The Law of Patent Licensing in Germany: An Update

ARNOLD VAHRENWALD
Arnold Vahrenwald, Rechtsanwalt, Munich

Introduction

Within the last ten years an evolution in the German law on patent licensing has taken place, highlighted by the introduction of a third subsection to section 15 of the 1981 German Patent Act. The legislative action in 1986 was engendered by a judgment of the Federal Supreme Court[1] which differed from previous jurisdiction on the effects of a non-exclusive licence in the case of a transfer of the patent to a third party. Another point of interest of this note is the obligation of the licensee not to challenge the validity of the patent. These two issues have found much interest and this article shall reflect the discussion.

The Non-Exclusive Patent Licence in the Case of the Assignment of the Patent

Section 15(3) of the German Patent Act of 1981 states: 'A transfer of right or the grant of a licence does not affect licences which have been granted earlier.' This modification of the Act was introduced by the legislators in 1986 together with the modification of the Utility Model Act.[2] The legislation cleared the discussion among German lawyers on the effects of the non-exclusive patent licence. In the past, the differentiation between the exclusive and the non-exclusive patent licence assumed importance insofar as the exclusive patent licence was considered a real property contract so that the grant of an exclusive patent licence transfers the right of exploitation of the patented invention with effect *erga omnes*. Subsequent transactions in the patent right are not effective against the exclusive licensee.

This effect of a real property contract was confirmed by the Federal Supreme Court.[3] The court expressly refrained from deciding whether the grant of a non-exclusive patent licence was a real property contract, but it said that the grant of a right of use normally has obligatory effects. Consequently, subsequent transactions of the licensor in the patent right may deprive the non-exclusive licensee from his right to exploit the patented invention, unless the non-exclusive licence contract restrains the licensor in the right to use the invention himself or in the grant of further licences. The court denied that in the case of a non-exclusive licence the obligations of the licensor towards the licensee are transferred to the purchaser of the patent.

Prior to this judgment, prevailing jurisprudence based the takeover of the licensor's obligations by the purchaser on the application of the relevant provisions of the law of the leasing contract of the German Civil Code by way of analogy. The patent licence contract is an innominate contract. Nominate contracts which are socially more relevant, such as the contract for sale or the contract for work, receive their legal regime from the Civil Code. The innominate contracts receive their legal regime by way of analogy to the rules of the nominate contracts. Generally, it is considered that the rules of the leasing contract are applicable to the patent licence contract. Section 571 of the German Civil Code states that a leasing contract has effect against a purchaser of the property if the lessee is in possession of the property. However, the Federal Supreme Court[4] rejected the applicability of section 571 of the German Civil Code with the reasoning that this provision is restricted to the sale of real property and does not even apply to the lease of moveable property. The assignment of the property to the lessee is recognisable to the purchaser of the real property and this justifies the consideration of the purchaser's interests as less worthy of protection than the interests of the lessee, since the purchaser may easily verify the legal status of the real property. The court continued to observe that there is no parallel in the case of the non-exclusive patent licence. The existence of a non-exclusive patent licence cannot even be verified by a search of the patent register, because the grant of a non-exclusive patent licence is not susceptible of being registered according to section 34 of the German Patent Act.

The Court of Appeal, Düsseldorf[5] applied the gerund 'burning' to the question whether the purchaser of good faith acquires the patent together with the licence, and held that the interests of the parties imposed to consider the purchaser of good faith bound by the non-exclusive licence. The Federal Supreme Court[6] was not prepared to support this reasoning and took the view that the law, as it then was, did not permit the continuance of the non-exclusive patent licence contract beyond the transfer of the patented invention to a purchaser of good faith.

Because of the interests involved, the judgment of the Federal Supreme Court[7] met criticism not only from legal writers.[8] The Federal Ministry of Justice responded to the demand for legislative action that the Federal Government did not see the necessity to modify the legal provisions on licences in the Patent Act. The Federal Government proceeded on the assumption 'that the interested industrial circles would solve the problems arising from the decision of the Federal Supreme Court

1 GRUR 1982, 411, 'Verankerungsteil'.
2 Section 15(3) of the German Patent Act of 1981 was introduced together with the Law on the Modification of the Utility Model Act of 15 August 1986.
3 See Note 1 above.
4 See Note 1 above.
5 GRUR 1981, 212, 'Biegsames Seil'.
6 See Note 1 above.
7 See Note 1 above.
8 See Brandi-Dohrn, GRUR 1983, 146; Forkel, NJW 1983, 1764; Klawitter, MDR 1982, 895; Mager, GRUR 1983, 51; Rosenberger, GRUR 1983, 203; Völp, GRUR 1983, 45.

