United Nations
Centre on Transnational Corporation

Workshop
on
Negotiating Joint Venture Agreements

March 19-23, 1990
Moscow, USSR

Background Paper
on
Aucillary Agreements
or
Understanding Patents, Trademarks and Other Intellectual and Industrial Property and Their Role in Technology Transfer and Licensing

-logo here-

V/O Vnesheconomservice
USSR Chamber of Commerce and Industry

TABLE OF CONTENTS

INTRODUCTION—PROPRIETARY ASSETS . .

1. PATENTS .....
Something New
Patents—A Monopoly ..
Patent Territory 2
Costs To Get a Patent and Why 2
When Does a Patent Take Effect?
Information Contained in a Patent . . ..
What Does a Patent Cover? .
Life of a Patent
Are Patents Secret?
Factors to Consider in Deciding Whether To
Get a Patent 4
Should You Get a Patent? 5
Should Patent Licenses Be Free? 5
Are Patents Only for the Benefit of Large
Corporations? .

11. TRADE SECRETS AND TECHNICAL
KNOW HOW

111. TRADEMARKS 6
A Trademark Is a Brand Name 6
Why Is Proper Use of a Trademark
Important? 7
Are Trademarks of Any Benefit to Society? . . . 7
Revocation or Forfeiture of Trademarks 7
Importance of Trademarks 8
Life of Trademarks 8
Sanforized—A Case History of Trademark
Licensing and Quality Control 8

More on Quality Control of a Product
Licensed Under a Trademark 9

Compulsory Trademark Licensing 9
More on Trademark Licensing 9
Trademark Owned by Foreign Owners 10
The Trademark Copier 10
Trademarks Owned by Different Companies
in Different Countries .. . . • 10
Do Trademarks Prevent Anyone From
Making a Product? 11

IV. TRADE NAMES .....

V. COPYRIGHTS .....

Vl. LICENSING (TECHNOLOGY TRANSFER). . . 11
Licensing in General 11
Patent Licensing 12
Other Kinds of Licensing 12
How Does Licensing Come About? 12
Finding a Licensee 12
Finding a Licensor 13
Negotiating the Technology Transfer
Agreement 13
License Royalties 13
The Licensing Executives Society (LES) .

APPENDIX I—PATENTS IN THE UNITED
STATES CONSTITUTION .

BIBLIOGRAPHY .

Understanding Patents, Trademarks and Other Intellectual and Industrial Property and Their Role in Technology Transfer and Licensing*

PART ONE

NATURE OF THE ITEMS TO BE LICENSED: PATENTS, TRADE SECRETS, KNOW-HOW, TRADEMARKS, AND COPYRIGHTS

I. PATENTS

CONSTITUTIONAL BASIS

The United States Constitution, article I, section 8, sets forth eighteen powers of Congress. These powers include the power to collect taxes, to borrow money, to coin money, to declare war, to raise and support armies and navies, and the power "to regulate commerce with foreign Nations, and among the several states."

The United States Constitution, article I, section 8, clause 8, gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Rights to their respective Writings and Discoveries." This clause is unique because it is the only clause that both sets forth a power and tells Congress how to exercise that power. This is the clause that results in our patent and copyright laws.

---

*This background paper is a revised shortened and updated version of a 1978 monograph entitled *Understanding Patents, Trademarks, and Other Proprietary Assets and Their Role in Technology Transfer and Licensing, The Practical View*, and authored by Homer O. Blair, former David Rines Professor of Intellectual Property Law and Industrial Innovation at Franklin Pierce Law and distributed by Franklin Pierce Law Center, 2 White Street, Concord, New Hampshire, 03301.

PATENTS—A MONOPOLY?

In actuality, what Congress gave inventors in the United States, and this is true in most other countries as well, is not really the "right" to do anything. Instead, an inventor has the right to keep others from making, using, or selling whatever the inventor's patent covers. Thus, it is not really a monopoly, as it is often called.

For example, when Alexander Graham Bell invented the telephone, he went to the U.S. Patent Office and was given a patent which said, in effect, "You, Alexander Graham Bell, can prevent anyone else from making, using, or selling your particular invention, namely, the telephone as described and claimed in your patent, unless they get your permission."

