International Patent Licensing Agreements and Conflict of Laws

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The choice of law rules applicable to disputes involving patent licensing agreements was a subject that attracted considerable interest among prominent legal scholars in the 1950’s.1 During the following decade the attention of European scholars concerned with patent licensing shifted to more substantive issues.2 In recent years, however, an interest in choice of law problems relating to patent licensing agreements has been revived.


2 After the creation of the Common Market in 1958, the interests of patent scholars focused upon restrictive trade practices such as resale price fixing, tying arrangement restrictions, patent grant-backs, and export restrictions, which have been imposed by licensors. See, e.g., DROIT EUROPÉEN DE LA CONCURRENCE (R. Plaisant, R. Franceschelli & J. Lassier eds. 1966); Alexander, L’établissement du Marché Commun et le Problème des Brevets Parallèles, 4 REVUE TRIMESTRIELLE DU DROIT EUROPÉEN 513, 530-34 (1968); Alexander, La Licence Exclusive et les Règles de la Concurrence de la CEE, 1973 CAHIERS DE DROIT EUROPÉEN 3; Ladas, Exclusive Territorial Licenses under Parallel Patents, 3 INT’L R. INDUS. PROP. & COPYRIGHT L. 335 (1972); Ladas, La Législation Anti-trust dans le Marché Commun Notamment en ce qui Concerne les Accords Relatifs à la Propriété Industrielle, 78 LA PROPRIÉTÉ INDUSTRIELLE 250 (1962); Neumeyer, Les Restrictions à la Concurrence et leur Réglementation dans le Droit des États de l’AELF Relatif à la Propriété Industrielle, 80 LA. PROPRIÉTÉ INDUSTRIELLE 94, 96 (1964).
This renewed interest resulted from a 1969 decision of the European Economic Community (EEC) to take steps to unify the conflict of law rules within the Common Market in four separate fields, one of which was the law applicable to tangible and intangible personal property, including industrial property rights.\(^3\) The ambitious task of unification was divided between the member states of the EEC, and the job of drafting the choice of law rules applicable to property rights was assigned to the delegation of the Federal Republic of Germany. Dr. Eugen Ulmer, former Professor of Law at the University of Munich and Director of the Max-Planck Institute, was selected by the West German Ministry of Justice to draft the proposed choice of law rules for this subject area. The draft that Ulmer prepared deals with, among other things, the choice of law rules applicable to both the form and the substance of the licensing agreements.\(^4\)

In this perspective, Ulmer's suggested rules will be discussed and analyzed in light of traditional conflict of law principles. In addition, those choice of law rules suggested by other prominent European scholars will be reviewed for the reader. Finally, the perspective will offer an alternate choice of law rule, to be applied to disputes arising from patent licensing agreements, based upon the traditional conflict of law rules governing contracts.

**The Determination of the Law Applicable to the Form of Licensing Agreements**

The generally accepted choice of law rules applicable to the form of contracts is that the form is governed by either the law applicable to the substance—*lex causae*—or the law of the place of conclusion—*lex contractus*.\(^5\) The Ulmer Draft provides, in article K(c), that the law of the country in which a patent was issued determines the law applicable

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3 See M. Giuliano & P. Lagarde, Rapport Concernant le Projet de Convention sur la Loi Applicable aux Obligations Contractuelles 4 (EEC III/862/79-FR, Doc. No. 173). The three additional fields in which unification was to be achieved included the law applicable to contractual and extra-contractual obligations; the law applicable to the form of legal acts and to evidence; and general questions, such as renvoi, classification, application of the foreign rule, vested rights, public policy, capacity, and agency.


to the form of contracts that either license or assign patents.\(^6\) This proposal clearly diverges from the general principles enunciated above. To justify his approach, Ulmer reasons that licensing agreements apply to clearly defined countries and, therefore, the parties must take into account the rules governing the form prescribed by those countries.\(^7\) Ulmer notes that while copyrights are not subject to any formal requirements, the acquisition of industrial property rights are usually subject to a formal act, such as filing, registration, or a grant of protection.\(^8\)

Ulmer also urges that the validity of the assignment or the license is subject, in certain cases, to a registration procedure, such as the "registered user" procedure applicable in the United Kingdom.\(^9\) The law of the country in which the patent was granted thus determines not only the right of the original licensee against any subsequent grant of a license in contravention of his rights, but it also determines whether registration in a public register is necessary for that purpose.\(^10\)

In providing that the law of the country where the patent was granted is to govern the form of the contract, the Ulmer Draft would require the parties to be bound on matters of form by a law which may differ from the one applicable to substantive issues. Furthermore, in every case where the contract covers several countries, the parties will have to respect rules of form which may easily vary from one country to another.

