a fact which is personal to him; any contrary agreement is void". It is thus generally accepted that a clause which

⁸⁰⁸ Lyon 29.10.1986, JCP 1988,E,II,15160; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) pp. 21,22; against Roubier, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, pp. 279,280 and "Licences Et Exclusivités", Annales De Droit Commercial Et Industriel Français, Etranger Et International 1936, p. 312, who considers that the patent, the exclusive right, is the object of the contract so that the warranty for the validity of the patent could not be excluded by the parties, because the invalidity of the patent would deprive the contract of its causa.

⁸⁰⁹ Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention. Hommage A Henri Desbois. Etudes De Propriété Intellectuelle", Paris 1974, p. 169.

⁸¹⁰ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 896.

⁸¹¹ Paris 17.05.1923, A. 1927,1,27.

⁸¹² Trib.civ. Seine 08.05.1914, A. 1920,62.

⁸¹³ Paris 09.06.1977, S. 1980,II,19430, comment by Plaisant, Robert.

⁸¹⁴ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 896; similar Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 173; and on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 8.

⁸¹⁵ Colmar 18.04.1984, PIBD 1984,III,221.

⁸¹⁶ Plaisant, Robert, comment to Paris 09.06.1977, S. 1980,II,19430.

attempts to limit the warranty against disturbances through facts which are personal to the licensor is invalid.⁸¹⁷

The invalidity of the clause which excludes the warranty against disturbances in the enjoyment of the patented invention caused by the licensor may further be derived from the argument that, by reason of this clause the licensee would be obligated to continue the payment of royalties even if the licensor would have contributed to the disturbance of the licensee's enjoyment of the contractual subject-matter so that the licensee would not receive a valuable consideration. The clause would thus achieve the same result as the no-challenge clause and therefore it should - in compliance with the respective doctrine, according to which the upholding of an invalid patent as valid between the parties contravenes public order - be considered as void.⁸¹⁸ However, it should be observed that the obligation of warranty principally entails the liability to pay damages, so that the exclusion of the warranty would have the effect of relieving the licensor of this duty, but it does not interfere with the licensee's right to claim any royalties paid to the licensor for the enjoyment of an invention which is protected by a revocable patent.⁸¹⁹ This conclusion conforms to the legal situation in the case of an assignment or sale of the patented invention, where Article 1629 of the French Civil Code provides: "In the same case of stipulation of no-warranty the seller, in case of dispossession, is held to the restitution of the price, unless the buyer knew, at the time of the sale, of the danger of the dispossession, or bought at his peril and risk".

Cass.com. 03.05.1978⁸²⁰ held that a clause by which the grantor "did not give any warranty but for his personal acts, was not equivalent to a clause for the acquisition at the risks and perils of the purchaser". On the other hand, T.G.I. Lyon 02.12.1977⁸²¹ considered that a clause according to which the grantor cannot be held liable for 'anything' was analysed as a clause for the acquisition at the risks and perils of the purchaser. Thus, unless the parties stipulate in the case of a patent licence contract that the licensee obtains the licence at his peril and risk, the express exclusion of the warranty does not impede the licensee from pleading the voidness of the contract which, by reason of the retroactivity, principally obligates the licensor to pay back the royalties received.⁸²² However, if the contract is concluded at the risks and perils of the licensee, the patentee of good faith may retain the royalties paid, in spite of the revocation of the patent right, Lyon 12.01.1989.⁸²³

In conclusion, even if the parties expressly exclude any warranties, the patentee remains bound by the warranty against disturbances through facts attributable to his person.

⁸¹⁷ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapport Juridiques Dans Les Contrats De Licence", Paris 1970, p. 169; Diener, Michelle, on "Contrats Internationaux De Propriété Industrielle", Bordeaux 1986, p. 91; Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 239, qualifies this principle. He asserts that the prohibition of Article 1628 of the French Civil Code envisages only those clauses which attempt to exclude the implied warranty in a general way; accordingly, these clauses which exclude the implied warranty in certain limited circumstances will have to be considered valid; Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention, Hommage A Henri Desbois. Etudes De Propriété Intellectuelle", Paris 1974, p. 171.

⁸¹⁸ Oser, Alexandre, on "La Clause De Non Garantie De La Validité Des Brevets Concédés En Droit Civil Et En Droit Communautaire", Gaz. Pal. 1980, D.392.

⁸¹⁹ See Mousseron, Jean Marc, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention. Hommage A Henri Desbois. Etudes De Propriété Intellectuelle", Paris 1974, pp. 172,178; Toulouse 17.06.1976, A. 1976,219,224.

⁸²⁰ Cass.comm. 03.05.1078, D. 1979,Som.247.

⁸²¹ T.G.I. Lyon 02.12.1977, Dossiers Brevets 1977,IV,7.

⁸²² See Toulouse 17.06.1976, A. 1976, 219,220.

⁸²³ Lyon 12.01.1989, Dossiers Brevets 1989,I,8.

6.3.3 Disturbances Attributable To Third Parties.

It is unanimous in jurisprudence that in application of Article 1627 of the French Civil Code the licensor may exclude by stipulation the implied warranty against disturbances through facts caused by third persons.⁸²⁴

6.4 The Recognition Of The Validity Of The Patent By The Licensee.

The express recognition of the validity of the patent by the licensee is of limited interest. According to French case law such a clause does not prevent the licensee from pleading the invalidity of the patent.⁸²⁵ Burst⁸²⁶ considers the clause invalid, because only the courts are competent to decide upon the validity of the patent. In addition, the licensee is not impeded from pleading the invalidity of the patent in response as the answer to an action for royalties brought by the patentee, even if the licensee has never bothered about the validity of the patent before the suit was brought.

Diener⁸²⁷ argues that the clause by which the licensee accepts that the patent may be invalid should be analysed, in application of Article 1629 of the French Civil Code,⁸²⁸ as the exclusion of the licensor's obligation to warrant against dispossession or disturbances. With reference to Casalonga⁸²⁹ it may be argued that such a clause would characterise the agreement as an aleatory contract, but it could as well be asserted that the clause might have the effect of depriving of all substance any obligations of the patentee and to make from this contract an agreement without causa or valuable consideration - thus entailing a legal impossibility.⁸³⁰

Thus, clauses in which the licensee recognises the validity of the patent or, alternatively, expressly accepts that the patent may be invalid, are of limited practical relevance, because the first clause does not deprive the licensee from pleading that the patent is invalid and the second clause may, if at all, exclude the licensor's warranty against disturbances.

⁸²⁴ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1989, p. 896; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 8; Mousseron, Jean Marc on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets D'Invention. Hommage A Henri Desbois. Etudes De Propriété Intellectuelle", Paris 1974, p. 179.

⁸²⁵ Trib.civ. Seine 08.05.1914, A. 1920,62; Paris 24.07.1912, A. 1913,35.

⁸²⁶ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 181.

⁸²⁷ Diener, Michelle, on "Contrats Internationaux De Propriété Industrielle", Bordeaux 1986, p. 92.

⁸²⁸ Article 1629 of the French Civil Code states: "In the same case of the stipulation of non-warranty, the seller, in case of dispossession, is held to the restitution of the price, unless the buyer knew at the time of the sale, of the danger of the dispossession, or bought at his perils and risks".

⁸²⁹ Casalonga, Alain, on "Traité Technique Et Pratique Des Brevets D'Invention Et Des Secrets De Fabrique", Paris 1949, vol. I, p. 441.

⁸³⁰ See Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1952, p. 280.

7 THE MOST FAVOURED CLAUSE AND THE OBLIGATION OF NO-COMPETITION.

7.1 The Most-Favoured Clause.

Even if the stipulation of the most favoured clause has been considered 'normal' in French law,⁸³¹ difficult problems may arise if the terms of the licence contracts are not easily comparable. Thus, if the patentee concludes a cross-licence agreement, not providing for any royalty, Plaisant⁸³² suggests that, in the absence of fraud, such conditions could not constitute more favourable conditions when compared to the treatment given to an ordinary licensee. Another problem is raised by the conclusion of a second licence contract, the conditions of which are partially more and partially less favourable than in the first licence contract. Will the licensor have to grant the favourable conditions to the first licensee who profits from a most favoured treatment clause? For example, the licence of the first agreement may be non-exclusive and concern several countries, whereas the second arrangement will be exclusive but limited to a province of another country. Roubier⁸³³ suggests that under such conditions the exclusiveness stipulated in the second contract would not obligate the licensor to transform the nature of the first licence from non-exclusive to exclusive. Burst⁸³⁴ objects that in the case of the exclusive licence the most favoured clause may only be taken into consideration in the case of parallel licences for several exclusive territories. In fact, the application of the most-favoured clause may create problems if the licence is granted in the one case against the obligation for the payment of royalties and in the other case within the framework of reciprocal licences and grant back clauses. Burst⁸³⁵ who considers that a second grant would not violate the most-favoured clause, admits, however, that court practice did not have the chance to state the law on this point; in the case of the stipulation of a most favoured treatment clause, the licensor is impliedly bound to inform the licensee of all new licence contracts he concludes, in conformity with the requirements of good faith in the execution of the contract, Article 1134 of the French Civil Code.

7.2 The No-Competition Clause.

The no-competition clause generally contains the licensor's undertaking not to take up an activity which competes with the licensee's exploitation of the patented invention. It is

⁸³¹ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", *Juris-Classeur Commercial Annexes. Brevets D'Invention*, Fascicule XXIV (1971) p. 10.

⁸³² Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", *Juris-Classeur Commercial Annexes. Brevets D'Invention*, Fascicule XXIV (1971) p. 10.

⁸³³ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 283.

⁸³⁴ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 11.

⁸³⁵ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 11.

asserted⁸³⁶ that, even in the absence of an express clause, the licensor would not be entitled to exploit patented inventions which constitute improvements of the licensed patented invention or a 'competing' patent, that is to say a patented invention which offers a similar or better technical solution than the licensed patented invention. This reasoning is based on the concept of the implied warranty against disturbances through facts personal to the licensor. It may be objected that an implied warranty may only extend to the subject-matter as it is defined in the patent licence contract which does not comprise these later improving inventions, unless the parties had made a stipulation to the contrary. It should be observed that, according to French courts,⁸³⁷ the exclusive licensee may exploit the patented invention together with the patentee so that the exclusive licensor could, in fact, compete with his licensee. Accordingly, it might be excessive to require a licensor by reference to the implication of a warranty to abstain from producing not even patented articles but other products which might replace the patented ones in the eye of the public. T.G.I. Paris 17.10.1985⁸³⁸ and T.G.I. Brive 23.10.1987⁸³⁹ held that in the absence of a contractual clause the licensor does not contravene his contractual obligations if he markets his own products. In conclusion, the implication of an obligation of no-competition appears excessive. In French law the express no-competition clause should be limited as to the object, that is to say, it should not unduly restrict the licensor's professional or economic activity and it should be limited in time or in space.⁸⁴⁰

Part 6: OBLIGATIONS OF THE LICENSEE.

1 THE OBLIGATION TO PAY ROYALTIES.

The parties may stipulate the remuneration as lump sum or as royalties; similar considerations as developed above concerning English law,⁸⁴¹ will find application. Paris 20.05.1986⁸⁴² held that the parties may stipulate a clause which makes the payment of royalties dependent not only upon the turnover achieved in relation to the patented invention but to the general turnover of the licensee. Care should be taken that the price of the licence is determinate or determinable, as required by Article 1129 of the French Civil Code,⁸⁴³ if the royalty depends on the turnover.⁸⁴⁴

⁸³⁶ Allart, Henri, on "Traité Théorique Et Pratique Des Brevets D'Invention", 3rd ed., Paris 1911, p. 170; Vasseur, Michel, comment to T.G.I. Avesnes-sur-Helpe 02.02.1961, D. 1961,654.

⁸³⁷ See above, Chapter 3, part 2: 1 1.1.

⁸³⁸ T.G.I. Paris 17.10.1985, JCP,E,II,16055.

⁸³⁹ T.G.I. Brive 23.10.1987, PIBD 1988,III,182.

⁸⁴⁰ Serra, Yves, on "L'Obligation De Non-Concurrence Dans Le Droit Des Contrats", Paris 1970, pp. 15,16.

⁸⁴¹ See above, Chapter 2, part 6: 1.1, 1.2, 1.3.

⁸⁴² Paris 20.05.1986, JCP 1988,E,I,15160; T.G.I. Paris 02.02.1987, PIBD 1987,III,245.

⁸⁴³ Article 1129 of the French Civil Code states: "An obligation must have for its object a thing determined at least to its kind the amount of the thing may be uncertain, provided that it can be determined".

⁸⁴⁴ T.G.I. Paris 13.04.1988, PIBD 1988,III,389, which concerned the case of the transfer of a patented invention.

1.1 The Reduction Of Royalties.

French courts have shown reluctance to allow the licensee to plead the reduction of the stipulated royalties by reason of changing circumstances. Bourges 07.07.1942⁸⁴⁵ held that, by virtue of Article 1134 of the French Civil Code, the licensee cannot claim a reduction of the royalties for the reason that the circumstances have changed in an unforeseeable way in the absence of a "*fait du prince*", that is to say due to a decision by the government, which renders the execution of the obligation impossible. Paris 13.04.1959⁸⁴⁶ held that where the contract concerns several patents and future patents for improvements, the stipulated royalty is due until the expiration of the last patent. Thus it may be in the interest of the licensee to stipulate a flexible royalty particularly if the exploitation relates to several patents with different dates for termination.

1.2 The Minimum Royalty Clause.

The stipulation of a minimum royalty is admissible in French law.⁸⁴⁷ This clause, however, does not exonerate the licensee from the obligation of exploitation⁸⁴⁸ and it does not protect him against an action brought by the patentee for the termination of the contract or for damages in the case of insufficient exploitation.⁸⁴⁹ However, Metz 12.02.1864⁸⁵⁰ held that the clause which obligated the licensee to pay a royalty calculated on the basis of a minimum quota of exploitation might be in conflict with the constitutional principle of the freedom of work if it unduly restricts the licensee in his commercial activities. In the case concerned the Court applied the test which had been developed for the evaluation of the validity of no-competition clauses in agreements for the sale of the business, focusing on the territorial or temporal limitation of the clause. But later decisions did not discuss this problem of the compatibility of the clause with the constitutional principle of the freedom of work. It appears that the imposition of a minimum exploitation can be based upon the rights inherent to the patent monopoly according to which the patentee may dispose over the exclusive right of exploitation of the licensed invention.

Bordeaux 08.07.1936⁸⁵¹ concerned the case of an exclusive licence contract with a minimum sales clause. The patented invention which related to the manufacture of shoes could be used well in manual work or at lower numbers of production, but the stipulated minimum quota was not reached because of certain difficulties in the use for manufacturing at large scales but also, because of, amongst others, the affection of the customers for shoes manufactured in the old-fashioned manner. The Court held that the licensee who, as a specialist versed in the

⁸⁴⁵ Bourges 07.07.1942, A. 1940 to 1948,95.

⁸⁴⁶ Paris 13.04.1959, A. 1959,228.

⁸⁴⁷ Paris 26.04.1990, PIBD 1990,III,517; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 12.

⁸⁴⁸ Mathély, Paul: "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 333.

⁸⁴⁹ See Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 12.

⁸⁵⁰ Metz 12.02.1864, A. 1865,416.

⁸⁵¹ Bordeaux 08.07.1936, A. 1939,185,189.

technology concerned, would have had to take into consideration the risks involved in the commercialisation and manufacture before accepting a minimum clause.

2 THE OBLIGATION TO DEFEND THE EXCLUSIVE RIGHT.

Even if the exclusive licensee has, under certain circumstances, the right to start legal proceedings against patent infringements,⁸⁵² the licensee is not considered qualified to answer a challenge against the validity of the patent by an infringer.⁸⁵³ In such a case, the licensee must join the patentee-licensor in the proceedings who then should give him assistance.⁸⁵⁴ This is similar to the case where the licensee acts as a representative or trustee of the patentee by reason of an express authorisation, at least, if the terms of the act of procuration do not authorise him to answer to the objection of revocability of the patent.⁸⁵⁵ The right of the exclusive licensee who is, by contract, authorised to bring legal proceedings against infringers was recently confirmed by T.G.I. Paris, 03.07.1991.⁸⁵⁶ This right includes the capacity to demand a preliminary injunction, Article 54 of the Patents Act 1977 even if the licence is not registered.⁸⁵⁷ In the case where the licensee claims damages from the infringer, Paris 30.09.1983⁸⁵⁸ held that only after the registration of the licence according to the provision now contained in Article L.613-9 of the French Intellectual Property Code⁸⁵⁹ could the licensee intervene in infringement proceedings. Accordingly, the licensee cannot be considered obligated to defend the exclusive right with regard to the licensor.

3 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.

According to Roubier⁸⁶⁰ the implied obligation of the licensee to communicate improvements has the same foundation as the obligation of the licensor-patentee to communicate improvements to the licensee: the good faith in which contracts have to be performed, and the consequences which equity, usage or the law gives to the contractual obligation according to

⁸⁵² See Article L.615-2(2) of the French Intellectual Property Code; and see above, Chapter 3, part 5: 5.1.

⁸⁵³ See Articles 43 and 53 of the French Patent Act of 1968.

⁸⁵⁴ T.G.I. Paris 29.05.1971, A. 1971,162; confirmed by Paris 23.03.1973, A. 1973,92; Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, p. 187.

⁸⁵⁵ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, p. 265.

⁸⁵⁶ T.G.I. Paris 03.07.1991, PIBD 1992,III,64,66.

⁸⁵⁷ T.G.I. Paris 11.105.1990, A. 1991,63.

⁸⁵⁸ Paris 30.09.1983, A. 1983,246.

⁸⁵⁹ Article 46(1) of the French Patent Act of 1968 states: "To be valid against third parties, any act transmitting or altering the rights attached to a patent application or to a patent must be kept in a register, so-called National Patent Register, kept at the National Institute of Industrial Property".

⁸⁶⁰ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 278.

the nature of the contract, Articles 1134⁸⁶¹ and 1135⁸⁶² of the French Civil Code. Burst⁸⁶³ remarks critically that both obligations could not be based adequately upon the same principle. Whereas the obligation of the licensor might be explained as a logical consequence of the contract for being connected to the obligation of delivery, a similar connection would not exist if one considers the case of the licensee. Burst⁸⁶⁴ thus looks for a more suitable basis of the obligation and sees it in the obligation of fidelity which he considers an effluence of the principle of the execution of contracts in good faith and which obligates the licensee as well as the employee. However, the parallel between the employment contract and the patent licence contract does not seem obvious. To the obligation of loyalty of the employee corresponds the obligation of care of the employer. The situation is different in the case of the patent licence contract where both parties are not so closely connected. The licensee is generally wholly independent in his decisions and not subject to an obligation of exploitation under the direction of the licensor. Thus, in the absence of particular circumstances it does not appear to be appropriate that an implied obligation of fidelity should bind the licensee to communicate improvements. Cass.com. 18.11.1975⁸⁶⁵ recognised that the parties to the licence contract may agree upon a clause which expressly establishes the obligation to communicate improvements in charge of the licensee.

Grant back clauses according to which the property in any improvements made by the licensee belongs to the licensor are valid in French law, similar to grant back clauses which obligate the licensee to grant licences of any improvements to the licensor who then may be authorised to grant sub-licences for the improvements to other licensees.⁸⁶⁶ This view was confirmed by Paris 07.11.1991.⁸⁶⁷ The Court upheld a grant back clause according to which the exclusive rights in any improvement, modification and new application, of the licensed invention, of whatever origin, should vest in the licensor who should have the right to apply for patent protection if he considered it useful to obtain patent protection in any country chosen by him. The licensee who had patented an invention which was considered as an improvement of the licensed patented invention had not only to assign the patent to the licensor but also terminate the licences which he had granted for the improvement patent to third parties. French antitrust law does not seem to affect such agreements; they may be lawfully agreed upon.

4 THE OBLIGATION TO EXPLOIT THE PATENTED INVENTION.

⁸⁶¹ Article 1134 of the French Civil Code states: "(1) Agreements legally made take the place of law for those who make them. (2) They may be revoked only by mutual consent or for causes which the law authorises. (3) They must be executed in good faith".

⁸⁶² Article 1135 of the French Civil Code states: "Agreements obligate not only for what is expressed therein, but also for all the consequences which equity, usage or the law gives to an obligation according to its nature".

⁸⁶³ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 209.

⁸⁶⁴ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 11.

⁸⁶⁵ Cass.com. 18.11.1975, A. 1976,131.

⁸⁶⁶ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 11.

⁸⁶⁷ Paris 07.11.1991, PIBD 1992,III,98.

According to the prevailing French legal doctrine⁸⁶⁸ the licensee, whether exclusive or non-exclusive, is impliedly obligated to exploit the patented invention. This obligation is inferred from the fact that, in the absence of sufficient exploitation, the patentee is exposed to the risk of compulsory licensing,⁸⁶⁹ but also from the public interest in the exploitation of the patented invention⁸⁷⁰ and from the duty to execute contracts in good faith, Article 1134(3) of the French Civil Code.⁸⁷¹

French legal doctrine differs between the obligation to achieve a result ("*obligation de résultat*") and the obligation to use due diligence ("*obligation de moyens*"). The obligation of exploitation is an obligation to use due diligence.⁸⁷² This means that in the absence of a special clause establishing the scope of this obligation, the exploitation must be serious and effective⁸⁷³ with regard to quantity as well as to quality.⁸⁷⁴ Only in the case of 'insurmountable difficulties' in the industrial viability of the invention is the licensee freed from the obligation of exploitation,⁸⁷⁵ yet the development of the invention remains an obligation of the licensee.⁸⁷⁶ The 'insurmountable difficulties' may have technical or commercial reasons. According to French court practice⁸⁷⁷ the invention is not exploitable, if it can only be put to practice in a laboratory and at a price which prohibits access to the market. Thus the exploitation of the invention must be industrially and commercially possible. This will not be the case if several attempts have shown that the patented invention requires a particular feature, the cost price of which is such that the sale to the public would be

⁸⁶⁸ On French court practice see Nancy 23.05.1868, A. 1866,248; Cass. 18.03.1929, A. 1929,359; Cass.req. 07.05.1934, A. 1935,53; Cass. 16.01.1956, A. 1958,168; Cass.com. 02.12.1963, A. 1964,128; Cass.com. 17.11.1965, A. 1966,287; Cass.comm. 25.06.1968, D.S. 1969,23; Paris 12.05.1956, A. 1957,427; Paris 16.02.1968, A. 1968,100; Paris 22.05.1973, A. 1974, 205; Lyon 05.12.1974, A. 1975,39; Paris 09.06.1977, A. 1978,275; Paris 15.02.1978, A. 1979,306; T.G.I. Marseille 06.02.1979, D. 1980,IR,428; Lyon 22.10.1981, PIBD 1982,III,75; Paris 30.01.1991, PIBD 1991,III,302; in the case of a non-exclusive licence in particular Cass.com. 17.01.1965, A. 1965,287; Rouen 05.02.1951, A. 1951,78; on French doctrine see Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 189; Chavanne and Burst on "Droit De La Propriété Industrielle", 3rd ed. 1990, p. 231; Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 332; Pouillet, Eugène, on "Traité Théorique Et Pratique Des Brevets D'Invention", 6th ed. Paris 1915, p. 347; Roubier, Paul, on "Licences Et Exclusivités", Annales De Droit Commercial Et Industriel Français, Etranger Et International 1936, p. 314; and on "Le Droit De La Propriété Industrielle" vol. II, Paris 1954, p. 281.

⁸⁶⁹ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet," Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 23; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 282.

⁸⁷⁰ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Licence", Paris 1970, p. 192.

⁸⁷¹ Article 1134 of the French Civil Code states: "(1) Agreements legally made take the place of law for those who make them. (2) They may be revoked only by mutual consent or for causes which the law authorises. (3) They must be executed in good faith".

⁸⁷² Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", Rev.Comm. 1982, p. 200.

⁸⁷³ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 10; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 24.

⁸⁷⁴ Burst, Jean Jacques, on "Breveté Et Licencié. Leurs Rapports Juridiques", Paris 1970, p. 200.

⁸⁷⁵ See e.g. Cass.com. 02.12.1963, A. 1964,128, requiring insurmountable difficulties of the realisation; Paris 26.05.1975, A. 1975,232, which held that the licensee may not, at the conclusion of the contract, ignore the possibilities of a technical evolution so that this reason would not exonerate him from the obligation of exploitation as a case of 'act of god'; see the cases quoted by Joliet, René, on "Le Contrat De Licence De Brevet En Droit Civil Belge Et Français", 1982 p. 200; and Paris 30.01.1991, PIBD 1991,III,302,304.

⁸⁷⁶ Paris 13.02.1981, PIBD 1981,III,127.

⁸⁷⁷ Paris 02.06.1988, D. 1988,I.R.,202; T.G.I. Paris 01.03.1989, Dossiers Brevets 1990,II,8.

practically impossible,⁸⁷⁸ or if the licensee, in spite of repeated efforts, proved the impossibility to utilise the invention. However, the licensee may not, in order to escape the obligation, plead the difficulties which relate to the realisation of the industrial exploitation of the invention, because this is a risk which the licensee will have to bear.⁸⁷⁹ The economic risk of exploitation rests with the licensee.⁸⁸⁰

The licensee may not substitute the patented invention by a similar one in order to reduce the amount of royalties payable by him.⁸⁸¹ Paris 26.05.1975⁸⁸² held that the licensee should not, at the conclusion of the contract, ignore the possibilities of the technical evolution, so that for this reason, he could not invoke "*force majeure*" as excuse from the obligation of exploitation. Paris 08.04.1964⁸⁸³ held that the exclusive licensee contravened his contractual obligations, if he produces and markets a product which is susceptible to compete with the patented product, so that the exploitation of the competing invention reduces the value of the licensed patented invention to nothing. In the motives of the judgement the Court explained that only a substantial use of a competing technology may constitute a breach of the implied obligation of exploitation. If thus the reduction of the turnover is due to the progress of the technique but not to the manoeuvring of the licensee, there is no breach of the contractual obligation for the exploitation of the licensed patented invention. In this case the parties had agreed on the conclusion of an exclusive licence contract and the amount of royalties was dependent upon the number of sales. Joliet critically remarks in his note to this decision, it could be assumed that an implied obligation of exploitation does not exist where the parties agree upon the payment of a lump sum instead of a royalty or where the licensor grants a non-exclusive licence. But according to Cass. com. 17.01.1965,⁸⁸⁴ the obligation of exploitation exists even for the non-exclusive licensee.⁸⁸⁵ In a note to this decision Joliet objects that the licensee has no obligation to maintain the value of the patented invention and that the licensor, by stipulating royalties proportional to the turnover or to the number of sales, accepts the risk of a diminution of his remuneration. Joliet argues that the licensor who does not take recourse to such a clause which specifies the scope of the obligation of exploitation, impliedly accepts the risk of insufficient exploitation. It may thus be concluded that the non-exclusive licensor should, in order to avoid any ambiguities, carefully establish the scope of the licensee's duty to exploit the licensed invention in the contract if he wants to be sure that a French court will hold the licensee bound by such an obligation.

In the case where the licence contract obligates the licensee to a minimum production or sale, this obligation has to be considered as an obligation to achieve a result and not as an obligation to use due diligence, the difference being that in the case of an obligation to use due diligence, the party to the contract is bound to take measures which a reasonable man would take to achieve the purpose of the contract, whereas in the case of an obligation to achieve a result the party does not only have to show due diligence but must also achieve the result which he has promised.⁸⁸⁶

⁸⁷⁸ Paris 04.02.1958, A. 1959,224.

⁸⁷⁹ Paris 05.11.1955, A. 1957,427.

⁸⁸⁰ Paris 30.01.1991, PIBD 1991,III,302,303.

⁸⁸¹ Lyon 22.10.1981, A. 1982,237; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 282.

⁸⁸² Paris 26.05.1975, A. 1975,232.

⁸⁸³ Paris 08.04.1964, JCP 1964,II,13876, comment by Plaisant, Robert.

⁸⁸⁴ Cass.com. 17.01.1965, A. 1965,287.

⁸⁸⁵ Similar Chavanne and Burst on "Propriété Industrielle", 3rd ed., Paris 1990, p. 231.

⁸⁸⁶ See Nicholas, Berry, on "French Law of Contract", London 1982, p. 49.

The obligation of exploitation also extends to the improvements of the patented invention which have been licensed to the licensee.⁸⁸⁷ Case law does not exempt the licensee from the obligation of exploitation in the presence of a clause establishing a minimum royalty.⁸⁸⁸ The contract may provide for a certain standard of production, such as by obliging the licensee to observe industrial norms.⁸⁸⁹ Since in the case of a transfer of the licensee's business the transferee will acquire the licensee's position.⁸⁹⁰ In such a case the licence could be transferred to a competitor of the licensor so that it appears advisable to provide for the termination of the licence in the case of the sale, the take-over or the merger of the licensee's business.

The obligation of exploitation binds the licensee personally so that by reason of the "*intuitus personae*" he may not grant sub-licences in the absence of contractual permission. If the licensee fails to exploit the licensed patented invention, the damages payable to the licensor may be calculated according to the measure where the licensor proves a certain injury and the loss of a genuine chance for the exploitation of the patented invention.⁸⁹¹

4.1 The Best Endeavours Clause.

In French law, the licensee is impliedly obligated to exploit the licensed patented invention. According to court practice,⁸⁹² this contractual duty obligates the licensee to use to the full and to the maximum his means, unless there is a technical impossibility to be proved by the licensee. Since the licensee is impliedly obligated to use to the full and to the maximum his means, best endeavours clauses seem less common, at least court practice was less concerned with such terms.

4.2 The Minimum Production Clause.

The parties may define the obligation of exploitation by stipulating a minimum production, for example a number of articles to be manufactured or sold.⁸⁹³ Similarly, the parties may agree upon a minimum turnover clause, so that the licensor may, if the licensee fails to obtain the minimum result, demand the cancellation of the contract and claim damages.⁸⁹⁴

⁸⁸⁷ Burst, Jean Jacques, on "Licence De Brevets. Nature Et Qualification Juridique. Formation Et Validité Du Contrat", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 10.

⁸⁸⁸ T.G.I. Paris 03.10.1975, *PIBD*, 1976, III, 232, holding that the licensee, by paying the minimum royalty, does not suffice his obligation of exploitation, particularly not in the case of an exclusive licence.

⁸⁸⁹ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 11.

⁸⁹⁰ Chavanne and Burst on "Propriété Industrielle", 3rd ed., Paris 1990, p. 233; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 264.

⁸⁹¹ Paris 22.11.1977, A. 1979, 305.

⁸⁹² T.G.I. Paris 20.02.1989, *Dossiers Brevets* 1989, V, 9; T.G.I. Paris 05.07.1984, *PIBD* 1985, III, 17.

⁸⁹³ Mathély, Paul: "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 333.

⁸⁹⁴ Paris 20.05.1977, *PIBD* 1978, III, 78.

Paris 22.11.1977⁸⁹⁵ held that the stipulation of a minimum royalty clause does not free the licensee from the obligation to surpass the imposed minimum of production. According to Reims 05.01.1976,⁸⁹⁶ such a (minimum production) clause is distinct from the minimum royalty clause: if the licensee falls short of the minimum, the licensor is not entitled to claim the minimum royalty, but only damages. The interest of the licensor is to ensure a certain exploitation of the invention which may not be covered by a clause providing for a minimum royalty.

4.3 The Maximum Sales Clause.

The patent licence contract may provide for a clause establishing a maximum of exploitation by, for example, fixing an upper limit for the number of sales.⁸⁹⁷ In French legal doctrine it is accepted that this is a right which the patentee has in order to avoid too strong competition.⁸⁹⁸

4.4 The Tie-In Clause.

The licensee may be obligated to purchase raw material or other supply from the licensor. Since the 19th century, the tie-in clause was considered valid in French law.⁸⁹⁹ Now antitrust and competition law pose a hurdle, because the obligation obviously limits the licensee's freedom which he enjoys within trade and industry. The law of 14.10.1943 limits the duration of such a clause to ten years.⁹⁰⁰ Whereas former French jurisprudence considered the breach of an exclusive purchase agreement as a patent infringement,⁹⁰¹ later legal doctrine awards only contractual relief.⁹⁰²

4.5 Price-Fixing.

According to Azéma⁹⁰³ patent licence contracts which fix the price for the sale of the patented products may be subject to prohibition, if the contract constitutes a cartel, preventing, restraining or distorting competition.

⁸⁹⁵ Paris 22.11.1977, Dossiers Brevets 1979,V.

⁸⁹⁶ Reims 05.01.1976, A. 1977,117.

⁸⁹⁷ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 11.

⁸⁹⁸ Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 269.

⁸⁹⁹ See e.g. Metz 14.08.1850, A. 1870,336; Cass. 20.08.1851, A. 1870,336.

⁹⁰⁰ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 490 (1990) p. 11.

⁹⁰¹ Metz 14.08.1850, A. 1870,336; Cass. 20.08.1951, A. 1870,336.

⁹⁰² Hauser, Martin, on "Der Patentlizenzvertrag Im Franzoesischen Recht Im Vergleich Zum Deutschen Recht", Munich 1984, p. 120.

⁹⁰³ Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 905.

5 RESTRICTIONS UPON THE LICENSEE.

5.1 The No-Challenge Clause.

The no-challenge clause will not be implied in French law.⁹⁰⁴ The express clause by which the licensee undertakes not to challenge the validity of the patent has been held valid by French court practice.⁹⁰⁵ However, some legal writers consider the clause to be contrary to public order and invalid.⁹⁰⁶ Burst⁹⁰⁷ asks whether the clause is not contrary to the "*ordre public*", since it would prohibit the licensee from demanding the termination or rescission of the contract in the case of an invalid patent that is to say an invention which does not merit exclusive protection by the legal order. Lestrade⁹⁰⁸ indicates that the right to demand the revocation of the patent is not of "*ordre public*", but that the clause would be void, because it would prevent the licensee from demanding the rescission of the contract due to lack of causa. In the present French law the express clause is deprived of a great deal of its value, because the judgement which declares the invalidity of the patent has absolute effect and does not only have effects between the parties, as in former French patent law - what permits the licensee to invoke the invalidity obtained as a result of proceedings brought by a third person. And further, French court practice⁹⁰⁹ gives a narrow interpretation of the clause, permitting the licensee to invoke the invalidity of the patent in the case where he faces proceedings for the infringement of the patent instituted by the licensor.

According to Azéma⁹¹⁰ one has to distinguish, between the simple clause of no-challenge and the one which transforms the patent licence in an aleatory contract. In the second case, the licensee may not plead the annulment of the contract due to lack of object or of causa, if the patent is invalid because of a defect in the conception.⁹¹¹

5.2 Obligation Not To Compete.

⁹⁰⁴ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 13.

⁹⁰⁵ Cass.com. 07. and 17.12.1964, D. 1966,182; Paris 02.01.1969, A. 1969,163; Paris 22.06.1977, A. 1978,281.

⁹⁰⁶ Mathély, Paul: "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 328.

⁹⁰⁷ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", *Juris-Classeur Brevets*, Fascicule 491 (1990) p. 13.

⁹⁰⁸ Lestrade, Olivier, on "L'Obligation De Garantie Dans Les Contrats D'Exploitation De Brevets", thesis, Montpellier 1974, pp. 72,73.

⁹⁰⁹ Cass.com. 17.12.1964, A. 1966,172.

⁹¹⁰ Azéma, Jacques, on "Propriété Industrielle (Brevets)" in: "Lamy Droit Commercial", Paris 1979, p. 897.

⁹¹¹ See Cass.com. 11.03.1986, JCP,E,I,15426; in this case the licensee knew that no research on the novelty of the invention was undertaken and he accepted in a contractual clause the risk that the patent might be invalid and that the commercial exploitation might fail; beyond, the licensee undertook not to challenge the validity of the patented invention, neither directly nor indirectly.

By the clause of no-competition the licensee undertakes not to use technologies which replace or substitute the licensed technology. The clause is of particular relevance in the case of exclusive licences. Mathély⁹¹² asserts that, in the case of the silence of the contract, the licensee may not exploit a competing technology and market products which directly compete with the products manufactured under the licensed contract without contravening the principle that contract must be executed in good faith and his implied obligation of exploitation. Burst⁹¹³ and Plaisant⁹¹⁴, on the other hand, state that, in the absence of an express clause, the licensee may exercise any activities, even exploit competing technologies. Paris 08.04.1964⁹¹⁵ held even if the turnover achieved by sales diminishes and if the licensee produces a different but competing product without any fraud, the licensee does not contravene his contractual obligations which would justify the licensor to demand the rescission of the contract.

According to French legal writers⁹¹⁶ the express no-competition clause will be held valid according to the conditions which are generally applicable to this clause, that is to say that the obligation of no-competition must be limited in time or in space and as regards the competing activity.⁹¹⁷

5.3 The Obligation Concerning Customer Restraints.

Burst⁹¹⁸ considers that the clause by which the patentee restricts the licensee to selling to a certain group of customers only, or by which he obligates the licensee not to sell to certain customers is contrary to French antitrust law which prohibits the refusal to sell, Article 30 of the French Freedom of Prices and Competition Ordinance of 1986. Such a clause is thus, according to this legal writer, opposed to the principle of the free circulation of patented articles.

5.4 The Prohibition Against The Assignment Of The Contract And The Grant Of Sub-Licences.

⁹¹² Mathély, Paul, on "Le Droit Français Des Brevets D'Invention", Paris 1974, p. 405, asserts, however, that the licensee, by reason of the implied obligation of exploitation, is not allowed to produce and market products which compete directly with the products manufactured under the patent licence; and on "Le Nouveau Droit Français Des Brevets D'Invention", Paris 1991, p. 334.

⁹¹³ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 13.

⁹¹⁴ Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 24.

⁹¹⁵ Paris 08.04.1964, JCP 1964,II,13.876.

⁹¹⁶ Azéma, Jacques, on "Propriété Industrielle (Brevets)", in: "Lamy Droit Commercial", Paris 1989, p. 898, referring to Paris 08.04.1964 JCP 1964,II,13876; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 13; Mathély, Paul, on "Le Droit Français Des Brevets D'Inventions", Paris 1974, p. 405.

⁹¹⁷ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 13.

⁹¹⁸ Burst, Jean Jacques, on "Brevet Et Licencié. Leurs Rapports Juridiques Dans Le Contrat De Brevet", Paris 1970, p. 243.

