The Use of Nonassertion Covenants: A Tool to Facilitate Humanitarian Licensing, Manage Liability, and Foster Global Access

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ABSTRACT

Nonassertion covenants (nonasserts for short) grant permission to third parties to practice a patent they would otherwise infringe. Legally, nonasserts are patent-infringement settlement agreements that are designed and drafted with the purpose of preemptively resolving future infringement disputes. Nonasserts can take three forms: (1) an agreement between two parties, (2) an agreement among several parties, or (3) a public statement. A nonassert can specify the release of only certain patent rights or fields of use, or it can be broad and specify release for entire patent families, including future inventions in a certain area. Public statements effectively place rights to patents, or elements thereof, into the public domain. Nonasserts nevertheless need to specify, precisely, which rights are granted in order to avoid ambiguity that could lead to equitable estoppel.

Nonasserts can have wide-ranging implications in terms of enhancing public sector R&D. One application could be with patent rights covering research tools that are critical for accelerating the development of essential biotechnological applications. Specifically targeted nonasserts can also be effective instruments for industry to permit the use of patented inventions anywhere in the world, provided such use is for the express purposes of addressing specific humanitarian needs in developing countries. This could have broad-ranging and significant positive impact, as this approach reduces transaction costs, encourages innovation to help the poor, and accomplishes this without any loss of commercial opportunities.

1. INTRODUCTION

The concept of a *nonassert agreement*, or nonassertion covenant (NAC),[1] has become well known in 2006 in the context of open-source software. During that year, several major software companies such as Sun Microsystems and Microsoft Corp. announced that they would not seek to enforce any of their enforceable patents with respect to defined portions of products related to certain Web-based applications. Similarly, IBM proclaimed that it would not assert its rights with respect to 500 of the company's patents on open-source software implementations. Similarly, the Massachusetts Institute of Technology (M.I.T.) and other public entities also use nonasserts in the biotechnological areas.

The use of nonasserts spans a broad range of applications. This chapter presents the main types of nonasserts, provides sample language from actual nonassert agreements, and discusses the broader implications of the use of nonasserts to respond to the overwhelming need for new approaches in humanitarian licensing as public institutions strive to bring about global access.

2. FORMS OF NONASSERTS

A nonassert is an implied license. Put differently, a nonassert is an agreement that certifies that the party or parties to the implied agreement will not

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assert or defend certain rights that they possess. Such rights are typically related to patents. A nonassert can take one of three forms:

- an agreement between two parties (bilateral)
- an agreement among several parties (multilateral)
- a public statement (proclamation)

When drafting a nonassert, the owner of the intellectual property rights who pledges that it will not enforce its rights should use precise language to specify which rights exactly will not be enforced and whether or not any field-of-use restrictions will apply. If the terms are left vague or ambiguous, the ambiguity could leave open the possibility of equitable estoppel at some time in the future.[2] This means that a person or party could overcome an infringement action and become an unintended beneficiary of the nonassert, continuing to use the intellectual property with impunity (perhaps on the grounds that the nonassert was *misleading* and that the unintended beneficiary would be *materially prejudiced* if the patentee could assert his or her rights).

Box 1 provides a sample of a public nonassert statement from the software industry and Box 2 gives a public nonassert statement from biomedical area.

3. THE BENEFITS OF NONASSERTS

Nonasserts are an important instrument of industry for promoting open standards or for the establishment of industry standards. In the form of public statements, nonasserts provide a number

Box 1 : Nonassertion covenant from the software industry: Microsoft Open-specification Promise

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Microsoft irrevocably promises not to assert any Microsoft Necessary Claims against you for making, using, selling, offering for sale, importing or distributing any implementation to the extent it conforms to a Covered Specification ("Covered Implementation"), subject to the following. This is a personal promise directly from Microsoft to you, and you acknowledge as a condition of benefiting from it that no Microsoft rights are received from suppliers, distributors, or otherwise in connection with this promise. If you file, maintain or voluntarily participate in a patent infringement lawsuit against a Microsoft implementation of such Covered Specification, then this personal promise does not apply with respect to any Covered Implementation of the same Covered Specification made or used by you. To clarify, "Microsoft Necessary Claims" are those claims of Microsoft-owned or Microsoft-controlled patents that are necessary to implement only the required portions of the Covered Specification that are described in detail and not merely referenced in such Specification. "Covered Specifications" are listed below.