in the course of their contractual practice'.[9] However, since this problem could not be overcome in contractual practice, the legislators inserted a third subsection into section 15 of the German Patent Act. The modification of the Patent Act has no retroactive effect, so that licensees of contracts concluded before 1987 will not benefit from the modification. It should be noted that the modification does not distinguish between the exclusive and the non-exclusive patent licence. Section 15(3) of the German Patent Act does not make the continuation of the licence dependent on the registration in the patent register. This is justified, because in German law only the exclusive patent licence may by registered in the patent register (sections 30 and 34 of the German Patent Act). The registration thus has merely declaratory effect and section 15(3) of the German Patent Act seems to confirm the 'absolute' character of the licence,[10] since its effects are independent of registration. In this respect, section 15(3) of the German Patent Act differs from the corresponding regulation in Articles 43(3) and 40(2)(3) of the Community Patent Convention, according to which a licence has effects *vis-à-vis* a purchaser of the patent after entry in the register of the Community Patents. In German law, registration is not a prerequisite for continuance of the licence in the case of a sale of the patent.

The Licensee's Obligation not to Challenge the Validity of the Patent

The licensee's obligation not to challenge the validity of the licensed patent can be based on two reasons: in the first case it may be based on the duty to execute contracts in good faith; in the second case it may be based on an express stipulation.

Even if the parties to a patent licence did not agree on such an obligatory clause, the licensee may be impliedly prohibited from challenging the validity of the patent. The Federal Supreme Court[11] confirmed that the initation of proceedings for the revocation of a patent may be inadmissible if the parties are bound by a licence contract,

> which, by reason of its individual composition — particularly, when there is a special relationship of confidence or cooperative element deriving from the content — the aim and the purpose of the contractual relationship would make the institution of proceedings for the revocation of a patent appear as a contravention to the principle of good faith.[12]

Within the relationship of the licensor and the licensee, the principle of 'bona fide' thus requires that the licensee who has been granted a certain legal position be prohibited from aiming at a destruction of this position.[13] However, the mere existence of a patent licence contract does not create the implied obligation. An element of co-operation between the parties is required which justifies considering the licensee bound not to challenge the validity of the patent. This element of co-operation may be inferred if the patent licence contract contains elements of the nature of a partnership, or in the case of a secrecy agreement.

The Federal Patent Court[14] held that the obligation not to challenge the validity of the licensed patent may be based on the principle that contracts be executed in good faith. This principle is applicable as well in the case of the opposition proceedings according to the German Patent Act. The public interest in the impeding of the grant of a revocable patent may be opposed to the obligation that the parties to a contract owe each other support, and, all the more, the duty to refrain from damaging activities. The attempt to challenge the validity of an exclusive right which was previously transferred is an activity which is in contrast to the former conduct of the party (*'venire contra factum proprium'*) and thus an activity which is in contrast to the conduct that conforms with legal order. The case concerned the transfer of a patented invention, but the court expressly stated that the particular relationship which creates the implied obligation not to challenge the validity of the patent can be based on different legal transactions, such as the licence contract, the sale of a patent or a contract for work.

However, if the licence contract is terminated before the lapse of the patent, the filing of proceedings for the revocation of the patent does not contravene the principle of good faith in the execution of contracts,[15] because the contractual relation no longer subsists.

In the case where parties expressly stipulate that the licensee may not challenge the validity of the patent, they have to consider the German Act Against Restraints of Competition. Section 20(1) of the Act declares a patent licence contract ineffective which imposes restrictions on the licensee's business conduct that go beyond the scope of the protected right; however, subsection 2 no. 4 expressly exempts the obligation of the licensee not to challenge the protected right. The Federal Supreme Court[16] specified that a clause which extends the obligation not to challenge the patented right beyond the termination of the licence contract up to the lapse of the patent right may be admissible. However, the court refrained from giving a decisive opinion on this matter. Yet the judgment presupposes that, as a prerequisite for the effectiveness of the clause, the obligation not to challenge the validity must relate to determinable rights. The court decided on a case where the clause referred to all present and future exclusive rights of the defendant relating to a certain area of technology without identifying the subject of the exclusive rights and without indicating which of the exclusive rights would be caught by the right of marketing of the plaintiff.