5.4.1 The Assignment Of The Contract.

According to French law⁹¹⁹ which focuses on the personal relationship between the parties - the "*intuitus personae*" - the licensee is, in the absence of a contractual regulation, not authorised to assign the contract independently. If, however, the licence is transferred together with the business of the licensee, be it by a merger, a sale or a take-over of the business, court practice and legal writers⁹²⁰ consider the "*intuitus personae*" safeguarded. Because of the special relation between the licensor and the licensee which, in French law, is characterised as of "*intuitus personae*" it may be assumed that the licensee has to exploit the invention himself. This means that he is not - in the absence of a particular stipulation - authorised to grant sub-licences. If he does so, the sub-licensee will be considered as an infringer, and the sub-licence is null and void.⁹²¹ However, the licensee is entitled to employ sub-contractors in the execution of his obligation of exploitation, unless the contract stipulates otherwise.⁹²²

5.4.2 The Grant Of Sub-Licences.

From the assimilation of the patent licence contract to the leasing contract it might be inferred that in application of Article 1717 of the French Civil Code⁹²³ the licensee would be entitled to grant sub-licences unless the contract provided otherwise. Prevailing case law⁹²⁴ and legal writers⁹²⁵ require the consent of the licensor for the grant of sub-licences on the reasoning that the relation between the parties is of "*intuitus personae*". Thus, unless expressly provided for in the contract, the licensee may not grant sub-licences for the use of the licensed patented invention; he may, however, employ sub-contractors for a certain task within the ambit of the licence contract and under his control.⁹²⁶ The grant of a sub-licence therefore constitutes a

⁹¹⁹ Trib.civ. Seine 10.12.1904 and Paris 31.05.1906, La loi 16.06.1906; Trib.com. Nantes 28.02.1912, A. 1913,218; Trib.civ. Seine 23.06.1933, A. 1934,39; Allart, Henri, on "De La Propriété Des Brevets D'Invention", Paris 1887, pp. 168,169; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 11; Chavanne and Burst on "Propriété Industrielle", Paris 1990, p. 223.

⁹²⁰ Paris 13.12.1882, A. 1884,88; T.G.I. Paris 11.01.1970, Bull. INPI 1970,111; Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets. Fascicule 491 (1990) p. 16; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 27; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 266.

⁹²¹ Trib.civ. Seine 23.06.1933, A. 1934,39.

⁹²² Paris 27.01.1866, A.1869,289; Rouen 07.01.1866, A.1869,295; Burst, Jean Jacques, on "Licence De Brevets, Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 16.

⁹²³ Article 1717 of the French Civil Code states: "(1) The taker has the right to sublet and even to assign his lease to another, if such option has not been prohibited to him. (2) It may be prohibited in whole or in part. (3) Such clause is always strict".

⁹²⁴ Trib.civ. Seine 10.12.1904, Paris 31.05.1906, La Loi 16.06.1906; Paris 22.06.1905, D. 1912,396; Trib.civ. Seine 23.06.1933, A. 1934,39; T.G.I. Paris 08.01.1988, A. 1989,222.

⁹²⁵ Mathély, Paul, on "Le Nouveau Droit Des Brevets D'Invention", Paris 1991, p. 336; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention, Fascicule XXIV (1971) p. 27; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, p. 266; and on "Licences Et Exclusivités", Annales De Droit Commercial Et Industriel Français, Etranger Et International 1936, p. 296.

⁹²⁶ Mathély, Paul, on "Le Nouveau Droit Français Des Brevets D'Inventions", Paris 1991, p. 336; Plaisant, Robert, on "Propriété Du Brevet. Licence De Brevet", Juris-Classeur Commercial Annexes. Brevets D'Invention,

breach of the contractual obligation of the personal exploitation of the licensed patented invention so that the licensor may terminate the contract.⁹²⁷ Further, the sub-licence is null and void so that the sub-licensee is considered as infringer of the patented invention⁹²⁸ and the licensee as accomplice of the patent infringement.⁹²⁹ The main licence which is not registered is not enforceable against the sub-licensee.⁹³⁰ The parties may expressly provide for a clause prohibiting the grant of sub-licences. On the other hand, a clause which entitles the licensee to grant sub-licences was upheld by French court practice.⁹³¹

It may be inferred from the judgement of Aix en Provence 23.02.1993⁹³² that a licence can be transferred with the business of the licensee. In this case the patentee, Ricard, had granted an exclusive licence to ARA France. ARA, another company, asserted to be the true proprietor of the patents. ARA and ARA France transferred their property and intellectual property to the company EL. The Court rejected EL's assertion to be the true proprietor of the patents but it did not pronounce itself on the invalidity of the licence contract. The Court analysed the partial transfer of the business as a sale so that the transfer of the property was limited to the assets of the transferor. Since the grant of a licence creates a right in favour of the licensee, Article L.611-8 of the French Intellectual Property Code, it may be assumed that in the case in which the licensee's business is transferred, the right to use the patented invention will also be transferred. Such a transfer does not contradict the "*intuitus personae*" between the parties, if the purchaser of the licensee's property acquires together with the licensee's business his goodwill which may have induced the patentee to grant the licence.

Fascicule XXIV (1971) pp. 27,28; Roubier, Paul, on "Le Droit De La Propriété Industrielle", vol. II, Paris 1954, pp. 266,271.

⁹²⁷ Trib.civ. Seine 23.06.1933, A. 1934,38.

⁹²⁸ Paris 31.06.1906, D. 1908,5,1.

⁹²⁹ Burst, Jean Jacques, on "Licence De Brevets. Effets Du Contrat De Licence. Fin Du Contrat De Licence", Juris-Classeur Brevets, Fascicule 491 (1990) p. 15.

⁹³⁰ Paris 27.05.1987, D. 1988 Som.349.

⁹³¹ Paris 19.03.1902, A. 1903,264.

⁹³² Aix en Provence 23.02.1993, PIBD 1993,III,378.

CHAPTER 4 THE PATENT LICENCE CONTRACT IN ITALIAN LAW

Part 1: THE SUBJECT-MATTER OF THE PATENT LICENCE CONTRACT.

1 THE PATENTED INVENTION.

1.1 The Patented Invention As Property.

Neither the Italian Civil Code nor the Italian Patent Act of 1939 contain a provision which would define the nature of the patent right. The discussion among legal writers is more controversial since, as we shall see, the Italian law of property was not open to the development to which it was subjected in French law. The third book of the Italian Civil Code deals with the law of property. Article 832 of the Italian Civil Code establishes as the content of the right of property that it entitles a person to enjoy and to dispose of things in a full and exclusive manner, within the limits and with observance of the duties established by the legal order. The definition of the term 'thing' in its legal context is not easily undertaken in Italian law. But it is clear that the restriction of the concept of property to things would be quite different from the concept of property in English law. The Italian Civil Code employs, in order to explain the term 'thing' the words "*cosa*" and also "*bene*" without, however, clearly separating between the terms and the underlying concepts. In ordinary usage the term "*cosa*" could be translated properly with the word 'thing' whereas the term "*bene*" means an entity, having a usefulness which can be ascertained in an economic evaluation and enjoying legal protection; the English word 'asset' comes closest to having the meaning of this Italian word. Whoever wants to explain the nature of the patent right with the concept of property has to take as starting point Article 810 of the Italian Civil Code which states that "*beni*" (plural of "*bene*") are those "*cose*" (plural of "*cosa*") which can form the subject matter of rights. It has to be observed that the terms "*bene*" and "*cosa*", being placed in the third book of the Code which deals with property. For that reason, the definition of the term "*cosa*" as provided by Article 810 of the Italian Civil Code is of relevance only to the law of "*proprietà*" which, in Italian law, concerns material property only. Thus, the independence of the patented invention from physical laws excludes the applicability of the concept of property which, in the Italian Civil Code, is tailored to a material subject-matter. Further, the temporal limitation of the patent right would be in contrast with the assimilation of the patent right to the concept of property. An argument against the applicability of the concept of property to patented inventions may derive from the fact that the general provisions of the patent law established in the Italian Civil Code, do not find their place in the third book but in the fifth book which is called "*del lavoro*" ('On Work'), and which is concerned with labour (Articles 2060 to 2642), particularly in the ninth title: "Of the rights in the works of the intellect and in the industrial inventions", Chapter II, "Of The Patent Right For Industrial Inventions", (Articles 2584 to 2591). Due to these conceptual difficulties, court practice used the term property "*sui generis*" when explaining the patent right.⁹³³

⁹³³ App. Milan 26.04.1901, Foro it. 1901,I,1287.

The prevailing Italian legal doctrine conceives of the patent right as a "*bene immateriale*".⁹³⁴ Here the term "*bene*" is understood in its general meaning, signifying an entity which has a usefulness and which can be ascertained in economic valuation, enjoying legal protection. This concept is considered to cover adequately the interests of the inventor or the industrialist who exploits the invention under the patent regime. It is clear that the term "*bene*" is not understood here in the sense which it has in Article 810 of the Italian Civil Code,⁹³⁵ which defines the term property, but in a wider sense, essentially connoting a subject-matter of economic value. The word "*immateriale*" simply means, like its English equivalent, immaterial or incorporeal. The designation of the right in the patented invention as the right in a "*bene immateriale*" further reflects the classification as property which it has acquired both in common language, conventions and legal language, when referring to the category of 'property' which comprises patented inventions, copyright and trade marks.⁹³⁶

On the other hand, the concept of property is not alien to the Italian Patent Act of 1939. Article 20(1) of the Act refers to the provisions of joint ownership of the Italian Civil Code in the case where the invention originates from more than one inventor. Di Cataldo⁹³⁷ asserts that since the legislator referred in Article 20(1) of the Italian Patent Act of 1939 to the concept of property, the patent right - being a "*bene immateriale*" - constituted a property "*sui generis*". According to this legal writer it was the task of the doctrine of the immaterial property to bridge the gaps in patent legislation by reference to the rules on property. Nowadays, Di Cataldo concedes, the reference to these rules is less relevant, because patent legislation has developed into a star-shaped system with rules of general application for inventions and rules on certain determined inventions.⁹³⁸

Greco and Vercellone⁹³⁹ suggest the application of the rules on common property in cases of co-ownership of a patented invention. In application of Article 1108(2) of the Italian Civil Code, it would thus be prohibited that a co-owner could effectively grant a non-exclusive licence, since this would exceed a measure of the 'ordinary administration' of the property which a co-owner may take without consent of the other co-owners. Gandin⁹⁴⁰ suggests that the grant requires, according to Article 1105 of the Italian Civil Code, the simple majority of the owners, calculated on the value of their share; in the case of a sole licence the author assumes an act of extraordinary administration, Article 1108(1) of the Italian Civil Code, so that the grant of the licence required the majority of the co-owners provided that they represent two thirds of the values of the shares in the patented invention. With regard to exclusive licences, Greco and Vercellone consider unanimity of the co-owners as an essential

⁹³⁴ Barbero, Domenico, on "I Beni Immateriali Come Oggetto Di Diritto", Riv.dir.ind. 1962,I,310; Boutet and Lodi on "Brevetti Industriali, Marchio, Ditta, Insegna", 2nd ed., Torino 1978, pp. 17,18; Formiggini, Aldo, on "La Legge Sulle Privative Industriali E Le Invenzioni Non Brevettabili", Riv.dir.comm. 1953,I,196; Pugliatti, Salvatore, on "La Proprietà E Le Proprietà", Milan 1954, pp. 248,249; Valeri, Giuseppe, on "Manuale Di Diritto Commerciale II", Florence, 1948, reprint 1950, p. 45.

⁹³⁵ Article 810 of the Italian Civil Code states: "Things that can form the subject matter of rights are property".

⁹³⁶ The doctrine of the "*bene immateriale*" is founded on the observation that the traditional concept of property cannot to provide a legal framework for the relation between the patentee, the patented invention and third parties, because this concept is not suited for immaterial property. On the other hand, the absolute protection of the patentee bears a close resemblance to the concept of property.

⁹³⁷ Di Cataldo, Vincenzo on "Le Invenzioni I Modelli", Milan 1990, p. 8.

⁹³⁸ Di Cataldo, Vincenzo, on "Le Invenzioni I Modelli", Milan 1990, p. 23.

⁹³⁹ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 286.

⁹⁴⁰ Gandin, Roberto, on "La Comunione Di Brevetto: Appunti Per Una Indagine Comparatistica", Milan 1992, p. 208; see also Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 286.

requirement for the effective creation of the licence according to Article 1108, since this grant would deprive the co-owners of the enjoyment of the subject of their property.⁹⁴¹ Cass. 13.01.1981⁹⁴² sustained this view. The Court held that in application of Article 1108 of the Italian Civil Code and section 20(1) of the Italian Patent Act of 1939, which provides for the applicability of the rules on co-ownership of the Italian Civil Code in the case where several persons are inventors and in the absence of agreements to the contrary, the grant of an exclusive licence presupposes the consent of all co-owners of the patent, because such a grant deprives any co-owner of the enjoyment in the patented invention.

1.2 The Economic Concept Of The Patent Right, The Patent As A Monopoly.

An attempt to define the nature of the patent right in relation to the concept of monopoly is based upon the historical thinking which searches for the historical origins of the patent right and discovers it in the concept of monopoly ("*monopolio*"), the use of the royal prerogative.⁹⁴³ Starting with the etymological meaning of the word "*monopolio*" as signifying 'the only one to sell', this doctrine focuses its attention on the emanation of the patent right from the stately, royal or princely prerogative to grant privileges to a certain branch of commerce. Franceschelli,⁹⁴⁴ clearly an adherent of the doctrine, points out that the characteristic features of the patent right can be described by reference to the concept of monopoly in order to explain its special features and to differentiate it from the property right. Further, it is said that by reason of this doctrine one may appreciate the function of the patent right in the system of competition: the object of legal protection is not the invention itself but its exclusive exploitation. The monopoly right cannot protect the invention as such, but it prohibits the utilisation of the invention by third parties through the provisions contained in the Articles or sections which punish infringement.⁹⁴⁵

Nevertheless, most Italian legal writers⁹⁴⁶ assert that the concept of "*monopolio*" is not sufficient to explain the patent right adequately. In the first place, it is argued that a legal concept of monopoly implies the necessity to distinguish this concept from the economic concept of monopoly. The use of the term monopoly in its economic sense refers to a form of the market, whereas the legal term monopoly which does not ensure any market share is understood to lie in the exclusive right to restrict the utilisation of the invention. This power to restrict only concerns those acts which relate to patent infringement, and the patentee has no power to prevent a systematic activity which, although not constituting patent infringement, is aimed at the exploitation of the invention in a wider sense which - as already mentioned - would appear to be essential for a true legal concept of a monopoly.

⁹⁴¹ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 286, fn. 32.

⁹⁴² Cass. 13.01.1981, GADI Rep.Sist. 1972 to 1987, p. 558.

⁹⁴³ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 57.

⁹⁴⁴ Franceschelli, Remo, on "Les Droits Des Auteurs Et Des Inventeurs Comme Droit De Monopole", in: "Studi E Capitoli Sul Diritto Della Concorrenza", Milan 1974, pp. 439,440.

⁹⁴⁵ See Casanova, Mario, on "Le Imprese Commerciali", Torino 1955, p. 657.

⁹⁴⁶ Ascarelli, Tullio, on "Teoria Della Concorrenza E Dei Beni Immateriali", 3rd ed., Milan 1960, p. 305; Greco, Paolo, on "I Diritti Sui Beni Immateriali", Torino 1948, p. 21; Messineo, Francesco, on "Manuale Di Diritto Civile E Commerciale", vol. II, Milan 1965, pp. 470,471.

2 THE RIGHT IN THE PATENT APPLICATION.

In Italy, Article 4(1) of the Patent Act of 1939 states: "The exclusive rights, reflected by this Act, are conferred with the concession of the patent grant"... Yet Article 4(2) of the Italian Patent Act of 1939 establishes that the effects of the patent run from the date on which the application with the description and any drawings have been rendered accessible to the public, and, according to subsection (3), even prior to that date with regard to any third person, which has received notification of such application, description and drawings. This leaves the question unanswered, whether the grant of the patent is decisive for the creation of the "*bene immateriale*". There are divergent views on this point. Some court decisions and legal writers assert the constitutive character of the patent grant, relying on the wording of Article 4(1) of the Italian Patent Act of 1939. Consequently, they deny that any infringing act could be committed prior to the grant of the patent, although their comments predominantly refer to the Italian Patent Act of 1939 before its modification in 1979, when Article 4(1) stated, more generously than the new provisions contained in subsections (2) and (3), that the effects of the patent come into being with the filing date of the application. The courts, however, refrained from granting preliminary injunctions before the grant, focusing on the requirement of the grant as presupposition of any protection by patent law.

Those court decisions⁹⁴⁷ and those legal writers⁹⁴⁸ who conceive of the grant as a mere declamatory act see the foundation of the patented invention as a "*bene immateriale*" in the invention itself, and they are, therefore, more inclined to give the applicant the possibility of preventing the utilisation of the invention by means of patent law, independently of the patent grant. Sez.Unite 25.06.1942⁹⁴⁹ held that the grant of the patent by the state is not constitutive but declarative in nature. The Court explained that the state, by granting the patent, does not more than to verify the subsistence of the presuppositions of the grant to which the law subordinates the protection of the invention.

Considering the modifications which the legislator introduced into the Italian Patent Act in 1979, in particular to Article 4 of the Italian Patent Act, one has to admit that the direct effect of the filing date of the application is limited to determining the priority date. The importance of the application with regard to any exclusivity has diminished, because it is no longer the decisive criterion. It is, still, the prerequisite for the facts which bring into being the effects of the patent, Article 4(2) and (3) of the Italian Patent Act of 1939. The new statutory provision of section 83-bis of the Italian Patent Act of 1939 puts an end to the discussion about the scope of rights which an applicant for a patent may assert. It provides that the applicant may seek those remedies which are provided in Articles 81 to 83 of the Italian Patent Act of 1939 from the dates to which Article 4(2) and (3) of the Italian Patent Act of 1939 refer, that is to say after the date on which the application with the description and the drawings were

⁹⁴⁷ See e.g. Sezioni Unite 25.06.1942, Giur.it. 1942,I,1,554; App. Roma 03.02.1958, Giur.it. 1958,I,2,357, comment by Agostino, Fortunato.

⁹⁴⁸ Franzosi, Mario, on "L'Invenzione", Milan 1970, p. 9; Rossi, R., on "Il Diritto Al Brevetto E La Natura Della Concessione Amministrativa", Riv.dir.comm. 1955,II,327; Greco, Paolo, on "I Diritti Sui Beni Immateriali", Torino 1948, p. 416.

⁹⁴⁹ Sezioni Unite 25.06.1942, Giur.it. 1942,I,1,554.

rendered accessible to the public, or, even prior to that date, with regard to any third person which has been informed of such application, description and drawings. The modification of the 1939 Italian patent law in 1979 did not exhaustively solve the conflict between both theories. The adherents of the doctrine of the declamatory nature of the grant may assert that the legislator accepted this concept by clearly providing the possibility of preliminary protection before the grant. Others who assert the constitutive character of the grant⁹⁵⁰ will defend their doctrine by pointing out that an action against patent infringement may only be brought after the grant. On closer examination it seems that the doctrine of the reduction of the rights of the applicant to a mere concept of expectation could not be upheld. Trib. Milan 14.09.1981⁹⁵¹ supported the view of the similarity of the nature of the rights of the applicant and the patentee by referring to the character of the patent grant. The Court considered as decisive the retroactivity of the effects of the grant and the protection which the applicant enjoys even before the patent has been granted. The Court held that the fact that the patent is not yet granted but only applied for does not affect the validity of the patent licence contract. Accordingly, the circumstance that the patent application as the subject-matter of the licence contract is not yet determined and may be subject to amendments and disclaimers during the application procedure does not render the subject-matter of the contract undetermined.

Part 2: THE LICENCE AND THE LAW OF CONTRACT.

1 ORIGINS, USE AND DEFINITION OF THE TERM LICENCE.

Generally, a licence is understood as a mere authorisation of the licensee to commit those acts which otherwise would have constituted a patent infringement;⁹⁵² such a 'mere' licence as the equivalent term in English law suggests, consists of the 'mere' consent of the patentee that the patented invention may be used and is revocable at will.⁹⁵³ According to Scaglione⁹⁵⁴ the term licence generally has a 'negative' content, simply meaning 'authorisation', the licensor's obligation consisting in a mere passive comportment, that is to say in 'suffering', 'allowing' or 'tolerating' the licensee's activity. However, within the ambit of the law of contract the definition of the licence as a permission is not sufficient to characterise the relationship between the parties, which is of a more complex nature.

1.1 The Definition Of The Term Licence.

⁹⁵⁰ Ascarelli, Tullio, on "Teoria Della Concorrenza E Dei Beni Immateriali", 3rd ed., Milan 1960, pp. 562,567; Di Cataldo, Vincenzo, on "I Brevetti Per Invenzione E Per Modello", Milan 1988, p. 9; Januzzi, Scanzano and Schermi on "Il Diritto Industriale", Milan 1970, p. 293.

⁹⁵¹ Trib. Milan 14.09.1981, Riv.dir.ind. 1982,II,29.

⁹⁵² See Cass. 12.02.1935, Riv.dir.ind. 1952,II,111.

⁹⁵³ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali" vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 280,281.

⁹⁵⁴ Scaglione, Placido, on "Tipologia Degli Accordi Di Trasferimento Di Tecnologia", in "L.E.S. Italia, Convegno Di Studi Sul Tema 'Brevetti, Marchi, Licenze - Sviluppi Recenti'", Milan 8 to 9 November 1984, Torino 1984, pp. 261,263.

The Italian Patent Act of 1939 mentions the licence in several Articles without defining the term.⁹⁵⁵

1.1.1 Exclusive And Non-Exclusive Licences.

In the Italian Patent Act of 1939 there is no express provision concerning exclusive or non-exclusive patent licences, but the differentiation is recognised.⁹⁵⁶ Italian legal doctrine is almost unanimous that the non-exclusive licensee does not acquire a right "*erga omnes*", enforceable against third persons:⁹⁵⁷ he has no interest to oppose the exploitation of the invention by third parties. Cass. 12.02.1935⁹⁵⁸ held that the non-exclusive licence or simple licence has the effect to render lawful an activity which without the authorisation by the licensor would infringe the patent, so that it could be said that the contract has a negative effect, insofar as the patentee merely does nothing but renounces with regard to the licensee the right to prohibit infringements of the patent. Referring to the exclusive licence the Court stated that the contract transfers 'positively' to the licensee the exclusive right to use the invention. Di Cataldo⁹⁵⁹ agrees that in the case of the exclusive licence the licensor renounce the power to grant other licences to third persons and to use the invention himself. Italian legal theory distinguishes between the exclusive, the non-exclusive and the sole licence, the latter representing the case where the licensor may compete with the licensee ("*licenza semplice*"),⁹⁶⁰ or sole exclusive licence.⁹⁶¹ Cass. 13.01.1981⁹⁶² held that in the case of an exclusive licence, the right of the licensee to make use of the patented invention has the same content and effect as the right granted by the patentee, and Trib. Torino 15.06.1981⁹⁶³ held that the exclusive licence may obstruct the licensor in the free disposition over the patented invention; however, as a matter of principle, the exclusive licensor remains free to dispose of the patented invention, unless the parties agreed otherwise. Similar to English law and different from French law the exclusive licensor is thus considered obligated to refrain from exploiting the licensed invention himself.

⁹⁵⁵ The patent licence is referred to e.g. in Articles 24, 50(1), 54, 54 bis, 54 sexies and 66 no. 2 of the Italian Patent Act of 1939.

⁹⁵⁶ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 283 and 287; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 8; Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale. Brevetti Per Invenzioni", Padova 1987, p. 129.

⁹⁵⁷ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 284; against Ascarelli, Tullio, on "Teoria Della Concorrenza E Dei Beni Immateriali", 3rd ed., Milan 1960, p. 657.

⁹⁵⁸ Cass. 12.02.1935, Riv.dir.ind. 1952,II,111.

⁹⁵⁹ Di Cataldo, Vincenzo, on "Le Invenzioni I Modelli. Corso Di Diritto Industriale", Milan 1990, p. 135.

⁹⁶⁰ Frignani, Aldo, on "Factoring, Franchising, Concorrenza", Torino 1979, p. 192.

⁹⁶¹ Mangini, Vito, on "Delle Invenzioni Industriali, Dei Modelli Di Utilità E Dei Disegni Ornamentali", 1st ed. of "Commentario Del Codice Civile", ed. by Scialoja and Branca, "Libro Quinto - Del Lavoro", Bologna-Rome 1998, p. 108.

⁹⁶² Cass. 13.01.1981, GADI Rep.Sist. 1972 to 1987, p. 558.

⁹⁶³ Trib. Torino 15.06.1981, GADI Rep.Sist. 1972 to 1987, p. 560.

In the case of an exclusive licence as well, Italian legal writers assert that the effects of the agreement remain between the parties, without effect "*erga omnes*".⁹⁶⁴ An exception from this principle is recognised in the case where the exclusive licensee acquires from the patentee all the rights to utilise the invention, because here the effect aimed at by the parties is said to be similar to the creation of a usufruct with the consequence that in this case the licence would have to be considered as a usufruct even if the parties used the term 'licence'.⁹⁶⁵ The practical relevance of the 'real right' discussion of the patent licence - the interest of the licensee to pursue infringers and to prevent the licensor from granting subsequent licences to third parties - was overcome by enacting legislation on the effects of registration of the contract in order to secure the licensee's position. Accordingly, it may be asserted that the licence is enforceable against third parties and thus assumes a 'real right' character which, however, is dependent upon registration, Article 66(2) of the Italian Patent Act of 1939.

1.1.2 Total And Partial Licences.

The licence may be for any uses of the patented invention, or related to particular uses such as the manufacture of the patented article or to the sale only.⁹⁶⁶ In addition, the licence may relate to a part of the territory to which the exclusive right extends or to the whole of it.⁹⁶⁷

1.1.3 Implied And Limited Licences, The Exhaustion Of The Patent Right.

In Italian law an implied licence is presumed in the absence of stipulations to the contrary, if the patentee of a method or process furnishes to others the means to apply this process.⁹⁶⁸ Italian legal doctrine is unanimous that an implied licence may be presumed, if, at the same time, the patentee exercises the function of a director or manager of a company which exploits

⁹⁶⁴ De Simone, Leo, on "Italien", in: "Internationale Lizenzvertraege", 2nd ed., ed. by Langen, Weinheim 1958, p. 233; Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 288; older Italian legal doctrine, on the other hand, asserted that the 'real right' character of the licence was "undeniable", see e.g. Pouillet, Eugène, on "Trattato Teorico Pratico Dei Brevetti D'Invenzione", Milan 1916, p. 489.

⁹⁶⁵ Ascarelli, Tullio, on "Teoria Della Concorrenza E Dei Beni Immateriali", 3rd. ed., Milan 1968, p. 657; Greco and Vercellone on "Le Invenzioni E I Modelli Industriale", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 289; App. Firenze 24.01.1958, Giur.tosc. 1958,264: the Court held applicable the rules of the contract of lease of productive property in the case of the licence with obligatory effects, but the rules of usufruct in the case where the licence contract assumed a character to create a "real" right; according to Auletta, Giuseppe Giacomo, on "Delle Invenzioni Industriali, Dei Modelli Di Utilità E Dei Disegni Ornamentali, Della Concorrenza. Commentario Del Codice Civile A Cura Di Antonio Scialoja E Giuseppe Branca", Articles 2584 to 2601, 2nd ed., ed. by Mangini, Bologna 1973, p. 298, the patent licence contract should always be considered as a usufruct of the patented invention.

⁹⁶⁶ Bosio, Edoardo, on "Le Privative Industriali Nel Diritto Italiano", Torino 1891, p. 199; Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 283.

⁹⁶⁷ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed by Filippo Vassalli, Torino 1968, p. 283.

⁹⁶⁸ See, in particular, Marchetti, Piergaetano on "Revisione Della Legislazione Nazionale In Materia Di Brevetti Per Invenzioni Industriali In Applicazione Della Delega Di Cui Alla Legge 26 Maggi 1978, no. 260, Commentario A Cura Di Piergaetano Marchetti", in: Le Nuove Leggi Civili Commentate 1981,II, on Article 3 at pp. 684 to 687; the implied licence is recognised by court practice, e.g. App. Roma 26.03.1901, Riv.del.priv.ind. 1901,85.

the invention.⁹⁶⁹ Similarly, there will be a licence implied where the patent is assigned to the administrator of a company, whereas the enjoyment of the patented invention remains with the company.⁹⁷⁰

Article 1(2) of the Italian Patent Act of 1939 as modified in 1979 recognises expressly the principle of exhaustion of the patent right.⁹⁷¹ Before the modification of the Italian Patent Act in 1979 some legal writers favoured the principle of exhaustion,⁹⁷² others asserted that the exclusive right extended beyond the marketing of the patented product so that the patentee could, by means of conditions bound up with the sale of the patented product to the purchaser, limit the circulation of the patented products; in that case, the purchaser was supposed to have acquired the patented product with a so-called limited licence which obligated him, depending upon the conditions limited to the sale, for example not to resell the patented product or to resell only within certain geographical areas or to certain customers.⁹⁷³ However, this discussion was overcome by the legislation of 1979, which expressly recognises the principle of exhaustion.⁹⁷⁴ It is considered that the 'first marketing' of the patented product coincides with the conclusion of the contract concerned which attributes to the third person the power of enjoyment over the patented product for which the patentee generally receives a payment and if this enjoyment of possession falls within the characteristic features of the exclusive right.⁹⁷⁵ However, the principle of exhaustion will only apply where patented products are sold with the consent of the patentee, it does not apply where the patentee does not consent to the marketing of the product or where the patented products are marketed outside the territory for which the patent is granted.⁹⁷⁶

1.2 Voluntary Licences.

⁹⁶⁹ Trib. Milan, 02.10.1978, GADI 1978,1077; 05.10.1978, GADI 1978,1081; 23.04.1979; GADI Rep.Sist. 1972 to 1987, p. 560.

⁹⁷⁰ Trib. Milan 17.06.1974, GADI Rep.Sist. 1972 to 1987, p. 558; and see Trib. Milan 27.09.1976, GADI Rep.Sist. 1972 to 1987, p. 559; 05.10.1978, GADI Rep.Sist. 1972 to 1987, p. 560.

⁹⁷¹ See Marchetti, Piergaetano, on "Revisione Della Legislazione Nazionale In Materia Di Brevetti Per Invenzione Industriali In Applicazione Della Delega Di Cui Alla Legge 26 Maggi 1978, no. 260, Commentario A Cura Di Piergaetano Marchetti", in: Nuove Leggi Civili Commentate 1981,II, pp. 670 to 672.

⁹⁷² See Fabiani, Mario, on "I Contratti Di Utilizzazione Dell'Ingegno", Milan 1987, pp. 26,27; Franzosi, Mario, on "L'Invenzione", Milan 1970, pp. 280,281, Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 283; Marchetti, Piergaetano, on "Revisione Della Legislazione Nazionale In Materia Di Brevetti Per Invenzioni Industriali In Applicazione Della Delega Di Cui Alla Legge 26 Maggi 1978, no. 260, Commentario A Cura Di Piergaetano Marchetti", in Nuove Leggi Civile Commentate 1981,II, p. 670.

⁹⁷³ See Greco, Paolo, on "I Diritti Sui Beni Immateriali", Torino 1948, p. 143; Rotondi, Mario, on "Diritto Industriale", 5th ed., Padova 1965, p. 254.

⁹⁷⁴ Floridia, Giorgio, on "Lineamenti Generali Della Riforma Del Sistema Italiano Dei Brevetti" Riv.dir.ind. 1981,I,192 to 196; Marchetti, Piergaetano, on "Revisione Della Legislazione Nazionale In Materia Di Brevetti Per Invenzioni Industriali In Applicazione Della Delega Di Cui Alla Legge 26 Maggi 1978, no. 260, Commentario A Cura Di Piergaetano Marchetti", in: Nuove Leggi Civile Commentate, 1981,II p. 672.

⁹⁷⁵ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, pp. 116,117.

⁹⁷⁶ See Marchetti, Piergaetano, on "Revisione Della Legislazione Nazionale In Materia Di Brevetti Per Invenzioni Industriali In Applicazione Della Delega Di Cui Alla Legge 26 Maggi 1978, no. 260, Commentario A Cura Di Piergaetano Marchetti", in: Nuove Leggi Civili Commentate 1981,II, p. 675, referring to other cases which, according to his view would not be covered by the principle of exhaustion which he comprehends as of rather limited scope.

Voluntary Licences are the contractual licence and the licence of right. Non-voluntary licences such as the compulsory licence will not be dealt with.

1.2.1 Contractual Licences.

The Italian Patent Act of 1939 does not influence the structure of the licence contract, which is essentially governed by civil law.⁹⁷⁷ The Italian Civil Code does not contain provisions on the (patent) licence contract. Thus the patent licence contract belongs to the innominate⁹⁷⁸ contract, since it was not expressly dealt with by the legislator. However, the importance which it assumes in modern economy has contributed to giving the patent licence contract a structure which is becoming typical,⁹⁷⁹ creating a class of a specific innominate contract.

It may, carefully, be asserted that Italian law endorses the patent licence contract as representing a typical class of a specific innominate contract.⁹⁸⁰ Of characteristic significance here is the decision of App. Milan 13.11.1953.⁹⁸¹ In this judgement the Court attempted to comprehend the transaction of the licence contract. The Court stated: "It is unanimous that the patent right is considered by the law as a right of property of the author on his own invention, that is to say on the immaterial thing. The patent right is thus a disposable patrimonial right, and the ownership in the exclusive right can be transferred and other persons may assume the ability of exploitation, giving to the ability a different extent, in the sense of permitting the total or partial use of the invention without excluding the privilege of similar permissions to third persons, or with the exclusion of the privilege for a certain time or for a certain territory etc. The effects of similar agreements are examined relatively to both contracting parties. Thus the alienation of the exclusive right substitutes totally for the previous owner a new one, and it transfers the property of the patent with all its real obligations imposed upon it; the licence of the exclusive right, on the other hand (if it be assimilated to a leasing contract or to a contract of sale) concerns a personal right of exploitation of the exclusive right, and not the property in it; that is to say an obligatory relation between the parties, and the right of the creditor is only the power to demand a certain performance from the debtor. Whereas in the case of the alienation of the exclusive right, the purchaser (...) has an immediate and autonomous power over the thing - in the obligatory relation, however, the creditor has the power to demand a certain performance from the debtor which has the obligation to fulfil it". In a general manner, Cass. 13.01.1981⁹⁸² held that the "licence contract on the use of rights deriving from a patented invention is treated similar to the lease", and that the contract, if exclusive, confers to the licensee "a right which has an identical content and the same 'effect' as those rights of the granting owner".

⁹⁷⁷ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,287.

⁹⁷⁸ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 128.

⁹⁷⁹ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 128.

⁹⁸⁰ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 128.

⁹⁸¹ App. Milan 13.11.1953, Riv.dir.ind. 1954,II,326.

⁹⁸² Cass. 13.01.1981, GADI 1981,1361.

The characteristic performances of the patent licence contract - permission to use the patented invention against the payment of a remuneration - is, alone, not sufficient to analyse the contractual relation independently from references to the regulation of the nominate contracts in the Civil Code. However, it has been observed that the nature of the licence contract should be analysed on a case-by-case basis, taking account of the different purposes which the licence contract may assume.⁹⁸³ Thus the term 'licence' does not qualify the legal relation but it can, beyond the context of the patented invention, be used within the context of different contractual situations which will have to be analysed by reference to the use of the terms "*beni materiali od immateriali*", comprising the lease, lease of productive property, or the contract of industrial production.⁹⁸⁴

1.2.2 Licences Of Right.

In Italian law, Article 50 of the Patent Act of 1939 lays down that the patentee may offer to the public by means of a communication to the Central Patent Office a licence for non-exclusive use of the invention. The licence will be effective from the date of notification to the patentee of the acceptance of the offer, even if payment of royalties has not been agreed upon.

2 THE PATENT LICENCE WITHIN THE AMBIT OF SPECIAL CONTRACTS.

Since the legislator has not established a coherent body of legal rules applicable to the patent licence contract, the rules applicable to this specific contract are established in Italian law by reference to those specific contracts which were comprehensively dealt with by the legislator.

2.1 The Principle Of Freedom Of Contract.

In Italy the freedom of the parties to conclude a contract and to decide on its content is qualified in a similar way as it is in French law. Based upon the presumption that the law has the task of governing all aspects of social organisation, it differs from the conception in common law which understands the law as a means to solve problems arising from litigation. In France and Italy the rules given by the legislator concerning the law of obligations and of specific contracts are deemed to cover this field in a comprehensive way. Insofar as trade usage and special legislation do not contain particular rules on a certain specific contractual type, Vivante⁹⁸⁵ points out that the rules contained in the Civil Code prevail. Thus contractual types which received this special treatment by the legislator, reflect the contractual patterns most often used, such as contracts of purchase, of hire or for work. Roman law only

⁹⁸³ Frignani, Aldo, on "Factoring, Franchising, Concorrenza", Torino 1979, p. 191.

⁹⁸⁴ Greco and Vercellone, "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 281.

⁹⁸⁵ Vivante, Cesare, on "Traité De Droit Commercial", Paris 1910, p. 98.

recognised those contracts as enforceable in law which were expressly accepted by statute. The French and the Italian legislatures adopted the opposite principle, the principle of 'freedom of contract'. According to this principle the general rules on contracts are applicable also to those contracts which do not have a name - that is to say to innominate contracts - Articles 1322(2) and 1323 of the Italian Civil Code.⁹⁸⁶ The contracts specially dealt with by the legislator are called nominate, whereas those contracts which did not receive such a regime like patent licence contracts, are called innominate. The fact that the legislators did not give the innominate a specially tailored body of rules does not mean that they ignore these contracts or leave their formation to the discretion of the parties. The rules given in the codes are deemed to cover in the most comprehensive way all aspects of the law of contract. Thus the innominate contracts borrow their rules from those nominate contractual types to which they bear the closest resemblance. The legal technique which permits the application of the rules of a nominate contract to an innominate one lies in the drawing of an analogy, since direct application is not possible. An innominate contract may derive its mandatory and non-mandatory rules from different types of nominate contracts.