On the practical level, the Ulmer Draft would create several problems. First, it would unnecessarily create red-tape and, with it, a loss of time and money to the parties to licensing agreements.\(^11\) Second, it would grant to one or the other party, who may have become dissatisfied with the agreement, a means to contest its validity by claiming that its form does not respect the rules prevailing in this or that country. This would occur despite the fact that the form of the contract may be deemed valid under the laws of the country referred to by the choice of law rules applicable to the substantive questions arising from the agreement. Third, licensing agreements do not always indicate the exact countries they cover.

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\(^6\) E. Ulmer, supra note 4, art. K(I)(c) at 101.
\(^7\) Id. at 88, ¶ 137.
\(^8\) Id.
\(^9\) Id. at 88 ¶ 138.
\(^10\) Id.
\(^11\) See also A. Troller, Kurzreferat gehalten am Symposium über die Immaterialgüterrechte im Internationalen Privatrecht (Munich, West Germany, Apr. 18, 1975); Troller, supra note 5, at 1135.
In some cases, the license agreement granted for one patent application may require the licensee to tell the licensor where further filings should be made. Where, as here, there is only a license for a "patent application," it is not clear how Ulmer's proposition is to be interpreted. Should the country where the patent application first was filed determine the rules applicable to the form of the agreement? When is the formal validity of the contract—the subject-matter of which are patents that have not yet been granted and perhaps not even applied for—to be assessed? Must one consider that, for as long as no patent has been issued or applied for, the agreement covers know-how licensing? If this is the case, how will its formal validity be established? Must one admit that the law applicable to the form of the agreement will change in the course of its duration, i.e., that the law applicable at the beginning, when there was no patent, shall be replaced by those of the countries where the patents ultimately are delivered?

On the theoretical level, the rationale articulated by Ulmer confuses the validity of the industrial property right with that of the contract, the subject matter of which is the assignment or licensing of such a right, and confuses the validity of the said contract with its performance. In basing his reasoning on the fact that the creation of an industrial property right is subject to a formal act, Ulmer confuses the validity of the industrial property right with that of the contract. Although it is true that the creation of the property right at issue is generally subject to a formal act, the assignment or licensing agreement is a matter of concern only to the contracting parties, and, therefore, its form should be of no concern to third parties. In Switzerland, for example, no particular form is required for license agreements, although in practice most are made in writing. Swiss patent law provides for voluntary registration of agreements with the Federal Office for Intangible Property primarily in order to protect the licensee against conflicting patent transfer or licensing. Such registration prevents any subsequent transferee holder or licensee from invoking his good faith against the registered prior licenses. "It does not, however, by itself, invalidate the agreement between the original patent owner and the subsequent transferee or licensee."

To have registration of the agreement made in Switzerland, a dec-

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12 A. Troller, supra note 11, at 6.
13 Id.
15 Id.
laration solely from the patent holder, stating whether the license is a simple or an exclusive one, is sufficient.\(^{17}\) The only requirement is that his signature must be certified; the agreement itself does not even have to be produced.\(^{18}\) This provides sufficient evidence of the fact that Swiss law does not pretend to determine the formal validity of such agreements.

Ulmer points out that in France the assignment of a priority right on a patent application must be made in writing.\(^{19}\) Some French legal writers have deduced therefrom that all matters relating to patents are public matters, hence the law of the country granting the patent is to be applied.\(^{20}\) There is no unanimity, however, among French legal writers on this matter. The French Supreme Court, the Court of Cassation, held in 1944 that it is sufficient for the assignment contract to respect the form required by the law of the place where the contract has been concluded.\(^{21}\) A decade later this position was confirmed by the prominent French legal commentator, Paul Roubier,\(^{22}\) and by the Tribunal de Grande Instance de La Seine.\(^{23}\) Roubier states that the form of an assignment is a matter of private international law, which indicates that:

it is the law of the country where the assignment is made that must govern the matter—locus regit actum. It has been argued that the assignment of a right of priority, made abroad according to local requirements, could not be held to be valid in France against third parties . . . . But a distinction of this kind has never been made between the effect of acts made abroad by the parties and their effect towards third parties; it is always the lex loci contractus that must be considered to be the competent one . . . . It is for the proper law of contract to determine the conditions of validity of the assignment towards third parties.\(^{24}\)