Now assume that a few years later another inventor, let's call him Donald Ameche, became tired of picking up the telephone receiver and asking the operator to dial a number for him. So he decided to improve the telephone by making a dial on the front of it which would permit him to dial his number directly without having to bother an operator. Ameche then went to the U.S. Patent Office and showed them the invention. The Patent Office searched through other patents and technical literature which they knew of and said, "Yes, Donald Ameche, you have made an invention. You have improved the telephone; therefore, we will give you a patent on a dial telephone. Thus, you will be able to prevent anyone else from making, using, or selling a dial telephone without your permission."

Now the question is, who can make, use, or sell a dial telephone? The answer is no one. No one has a "monopoly" on the dial telephone. Alexander Graham Bell cannot make a dial telephone because Donald Ameche, the inventor of the dial telephone, has the right to exclude Alexander Graham Bell and anyone else from making the dial telephone.

On the other hand, Donald Ameche, the inventor of the dial telephone, cannot make a dial telephone because Alexander Graham Bell has the right to exclude anyone from making his basic telephone invention.

Thus, this sets up the situation which requires licensing. Ameche may give permission to, or license, Bell to make a dial telephone. Bell may give

permission to, or license, Ameche to use his invention of a telephone to make a complete dial telephone. Or they will license each other so that each one can make a dial telephone, which is the best telephone available.

This is one of the most important principles to keep in mind about patents. Just because you have a patent or an invention does not mean that you can make, use, or sell the item covered by the patent. You must still make a patent search, in the appropriate country involved, to see if anyone else has a patent which may cover part of your patented product. Someone else may have a more basic patent, such as Bell's telephone patent, or they may have an improvement patent, such as Ameche's dial telephone.

It is quite rare today to find a product of any sophistication covered by only one patent. For example, an automobile has tires, an engine, carburetors, transmission, windshield wipers, many, many parts, all of which, at some time or another, may have one or more patents covering them.

By the same token, a machine such as a Xerox copier, at one time or another, may have patents on the many different parts of the machine. It might have patents on the particular toner used, which is the black material which finally makes the printed letters on the paper. It may have a patent on how to handle the paper on which the image is printed so that the paper will not get tangled. It may have patents on the method of exposing or on the particular exposed (photosensitive) material.

Our business people and lawyers involved in the acquisition and the business people and lawyers from the small European company thought that since they had a license under another company's patent, they were free to make this photocopier without worrying about anyone else. Fortunately, before the acquisition came to pass, the Patent Department heard of it and asked the question, which would be obvious to anyone who understood patents, "Does the European company have a license from Xerox, RCA, and the Australian government?" all of whom, at that time, had patents which would cover some aspect of this particular type of photocopier. The answer was, "No, we do not need a license from them, because we have one from this other American company."

For example, would Polaroid or Xerox have been able to stay in business

when they started if their much larger competitors could have used the Polaroid or Xerox patents merely by making and patenting an improvement invention or two. Of course not.

PATENT TERRITORY

Another important item to understand about patents is that a patent in any particular country covers only what is made, used, or sold in that country. For example, if a company has a patent in the United States, but not in Mexico, the United States patent will not prevent anyone from making, using, or selling the patented product in Mexico.

COSTS TO GET A PATENT AND WHY

With over 160 countries in the world, many of which have a patent system of some sort, it is nearly impossible, and far too expensive, to obtain patents in all these countries. One of the reasons for this expense is that each country has different laws and many have different languages. They each have their own patent offices and local patent lawyers. All of these things involve costs to file a patent application.

For example, to file a patent application in 1990 in the United States would cost between $2,000 and $10,000, with the average being closer to $5,000, for an invention which is not particularly complicated. These costs are incurred primarily by the patent lawyer's charges for preparing the patent application, which is a very complex document, and which may cover anywhere from 10 to 100 double spaced typewritten sheets of paper. The famous American Judge, Learned Hand, wrote, "The specification and claims of a patent, particularly if the invention be at all complicated, constitute one of the most difficult legal instruments to draw with accuracy."

First, a patentability search is usually made in the U.S.Patent and Trademark Office (sometimes referred to as the largest technical library in the world) and the patents found must be analyzed by the patent lawyer to see if the invention is patentable. A skilled patent draftsman must also be hired to prepare a considerable number of drawings.