Italian court practice expressly recognises innominate contracts,⁹⁸⁷ but it is clear that the judge does not have to make an express decision on the contractual type if an action is brought based on contract.⁹⁸⁸ By reason of the contractual autonomy, Article 1322 of the Italian Civil Code,⁹⁸⁹ the parties may conclude innominate and mixed contracts which are not regulated by the codes. Yet one does not have to believe that private persons may conclude contracts in complete freedom without limits - the innominate contracts must have a function deserving legal consequences; along the lines of Article 1322 of the Italian Civil Code, according to which such an agreement must be directed towards the satisfaction of interests worthy of legal protection.⁹⁹⁰

The purpose in the differentiation may be indicated briefly as follows: if the parties conclude a nominate contract, like the contract of sale, without making up their minds as to certain points, the judge will refer to the coercive or dispositive rules, established for this contractual type by the legislatures. The construction of the terms of an innominate contract is more delicate, because the judge will have to classify the innominate contractual type. He will verify, for example, whether the contract is a patent licence contract, and, if the parties did not agree upon the terms of the contract in detail, the judge may have to take recourse to those non-mandatory rules of a nominate contract which appears to have the closest similarity, in order to achieve the appropriate construction of the contract. Mandatory terms of such a nominate contract may also be applicable to the patent licence contract.

⁹⁸⁶ Article 1322 of the Italian Civil Code states: "Contractual Autonomy. (1) The parties can freely determine the contents of the contract within the limits imposed by law. (2) The parties can also make contracts that are not of the types that are particularly regulated, provided that they are directed to the realisation of interests worthy of protection according to the legal order".

Article 1323 of the Italian Civil Code states: "Rules Regulating Contracts. All contracts, even though they are not of the types that are particularly regulated, are subject to the general rules contained in the title".

⁹⁸⁷ See e.g. Cass. Roma 28.02.1844, *Giur.compl.cass.civ.* 1844,84.

⁹⁸⁸ Cass. 17.03.1964, *Giur.it.* 1965,I,1,673.

⁹⁸⁹ Article 1322 of the Italian Civil Code states: "Contractual Autonomy. (1) The parties can freely determine the contents of the contract within the limits imposed by law. (2) The parties can also make contracts that are not of the types that are particularly regulated, provided that they are directed to the realisation of interests worthy of protection according to the legal order".

⁹⁹⁰ Scognamilio, Renato: "Contratti In Generale", 3rd ed., 1972, reprint 1980, vol. IV-2 of "Trattato Di Diritto Civile", ed. by Grosso and Santoro-Passarelli, pp. 137,138.

The first step, preliminary to the verification of the contractual type, is to verify the type of the clauses of the contract. This then renders possible the verification of the contractual type, because the 'freedom of the will' is substituted by the fixed stipulations, the clauses, agreed upon by the parties.⁹⁹¹ In a second step the judge examines whether the prevailing elements of a nominate contract are fulfilled.⁹⁹² In a third step, if the contract cannot be identified as a nominate contract but as innominate, the judge verifies whether the contract is 'complex' or 'mixed', that is to say, whether the contract can be identified as an innominate contract which has developed its own specific innominate type, recognised by court practice, such as the patent licence contract, or whether the contract combines elements of different nominate or innominate or atypical clauses. In any case, the prevailing elements will then decide upon the verification of the contractual type.⁹⁹³ Court practice which recognises the patent licence as a special type, then proceeds to establish the terms of the contract by resort to the general rules of contract as contained in the Italian Civil Code and developed by court practice, and by applying those rules of this nominate contract which has the closest similarity to the innominate type. These terms of the nominate contract may override the express terms of the contract if they are mandatory, if they are non-mandatory, they will be applied in the case where the parties did not agree upon an express term and if their application is justified in recognition of the presumed interests of the parties.

Insofar as the obligations deriving from a contract are concerned, the civil codes differ between mandatory and non-mandatory terms, the difference being that the parties, by their mutual consent, may deviate from non-mandatory terms, whereas mandatory terms cannot be waived contractually. The effect of these rules is that the parties will only have to decide upon the essential elements of a contract,⁹⁹⁴ the other terms of the agreement will be construed with reference to those mandatory and non-mandatory terms which, by way of implication by statute, are deemed to have been agreed upon by the silence of the parties.

The subject-matter of the patent licence contract may vary: a patented invention, including a non-patented invention, technical information, blueprints, instructions etc. The verification of the subject-matter of the contract plays an essential role in the delimitation of one contractual type from another. The content and scope of the patent right has attained a high level of homogeneity in France, Italy and England, since their respective patent acts have been aligned according to the Munich and Luxembourg Patent Conventions. The patentee is, in fact, protected against all kinds of exploitation of the invention by third parties, whether the patent acts contain an exclusive enumeration of infringing activities, like in the case of the UK Patents Act 1977,⁹⁹⁵ or whether, like in the case of the Italian Patent Act of 1939,⁹⁹⁶ the right of prohibition is derived from the attribution of the exclusivity in the exploitation of the invention.

In Italian law the variety of contents which the licence contract may have, renders a comprehensive description difficult,⁹⁹⁷ so that it may be preferable to determine the legal

⁹⁹¹ Sacco, Rodolfo, on "Obbligazioni E Contratti - II", vol. X of "Trattato Di Diritto Privato", Torino 1982, reprint 1984, pp. 440,441.

⁹⁹² Cass. 06.03.1951, Foro.it. 1951,I,1043.

⁹⁹³ Cass. 08.09.1970, Banca borsa 1972,I,18.

⁹⁹⁴ See e.g. Cian and Trabucchi on "Commentario Breve Al Codice Civile", 3rd ed., Padova 1988, p. 959.

⁹⁹⁵ See e.g. section 60 of the UK Patents Act 1977.

⁹⁹⁶ See Article 1 of the Italian Patent Act of 1939.

⁹⁹⁷ Pouillet, Eugène, on "Trattato Teorico Pratico Dei Brevetti D'Invenzione E Della Contraffazione", vol. I, Milan 1916, p. 490, considered the patent licence similar to the contract by which the proprietor of a source

implications of the intended transaction on a case-by-case basis.⁹⁹⁸ Nevertheless, with regard to patent licence contracts, Italian legal doctrine has developed some principles which permit to class the patent licence as a specific innominate contractual type.⁹⁹⁹

2.2 The Patent Licence And Special Contracts.

In the absence of an established special legal discipline on the licence contract, the contract is, on a case-by-case basis, assimilated to those nominate contracts with which it offers a certain analogy, with the aim to apply - in whole or in part - to the licence contract the dispositions of the nominate contract.¹⁰⁰⁰ Italian law offers a variety of constructions for the classification of the patent licence contract within the systems of nominate contracts. Thus, the licence contract may be assimilated to the contract of sale, the usufruct, the leasing contract and the contract of lease of productive property. However, one should be careful in presenting the resemblance between the licence contract and nominate contracts - there are, generally, structural differences between the patent licence contract and nominate contracts, for example between the main obligations of the lessor and the licensor: the first transfers the leased thing for a limited time to the lessee and is thus separated from an essential quality of his property, whereas the second does not transfer any of the qualities of his patent right, but merely abstains from impeding the exercise of another's freedom.¹⁰⁰¹ Also an analogy between patent licence contracts and leasing contracts and those of lease of productive property will not cover all aspects of the contractual stipulation so that he considers the patent licence contract as a contract "*sui generis*", to which in the first place the rules concerning the leasing contract and the lease of productive property would be applicable, but not exclusively.¹⁰⁰² Consequently, legal provisions concerning other contractual types may, depending upon each case, find application. The category of the patent licence contract is thus well established in Italian law without its typical content having, however, been defined.

2.2.1 The Usufruct.

The usufruct is the contract which transfers a real right of enjoyment in a comprehensive sense. The legal provisions on the usufruct are contained in the Italian Civil Code.¹⁰⁰³ Article 981 explains content and right of the usufruct: "The usufructuary has the right to enjoy the thing but he must respect its economic destination. He can draw every utility from the thing that it can give, within the limits established in this chapter".

grants to a third person the right to draw water, thus retaining the possibility to use himself the right and to grant it to other persons.

⁹⁹⁸ Marchetti and Ubetazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 129.

⁹⁹⁹ See Marchetti and Ubetazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 129.

¹⁰⁰⁰ Boutet and Lodi on "Brevetti Industriali, Marchio, Ditta, Insegna", Torino 1978, p. 246.

¹⁰⁰¹ Lecce, Giovanni, on "Le Invenzioni E I Modelli Industriali Nella Giurisprudenza", Milan 1987, p. 222.

¹⁰⁰² Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 39,40.

¹⁰⁰³ Articles 978 to 1020 of the Italian Civil Code concern the usufruct.

According to Greco and Vercellone¹⁰⁰⁴ the exclusive patent licence on all rights to utilise the invention has to be considered similar to the usufruct; the legal consequences aimed at by the parties have all the effects of the creation of a usufruct so that the terms of the exclusive licence contract may be construed by reference to the mandatory and non-mandatory rules established by the licensor for the usufruct. Auletta¹⁰⁰⁵ and Corrado¹⁰⁰⁶ want to apply the rules concerning the usufruct to all types of patent licence contracts. However, according to Rotondi¹⁰⁰⁷ the differences between the usufruct which constitutes a real right and the licence which has mere obligatory effects does generally not permit to consider the patent licence contract as a usufruct. This view seems justified in particular with regard to the limitation of the patent right in time and to the fact that only one usufruct may be established by the proprietor whereas the patentee can grant several licences.

2.2.2 The Contract Of Sale.

In Italy, courts and legal writers established at the end of the 19th century a clear distinction between the transactions of the assignment and the licence of a patent.¹⁰⁰⁸ App. Torino 03.11.1885¹⁰⁰⁹ still held that a licence transferred the patent right. Yet this decision was reversed by Cass. Torino 18.08.1886.¹⁰¹⁰ However, App. Milan 26.04.1901¹⁰¹¹ held that an agreement which the parties designate as licence but which relates to the exclusive enjoyment of the patented invention for the duration of the patent does not constitute a lease but a sale of the exclusive right. Greco and Vercellone¹⁰¹² consider that an exclusive patent licence for the whole duration of the patent term may assume the character of a sale - a differentiation which has to be made in consideration of the particular remuneration. In the case of royalties, however, the contractual relation would have to be analysed as a licence contract.

According to the prevailing view, the patentee remains the proprietor of the patent in the case of a licence, even in the case of an exclusive licence¹⁰¹³ and he still keeps some rights which are not transferred with the licence.¹⁰¹⁴ Nevertheless, Italian courts seem less inhibited from approximating the patent licence contract to the contract of sale and apply mandatory and non-mandatory terms of the contract of sale by way of analogy to the patent licence contract.

¹⁰⁰⁴ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, 289.

¹⁰⁰⁵ Auletta, Giuseppe Giacomo, on "Delle Invenzioni Industriali, Dei Modelli Di Utilità E Dei Disegni Ornamentali, Della Concorrenza. Commentario Del Codice Civile A Cura Di Antonio Scialoja E Giuseppe Branca, Articles 2584 to 2601", 2nd ed., ed. by Mangini, Bologna 1973, p. 298.

¹⁰⁰⁶ Corrado, Renato, on "Opere Dell'Ingegno Privative Industriale", vol. VI of "Trattato Di Diritto Civile", ed. by Grosso and Santoro-Passarelli, Milan 1961, pp. 118,119.

¹⁰⁰⁷ Rotondi, Mario, on "Diritto Industriale", 5th ed., Padova 1965, p. 257.

¹⁰⁰⁸ See Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 13,14,15.

¹⁰⁰⁹ App. Torino 03.11.1885, La Legge 1886,377, comment by Vidari at 427.

¹⁰¹⁰ Cass. Torino 18.08.1886, Foro it. 1886,I,1099.

¹⁰¹¹ App. Milan 26.04.1901, Foro it. 1901,I,1287.

¹⁰¹² Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 282.

¹⁰¹³ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 18; against Rotondi, Mario, on "Diritto Industriale", 5th ed., Padova 1965, p. 258; see Cass. Roma, 03.03.1902, Foro it. 1902, I,619; Cass. 30.12.1932, Giur.it. 1933,I,1,384.

¹⁰¹⁴ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 18, referring at p. 21 to the right of the patentee to claim the rights deriving from priority and to his right to assign the patent.

Trib. Torino 04.10.1974¹⁰¹⁵ did not expressly decide on this differentiation, but it applied Article 1497 of the Italian Civil Code¹⁰¹⁶ to the licence contract, a provision concerning the contract of sale and, in particular, an obligation of the seller. The reasoning which permitted the court to consider the application of a norm of sale as appropriate to the licence contract derives from the understanding of the licence contract as an "assignment of the exploitation of the patent".¹⁰¹⁷ App. Milan 13.11.1953¹⁰¹⁸ held with more subtlety that "the licence of a letters patent, instead (...) creates a personal right of exploitation of the letters patent but no property".¹⁰¹⁹ Trib. Torino 15.06.1981¹⁰²⁰ held that the contract between the owner of a patent and a company to which the patentee assigns the exploitation of the patented invention by keeping a certain share of the profits, may be characterised as a licence contract, excluding that it constituted a capital contribution to the stock of the company or assignment of the ownership in the patented invention to the company.

2.2.3 The Leasing Contract, Lease Of Productive Property.

Prevailing Italian court practice considers the licence contract to be similar to the leasing contract.¹⁰²¹ Cass. Roma 03.03.1902¹⁰²² held that a contract constitutes a lease and not a sale by which a patentee without transferring the exclusive right, grants to another the use and the enjoyment of the exclusive right without depriving himself of the ownership of the patent, even if for an indeterminate duration or for a duration exceeding the term of the patent fixed by the law. In its decision of 30.12.1932¹⁰²³ the Cass. Roma held that the patent licence contract constitutes a contract "*sui generis*" which has a certain affinity to the leasing contract and which is characterised by the renunciation of the exclusive right of exploitation of the patentee in his contractual relation with the licensee. In a leasing contract the lessee obtains the right of enjoyment of the leased subject-matter, that is to say the lessee may utilise the asset ("*bene*") for the use determined in the contract. Lazzaro¹⁰²⁴ interestingly explains the powers of the lessee with reference to the rights of the usufructuary; accordingly, the scope of the enjoyment, whether mediated by a contract of usufruct or by the leasing contract, seems

¹⁰¹⁵ Trib. Torino 04.10.1974, GADI 1974,621.

¹⁰¹⁶ Article 1497 of the Italian Civil Code states: "Lack Of Quality. When the thing sold lacks the qualities promised or those essential for the use for which it is intended, the buyer is entitled to obtain resolution of the contract according to the general provisions on resolution for non-performance (Articles 1453 et seq.) provided that the defect in quality exceeds the limits of tolerance established in Article 1495".

¹⁰¹⁷ Trib. Torino 04.10.1974, GADI 1974,621, p. 1237; a similar formulation is used by App. Milan 12.12.1972, GADI 1972,211: "The contract by which the exploitation of a patent is assigned"...

¹⁰¹⁸ App. Milan 13.11.1953, Riv.dir.ind. 1954,II,326.

¹⁰¹⁹ Cass. 25.07.1972, GADI Rep.Sist. 1972 to 1987, p. 557.

¹⁰²⁰ Trib. Torino 15.06.1981, GADI Rep.Sist. 1972 to 1987, p. 560.

¹⁰²¹ App. Brescia 07.04.1887, Monitore 1887,489; Cass. Torino 19.07.1889, Monitore 1889,885; App. Milan 26.04.1901, Foro it. 1901,I,1287; Cass. Roma 03.03.1902, Foro it. 1902,I,619; Cass. 15.05.1946, Riv.prop.int.ind. 1946,115; Trib. Torino 15.02.1950, Foro pad. 1950,I,964; App. Bologna 28.03.1952, Riv.dir.ind. 1952,II,174; App. Milan 13.11.1953, Riv.dir.ind. 1954,II,326; App. Milan 22.06.1956, Riv.prop.int.ind. 1956, 103; App. Florence 07.06.1972, GADI 1972,I,133; Trib. Florence, 22.04.1974, Foro pad. 1972,I,619 concerning the exclusive licence contract; Cass. 13.01.1981, GADI Rep.Sist. 1972 to 1987, p. 558; GADI 1981,3, at 10: "The licence contract for the use of the rights deriving from the patented invention is to assimilate (according to the orientation which seems preferable) to the leasing contract"...

¹⁰²² Cass. Roma 03.03.1902, Foro it. 1902,I,619.

¹⁰²³ Cass. Roma 30.12.1932, Foro Lomb. 1934,1,177.

¹⁰²⁴ Lazzaro, C., on "La Locazione, L'Affitto", in: "Trattato Di Diritto Privato", vol. IX, "Obbligazioni E Contratti-III", Torino 1984, pp. 664,665.

similar in Italian law. Greco and Vercellone¹⁰²⁵ assert that the non-exclusive licence contract is - at least by way of analogy - governed by the provisions of the leasing contract, Articles 1571 to 1606 of the Italian Civil Code, and, with some care, by those of the contract of lease of productive property, Articles 1615 to 1627 of the Italian Civil Code. Yet in the case of the exclusive licence they maintain that the legal situation resembles the usufruct,¹⁰²⁶ with the consequence that the relevant provisions of the Italian Civil Code are applicable. Moreover, applicable to the non-exclusive licence contract, according to the same authors,¹⁰²⁷ is by way of analogy Article 1594(1) and (2) of the Italian Civil Code prohibiting assignment and sub-letting of the contract¹⁰²⁸ and Article 2558 of the Italian Civil Code according to which, in the case of silence of the contract, the licence will be transferred with the business of the licensee.¹⁰²⁹ However, the application of the rules on leasing contracts does not always correspond to the interests to a party of the licence contract. In the case of leasing contracts and contracts for lease of productive property, the lessee is, according to Articles 1590 and 1616 of the Italian Civil Code,¹⁰³⁰ obligated to restitute the leased object after termination of the contractual relation - a similar obligation cannot bind the licensee of a patented invention.

2.2.4 The Contract Of Industrial Production.

¹⁰²⁵ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali" vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino, 1968, p. 285.

¹⁰²⁶ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 298.

¹⁰²⁷ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 286.

¹⁰²⁸ Article 1594 of the Italian Civil Code states: "Sublease and assignment of lease. (1) The lessee has the power to sublet the thing leased, unless otherwise agreed, but he cannot assign the contract to third persons without the consent of the lessor. (2) The sublease of moveables (Article 812) must be authorised by the lessor or permitted by usage". Though a literal interpretation of Article 1594 (1) of the Code could induce to think that, by way of analogy, the licensee may grant sub-licences (in this sense the older doctrine, e.g. Finocchiaro, Gaetano, on "Sistema Di Diritto Industriale", vol. I, Padova 1932, p. 248), modern legal writers deny this possibility, admitting that the grant of sub-licences is possible only, if from the interpretation of the contract it follows that the contract is not concluded "intuitus personae", nor with regard to the particular quality of the enterprise, see Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 68.

¹⁰²⁹ Article 2558 of the Italian Civil Code states: "Succession To Contracts. (I) Unless otherwise agreed, one who acquires a business succeeds to contracts stipulated for the conduct of the business that are not of a personal nature (Article 2112). (II) However, the third contracting party can withdraw from the contract within three months from the date of notice of the transfer, if there is just cause, but in such case the liability of the transferor is unaffected".

¹⁰³⁰ Article 1590 of the Italian Civil Code states: "Return Of Leased Thing. (1) The lessee shall return the thing to the lessor in the same condition in which he received it, in accordance with any description that the parties have made of it, subject to normal deterioration and wear and tear caused by its use in conformity with the contract. (2) In the absence of a description, the lessee is presumed to have received the thing in a good state of repair. (3) The lessee is not liable for loss or damage due to natural decay and age. (4) Moveables (Article 812) shall be returned to the place where they were delivered".

Article 1616 of the Italian Civil Code states: "Indefinite Time Contract. (1) If the parties have not fixed the duration of the contract of lease of productive property, each party can withdraw from the contract by giving reasonable advance notice to the other party. (2) Corporative norms and usage which provide otherwise are unaffected".

The contract of industrial production ("contratto di edizione industriale")¹⁰³¹ is another contractual concept, developed by Italian legal doctrine, in order to qualify the relations between the patentee and the other party which exploits the invention. Trib. Roma 04.07.1961¹⁰³² stressed the similarity between the works of industrial and intellectual property by drawing a parallel between the interests of the author concerning the commercialisation or publication of his copyright work and the inventor and his interest in the exploitation of his patented invention through a potent industrialist. However, it is recognised that this parallel can only be asserted in the case where the patentee grants to the industrialist the exclusive right to exploit the invention,¹⁰³³ because only in this case could the application of the rules which protect the author of a copyright work as the weaker party in his relation to the publisher be justified. It should be mentioned that, beyond the rather singular decision of Trib. Roma 04.07.1961 and faint support by legal writers,¹⁰³⁴ this doctrine has not found general acceptance in Italian law.¹⁰³⁵ And yet, even Greco and Vercellone¹⁰³⁶ consider the similarity between the contract for the publication of a literary work with the patent licence contract, pointing out that Article 132 of the Italian Copyright Act permits the assignment of the contract without the consent of the author in the case where the publisher is transferred to another undertaking. But it seems that the future development of the Italian law of patent licence contracts is unlikely to make use of this concept, because the parallel between the interests of the author and the licensor will hardly be justified, bearing in mind that the inventor-patentee is hardly comparable with the author of a literary work who does not participate in economic life and thus merits particular protection by the legislator.

2.2.5 Agreements With Associative Character.

The question whether patent licence contracts should be considered as contracts of an associative character which follow the rules established for company law or whether they should be assimilated to the leasing contract and the contract of lease of productive property has not only engendered a discussion among legal writers but has been clarified by the courts. The relevance of the differentiation between the narrow concept of the exclusive licence contract, assimilated to the nominate contract of lease or of lease of productive property, and the wide concept of the agreement on co-operation in technique and production, containing a licence for the exploitation of a patented invention, was highlighted by Trib. Milan 12.07.1974.¹⁰³⁷ The Court held that in such a case where a contract relates to a patent but does not only concern the "pure and mere exploitation" of it, it must be doubted that the nullity of the patent would render the contract void due to lack of object. In this case the parties had, in addition to the "mere" patent licence, stipulated that the licensee should carry out experiments

¹⁰³¹ The literal translation of the Italian term "contratto di edizione industriale" with 'contract of industrial production' avoids misleading interpretations, because there is no equivalent contractual type within the common law system.

¹⁰³² Trib. Roma 04.07.1961, Riv.dir.ind. 1961,II,360.

¹⁰³³ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 34.

¹⁰³⁴ Boutet and Lodi on "Brevetti Industriali, Marchio, Ditta, Insegna", Torino 1978, p. 247; Di Franco, Luigi, on "Trattato Della Proprietà Industriale", Milan 1933, p. 131.

¹⁰³⁵ Auteri, Paolo, comment to Trib. Roma 04.07.1961, Riv.dir.ind. 1961,II,360 who criticises the judgement by remarking that it concerns in fact a patent licence contract; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 33.

¹⁰³⁶ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 299.

¹⁰³⁷ Trib. Milano 12.07.1974, GADI 1974,596.

with the patented machine and that the licensor should provide consultation and furnish "all his help and all useful advice, be it for the preliminary or successive studies for the construction of the machine and for its practical application". It seems as if subsequently patentees would have asserted the associative quality of the contract in order to escape the consequences of the nullity of the contract which would have followed, had the contract been qualified as a patent licence contract and had the validity of the patent been challenged successfully by the licensee. Very likely, the decision of Trib. Milan 12.07.1974 will not be followed in the future, because the collaboration in technique and production concerned the patented machine only and the information to be delivered by the licensor was just accessory know-how including information necessary for the construction and practical application of the machine. It may therefore be difficult to assert that the contract is, in fact, not a patent licence contract but an agreement which has, beyond the purpose of the exploitation of a patented invention, the end of achieving an aim common to both parties. Cass. 11.06.1980¹⁰³⁸ clarified this matter. The Court stated that the agreement for the grant of a patent licence was a patent licence contract and not a contract of an associative nature, even though the agreement provided for exclusivity and the collaboration of the inventor in the working of the invention, in addition to the communication of know-how and further improvements for the proportional participation of the licensor in the profits made by the licensee. The decisive criterion for the differentiation seems to be whether the patentee carries any financial risk in the exploitation of the patented invention. Frignani¹⁰³⁹ asserts that the licence contract is an instrument of co-operation between the parties which, according to this author, makes it difficult to liken it to the nominate contractual types of the Italian law of contract.

According to some legal writers¹⁰⁴⁰ it has to be considered, whether the parties assume obligations which constitute a common interest, even if such a common interest is not so strong as in the case of a true association, but sufficient to establish an extension of the reciprocal obligations of the parties in order to classify the agreement. To these obligations which create a common interest are said to belong, in the first place, the clause by which the patentee places at the disposition of the licensee all his technical experience for a better exploitation of the invention or for overcoming eventual difficulties in the process of production, the clause providing for the mutual grant back of know-how and further inventions or improvements, and the clause regulating co-operation in the pursuit of infringers.¹⁰⁴¹ In such a case it appears that the contract exceeds the typological scope of a licence and enters the field of an agreement with associative character. This evaluation depends upon a case-by-case analysis - it is difficult to generalise, because the obligations which are characteristic of the co-operation assume a different content in each contractual context.¹⁰⁴² However, the assumption of the subsistence of a veritable association between the parties should not easily be made. It seems that the mere existence of clauses which presuppose a certain co-operation between the parties is not sufficient to justify the application of the rules pertinent to associations (company law). This may be different in the case in which the parties exploit a patent in common, such as by creating a patent pool, but a licence contract, by means of which the patentee grants the licensee the permission to use the

¹⁰³⁸ Cass. 11.06.1980, GADI 1980,1257.

¹⁰³⁹ Frignani, Aldo on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,290.

¹⁰⁴⁰ See Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 35, citing Pedrazzini, Mario, on "Licenze Sulle Privative Industriali E Contratto Di Società", Riv.soc. 1959,568.

¹⁰⁴¹ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 36; Pedrazzini, Mario, on "Licenze Sulle Privative Industriali E Contratto Di Società", Riv.soc. 1959,569,570.

¹⁰⁴² Marchetti and Ubertazzi, on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 129.

invention against the payment of a remuneration will generally not assume the nature of an agreement establishing an association by the inclusion of clauses according to which the parties will co-operate in the solution of certain problems.

2.2.6 The Patent Pool.

The pooling of patents does not constitute a particular form of the patent licence contract. The owners of different patents may consider it advantageous to transfer the property in their patents to a common enterprise in which they participate, with the aim of a better exploitation of complementary inventions. In Italian law, Frignani¹⁰⁴³ makes clear that the patent pool has to be distinguished from the patent trust which administers the patents, and from cross-licensing where the parties are obligated to grant to the other parties of the cross-licensing agreement those licences which are the subject-matter of the contract.¹⁰⁴⁴

3 REQUIREMENTS OF FORM AND REGISTRATION.

3.1 Requirements Of Form.

The Italian Patent Act of 1939 does not require any form for validity, it is subject to the general rules of the Italian Civil Code.¹⁰⁴⁵ Trib. Milan 03.10.1974¹⁰⁴⁶ held that the patent licence contract may be concluded freely, independent of any formal requirements. The contract may also be implied, for example in the case of a patentee who is, at the same time, the manager of a company which produces and markets the patented products.¹⁰⁴⁷ Trib. Bologna 29.12.1979¹⁰⁴⁸ held that the capacity of a licensee of a patented invention to institute proceedings against infringements of the patent right, may be shown by whatever means of evidence, independent of the written form of the licence contract or of its registration.

However, in order to be enforceable against third parties, the contract has to be registered with the Central Patent Office, Article 66, clause 2 of the Italian Patent Act of 1939 and this presupposes the written form, Article 67(2) of the Italian Patent Act of 1939. Furthermore, it is recommended to use the written form, because Article 2721(1) of the Italian Civil Code

¹⁰⁴³ Frignani, Aldo, on "Factoring, Franchising, Concorrenza", Torino 1979,193.

¹⁰⁴⁴ Mangini, Vito, on "Delle Invenzioni Industriali, Dei Modelli Di Utilità E Dei Disegni Ornamentali", 1st ed., of "Commentario Civile A Cura Di Antonio Scialoja E Giuseppe Branca, Libro Quinto - Del Lavoro", Bologna-Rome 1987, p. 116, confusingly states that the patent pool may be realised through a system of cross-licensing.

¹⁰⁴⁵ Ghidini and Hassan on "Diritto Industriale. Commentario", 2nd ed., Milan 1988, p. 29; Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale", Padova 1987, p. 131; Ravà, Tito, on "Invenzioni E Modelli Industriali", vol. II of "Diritto Industriale", Torino 1988, p. 176.

¹⁰⁴⁶ Trib. Milan 03.10.1974, GADI 1974,624.

¹⁰⁴⁷ Cass. 17.04.1942, Foro it. mass. 1942,247; Trib. Milan 03.10.1974, GADI 1974,624; 23.04.1979, GADI 1979,1188; 11.06.1987, GADI Rep.Sist. 1972 to 1987,560.

¹⁰⁴⁸ Trib. Bologna 29.12.1979, GADI Rep.Sist. 1972 to 1987,560.

says that contracts may not be proved by witnesses, if the value of their subject-matter exceeds 5,000 lire.¹⁰⁴⁹

3.2 Requirements Of Registration.

According to Article 66 clause 2 of the Italian Patent Act of 1939 a patent licence contract has to be registered with the Central Patent Office. Article 67(2) of the Italian Patent Act of 1939 says that the applicant has to file a certified copy of the contract. The validity of the contract does not presuppose registration.¹⁰⁵⁰ In application of Article 68(1) of the Italian Patent Act of 1939 only the registered patent licence contract may be opposed to third persons who have purchased the patent right on the condition that the licence contract was registered before the conclusion of the contract on the assignment of the patent.¹⁰⁵¹ In the case of concurrent transactions on the same patent right, Article 68(2) of the Italian Patent Act of 1939 states that preference is given to the first registered transaction. Those licensees whose rights are affected by the registration, may, according to Mangini,¹⁰⁵² demand the dissolution of the contract, Article 1453 of the Italian Civil Code,¹⁰⁵³ or the warranty against disturbances, Articles 1585 and 1586 of the Italian Civil Code.¹⁰⁵⁴ In Italy the legal provisions on registration are modelled after the international patent conventions. If the patent licence contract is registered in the national patent register, Articles 66(1) and 68(2) of the Italian Patent Act of 1939, the licensee may oppose later transactions by the patentee¹⁰⁵⁵ and Article 68(2) of the Italian Patent Act of 1939 establishes the rule that the first registration prevails. This means that Article 1380(2) of the Italian Civil Code¹⁰⁵⁶ which concerns the principle of seniority, will no longer be applicable in the case of patent licence contracts.¹⁰⁵⁷

¹⁰⁴⁹ See Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 131.

¹⁰⁵⁰ Trib. Bologna 29.12.1979, GADI 1979,857; Ghidini and Hassan on "Diritto Industriale. Commentario", 2nd ed., Milan 1988, pp. 29,30.

¹⁰⁵¹ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 131.

¹⁰⁵² Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 99,100.

¹⁰⁵³ Article 1453: "Dissolution Of Contract For Non-Performance. (1) In Contracts providing for mutual counterperformance, when one of the parties fails to perform his obligations, the other party can choose to demand either performance or dissolution of the contract, saving, in any case, compensation for damages (Article 1223). (2) Dissolution can be demanded even when an action has been brought to demand performance; but performance can no longer be demanded after an action for dissolution has been brought. (3) The defaulting party can no longer perform his obligation after the date of the action for dissolution".

¹⁰⁵⁴ Article 1585(1) of the Italian Civil Code states: "The lessor is bound to warrant the lessee against disturbances which diminish the use or enjoyment of the thing, caused by third persons claiming rights in it".

Article 1586(2) of the Italian Civil Code states: "If the third person results to court action, the lessor is bound to take over the litigation, if he is summoned to the proceedings. The lessee shall be excused from the proceedings merely by indicating the identity of the lessor, unless he has an interest in remaining in the litigation".

¹⁰⁵⁵ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,293; Trib. Milan, 26.09.1974, GADI 1974,615.

¹⁰⁵⁶ Article 1380 of the Italian Civil Code states: "Conflicting Personal Rights Of Enjoyment. (1) If, by successive contract, a person grants a personal right of enjoyment of the same thing to different contracting parties, the enjoyment belongs to the party who first obtained it. (2) If none of the parties has obtained enjoyment, the one who has the prior title of certain date (Article 2704) is preferred."

¹⁰⁵⁷ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind., 1981,293.

The provisions on the enforceability of the patent licence contract to third parties in the Italian Patent Act of 1939 render superfluous the discussion about the 'real right' nature of the licence. Before the modification of the Italian Patent Act, Italian legal doctrine attempted to achieve the "*erga omnes*" effect of the grant of the licence, whether exclusive or not, by application of the rules concerning the usufruct,¹⁰⁵⁸ be it directly or by way of analogy.¹⁰⁵⁹ But according to a unanimous Italian court practice,¹⁰⁶⁰ the registration of the licence is not even a prerequisite of legal proceedings brought by the licensee, because the prohibition of any infringing activity is not diminished by a transfer of the patent or by the grant of a licence, whether these transactions are registered or not.

Part 3: THE INCIDENCE OF ANTITRUST LAW, THE ITALIAN PROTECTION OF COMPETITION ACT OF 1990.

Prior to the Italian antitrust legislation of 1990, the discussion on the interface between patent law and competition law in Italy was generally limited to observations on relevant EC law.¹⁰⁶¹ The Italian Protection of Competition Act of 1990¹⁰⁶² does not refer to patent licence contracts. The scope of the Act is defined in its Article 1(1). It states that the provisions of the Act, giving effect to the safeguards and guarantees in respect of the right to economic initiative under Article 41 of the Italian Constitution, apply to those agreements, abuses of a dominant position and concentrations of enterprises which do not fall within the sphere of application of Article 65 and/or 66 of the ECSC Treaty, Article 85 and/or 86 of the EC TREATY, EC regulations or Community rules of equivalent effect. Articles 2(2) and 3 of the Italian Protection of Competition Act are similar in wording to Articles 85 and 86 of the EC

¹⁰⁵⁸ Articles 978 to 1020 of the Italian Civil Code, Title I, Chapter I of the Third Book, On Property.

¹⁰⁵⁹ See e.g. Greco and Vercellone on "Le Invenzioni E I Modelli", vol XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 290 to 293.

¹⁰⁶⁰ Cass. 17.04.1942, Riv.prop.int.ind. 1948,73, concerning the grant of a licence; Cass. 28.07.1958, Foro it.mass. 1958,554, concerning a transfer of the patent right.

¹⁰⁶¹ Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, pp. 136,137, writing before the Italian legislature adopted the Protection of Competition Act of 1990, asserts that the principles of EC antitrust law, in particular the EC Regulation no. 2349/84 on patent licencing agreements, may be applicable as national Italian law. This legal writer bases this reasoning on the motives of the Regulation which relate to the repression of monopolistic abuses. The legal writer considers these concepts certainly inherent in the Italian legal system, so that the Regulation should, in his view, be considered integrated in the municipal Italian law fitting within the concept of Article 2598 clause 3 of the Italian Civil Code (Article 2598 clause 3 of the Italian Civil Code states: "Acts Constituting Unfair Competition. Subject to the provisions concerning the protection of distinctive signs and patent rights, acts of unfair competition are performed by whoever: (...) 3) avails himself directly or indirectly of any other means which do not conform with the principles of correct behaviour in the trade and are likely to injure another's business") which suppresses acts of unfair competition. This Article lays down that a person commits an act of unfair competition who avails himself directly or indirectly of any other means not conforming with the principles of professional correctness and susceptible of damaging another person's enterprise or with regard to the sanction of nullity of those illicit clauses which are in contrast to the public order. Accordingly, those clauses which obligate the licensee not to challenge the validity of the patent, the clause obliging the licensee to continue the payment of royalties beyond the lapse of the patent, the clause imposing upon the licensee maximum production, the clause imposing unilaterally upon the licensee the communication of improvements, the clause imposing upon the licensee to accept licences on other patents which he does not wish or other performances which he does not wish should all be considered illicit in this author's view.

¹⁰⁶² Law of 10.10.1990, no. 287 - Statute on the Protection of the Competition and of the Market.

Treaty. Article 2(2) of the Italian Protection of Competition Act of 1990 prohibits agreements between undertakings which have the object or effect of hindering, restricting or distorting in a consistent manner the play of competition within the national market or a significant part thereof. They include the following practices:

- (i) the direct or indirect fixing of purchase or selling prices or other contractual terms;
- (ii) the hindering or limiting of production, sale or the access to the market, investment, technical development or technological progress;
- (iii) the partitioning of markets or of sources of supply;
- (iv) the application of objectively different terms for similar services in commercial relationships with other parties, so as to cause them unjustified competitive disadvantages;
- (v) subjecting the conclusion of contracts to the acceptance by the other party of additional conditions which, by their nature or according to commercial usage, have absolutely no connection with the object of the contracts themselves.

According to Article 2(3) of the Italian Protection of Competition Act of 1990 the prohibited agreements are null and void.

Article 3 of the Italian Protection of Competition Act of 1990 relates to the abuse of a dominant position. It states in subsection 1: "The abuse by one or more undertakings of a dominant position within the national market or in a significant part thereof is prohibited, and, further, it is prohibited:

- (i) the direct or indirect imposition of purchase or sale prices, or other unjustifiably onerous terms;
- (ii) the hindering or limitation of production, outlets or access to the market, technical development or technological progress, to the prejudice of consumers;
- (iii) the application of objectively different terms for similar services in commercial relationship with other parties so as to cause them unjustified competitive disadvantage;
- (iv) subjecting the conclusion of contracts to the acceptance by other parties of additional conditions which, by their nature or according to commercial usage, have no connection with the object of the contracts themselves".

According to Article 4 of the Italian Protection of Competition Act of 1990 which concerns exemptions to the prohibitions contained in Article 2, the competent Competition and Market Protection Authority, established by Article 10 of the Act, may authorise by administrative order, for a limited time, agreements or categories of agreements which are prohibited in the sense of Article 2 but which permit an improvement of the conditions for offer in the market. They must have the effect of creating a substantial benefit for the consumers and be identifiable, taking into account the necessity to assure to the undertakings the competitiveness required in the international market and related in particular to the augmentation of production, or to the qualitative improvement of production or distribution, or technical or technological progress. The application for the authorisation may be directed to the Authority, Article 13 of the Act, and will be deemed to be granted if the Authority does

not institute an investigation according to Article 14 of the Protection of Competition Act of 1990 within 120 days after the filing of the application.