This promise is not an assurance either (i) that any of Microsoft's issued patent claims covers a Covered Implementation or are enforceable or (ii) that a Covered Implementation would not infringe patents or other intellectual property rights of any third party. No other rights except those expressly stated in this promise shall be deemed granted, waived or received by implication, exhaustion, estoppel, or otherwise.

"Covered Specifications" [...] applies to the identified version of the following specifications. New versions of previously covered specifications will be separately considered for addition to the list.

[List of Specific Web services]

Source: Microsoft Corporation.[3]

Box 2: Nonassertion Covenant from the Biomedical Area for Tuschl I siRNA Patent Applications

In order to facilitate widespread distribution of an important class of research reagents, the Massachusetts Institute of Technology, the Max Planck Gesellschaft zur Förderung der Wissenschaften e.V., The Whitehead Institute for Biomedical Research, and The University of Massachusetts ("the Patent Owners") now announce that they will not assert the patents listed below against companies that sell or use DNA vectors which induce production of siRNA endogenously, provided that such vectors are only used for research purposes, and provided that the RNA that mediates RNA interference is not isolated from the transformed cells. The Patent Owners intend to enforce the patents listed below against any use not specifically listed above.

The patents included in this announcement are listed below. Further continuations, divisionals, issued patents, and reissuances are included as well.

"RNA Sequence-Specific Mediators of RNA Interference"
by David P. Bartel, Phillip A. Sharp, Thomas Tuschl and Phillip D. Zamore

- Australia Serial No. 2001249622, Filed March 30, 2001
- Brazil Serial No. P10107536-5, Filed March 30, 2001
- Canada Serial No. 2404890, Filed March 30, 2001
- European Patent Convention Serial No. 01922870.9, Filed March 30, 2001
- Israel Serial No. 151928, Filed March 30, 2001
- Japan Serial No. 2001-573036, Filed March 30, 2001
- Korea Serial No. 200270123832, Filed March 30, 2001
- New Zealand Serial No. 522045, Filed March 30, 2001
- Patent Convention Treaty Serial No. US01/10188, Filed March 30, 2001

"RNA Sequence Specific Mediators of RNA Interference"

- United States of America Serial No. 09/821,832, Filed March 30, 2001
- United States of America Serial No. 10/255,568, Filed September 26, 2002

Source: M.I.T.[4]

of advantages over traditional open-standards committees or institutions:

1. Through nonasserts, the standards development is streamlined and the standards implementation proceeds faster since free licenses promote adoption. Importantly, nonasserts can be issued unilaterally without the need for any complex negotiations with third parties (such as open-standards committees).
2. Commitments not to enforce certain patent rights can be highly specific or broad, or both. Under the somewhat stringent U.S. antitrust laws, broad industry collaborations may not be permitted in an environment where multiple competitors meet in the same place.
3. Also related to antitrust concerns is the limitation on specific price or terms whereby price fixing and market manipulation allegations may arise. Standard-setting initiatives among competitors always entail the potential for incurring significant legal risk.
4. Nonasserts in the form of public statements carry no enforcement cost. In essence, they are *self-executing*. Once proclaimed, no legal staff time is required to negotiate licenses. Everyone gets the same deal and the deal is free.

The result of the acceptance and use of nonasserts in the software industry is that a growing "patent commons" has emerged supporting open-source software.