A patent lawyer may charge anywhere from $60 to $100 or more an hour to prepare the patent application, and it will require many hours for him to

do it properly. In addition to thoroughly describing the invention, including examples, the patent lawyer must also prepare that part of the patent called "claims," which really covers the invention and "claims" it in the very exacting language required by the courts.

Of course, the patent application must disclose the invention adequately and properly in order for one skilled in the particular art of the invention to use it. It must also disclose the best mode of describing the invention at the time the patent application is prepared. Thus, the patent lawyer must have technical training, usually at least a university degree in some field of technology, in order to do his job properly.

Of course, there are fees, which are paid to the U.S. Patent Office, which at present are $370 for the basic filing fee plus smaller fees based on the number of claims. When the patent is issued, there is another (issue) fee of $620 plus other fees depending on the number of claims and the length of the application.

A patent application may be filed in another country, usually within a year after one has filed the application in his home country. Often there is a translation charge and, translating a technical and legal document of 10 to 100 pages into another language can become quite expensive. Again there will be fees to the other patent office and there will be fees to the local patent lawyer, who will put the patent application in the appropriate format for the local patent office.

In the United States, a rule of thumb would be that it costs approximately $2,000 to file a patent application in another country, with additional money required to get it issued (approved) and to keep it in effect. Thus, it is obvious that if someone developed a product which includes, for example, five inventions and he wants to obtain broad foreign coverage, it can be extremely expensive. Each of these five inventions would require a different patent. If they were filed in only ten out of the 160 available countries, it would require a payment of $100,000, which usually would occur before there have been any sales or profit on the product involved.

Keep in mind that the major costs are not the fees charged by the various patent offices but include the translation cost, attorney fees, and drafting fees. Thus, various proposals to reduce the fees of the local patent office to

assist nationals of developing countries or to help poor inventors are not really that useful because these fees are only a minor part of the costs of obtaining a patent. This does not mean that helping indigent inventors is not a worthwhile objective, and possibly some reduction of fees should be instituted to assist them. However, this fee reduction will not really guarantee, from a financial viewpoint, that they can file a patent application on their invention.

In the countries that require an examination, there are additional costs and time involved because the Patent Office will make a search of all issued patents (over four million in the United States alone) and will send the pertinent patents to the inventor, usually with a statement that the examiner does not feel that there is an invention in view of the particular prior patents found.

What usually happens next is that, after discussion with the inventor, the patent attorney points out to the Patent Office examiner the distinctions between the patent application and earlier patents and the attorney often makes changes in the claims. After negotiation, and possibly an appeal, the patent may be issued, although in many countries it is published to allow opposition by others.

In these "opposition" countries, other companies and members of the public can object to the issuance of the patent and can cite other prior art, patent, or technical journal references, etc.

Often these oppositions can get very complex and very expensive and delay the issue of the patent for many years. When the owner of the patent application is an individual or a small company, the opposition costs may become prohibitive, particularly when a determined large corporation is the opposer.

WHEN DOES A PATENT TAKE EFFECT?

Another point to keep in mind concerning a patent application is that no right to exclude others is given to the inventor until the patent has actually been issued (been approved) by the Patent Office. In many countries the patent application is merely published at an early date and the patent is not issued until some time, often years, afterwards. Thus, during this period of time anyone can make, use, or sell the invention. It should be kept in

mind, however, that in some countries, once the patent is finally issued, the patent owner has some recourse against infringers who have made, used, or sold the invention after it was published. Usually the inventor has rights against those who are still using or selling the patented item, even though the product had been manufactured before the patent was issued.

This is not necessarily unfair and is probably the only practical way of operating. After all, the inventor certainly should be entitled to his invention as of the date he disclosed it to the local Patent Office. It does take a certain amount of time to process the invention and, on occasion, a later inventor, or someone who has seen the first inventor's product and decided to copy it, will make the same product before the patent is finally issued. However, this is not a particularly common situation and does not seem to be a significant problem in the real world. It is more of a theoretical problem of concern to economists, who do not understand that it does not have any real economic impact.

INFORMATION CONTAINED IN A PATENT

Another important point to keep in mind about patents is that patents disclose information which is available at the time the patent application is filed. An issued patent usually does not include actual commercial details, which are nearly all that developed after the patent application is filed in the Patent Office.