Can Roubier’s statement also apply to a licensing agreement under French law? Although a licensing agreement has to be made in writ-

\(^{18}\) Id.
\(^{20}\) E. Ulmer, supra note 4, at 89 ¶ 139 (quoting M. Plaisant & F. Jacq, Les Brevets D'invention En Droit International 105 (3d ed. 1931)).
\(^{22}\) 2 P. Roubier, Le Droit de la Propriété Industrielle 359 ¶ 207 (1954) (this work is still a standard reference text in the field of industrial property law).
\(^{23}\) Judgment of June 18, 1955 (Tribunal civil de la seine) [France], reprinted in [1957] Gewerblicher Rechtsschutz und Urheberrecht 443 ¶ 1572 (Auslandsteil) (author's translation) (the French court upheld the validity of the assignment of a French patent made by a contract concluded in Italy and which had respected the Italian rules governing form).
\(^{24}\) P. Roubier, supra note 22, at 359 ¶ 207 (author's translation).
ing, French conflict of laws rules do not provide for the application of French law to the form of every contract licensing a French patent, except with respect to publicity. For the contract to be effective against third parties, it must be registered with the National Register for Patents, and this applies to all licensing agreements, whether national or international.

In our earlier examination of the general issue of the substantive validity of a contract, it was concluded that when the validity of a contract is contingent upon its registration with an authority, it is the substance of the agreement, itself, that is in issue, not merely its form. In such a case, registration is not only a formal requirement but also a condition precedent to a valid licensing agreement, and, pending its fulfillment the agreement, is not enforceable. This is clearly a problem distinct from the mere issue of the validity of the form of the agreement.

A final criticism of Ulmer's approach is that the validity of an agreement and its performance are being confused. A contract covers the assignment or the licensing of a right. If the parties have agreed thereto, the contract is validly made. In some countries, the assignment or licensing of a trademark is contingent upon the transfer of the entire business involved or that part of it necessary for the manufacture of the products that shall use the mark. It is clear that such a transfer, which generally occurs in the country where the holder of a trademark is domiciled, has nothing to do with the rules concerning the form prevailing in the various countries where the trademark is registered and where the transfer of all or part of the business concern is not a condition for the validity of the assignment or the license. It is unnecessary, therefore, to introduce the obligation of respecting the form required by the law of the nation in which an industrial property right is protected, for this form is of importance only when it comes to regis-

26 Id. at 19 ¶17.
28 Id. at 55-56.
30 See 10 Gewerblicher Rechtsschutz und Urheberrecht 504, 506 (Auslandsteil) (1965) (decision of Bundesgerichtshof (West German federal court) designated "Carla") (quoted by Troller, supra note 5, at 1135).
tration, that is when the agreement is to be effective against third parties. It may be observed that parties very seldom proceed with registration unless compelled by law. The remark made by Ramseyer in 1948 remains valid: "this formality, considered to be unnecessary, has not become customary."  

DETERMINATION OF THE LAW APPLICABLE TO THE SUBSTANTIVE PROVISIONS OF A LICENSING AGREEMENT

In its Licensing Guide for Developing Countries, the World Intellectual Property Organization indicated that the "problem of determining which law is applicable to a transaction involving the licensing of industrial property and the transfer of technology is complicated by the fact that on the international level such a transaction has multiple facets with contacts in more than one country."  Clearly, an international contract has contacts in more than one country; some of the examples, however, given to illustrate the difficulty of determining the applicable law show that the approach used unnecessarily complicates the matter. In effect, there is some confusion between the "proper law" of the contract made between a licensor and a licensee, i.e., the law governing their mutual rights and obligations, and the laws which may govern other aspects connected with or derived from the agreement, such as the fiscal consequences of withholding taxes on royalties, the validity of the patent which is the subject matter of the licensing agreement, or the liability of the experts causing injury and damage while rendering the services required under the agreement. Obviously, if one takes into account the various situations that may derive from a licensing agreement, any attempt to define the "proper law" of an international licensing contract will appear unreasonable. Thus, the terms "applicable law" or "proper law" should be used only to designate the law governing the contractual rights and obligations of the parties. To avoid confusion, other aspects of law having an impact on the transaction should be referred to by a different terminology. This perspective, therefore, shall treat only the questions related to the law applicable to the contractual relationship in international licensing agreements. The international element in this analysis exists whenever one or more of