Article 5 of the Italian Protection of Competition Act of 1990 defines concentrations, envisaging the fusion of contractual arrangements between two or more undertakings. According to Article 6 of the Act those concentrations which constitute or enforce a dominant position in the market are prohibited. Undertakings which agree upon a possible concentration are obligated to communicate the concentration to the Authority in accordance with Article 16 of the Italian Protection of Competition Act, which then may institute an investigation whether the concentration is prohibited.

Since the EC Treaty contains similar provisions in Article 85 on antitrust law of relevance to patent licence contracts, the jurisprudence which developed on the interpretation of this provision and the Commission Regulation (EEC) No 2349/84 on the Application of Article 85(3) of the Treaty to certain categories of patent licensing agreements will be of particular concern to Italian law. The relevant law of the EU is an important example of the application of those principles on the basis of which the Protection of Competition Act of 1990 will be interpreted by the competent Italian authorities.¹⁰⁶³ However, the Regulation expires on 31 December 1994 and it may be expected that the new Regulation will provide a more liberal regime.¹⁰⁶⁴ The exact scope of application of the provisions of the Italian antitrust law to patent licence contracts is yet unclear. The licensor avails, up to the first marketing of the patented article, of an exclusive right which authorises him to control the use, making and sale of patented articles. Within these limits it seems that the Italian antitrust law does not affect the licensor's position to agree upon clauses which concern his or the licensee's position in competition. Beyond this, it is doubtful whether the legal monopoly of the patent gives the patentee a right to control the licensee's marketing policy.¹⁰⁶⁵ Thus in order to benefit from the legal monopoly granted by the patent the licensor will have to show that the restraints imposed upon the licensee are based upon the exclusivity granted by the patent. Otherwise, the application of the normal criteria of antitrust law will be justified. Accordingly, it may be assumed that those restraints which are covered by the patent monopoly will be upheld whereas those which cannot be based upon patent legislation may be prohibited by the Protection of Competition Act of 1990. The following examination of different clauses which are commonly employed in patent licence contracts attempts to predict the possible attitude of the Competition and Market Protection Authority:

(i) The grant of exclusive licences: The grant of exclusive licences by means of which the licensor restrains himself from exploiting the invention is admissible upon the reasoning that exclusivity may be necessary in order to assure a financial return for the possibly considerable investments required for the industrial application of the invention. Another reason for the grant of exclusive licences lies in the fact that the licensee will perform an exploitation more efficient than the licensor would be able to do. Thus, the receipt of royalties will be more profitable for the licensor than the exploitation of the patented invention by itself and the general public will also benefit from the more efficient exploitation of the invention through

¹⁰⁶³ Ammendola, Maurizio, on "Accordi Di Licenza Di Brevetto Tra Due Imprese E Legislazione Nazionale Antitrust", in: "Diritto Antitrust Italiano", ed. by Frignani, Pardolesi, Patroni Griffi, Ubetazzi, Bologna 1993, pp. 447 to 487 at 452.

¹⁰⁶⁴ See e.g. Korah, Valentine, on "The Preliminary Draft of a New EC Group Exemption for Technology Licensing", (1994) 7 EIPR 263 to 268; Whaite, Robin, on "The Draft Technology Transfer Block Exemption", (1994) 7 EIPR 259 to 262.

¹⁰⁶⁵ Sarti, Davide, on "Circolazione Dei Prodotti Brevettati E Diritto Antitrust", in: "Diritto Antitrust Italiano", ed. by Frignani, Pardolesi, Patroni Griffi, Ubetazzi, Bologna 1993, pp. 419 to 446 at 431.

the licensee. The 'restraint of competition' which the licensor undertakes, is thus justified upon the consideration that the exclusivity clause permits the optimum allocation of the patented technology.

(ii) Territorial Restraints: Generally, territorial limitations of licences are admissible, because they are covered by patent law. However, in the case of territorial restraints imposed upon non-exclusive licensees the licensor's interests are not necessarily supported by patent law. Here, the restraints may be employed in order to establish a distribution network, a purpose which is not envisaged by patent law protection and should, accordingly, be subject to the antitrust law applicable to distribution agreements.¹⁰⁶⁶ But it seems that, in the absence of such considerations, territorial restraints are supported by patent law - the mere fact that the licensor imposes territorial restraints upon non-exclusive licensees will not change the nature of licence contracts into distribution agreements. In the case of exclusive licences, territorial restraints combined with prohibitions of export into the territory of other exclusive licensees may be justified upon the patent system with regard to the economic efficiency the achievement of which is its main purpose, and in consideration of the fact that substantial investments may be necessary for industrial manufacture to be made by the licensee. Whereas the relevant EC law disapproves of exclusive licences combined with export bans ('closed' exclusive licences), it should be observed that costs for transport and marketing might render the 'parallel' importation uneconomical so that such clauses may have a beneficial effect for consumers.¹⁰⁶⁷

(iii) Export bans: Prohibited are clauses which restrain the licensee in the manufacturing and sale or export of patented articles beyond the licensed territory,¹⁰⁶⁸ unless the patentee/licensor avails also of patent protection in those territories to which the export ban relates. This is generally the case if the national territory is split up amongst different licensees. Thus bans which obligate the licensee not to export patented articles into other parts of the national territory or not to supply customers in such territories will be lawful.¹⁰⁶⁹ The borderline between the admissible and non-admissible practice has to be drawn by reference to the doctrine of the exhaustion of the patent right, Article 1(2) of the Italian Patent Act of 1939. Accordingly, the licensor cannot prohibit the re-sale of patented articles from one of the licensed territories where they are lawfully put on the market to another licensed territory, since the patent right is exhausted by the first marketing of the patented article.¹⁰⁷⁰

(iv) Field of use restraints: Field of use restraints are a lawful exercise of the patent right, because the patentee may limit the licence to a partial use of the patented invention,¹⁰⁷¹ such as either for the manufacture of drugs for human medicine or for veterinary purposes. Accordingly, the stipulation of differentiated royalties which correspond to the different kinds of uses of the patented invention is not considered in conflict with the principles of antitrust law.

(v) Grant back clauses: Such clauses by means of which the promisor undertakes to transfer to the promisee the right of use concerning future inventions are lawful if they are non-

¹⁰⁶⁶ Ammendola, fn. 1063, p. 438.

¹⁰⁶⁷ Ammendola, fn. 1063, p. 443.

¹⁰⁶⁸ Ammendola, fn. 1063, pp. 458,459.

¹⁰⁶⁹ Differing: Ammendola, fn. 1063, p. 472.

¹⁰⁷⁰ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 283.

¹⁰⁷¹ Ammendola, fn. 1063, p. 465.

exclusive.¹⁰⁷² Exclusivity may, however, be admissible if the grant back clause relates to improvements in the licensed technology.¹⁰⁷³ The clause which obligates the licensee to assign the property in improvements of the licensed invention to the licensor is generally considered subject to a possible prohibition by antitrust law,¹⁰⁷⁴ because in this case it is evident that the licensor exceeds the monopoly rights which the patent offers.

(vi) Quantity restrictions: These restraints of the licensee serve to partition the market between the licensor and his licensee(s). Concerning antitrust law, the clause on its own may be admissible, but it seems to be incompatible with antitrust law, if it is combined with other clauses such as price fixing or territorial restraints so that the agreement assumes the character of a concerted action.¹⁰⁷⁵ Clauses which impose quantities of sale of the patented articles have to be looked at positively, if they establish a certain minimum, but negative, if they fix maximum sales.¹⁰⁷⁶ Minimum production clauses are considered lawful, because by their employment the licensor avoids the risk that compulsory licences be granted.¹⁰⁷⁷

(vii) Observation of quality standards: Obligations concerning the marking and the imposition of standards of manufacture are generally admissible. They correspond to the optimum and technically satisfactory exploitation of the patented invention and ensure the optimum distribution of the patented articles. However, the control by the licensee may only relate to the licensed patented invention and not to the activities of the licensee in general.¹⁰⁷⁸

(viii) The most favoured licensee clause: The clause is generally considered to be lawful, because it ensures the optimum allocation of the licensed technology. By reason of the lowering of the royalties it permits a reduction of the cost price, leading to a decrease of the sales price thus entailing an advantage for the customers.

(ix) Restraints concerning customers: Restraints by means of which the licensee undertakes to sell patented articles only to certain classes of customers are viewed negatively, because they are conceived as exceeding the use of the monopoly rights conferred by the patent.¹⁰⁷⁹ Clauses which concern the commercialisation of patented articles, for example the distribution to certain classes of customers, are acceptable if justified by the need to maintain servicing standards, insofar as they correspond with the interests of customers. Yet since the patent monopoly extends also to the sale of the patented article, customer restraints should not necessarily be qualified as a non-permissible interference of the licensor with the licensee's marketing policy, because the patent monopoly gives the patentee the right to supply or not to supply the demand for patented articles and to discriminate amongst customers so that similar restraints imposed upon licensees appear to be based upon the patent monopoly. The possible grant of compulsory licences may be sufficient to safeguard the public interests in the supply of the patented articles.

(x) Price fixing: Direct price fixing obligations seem lawful, because the patent right is exhausted only after the first marketing of the patented articles. Thus, the fixation of

¹⁰⁷² Ammendola, fn. 1063, p. 477.

¹⁰⁷³ Ammendola, fn. 1063, p. 478.

¹⁰⁷⁴ Ammendola, fn. 1063, p. 478.

¹⁰⁷⁵ Ammendola, fn. 1063, p. 469.

¹⁰⁷⁶ Ammendola, fn. 1063, p. 471.

¹⁰⁷⁷ Ammendola, fn. 1063, p. 467.

¹⁰⁷⁸ Ammendola, fn. 1063, p. 462.

¹⁰⁷⁹ Ammendola, fn. 1063, p. 470.

minimum or maximum prices is allowed. However, not admissible is the reference to price charts of third persons, because in this case the agreement assumes the character of a concerted practice in restraint of competition. In the case in which the patented article constitutes only an element of the whole product, price fixing is admissible if the patented part characterises the whole product or if this part is of essential importance. Ammendola¹⁰⁸⁰ derives from the explicit prohibition of price-fixing in Article 2(2) of the Italian Protection of Competition Act of 1990 which prohibits the fixing of sales prices that the imposition of a minimum price will be illicit whereas the stipulation of a maximum price will not violate antitrust law. It may be assumed that the author considers the fixation of maximum prices lawful, because this ensures the possibility of price competition for the benefit of customers. Again, it seems appropriate to balance the provisions of antitrust law with the exclusive rights which the patent grants. Accordingly, it seems justified to consider the licensor entitled to take monopoly prices for the patented articles until the first sale it is conclusive to assume that this right extends also to the licensee's policy of price determination.¹⁰⁸¹ It thus appears that, with due regard to the principle of exhaustion, the imposition of price fixing is a lawful exercise of the patentee's rights so that only the imposition of resale price maintenance should be subjected to the general principles of antitrust law and be considered unlawful accordingly.

(xi) Post expiration clauses: Restraints which exceed the duration of the patent right cannot benefit from the legal monopoly conferred by the patent - they are subject to the provisions of antitrust law.¹⁰⁸² Thus post expiration royalties will be subject to antitrust law unless the royalty is not only the consideration for the grant of a patent licence but also for know-how or a trade mark¹⁰⁸³ or if it is the modality of payment where a low royalty rate corresponds with the prolonged duration of the obligation of payment beyond the patent term or if the licensed patented inventions expire at different times.

(xii) Royalty clauses: The stipulation of the payment of royalties the calculation of which depends not only upon the use of the licensed patented invention but which relates to the manufacture and sale of articles not covered by the licensed patented invention is likely to violate Italian antitrust law.¹⁰⁸⁴ Minimum royalty clauses are lawful, because such clauses assure the exploitation of the licensed patented invention.

(xiii) Compulsory block licensing: These clauses by means of which the licensee is forced to acquire also rights for the exploitation of patented inventions in which he is not interested. may contravene the Italian Protection of Competition Act of 1990. Whereas the purpose which the clause aims at in principle cannot be based on the patent monopoly,¹⁰⁸⁵ a more pragmatic view should take into consideration that block licensing may facilitate the manufacturing of patented articles in cases where the bundle contains complementary inventions or where the licensed technology covers such a wide field that the licensing of individual licences would not be practicable or serve the interests of competitors who are exclusively interested in the obtention of certain specific licences only.

¹⁰⁸⁰ Ammendola, fn. 1063, p. 476.

¹⁰⁸¹ Thus Sarti, fn. 1065, p. 444, carefully considers that price fixing may be admissible in the case of exclusive licences.

¹⁰⁸² Ammendola, fn. 1063, p. 454.

¹⁰⁸³ Ammendola, fn. 1063, p. 455.

¹⁰⁸⁴ Ammendola, fn. 1063, p. 458.

¹⁰⁸⁵ Ammendola, fn. 1063, p. 457.

(xiv) Tying clauses: Generally, tying clauses are not considered covered by the patent monopoly,¹⁰⁸⁶ however, they are admissible if the tied products are necessary for the use of the licensed invention, or required by the standard or quality of patented articles, Article 2(2) of the Act.

(xv) No-competition clauses: The validity of clauses which obligate the licensee not to use technologies which substitute the licensed technology, whether they are developed by himself or licensed from third parties seems doubtful, because such clauses restrain the competition without their being able to be justified upon the exclusive rights which the patent grants. They prevent the licensee from striving for new technologies.¹⁰⁸⁷ However, although the clause will, generally, have the effect of discouraging the licensee from further research for better technological solutions in order to achieve a lowering of the cost price, Ammendola¹⁰⁸⁸ admits that the stipulation of the clause may be necessary during an initial period in order to ensure the industrial manufacture of the licensed articles.¹⁰⁸⁹

(xvi) The grant of sub-licences and the assignment of the patent: The restraint of the licensee against the granting of sub-licences is lawful, because it is covered by legitimate interests of the licensor in the optimum personal exploitation of his patented invention by the licensee. Also the licensor's undertaking not to assign the licensed patented invention will be admissible, because the licensee may have the legitimate interest that the person of his contractual partner is not replaced, in particular if the licensor is bound by obligations such as the duty to communicate improvements.

(xvii) No-challenge clauses: Such clauses are valid in Italian civil law,¹⁰⁹⁰ however, under the Protection of Competition Act of 1990 such clauses may be considered in restraint of competition and be considered unlawful, because the keeping in force between the parties of an invalid patent violates the public interest according to which the patent grant presupposes the conditions of patentability. Ammendola¹⁰⁹¹ considers that the interests of the licensor are sufficiently protected by the regulation according to which the licensor in principle does not have to reconstitute the royalties if the patent is revoked, Article 59-bis of the Italian Patent Act of 1939. Conforming with EU antitrust law, the legal writer¹⁰⁹² considers that the no-challenge clause violates antitrust law, unless the licence has been granted freely or concerns an outdated technology.

In its bulletin the Competition Authority had not yet had occasion to refer in detail to the relation of patent law to antitrust issues. In its reference C150 of order no. 166 of 02.10.1991, in ENICHEM/RHONE POULENC,¹⁰⁹³ the Authority considered that the intended purchase of RHONE POULENC ITALIA Spa by ENICHEM Spa fell within the meaning of 'concentration' contained in Article 5(1)(b) of the Act. The Authority noticed that the intended

¹⁰⁸⁶ Ammendola, fn. 1063, p. 456.

¹⁰⁸⁷ Ammendola, fn. 1063, p. 459.

¹⁰⁸⁸ Ammendola, fn. 1063, p. 461.

¹⁰⁸⁹ On the general conditions of the clause see below, Chapter 4, part 6: 5.2.

¹⁰⁹⁰ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 360; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 151; Sena, Giuseppe, on "I Diritti Sulle Invenzioni E Sui Modelli Industriali", vol. IX-3 of "Trattato Di Diritto Civile E Commerciale", ed. by Cicu and Messineo, continued by Mengoni, 3rd ed., Milan 1990, p. 371.

¹⁰⁹¹ Ammendola, fn. 1063, p. 486

¹⁰⁹² Ammendola, fn. 1063, p. 487.

¹⁰⁹³ Bollettino Dell' Autorità Garante Della Concorrenza E Del Mercato, Order no. 166 of 02.10.1991, reference C150-ENICHEM/RHONE POULENC.

purchase comprised the acquisition of the related technology, patents and commercial rights but held that in consideration of the structure and the peculiarity of the market the concentration did not constitute an enforcement of a dominant position in the national market. In its reference C180 of order no. 239 of 04.12.1991, ECOSERVIZI/NOVA SPURGHI,¹⁰⁹⁴ the Authority considered the relevant barriers of entry to the relevant market concerning chemical-physiological-biological treatment and observed that it was not necessary to invest large sums of money in order to enter the market: "There are no patents, if not in rare cases, and the technological processes used are accessible also to smaller enterprises: the technology does not constitute a barrier". It appears difficult to deduce from these few references to patents a certain policy of the Competition Authority. However, it may be assumed that the Authority will co-ordinate the national antitrust law with the appropriate doctrines developed in EC antitrust law.¹⁰⁹⁵

Part 4: THE INVALIDITY OF THE PATENT AND THE TERMINATION OF THE CONTRACTUAL RELATION.

1 THE INVALIDITY OF THE PATENT.

1.1 The Invalidity Of The Patent Entails The Lack Of Object Or Of Causa Of The Contract.

The declaration of the nullity of the patent has, according to Article 79 of the Italian Patent Act of 1939, effect "*erga omnes*", that is to say against third parties.¹⁰⁹⁶ In the case of the revocation of the patent, prevailing Italian court practice, before the modification of the Patent Act of 1939 in 1979, considered the contract void due to lack of object, with retroactive effect in application of Articles 1346 and 1418 of the Italian Civil Code,¹⁰⁹⁷ concerning the impossibility of the object.¹⁰⁹⁸ Thus, Trib. Milan 12.07.1974¹⁰⁹⁹ held that the invalidity of the patent will necessarily lead to the nullity of the patent licence contract due to lack of object. App. Milan 12.12.1972¹¹⁰⁰ stated that the contract for the exploitation of a patent requires

¹⁰⁹⁴ Bollettino Dell' Autorità Garante Della Concorrenza E Del Mercato, reference C180-ECOSERVIZI/NOVA SPURGHI, Order no. 239 of 04.12.1991.

¹⁰⁹⁵ See Franceschelli, Vincenzo, on "La Legge Antitrust E La Nuova Disciplina Delle Concentrazioni", Riv.dir.ind. 1991,I,297 and 300.

¹⁰⁹⁶ Mangini, Vito, on "Proprietà Industriale E Concorrenza", Riv.trim.dir.proc.civ. 1986,654.

¹⁰⁹⁷ Article 1346 of the Italian Civil Code states: "Requisites. The object of the contract must be possible, lawful, determined, or determinable (1349 to 1418)".

Article 1418 of the Italian Civil Code states: "Causes Of Nullity Of Contract. (1) A contract that is contrary to mandatory rules is void, unless the law provides otherwise. (2) A contract is rendered void by the lack of one of the requisites indicated in Article 1325, unlawfulness (Article 1343) of causa, unlawfulness of the motives in the case indicated in Article 1345, and lack in the object of the requisites set forth in Article 1346. (3) A contract is also void in the other cases established by law".

¹⁰⁹⁸ App. Milan 16.05.1972, GADI 1972,126; App. Milan 12.12.1972, GADI 1973,211.

¹⁰⁹⁹ Trib. Milan 12.07.1974, GADI Rep.Sist. 1972 to 1987, p. 561.

¹¹⁰⁰ App. Milan 12.12.1972, GADI Rep.Sist. 1972 to 1987, p. 561.

necessarily for its validity the subsistence of the right and must be directed to assure the exclusive protection which forms its object and which, by its function, assumes legal relevance which cannot be used up in a mere factual exclusivity.

Cass. 25.07.1972¹¹⁰¹ held that in application of Article 1497 of the Italian Civil Code,¹¹⁰² the licensor may demand the dissolution of the contract due to lack of the qualities of its subject-matter which are essential for the use for which it is intended. It seems that the Court considered the licence contract as an atypical innominate contract which may be assimilated to the leasing contract. Mangini,¹¹⁰³ referring to the consecutive performances of the parties to the patent licence contract, advocates that the contract be declared void "*ex nunc*" (with effect for the future) only upon application to the court. In the case of a more complex contractual arrangement, for example an agreement on industrial co-operation, the declaration of the nullity of the patent will not lead to the nullity of the whole contract.

If the contractual subject-matter is mixed, the invalidity of the patent will not necessarily entail the nullity or dissolution of the contract. App. Milan 12.12.1972¹¹⁰⁴ held that the invalidity will affect the contract, if the obligation of collaboration is intrinsically linked to the exploitation of the invention. But if, on the other hand, the support of technical assistance and the transfer of know-how which the licensor is due have their reason independent of the validity of the patent, its revocation may only lead to the partial nullity of the contractual relation.¹¹⁰⁵ In the absence of a contractual stipulation the expiration of the patent term indicates the end of the contractual relation between the parties, so that, in the absence of a stipulation to the contrary, the contract is of determinate duration.¹¹⁰⁶

As Marchetti and Ubertazzi¹¹⁰⁷ point out, one may infer from Article 59-bis of the Italian Patent Act of 1939 that the contractual relation is not affected until the declaration of the nullity of the patent - and the subsequent nullity of the contract does not have effect insofar as the contract has been performed. It is, however, controversial, whether the nullity of the licence contract subsequent to the declaration of the nullity of the patent has retroactive effect. Di Cataldo¹¹⁰⁸ asserts that the nullity of the contract subsequent to the revocation of the patent would not have retroactive effect but operates "*ex nunc*", thus releasing the licensee from the obligation to pay the royalties for the future. Giambrocono and Andreolini¹¹⁰⁹ purport that Article 59-bis of the Italian Patent Act of 1939 has an exceptional character so that the authorities prior to the introduction of this provision in 1979 would still be applicable. In consequence, these legal writers assert that the nullity of the contract would have retroactive

¹¹⁰¹ Cass. 25.07.1972, GADI 1972,2542; similar Trib. Torino 04.10.1974, GADI 1972,629.

¹¹⁰² Article 1497 of the Italian Civil Code states: "Lack of quality. When the thing sold lacks the qualities promised or those essential for the use for which it is intended, the buyer is entitled to obtain dissolution of the contract according to the general provisions on resolution for non-performance (Articles 1453 et seq.) provided that the defect in quality exceeds the limits of tolerance established in Article 1495".

¹¹⁰³ Mangini, Vincenzo, on "La Licenza Di Brevetto", Padova 1970, p. 124.

¹¹⁰⁴ App. Milan 12.12.1972, GADI 1972,1585.

¹¹⁰⁵ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", p. 133.

¹¹⁰⁶ Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, p. 135;

Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 129.

¹¹⁰⁷ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 132.

¹¹⁰⁸ Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, p. 136.

¹¹⁰⁹ Giambrocono and Andreolini on "Brevetti E Proprietà Industriale", Milan 1987, p. 61.

effect yet with the proviso that the obligations insofar as performed would not be affected by the nullity. In conclusion, the view according to which the revocation of the patent has the effect of rendering the patent licence contract void due to lack of object from its conclusion onwards appears to be coherent from the theoretical point of view, because it conforms with the doctrine of the object as a condition for the formation of the contract.

The parties to the patent licence contract might attempt to avoid any disputes concerning the question of the validity of the patent by expressly stipulating that the licensee recognises the validity of the patent. But the practical value of such a clause appears limited taking into consideration that the declaration of the nullity of the patent has absolute effect and that it may arise from the challenge brought by a third person. However, within the contractual relation, even in the absence of such a clause Frignani¹¹¹⁰ asserts that the licensee may not put the invalidity of the patent in issue, because the validity of the patent is the *causa* of the licence contract. The licensee's right to put the validity of the patent in issue was also questioned by Trib. Roma 21.05.1904.¹¹¹¹ The Court held that the licensee who has bargained for the licence may not free himself from the agreed counter performance assuming the nullity of the patent and thus the non-existence of the exclusive right due to lacking novelty of the invention. It appears doubtful whether this judgement will be followed, even if this view has been approved of by Mangini.¹¹¹² The grant of a patent presupposes the subsistence of the conditions of patentability. It would surprise that the law should prohibit the licensee from putting the validity of revocable patents in issue, the maintenance of which contravenes the public interest. It would also surprise that the licensee should not be able to plead 'defects' of the subject-matter of the contract, even if such defects would entail its 'destruction'. App. Bologna 23.01.1965¹¹¹³ held that also the exclusive licensee has the right to put the validity in issue. The Court confirmed that the right which the licensee acquires, be it of a real or of personal nature, is the right for the exclusive exploitation of an industrial invention validly patented, a right which thus is conditioned upon the validity of the patent which only may assure the exclusive protection of the "*bene immateriale*" which forms its object and which, by function of it, has legal relevance. According to Lodo Arbitrale 02.10.1964¹¹¹⁴ the licensee is not impliedly obligated to refrain from challenging the validity of the patent. Thus it seems that without such an express undertaking the licensee is free to challenge the validity of the patent for reasons which render this right 'defective'. It does appear that validity of the express no-challenge clause seems to be doubtful under the Italian Freedom of Competition Act of 1990.¹¹¹⁵

1.2 The Equitable Refund Of Royalties Paid For An Invalid Patent.

Article 59-bis of the Italian Patent Act of 1939 states that "a declaration of nullity of the patent does have retroactive effect; however, it shall not affect: (...) (b) contracts concerning the invention entered into prior to the decision declaring nullity having become final, to the

¹¹¹⁰ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,294 citing Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 197.

¹¹¹¹ Trib. Roma 21.05.1904, quoted by Cass. 12.04.1940, Rep.giur.it. 1940, Prop.ind. no.8.

¹¹¹² Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 150,151.

¹¹¹³ App. Bologna 23.01.1965, Giur.it. 1966,I,2, p. 422.

¹¹¹⁴ Lodo arbitrale 02.10.1964, Temi 1964,501.

¹¹¹⁵ See below, Chapter 4, part 6: 5.1.

extent they have already been performed. In such a case, however, the judge, taking into account the circumstances, may order an equitable refund of the amounts already paid in performance of the contract". The reasoning behind Article 59-bis of the Italian Patent Act of 1939 seems to be that before the revocation of the patent the licensee has enjoyed a privileged position in the market thanks to the factual monopoly.¹¹¹⁶ Article 59-bis of the Italian Patent Act of 1939 modified the legal situation, because according to previous court practice the licensor was often obligated to repay the royalties received.¹¹¹⁷

Article 59-bis of the Italian Patent Act of 1939 does not refer to the contractual relation between the parties insofar as it is executed. The effect of the nullity of the patent, that is to say the fact that the nullity works "*ex tunc*" and has effect "*erga omnes*", must not be confused with the consequences which the nullity has on the contractual relation between the parties. Trib. Roma 06.07.1985¹¹¹⁸ confirmed that the patent licence contract constitutes an agreement of successive performances on which the dissolution of the contract for the supervening fact of the declaration of the nullity of the patent cannot act with retroactive effect. The Court held that on the basis of the licence contract the licensee had effectively enjoyed exclusivity and continued to draw profits until the revocation of the patent, so that the licence contract constituted a relation of duration on which relation the dissolution of the contract for the supervening fact of the declaration of nullity of the patent cannot have retroactive effect in application of Article 1458 of the Italian Civil Code.¹¹¹⁹

One might think that the licensee is not freed from the obligation to pay royalties for the period preceding the declaration of nullity, if they have not yet been paid. Such payments can possibly no longer be based on the contractual obligations.¹¹²⁰ Yet the ratio of Article 59-bis of the Italian Patent Act of 1939 suggests to evaluate the extent up to which the contract has been performed and thus to assess the advantages which the licensee has drawn from the exploitation of the invention in a situation of factual monopoly or, in the case of a non-exclusive licence, in the presence of a certain number of competitors. Accordingly, it would appear equitable if the licensee would have to pay the royalties until the declaration of nullity, but reduced for the amount of the refund which the licensor will be due in application of § 59-bis of the Act.

Trib. Roma 23.01.1985¹¹²¹ held that the right to a claim for an equitable refund is not a matter of an automatic procedure or a declaration of invalidity of the licensed patent, but subject to evaluation by a judge, on a case-by-case basis, taking into account of the specific and peculiar circumstances in the relevant case and, particularly, the reciprocities which can be found in the opposed performances. Trib. Vicenza 13.09.1986¹¹²² stated that the motives of equity do not recur in order to estimate in the sense of Article 59-bis of the Italian Patent Act of 1939

¹¹¹⁶ Ghidini and Hassan, on "Diritto Industriale. Commentario", 2nd ed., Milan 1988, p. 119.

¹¹¹⁷ App. Milan 16.05.1972, GADI 1972,126.

¹¹¹⁸ Trib. Roma 06.07.1985, GADI Rep.Sist. 1972 to 1987, p. 562.

¹¹¹⁹ Article 1458 of the Italian Civil Code states: "Effects Of Dissolution. (1) Dissolution of a contract for non-performance has retroactive effect as between the parties, except in the case of contracts for continuous or periodic performance, with respect to which the effect of dissolution does not extend to performance already made (Article 1467). (2) Dissolution, even if expressly agreed upon (Article 1456), does not prejudice rights acquired by third persons, except for the effects of transcription (Article 2652 no. 1) of the action for dissolution".

¹¹²⁰ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 132.

¹¹²¹ Trib. Roma 23.01.1985, GADI Rep.Sist. 1972 to 1987, p. 562.

¹¹²² Trib. Vicenza 13.09.1986, GADI Rep.Sist. 1972 to 1987, p. 562.

the refund of even only a part of the amount paid by the licensee to the licensor, if the payments were made as royalties pertaining to the agreement concluded, since by the execution of the licence contract the licensee derived a 'positive' advantage. Thus, the 'factual' monopoly which the licensee may have enjoyed by means of the licensing of an invalid patent has to be taken into consideration.

Trib. Bologna 07.09.1989¹¹²³ held that Article 59-bis of the Italian Patent Act of 1939 gives the judge wide discretionary power in ordering the refund which must take into account the circumstances of the case, to which belongs the will of the parties. Should thus the parties by appropriate stipulation have agreed that no refund shall be made according to Article 59-bis of the Act, the judge will have to reject any demand for a refund, since this legal disposition may be waived by stipulation in the licence contract. The parties stipulated that the amounts paid within the sense of the clauses of the contract are understood as being not repayable, being comprehended as a settlement not only for the period of exploitation but for the technical teachings as well. The Court held: "Such a clause renders evident that the parties were not only aware at the time of the conclusion of the contract of the possibility of the invalidity of the contract, but that they also considered the contract valid in law, up to the moment where a court made a legally binding judgement on the patent; therefore, the particular object of the contract concluded between the parties which certainly existed at the moment of the conclusion of the agreement was not the patent itself but the interest of the licensee to exploit the discovery without any impediment by the person who asserted the ownership in an exclusive right, and to utilise the advantages deriving from the presumed validity of the patent which - as is known - exists up to the moment of the legal force of a judgement to the contrary"... The Court confirmed that the licence contracts stipulated between the parties are valid, in spite of the lack of the conditions of patentability on which the plaintiff may base his claim; the Court held that, in consideration of the clauses, it would not be possible to declare the nullity of the contract, this being subject to the decision concerning the invalidity of the patent becoming legally binding; therefore, the declaration of the nullity of the contract must be deferred until the final judgement on the validity of the patent. The reasoning of the court does not appear convincing. It may be doubted whether the subject-matter of the contract should be ascertained by reference to further expectations or motives which may have induced the parties to conclude the contract, for example the motive to exploit the invention in exclusivity. The subject-matter of the patent licence contract is the patented invention, just as in the case of the sale of the patented invention. The invalidity of the patent affects the object of the contract and entails its voidness from the moment of the conclusion onwards with the consequence that, in principle, the royalties would have to be restituted in application of the principle of unjust enrichment. The reference to the leasing contract within this context and the drawing of a parallel to the termination of the leasing contract which may have effect for the future only, appears, however, not justified. In the case of the patent licence contract the contractual subject-matter is an incorporeal right. The invalidity of the patent affects this right with retroactive effect. A defect which leads to the invalidity of the right and which concerns its conditions does not have effect for the future but also for the past, whereas the advantages which may have been drawn from the factual enjoyment of the invalid right will have to be restituted. But the reference to the leasing contract is all the less necessary, because of the provision contained in Article 59-bis of the Italian Patent Act of 1939. On the contrary, it may be argued that the intervention of the legislator would certainly not have taken place had the legislator considered that the relation between the parties to the patent licence contract would have to be dissolved according to the rules applicable in the case of the leasing contract. In conclusion, it may be stated that the

¹¹²³ Trib. Bologna 07.09.1989, GADI 1990,2491.

revocation of the patent affects the patent licence contract with retroactive effect, however, in conformity with Article 59-bis of the Italian Patent Act of 1939 the payment of royalties is due until the moment of the declaration of the nullity of the patent whereby the licensee may retain an amount corresponding to the equitable refund which a judge may order the licensor to pay to the licensee in application of Article 59-bis of the Act.

In the case of a more complex contractual arrangement where the invalidity of the patent does not lead to the nullity of the whole contract, the judge will have to distinguish when applying Article 59-bis of the Italian Patent Act of 1939, between the royalties payable for the use of the invention and for those paid for the communication of the know-how and the performance of technical assistance, and subsequently find the percentile value which the royalties for the patent licence represent.¹¹²⁴

2 THE TERMINATION OF THE CONTRACTUAL RELATION.

2.1 The Terminability Of The Contract.

According to Trib. Torino 15.06.1981¹¹²⁵ the dissolution of the contractual relation may be brought about by an agreement between the parties or by the declaration of the judge or, in the case of a breach of contract, the other party can serve a written notice on the defaulting party to perform within an appropriate time, declaring that, unless performance takes place within such time, the contract shall be deemed dissolved, Article 1454(1) of the Italian Civil Code.¹¹²⁶

Greco and Vercellone¹¹²⁷ assert that after the termination of the contract the licensee is no longer entitled to use up the stock of patented articles produced during the subsistence of the licence, if the patent has not yet lapsed. Otherwise the licensee might build up stocks of the patented article and sell them after the termination of the contractual relation without obligation for the payment of royalties, if the amount of royalties is, for example, dependent upon the number of articles sold. Even if the licence contract is terminated, the licensee remains obligated not to use or to disclose any confidential information communicated by the licensor, if this information was objectively destined to remain secret.¹¹²⁸

2.2 The Nullity Of The Contract In The Case Of The Invalidity Of The Patent.

¹¹²⁴ Marchetti and Ubertaini on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 133.

¹¹²⁵ Trib. Torino 15.07.1981, GADI Rep.Sist. 1972 to 1987, p. 560.

¹¹²⁶ Article 1454(1) of the Italian Civil Code states: "Notice To Perform. (1) The other party can serve a written notice on the defaulting party to perform within an appropriate time, declaring that, unless performance takes place within such time, the contract shall be deemed dissolved".

¹¹²⁷ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 282,283.

¹¹²⁸ Trib. Milan 22.06.1973, GADI Rep.Sist. 1972 to 1987, p. 558.

As has been shown above,¹¹²⁹ the invalidity of the patent leads according to the prevailing view to the nullity of the licence contract due to lack of object or of causa. In the case of the invalidity of the patent, Article 59-bis of the Italian Patent Act of 1939, introduced with the modification of the Act in 1979, specifies that the declaration of the nullity of the patent will lead to the nullity of the contract.¹¹³⁰

2.3. The Post-Expiration Clause.

The validity of the clause which extends the duration of the contractual relation beyond the term of the patent has been discussed above in relation to the Italian antitrust law.¹¹³¹

Part 5: THE OBLIGATIONS OF THE LICENSOR.

1 THE OBLIGATION OF DELIVERY.

The Italian Civil Code deals expressly with the obligation of delivery, for example concerning the contract of sale¹¹³² the leasing contract¹¹³³ or the lease of productive property.¹¹³⁴ According to these provisions the obligation of delivery comprises not only the principal thing but also accessories.¹¹³⁵ The obligation of delivery in the case of the patent licence contract thus may impliedly extend beyond the patented invention to additional information or instructions. The comprehension of 'accessories' within the contractual obligation of delivery is based upon a non-mandatory term implied by statute.

Greco and Vercellone¹¹³⁶ are adherents of a broader interpretation of the obligation, observing that the licensor, 'naturally', has to furnish the licensee with the necessary or useful

¹¹²⁹ See above, Chapter 4, part 4: 1.1; see also below, Chapter 4, part 6: 1.

¹¹³⁰ Trib. Bologna 07.09.1989, GADI 1990,2491.

¹¹³¹ See above, Chapter 4, part 3.

¹¹³² Article 1477 of the Italian Civil Code.

¹¹³³ Article 1575(1) of the Italian Civil Code.

¹¹³⁴ Article 1617 of the Italian Civil Code.

¹¹³⁵ Article 1617 of the Italian Civil Code states: Obligation Of The Lessor. The lessor is obligated to deliver the thing with its accessories and appurtenances (or fittings), in a state susceptible to serve for the use and production to which it is destined". Article 817(1) of the Code defines the term 'appurtenances' or 'fittings': "Appurtenances or fittings are those things which are destined in a lasting manner for the service or embellishment of another thing". Article 818 of the Code which concerns the legal rules applicable to appurtenances states in subsection 1: "Legal acts and relations which have as object the principal thing comprehend also the appurtenances, unless it is disposed differently".

¹¹³⁶ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 281.

information for the working of the invention, if the delivery of the documentation concerning the patent grant is not sufficient. Trib. Milan 14.09.1981,¹¹³⁷ on the other hand, held that the licensor, in the absence of a contractual stipulation, is not bound to solve these technical problems concerning the application of the invention, even where a specific clause of the agreement provided for the delivery of know-how by the licensor, because the licensee was specialised in the technique involved and the solutions which were aimed at unsuccessfully belonged to the science and technique of the branch and the field of the invention. The implication may thus depend upon particular circumstances, such as whether the licensee is himself versed in the particular field of technology, so that a Court will only extend the obligation of delivery to the additional communication of information if this is required by the principle of good faith.

2 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.