In nearly every country, it is an advantage to file the patent application in the Patent Office as soon as possible. In the United States, the one who actually made the invention first would prevail in any proceedings between two inventors who had each filed a patent application on the same invention in the U.S. Patent Office. However, even here, the inventor who has filed first has a procedural advantage.

In most of the rest of the world, however, the inventor who has filed first in the Patent Office will obtain the patent whether or not he was the first inventor and thus, it is extremely important to file the patent application as soon as possible. This, of course, makes it even more impossible to cover the latest, up-to-date commercial details because the patent application is usually based on very early laboratory work where the first rather crude examples have shown the principles of the invention, but the details which

are embodied later in commercial products have not yet been developed.

Some who are not familiar with patents, or who have never worked to develop a commercial product, complain that patents do not contain sufficient commercial details. However, in most cases if even the amount of information usually included in a United States patent application (as required by the normal United States practice is included in a patent application filed in another country, the local patent office will object to the amount of material included and will require that a substantial amount be deleted. Of course, the costs in filing a longer patent application are substantially greater because it will require more attorney time to prepare the patent application, it may require more drawings to be prepared by the professional draftsman, and will require additional costs for the extra translation charges.

Thus, patents and patent applications should be seen for what they are, not for what some, who have no knowledge in the field, think they should be. In many cases to completely describe a commercial process would require literally thousands of pages, blueprints, etc. Any patent system requiring complete commercial information would be totally impractical because it would not be possible to handle this amount of information. Also, this information is not available until long after the patent is filed, and usually long after the patent itself has issued, particularly when the patent relates to an important basic invention.

WHAT DOES A PATENT COVER?

Another thing to keep in mind is what a patent actually covers. Most people seem to believe that a particular product will be covered by one patent through the entire product life. Also, they believe that a patent covers an entire product. This is usually not true.

For example, in the United States it is well-known folklore that Thomas Edison invented the electric light. Broadly speaking, this is not true, which Edison would be the first to admit. There were many issued United States patents which purported to cover electric lights at the time Edison made his invention. However, the previous electric lights would last for only a few seconds, and, while they would actually produce light for this very short period of time, they were not practical and could not actually be used

Edison's contribution was the first practical light bulb, which permitted electric light to be used in the United States on a reasonable commercial basis. However, it is very rare to find an electric light bulb in your home today which would infringe Edison's original patent, if his patent had not already expired. What Edison actually invented was an electric lamp using a carbon filament.

Edison's patent #223,898 was issued on January 27,1880 and covered, as stated in his first claim, "An electric lamp for giving light by incandescence, consisting of a filament of carbon of high resistance, made as described, and secured to metallic wires, as set forth." His other three claims all are limited to carbon filaments. This is not to say that Edison did not make an important invention and in fact he did invent the first practical commercial electric light.

It is not necessarily wrong to say, in general, that Edison invented the electric light, but if you are going to deal with patents in the business world, you must understand what patents cover and what they do not cover.

If you made an electric light using a tungsten filament, as is more common nowadays, the light would not infringe the Edison patent. Thus, it is usually true that any particular patent covers only one particular invention, which is usually an improvement on another invention. While it may be very important and may result in the first practical item of its sort, the patents do not usually broadly cover products, as a general rule. Also, there will usually be improvement inventions made and sometimes those improvements,such as the tungsten filament, may not infringe the earlier patent.

LIFE OF A PATENT

Another feature of a patent is that it has a specified, limited life. In the United States, for example, a patent lasts 17 years from the date it is issued from the U.S.Patent and Trademark Office. Other countries may have different patent terms. Many extend from the date when the patent application is filed in the local patent office. However, all of these patents have a limited life for a number of years.

This means, by and large, that after a patent has expired, anyone may make, use, and sell the invention covered by that patent. There may be occasional minor exceptions for patents issued later, which may cover some part of the invention, and on occasion, patents which may have been filed earlier but issued later than the patents in question.