32 WORLD INTELLECTUAL PROPERTY ORGANIZATION, LICENSING GUIDE FOR DEVELOPING COUNTRIES 136 ¶ 626 (1977).
33 Id. at 137 ¶ 628.
34 Id. at 137 ¶ 630.
35 Id. at 137 ¶ 632.
the parties is located in another country or the subject matter, i.e., the patent or trade-mark, is located in a country other than that of the contracting parties. Two types of international contracts will be analyzed: (1) contracts the effects of which are limited to one country and (2) those encompassing several nations.

**Autonomy in Choice of Law**

In general, if the parties have expressed their intention that the law of a given country shall govern their contract, that choice will determine the proper law. The majority of legal systems permit the parties to choose the governing law, unless it is contrary to the fundamental policy or the statute of frauds of a state whose law would be applicable in the absence of an effective choice by the parties. Such a state would apply its own legal principles in determining whether a policy is a fundamental one.

The parties to a contract may choose a law having no relationship to themselves, as long as they had a reasonable basis for their choice. As an example, Beier cites the case of parties choosing Swiss law as a "neutral law" to govern a licensing agreement made between a Western European country and an Eastern European state. The parties may also choose the law that, in their opinion, rules the relationship in the most adequate way.

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36 This is irrespective of the form that the jurisdiction takes in practice.
39 A. Dicey & J. Morris, supra note 37, at 730 (Rule 147, Comment); G. Kegel, Internationales Privatrecht 52-56 (3d ed. 1971); Restatement, supra note 37, at § 187 Comment g.
40 A. Dicey & J. Morris, supra note 37, at 730 (Rule 147, Comment); Restatement, supra note 37, at § 187 Comment g.
41 Restatement, supra note 37, at § 187 Comment f. But see A. Dicey & J. Morris, supra note 37, at 729-32 (Rule 147, Comment).
42 G. Kegel, supra note 39, at 255; F. Beier, supra note 38, at 107.
Generally, the law chosen is likely to be one of the following: (1) that of the country for which the license has been granted; (2) that of the nationality, if it is the same for both parties; (3) that of the domicile or of the seat of one of the parties; or (4) the country where the court to which possible disputes will be submitted is located. There may still be other reasons, however, for electing a given law. For instance, in the event the same parties have made another agreement in which they have indicated the applicable law, they might wish to have the new agreement governed by the same law. The language in which the agreement is drafted also may be important, since it is preferable to choose as the applicable law one that is in a language familiar to the parties.

Law Governing in the Absence of an Effective Choice by the Parties

For the practitioner today, it is a basic proposition that, in the absence of effective choice by the parties, the forum has to determine the state with which the contract is most closely connected in order to determine the proper law. The state with which a contract is most closely connected is often said to be that of the party that performs the “most significant obligation.” Thus, it is currently accepted that in a sales contract the seller’s obligation to deliver the goods is considered to be more “significant” or “characteristic” for that type of contract than the purchaser’s obligation to pay the price. Consequently a sales contract, in the absence of a choice of law, generally is considered to be subject to the law of the seller. The concept of the “most significant performance or obligation” now appears to be widely accepted, as can be inferred from article 4.2 of the EEC Draft Convention on the law applicable to contractual obligations, which uses the term “perform-

43 A current example is in the transportation of goods by sea that is often submitted to English law, which is well-known and highly elaborated. H. Batiffol, supra note 38, at 593, 650; A. Dicey & J. Morris, supra note 37, at 731 (Rule 146, Sub-Rule 1, Comment); Restatement, supra note 37, at § 187 Comment f.
44 F. Beier, supra note 38, at 108.
45 Id.
46 See Draft Convention on Choice of Law in Contracts art. 4.1, 25 COMM. MKT. L.R. 778 (1979); E. Ulmer, supra note 4, at 93 ¶ 146. For the American view, see Restatement, supra note 37, § 188 Reporters’ Note (1971).
47 This translation by the author is derived from the French “prestation caractéristique” and the German “characteristische Leistung.” The concept has been elaborated upon by Adolf Schnitzer, a Swiss law professor and prominent legal scholar in the field of private international law. See G. Kegel, supra note 39, at 258-59; Bundesgesetze über das International Privatrecht, 13 Schweizer Studien zum Internationalen Recht 220-22 (1979).
48 G. Kegel, supra note 39, at 259. See also E. Ulmer, supra note 4, at 49 ¶ 75, 93 ¶ 146.
49 G. Kegel, supra note 39, at 259.
ance which is characteristic of the contract."