According to Greco and Vercellone¹¹³⁸ the non-exclusive licensor is positively obligated, beyond the mere communication of the patented invention, to furnish information to the licensee, if necessary for the working of the invention. However, it seems that the legal writers would not consider the licensor impliedly obligated, in the absence of any contractual stipulation which creates a broad obligation of assistance and co-operation, to communicate improvements which he makes in relation to the licensed invention. The scope of the obligation will thus depend upon the particular circumstances of the case. It seems that in the case in which the licensee is not a specialist in the field of the licensed technology an Italian court will be prepared to construe the implied term more broadly than in the case in which the licensee is acquainted with the technology. Whether this is reasonably necessary in order to protect the licensee appears questionable, because the licensee will generally be an industrialist so that even the inexperienced licensee may protect himself by demanding the stipulation of an appropriate clause which obliges the licensor to supply any material or information required in order to facilitate the manufacture of the licensed articles or the use of the licensed patented method for the industrial process. The imposition of the duty to communicate improvements of the licensed invention based upon the statute-implied obligation of delivery will possibly be excessive, because it is difficult to conceive of improvements of the licensed invention as 'accessories' of the principal thing, the licensed patented invention. Even if the licensor's obligation to communicate accessory know-how may be comprehended under this term, new inventions which possibly relate to a competing technology cannot be understood as 'accessories' of the licensed patented invention.

3 THE OBLIGATION OF DELIVERY CONCERNING UNPATENTED SUBJECT-MATTER.

¹¹³⁷ Trib. Milan 14.09.1981, Riv.dir.ind. 1982,II,29.

¹¹³⁸ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 284.

Greco and Vercellone¹¹³⁹ consider the licensor as "naturally" obligated to supply the licensee with all the information necessary for the utilisation of the patented invention, insofar as the data contained in the description of the patented invention is not sufficient to work the invention. However, court practice is more reticent. Trib. Milan 14.09.1981¹¹⁴⁰ held that "the licence for the manufacture of patented products, in the absence of a stipulation to the contrary, does not imply in charge of the licensor the obligation in favour of the licensee, specialised in the field of the technique, to solve also these technical problems of an applicative character the solution of which belongs to the science and to the technique of the field". Accordingly, it seems appropriate to leave it to the licensee to insist on additional undertakings by the licensor if he wants to be assured that the licensed technology can directly be used for purposes of industrial manufacture.

4 THE OBLIGATION OF THE MAINTENANCE OF THE PATENT.

Giambrocono and Andreolini¹¹⁴¹ recommend that the parties to a licence contract should stipulate who is liable for the payment of the renewal fees and upon which party the obligation to defend the patent against infringements rests. It may be inferred that in the absence of such clauses, the legal writers would not easily imply such a duty by construction of the licence contract. In view of the silence of a contract, most Italian legal writers are prepared to assume that the patentee-licensor remains obligated to pay the renewal fees¹¹⁴² and to defend the patent against infringers.¹¹⁴³ Others assert that the obligation to pay the renewal fees rests with the exclusive licensee,¹¹⁴⁴ whereas the possibility cannot be excluded that - depending upon the particular case - the contract imposes this obligation also upon the non-exclusive licensee,¹¹⁴⁵ or, in the case of the non-exclusive licence, that the licensor has to pay the fees.¹¹⁴⁶

¹¹³⁹ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 281.

¹¹⁴⁰ Trib. Milan 14.09.1981, Riv.dir.ind. 1982,II,29.

¹¹⁴¹ Giambrocono and Andreolini on "Brevetti E Proprietà Industriale", Milan 1987, p. 59.

¹¹⁴² Ascarelli, Tullio, on "Teoria Della Concorrenza E Dei Beni Immateriali", 3rd ed., Milan 1960, p. 648; Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 281; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 17 who bases the obligation upon Article 1575 no. 2 of the Italian Civil Code according to which "the lessor shall maintain the thing in a condition suitable for the use agreed upon".

¹¹⁴³ Di Cataldo, Vincenzo, on "I Brevetti Per Invenzione E Per Modello; Il Codice Civile", legal commentary ed. by Schlesinger, Milan 1988, p. 140.

¹¹⁴⁴ Guglielmetti, Giannantonio, on "Le Invenzioni E I Modelli Industriali Dopo La Riforma Del 1979", Milan 1982, p. 85.

¹¹⁴⁵ On Italian court practice see Trib. Torino, 15.02.1950, Foro pad. 1950,693 (concerning an exclusive licence contract); on Italian doctrine see Ascarelli, Tullio, on "Teoria Della Concorrenza E Dei Beni Immateriali", 3rd ed., Milan 1960, pp. 648,650; Corrado, Renato, on "Opere Dell'Ingegno Privative Industriale", vol. VI of "Trattato Di Diritto Civile", ed. by Grosso and Santoro-Passarelli, Milan 1961 p. 126; Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 282; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 22.

¹¹⁴⁶ Guglielmetti, Giannantonio, on "Le Invenzioni E I Modelli Industriali Dopo La Riforma Del 1979", Milan 1982, p. 85.

In Italian law, it follows from Articles 44, 55 to 58 of the Patents Act of 1939 that the licensor-patentee is obligated to maintain the licensed patent.¹¹⁴⁷ Article 20(2) of the Italian Patent Act of 1939¹¹⁴⁸ is not applicable; it states that the transfer of the rights deriving from the patent imposes upon the purchaser the obligation to pay the fees. Application of this provision is limited to the transfer of the patent right. The lapse of the patent, due to the non-payment of renewal fees, entitles the licensee to terminate the contract. Similarly as in French law, the patentee may surrender the patent right, Article 59-ter(1) of the Italian Patent Act of 1939, but according to Article 59-ter(2) of the Act the renunciation will be without effect if it is not accompanied by the written consent of a third person whose licence has been transcribed in the patent register.¹¹⁴⁹ In conclusion, it may be assumed that in the case of the silence of the contract it will be justified to refer to the statute-implied term according to which the lessor shall maintain the thing in a condition suitable for the use agreed upon, Article 1575 clause 2 of the Italian Civil Code.

5 THE OBLIGATION OF PROTECTION.

Article 1585(1) of the Italian Civil Code¹¹⁵⁰ provides that the lessor is bound to warrant against disturbances which diminish the use or enjoyment of the thing, caused by third persons claiming rights in it. According to subsection 2¹¹⁵¹ the lessor is not bound to warrant against disturbances caused by third persons who do not claim rights, but the lessee has the power to bring an action against them in his own name. It can be argued that the first subsection of this provision comprises a basis for the statutory implication of an obligation of protection which though directly applicable to the leasing contract, may also be applied to the patent licence contract by way of analogy so that the licensor is obligated to act against infringers and other persons who assert that the licensee infringes their patented inventions. But if the third person who disturbs the enjoyment of the licensed patented invention claims rights in the licensed invention, the licensor is not bound by an obligation of protection, because in this case the licensee may, according to the second subsection of this provision, bring his own action. In this second case the lessor is bound to take over the litigation by reason of Article 1586(2) of the Italian Civil Code¹¹⁵² according to which the lessor is bound to take over the litigation if he is summoned to the proceedings in the case in which a third

¹¹⁴⁷ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981, p. 293.

¹¹⁴⁸ Article 20(2) of the Italian Patent Act of 1939 states: "In the absence of agreements to the contrary, the transfer of the rights deriving from the patent involves for the assignee the obligation to pay the relative fees";...

¹¹⁴⁹ Article 59-ter of the Italian Patent Act of 1939 states: "A patent shall be void: 1) if the invention is not patentable under sections 12, 13, 14, 16 and 17; 2) if the invention is not described in a sufficiently clear and full manner so as to enable a person skilled in the art to work same".

¹¹⁵⁰ Article 1585(1) of the Italian Civil Code states: "The lessor is bound to warrant the lessee against disturbances which diminish the use or enjoyment of the thing, caused by third persons claiming rights in it".

¹¹⁵¹ Article 1585(2) of the Italian Civil Code states: "The lessor is not bound to warrant against disturbances caused by third persons who do not claim rights, but the lessee has the power to bring action against them in his own name".

¹¹⁵² Article 1586(2) of the Italian Civil Code states: "If the third person results to court action, the lessor is bound to take over the litigation, if he is summoned to the proceedings. The lessee shall be excused from the proceedings merely by indicating the identity of the lessor, unless he has an interest in remaining in the litigation".

person results to court action.¹¹⁵³ Provided, however, that the litigation concerns the warranty according to Article 1585(1) of the Code. In this case, the licensee may remain in the litigation if he has an interest in doing so.¹¹⁵⁴

Italian court practice¹¹⁵⁵ considers the exclusive licensee entitled to act against patent infringement and this right is even given to the non-exclusive licensee.¹¹⁵⁶ According to the prevailing view¹¹⁵⁷ this legitimation to act against patent infringement does not focus on registration of the licence contract. However, it is controversial whether the non-exclusive licensee is entitled to act against patent infringement prior to the registration of his licence. Di Cataldo¹¹⁵⁸ confirming with Trib. Bologna 02.04.1984¹¹⁵⁹ asserts that, after registration according to Article 66 clause 2 of the Italian Patent Act of 1939, even a non-exclusive licensee is entitled to institute proceedings against patent infringement. Ravà¹¹⁶⁰ considers that the right to institute proceedings against patent infringement is independent of registration of the patent licence. This legal writer is of the opinion that registration only has the effect of creating the enforceability of the licence with regard to third persons who derive their legal rights from the patentee. This view is supported by the authority of Trib. Milan 03.10.1974¹¹⁶¹ which held that the confirmation and recognition of the licensee's right to use the invention is sufficient to prove the licensee's capacity to institute proceedings against patent infringement. In this respect Italian law differs from the French and English system which recognise the right to institute legal proceedings only for the non-exclusive licensee. Ravà¹¹⁶² indicates, however, that it is not clear how the licensee's right to act against infringement coincides with the case where the infringement concerns the licensed rights but also the rights for which the patentee did not grant a licence and which he exploits himself. It may be assumed that a solution of this problem will also have to take into account the interests of the infringer and thus centres on the issue of damages. Damages are, also in Italian law, generally calculated on the basis of a reasonable royalty approach - the patentee-licensor may claim damages on the basis of his loss of sales or on the basis of the royalties lost by reason of the decreasing sales of the licensee, and the licensee(s) may claim damages for lost profits.¹¹⁶³ The licensor or licensee will only be able to claim damages in relation to that utilisation of the patent right which he is entitled to make according to the contract. The scope of the infringer's liability thus depends upon the patent licence contract concluded between the parties.

¹¹⁵³ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 297.

¹¹⁵⁴ Article 1586(2) of the Italian Civil Code which may be applied by way of analogy.

¹¹⁵⁵ Cass. 14.05.1914, Riv.dir.ind. 1952,II,147; Cass. 12.02.1935, Riv.dir.ind. 1952,II,111; Trib. Milan 17.06.1974, GADI 1974,835; Trib. Milan 14.12.1978, GADI 1978,725; Trib. Milan 23.04.1979, GADI 1979,515.

¹¹⁵⁶ Trib. Milan 03.10.1974, GADI 1974,624; Guglielmetti, Giannantonio, on "Le Invenzioni E I Modelli Industriali Dopo La Riforma Del 1979", Milan 1982, p. 87.

¹¹⁵⁷ Trib. Modena 19.01.1973, GADI 1974,244; Trib. Bologna 29.12.1979, GADI 1959,857.

¹¹⁵⁸ Di Cataldo, Vincenzo, on "Le Invenzioni I Modelli. Corso Di Diritto Industriale", Milan 1990, p. 135.

¹¹⁵⁹ Trib. Bologna 02.04.1984, GADI 1984,1764; however, prevailing jurisprudence does not seem to focus on the subsistence of registration, see above, Chapter 4, part 2: 3.2.

¹¹⁶⁰ Ravà, Tito, on "Invenzioni E Modelli Industriali", vol. II of "Diritto Industriale", Torino 1988, p. 176.

¹¹⁶¹ Trib. Milan 03.10.1974, GADI 1974,624.

¹¹⁶² Ravà, Tito, on "Invenzioni E Modelli Industriali", vol. II of "Diritto Industriale", Torino 1988, p. 175.

¹¹⁶³ Cuonzo and Holden on "The Evaluation of Damages in Italian Patent Litigation", (1993) EIPR 441 to 445 at 441.

Concerning the licensor's right to assign the contract Article 1406 of the Italian Civil Code¹¹⁶⁴ states that each person can substitute for himself a third person in relationships arising from a contract for mutual counter-performances, if these have not yet taken place, provided that the other party consents thereto.¹¹⁶⁵ Yet this general provision of the Italian Civil Code is, in the case of the patent licence contract, specified by those provisions which relate to the leasing contract. According to Article 1599 of the Italian Civil Code the leasing contract is enforceable against the purchaser, so that, generally, the lessor may transfer the property in the leased thing. However, if the licence contract is of "*intuitus personae*", it may be assumed that the licensor is not entitled to assign the contract. Although Trib. Torino 15.01.1981¹¹⁶⁶ held that in the case of an exclusive licence contract the licensor is impeded from disposing freely of the patented invention, it is pointed out in the comment to this decision¹¹⁶⁷ that after the conclusion of a licence contract, whether exclusive or non-exclusive, the licensor is, generally, free to transfer the patent right without prejudice to the rights of the licensee, unless the parties stipulate otherwise. Thus, concerning the licensor's right to transfer his contractual position, much will depend upon the individual agreement. If the licensor is bound by obligations which create an "*intuitus personae*" between the parties, for example the obligation to communicate improvements, he will not be able to assign the contract without the licensee's consent.

6 THE OBLIGATION OF WARRANTY.

In Italian law the licensor is, even in the absence of contractual stipulations, bound by an implied obligation of warranty. Here the scope of this implied obligation may differ according to the relevant provisions of those nominate contracts which are applied by way of analogy to the patent licence contract. The implied obligation of a warranty against defects can be based on two statutory provisions, Articles 1490 or 1578 of the Italian Civil Code; the choice between these two provisions depends upon whether the patent licence contract is classed as an innominate contract by way of analogy to the contract of sale or to the leasing contract.¹¹⁶⁸ The adherents of the doctrine which draws an analogy of the patent licence contract to the nominate contract of sale will apply Article 1490 of the Italian Civil Code which establishes in subsection 1: "A seller is bound to warrant that the thing sold is free of defects which render it unfit for the use for which it was intended or which appreciably diminish its value". Article 1578(1) of the Code which concerns the lessor's warranty provides: "If, at the time of delivery, the leased thing has defects which impair its suitability for the use agreed upon to an appreciable extent, the lessee can request the dissolution (Articles 1453 et. seq.) of the contract or a reduction of the rent except in case of defects known to or easily detectable by him". In both cases the licensee may avail himself of the implied warranty for the 'economic

¹¹⁶⁴ Article 1406 of the Italian Civil Code states: "Notion. Each party can substitute for himself a third person in the relationships arising from a contract for mutual counterperformance, if these have not yet taken place, provided that the other party consents thereto".

¹¹⁶⁵ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 64, points out that, generally, Article 1406 of the Italian Civil Code is applicable in the case of an assignment of the contract.

¹¹⁶⁶ Trib. Torino 15.01.1981, GADI Rep.Sist. 1972 to 1987, p. 621.

¹¹⁶⁷ Comment to Trib. Torino 15.01.1981, GADI 1981,1421/3.

¹¹⁶⁸ Frignani, Aldo, on "Factoring, Franchising, Concorrenza", Torino 1979, p. 195.

value' in order to terminate the licence contract or to claim back the royalties paid or a reduction thereof without prejudice to his right to claim damages.

6.1 The Warranty In The Case Of Hidden Defects.

It is disputed whether a licensor impliedly warrants the absence of defects which render the patent open to revocation. Frignani¹¹⁶⁹ argues that a patent which has been granted by administrative authorities is presumed to be valid and that the licence contract does not impliedly obligate the licensor to warrant the validity of a patent granted by the patent office. Similarly, Mangini¹¹⁷⁰ asserts that the licensor does not impliedly warrant the validity of his patent, observing that the 'legal-economic purpose' of the contract is achieved in the case where the licensee enjoys a factual monopoly. However, it seems as if the majority of legal writers support the view according to which the licensor has to warrant the validity of the patent upon a parallel drawn to the warranties implied by statute as mentioned above when concerned with the nominate contractual types.¹¹⁷¹ Doctrine and court practice are unanimous that the licensor has to warrant that the invention is technically realisable,¹¹⁷² that is to say that the invention can be worked successfully from the technical point of view; further it is asserted that the licensor is impliedly obligated to warrant the susceptibility of the patented invention of being commercially realisable, its susceptibility of industrial exploitation.¹¹⁷³ The defect of the invention must be such as to render the invention unsuitable for the use for which it is destined - the defect must diminish the susceptibility of being utilisable up to the point where the licensee, had he had knowledge of the defect, would not have concluded the contract.¹¹⁷⁴ However, the licensor is not obligated to warrant the financial and economic success of the application of the patented invention.¹¹⁷⁵

Trib. Milan 09.10.1975¹¹⁷⁶ considered the obligation to warrant against legal defects as impliedly excluded where the content of the contract does not only concern the exploitation of the patented invention but also an activity of experimentation of the machine constituting the subject-matter of the contract which was not yet susceptible of industrial production, presupposing an incomplete instruction by the patent description which needed further development so that it would be incompatible with the provision of a warranty for the validity of the patent. However, it does not appear to be a requirement that the inclusion of the communication of know-how and of technical assistance into the patent licence contract

¹¹⁶⁹ Frignani, Aldo, on "Factoring, Franchising, Concorrenza", Torino 1979, p. 196; and on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981, p. 293.

¹¹⁷⁰ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 117,118.

¹¹⁷¹ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 281; Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 133.

¹¹⁷² Cass. 15.05.1946, Riv.prop.int.ind. 1946,62; Ascarelli, Tullio, on "Teoria Della Concorrenza E Dei Beni Immateriali", 3rd ed., Milan 1960, p. 644; Finocchiaro, Gaetano, on "Sistema Di Diritto Industriale", vol. II, Padova 1932, pp. 275,276; Luzzatto, Enrico, on "Trattato Generale Delle Privative Industriali", vol. II, Milan 1944, p. 313; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 102.

¹¹⁷³ Frignani, Aldo, on "Factoring, Franchising, Concorrenza", Torino 1979, pp. 195,196.

¹¹⁷⁴ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 98.

¹¹⁷⁵ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 133.

¹¹⁷⁶ Trib. Milan 09.10.1975, GADI 1975,753.

would lead to an implied exclusion of the warranty for the validity of the patent. It seems as if the Court accepted that the licensee could not count on the validity of the patent, because the stipulation of additional know-how and of technical assistance must have shown him that the description was not sufficiently clear and complete.

The defect which engenders the implied warranty must be hidden, that is to say it must not have been known or recognisable by the licensee at the time of the conclusion of the contract. According to Mangini,¹¹⁷⁷ there is no warranty where the licensee should have discovered the defect on the basis of a practical examination of the invention; if such an examination is not offered to the licensee, the likelihood of the licensor's responsibility would be higher. However, with regard to the fact that the examination of the conditions of patentability is a presupposition for the patent grant, Article 31 of the Italian Patent Act of 1939, it may in general, be assumed that a defect relating to the conditions of patentability will be hidden. It should be observed that Article 18(2) of the Italian Patent Act of 1939 states that the invention must be described in a manner sufficiently clear and complete for it to be carried out by an expert. It seems recommendable to focus on the wording of the individual contract and to have regard to the particular purpose for which the licensed invention is to be employed when ascertaining whether the description of the patent alone is sufficient.

Italian lawyers claim the subsistence of a contract of warranty beyond the existence of the invalid patent licence contract.¹¹⁷⁸ The revocation of the patent brings about the implied warranty against disturbances, and this warranty is not considered as independent of and not influenced by the nullity of the contract due to lack of object or causa. Thus, the nullity of the contract due to the lack of its prerequisites of causa or object will not affect the (implied) term of the warranty.

6.2 The Warranty In The Case Of Disturbances In The Enjoyment Of The Patented Invention.

The implied warranty in the case of disturbances is generally considered applicable to patent licence contracts by way of analogy.¹¹⁷⁹ From the lessor's obligation to warrant the peaceful enjoyment of the leased thing it is generally inferred that the licensor will be bound by a similar obligation which relates to the licensee's undisturbed enjoyment of the patented invention. The implied warranty's content as concerns the licensor's obligation to abstain from disturbing the licensee's enjoyment of the patented invention has not attracted much attention by Italian legal writers. Ravà¹¹⁸⁰ asserts that this implied obligation of warranty against disturbances caused by third persons can be based on the application of Articles 1585 and 1586 of the Italian Civil Code¹¹⁸¹

¹¹⁷⁷ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 117,118.

¹¹⁷⁸ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 118.

¹¹⁷⁹ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 101 with further references.

¹¹⁸⁰ Ravà, Tito, on "Invenzioni E Modelli Industriali", vol. II of "Diritto Industriale", Torino 1988, p. 175.

¹¹⁸¹ Article 1575 of the Italian Civil Code states: "Principal Obligations Of Lessor. The lessor shall: 1) deliver the thing to the lessee in a good state of repair; 2) maintain the thing in a condition suitable for the use agreed upon; 2) warrant peaceful enjoyment of the thing during the period of the lease". Article 1585 (1) of the Italian Civil Code states: "Warranty Of Peaceful Enjoyment. The lessor is bound to warrant the lessee against disturbances which diminish the use or enjoyment of the thing, caused by third persons claiming rights in it".

6.2.1 The Warranty In The Case Of Disturbances Through Facts Attributable To The Lessor.

Article 1575¹¹⁸² describes the principal obligations of the lessor, stating that "the lessor shall warrant peaceful enjoyment of the thing during the period of the lease", and it is this provision upon which the lessor's warranty in the case of disturbances may be based. A wide interpretation of the term 'disturbance'¹¹⁸³ can be found in Italian law, where some legal writers submit that the prerequisites for the arising of the warranty are met if the patent right 'fails in part or totally', or if it is revoked or lapsed, without the relation between the warranty against hidden legal defects and against disturbances in the enjoyment being discussed.¹¹⁸⁴ Mangini¹¹⁸⁵ points out that the warranty arises only after the nullity of the patent has been declared by a court, but not when it is merely revocable, whereas Luzzatto¹¹⁸⁶ asserts that the warranty is already due, if the patent is revocable. Luzzatto does not consider the patent licence contract void due to lack of object or causa, which he would concede only if the patented invention were "absolutely not existing", but he allows the licensee to resort to the warranty against disturbances, with the consequence that the licensee may claim damages. Mangini¹¹⁸⁷ stresses the nullity of the contract concerning the transaction of a revocable patent due to lack of object, but then asserts the responsibility of the licensor for the warranty against disturbances. According to this author the subject-matter of the contract subsists if the patent is revocable; in this legal writer's view the case of the warranty against disturbances is limited to those cases, in which the ownership in the patent right belongs to a third person.

However, if the licensor has, prior to the stipulation of the patent licence contract, concluded other agreements which are enforceable against the licensee and which diminish his enjoyment, this does not constitute a violation of an implied warranty. Here the liability of the licensor will have to be ascertained in the concealment of these agreements from the licensee and in the impossibility to perform his contractual obligations. Mangini¹¹⁸⁸ suggests the analogous application of Articles 1482 and 1489 of the Italian Civil Code¹¹⁸⁹ if the patented

Article 1586 of the Italian Civil Code states: "Claims Of Third Persons. (1) If third persons who cause disturbances claim rights in the thing leased, the lessee is bound, under penalty of liability for damages, to give prompt notice to the lessor. (2) If the third person results to court action, the lessor is bound to take over the litigation, if he is summoned in the proceedings. The lessee shall be excused from the proceedings merely by indicating the identity of the lessor, unless he has an interest in remaining in the litigation".

¹¹⁸² Article 1575 of the Italian Civil Code states: "Principal Obligations Of Lessor. The lessor shall: 1) deliver the thing to the lessee in a good state of repair; 2) maintain the thing in a condition suitable for the use agreed upon; 3) warrant peaceful enjoyment of the thing, caused by third persons claiming rights in it".

¹¹⁸³ The English term 'disturbance' may be translated appropriately with "evizione" in the Italian language and "eviction" in the French language.

¹¹⁸⁴ Auletta, Giuseppe Giacomo, on "Delle Invenzioni Industriali, Dei Modelli Di Utilità E Dei Disegni Ornamentali, Della Concorrenza. Commentario Del Codice Civile A Cura Di Antonio Scialoja E Giuseppe Branca", Articles 2584 to 2601, 2nd ed., ed. by Mangini, Bologna 1973, p. 296; Luzzatto, Enrico, on "Trattato Generale Delle Privative Industriali", vol. II, Milan 1944, p. 313; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 102.

¹¹⁸⁵ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 102.

¹¹⁸⁶ Luzzatto, Enrico, on "Trattato Generale Delle Privative Industriali", vol. II, Milan 1913, p. 313.

¹¹⁸⁷ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 118.

¹¹⁸⁸ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 118.

¹¹⁸⁹ Article 1482 of the Italian Civil Code states: "Thing Encumbered By Real Guarantees Or Other Liens. (1) The buyer can also withhold payment of the price if it appears that the thing sold is encumbered by real guarantees (Articles 2784 et seq., 2808 et seq.) or by liens resulting from attachment (Article 2912) or

invention was, at the moment of the conclusion of the contract, subject to a mortgage or seizure. The case where the exploitation of the licensed patented invention depends upon the authorisation of a third person who holds a dominant patent, is not understood as realisation of the warranty of the licensor for the undisturbed enjoyment, but as a case pertaining to Article 1482 of the Italian Civil Code. Thus the licensee may, in analogous application of Article 1482 of the Italian Civil Code, demand the dissolution of the contract and claim damages, unless the licensor succeeds in obtaining the authorisation from the holder of the dominant patent.

6.2.2 The Warranty In The Case Of Disturbances Through Facts Attributable To Third Parties.

The Italian Civil Code provides in Article 1585(1)¹¹⁹⁰ that the lessor is bound to warrant the lessee against disturbances which diminish the use of the thing caused by third persons claiming rights in it. Subsection 2 lays down that the lessor is not bound to warrant against disturbances caused by third persons who do not claim rights but the lessee has the power to bring action against them in his own name.

App. Florence 07.06.1972¹¹⁹¹ held, in analogous application of Article 1585(1) of the Italian Civil Code, that the licensor has to warrant the licensee "in the case of disturbances which diminish the use or the enjoyment of the patent which is the subject-matter of the licence through third persons which contest the validity of the exclusive right". This decision considers as subject-matter of the contract the patent or the exclusive right itself. The Court did not discuss in detail the consequences of the revocation of the patent, the subsequent nullity of the contract due to lack of object or causa and the incidence on the contractual obligation of warranty against disturbances. It may only be assumed that the Court follows the tendency of modern Italian law which conceives of the implied warranty against disturbances as a contract of warranty sustaining the voidness of the main contract, since it must be considered as provided particularly for the case where the main contract fails. The warranty entitles the licensee to obtain damages or, in the case of the voidness of the patent, ask for an equitable refund of the amount paid, or for a reduction of the royalties.

However, the applicability of the warranty is not always clearly established. In the case in which the licensed patented invention cannot be used without infringing another patent, the licensee may face infringement proceedings brought by the owner of the infringed patent, even with regard to an activity which precedes the declaration of nullity of the licensed patent. Here the licensee may have to make payments for the infringement of the dominant

sequestration, not declared by the seller and not known to the buyer. (2) The buyer can, moreover, cause the judge to set a time limit, at the expiration of which, if the thing is not released, the contract is dissolved and the seller bound to compensate for damage according to Article 1479. (3) If the existence of the aforementioned real guarantees or liens was known to the buyer, he cannot demand dissolution (Article 1453) of the contract, and the seller is only liable to him in case of eviction (Articles 1483 et seq.)". Article 1489 of the Italian Civil Code states: "Thing Encumbered By Burdens Or Rights Of Enjoyment Of Third Persons. (1) If the thing sold is encumbered by burdens or by real (Articles 810 et seq.) or personal rights which are not apparent, and which diminish its free enjoyment and are not declared in the contract, the buyer who did not have knowledge of them can demand resolution of the contract or reduction of the price according to the provisions of Article 1480. (2) The provisions of Articles 1481, 1485, 1486, 1487 and 1488, to the extent applicable, are also observed.

¹¹⁹⁰ Article 1585(1) of the Italian Civil Code states: "The lessor is bound to warrant the lessee against disturbances which diminish the use or enjoyment of the thing, caused by third persons claiming rights in it".

¹¹⁹¹ App. Florence 07.06.1972, GADI Rep.Sist. 1972 to 1987,558.

patent and in the case of the revocation of a patent as a result of proceedings brought by a third person the licensee may have made considerable investments for the working of the invention. Marchetti and Ubertazzi¹¹⁹² consider whether the licensee may in such a case claim damages from the licensor with reference to the inexecution of the contract, Article 1453(1) of the Italian Civil Code,¹¹⁹³ the warranty against disturbances,¹¹⁹⁴ the lack of quality of the sold article, Article 1497 of the Italian Civil Code.¹¹⁹⁵

6.3 The Exclusion Of The Implied Warranties.

In Italy court practice approved of the validity of clauses which exclude the warranty for the validity of the patent.¹¹⁹⁶ Marchetti and Ubertazzi¹¹⁹⁷ argue that, in fact, Article 59-bis of the Italian Patent Act of 1939 excludes the liability of the licensor for the invalidity of the patent prior to its revocation.¹¹⁹⁸ In the case where the licence contract contains a clause which excludes the warranty for the validity of the patent, the defence of the invalidity by the licensee is not capable of defeating the action for the dissolution of the contract for unfulfilment.¹¹⁹⁹

The warranty may be impliedly excluded from the contract. Thus Trib. Milan 09.10.1975¹²⁰⁰ held that in the case where the licence does not merely concern the exploitation of the patent but the testing of the machine which is the subject-matter of the invention, an testing which antecedes the moment of industrial production and presupposes an instruction of the patented invention requiring further studies, the contractual stipulations would not be compatible with the assumption of an obligation of warranty.

¹¹⁹² Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 132.

¹¹⁹³ Article 1453 of the Italian Civil Code states: "Dissolution Of Contract For Non-Performance. (1) In Contracts providing for mutual counterperformance, when one of the parties fails to perform his obligations, the other party can choose to demand either performance or dissolution of the contract, saving, in any case, compensation for damages (Article 1223). (2) Dissolution can be demanded even when an action has been brought to demand performance; but performance can no longer be demanded after an action for dissolution has been brought. (3) The defaulting party can no longer perform his obligation after the date of the action for dissolution".

¹¹⁹⁴ See Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 271.

¹¹⁹⁵ For example: Trib. Torino 04.10.1974, GADI 1974,1236.

¹¹⁹⁶ App. Milan 24.11.1972, GADI 1972,1513; Trib. Milan 09.10.1975, GADI 1975,649; Marchetti and Ubertazzi, on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 133.

¹¹⁹⁷ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 133.

¹¹⁹⁸ Article 59-bis of the Italian Patent Act of 1939 states: "A declaration of nullity of the patent does have retroactive effect; however, it shall not affect a) the acts already performed whereby any final decision if an infringement action has been enforced; b) contracts concerning the invention entered into prior to the decision declaring nullity having become final, to the extent they have already been performed. In such a case, however, the judge, taking into account the circumstances, may order an equitable refund of the amounts already paid in performance of the contract".

¹¹⁹⁹ See Article 1453 of the Italian Civil Code, Trib. Milan 09.10.1975, GADI Rep.Sist. 1972 to 1987, p. 559.

¹²⁰⁰ Trib. Milan 09.10.1975, GADI 1975,753.

Part 6: OBLIGATIONS OF THE LICENSEE.

1 THE OBLIGATION TO PAY ROYALTIES.

As in English law, the remuneration may assume the form of a lump sum or of royalties, fixed or proportional.¹²⁰¹ Accordingly, similar considerations as those developed above concerning English law will find application.¹²⁰² Should the royalty payable by the licensee depend upon the extent of the exploitation of the licensed patented invention the implication of the licensor's right to examine the licensee's books in application of Article 1619 of the Italian Civil Code¹²⁰³ by way of analogy deserves particular interest. According to this provision "the lessor can at all times ascertain, even by means of a direct investigation on the premises, whether the lessee is fulfilling his duties". This article concerns the contract of lease of productive property and may be applied by way of analogy to the patent licence contract. Thus, even in the absence of a contractual stipulation the licensor may, upon the implication of such a term, examine the scope of the licensee's exploitation of the patented invention. In order to avoid any controversies on the exact scope of this obligation the parties are well advised to define the corresponding rights and obligations in the contract.

The stipulation of an obligation to pay royalties after the expiration of the patent appears contrary to Italian law.¹²⁰⁴ This does not only follow from the assumption that the relevant EC law is integrated and applicable in national Italian law by Article 2598 clause 3 of the Italian Civil Code¹²⁰⁵ but also according to the Italian Protection of Competition Act of 1990.¹²⁰⁶

2 THE OBLIGATION TO DEFEND THE EXCLUSIVE RIGHT.

In Italian law, prevailing doctrine considers that the exclusive but also the non-exclusive licensee are entitled to bring proceedings against infringers.¹²⁰⁷ Greco and Vercellone¹²⁰⁸

¹²⁰¹ See above, Chapter 2, part 6: 1.

¹²⁰² See above, Chapter 2, part 6: 1.1, 1.2, 1.3.

¹²⁰³ Article 1619 of the Italian Civil Code states: "Right Of Supervision. The lessor can at all times ascertain, even by means of a direct investigation on the premises, whether the lessee is fulfilling his duties".

¹²⁰⁴ Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, p. 136,137.

¹²⁰⁵ Article 2598 clause 3 of the Italian Civil Code states: "Acts Constituting Unfair Competition. Subject to the provisions concerning the protection of distinctive signs and patent rights, acts of unfair competition are performed by whoever: ... "3) avails himself directly or indirectly of any other means which do not conform with the principles of correct behaviour in the trade and are likely to injure another's business".

¹²⁰⁶ See above, Chapter 4, part 3.

¹²⁰⁷ See above, Chapter 4, part 5: 5.

¹²⁰⁸ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 294,295, who limit their observations to the exclusive licensee; the non-exclusive licence is considered as a mere permission so that the non-exclusive licensee could not avail himself of the right to attack patent infringement by third persons.

argue that this right of the licensee can be based on the application of Articles 1585 and 1586 of the Italian Civil Code¹²⁰⁹ concerning the leasing contract to the patent licence contract and according to which the licensee may, under certain circumstances, bring legal proceedings to stop disturbances in the enjoyment of the patent right attributable to third persons in his own name. Accordingly, the licensee may defend himself directly against disturbances just as the lessee of a corporeal property.¹²¹⁰ In application of these provisions, the licensee may institute legal proceedings against infringers. But in the case where the validity of the patent is put in issue, or where the defendant asserts a right in the patented invention, he must summon the licensor-patentee in the proceedings, if he wants to benefit from the licensor's obligation of warranty and if he wishes to avoid incurring any risk for liability of damages - in such a case the patentee is the person liable to be sued.¹²¹¹ Greco and Vercellone admit that the issue should also be regarded from the practical point of view, according to which it is generally in the interest of the licensee to make the licensor a party to the proceedings and in the interest of the licensor to intervene in the proceedings. However, they stress that the licensee's right to bring legal proceedings in the case of the disturbance in the enjoyment by third persons is limited.¹²¹² Thus, as in French law, the licensee is not entitled to defend the patent if the infringer puts the validity of the patent in issue. In this case the licensee has to inform the licensor in order to avoid liability for damages, to give notice to the licensor, and, insofar as the proceedings are concerned, the licensee shall summon the licensor in the proceedings, Article 1586(2) of the Italian Civil Code.¹²¹³

Trib. Milan 03.10.1974¹²¹⁴ held that the confirmation and recognition of the licensee's right to use the invention is sufficient to prove the licensee's capacity to institute proceedings against patent infringement. According to this decision the question of the ownership in the right in the patented invention is not conclusive when deciding who is entitled to institute proceedings against an infringement of the patent. However, Article 81 of the Italian Patent Act of 1939 provides that the owner of the patent right may ask for the sequestration of the infringing articles. Others¹²¹⁵ exclude the possibility of the licensee whether exclusive or not, being able to act against infringers, relying on the mere obligatory effects of the licence in the absence of a mandate by the patentee-licensor to pursue infringers. But even if the non-exclusive

¹²⁰⁹ Article 1585 of the Italian Civil Code states: "Warranty Of Peaceful Enjoyment. (1) The lessor is bound to warrant the lessee against disturbances which diminish the use or enjoyment of the thing, caused by third persons claiming rights in it. (2) The lessor is not bound to warrant against disturbances caused by third persons who do not claim rights, but the lessee has the power to bring action against them in his own name".

Article 1586 of the Italian Civil Code states: "Claims Of Third Persons. (1) If third persons who cause disturbances claim rights in the thing leased, the lessee is bound, under penalty of liability for damages, to give prompt notice to the lessor. (2) If the third persons resort to court action, the lessor is bound to take over the litigation, if he is summoned in the proceedings. The lessee shall be excused from the proceedings merely by indicating the identity of the lessor, unless he has an interest in remaining in the litigation".

¹²¹⁰ Article 1586(2) of the Italian Civil Code states: "If the third person results to court action, the lessor is bound to take over the litigation, if he is summoned to the proceedings. The lessee shall be excused from the proceedings merely by indicating the identity of the lessor, unless he has an interest in remaining in the litigation".

¹²¹¹ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 295,296.

¹²¹² Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 297.

¹²¹³ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 296.

¹²¹⁴ Trib. Milan 03.10.1974, GADI 1974,624.

¹²¹⁵ Trib. Torino 15.05.1932, Riv.dir.comm. 1934,II,335; Rotondi, Mario, on "Diritto Industriale", 5th ed., Padova 1965, p. 268.

licensee's right to institute proceedings against infringers is accepted, the licensee will not be bound by an obligation towards the licensor to institute such proceedings.

3 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS.

In the absence of a contractual stipulation the licensee is not considered impliedly obligated to communicate to the licensor improvements of the licensed technology. According to the Italian antitrust law, grant back clauses seem to be lawful, even if they are exclusive, provided that they relate to improvements of the licensed patented invention.¹²¹⁶

4 THE OBLIGATION TO EXPLOIT THE PATENTED INVENTION.

Not only the licensor can fulfil the obligation of exploitation, but the licensee as well, because Article 54 of the Italian Patent Act of 1939 expressly mentions that a compulsory licence may be granted, "should the patentee or his assignee, directly or through one or more licensees, have failed to exploit the invention"¹²¹⁷... In the case of the exclusive patent licence, only the licensee is in a position to use the invention, and, accordingly, he should impliedly be considered obligated to work the invention.¹²¹⁸ According to the prevailing view, the exclusive licensee takes over the obligation of exploitation which rests upon the patentee in application of Article 52(1) of the Italian Patent Act of 1939.¹²¹⁹ In the case of the non-exclusive licence the licensee may have to incur substantial investment without being able to avoid competition, so that it would be excessive to assert that the non-exclusive licensee would be bound by an implied obligation of exploitation of the invention.¹²²⁰ Marchetti and Ubertazzi¹²²¹ recommend evaluating the meaning of the contractual obligations in order to ascertain whether in the particular case the subsistence of the obligation of exploitation does in fact lie in the charge of the non-exclusive licensee - so for example if the royalties payable depend upon the scope of exploitation by the licensee. Mangini¹²²² indicates that only in the case where the amount of the remuneration depends upon the scope of the exploitation by the

¹²¹⁶ See above, Chapter 4, part 3.