In agricultural biotechnology (agri-biotech) applications and health-related research, nonasserts are also emerging as an elegant solution to certain well-defined problems. These solutions include:

- **A tool for the management of liability.** License agreements carry certain liabilities even if the agreements contain all the necessary safeguards and warranties. This is especially the case with agri-biotech applications where little certainty exists, because discussions on global liability and redress regimes are ongoing.[5]
- **Access to research tools.** Nonasserts can provide access to patented research tools, for example (as illustrated in box 2 below), by removing intellectual property barriers that would otherwise inhibit the research tool's use by those who most need but can least afford it. Specifically, nonasserts can provide access to critical research tools for use in designated institutions that conduct R&D specifically to address needs in developing countries. But the use of nonasserts goes further: even drugs or vaccines could be manufactured in countries where such drugs or vaccines (or processes) have been granted for the express purpose of producing them for developing countries.
- **Reduction of high-transaction costs associated with negotiating bilateral or multilateral licensing agreements.** The negotiation of any license agreement is a time-consuming endeavor. In cases where the license is for humanitarian purposes in particular, the licensor generally gains no material benefits and often places the negotiation of such agreements at the bottom of the priority list. Nonasserts, even bilateral ones, are relatively easy to negotiate as they primarily require agreement on two fairly simple aspects:
  - listing of the patents (or other forms of intellectual property protection)
  - specific permitted use, or limitations to the permitted use, or both

To be clear, nonasserts are not a form of a patent pool. This distinction is important with regard to liability management associated with the commercialization of products, particularly in the drug, vaccine, and food biotechnology areas. A patent pool is an explicit granting of right to other parties. A nonassert, on the other hand, is a pledge not to sue someone who would otherwise infringe on a right. As such, a nonassert can also be viewed as a preemptive infringement-settlement agreement, granting permission to practice the patent in spite of the actual legal infringement thereof.

Box 3 provides a sample nonassert that is based on an actual agreement signed by two U.S. institutions, a company and a university. In the case of humanitarian licensing, certain restrictions may be included such as the limiting of use to not-for-profit humanitarian purposes for the exclusive benefit of people in developing countries or even to for-profit entities solely for humanitarian purposes in developing countries.

5. CONCLUSIONS

From a legal perspective, nonasserts are preemptive patent-infringement settlement agreements that are designed and drafted with the purpose of resolving future infringement disputes. Nonasserts, therefore, in essence, release certain patent rights into specified sectors. These sectors are often the public domain when it comes to software and often bilateral agreements in applications related to health and food biotechnology. But there are no reasons really why nonasserts could not become a more widespread tool in fostering important advances and innovation to address needs in developing countries.

Bilateral nonasserts should find much more common use as the problems with equitable estoppel are almost moot. Due to privity (in other words, the degree of relationship between or among the parties), the closer the relationship, the less likely will be the potential for misunderstandings that could trigger equitable estoppel. Hence, an agreement between two parties, or an agreement among several parties, is a sufficiently close relationship to permit communications to resolve any misunderstandings or ambiguities, much as with a license agreement.

But a patentee's public declaration of nonenforcement of a patent via a nonassert can have wide-ranging implications in terms of enhancing public sector R&D. This would be the case especially with patent rights covering research tools, and particularly in the United States due to limitations on research exemptions, which are critical for accelerating the development of essential biotechnological applications in both the health and agri-business areas. Carefully drafted, targeted nonasserts permitting the use of these tools—anywhere in the world—for developing-country–public-sector R&D institutions (and/or for commercial purposes for the exclusive use to address humanitarian needs could therefore have broad-ranging and significant positive impact. This approach reduces transaction costs, encourages innovation to help the poor, and accomplishes this without much cost, time, or loss of commercial opportunities. ■

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1 They are also called nonassert agreements (when between two parties) or Covenant Not to Sue.

2 "*Equitable estoppel [is] an equitable defense to a claim of patent infringement available when a defendant has prejudicially relied on the patentee's misleading conduct concerning his intentions to enforce a patent. The Federal Circuit [has] adopted a three-part test for equitable estoppel, under which the defendant [being sued in an action for patent infringement] must show: (1) The patentee, through* misleading conduct*, led the alleged infringer to reasonably infer that the patentee did not intend to enforce its patent against the alleged infringer. (2) The alleged infringer relied on that conduct, and (3) Due to its reliance, the alleged infringer would be* materially prejudiced *if the patentee is allowed to proceed with its claim. When an alleged infringer establishes the defense of equitable estoppel, the patentee's claim is entirely barred [that is, an alleged infringer may continue to practice the patented technology].*" McCarthy JT, RE Schechter and DJ Franklyn, 2004. *McCarthy's Desk Encyclopedia of Intellectual Property*: Third Edition; The Bureau of National Affairs, Inc.: Washington, DC.