Turning specifically to licensing agreements, there is little unanimity among legal writers as to whose obligation is the most significant in a licensing agreement. Several authors have indicated that the licensing agreement has to be connected to the place where the invention is protected. Thus, preference is to be given to the *lex rei sitae*. This approach, however, is not very practical in the case where an agreement includes a patent that has been granted in more than one country.

The Swiss scholar, Schnitzer, initially expressed the opinion, which was shared by the Swiss Federal Tribunal, that a licensor's obligation is the most significant one. Other legal writers, such as Troller, make a distinction between agreements for one country or for several countries. It was Troller's submission that although the most significant obligation was indeed that of the licensor, his performance took place in the country of licensee. Troller further insisted on a close link between the licensing agreement and the law that protects the industrial property right which is the subject matter of the agreement. Thus, in the case of a contract covering only one country, the law of the licensee's country should apply. When several countries are involved, however, Troller advocated the application of the law of licensor, in order to avoid the application of several different laws to a single con-

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50 *Draft Convention on Choice of Law in Contracts, supra* note 46, at 778. It is anticipated that the final EEC Convention on Choice of Law in Contracts will be comprised of four sections, but only a Draft Convention on the law applicable to contractual obligations was agreed to by the committee of experts in June 1979. *Id.* at 776. This Draft has gone to the governments of the member states for final approval. *Id.*

Other examples of the acceptance of the concept of the “most significant performance or obligation” include: Austrian Private International Law of 1978 ¶ 36; Prawo Prywatne Miedzynarodowe (Polish Private International Law) of 1978, at art. 27, Dz. U. No. 46, item 290; and Swiss Draft for a Private International Law art. 121 (§ 2 indicates which performance is considered to be the most significant in five types of agreements—the enumerated agreements, however, do not include licensing agreements).


52 A. Schnitzer, *supra* note 1, at 597.


54 See, e.g., A. Troller, *supra* note 38, at 196; Troller, *supra* note 1, at 111. Professor Troller is a leading commentator in the field of industrial property law, both in Switzerland and in the international arena.

55 A. Troller, *supra* note 38, at 196. Recent writings of Troller, however, indicate a change of position. See Troller, note 5 *supra*; A. Troller, *supra* note 11, at 7.


57 *Id.* at 197.
tract.\textsuperscript{58}

Beier expressed the view that the law of the licensee's domicile should apply—irrespective of whether the contract covers one or more countries.\textsuperscript{59} In brief, he reasoned that the "natural center of gravity" is in the country where "primary acts" are performed, \textit{i.e.}, in the place where the products are manufactured and marked.\textsuperscript{60} This solution was asserted to have the advantage of complying with the requirement of having international licensing agreements submitted to the law of the country where the right is protected.\textsuperscript{61} This does not mean \textit{all} the laws that may be applicable, because of the various patents involved, but rather the law of the "primary" country of protection, the law which is essential for the manufacturing and marking and, therefore, for the whole of the contractual relationship.\textsuperscript{62} To summarize Beier's position, it is compulsory that an essential part of the contractual relationship be ruled by the law of the country granting the patent, \textit{i.e.}, the licensee's.\textsuperscript{63}

While in his recent writings Troller appears to concur with Beier, he makes a further distinction—which Beier finds irrelevant—between exclusive and non-exclusive licenses.\textsuperscript{64} In cases where a licensee has the exclusive rights of exploitation or has committed himself to exploit the patent, even under a non-exclusive agreement, the law applicable to the agreement should be the law of the licensee.\textsuperscript{65} Otherwise, the law applicable should be that of licensor.\textsuperscript{66}