¹²¹⁷ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981, p. 294.

¹²¹⁸ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 287.

¹²¹⁹ Marchetti and Ubertazzi on "Commentario Breve Sulla Legislazione Alla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 130; Article 52 of the Italian Patent Act of 1939 states: "The industrial invention which is the subject of the patent must be exploited within the territory of the State to an extent which is not in serious disproportion with respect to the needs of the country".

¹²²⁰ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 284.

¹²²¹ Marchetti and Ubertazzi on "Commentario Breve Sulla Legislazione Alla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 130.

¹²²² Mangini, Vito, on "La Licenza Di Brevetto", Padova, 1970, p. 23.

licensee, would it be justified to consider the licensee bound by an implied obligation of exploitation.

With reference to Articles 1615 and 1618 of the Italian Civil Code¹²²³ which relate to the leasing contract of productive property it may be asserted that even if the non-exclusive licensee is not impliedly obligated to work the invention, he must exploit it in a manner corresponding to its economic destination without discrediting it in the market.¹²²⁴ Mangini¹²²⁵ stresses that in the exploitation of the invention the licensee is bound to observe the diligence of a "good *pater familias*", roughly equivalent to the reasonable man, Article 1176 of the Italian Civil Code.¹²²⁶ According to the last provision "the lessee shall look after the management of such property in accordance with its economic destination and the general interest of production".

Trib. Torino 15.02.1950¹²²⁷ held that in the exclusive licence contract the licensee is, by reason of analogy to Article 1615 of the Italian Civil Code,¹²²⁸ obligated to observe the rules of the sound technique in the application of the invention. The obligation of exploitation may be qualified in such a way that the licensee is obligated to produce only articles in conformity with the patented invention. Trib. Milan 14.09.1981¹²²⁹ held that the licensee does not violate his obligation if he adds to those products elements which do not modify the structural characteristics and the applicative process of the product. But the Court stated that, on the other hand, the introduction of modifications in the structural characteristics is constitutive of a violation of this obligation. The parties are free to regulate the scope of the exploitation by clauses which, in the individual case, may conflict with the Italian Protection of Competition Act of 1990.¹²³⁰

¹²²³ Article 1615 of the Italian Civil Code states: "Management And Enjoyment Of Productive Property. (1) When a contract of lease has as its object the enjoyment of productive moveable or immovable property (Article 812), the lessee shall look after the management of such property in accordance with its economic destination and the general interest of production. (2) The lessee is entitled to the fruits (Article 820) and other benefits deriving from the property".

Article 1618 of the Italian Civil Code states: "Non-Performance By Lessee. The lessor can request the termination of the contract if the lessee fails to devote the necessary means to the management of the property, if he fails to observe the rules of good husbandry or if he permanently alters the economic destination of the property".

¹²²⁴ In this sense Trib. Torino 15.02.1950, Foro pad. 1950,I,963, however, the case concerned an exclusive licence to which the Court applied by way of analogy the provisions relating to the contract of the lease of productive property. Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, p. 284, state that these provisions of the Code may be applicable to the non-exclusive licence contract.

¹²²⁵ Mangini, Vito, on "La Licenza Di Brevetto", Padova, 1970, p. 23.

¹²²⁶ Article 1176 of the Italian Civil Code states: "Diligence In Performance. (1) In performing the obligation the debtor shall observe the diligence of a good *pater familias*. (2) In the performance of obligations inherent in the exercise of a professional activity, diligence shall be evaluated with respect to the nature of that activity (Articles 2104, 2236)".

¹²²⁷ Trib. Torino 15.02.1950, Foro pad. 1950,693.

¹²²⁸ Article 1615 of the Italian Civil Code states: "Management And Enjoyment Of Productive Property. (1) When a contract of lease has as its object the enjoyment of productive moveable or immovable property (Article 812), the lessee shall look after the management of such property in accordance with its economic destination and the general interest of production. (2) The lessee is entitled to the fruits (Article 820) and other benefits deriving from the property".

¹²²⁹ Trib. Milan 14.09.1981, Riv.dir.ind. 1982,II,29.

¹²³⁰ See above,Chapter 4, part 3.

4.1 The Minimum Production Clause.

The parties may define the obligation of exploitation by stipulating minimum production, for example a number of articles to be manufactured or sold.¹²³¹ Such clauses do not violate the Italian antitrust law.¹²³²

4.2 The Maximum Sales Clause.

The patent licence contract may provide for a clause establishing a maximum of exploitation by, for example, fixing an upper limit for the number of sales.¹²³³ According to Di Cataldo¹²³⁴ maximum sales clauses may contravene Article 2598 clause 3 of the Italian Civil Code¹²³⁵ which supposedly introduces the principles of EC antitrust law into municipal Italian law. Also with regard to the Italian antitrust law of 1990, scepticism about the validity of such clauses may be recommended.¹²³⁶

4.3 The Tie-In Clause.

The licensee may undertake to purchase raw material or other supplies from the licensor. In this case, the validity of such a clause may be discussed in competition law, because the obligation obviously limits the licensee's freedom which he enjoys within trade and industry. According to Di Cataldo¹²³⁷ a tie-in clause may be opposed to Article 2598 clause 3 of the Italian Civil Code¹²³⁸ which supposedly implements the principles of EC antitrust law into municipal Italian law. Yet up to the adoption of the Protection of Competition Act of 1990,

¹²³¹ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,296.

¹²³² See above, Chapter 4, part 3.

¹²³³ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,296.

¹²³⁴ Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, pp. 136,137.

¹²³⁵ Article 2598 clause 3 of the Italian Civil Code states: "Acts Constituting Unfair Competition. Subject to the provisions concerning the protection of distinctive signs and patent rights, acts of unfair competition are performed by whoever: (...) 3) avails himself directly or indirectly of any other means which do not conform with the principles of correct behaviour in the trade and are likely to injure another's business".

¹²³⁶ See above, Chapter 4, part 3.

¹²³⁷ Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, pp. 136,137.

¹²³⁸ Article 2598 of the Italian Civil Code states: "Acts Constituting Unfair Competition. Subject to the provisions concerning the protection of distinctive signs and patent rights, acts of unfair competition are performed by whoever: 1) uses names or distinctive signs which are likely to create confusion with the names or distinctive signs legitimately used by others, or closely imitates the products of a competitor, or performs, by any other means, acts which are likely to create confusion with the products and activities of a competitor; 2) spreads news and comments, with respect to the products and activities of a competitor; 3) avails himself directly or indirectly of any other means which do not conform with the principles of correct behaviour in the trade and are likely to injure another's business".

municipal Italian law was not opposed to the stipulation of tie-in clauses.¹²³⁹ It may be assumed that upon the antitrust legislation of 1990 the Competition Authority will not authorise such clauses unless the tied-in products are necessary for the use of the licensed patented invention or for the compliance with quality standards.¹²⁴⁰

4.4 Price-Fixing.

The clause by which the licensee undertakes to sell the patented articles at a fixed price seems valid in Italian law,¹²⁴¹ because it is an appropriate means to maximise the non-exclusive licensor's profits with regard to a control of the distribution of the patented technology; however, obligations which discriminate amongst the licensees may violate antitrust law.¹²⁴² The fixed or minimum price clause may also be used for non-permissible purposes, for example if the patented article contains elements which will belong to the public domain; in this case, the justification of lawful price fixing appears doubtful,¹²⁴³ because the price fixing is not covered by the patent right which authorises the patentee to fix monopoly prices until the first sale of the patented articles.

5 RESTRICTIONS IMPOSED UPON THE LICENSEE.

Apart from restraints by the antitrust legislation of 1990, the restrictions of the licensee may be subject to the restraints imposed by Article 2596 of the Italian Civil Code which provides in subsection 1: "Contractual Limits On Competition. The contract which limits competition (Article 1341) must be proven in the written form (Article 2725). It is valid, if it relates to a determined activity, and if it does not exceed the duration of five years (Articles 2125, 2557). If the duration of the contract is not determined or if it is fixed for a duration of more than five years, the contract is valid for a duration of five years". However, according to Italian legal doctrine, Article 2596 of the Italian Civil Code is applicable only to horizontal agreements which limit competition, because the notion of competition implies the effective or potential

¹²³⁹ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,296.

¹²⁴⁰ See above, Chapter 4, part 3.

¹²⁴¹ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,296; however, the clause may be in conflict with Article 2598 clause 3 of the Italian Civil Code if one considers with Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, pp. 136,137 that this provision introduces the principles of the relevant EC antitrust law into the municipal Italian legal system.

¹²⁴² Ammendola, Maurizio, on "Accordi Di Licenza Di Brevetto Tra Due Imprese E Legislazione Nazionale Antitrust", in: "Diritto Antitrust Italiano", ed. by Frignani, Pardolesi, Patroni Griffi and Ubertazzi, Bologna 1993, pp. 447 to 487 at 475; Denozza, Francesco, on "Licenza Di Brevetto E Circolazione Delle Tecniche", Milan 1979, p. 163.

¹²⁴³ Ammendola, Maurizio, on "Accordi Di Licenza Di Brevetto Tra Due Imprese E Legislazione Nazionale Antitrust", in: "Diritto Antitrust Italiano", ed. by Frignani, Pardolesi, Patroni Griffi and Ubertazzi, Bologna 1993, pp. 447 to 487 at 475.

competition between the parties.¹²⁴⁴ Accordingly, Article 2596 of the Italian Civil Code is not applicable, for example to terms relating to resale price maintenance.

5.1 The No-Challenge Clause.

The promisor under this clause is prohibited from putting the validity of the patent in issue, be it in the form of proceedings for the revocation of the patent, or as a defence against the action brought by the licensor, for example for the payment of royalties of the patent. In the absence of such a clause it is controversial whether the licensee may put the validity of the patent in issue.¹²⁴⁵ Concerning the legal situation before the adoption of the Italian Protection of Competition Act of 1990, Guglielmetti¹²⁴⁶ points out that it is generally admitted that the licensee may undertake not to challenge the validity of the patent. In consequence, an application by the licensee for the revocation of the patent will be refused. However, the obligation of the licensee not to challenge the validity of the patent will not be implied, not even if the grant was made subject to 'the state of fact and law'.¹²⁴⁷ Mangini,¹²⁴⁸ on the other hand, asserts that the licensee may not put the validity of the patent in issue and thus deprive the licence contract of its object. But even if the clause is considered valid in municipal Italian law,¹²⁴⁹ it has been held with reference to Article 85 of the EC Treaty that public interest requires that the licensee should not be deprived of the possibility to challenge the validity of the patent.¹²⁵⁰ Yet Frignani,¹²⁵¹ writing before the antitrust legislation of 1990, indicates that Italian municipal law neither adopted the rules applicable in EC law nor did it develop a national antitrust code. However, he discovered an inclination towards similar principles in Article 54 bis (5) of the Italian Patents Act of 1939: "Grant of the compulsory licence does not prejudice exercise, also by the licensee, of judicial actions concerning validity of the patent or the rights originating therefrom". After the adoption of the Italian Protection of Competition Act of 1990 it may be assumed that the Competition Authority will not accept no-challenge clauses, based on a similar reasoning as employed by the European Court of Justice.

¹²⁴⁴ See Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,297.

¹²⁴⁵ See above, Chapter 4, part 5: 6.4.

¹²⁴⁶ Guglielmetti, Giannantonio, on "Le Invenzioni E I Modelli Industriali Dopo La Riforma Del 1979", Milan 1982, p. 91; and see Trib. Milan 26.02.1954, Temi 1954, 237; Lodo arbitrale 02.10.1964, Temi 1964,501; App. Milan 24.11.1972, GADI 1972,201 (on the assignment of a patented invention); Trib. Milan 20.06.1974, GADI 1974,577; Trib. Milan 30.09.1974, GADI 1974,622; Aghina, Giorgio, on "Appunti In Tema Di Arbitrabilità Delle Controversie Sulla Validità Dei Brevetti Per Invenzione", Riv.dir.ind. 1973,58; Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 150,151.

¹²⁴⁷ Lodo arbitrale 02.10.1964, Temi 1964,501.

¹²⁴⁸ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 150,151.

¹²⁴⁹ Trib. Milan 26.02.1954, Temi 1954,237; Lodo arbitrale 02.10.1964, Temi 1964,501; App. Milan 24.11.1972, GADI 1972,201; Trib. Milan 20.06.1974, GADI 1974,577; 30.09.1974, GADI 1974,622; Aghina, Giorgio, on "Appunti In Tema Di Arbitrabilità Delle Controversie Sulla Validità Dei Brevetti Per Invenzione" Riv.dir.ind. 1973,58.

¹²⁵⁰ Vaessen v Morris (1979) FSR 259,264,265.

¹²⁵¹ Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Propriété Industrielle 1981,295.

5.2 The Obligation Not To Compete.

With due regard to Article 2596 of the Italian Civil Code according to which agreements restricting competition must be in the written form, relate to a determined activity and not exceed the duration of five years, the parties may provide that the licensee shall not compete with the licensor after the termination of the patent licence.¹²⁵²

5.3 The Prohibition Against the Assignment Of The Contract And The Grant Of Sub-Licences.

In the absence of a stipulation to the contrary, the licence contract is not assignable, unless in the case of the transfer of the licensee's business.¹²⁵³ Often the licensor negotiates with a particular licensee in respect of both his technical experience and qualities, and the impression of his entrepreneurship.¹²⁵⁴ A characteristic fact of the licence is thus represented by the coherence with the licensee's enterprise.¹²⁵⁵ This does not exclude, however, that in other cases the judgement on the personal attitudes of the licensee may be decisive, in which case the licence contract will be of "*intuitus personae*".¹²⁵⁶ The purchaser of a licensee's enterprise may enter the licence contract according to Article 2558 of the Italian Civil Code.¹²⁵⁷ This, however, does not exclude the possibility that the licence may be transferred together with the business of the licensee - within the limits indicated by Article 2558 of the Italian Civil Code.¹²⁵⁸ Such a succession will, however, be excluded if the contract is of "*intuitus personae*", or if the effects of Article 2558 of the Italian Civil Code have been excluded by an appropriate clause of the contract.¹²⁵⁹

In contrast to Trib. Roma 04.07.1961¹²⁶⁰ Marchetti and Ubertazzi¹²⁶¹ assert that the licence is transferred to the heirs of the licensee who are the owners of the enterprise, unless the

¹²⁵² Frignani, Aldo, on "Les Contrats De Licence En Italie A La Lumière De La Réforme De La Loi Sur Les Brevets", Prop.ind. 1981,296.

¹²⁵³ Boutet and Lodi on "Brevetti Industriali, Marchio, Ditta, Insegna", Torino 1978, p. 250.

¹²⁵⁴ Marchetti and Ubertazzi on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 130.

¹²⁵⁵ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 55.

¹²⁵⁶ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 57.

¹²⁵⁷ Article 1558 of the Italian Civil Code states: "Disponability Of Things. (1) A disposition of the things by the one who has received them is valid; but his creditors cannot subject the things to attachment (Articles 2912 et seq.) or sequestration until their price has been paid. (2) The party who has delivered the things cannot dispose of them until they have been returned to him".

¹²⁵⁸ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 298,299; Article 2558 of the Italian Civil Code states: "Succession To Contracts. (1) Unless otherwise agreed, one who acquires a business succeeds to contracts stipulated for the conduct of the business that are not of a personal nature (Article 2112). (2) However, the third contracting party can withdraw from the contract within three months from the date of notice of the transfer, if there is just cause, but in such case the liability of the transferor is unaffected. (3) The same provisions apply with respect to a usufructuary or lessee for the duration of the usufruct (Articles 978 et seq., 2561) or lease (Articles 1615 et seq., 2562).

¹²⁵⁹ Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, pp. 259,264.

¹²⁶⁰ Trib. Roma 04.07.1961, Riv.dir.ind. 1961,II,360, held that the licence contract has to be analysed as a contract of industrial production and that it is, accordingly, of "*intuitus personae*".

contract stipulates otherwise or is concluded "*intuitus personae*". According to Mangini¹²⁶² the grant of sub-licences within the limits mentioned above, may be permitted if the licence is non-exclusive, because in the author's view the non-exclusive licensee is under no obligation to exploit the patented invention, so that the interest of the licensor in the personal exploitation by the licensee does not exist. Greco and Vercellone¹²⁶³ do not seem to recognise the power to grant sub-licences to the licensee. In application by way of analogy of Articles 1594 and 1624 of the Italian Civil Code¹²⁶⁴ which relate to the leasing contract and to the contract for the lease of productive property, these legal writers consider that the licensee is not entitled to grant sub-licences, since the contractual relation is founded on the "*intuitus personae*", that is to say the personal quality of the licensee or his enterprise.¹²⁶⁵ In the case of the exclusive licence the legal writers consider the licensee entitled to grant non-exclusive sub-licences in application of Articles 980 and 999 of the Italian Civil Code,¹²⁶⁶ according to which the usufructuary may lease the subject of the usufruct. In this case Greco and Vercellone¹²⁶⁷ doubt the applicability of Article 1624(1) of the Italian Civil Code according to which the lessee of productive property may not sub-lease without the consent of the lessor. In their view, Article 1624(1) of the Code does not reflect the interests of the parties, because this provision proceeds on the assumption that the sub-lease of the productive property exposes the owner of the property to the risk that the sub-lessee could cause serious damage to the real property - an analogous situation could not be created in the case of intellectual property consisting in the patented invention.

¹²⁶¹ Marchetti and Ubertaini on "Commentario Breve Alla Legislazione Sulla Proprietà Industriale E Intellettuale. Brevetti Per Invenzioni", Padova 1987, p. 130.

¹²⁶² Mangini, Vito, on "La Licenza Di Brevetto", Padova 1970, p. 68.

¹²⁶³ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 299,300.

¹²⁶⁴ Article 1594 of the Italian Civil Code states in subsections 1 and 2: "Sublease And Assignment Of Lease. (1) The lessee has the power to sublet the thing leased, unless otherwise agreed, but he cannot assign the contract to third persons without the consent of the lessor. (2) The sublease of moveables (Article 812) must be authorised by the lessor or permitted by usage".

¹²⁶⁵ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 286,287 for the non-exclusive licence and 298,299 for the exclusive licence contract.

¹²⁶⁶ Articles 980 and 999 of the Italian Civil Code state: Article 980: "Assignment Of Usufruct. (1) The usufructuary can assign his right for a certain time or for its entire duration, if this is not forbidden by the constitutive transaction. (2) The assignment shall be made known to the owner; so long as he has not been notified the usufructuary is liable in solido (Art. 1292) with the assignee to the owner";

Article 999: "Leases Concluded By Usufructuary. "Leases concluded by the usufructuary, in effect at the termination of the usufruct, continue for the stated duration, provided that they are evidenced by a public act (Article 2699) or a private writing with a certain anterior date (Article 2704), but not beyond the fifth year after the termination of the usufruct. (2) If the termination of the usufruct occurs by expiration of the specified term, leases do not in any case extend beyond the current year and, if rural lands whose principal crop is biennial or triennial are involved, for more than the two- or three-year period in course at the time the usufruct terminates.

¹²⁶⁷ Greco and Vercellone on "Le Invenzioni E I Modelli Industriali", vol. XI-2 of "Trattato Di Diritto Civile Italiano", ed. by Vassalli, Torino 1968, pp. 299,300.

CHAPTER 5

CONCLUSIONS

Part 1: ASPECTS OF PATENT LAW.

The comparison shows that within the 19th century, the patented invention was recognised as proprietary in nature with the consequence that it could constitute the subject-matter of transactions. In all three national legal systems case law elaborated the distinction between the patent licence and other contractual forms such as the transfer or sale of the patented invention or the usufruct. Whereas in the case of the assignment of the patent right the patentee parts with the rights in the patented invention, the grant of a licence gives him the possibility to retain the title and nevertheless to obtain a financial return for his investments in research and development relating to the invention. The patent legislation in France and Italy after the French Revolution explained the patent right as the property of the inventor, and, in consequence, the legal provisions of property would be used accessorially for the complementation of the patent acts in so far as they did not deal exclusively with the related issues. This concerned the questions of ownership in the patented invention but also different transactions in the patent right such as the transfer, the licence or the usufruct. Legal theory attempted further explanations, influenced by the impact of exclusiveness in the exploitation of the invention in the economy. In particular, the concept of monopoly influenced the discussion of the nature of the patent right - however, the economic doctrine of monopoly focuses on the structure of the market as a whole and a single patent will generally not empower its owner to exercise dominance in regard of a whole class of goods. The property right itself may have the effect of creating a monopoly in the market on certain goods without that it would be asserted that the property right could be explained by the dominant market position which it may, in certain cases, help to create. Summing up, the idea behind patent law that an invention should be allocated to a person so that this person may exploit it in exclusivity or dispose of it as of any other material subject-matter has, in consequence, conducted courts and legal writers to mark it as 'property'.

Part 2 ASPECTS OF THE GENERAL LAW OF CONTRACT.

In spite of the harmonisation of the patent laws, the differences in the laws of contract have a considerable impact upon the configuration of the patent licence contract in England, France and Italy. The codification of the civil law in France and Italy and the development of the law of contract as court-made law in England causes divergence in the general laws of contract and in the laws of specific contracts which relate in particular to the implication of terms in the construction of the contract. This derives in particular from the classification of the patent licence contract as an 'innominate' contractual type and from the consequential application by

way of analogy of those mandatory or non-mandatory rules of the 'nominated' contractual types which are specifically dealt with by the legislators in the civil codes.

English law does not know the concepts of *causa* or of *object* - the problems which arise in parallel are solved by reference to concepts such as mistake or frustration, the scope of which, however, is more limited and less general. In particular with regard to the patent licence contract, this difference becomes obvious in the case of the invalidity of the patent. In such a case the French and the Italian judge will consider whether the contract is void due to lack of *object* or of *causa*. The English judge is not likely to refer to general principles, for example to the doctrine of consideration or of mistake, but shall attempt to find a solution based upon the construction of the wording of the agreement. Within this context, it should be observed that the advantages of English law vest in its flexibility to accept new contractual types whereas in the codified systems the acceptance of a new class of innominate contract is a process which often needs incitement from the common law system - examples are the leasing contract on moveable goods or the franchising.

The differences in the attitude of the French and the Italian judge on the one hand and the English judge on the other hand is obvious in the construction of the terms of the contract. The French and the Italian judges construe the terms of the contract not only with reference to the words used by the parties in the agreement but with reference to the mandatory and non-mandatory terms of that nominate contractual type which is supposed to be similar to the patent licence contract and which is dealt with by the civil codes, because the legislators considered these rules corresponding to social desirability. The English judges construe the terms of the contract according to the declared will of the parties. With regard to the patent licence contracts the difference in attitude is obvious: in French and in Italian law the terms are construed with reference to the rules established by the legislators on the nominate contracts in the civil codes. The judge will, by means of a process of analogy, apply the rules drafted for those nominate contracts which have the closest resemblance to the patent licence contracts. In English law, the judge is not easily inclined to construe the contractual terms by the implication of terms or conditions, since the legal operation of the implication of terms is more limited in application.

Part 3: THE INCIDENCE OF ANTITRUST LAW.

Neither the French nor the English national laws contain a statutory regulation dealing comprehensively with antitrust law. The Italian legislator enacted a statute in 1990 which regulates all aspects of antitrust law, however, the Act does not expressly refer to the patent licence contract. The national patent acts regulate certain aspects only, such as compulsory licensing which shall prevent an insufficient exploitation of the patented invention. The EC Treaty and the jurisprudence of the European Court of Justice¹²⁶⁸ affected this legislation, insofar as the possibility of the importation of patented articles from other member states of the EU has to be taken into account when establishing the degree of exploitation of the

¹²⁶⁸ See Burst and Kover on "Les Licences Imposées Et Le Droit Communautaire", *Cah.dr.eur.* 1990, pp. 251 to 271; Hodgson, Mark, on "Changes to UK Compulsory Patent Licensing Laws", (1992) *EIPR* 214 to 216; Alexiadis, Peter, report on the judgement of the European Court of Justice of 18.02.1992, (1992) *EIPR* D-103.

patented invention within the national market, the impact of the EC law upon the national laws concerning patent licence contracts is modest, and, as has been shown with regard to the case of Italy, its impact is generally limited to antitrust law. Although, the problems of the patent system are essentially those of monopoly power¹²⁶⁹ - that is to say that they are problems of prices, incomes and resource allocation - the legislators, with one exception, did not consider it appropriate to deal with the 'negative' effects which the transactions on such exclusive rights may have within the patent legislation. Only the UK Patents Act 1977 contains in section 44 a provision relating to the avoidance of certain restrictive conditions. In French law, the prohibition of the refusal to sell and the prohibition of concerted actions has limited impact on the freedom of the parties to stipulate the terms of the contract as they think fit. As Cornish¹²⁷⁰ points out, the use of competition policy to control the bargaining power of the patentee is controversial, since when the licensor licenses his right "albeit on terms that limit the licensee's or his own freedom of action, he would seem prima facie to be doing no more than realising the potential of his economic power". Thus the argument for controlling patent licences is weak, since a patentee has an exclusive right to produce the patented goods and to sell them where he wants at whatever price he can obtain so that it is not immediately obvious why he should not be able to impose whatever restrictions he chooses upon his licensees.¹²⁷¹ Taking into account the constraints which EC antitrust law imposes upon the licensor, the justification for a further limitation of the patentee by national antitrust law may be questionable. It can be assumed that the provisions on compulsory licensing and on the use of the patented invention by public authorities will suffice to safeguard the public interests. On the other hand the compatibility of certain clauses of patent licences with national antitrust law was discussed long before the EC obtained the competence to regulate the matter on a European level. In the UK the antitrust legislation - the applicability of the Restrictive Trade Practices Act 1976 to patent licence contracts which would impose the duty to register the contract, is doubtful, the Patents Act 1977 prohibits in section 44 certain tie-in clauses; the Fair Trading Act 1973 and the Competition Act 1980 permit the control of abuses of a monopoly position - however, in the past the competent authorities rarely had the occasion to develop a comprehensive doctrine on the abuse of the patent monopoly. The Resale Prices Act 1976 exempts patent licences from the scope of its application and the doctrine of restraint of trade is of limited applicability due to the 'reasonableness' test according to which reasonable conditions are admissible. The constraints imposed by French antitrust law are less stringent - the prohibition of the refusal to sell does not apply to the refusal to grant a licence for the exploitation of the patent and the prohibition of cartels will hardly affect the individual patent licence contract. With regard to the Italian Protection of Competition Act of 1990 it may be assumed that the policy of the Italian authorities will employ similar principles as those contained in the EC Regulation concerning patent licence contracts¹²⁷² and on the EC policy concerning the abuse of a dominant position, insofar as they are adaptable to national law.

¹²⁶⁹ Oliver, J.M., on "Law and Economics. An Introduction", London 1979, p. 76.

¹²⁷⁰ Cornish, W.R., on "Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights", 2nd ed., London 1989, p. 191.

¹²⁷¹ Whish, Richard, on "Competition Law", 2nd ed., London 1989, p. 652.

¹²⁷² Commission Regulation (EC) No. 2449/84 of 23 July 1984 on the application of Article 85(3) of the Treaty to certain categories of patent licence agreements.

Part 4: THE CONFIGURATION OF THE CONTRACT.

Generally, the national laws do not impose particular requirements of form - the written form suffices and its use is recommended in English, French and Italian law. Registration of the patent licence contract is no prerequisite for validity of the patent licence contract but generally required, if the contract shall be enforceable against third parties. The invalidity of the patent has different consequences for the licence contract in the various legal systems. In English law, due to a case law which dates back to the 19th century, generally, the invalidity remains without effect on the contractual relations, unless the licensor expressly warrants the validity of the patent. Case law did not consider the application of the principles of common mistake or of frustration, and the legislator took this in consideration: by providing in section 47 of the Patents Act 1977 that the contractual relation may be terminated by 3 months notice after the patent ceases to be in force. In French and Italian law the invalidity of the patent engenders the nullity of the contract due to lack of object or of causa. It is also asserted that the object of the contract is not the invention protected by the exclusive right but the exploitation of the invention in factual exclusivity so that the invalidity of the patent would engender the nullity of the contract for the future only. In the case where the contractual relation is annihilated with retroactive effect due to lack of object or causa, the former licensee may attempt to claim back the royalties paid - here the Italian Patent Act of 1939 expressly provides that in consideration of the circumstances the judge may order an equitable refund to be made to the licensee. In French law, the prevailing doctrine considers that the licensee is not entitled to claim back the royalties paid, if he has enjoyed a 'factual monopoly', that is to say if the factual exclusivity through the grant of a licence for a defective patent permitted the licensee to exploit the invention in factual exclusivity. In English law, the contractual licence is, generally said, terminable with reasonable notice, unless the agreement provides otherwise. French law adopts a similar approach; in Italian law, the prevailing view is that in the silence of the contract, the licence contract is concluded for the duration of the patent term.

The scope of the obligations of the parties in the different legal systems varies, even if the text of the contractual stipulations is identical. In the first place this is due to the implication of contractual terms in the French and Italian legal systems. The difference is particularly evident in the case of the obligation of 'delivery' of the patented invention where French and Italian legal doctrine assume that the communication of ancillary know-how and also technical assistance and the communication of improving technology may be considered impliedly stipulated. As basis for the implication of such a broad interpretation of the concept of delivery serve the general principle that contracts be executed in good faith and the statutory definition of the term 'delivery' in the civil code. In English law, the licensor, in the absence of an express stipulation to the contrary, is not bound to communicate information beyond the documentation relating to the patented invention.

Whereas in English law the licensor is, generally, not bound to maintain the patent, French and Italian courts imply this obligation. English, French and Italian lawyers deny the implication of an obligation of protection in the case of the exclusive licence contract, where the licensee avails of his own rights to attack infringers of the patented invention but some French lawyers consider the non-exclusive licensor bound to defend the patented invention upon the reasoning that the relevant rules relating to the leasing contract shall find analogous application. The obligation of protection concerns also the licensor's obligation not to assign the contract or not to surrender the patent right. The implied obligation of warranty is complex in French and Italian law due to the application of the relevant rules concerning the

leasing contract or the contract of sale by way of analogy to the licence contract. The licensor is considered impliedly bound to warrant against defects of the patented invention, and to warrant the undisturbed enjoyment of the patented invention. The parties may exclude the implied warranties or limit their scope. In the absence of an express warranty for the validity of the patent, English courts are not likely to imply an obligation for the licensor. With regard to the warranty against disturbances in the peaceful enjoyment through facts personal to the licensor, English law considers the licensor estopped from disturbing the licensee's right of enjoyment, whereas in French and Italian law courts assert that such an obligation is mandatory. In the case of disturbances attributable to third persons, English judges are unlikely to consider the licensor bound to warrant against such activities. In English law, the licensor may, by contract, exclude any warranties. In France and Italy this possibility is conditioned with regard to those warranties which are mandatory terms of nominate contracts, contained in the civil codes and applied by way of analogy to the patent licence contract.

The main obligation of the licensee concerns the payment of royalties. The methods for the fixation and calculation of the royalties are similar in all countries subject to the survey. In English law the obligation of exploitation is not imposed upon the licensee, not even upon the exclusive licensee, in the absence of an express stipulation. The obligation of exploitation may be qualified by particular clauses, such as the best endeavours clause or the minimum production clause. The parties are, generally, free in the stipulation of such terms and they may condition the manner in which the licensee executes this obligation for example by the minimum production clause. The licensor may oblige the licensee not to challenge the validity of the patent. It seems that in English law, such a constraint upon the licensee's freedom is generally accepted. This is the prevailing view in French and, with caution, Italian law. Similarly, the licensor may restrict the licensee's freedom to compete with the licensor's technology, subject to the general conditions for validity of such clauses. Unless stipulated otherwise, the licensee is not entitled to grant sub-licences or to assign the contract.

Part 5: THE OUTLOOK.

As has been shown for French and Italian law, the legal technique of the implication of terms influences the scope of the obligation of the patent licence contract to a considerable extent. For that reason, the contract lawyer of France and Italy may rely on the rules on nominate contracts contained in the civil codes which may be applied by way of analogy to the patent licence contract. The impact which the different laws of contract have upon the patent licence suggests the recommendation of a uniform or model act on the patent licence contract which would expand the 'astral' patent system¹²⁷³ and make it even more comprehensible and more attractive. Such a model act could comprise in a first chapter the problems of the 'general law of contract', relating to the parties, to the offer and acceptance, to the delay and impossibility of performance. In a second chapter the obligations of the parties could be dealt with and in a third chapter the problems related to antitrust. Although the differences between the English legal system on the one hand and the French and the Italian legal systems on the other hand create an obstacle for the adoption of a model act, a model act on patent licence contract could be a first step towards the harmonisation of the law of contract in Europe.

¹²⁷³ See Introduction, fn. 1, Di Cataldo, Vincenzo, on "Le Invenzioni, I Modelli", Milan 1990, p. 23.

Part 6: DRAFT MODEL LAW CONCERNING PATENT LICENCE CONTRACTS.

The subsequent draft model act is based upon the examination of the problems discussed within this work so that it may serve as a point of reference for further discussions and negotiations. The draft is separated into four parts. The first part deals with the general aspects of the law of contract, the second is dedicated to the patent licence as a specific contract, the third concerns the relevance of antitrust law to the patent licence contract and the final part contains definitions.

PART I: ASPECTS OF THE GENERAL LAW OF CONTRACT.

Article 1. Subject-matter Of Contract.

- (1) The subject-matter of the patent licence contract is the patented invention or the invention for which a patent is applied for.
- (2) The invention is licensed in the state in which it is described in the patent specification at the time of the conclusion of the contract.
- (3) The subject-matter also comprises accessory know-how and it may also comprise non-accessory know-how or technical assistance.
- (4) The subject-matter of the contract must be determined or determinable.

Article 2. Conclusion Of Contract.

- (1) The patent licence contract is concluded at the moment when the offer for the conclusion is accepted by the other party.
- (2) A proposal for concluding a contract constitutes an offer if it is sufficiently definite and indicates the intention of the offeror to be bound in the case of acceptance.
- (3) An offer becomes effective when it reaches the offeree.
- (4) An offer cannot be revoked if it indicates, whether by stating a fixed time or otherwise, that it is irrevocable, or if it was reasonable for the offeree to rely on the offer as being irrevocable and the offeree has acted in reliance on the offer.
- (6) An offer is terminated when a rejection reaches the offeror.

Article 3. Declaration Of Consent.

- (1) The declaration of consent of the parties to the patent licence contract presupposes the subsistence of the capacity to contract according to the law.
- (2) The declaration of consent of the parties to the patent licence contract through representatives presupposes the competence of representation according to the law.
- (3) The power of representation is conferred by law or by the principal.

Article 4. Confidential Information.

If information is given as confidential by one party in the course of negotiations, the other party is under a duty not to disclose that information or use it improperly for his own purposes

whether or not a contract is subsequently concluded. Where appropriate, the remedy for breach of that duty may include compensation based on the benefit received by the other party.

Article 5. Calculation Of Terms.

(1) In the case in which a term begins at a certain point of time, the day concerned is not calculated for the purpose of the establishment of that time.

(2) Official holidays or non-business days occurring during the period for acceptance are included in calculating the period.

(3) If the last day of the period falls on an official holiday or a non-business day at the place of business of the party where the term is calculated, the period is extended until the first business day which follows.

Article 6. Terms Of Contract.

(1) The conclusion of the patent licence contract presupposes the consent of the parties on the subject-matter and the remuneration.

(2) If the parties intend to conclude a contract, the fact that they have intentionally left a term to be agreed upon in further negotiations or to be determined by a third person does not prevent a contract from coming into existence.

(3) The existence of the contract is not affected by the fact that subsequently the parties reach no agreement on the term or the third person does not determine the term, provided that there is an alternative means of rendering the term definite that is reasonable in all of the circumstances, including any intention of the parties.

(4) Any condition bound up with the conclusion of the contract must be accomplished in the manner in which the parties seem to have wished and understood that it would be done.

Article 7. Form Of Contract.

(1) The contract to be effective presupposes the written form, signed with date and place by the persons with capacity to contract according to the law.

(2) Any modification of the contract must be in the written form.

(3) A party may be precluded by his conduct from asserting the requirement of the written form to the extent that the other party has relied on that conduct.

Article 8. Effects Of Contract.

(1) The contract validly entered into is binding upon the parties.

(2) The contract can only be modified or terminated in accordance with its terms or by agreement.

(3) Nothing in this Act shall restrict the application of mandatory rules, whether of national, international, or supranational origin, which are applicable in accordance with the relevant rules of private international law.

(4) The parties may exclude the applicability of the Act or derogate from or vary the effect of any of its provisions except as otherwise provided in the Act.

Article 9. Registration.

(1) The validity of the patent licence contract does not depend upon registration.

(2) After the registration the patent licence contract is enforceable against third persons who acquire rights in its subject-matter subsequent to the registration.

(3) The patent licence contract which is not registered is enforceable with regard to third persons which acquire rights in its subject-matter and who know about the existence of the patent licence contract.

Article 10. Lapse Of Subject-matter.

(1) In the case in which the patent relating to the licensed invention ceases to be in force the licensee may terminate the contract with three months' notice.

(2) In the case in which the licence relates to a patent application, an amendment of the application affects the subject-matter of the contract in the moment in which it is legally binding.

(3) In the case in which, as a consequence of the amendment, the execution of the contract is deprived of interest, the licensee may terminate the contract with three months' notice.

(4) In the case in which the grant of a patent for an application is refused the licensee may terminate the contract with three months' notice.

(5) In the case in which the patent or patent application is amended the licensee may demand a reduction of the remuneration in relation to the decrease in the value of the licensed subject-matter relative to the value of the amended subject-matter.

(6) The fall into the public domain of secret subject-matter or secret ancillary know-how due to third persons does not affect the patent licence contract.

Article 11. Refund Of Payments.

(1) In the case of the amendment, revocation or disclaimer of the patent and in the case of the amendment of the patent application or refusal of the patent grant the judge may order a refund of the remuneration to be made by the licensor to the licensee on equitable principles taking into account whether any protection by sham patent was of benefit to the licensee.

