

QUESTION 102

Effects of patent or trademark invalidity on license agreements

Yearbook 1991/I, pages 299 - 301
Executive Committee of Barcelona, September 30 - October 5, 1990

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Resolution

The AIPPI notes that the legal issues raised by this Question pertain not so much to the laws of intellectual property as to the law of contracts and other laws in the realm of Civil Law.

The principles of jurisprudence underlying these laws differ markedly from country to country. Nevertheless the practical solutions recognized or proposed in most countries are quite similar.

Frequently, countries start out from quite divergent initial rules, and apply thereto exceptions and qualifications which in practice lead to much the same results.

The AIPPI therefore believes that it is possible to propose solutions which reflect the underlying common private and public needs without the need to debate legal philosophies.

The AIPPI urges that national laws and rules be applied in accordance with the following guidelines:

In formulating these guidelines, the AIPPI was motivated by the following considerations:

- 1) The validity of a patent is fundamental to a licence agreement, and ought not to be immune to challenge by the licensee.
- 2) It is unreasonable to provide for the continuance in force of an agreement whose cause or object is non-existent.

- 3) In most cases, other than fraud, it is equally unreasonable or impractical to attempt to undo the effects of an agreement to the extent that it has been executed.
- 4) The guidelines are intended to define the rights of the parties on points not controlled by contractual provisions. It is desirable that parties foresee possible difficulties by entering into contractual provisions covering the same.

General rules in the absence of contractual provisions at variance therewith, and of fraud.

- 1) A licensee has the right to contest the validity of the licensed patent.
- 2) The total invalidity of the patent has as a consequence either the invalidity or termination of the licence agreement, or the creation of a right on the part of the licensee to terminate the agreement. The ground for the invalidity of the patent is irrelevant.
- 3) A final decision by a Court or other competent authority holding the patent to be invalid is effective, insofar as concerns the licence agreement, as of the date upon which the legal action leading to such a decision was begun, if instituted by the licensee; or as of the date of the final decision, if the legal action was begun by a party other than the licensee.
- 4) The licensee is not entitled to seek recovery of royalties paid prior to the effective date of the invalidity or termination of the licence agreement. The licensor is entitled to lay claim to the payment of royalties due up to the effective date of the invalidity or termination of the licence agreement.

The Court or other competent authority may, nevertheless, make a total or partial exception to this general rule to the extent that the licensor or the licensee proves that this is justified by the circumstances and on grounds of equity.

- 5) If a patent licence agreement also provides for the communication of know-how, the consequence of the invalidity of the patent depends upon the extent to which the know-how has a value separate from that of the patent. If the know-how is merely incidental to the patent, the consequence of the invalidity of the patent is the same as in the case of a licence agreement covering a patent only. If the know-how is capable of conferring upon the licensee an economic benefit independently of the patent, the licence agreement can survive insofar as to the know-how is concerned. It lies within the competence of the Court to decide whether the know-how license can have a separate life of its own. If the licence agreement does not allot royalties separately to the patent and to the know-how, it equally lies within the competence of the Court to determine the proportion of the royalties attributable to the know-how. The same solutions apply to the cases of other mixed licences, such as those which include trademarks and designs.

6) The consequence of the partial invalidity of the licensed patent depends upon the extent to which this partial invalidity frustrates the essential purpose which the licensee reasonably expected to achieve from the licence agreement (the same formulation may be applied to the situation of a licence agreement covering several patents, where not all of the licensed patents are held invalid).

Where the partial invalidity frustrates the essential purpose of the licence agreement, the agreement is invalid or terminable on the same terms as in the case of complete invalidity. Where the essential purpose of the licence agreement remains achievable, the licence agreement can continue in force. The Court may direct a reduction of the amount of the royalties payable by the licensee. It is within the competence of the Court to determine whether the essential purpose of the licence agreement remains achievable, and if so whether and to what extent the royalties should be reduced.

Contractual provisions at variance with or in addition to the general rules.

On the basis of the general principle of the freedom of parties to enter into contractual agreements, the patentee or licensor and the licensee are entitled to adopt contractual provisions in the licence agreement which are at variance with or in addition to the general rules set forth above. Exceptions to this general principle may be made, depending upon all of the circumstances of fact of a particular case, for reasons of public policy.

Fraud

In case of fraud by the licensor, the licensee shall not be bound by the above guidelines.

The AIPPI recognizes that it is necessary to study equally the effects on licence agreements of the invalidity of other industrial and intellectual property rights, such as trademarks, models and designs, copyrights, topography rights and commercial names.

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