This same distinction is found in the Ulmer Draft on the law applicable to tangible and intangible property. The first paragraph of article K of this draft, which deals with industrial property rights, provides that the law of the country granting the patent rights determines: (1) the validity of an assignment, the splitting, and the licensing of industrial property rights; (2) the remedies available to a licensee in case of infringement; (3) the form of the agreements covering an assignment or license; and (4) whether an assignment or license must be reg-

\textsuperscript{58} \textit{Id.} at 198.
\textsuperscript{59} F. Beier, \textit{supra} note 38, at 110.
\textsuperscript{60} \textit{Id.} It is Beier's assumption that even when several countries are covered, manufacturing and marking are still made in one place and the end products are then exported to the other countries. This is the place, as Troller expressed, where the licensor performs his own obligation, \textit{i.e.}, where he renounces the exercising of his right to prohibit the use of the industrial property right.
\textsuperscript{61} \textit{Id.}
\textsuperscript{62} \textit{Id.}
\textsuperscript{63} \textit{Id.}
\textsuperscript{64} A. Troller, \textit{supra} note 11, at 7.
\textsuperscript{65} \textit{Id.}
\textsuperscript{66} \textit{Id.}
istered in a public register in order to be valid as against third parties.\footnote{67}{E. Ulmer, \textit{supra} note 4, at 101.}

The second paragraph of article K provides: \textit{The obligation of the person assigning a right or granting a license shall be regarded as the characteristic obligation within the meaning of Article 4(2).} There shall, however, be a general presumption that contracts under which the assignee or licensee undertakes to exploit the industrial property rights or by which an exclusive license is granted shall be regarded as more closely connected with the State in which the grantee’s place of business is located; where the grantee has several establishments and the contract does not designate one of them, his principal establishment shall be regarded as his place of business.\footnote{68}{\textit{Id.} at 102 (emphasis added) (Article 4(2) is part of the Draft Convention on Choice of Law in Contracts, \textit{supra}).}

Ulmer’s text shows the influence of both Troller—the distinction between the exclusive and non-exclusive agreement—and Beier—the “main place of business” being the one where the “primary acts” are made.

It should be emphasized that article 4 of the EEC Draft Convention on the Law Applicable to Contractual Obligations has been amended since the submission of the Ulmer Draft. When Ulmer referred to article 4, it read as follows:

\begin{quote}
In the absence of an express or implied choice of law, the contract shall be governed by the law of the country with which it is most closely connected.

This country shall be:
(a) the country in which the party who is to carry out the obligation which is characteristic of the contract has his habitual residence at the time of conclusion of the contract;
(b) the country in which that party has his principal establishment at the time of conclusion of the contract, if the characteristic obligation is to be carried out in performance of a contract concluded in the course of a business activity;
(c) the country in which that party’s subsidiary establishment is situated, if it follows from the terms of the contract that the characteristic obligation is to be carried out by that establishment.
\end{quote}

The preceding paragraph shall not apply if either the characteristic obligation, the habitual residence or the establishment cannot be determined or if in all the circumstances it is clear that the contract is more closely connected with another country.\footnote{69}{\textit{Id.} at 105.}

Although the amended article 4 still asserts the principle that “the contract shall be governed by the law of the country with which it is most closely connected,” the provision also states: “Nevertheless, a severable part of the contract that has a closer connection with another country may, by way of exception, be governed by the law of that other

\begin{quote}
\end{quote}
country."\textsuperscript{70} It is too early to know what interpretation will be given to "a severable part of the contract which has a closer connection with another country." In the report published by the EEC, commenting on the draft Contracts Convention, special emphasis is laid on the fact that the severability shall be exceptional.\textsuperscript{71} One can only regret that after the efforts expended both by legal writers and the various courts to achieve the application of a single law to a contract, an exception to this fundamental rule finds its way back into the text of a law that, when enacted, will become the law in all the EEC member states.

**PROPOSED SOLUTION**

From the above discussion it can be inferred that the "most significant obligation" is presently considered to be the one performed by the licensor. This is Schnitzer's position\textsuperscript{72} and, with "nuances," that of Troller,\textsuperscript{73} Beier,\textsuperscript{74} and Ulmer,\textsuperscript{75} who concur as long as the agreement is not exclusive or the licensee is not obliged to exploit the patent. The role of a licensee perhaps is regarded as having little significance simply because he pays royalties. The licensee does ensure by his own efforts, however, the sale of the products manufactured under the license, often through extensive advertising. Except for contracts that provide for technical assistance, which hypothetically could continue throughout the term of the license agreement, a licensor is the party who plays a passive part, just collecting royalties, regardless of whether the license is exclusive or non-exclusive, covering one or more countries.