(2) In the case of a modification or disclaimer of the scope of the patented invention relating to the patent or patent application, the parties shall negotiate a reasonable reduction of the remuneration which, failing agreement between the parties, may be fixed by the judge upon equitable principles.

Article 12. Mistake And Fraud.

(1) Mistake is an erroneous assumption relating to facts or to law existing when the contract was concluded.

(2) The mistake of a party which relates to facts concerning the subject-matter of the contract, the identity or the personal quality of the other party gives the right to demand the annulment of the contract.

(3) An error occurring in the expression or transmission of a declaration is considered to be a mistake of the person from whom the declaration emanated.

(4) The mistake of a party which relates to the contract is essential if it concerns the subject-matter of the contract or the identity or personal qualities of the other party.

Article 13. Avoidance Of Contract.

(1) A party may only avoid a contract for mistake if, when the contract was concluded, the mistake was of such importance that a reasonable person in the same situation as the party in error would have contracted only on materially different terms or would not have contracted at all if the true state of affairs had been known and the other party made the same mistake, or caused the mistake, or knew or ought to have known of the mistake and it was contrary to reasonable commercial standards of fair dealing to leave the mistaken party in error, or the other party had not at the time of avoidance acted in reliance on the contract.

(2) A party may not avoid the contract if it committed the mistake with gross negligence, or the mistake relates to a matter in regard to which the risk or mistake was assumed or, taking into account all the relevant circumstances, should be borne by the mistaken party.

(3) A party may avoid the contract when he has been led to conclude it by the other party's fraudulent representation, including language or practices, or fraudulent non-disclosure of circumstances which according to reasonable commercial standards of fair dealing he should have disclosed.

(4) A party may demand the annulment of the contract for fraud if the deception employed by one of the contracting parties was such that, without it, the other contracting party would not have entered into the contract.

(5) A party may avoid the contract when he has been led to conclude it by the other party's unjustified threat which, having due regard to the circumstances, is so imminent and serious as to leave him no reasonable alternative. In particular, a threat is unjustified if the act or omission with which a party has been threatened is wrongful in itself, or it is wrongful to use it as a means to obtain the conclusion of the contract.

Article 14. Avoidance Of Contract In Case Of Act Imputable To Third Persons.

(1) In the case in which a fraud, a threat, a gross disparity or a party's mistake is imputable to, or is known or ought to be known by, a third person for whose acts the other party is responsible, the contract may be avoided under the same conditions as if the behaviour or knowledge had been that of the party itself.

(2) In the case in which a fraud or threat is imputable to a third person for whose acts the other party is not responsible, the contract may be avoided if the other contracting party knew or ought to have known of the fraud or the threat.

Article 15. Unlawfulness.

(1) The patent licence contract is unlawful when the parties are led to conclude it solely by an unlawful motive, common to both or when its content violates the law.

(2) The unlawful contract is void.

Article 16. Nullity Of Contract Or Its Clauses.

(1) Partial nullity of the contract or the nullity of single clauses imports the nullity of the entire contract, if it appears that the contracting parties would not have entered into it without that part of its content which is affected by nullity.

(2) The nullity of single clauses does not necessitate the nullity of the contract when, by operation of law, mandatory rules are substituted for the void clauses.

(3) In the case of the annulment of the contract any performances exchanged in view of the avoided contract have to be restituted according to the principle of unjust enrichment.

Article 17. Interpretation Of Contract.

(1) The written contract is proof of the intent of the parties.

(2) Every clause of the contract is interpreted with reference to all the others, attributing to each the meaning resulting from the act as a whole.

(3) The contract shall be interpreted according to good faith, that is to say that in case of ambiguous clauses the intent of the parties will be deemed to result from the consideration of what they would reasonably have agreed to if they would have carefully thought about the question.

Article 18. Interpretation Of Contract In Case Of Doubt.

- (1) In case of doubt, the clauses of the contract shall be interpreted in the sense in which they can have some effect, rather than in that according to which they would have none.
- (2) In case of doubt, expressions which can have more than one meaning shall be understood in the sense most suitable to the nature and object of the contract.
- (3) Terms susceptible of two senses ought to be taken in the sense which is most suitable for the subject-matter of the contract.

Article 19. Conditions And Standard Terms.

- (1) Customary terms are deemed to be included in the contract, unless it appears that they were not intended by the parties.
- (2) Standard conditions of contract used by any party are not effective unless expressly approved in writing.

Article 20. Supplying An Omitted Term.

- (4) In the case in which the parties have not agreed with respect to a term which is important for a determination of their rights and duties, a term which is appropriate in the circumstances is supplied.
- (5) In determining what is an appropriate term regard shall be had, among other factors, to:
 - (i) the intention of the parties;
 - (ii) the nature and purpose of the contract;
 - (iii) good faith;
 - (iv) reasonableness.

Article 21. Contractual Obligations.

- (1) The contractual obligations of the parties to the patent licence contract may be express or implied.
- (2) Implied obligations stem from:
 - (i) the nature and purpose of the contract;
 - (ii) practices established between the parties and fair dealing;
 - (iii) reasonableness.

Article 22 Performance.

- (1) Each party must act in accordance with good faith. The parties may not exclude or limit this duty.
- (2) A party may reject the other party's offer to perform if the offer does not relate to the contractually envisaged performance.
- (3) The parties are bound by any usage to which they have agreed and by any practices which they have established between themselves and which are generally accepted within the territory to which the licensed subject-matter relates.
- (5) Each party shall bear the costs of performance of its obligations.

Article 23. Quality Of Performance.

- (1) To the extent that an obligation of a party involves a duty to achieve a specific result, that party is bound to achieve that result.
- (2) To the extent that an obligation of a party involves a duty of best efforts or endeavours, that party is bound to employ those means that would be used by a reasonable person of the same kind in the same circumstances.

Article 24. Time Of Performance.

(1) A party must perform its obligations:

- (i) if a time is fixed by or determinable from the contract at that time;
- (ii) if a period of time is fixed by or determinable from the contract, at any time within that period unless circumstances indicate that the other party is to choose a time; or,
- (iii) in any other case, within a reasonable time after the conclusion of the contract.

(2) If a party has not paid at the time when payment is due, the other party may require payment according to the applicable rate of exchange prevailing either when payment is due or at the time of actual payment.

(3) A party's acceptance of an earlier performance does not affect the time for the performance of his own obligation if it has been fixed irrespective of the performance of the other party's obligations.

Article 25. Place Of Performance.

(1) If the place of performance is not fixed by or not determinable from the contract, a party is to perform a monetary obligation at the creditor's place of business and any other obligation at its own place of business.

(2) A party must bear any increase in the expenses incidental to performance which is caused by a change in his place of business subsequent to the conclusion of the contract.

Article 26. Payments.

(1) Payment can be made in any form used in the ordinary course of business at the place of payment.

(2) A party who accepts a check or another order to pay or a promise to pay, is presumed to do so only on condition that it will be honoured.

(3) Unless a party has indicated a particular account, payment can be made by a transfer to any of the financial institutions in which the creditor has made it known that he has an account.

(4) In the case of payment by a transfer the obligation of the obligor is discharged when the transfer to the obligor's financial institution becomes effective.

Article 27. Currency Of Payment.

(1) If a monetary obligation is expressed in a currency other than that of the place of payment, it may be paid in the currency of the place of payment unless that currency is not freely convertible or the parties have agreed that payment should be made only in the currency in which the monetary obligation is expressed.

(2) If it is impossible for the obligor to make payment in the currency in which the monetary obligation is expressed, the obligee may require payment in the currency of the place of payment.

(3) Payment in the currency of the place of payment is to be made according to the applicable rate of exchange prevailing there when payment is due.

Article 28. Imputation Of Payment.

(1) A party owing several monetary obligations to the other party may specify at the time of payment the debt to which he intends the payment to be applied. The payment discharges first any expenses, then interests due and finally the principal.

(2) If the party does not make such a specification, the other party may, within reasonable time after payment, declare to the debtor the obligation to which he imputes the payment, provided that obligation is due and undisputed.

(3) In the absence of imputation under para. (1) or (2), payment is imputed to that obligation which satisfies one of the following criteria: an obligation which is due or which is the first to fall due or the obligation which has arisen first.

Article 29. Penal Clause.

(1) A clause by which it is agreed that in case of non-performance or delay of performance one of the contracting parties is liable for a specified penalty, has the effect of limiting the compensation to the promised penalty, unless compensation was agreed on for additional damages.

(2) The penalty is due regardless of proof of damage.

(3) The creditor cannot demand both the principal performance and the penalty, unless the penalty was stipulated for mere delay.

(4) The penalty can be reduced by the judge according to equitable principles, if the principal obligation has been partly performed or if the penalty is manifestly excessive, always taking into account the interests which the creditor had in the performance.

Article 30. Notice.

(1) Where notice is required it may be given by any means appropriate to the circumstances.

(2) A notice is effective when it reaches the person to whom it is given, that is to say when it is delivered to that person's place of business or mailing address.

Article 31. Prescription.

(1) The claims for annulment or damages or other claims arising from the contractual relation are statute-barred after 5 years, the time beginning from the date on which the reason for the annulment or damages was discovered or should or could have been discovered.

(2) Voidability can be pleaded by the defendant in an action for performance of the contract, even if the action for annulment is prescribed.

PART II: THE SPECIAL PATENT LICENCE CONTRACT

Article 32. Patent Licence.

(1) The patent licence contract is an agreement by means of which a party grants to another party the right to utilise an invention protected by a patent or an application for a patent against a remuneration.

(2) The parties can freely determine the contents of the patent licence contract within the limits imposed by law.

(3) The licensor is bound to maintain the patent right or the right in the application.

(4) The contract shall have the force of law between the parties. It cannot be dissolved except by mutual consent or for a cause permitted by law.

Article 33. Option For Conclusion Of Contract.

(1) In the case in which the parties agree that one of them is to remain bound by his declaration and that the other has the power to accept or not, the declaration of the first is considered an irrevocable offer (option).

(2) In the conduct of negotiations and the formation of the contract the parties shall act according to good faith.

Article 34. Delivery.

- (1) The licensor is obligated to pass on to the licensee a copy of the documentation which concerns the licensed patented invention.
- (2) In the case in which the licence relates to an invention for which the application for a patent is made, the licensor is also obligated to keep the licensee informed on the granting procedure.
- (3) The licensor is obligated to communicate to the licensee the accessory know-how necessary for the utilisation of the licensed patented invention for the contractual purpose.
- (4) The licensor shall co-operate with the licensee in the application of the licensed subject-matter for the contractual purpose when such co-operation may reasonably be expected.

Article 35. Improvements Of Licensed Technology.

- (1) An improvement of the licensed subject-matter is any invention, the utilisation of which offers an advantage in relation to the utilisation of the licensed subject-matter.
- (2) The improving invention may be patentable or unpatentable, protected by secrecy or patented.

Article 36. Making Of Improvements.

- (1) In the case in which the parties have established the obligation for the communication of improvements the obligation arises when the improvement is made.
- (2) The improvement is made if its usefulness has been proved successfully in experiments or if it has been described in a manner so that it may be used by a person versed in the technology concerned.

Article 37. Obligation Of The Communication Of Improvements.

- (1) A party may undertake to communicate to the other party improvements of the licensed subject-matter.
- (2) The beneficiary of the obligation of communication is entitled to a non-exclusive licence of the improvement.
- (3) The recipient of the communication shall keep the improvement confidential and take the necessary steps to avoid its disclosure.
- (4) The recipient of the communication may disclose it to those persons necessary for the industrial application of the improvement for the purpose of the contract under the obligation of the maintenance of confidentiality.

Article 38. Remuneration For Communication Of Improvement.

- (1) The recipient of the communication of an improvement shall pay a remuneration to the communicating party, the amount to be fixed by the judge in the case of controversy.
- (2) The remuneration shall be established upon equitable principles, taking into account in particular the value of the improvement in relation to that of the licensed technology, the advantages which it offers with respect to the licensed technology and the possible increase of the royalty which ensues from its application.

Article 39. Maintenance Of Rights.

- (1) The licensor shall maintain the licensed patent right in force.
- (2) The recipient of secret information under the contract shall take the necessary steps to avoid its disclosure.
- (3) The recipient of secret information under the contract may communicate it insofar as necessary for the contractual purpose under the obligation to maintain secrecy.

Article 40. Warranties.

- (1) The licensor warrants the licensee against disturbances in the enjoyment of the licensed subject-matter through facts attributable to himself. The parties may not exclude or limit this duty.
- (2) The licensor warrants the absence of technical defects of the licensed subject-matter.
- (3) The licensor warrants that he is authorised to deal in the subject-matter and that the patent protection has been obtained correctly.
- (4) The licensor may undertake to warrant against disturbances in the enjoyment of the licensed subject-matter through facts attributable to third persons.
- (5) The licensor may undertake to warrant the validity of the licensed patented invention.
- (6) In the case in which the parties stipulate that the contract is concluded at the risks and perils of the licensee the licensor's warranty according to subsections (2) and (3) is excluded.

Article 41. Assignability Of Contract.

- (1) The parties may assign contractual claims to third persons. The assignment is effective upon notification to the other party.
- (2) The parties may transfer contractual obligations with the express consent of the beneficiary.
- (3) The substitution of a party in the contractual relation is valid from the time the other party has accepted it.
- (4) In the case in which the licence relates to a business, it will be transferred with the business or appertain to the successor organisation in the case of a concentration or merger of undertakings.
- (5) In the case of the death of a party to the contract or the completion of the undertaking to which the licence relates, the licence will pass on to the heirs or to the successor organisation.

Article 42. Grant Of Sub-licences.

- (1) The licensor may authorise the licensee to grant sub-licences.
- (2) The licensee may employ sub-contractors for the exploitation of the licensed subject-matter and disclose secret subject-matter insofar as necessary for the contractual purpose under the obligation of maintaining secrecy.

Article 43. Exploitation Of Licensed Subject-matter.

- (1) In the exploitation of the licensed subject-matter the licensee shall observe the diligence of a reasonable man.
- (2) The licensee shall exploit the licensed subject-matter in a serious and effective manner.
- (3) The licensee carries the risk of the commercial success of the exploitation.

Article 44. Protection Of Licensee.

- (1) The licensor shall defend the licensed rights against challenges by third persons.
- (2) The licensor shall pursue infringements or violations of the licensed subject-matter by third persons.
- (3) In the case in which the licensee may defend the licensed subject-matter or bring a suit against infringement by third persons the licensor shall assist the licensee.

Article 45. Defence Of Subject-matter.

- (1) The licensee shall assist the licensor in a suit for the defence of the licensed subject-matter.
- (2) The licensee shall assist the licensor in a suit brought by a third person against an infringement or a violation of the licensed subject-matter.
- (3) The licensee shall inform the licensor of any challenges of the patent right by third persons or of cases of patent infringement.

Article 46. Duration.

- (1) In case of doubt the patent licence contract is concluded for the duration of the term of the licensed subject-matter.
- (2) The patent licence contract ends at the expiration of the term without need of notice of termination.
- (3) In the case in which the duration of the licence contract is automatically prolonged beyond the expiry of the licensed patents existing at the time the agreement was entered into by the inclusion in it of any new patent obtained by the licensor, the contract ends at the expiration of the last patent to which it relates.

Article 47. Termination.

- (1) A party's right to terminate the contract is to be exercised by notice to the other party.
- (2) Termination of the contract releases both parties from their obligations to effect and perceive future performances.
- (3) Termination does not preclude a claim for damages for non-performance.
- (4) After the termination a party may claim restitution of what has been supplied after termination has taken effect.
- (5) Termination does not affect any provisions of the contract for the settlement of disputes or any other provision which is to operate even after termination.

Article 48. Performance.

- (1) A party to the patent licence contract may demand the money which is due or the specific performance of an obligation, including the remedying of a defective performance.
- (2) Specific performance cannot be obtained in the case in which:
 - (i) performance would be unlawful or impossible; or
 - (ii) performance would cause the obligor unreasonable effort or expense; or
 - (iii) performance consists in the provision of services or work of a personal character or depends upon a personal relationship; or
 - (iv) the aggrieved party may reasonably obtain performance from another source.
- (3) The aggrieved party will lose the right to specific performance if he fails to seek it within a reasonable time after he has or ought to have become aware of the non-performance.

Article 49. Non-performance. Definition.

- (1) Non-performance is failure by a party to perform any of its obligations under the contract, including defective performance or late performance.
- (2) In determining whether a failure to perform an obligation amounts to a fundamental non-performance, regard shall be had, in particular, to whether:
 - (i) the non-performance substantially deprives the aggrieved party of what he was entitled to expect under the contract unless the other party did not foresee and could not reasonably have foreseen such result;
 - (ii) strict compliance with the obligation which has not been performed is of essence under the contract; the non-performance is intentional or reckless;

- (iii) the non-performance gives the aggrieved party reason to believe that he cannot rely on the other party's future performances;
- (iv) the defaulting party will suffer disproportionate loss as a result of the preparation or performance if the contract is terminated.

Article 50 Additional Period Of Performance.

- (1) In any case of non-performance the aggrieved party may by notice to the other party allow an additional period of time of reasonable length for performance.
- (2) If the additional period allowed is not of reasonable length it shall be extended to a reasonable length.
- (3) During the additional period the aggrieved party may withhold performance of his own reciprocal obligation and may claim damages but he may not resort to any other remedy.
- (4) If the aggrieved party receives notice from the other party that the latter will not perform within that period, or if upon expiry of that period due performance has not been made, the aggrieved party may resort to any of the remedies that may be available under this law.
- (5) Para. (1) to (2) do not apply when the obligation which has not been performed is only a minor part of the non-performing party's obligation.

Article 51. Rights Accruing From Non-performance.

- (1) A party to the patent licence contract may terminate the contract if the failure of the other party to perform an obligation under the contract amounts to a fundamental non-performance.
- (2) A party may not rely on the other party's non-performance to the extent that such non-performance was caused by the first party's act or omission or by another event as to which the first party bears the risk.
- (3) After the lapse of an additional period of time of reasonable length for performance or the declaration of the other party that it refuses to perform the aggrieved party may serve a second notice to the defaulting party declaring:
 - (i) that it will demand the rescission of the contract if the defaulting party does not make the performance within a prolonged period of time, and claim damages for non-performance, or
 - (ii) that it will substitute the other party's performance by a third person's performance upon the expenses of the other party, or
 - (iii) that it will reduce the remuneration in relation to the difference between the value of the performance to the value of the faulty performance; and
- (4) Dissolution of the contract can be demanded even when an action has been brought to demand performance; but performance can no longer be demanded after termination has been declared.

Article 52. Force Majeure.

- (1) A party's non-performance is excused if that party proves that the non-performance was due to an impediment beyond its control and that it could not reasonably be expected to have taken the impediment into account at the time of the conclusion of the contract or to have avoided or overcome it or its consequences.
- (2) When the impediment is only temporary, the excuse shall have effect for such period as is reasonable taking into account the effect of the impediment on performance of the contract.
- (3) The party who fails to perform must give notice to the other party of the impediment and its effect on its ability to perform. If the notice is not received by the other party who ought to have known of the impediment, it is liable for damages resulting from such non-receipt.

Article 53. Penalty.

- (1) In the case in which a court orders a party to perform, it may also direct that this party pay a penalty if he does not comply with the order unless mandatory provisions of the law of the forum provide otherwise.
- (2) Payment of the penalty to the aggrieved party does not exclude any claim for damages.

Article 54. Placing In Default.

- (1) A party of the licence contract is placed in default by means of a notice made in writing.
- (2) Placing in default is not necessary, if the debt arises from an unlawful act, if the debtor has declared that he does not intend to perform the obligation or if the time due for the performance has expired.
- (3) Interests are payable on any debt from the time onwards the party is in default.

Article 55. Royalties.

- (1) The parties may stipulate the royalties as a lump sum, and/or fixed or proportional, dependent upon the exploitation of the licensed subject-matter by the licensee.
- (2) In the case in which the royalties depend upon the licensee's scope of exploitation of the licensed subject-matter, the licensor may inspect the licensee's books and documents necessary for the verification of the amount of the royalty.
- (3) If the parties cannot agree upon the inspection according to subsection 2 they shall name an independent expert who examines the licensee's books at his premises, the costs of the expert to be shared by the parties.
- (4) Royalties are payable at the domicile of the licensor at the time envisaged for the payment.

Article 56. Reduction Of Royalties.

- (1) In the case in which the licensed subject-matter is amended, the licensee may demand a reduction of the royalties from the moment the amendment becoming legally binding.
- (2) If the parties cannot agree upon the fixation of the reduction it may be fixed by a judge, taking into account the circumstances of the individual case and the use of equitable principles.

Article 57. Damages.

- (1) Any non-performance gives the aggrieved party a right to damages either exclusively or in conjunction with any other remedies except where damages are excluded under this law.
- (2) If the performance is due at a fixed date, the creditor may claim damages if the debtor is in default.
- (3) The aggrieved party is entitled to additional damages if the non-payment caused it a greater harm.

Article 58. Scope Of Damages.

- (1) Damages are due to the creditor from the loss which he incurred and from the gain of which he was deprived.
- (2) Damages are due which could be foreseen at the time of the conclusion of the contract unless they are due because of the debtor's wilfulness that the obligation not be executed.
- (3) Even in the case in which the inexecution of the agreement results from the wilfulness of the debtor, damages are to include, with regard to the loss incurred by the creditor and the gain of which he is deprived, only what is an immediate and direct consequence of the inexecution of the agreement.

Article 59. Assessment Of Damages.

- (1) In the case in which the amount of damages cannot be established with a sufficient degree of certainty, the assessment will be at the discretion of the judge.
- (2) When the harm is due in part to the aggrieved party's act or omission or to another event as to which that party bears the risk, the amount of damages shall be reduced in part to the aggrieved party's act or omission or to another event as to which that party bears the risk, the amount of damages shall be reduced to the extent these factors have contributed to the harm, having regard to the conduct of each of the parties.

Article 60. Interests.

- (1) Interests shall be payable on damages for non-performance or non-monetary obligations as from the time of non-performance.
- (2) If a party does not pay a sum of money when it falls due the aggrieved party is entitled to interests upon that sum from the time when payment is due to the time of payment.
- (3) Interests shall be payable at the labour rate prevailing for the currency of payment at the place for payment, or, where no such rate exists at that place, then the same rate in the state of currency of payment.

PART III: THE INCIDENCE OF ANTITRUST LAW.**Article 61. Applicability Of Antitrust Law To Patent Licence Contracts.**

- (1) Antitrust law is applicable to terms of patent licence contracts insofar as the terms of the contract are not covered by those rights which are exclusive rights in the licensed subject-matter.
- (2) Para. (1) is applicable *mutatis mutandis* to contracts which concern an invention for which a patent is applied for.
- (3) The scope of the rights which the patent grants is in particular determined by the principle of the exhaustion of the patent right according to which the patent right in patented articles is exhausted after their first marketing within the protected territory by the patentee or with his consent.
- (4) Restraints concerning the use of patented articles after the first sale in the licensed territories with the consent of the patentee or licensee are not covered by the exclusive rights in the licensed subject-matter.

Article 62. Restraints Of Exploitation.

- (1) The determination of the scope of the licensee's exploitation of the licensed subject-matter such as by an obligation to produce a minimum quantity of the licensed articles or to carry out a minimum of operations exploiting the licensed subject-matter is covered by the exclusive rights in the licensed subject-matter.
- (2) The obligation imposed upon the licensee to use his best endeavours in the exploitation of the licensed technology is covered by the exclusive rights in the licensed subject-matter.

Article 63. No-competition Clause.

Not covered by the exclusive rights in the licensed subject-matter are clauses which obligate the licensee not to use and to refrain from developing technologies which compete with the licensed subject-matter in the sense that their utilisation offers advantages over the utilisation of the licensed subject-matter (no-competition clauses).

Article 64. No-challenge Clause.

Not covered by the exclusive rights in the licensed subject-matter are clauses which prohibit the licensee from challenging the validity of the licensed subject-matter (no-challenge clauses) unless the licence is granted free of charge or the technology to which it relates is obsolete.

Article 65. Territorial Restraints.

(1) The prohibition to use and sell articles manufactured under the licence in other territories where the licensed subject-matter is protected is covered by the exclusive rights in the licensed subject-matter.

(2) Restraints upon the licensee concerning the resale of the patented articles are not covered by the exclusive rights in the licensed subject-matter.

Article 66. Field Of Use Restraints.

Obligations imposed upon the licensee which restrict his freedom of exploitation of the licensed subject-matter to one or more technical fields of application are covered by the exclusive rights in the licensed subject-matter.

Article 67. Restraints Concerning Marketing.

(1) Obligations imposed upon the licensee concerning the compliance with standards established for the marketing of patented articles such as size, quality and marking of the patented articles are covered by the patent right.

(2) Obligations imposed upon the licensee to use the patentee's name, trade mark and other registered rights in relation to the patented articles or to mark the licensed article with an indication of the patentee's name, the licensed patent or the patent licensing agreement are covered by the exclusive rights of the licensed subject-matter.

(3) Obligations which relate to the establishment or maintenance of a distribution system are not covered by the exclusive rights in the licensed subject-matter.

Article 68. Restraints Concerning Exportation.

(1) Obligations concerning the exportation of articles manufactured under the licence into other territories where the licensed subject-matter is protected are covered by the exclusive rights in the licensed subject-matter.

(2) Obligations upon purchasers of the articles manufactured under the licence are not covered by the exclusive rights in the licensed subject-matter.

Article 69. Restraints Arising From Tying Clauses.

(1) Obligations binding the licensee to purchase or procure from the licensor or determined persons or to refrain from the purchase or procurement from such persons of any other articles or services than the patented articles or articles obtained by means of the patented method are not covered by the exclusive rights in the licensed subject-matter.

(2) Obligations of tying are covered by the licensed exclusive rights if the use of the tied articles is necessary for the maintenance of quality standards of the articles manufactured under the licence, for a technically satisfactory exploitation of the licensed invention or for purposes of repair of the licensed equipment.

Article 70. Restraints Concerning Remuneration.

(1) Restraints relating to the modality of the payment or the remuneration are covered by the exclusive rights in the licensed subject-matter.

(2) The obligation of the licensee to pay royalties beyond the termination of the patent right is not covered by the exclusive rights in the licensed subject-matter, insofar as this is a modality of the payment.

Article 71. Block Licensing.

Mandatory block licensing is covered by the exclusive rights in the subject-matter to be licensed insofar as reasonably necessary for a satisfactory exploitation of the technique to which the licence shall relate.

Article 72. Grant Back.

The obligation on the parties is covered by the exclusive rights in the licensed subject-matter by means of which they undertake to communicate to one another any experience gained in exploiting the licensed invention and to grant one another a licence in respect of inventions relating to improvements and new applications, provided that such communication or licence is non-exclusive.

Article 73. Most Favoured Licensing.

The obligation on the licensor to grant the licensee any more favourable terms than the licensor may grant to another undertaking after the agreement is entered into is covered by the exclusive rights in the licensed subject-matter.

Article 74. Communication Of Secrets.

Obligations not to divulge secret information such as secret know-how communicated under the contract even after the licence contract has expired are covered by the exclusive rights in the licensed subject-matter.

Article 75. Post Expiration Clause.

Obligations which extend the contractual relation after the licensed patent ceases to have effect are not covered by the patent right.

PART IV: DEFINITIONS.

Article 76. Patent Licence:

A patent licence is the authorisation for the utilisation of the patented invention or the invention for which a patent is applied for against a remuneration.

Article 77. Exclusive Patent Licence:

In the case of an exclusive patent licence only one licensee is authorised to utilise the licensed invention.

Article 78. Non-exclusive Patent Licence:

In the case of non-exclusive licence the licensor retains the right to exploit the invention himself and to grant further licences.

Article 79. Sole Licence:

By means of the sole licence the licensor undertakes to authorise only one licensee to utilise the invention.

Article 80. Cross Licensing:

By means of cross licensing different owners or holders of patents or rights in applications authorise each other mutually/reciprocally to utilise the inventions against a remuneration.

Article 81. Improvement Invention:

An improvement invention is an invention which offers advantages with regard to the utilisation of the basic invention so that it is likely to replace the basic invention in whole or in part.

Article 82. Grant Back Clause:

By means of a grant back clause the promisor undertakes to communicate to the promisee any future inventions to which the promise relates.

Article 83. Know-how:

Know-how comprises not patented technical information which is destined to remain secret and known to a limited circle of persons.

Article 84. Technical Assistance:

Technical assistance comprises the teaching of a technology.

Article 85. Revocation Of A Patent:

The revocation of a patent means the cancellation of the patent from the patent register.

Article 86. Package Licensing:

By means of package licensing the licensor grants to the licensee the right for the utilisation of a bundle of patents.

ANNEX: A CHART OF THE CONFIGURATION OF THE PATENT LICENCE CONTRACT IN ENGLISH, FRENCH AND ITALIAN LAW.

The differences and similarities of the national laws of the patent licence contract shall be illustrated by means of a chart.

1 THE CONCEPT OF THE LICENCE

1.1 THE BARE LICENCE

The term 'licence', whether in the English, French or Italian terminology means a permission to do what otherwise would constitute a violation of the rights of the person who grants the licence. In this sense the term is used if the patentee grants a bare or mere licence.

1.2 THE EXCLUSIVE LICENCE

The exclusive licence means a permission for the utilisation of the patented invention to the exclusion of any other persons, including the licensor or patentee. The exclusive licence grants the licensee the permission for the utilisation of the patented invention of any other person except the licensor. In this latter aspect French law differs from English or Italian law.

1.3 THE NON-EXCLUSIVE LICENCE

The non-exclusive licence is a licence for the utilisation of the patented invention, but the licensor retains the right to exploit the licensed invention himself or to grant further licences.

1.4 THE SOLE LICENCE

The sole licence is a licence for the utilisation of the patented invention, but different from the non-exclusive licensor undertakes not to grant further licences. The term 'sole licence' does not exist in the French legal language, because it corresponds with the understanding of the exclusive licence in French law. The "*Licenza Semplice*" corresponds with the term 'sole licence' in English law.

1.5 THE IMPLIED LICENCE

<p>The principle of the exhaustion of the patent right has not found statutory recognition. The purchaser of patented articles is considered impliedly licensed to use these articles. If the sale of patented articles is bound up with conditions, the purchaser acquires subject to these conditions. A prohibition concerning exportation is likely to violate the community-wide exhaustion of the patent right.</p>	<p>The principle of the exhaustion of the patent right is established in the French Intellectual Property Code. The patent right is exhausted with the sale of the patented article by the patentee or with his consent within the territory to which the patent relates. Accordingly, acts done after the sale of the patented article do not infringe the patent right. A licence may be implied, for example in the case of a sale of an unpatented machine by the use of which necessarily will be carried out the patented invention.</p>	<p>The principle of the exhaustion of the patent right is established in the Italian Patent Act. The patent right is exhausted with the sale of the patented article by the patentee or with his consent within the territory to which the patent relates. Accordingly, acts done after the sale of the patented article do not infringe the patent right. A licence may be implied, for example in the case in which the patented invention is owned by a manager of the company by which it is exploited.</p>
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2 THE PRINCIPLE OF FREEDOM OF CONTRACT AND THE LICENCE CONTRACT

The parties are free to stipulate the content of the contract as they think fit, subject to the constraints imposed by the law. The patent licence contract is recognised as a specific contractual type. The construction of the contract depends upon the stipulations of the parties. Generally, terms will not be implied by statute.

French and Italian law differ between nominate and innominate contracts. 'Nominate' contracts (that is to say those which received a 'name') are dealt with by the legislators in the codes. All other contractual types are 'innominate'. The codes contain mandatory and non-mandatory terms for nominate contracts so that the parties have only to agree upon the essential elements of a contract, the other terms will be implied by statute. A contract has to be classified for example whether it is a patent licence contract or contract for the communication of know-how. First, the contractual clauses will be verified. This renders possible the verification of the contractual type: it will be examined whether essential elements of a nominate contractual type are met. If the contract cannot be identified as nominate, it belongs to the classes of innominate contracts. It will be established whether the contract, according to its clauses, is 'complex' or 'mixed'. The prevailing elements of the clauses will decide upon the contractual type. If then the contract can be identified as a patent licence contract, its terms are construed by reference to the stipulations of the parties and by reference to those mandatory and non-mandatory terms of nominate contracts which are applicable to the patent licence contract, because the contractual types have a close similarity and the implication of the term by way of analogy is justified upon a parallel between the subject-matter of the contracts and the interests of the parties concerned. Such a parallel may be drawn in particular with the nominate contracts of sale, the leasing contract and the usufruct.

The codes contain mandatory and non-mandatory terms for nominate contracts. The classification of a contract presupposes the verification of the contractual clauses. This renders possible the verification of the contractual type. Then it will be examined whether clauses satisfy the constitutive elements of a nominate contract. If the contract can be identified as innominate, it will be verified whether it is 'complex' or 'mixed'. The prevailing elements will decide upon the the verification of the contractual type. The construction of the terms of a contract is made by reference to the stipulations of the parties and the implication of mandatory and non-mandatory terms of nominate contracts which the legislators established in the codes. In the case of a non-mandatory contract, the implication of the terms of the nominate contracts is made by way of analogy, taking into account the subject-matter of the contract and the interests of the parties.

2.1 THE PARALLEL BETWEEN THE PATENT LICENCE CONTRACT AND OTHER SPECIFIC CONTRACTS

A parallel is drawn and Those nominate contractual types to which reference is made rejected/denied to the leasing for the construction of the terms of the patent licence contract contract and the rules of are in particular the usufruct, the contract of sale, the leasing company law are applied in contract, the contract of the lease of productive property (in the case of more complex Italy), the contract of industrial production (in Italy) and agreements. company law.

2.2 THE CONTRACT OF NON-OPPOSITION

The contract of non-opposition is a particular contractual type in French law by means of which the parties avoid the implication of terms which bind them in the case of the patent licence contract.

2.3 REQUIREMENTS OF FORM

No form is required for the conclusion of the patent licence contract, however, the written form is recommended and required should registration be necessary for purposes of antitrust law. French law requires the written form for the conclusion of patent licence contracts. A violation of this requirement leads to the 'relative' nullity of the contract, that is to say the nullity has to be pleaded by the party in the interest of which the provision is applicable. Generally, no form is required, however, the written form is recommended for purposes of registration, because oral evidence may be excluded and because it may be required in order to obtain an exemption from the prohibitions of antitrust law.

2.4 REQUIREMENTS OF FORM AND REGISTRATION

Registration of the licence contract with the patent office makes the licence enforceable against persons who acquire rights in the licensed patents subsequent to the registration. Before registration, the licence is enforceable against third persons who acquire rights in the licensed patent, knowing of its existence. Registration of the licence contract with the national office for industrial property makes the licence enforceable against persons who acquire rights in the licensed patents subsequent to the registration. Before registration, the licence is enforceable against third persons who acquire rights in the licensed patent, knowing of its existence. Registration of the licence contract with the national patent office makes the licence enforceable against persons who acquire rights in the licensed patents subsequent to the registration. Before registration, the licence is enforceable against third persons who acquire rights in the licensed patent, knowing of its existence.

3 ANTITRUST LAW APPLICABLE TO PATENT LICENCE CONTRACTS

<p>The relevant provisions of the UK antitrust law are contained in the Patents Act 1977, the Restrictive Trade Practices Act 1976, the Competition Act 1990, the Fair Trading Act 1973, the Resale Prices Act 1976 and the common law doctrine of restraint of trade.</p>	<p>The relevant provisions of the French antitrust law are contained in the French Intellectual Property Code and in the Freedom of Prices and Competition Ordinance of 1986. The Ordinance does not expressly refer to patent licence contracts. It prohibits in particular concerted actions in restraint of competition.</p>	<p>The relevant provisions of the Italian antitrust law are contained in the Italian Patent Act of 1939 and in the Italian Protection of Competition Act of 1990. The latter Act does not expressly refer to patent licence contracts. It contains a prohibition of restraints of competition similar to the EC Treaty and states that exemptions may be granted.</p>
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3.1 NATIONAL ANTITRUST POLICY

The basic principle for the solution of the dichotomy between the use of the rights which the patent monopoly grants and the prohibition of restraints of competition by antitrust law may be characterised as follows: Restraints of competition will be covered by the patent monopoly and not be subject to the prohibitions or other sanctions imposed by antitrust law insofar as they impose upon the licensee restrictions on his business conduct which do not exceed the scope of the patent right. But a use of the patent which violates public interests in the maintenance of free competition may be prohibited or subject to legal restraints. The patent acts generally contain provisions providing for the grant of compulsory licences if the patentee does not exploit the patented inventions in a manner which satisfies the needs of the national economy. Generally subject to prohibition or other restraints such as compulsory registration are attempts to use the patent licences in horizontal agreements in order to control the market, for example through the pooling of patents or the imposition of prices and resale prices in concerted actions. The individual patent licence contract and the possible restraints of competition which the parties may accept appear of less concern to the public interest, bearing in mind the limited negative effect which such clauses may have upon the relevant market of the goods or services concerned. Generally, those clauses which relate to the rights which the patent grants are not subject to antitrust law, because they are founded upon the legal monopoly. Other clauses which limit the competition may be subject to the control by the law against restraints of competition.

3.2 COMPULSORY LICENSING

Generally, compulsory licensing is provided for if the patented invention is not exploited to a degree which satisfies the needs of the national market.

<p>Compulsory licensing is provided for by the UK Patent Act 1977.</p>	<p>Compulsory licensing is provided for by the French Intellectual Property Code.</p>	<p>Compulsory licensing is provided for by the Italian Patent Act of 1939.</p>
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3.3 CLAUSES IN PATENT LICENCE CONTRACTS AND ANTITRUST LAW, ENFORCEMENT

The Restrictive Trade Practices Act 1976 provides for the registration of contracts containing clauses which restrain competition. Patent licence contracts are exempted from the duty of registration insofar as restrictions are accepted only in respect of the invention or of articles made by the use of the invention.

The French Freedom of Prices and Competition Ordinance of 1986 does not refer to patent licence contracts. There is no particular procedure for the exemption of contract from the prohibition of antitrust law.

The Italian Protection of Competition Act of 1990 prohibits contracts in restraint of competition but provides for an exemption procedure.

3.4 CLAUSES CONCERNING THE EXPLOITATION OF THE PATENTED INVENTION

The maximum sales clause is permissible, because it permits the licensor the limitation of competition by the licensee and the limitation of intra-brand competition is considered as characteristic of the patent right.