3 www.microsoft.com/interop/osp/default.mspx; see also www.oasis-open.org/committees/security/ipr.php for other samples.

4 http://www.web.mit.edu/tlo/www/industry/nonassert_statements.html.

5 See also in this *Handbook*, chapter 17.18 by RY Boadi.

Box 3: Nonassertion Covenant in the Form of a Bilateral Agreement

Date: 21 March 2007
To: Institute
From: Company
Subject: Nonassertion Letter under U.S. Patent No. X,XXX,XXX

Thank you for your interest in using Patented Technology owned by Company in your endeavors aimed at improving the health and well-being of people in developing countries of the world. Company is willing not to assert its rights under Company Patented Technology you requested, as further described below.

As background, Company's understanding is that your work aims at the development of _____ _____ for use in _____. Company is willing to not assert Company U.S. Patent No. X,XXX,XXX nor any of the patents' foreign counterparts, divisionals or continuations in part, or any other rights that Company may have now, or hereafter, related to the technology contained in the patents specified against Institute, or their trustees, directors, officers, employees, affiliates, their agents, licensees, or successors in interest.

This Nonassertion Letter is limited to the aforementioned Patent and provided that such patented technology is used solely for the production of _____.

In consideration for Company's Nonassertion Letter as described herein, Institute, their affiliates, agents, licensees and successors of interest, agree to not assert any patent or patent application against Company, it affiliates, agents, licensees, or successors that would prevent Company, its affiliates, licensees, agents, licensees, or successors or customers of each, from practicing, for any purpose(s), under the claims in the Company patents specified above. Upon change of control of Institute or assignment by Institute to any party or entity, Institute shall concomitantly impose the obligation to implement this Nonassertion Letter to Company with respect to such acquirer or affiliate.

COMPANY MAKES NO EXPRESS OR IMPLIED WARRANTY AS TO ANY MATTER WHATSOEVER, INCLUDING (1) THE CONDITION OF THE INTELLECTUAL PROPERTY THAT IS THE SUBJECT OF THE NONASSERT, (2) THE MERCHANTABILITY AND FITNESS OF ANY MATERIAL, RESULT, OR PRODUCT FOR A PARTICULAR PURPOSE, (3) NONINFRINGEMENT OR MISUSE OF ANY INTELLECTUAL PROPERTY RIGHTS OF ANY THIRD PARTY, OR (4) SAFETY OF EMPLOYEES, WORKERS OR PURCHASERS OF PRODUCTS MADE USING THE COMPANY PATENTS.

Accordingly, Institute and their affiliates, agents, licensees, successors, and customers shall have sole discretion, responsibility and full liability for their activities, provided for under this Nonassertion Letter, including the research, design, manufacture, and potential sale of products pursuant to this Letter. Institute shall hold Company, and its affiliates, officers, employees, and consultants harmless from and against any and all claims, suits, obligations, causes of action, liability, costs and damages, injuries to persons (including those that may result in death) or property (including, without limitation, loss of use), product liability claims, claims for damage to the environment or from the use, handling, or storage of materials and any other claim, whatever the cause may be, based upon, arising out of, or related to the acts or omissions of an Institute and/or its affiliates and/or any of their employees, officers, employees, and consultants or other persons acting on behalf of the Institute or under Institute's control, in connection with the Institute's execution, delivery, performance of, or failure to perform, or practice of its rights granted under this Nonassertion Letter.

Please indicate your acceptance of the terms in this Nonassertion Letter by signing two copies and returning one fully executed copy of the original to me at your earliest convenience.

Best regards and all the best in this endeavor,
Company Officer