In actuality, the most significant obligation in the majority of cases is that of the licensee. First, many licenses, whether exclusive or non-exclusive, provide for a minimum annual royalty. Second, because of the ever-increasing difficulty of making sure that the invention that is the subject matter of the licensing agreement does not fall within the scope of older patents, licensors tend to restrict their guarantees against infringement. For this purpose, licensors often limit the number of lawsuits they would be ready to start against possible infringers, or they leave it to the licensee to prosecute them at his own risk. Third, technical assistance usually is not necessary throughout the duration of the contract, and, in any case, it is ensured by the licensor in a decreasing

\textsuperscript{70} *Draft Convention on Choice of Law in Contracts*, supra note 46, at 778.
\textsuperscript{71} M. Giuliano & P. Lagarde, *supra* note 3, at 49-50.
\textsuperscript{72} See notes 52 and 66-64 and accompanying text *supra*.
\textsuperscript{73} See notes 54-58 and accompanying text *supra*.
\textsuperscript{74} See notes 59-63 and accompanying text *supra*.
\textsuperscript{75} See notes 67-69 and accompanying text *supra*.
way. Fourth, a licensing agreement very often covers one or more patents granted by the country of the licensee. Frequently, the settlement of disputes implies that the possible nullity of a patent or patents is established. Since that nullity can be assessed only by the law of the country that has granted the patent, it appears simpler to provide for the law of the granting country, which must in a preliminary way pronounce the nullity, to decide what effects such nullity will have on the licensing agreement. Finally, the licensee is, in some cases, the one who maintains the patents in existence by paying the annuities.

One may object to the foregoing analysis for, in the case of agreements made for several countries, the disputed patent may not have been granted by the licensee’s country of domicile or the country where the licensee has his main place of business. The country of the disputed patent, however, will not necessarily be the domicile of the licensor. To the extent that one attempts to advocate the connection with only one country, the country to be thus selected must be the one showing more than one objective connecting factor. One may, therefore, set aside the lawsuits aimed at establishing the nullity of a patent, since there are several other situations, as have been discussed, that indicate, in the majority of cases, the center of gravity of the agreement is on the licensor’s side and his obligation is the most significant.

The Ulmer Draft calls for some further observations. In indicating that the most significant obligation is that of the licensor, except in the case of an exclusive license or of an obligation to exploit the patent, the draft appears to imply that the majority of licensing agreements do not provide for such an obligation to exploit the license. When is a licensee exempted from the obligation to exploit the patent? There is an exemption for the case of the licensing agreement made only for the purpose of settling a dispute with an infringer. In such a case, the licensor simply collects a royalty because he renounces his rights to prohibit the use of his patent. He will not extend any assistance to this type of licensee, and he will not exact the exploitation of his invention. Another example of agreements in which there is no obligation to exploit, at least partially, is a “package license” in which a licensor grants a license on a series of patents of which he knows that only a few will be exploited. It is well-known that this type of procedure enables the licensor to increase the amount of the royalty to be collected under the

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76 This perspective does not examine the transfer of technology to developing countries, which often requires assistance that goes far beyond the traditional training of licensees in industrial countries.

77 E. ULMER, supra note 4, at 94 ¶ 147(a).
agreement.\textsuperscript{78} If, however, only a single patent among those covered by the agreement is of interest to the licensee, there will be an obligation to exploit that single patent.

In effect, contrary to the infringer who is often compelled to pay royalties in order to be able to "peacefully" pursue his infringing activity, the licensee has the right and the obligation to exploit the patent. Some laws oblige the holder of patents to exploit them, as otherwise compulsory licenses may be granted to third parties. In all cases where a patent holder grants a license, he delegates his obligation to the licensee, and he relies on the licensee to avoid the consequences of insufficient exploitation which would result in compulsory licenses.