Quantity restrictions such as maximum sales clauses are admissible in order to avoid a strong competition by the licensee(s). Minimum production clauses, also in combination with minimum royalty clauses, are admissible; if the licensee falls short of production, the licensor may claim damages and not the minimum royalty. The best endeavours clause is less common in French and Italian law, because the licensee is considered impliedly obligated to exploit the licensed patented invention.

Quantity restrictions are permissible, because the licensor may determine the scope of the use of the patented invention up to the first sale, provided that the exploitation satisfies the needs of the national market. However, in combination with other clauses binding several licensees quantity restrictions may assume the character of a prohibited concerted action in restraint of competition. Obligations establishing quantity standards and the marking of patented articles are generally permissible but the control of the licensee may only relate to patented articles and not to the general activity of the licensee.

3.5 TYING CLAUSES

Most forms of tying clauses are prohibited under the UK Patents Act 1977. If the clause is not caught by the prohibition, it might render the contract registrable according to the Restrictive Trade Practices Act 1976.

Tying clauses in individual patent licence contracts are lawful, however, the duration is limited to ten years.

Before the legislation of the Protection of Competition Act of 1990 tying clauses were lawful, now their competitiveness with antitrust law appears doubtful, unless the ties are necessary to maintain quality standards or they concern spare parts or repairs of patented articles.

Price-fixing is permissible, however the imposition of resale price maintenance violates the Resale Prices Act 1976.

Price-fixing in the individual patent licence contract appears to be admissible. However, it will be unlawful if it assumes the character of a concerted practice. The maintenance of resale prices is unlawful.

Price-fixing in Italian law may be admissible, taking into account that the patent right is exhausted only after the first sale of the patented article. Resale price maintenance violates antitrust law.

4 THE INVALIDITY OF THE PATENT AND ITS INCIDENCE ON THE CONTRACTUAL RELATION

In English law the licensor does not impliedly warrant the validity of the patent. The licensee may repudiate the licence if he objects the invalidity at the beginning of the contractual relation. But if the licensee has acted under the licence he is estopped from challenging the validity. If the patent is revoked, for example on the action of a third person, the licensee may terminate the contract with three months' notice.

In French law prevailing jurisprudence considers the licensor impliedly obligated to warrant the validity of the patent. The invalidity of the patent which leads to the declaration of nullity with retroactive effect engenders the nullity of the contract due to the lack of object or of causa. In spite of the voidness of the contract, the warranty subsists. The consequences are that, in principle, the performances effected under the void contract have to be restituted. However, with regard to the fact that the licensee has, in most cases, enjoyed a factual monopoly position, the licensor may retain the royalties paid. Jurisprudence is not unanimous whether this solution can be based upon the principle of unjust enrichment or the analogy to the leasing contract which may be terminated for the future only.

Prevailing Italian doctrine considers the contract void due to lack of object if the patent is declared invalid. The modification of the Italian Patent Act of 1939 in 1979 introduced a provision according to which the nullity of the patent does not affect the licence contract to the extent it has been performed. Accordingly, the performances exchanged will not have to be restituted. However, the judge may order an equitable refund of the payments made by the licensor, taking into account the circumstances of the case.

5 THE TERMINATION OF THE CONTRACT

Generally, the patent licence contract may be terminated in the case of a breach of the contract. If the breach relates to a condition, it is terminable, but if it relates to a warranty, the aggrieved party may only claim damages. However, the contract may be terminated if the innocent party has been substantially deprived of what he bargained for.

The contract may be terminated by agreement or by cancellation, rescission or annulment. A contract may be annulled according to the general principles of the law of contract, for example in the case of lack of object or cause. The rescission may be declared with retroactive effect by the court upon the demand by a party, for example in the case of a breach of the contract. The cancellation has effect for the future only.

The patent licence contract may be terminated by agreement between the parties, the declaration of a judge, or, in the case of a breach of the contract, the party may serve a written notice that the contract shall be deemed dissolved unless performance takes place within an appropriate time.

6 THE DURATION OF THE PATENT LICENCE CONTRACT:

In English law the question whether the contract is of determinate or indeterminate duration depends upon the construction of the terms of the contract. If, on the basis of reasonableness, the contract cannot be considered as intended by the parties to be permanent, it is terminable unilaterally on reasonable notice. Even if there is a rule that contracts without a provision for termination are prima facie terminable only by mutual consent, those contracts which are within the class of contracts involving mutual trust and confidence fall within the exception to that rule. Accordingly, the agreement will be determinable by party if no definite term is specified.

In French law the patent licence contract is considered of indeterminate duration, unless the parties stipulate otherwise. It may, accordingly, be cancelled at any moment upon notice by any of the parties unless the parties provide expressly for the duration of the contract.

In Italian law, in the absence of a contractual stipulation, the expiration of the patent term indicates the end of the contractual relation between the parties so that, in the absence of a contractual stipulation, the contract is of determinate duration.

6.1 POST-EXPIRATION CLAUSES

In English law the post-expiration royalty clause can be based upon the principle of freedom of contract. However, even if the parties expressly extend a contract beyond the duration of the patent term, the licensee may terminate the contract according to the Patent Act 1977, a provision which will override any stipulation by the parties to the contrary.

It is asserted that in the case where the contractual relation is extended beyond the patent term, the contract would be void due to lack of causa. However, if the prolonged duration corresponds with a reduced royalty, the contract will be considered valid.

Restraints which exceed the duration of the patent term cannot benefit from the legal monopoly conferred by the patent. They are subject to the provisions of antitrust law. Accordingly, such clauses may be unlawful unless the royalty relates also to a trade mark licence or to know-how, or if it is the modality of the payment.

7 THE OBLIGATIONS OF THE LICENSOR

7.1 THE OBLIGATION OF DELIVERY

In English law the licensor is not bound by an implied obligation to communicate any unpatented information in the absence of an express stipulation.

French jurisprudence is controversial on the issue whether the licensor is obliged to supply, beyond a copy of the patent documentation additional information and technical assistance. Recent jurisprudence seems careful in the implication of such a term. Much will depend upon the stipulation of the terms of the contract, depending upon the circumstances of the individual case.

The obligation of delivery as established in the Italian Civil Code relates to the subject-matter of the contract and also its accessories and appurtenances. Accordingly, a court may imply a term that the obligation extends not only to the handing over of a copy of the patent documentation but also to the supply of unpatented information, particularly if the licensee is not experienced in the licensed technique.

7.2 THE DELIVERY OF UNPATENTED SUBJECT-MATTER

In English law the licensor is not bound by an implied obligation to communicate unpatented information, to supply technical assistance or provide technical staff if the use of the licensed patented invention encounters unforeseen problems. The licensee will have to insist on an express undertaking by the licensor if he wants to be assured of his help should any problems arise in the use of the licensed patented invention for the contractual purpose.

Prevailing case law considers that the licensor is not obligated to communicate know-how unless expressly stipulated in the contract. Legal writers are inclined to imply such an obligation based upon the duty that contracts be executed in good faith, or upon the reasoning that the licensor has to deliver the subject-matter of the contract in a state which permits its exploitation for the contractual purpose. But it is also said that the duty for the revelation of secret know-how would presuppose a close cooperation between the parties. Similar considerations are applicable to the supply of technical assistance the performance of which may be considered implied if it is accessory to the patented invention.

Italian law does not consider the licensor bound to communicate accessory know-how or to supply technical assistance, in particular if the licensee is himself specialised in the filed of the technique.

7.3 THE COMMUNICATION OF IMPROVEMENTS

The parties may make inventions before or after the conclusion of the patent licence contract which offer advantages over the licensed technology. In order to ensure that both parties will benefit from such inventions the parties may undertake to communicate such inventions to the other party. As 'communication' may be understood the performance of different clauses, for example concerning the obligation to provide confidential information on the improvement, the undertaking to transfer the property in the improving invention to the other party or to grant him a licence, whether exclusive or non-exclusive for the utilisation of the improving invention or the mere right to exercise an option for the acquisition of the improving invention.

In the absence of an express clause the licensor is not obligated to communicate improvements at the time of the conclusion of the contract, because the patent licence contract is not a contract 'uberrimae fidei'. The term 'improvement' receives generally a broad construction, by reference to economic considerations. Accordingly, an improvement may be defined as a competing invention which, by reason of its subject-matter, has a connection to the basic invention.

The concept of the communication of improvements. 'Communication' is understood in a broad sense, and may include the grant of a licence or the transfer of proprietary rights. The term 'improvement' may receive a narrow definition according to which an invention has to contain and reproduce the essential elements constitutive of the basic invention. The broad definition is based upon economic aspects: improvements are inventions which, by reason of the advantages they offer, may substitute the licensed invention. The implication of the duty of communication is based upon the spirit of collaboration which may exist between the parties, the obligation of the maintenance of the patent or the principle of good faith.

In the absence of a contractual stipulation or a clear clause establishing a broad obligation of assistance and cooperation the licensor will not be obligated to communicate improvements of the licensed technology to the licensee.

7.4 THE OBLIGATION OF THE MAINTENANCE OF THE PATENT

The question whether the licensor is obligated to maintain the patent depends upon the construction of the terms of the contract and to pay the renewal fees (sic). The duty to maintain the patent may be explained as the consideration for the licensee's promise to pay the royalties. If the licensor undertakes to defend the patent, an obligation for the maintenance of the patent may be implied. In this case the licensee may claim damages, apart from his statutory rights to terminate the contract if the patent ceases to be in force.

In French law the implied obligation of the licensor to maintain the licensed patented invention in force, that is to say to pay the renewal fees can be based upon the parallel to the leasing contract which obligates the lessor by statute to permit the lessee during the lease the utilisation of the leased thing in conformity with the destination provided for in the contract. If the patent lapses, the contract is void from that moment onwards.

In Italian law, legal writers are not unanimous concerning the question whether the licensor or the exclusive licensee is bound to maintain the patent - in the absence of a contractual stipulation. It may be justified to refer to the statute-implied term according to which the lessor shall maintain the thing in a condition suitable for the use agreed upon, by way of analogy to the licence contract.

7.5 THE OBLIGATION OF PROTECTION

In English law the exclusive licensee has a statutory right to bring proceedings in respect of an infringement of the licensed patent. In the absence of a statutory provision, the licensor will not be considered impliedly obligated to protect the licensee against patent infringement. However, if the contract contains a 'MoF' clause, the tolerating of patent infringement by the licensor may be conceived of as the grant of a royalty free licence, so that the licensee may claim 'similar' conditions unless the licensor brings proceedings against patent infringement. If the exclusive licensee institutes proceedings against patent infringement, the award of damages presupposes the registration of the licence. The non-exclusive licensee has no rights to sue, and the licensor is not impliedly obligated to protect him. Accordingly, the non-exclusive licensee may attempt to obtain the right to withhold royalties if the licensor does not pursue infringers or that the parties shall cooperate in the defence of the licensed patented inventions.

In French law only the exclusive licensor may, after registration of the licence and unless the contract provides otherwise, and unless the licensor instituted himself proceedings, bring an action against patent infringement. The licensee is generally considered bound to carry the costs of the proceedings. The licensor may also give the licensee a mandate to bring proceedings in the licensor's name. It is controversial whether the licensor is, beyond, bound by an obligation of protection, deduced from the warranty for the undisturbed enjoyment of the patented invention, which is applied by way of analogy from the leasing contract. A breach of this duty of defence entitles the licensee to terminate the contract (in the case of the non-exclusive licence). Generally, the licensor may not assign the patent or the licence, because of the 'intuitus personae'. But it is also argued that the licensee must himself take care to register the licence in order to avail of protection against assignments by the licensor; the licensee who does not register does not merit protection.

The implication of an obligation to defend the licensee against patent infringements and challenges of the validity of the patent by third persons could possibly be based upon the application of the lessor's statute-implied obligation to warrant the lessee against disturbances in the enjoyment of the thing - however, Italian jurisprudence considers both the exclusive and non-exclusive licensee even before registration authorised to institute proceedings against patent infringement so that the obligation of protection may be limited to assist the licensee in such proceedings and to defend challenges against the validity of the licensed patented invention. By a parallel to the leasing contract the licence is enforceable against the purchaser of the patent.

If the licence is considered of 'intuitus personae', it may be assumed that the licensor is not entitled to assign the contract unless with the licensee's consent.

7.6 WARRANTIES

7.6.1 DEFECTS OF THE LEASED SUBJECT-MATTER

It may be assumed that in the absence of an express warranty, the maxim 'caveat emptor' applies. In the case in which the contract contains an express term, it has to be differed whether the licensor's undertaking is a condition or a warranty. In the first case, the licensee may repudiate the contract and claim back the royalties, in the second case the licensee may only claim damages.

The licensor may warrant that the patent was not obtained from a third person or that it has not been publicly used by the patentee or that the invention was properly described in the patent with adequate experimental details. Since the patent licence contract is not considered to be a contract "uberrimae fidei" the licensor is not under an obligation to disclose the existence of latent defects.

French law considers the licensor bound to warrant the licensee against technical and legal defects of the patented invention, although the concept of the 'defect' presupposes that the defect can be repaired which is impossible in intellectual property. The invalidity of the patent entails the licensor's warranty against legal defects (of the leased thing). A difficulty which the application of the rules concerning the leasing contract to the licence contract encounters lies in the fact that (now) the patent is granted after an examination so that it does not seem justified to impute a mistake of the patent office to the licensor. A defect of the conception of the patented invention entails the warranty whereas the defect of the production relates to those problems which rest exclusively with the licensee. The commercial failure is 'exterior' to the warranty against defects. Defects relating to the concept of the invention are for example a risk of fire or explosion resulting from the use of the invention. They entail the warranty if those defects cannot be remedied in spite of efforts and attempts.

In Italian law the implication of the licensor's warranty may be based upon an analogy to the statutory terms concerning the contract of sale or the leasing contract. However, the validity of the patent is not the subject-matter of the warranty, due to the fact that the patent granted by public authorities after an examination is presumed to be valid. But the licensor warrants against technical defects of the invention if the invention cannot be used for the contractual purpose. The licensor does not warrant the commercial success of the invention. The defect must be hidden, that is to say that it must not have been recognisable to the licensee, for example if he could not have discovered the defect on the basis of an examination. However, due to the fact that the patent office is charged with the examination of patents it may be presumed that a possible defect is hidden if it relates to the conditions of patentability. Italian legal doctrine considers that the warranty forms an independent contract which survives a possible nullity of the patent licence contract due to the lack of its prerequisites if the patent is revoked.

7.6.2 DISTURBANCES

English courts are not likely to imply a term according to which the licensor warrants the quiet possession where the parties could have expressly dealt with this problem in the contract.

In French law the implication of the warranty against disturbances in the enjoyment of the licensed patented invention is generally based upon the application of the terms implied by statute of the leasing contract.

The licensor is generally considered impliedly obligated to warrant against disturbances upon the drawing of an analogy to the leasing contract.

7.6.3 LEGAL DISTURBANCES

Legal disturbances concern the cases where the licensor attempts to enjoin the licensee from exploiting the licensed subject-matter, for example either by means of the licensed patented invention or by a dominant patent, where the licensor concludes an agreement with a third person which is not compatible with the licence contract or where the licensor does not pay the renewal fees or surrenders patent protection so that the licensee is enjoined from the peaceful enjoyment of the patent right. A legal disturbance may also be presumed if the legal defect which affects the patent by reason of the revocation entails the warranty against legal disturbances. Legal disturbances may also be those cases in which a third person owns a dominant patent or claims a right in the licensed invention or a right of prior use.

7.6.4 FACTUAL DISTURBANCES

As factual disturbances of the licensee in the enjoyment of the patent right could be conceived the cases in which the licensor exploits 'competing' inventions which render the licensed technology obsolete or where third persons infringe the licensed patent.

7.6.5 LEGAL DISTURBANCES ATTRIBUTABLE TO THE LESSOR

In English law the licensor may be considered estopped from challenging the validity of the patent, for example after he has sold the patented invention. As legal disturbances entailing the licensor's warranty French law conceives the cases in which the licensor avails of a dominant patent in order to enjoin the licensee from the exploitation of the licensed patented invention or where he concludes an agreement with a third person which is not compatible with the licence contract or where he does not pay the renewal fees or surrenders patent protection. A legal defect leading to the revocation of the patent, may also entail the warranty against legal disturbances. According to Italian legal doctrine the lessor will not warrant if he has, preceding to the licence, concluded other agreements which are enforceable against the licensee and which diminish his enjoyment. Parallel to the leasing contract the licensor may be liable for damages and the licensee may terminate the contract since the subject-matter of the contract was not at the free disposition of the licensor.

7.6.6 DISTURBANCES THROUGH FACTS ATTRIBUTABLE TO THE LESSOR

In English law the licensor does not impliedly warrant that the use of the licensed subject-matter will not violate a third person's patent. It is asserted in French law that in order to avoid liability the licensor is obligated to abstain from exploiting competing inventions. The licensor is generally considered impliedly obligated to warrant against disturbances upon the drawing of an analogy to the leasing contract.

7.6.7 LEGAL DISTURBANCES ATTRIBUTABLE TO A THIRD PERSON

If a third person obtains the revocation of the licensed patent, the licensee is not considered evicted similar to the lessee, because nothing prevents the licensee from using the technology. Accordingly, the parallel to the leasing contract is not drawn in English law.

Since the exclusive licensee may himself institute proceedings against patent infringement, French doctrine considers that if at all, the non-exclusive licensor may be bound by reason of the analogy to the leasing contract, similar to the case of the exclusive licence if the infringer puts the validity in issue.

The implication of the warranty is based upon the analogy to the relevant term implied by statute of the leasing contract. Accordingly, the licensee may claim the warranty unless the lessee has the power to bring an action in his own name.

Again, Italian jurisprudence considers that the warranty survives the nullity of the contract due to lack of causa or object upon the reasoning that the warranty must be considered as granted in the event where the main contract fails.

The warranty entitles the licensee to ask for an equitable refund of royalties paid or for a reduction of the royalties or for damages.

7.6.8 FACTUAL DISTURBANCES ATTRIBUTABLE TO A THIRD PERSON

If a third person obtains the revocation of the licensed patent, the licensee is not considered evicted similar to the lessee, because nothing prevents the licensee from using the licensed technology.

Since the exclusive licensee may himself institute proceedings against patent infringement, French doctrine considers that if at all, the non-exclusive licensor may impliedly be bound to warrant by reason of the analogy to the leasing contract. The licensor warrants also in the case of the exclusive licence if the infringer puts the validity of the licensed patent in issue, because the exclusive licensor cannot defend the validity of the patent.

In Italian law the licensor is considered bound by an implied warranty against factual disturbances upon a parallel to the leasing contract, if the licensee has no power to act against the third persons.

7.7 THE EXCLUSION OF THE WARRANTY

In English law the parties may expressly exclude any warranty relating to the validity of the patent. Also the express recognition of the validity of the patent by the licensee may be stipulated, but by their stipulations the parties cannot exclude the statutory regulation that the licensee may terminate the contract if the patent ceases to be in force.

If the licence is concluded at the licensee's risks and perils the warranty may be considered excluded in French law. The warranty against legal defects may be excluded by the parties. The mere recognition by the licensee of the validity of the patent does not deprive him of the possibility to take recourse to the warranty. If one applies the jurisprudence according to which the professional seller is presumed to be of bad faith, a clause excluding the warranty is valid if stipulated between professionals of the same branch. The warranty against disturbances attributable to the licensor is of 'ordre public' and cannot be excluded. The recognition of the validity by the licensee does not prevent him from pleading the invalidity of the patent.

Clauses which exclude the warranty for the validity of the patent are upheld by Italian courts. The warranty may also impliedly be excluded from the contract, for example if the licence contract provides for the testing of the patented machine before the stage of industrial manufacture.

8 OBLIGATIONS OF THE LICENSEE

8.1 THE OBLIGATION TO PAY THE ROYALTIES

The payment of the remuneration is determined by economic factors and may assume the form of a lump sum, a fixed or proportional royalty.

In English law the court may imply that the licensee shall pay a royalty, the reasonableness being determined 'in the light of the circumstances as they were at the date of the licence'. If the payment of a lump sum is agreed upon for the communication of unpatented technologies the licensor avoids problems deriving from the discussion of a repayment of royalties in the case of the invalidity of the patent. From the stipulation of proportional royalties results a right of control for the licensor so that the licensee is obligated to give the licensor access to account books, even if this is not expressly stipulated in the contract. The minimum royalty clause is valid and does not violate antitrust law.

Since in French law the invalidity of the patent renders the contract void due to lack of object or causa, the payment of a lump sum made in recognition of the licensor's performance for the supply of technological information and know-how avoids any problems arising from the consequences of this voidness. The minimum royalty clause is admissible.

In Italian law a term implied by statute gives the lessor a right of supervision with regard to the leased subject-matter. It may be argued that by way of analogy to the leasing contract a term may be implied into the licence contract which gives the licensor the right to examine the licensee's books at his premises in order to verify the scope of his exploitation. Minimum royalty clauses appear to be lawful, post-expiration royalty clauses may be subject to antitrust law.

8.2 THE OBLIGATION OF DEFENCE

The exclusive licensee has a right by statute to bring proceedings in respect of patent infringements. This right does not appertain to the non-exclusive licensee. It cannot be assumed that the licensee, whether exclusive or non-exclusive, will be bound to defend the patent right in the absence of an express contractual stipulation.

The licensee is not considered qualified to answer a challenge against the validity of the patent by an infringer. In French law the exclusive licensee may bring legal proceedings against infringers if the patentee does not do so, but the licensee is not considered qualified to answer a challenge against the validity of the patent.

According to the prevailing Italian doctrine the exclusive and non-exclusive licensee may institute proceedings against patent infringement. In the case in which the infringer challenges the validity of the patent, the licensee has to summon the licensor in the proceedings in order to avoid liability for damages.

8.3 THE OBLIGATION OF THE COMMUNICATION OF IMPROVEMENTS

Similar to the licensor the licensee is not obligated to communicate improvements to the other party. Grant back clauses according to which the licensee is obligated to communicate improvements so that the licensor could obtain a patent and grant an exclusive licence to the licensee will be upheld.

The French legal writers consider the licensee impliedly bound to communicate improvements to the licensor, basing their view upon the principle of good faith or upon the duty of fidelity. Grant back clauses are valid in French law even if the licensee is obligated to assign the property in the improvement.

In the absence of a contractual stipulation the licensee is not obligated to communicate improvements to the licensor.

8.4 THE OBLIGATION OF EXPLOITATION

English law does not imply an obligation of exploitation upon the licensee. Accordingly, the licensee is not obligated to work the invention. In order to overcome this problem, the parties may agree upon a 'best endeavours' clause.

The licensee, whether exclusive or non-exclusive is impliedly obligated to exploit the invention. This is inferred from the fact that otherwise the licensor would be exposed to the risk of compulsory licensing. Accordingly, the exploitation must be serious and effective with regard to quantity and quality unless the exploitation faces 'insurmountable difficulties' for technical or commercial reasons. The licensee is impliedly obligated to abstain from the exploitation of a technology which replaces the licensed patented invention. A substantial use of a competing technology may constitute a breach of the implied obligation of exploitation. By reason of the implied obligation of exploitation the patent licence contract is considered to be of "intuitus personae", so that the licensee has to exploit the patented invention personally.

Italian law considers the exclusive licensee bound to exploit the licensed patented invention in order to avoid that compulsory licences are granted. In the case of the non-exclusive licence it depends upon the individual case, for example if the amount of the remuneration depends upon the scope of the exploitation, it is justified to consider the licensee impliedly obligated to exploit the licensed patented invention. Even if this obligation is not implied the licensee must observe the diligence of a reasonable man.

8.4.1 THE BEST ENDEAVOURS CLAUSE

Best endeavours clauses oblige the licensee to take all those reasonable steps which a prudent and determined man, acting in his own interests, would have taken. Accordingly, the licensee has to use every reasonable effort.

8.4.2 THE NO-CHALLENGE CLAUSE

No-challenge clauses may lawfully be agreed upon in English law, bearing in mind that even in the absence of the express clause the doctrine of estoppel denies the licensee the possibility to challenge the validity of the patent.

No-challenge clauses are generally considered valid in French law. The obligation not to challenge is not implied upon the licensee. However, the clause is deprived of its value since the declaration of the invalidity of the patent has absolute effect and does not only work between the parties so that the patent licence contract will be void due to lack of object or causa if the patent is declared invalid upon a third person's action.

8.4.3 THE NO-COMPETITION CLAUSE

The no-competition clause has been upheld by English courts in patent licence contracts. Its stipulation may be recommendable, in particular for the time after the termination of the licence.

The no-competition clause which restrains the licensee from the use of technologies which substitute the licensed patented invention or of an activity which competes with the licensor's activities is lawful if it is limited in time or space and with regard to the competing activity itself. The prevailing jurisprudence does not consider the licensee, whether exclusive or non-exclusive, bound through the implication of this obligation.

8.5 THE PROHIBITION AGAINST THE ASSIGNMENT OF THE CONTRACT

The licensee may like to assign the contract or transfer his rights and obligations, his business may be merged or sold or his heirs may take over the firm to which the licence relates.

In English law general principles are applicable - a contract involving personal skill or based upon the confidence that a party has in the other is prima facie unassignable. However, generally it is a question of construction in each case. But since the licence does not confer to the licensee any 'property', the licensor does not grant to the licensee any 'assignable' right, unless the parties stipulate otherwise. Accordingly, the licence is strictly personal.

By reason of the "intuitus personae" the personal relation between the parties to the licence contract the licensee may not assign the contract in the absence of a contractual stipulation. But if the licence is transferred with the business, be it by a merger, sale or takeover, the "intuitus personae" is safeguarded.

In the absence of a stipulation the licence is unassignable in Italian law, unless together with the licensee's business. Even this may be excluded if the licence is concluded 'intuitus personae', that is to say if the personal qualities of the licensee are decisive. The licence will be transferred to the heirs of the licensee unless the contract stipulates otherwise or is concluded "intuitus personae".

8.6 THE GRANT OF SUB-LICENCES

In the absence of an express clause sub-licensing is not permissible, not even for the non-exclusive licensee. The licensee may not employ sub-contractors, however, he may use his agents for the manufacturing of the patented invention.

By reason of the personal relationship the licensor may not grant sub-licences unless authorised to do so. However, he may employ sub-contractors for a certain determined task under his control within the ambit of the contract.

The grant of sub-licences may be permissible if the main licence is non-exclusive, because the licensee is generally not bound by an obligation of exploitation so that the licensor has no interest in the personal exploitation of the licence by the non-exclusive licensee. However, some Italian lawyers reject this view upon an analogy to the leasing contract. In the case of the exclusive licence it is asserted that the licensee may grant non-exclusive sub-licences by reference to the provisions applicable to the usufruct.

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INDEX

- Annulment, 134, 135, 137, 181, 251, 252, 255, 276
- Antitrust law, 19, 23, 67, 71, 104, 118, 129, 131, 132, 175, 182, 207, 208, 209, 210, 211, 212, 213, 214, 221, 235, 237, 238, 245, 246, 249, 269, 270, 271, 272, 274, 277, 288, 291
- Assignment of the contract, 202, 226
- Autonomy of the will of the parties, 44
- Bene immateriale*, 186, 188, 217
- Best endeavours clause, 106, 248, 272
- Cancellation, 80, 136, 137, 179, 265, 276
- Cartels, 131, 246
- Causa, 25, 26, 30, 31, 32, 33, 34, 37, 38, 40, 45, 122, 133, 134, 135, 137, 139, 140, 152, 158, 159, 163, 167, 170, 180, 181, 215, 216, 220, 228, 230, 231, 244, 246, 273, 275, 277, 285, 288, 291
- concept of causa, 30, 31, 32, 33, 37, 38
- Chattels, 47, 48, 51
- Civil law, 18, 26, 48, 61, 193, 213, 243
- Common law, 18, 22, 23, 29, 33, 35, 38, 39, 43, 48, 51, 67, 74, 81, 95, 195, 202, 244, 270
- Comparative law, 17, 20
- Comparative method, 20, 22, 23
- Competition Authority, 214, 238, 240
- Compulsory block licensing, 212
- Consideration
- concept of consideration, 34, 35, 37, 38
- doctrine of consideration, 35, 36, 38, 244
- Contract
- breach of contract, 21, 58, 59, 71, 98, 119, 220
- cancellation of the contract, 179
- contract of non-opposition, 126, 127, 269
- freedom of contract, 44, 121, 129, 149, 195, 277
- implication of terms, 63, 141, 244, 248, 269
- implied terms, 41, 42, 147
- invalidity of the contract, 133, 158, 218
- natural elements of the contract, 41, 150
- nullity of the contract, 39, 40, 127, 134, 158, 163, 203, 216, 219, 220, 228, 230, 231, 246, 252, 269, 275, 285
- patent licence contract, 14, 17, 18, 19, 20, 23, 27, 29, 34, 40, 43, 58, 59, 63, 64, 65, 66, 81, 85, 92, 94, 96, 97, 100, 101, 105, 107, 112, 118, 120, 122, 123, 124, 125, 126, 127, 128, 133, 135, 137, 138, 141, 151, 154, 155, 156, 157, 158, 162, 163, 164, 165, 166, 169, 171, 175, 179, 182, 189, 191, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 215, 216, 217, 219, 221, 224, 226, 228, 230, 233, 237, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 255, 258, 259, 266, 268, 269, 270, 273, 274, 276, 278, 279, 282, 290, 291
- synallagmatic contract, 31, 32
- termination of the contract, 70, 173, 220, 236
- terms of the contract, 18, 25, 34, 40, 41, 42, 45, 46, 82, 88, 89, 121, 122, 196, 197, 200, 244, 245, 261, 276, 277, 280
- Contract of industrial production, 194, 202, 241, 269
- Contract of sale, 21, 41, 101, 119, 121, 123, 140, 141, 147, 150, 166, 167, 194, 196, 198, 200, 221, 226, 247, 269, 282
- Corporeal property, 234
- Cosa*, 185
- Customer restraints, 211
- Defects
- hidden defects, 153, 157, 163
- hidden legal defects, 153, 229
- hidden technical defects, 159
- Director General of Fair Trading, 67, 68
- Disturbance
- disturbances attributable to third persons, 247
- disturbances in the enjoyment, 156, 165, 168, 229, 234, 257, 281, 283
- disturbances through facts, 145, 151, 162, 168, 169, 171
- legal disturbance, 162, 163, 164, 165, 283
- material disturbance, 154, 162, 164
- Economic-social function, 31
- Equitable rights, 66, 67
- Equity, 48, 49, 58, 59, 60, 64, 67, 82, 135, 146, 148, 149, 174, 218
- Estoppel, 37, 58, 59, 63, 77, 78, 79, 80, 96, 108, 273, 291
- Frustration
- concept of frustration, 244

- Grant back clauses, 17, 85, 171, 175, 235, 274
- Improvements
communication of improvements, 142, 145, 146, 147, 207, 256, 279
- Incorporeal property, 113
- Incorporeal things, 113
- Industrial co-operation, 124, 125, 215
- Joint venture, 65, 125
- Know-how, 28, 29, 84, 87, 101, 121, 132, 134, 139, 142, 146, 148, 149, 150, 155, 159, 203, 204, 212, 215, 219, 221, 222, 228, 247, 249, 251, 256, 263, 268, 277, 278, 288
- Lease of productive property, 191, 194, 198, 201, 202, 203, 221, 233, 236, 241, 269
- Leasing contract, 21, 41, 60, 62, 63, 64, 65, 95, 123, 124, 125, 133, 135, 137, 154, 157, 165, 166, 182, 194, 198, 200, 201, 203, 215, 219, 221, 224, 226, 233, 236, 241, 244, 247, 268, 269, 275, 280, 281, 282, 283, 284, 285, 286, 288, 292
- Licence
assignment of the licence, 92
bare licence, 53
contractual licence, 53, 62, 98, 110, 119, 193, 246
cross-licensing agreements, 69
exclusive licence, 54, 60, 61, 63, 66, 78, 89, 90, 91, 97, 104, 105, 110, 117, 124, 128, 145, 171, 173, 177, 178, 183, 187, 190, 191, 199, 200, 201, 203, 223, 226, 236, 241, 247, 266, 285, 286, 289, 292
grant of sub-licences, 182, 240
implied licence, 55, 58, 192
licence coupled with an interest, 53
limited licence, 57, 58, 192
non-exclusive licence, 90, 91, 120, 128, 151, 153, 154, 175, 177, 186, 190, 201, 218, 223, 233, 235, 236, 241, 256, 264, 266, 281, 290
personal licence, 55
simple licence, 190
sole licence, 54, 68, 186, 190, 264, 266
termination of the licence, 71, 82, 110, 178, 291
transfer of the licence, 155
voluntary licences, 52, 58, 119, 193
licences of right, 61, 120, 194
- Licensee
sub-licensee, 71, 77, 124, 182, 183
- Mandatory
mandatory terms, 196
non-mandatory terms, 29, 40, 46, 121, 122, 167, 196, 197, 199, 200, 221, 244, 268
- Maximum sales clause, 107, 179, 237
- Minimum production clause, 106, 178, 237
- Mistake
concept of mistake, 25
- Monopolies and Mergers Commission, 71, 72, 73
- Monopolies Commission, 71
- Monopoly, 44, 49, 51, 56, 57, 69, 71, 72, 73, 75, 79, 83, 85, 98, 108, 114, 115, 117, 131, 134, 136, 139, 140, 150, 159, 173, 187, 188, 209, 210, 211, 212, 213, 217, 218, 227, 238, 243, 245, 246, 270, 275, 277
- Monopoly rights, 56, 57, 79, 98, 131, 210, 211
- Most favoured clause, 91, 99, 170, 171
- Natural property right, 16
- No-challenge clause, 108, 109, 136, 168, 180, 213, 217, 273
- No-Competition Clause, 99, 171
- Notice
reasonable notice, 54, 81, 82, 247, 276
- Object
concept of object, 26, 27, 29
- Obligation not to compete, 109, 181, 240
- Obligation of delivery, 84, 87, 140, 147, 221, 222, 277
- Obligation of exploitation, 105, 107, 124, 126, 173, 175, 176, 177, 178, 181, 182, 235, 236, 237, 248, 290, 292
- Obligation of protection, 90, 91, 153, 154, 224, 247, 281
- Obligation of the maintenance of the patent, 88, 151, 223, 279
- Office of Fair Trading, 68, 71, 72, 73, 302
- Patent
exhaustion of the patent, 119, 130, 138, 192, 210, 261, 267
invalidity of the patent, 23, 37, 79, 80, 88, 92, 133, 134, 135, 136, 158, 159, 167, 169, 180, 215, 216, 219, 220, 232, 244, 246, 273, 275, 282, 288, 291
patent system, 14, 15, 16, 210, 245, 248

- patented article, 51, 55, 56, 57, 58, 93, 96, 160, 161, 192, 209, 210, 211, 220, 238, 267, 274
- patented invention, 17, 19, 22, 23, 27, 29, 34, 37, 47, 53, 54, 55, 57, 58, 61, 68, 69, 72, 83, 84, 85, 90, 92, 93, 95, 96, 100, 104, 105, 106, 107, 111, 112, 117, 119, 120, 121, 123, 126, 135, 137, 139, 140, 142, 143, 144, 148, 149, 151, 152, 153, 154, 155, 156, 157, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 171, 172, 173, 175, 176, 177, 178, 181, 183, 185, 186, 187, 188, 190, 191, 192, 194, 197, 199, 200, 202, 203, 205, 209, 210, 211, 212, 213, 219, 221, 222, 223, 224, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 238, 239, 241, 242, 243, 245, 247, 249, 251, 256, 257, 264, 266, 267, 271, 272, 273, 274, 278, 280, 281, 282, 283, 284, 290, 291, 292
- patented process, 64, 71, 80, 119
- patented technology, 16, 209, 238
- recognition of the validity, 169, 287
- revocation of a patent, 64, 231, 265
- unpatented information, 87, 156, 277, 278
- unpatented technology, 148
- validity of the patent, 37, 76, 77, 78, 79, 80, 81, 92, 93, 94, 96, 98, 108, 109, 136, 139, 164, 167, 169, 170, 173, 180, 189, 203, 207, 215, 216, 217, 218, 219, 227, 228, 232, 234, 239, 246, 247, 248, 250, 273, 275, 281, 282, 284, 286, 287, 288, 291
- Patent infringement, 53, 55, 56, 57, 58, 77, 89, 90, 91, 105, 119, 120, 129, 141, 154, 155, 164, 165, 166, 179, 183, 188, 189, 225, 233, 234, 258, 281, 285, 286, 288
- Personal property, 47
- Post expiration clauses, 212
- Price fixing, 211, 212, 238
- Profits, 60, 73, 91, 100, 103, 135, 139, 170, 200, 203, 217, 225, 238
- Proprietà*, 185
- Refusal to sell, 118, 119, 129, 130, 131, 182, 245, 246
- Registration
 - registration of the agreement, 66
- Repudiation, 22, 82
- Res corporales*, 48, 113
- Res incorporales*, 48, 113
- Rescission, 24, 93, 96, 134, 135, 136, 137, 180, 181, 259, 276
- Restraint of trade, 67, 74, 99, 109, 246, 270, 273
- Revocability
 - revocable at will, 53, 81, 190
- Roman law, 48, 113, 121, 195
- Royalty
 - lump sum, 100, 101, 123, 127, 137, 141, 147, 172, 177, 232, 260, 287, 288
 - minimum royalties, 98
 - payment of royalties, 52, 77, 78, 82, 88, 93, 98, 100, 102, 107, 136, 137, 138, 139, 147, 168, 171, 172, 195, 207, 212, 219, 220, 239, 248
 - proportional royalties, 101, 288
 - reduction of royalties, 91
 - repayment of royalties, 135, 288
 - repayment of royalties, 79, 136
- Seal, 66
- Technical assistance, 28, 29, 84, 87, 101, 142, 150, 151, 155, 215, 219, 228, 247, 249, 277, 278
- Technology
 - competing technology, 109, 177, 181, 222, 290
- Theory of will, 30, 32, 37
- Tie-in clause, 107, 179, 237
- Turnover, 87, 100, 102, 103, 144, 172, 177, 178, 181
- Usufruct, 122, 191, 198, 199, 201, 206, 240, 241, 243, 268, 269, 292
- Warranty, 41, 44, 78, 82, 92, 93, 94, 95, 97, 98, 126, 136, 145, 150, 151, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 206, 225, 226, 227, 228, 229, 230, 231, 232, 234, 247, 257, 275, 276, 281, 282, 283, 284, 285, 286, 287
 - exclusion of the warranty, 97
 - implied warranties, 247

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