Against the conviction that the licensee's obligation not to challenge the licensed right may be based on the duty to perform contracts in good faith or on contractual stipulations, there have been reservations about the desirability of the obligation in the public interest.[17] In principle, public interest demands the removal of revocable

9 See the report in GRUR 1983, 494.

10 Henn, Günter, *Patent und Know-how — Lizenzvertrag*, 2nd edn, C.F. Müller, 1989, at 46.

11 GRUR 1989, 39, 'Flächenlüftung'.

12 See Federal Supreme Court, GRUR 1958, 177, 178; 1965, 135, 137; 1971, 243, 244.

13 Schultz-Süchting in Rolf A. Schütze and Lutz Weipert (eds), *Münchener Vertragshandbuch*, Volume III, 2nd edn, C.H. Beck, 1987, at 496.

14 GRUR 1991, 748, 750, 'Zeigerwerk'.

15 See Note 11 above.

16 See Note 11 above.

17 See Bernhard and Kraßer, *Lehrbuch des Patentrechts*, 4th edn C.H. Beck, 1986, at 715.

patents from the register. Therefore, according to section 20 of the German Act Against Restraints of Competition, the clause not to challenge the validity of the patent may not be effective if it was agreed on at a time when the validity of the licensed patent was doubtful or if the clause relates to patented inventions which are not licensed. A clause which obligates the licensee to refrain from any activity which may endanger the licensed patent is not covered by the exemptions contained in subsection 2 of section 20 of the German Act Against Restraints of Competition, because it would prohibit the licensee from developing competing inventions.

If the patent has not yet been granted, or if the period during which an opposition against the grant may be filed, it is recommendable to stipulate a waiver of the licensee's right to file proceedings for opposition in the licence contract.[18] A waiver of the right to file opposition proceedings has mere obligatory effects, because the opposition procedure is an official procedure, different from the procedure for the revocation of a patent. Accordingly, the filing of the opposition proceedings is not inadmissible and therefore it is recommended that a penalty for breach of contract be stipulated.

The clause not to challenge the validity of the patent is considered a restraint of competition in European law. The European Court of Justice[19] considered the no-challenge clause not covered by the content of the patent right and thus violating Article 85(1) of the EEC Treaty.

Recently, the Federal Supreme Court[20] applied Article 85 of the EEC Treaty to a patent licence contract and considered the clause permissible if the licence is royalty free or if the licensed technology is outdated. Since in German law the challenge to the validity of the patent is considered to violate the principle that contracts be executed in good faith, the court had to answer the question whether the reference of the licensee to Article 85 of the EEC Treaty was not against the principle of 'bona fide'. The court rejected this approach and held:

> that the reference of a party to Article 85 of the EEC Treaty which has been issued in the public interest, and the ensuing nullity of a clause in a licence contract not to challenge the validity of the patent, does not violate the principle of 'bona fide'.

Conclusion

These two short excursions into the German law of patent licensing permit the following conclusions. First, the 'burning' question for the fate of the non-exclusive patent licence in the case of a transfer of the patent to a third party has been solved by the cut of the Gordian knot by the legislators in favour of the licensee. Second, in the case of the no-challenge clause, the difficulty stems from the fact that in German law the obligation may be based, apart from an express stipulation, on the principle that contracts be executed in good faith, whereas EEC anti-trust law considers the clause prohibited as incompatible with the common market. The recent judgment of the Federal Supreme Court[21] achieved a balancing of the contradictory legal systems by holding that the reference of the licensee to Article 85 of the EEC Treaty does not violate the duty to execute contracts in good faith, because Article 85 of the EEC Treaty was issued in the public interest. The question may be asked whether the provisions for the revocation of a void patent in the German Patent Act are not in the public interest. However, from section 20(2) no. 4 of the German Act Against Restraints of Competition it emanates that in German law the no-challenge clause corresponds with public interest. Therefore, it may be concluded that, although in the view of the EEC Treaty public interest demands the prohibition of the clause, in German law the no-challenge clause reflects public interest.

18 Pagenberg and Geißler, *Licence Agreements*, Carl Heymanns, 1991, at 175.

19 GRUR Int. 1986, 635, 'Windsurfing International' and GRUR Int. 1989, 56, 'Nichtangriffsklausel'.

20 GRUR 1991, 558, 'Kaschierte Hartschaumplatten'.

21 See Note 20 above.