The fact that an agreement may be non-exclusive does not modify the obligations of the licensee. It only enables the holder of the patent to grant additional licenses for the same patent. The obligation to exploit exists whether or not it has been expressed in the agreement, irrespective of whether the licenses are exclusive or non-exclusive, subject to the exceptions mentioned above.\textsuperscript{79} This does not appear to be the position in Switzerland, where only exclusive licenses imply the necessity to exploit the patent.\textsuperscript{80} Indeed, it is felt that the licensee substitutes himself for the holder and fulfills the holder's obligation that will permit the avoidance of compulsory licensing.\textsuperscript{81}

The Swiss Federal Tribunal stated: "the existence or non-existence of an obligation to exploit does not necessarily depend on the exclusivity or non-exclusivity of the license."\textsuperscript{82} The Swiss Supreme Court has cited, however, the opinions of Troller, as well as that of Blum-Pedrazzini, who consider that, in case of an exclusive license, if there is any doubt on the obligation to exploit, one will assume the existence of the obligation whereas the assumption shall be reversed in case of a non-exclusive license.\textsuperscript{83} The Swiss Supreme Court held, however, that there is no reason to decide that a non-exclusive license may not contain an obligation to exploit for "all depends on the contract and on its interpretation under the given circumstances."\textsuperscript{84}

\textsuperscript{78} The lawfulness of such a clause will not be discussed.
\textsuperscript{79} This view is accepted in France. See J. Burst, supra note 25, at 200 (1970); Roubier & Chavanne, Propriete Industrielle, 4 Revue Trimestrielle de Droit Commercial 746, 748 (1951).
\textsuperscript{80} 2 A. Troller, Immaterialguterrecht 950 (1971).
\textsuperscript{81} Id. at 951.
\textsuperscript{82} Parke Davis & Co. v. Lamar S.A. at Arco S.A., ATF 96 II 154, 156 (1970) (author's translation).
\textsuperscript{83} Id. at 156-57.
\textsuperscript{84} Id. at 157 (author's translation). See also Wyss v. Dahinden & Dahinden & Co., ATF 85 II 38, 43 (1959).
All may depend on the contract and its interpretation, but no one will seriously contest the claim that the main reasons for which any holder grants a license on a patent are the abilities to amortize his investments in research and development and to obtain the most substantial remuneration for the exploitation of his invention. If no single lump sum has been made a term of the agreement, royalties are usually apportioned to the sale of the products manufactured under the license, and, therefore, the licensor does expect the licensee to exploit the invention. The licensee would have no valid reason to stop the exploitation, and in such a case the licensor would have good grounds to terminate the agreement, as there is no reason to effectuate an agreement the sole effect of which is to prevent the exploitation of the invention.\(^85\)

As the foregoing discussion illustrates, the application of the law of the licensee to licensing agreements, in which there has been no choice of law and when the circumstances mentioned above do materialize, can be justified. A recent decision of the Swiss Federal Tribunal concerning exclusive distributorships indicates that this submission is not altogether unreasonable.\(^86\) In their review of the case law, the Tribunal recalled that, failing a choice of law by the parties, it generally is the law of the country of the principal that is applicable, because the latter is considered to have the most significant obligation.\(^87\)

This, however, does not sufficiently take into account the aim of the exclusive distributorship agreement. The main purpose of this agreement is for the principal to be able to sell his goods to an independent trader in another country. In addition and contrary to the situation in the case of outright sale, the business volume is not fixed in advance, but depends on the efforts of the exclusive distributor. This is why the obligation of the latter has a greater functional and economical importance than that of the supplier.\(^88\)

In summary, in the majority of cases the most significant obligation is that of the licensee. The law applicable, failing choice by the parties, should be that of the domicile or the registered office of the licensee, regardless of whether the agreement is made for one or more countries. Finally, every principle having exceptions, there will be cases where it would be more appropriate to choose another law. For

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85 Some French legal writers even recognize a right to damages in case the patent is no longer exploited for good reasons, such as recession, early obsolescence of the patent following a substantial technical advance, an invention which technically cannot materialize, and any other reasons not specified in the license. *Contra* 2 A. TROLLER, supra note 80, at 949.


87 *Id.* at 450-51.

88 *Id.* at 451 (author's translation).
example, the national law of the two parties to an agreement should prevail when the agreement covers a third country, or the law of a licensor should be utilized when the obligation of licensee is limited to payment of the royalties and when he is not compelled to exploit the patent. It is indicated, therefore, that the order of assumptions in the Ulmer Draft should be reversed. The most significant obligation is that of licensee. In the event of doubt regarding the obligation to exploit, the law applicable should be the law of the patent holder's country of residence.