In most countries, a patent does not automatically last for a certain number of years as used to be the case in the United States. In most countries, a tax, called a maintenance tax, is due each year to keep the patent in effect. The amounts of these taxes may run from a fairly small amount, such as $50 in the early years of the patent, to a very large amount, such as $3,000, in the later years of the patent life. Thus, the amount of the taxes usually increases during the life of the patent, so that the later years are more expensive.

In the United States, our Congress enacted complex laws that provide for three maintenance fees during the seventeen year life of the patent. These fees are due 3-1/2, 7-1/2 and 11-1/2 years after the patent issues. With a few exceptions, if these fees are not paid at the proper time, the inventor's patent is lost.

The real purpose of these taxes is to raise money for the country involved, which may use the money to support its patent activity or just for general revenue purposes.

Many people who are not really knowledgeable about how the patent system operates assume that the payment of the maintenance fees makes searching in a patent office simpler because there will be fewer patents involved This, of course, is not the case when one is searching prior inventions to see if his own invention is patentable. The other patents, even though they may no longer be in effect, are printed publications and are certainly available as prior art forever.

Of course, if the maintenance fee has not been paid and the patent has therefore expired, there will be fewer patents which can be infringed by the maker of a particular product, but this situation deserves some analysis to see what the real effect is.

If an invention is a good one and is used commercially, of course, the

maintenance fee will be paid. On the other hand, the maintenance fee will not be paid if the invention is not successful. Thus, if it is not a good invention, no one wants to use it and it does not really make any difference in the real world whether the patent is in effect or not. A patent which is never used by anyone does not do any particular harm as it relates to an invention which was not successful for any of a number of reasons. It is really the same as a technical publication.

One disadvantage of maintenance taxes is that sometimes an individual inventor, or a small company cannot afford to pay the taxes in a number of countries if the patented invention is ahead of its time, and thus the expired patent is of no benefit to its owner.

ARE PATENTS SECRET?

Many people think patents are secret. The truth is exactly the opposite, because patents are published documents available to all. For example, in the United States, the U.S. Patent and Trademark Office publishes its Official Gazette every Tuesday, which lists abstracts and drawings of some 1,500 patents which issue each week. The complete patents are public documents which are then available for $1.50 each.

If someone from another country orders a copy of a United States patent and finds that the patented invention has not been covered by a patent in his country, as is obviously the case with most inventions, he is perfectly free to practice the invention in his own country. Depending on the law of the country where the invention is patented, the only restriction on the inventor may be that he cannot import that product into a country where the patent has issued. However, with 160 countries available, often this does not make much difference. Thus, most patented inventions are available for no cost in most of the world.

Of course, many inventions cannot practically be practiced in most countries of the world because they may require more technical sophistication, different raw materials, larger amounts of capital, etc., than may be available in the particular country involved.

FACTORS TO CONSIDER IN DECIDING WHETHER TO GET A PATENT

When an inventor makes a decision to file a patent application on his invention in a country, he must base his decision on what he feels the market place will be over the next 15 or 20 years. This, as can be seen from the attempts of government planners and economists to predict the future, is nearly an impossible task.

However, the patent owner must do the best he can. First, he decides in his own country whether he feels the costs of getting the patent will be worthwhile, taking into account the market characteristics in that country, his plans for producing the patented item, whether he thinks it can be licensed to someone else, and whether the invention is patentable over earlier patents and publications. Within a few months after filing in his own country, he must decide whether to file in a foreign country.

Countries which are members of the Paris Convention, the international treaty which covers the international relationships between countries on patents and trademarks, have twelve months after the filing date in the first country in which to file in the other countries in order to get the benefit of the earlier filing date. Of course, this really means the decision must be made between six and nine months after the filing date in the first country. In many companies which are fairly large, the initial consideration has to take place at an early stage in order to get adequate input from different parts of the company, including different divisions involved, the international arm of the company, etc.

Then the appropriate attorneys in the various foreign countries must be notified, translations must be obtained, various changes in the patent application must be made in order to conform with the rules in various countries, etc. While it is nearly impossible to predict what will happen over the next 20 years in your own country, you can imagine how much more difficult the task is for all the countries of the world However, the estimates must be made on the best information available, taking into account the costs involved, and then actions must be taken based on this information.

Some of these decisions and expenses can be delayed, and even reduced, by appropriate use of the Patent Cooperation Treaty and the European Patent system. However use of these systems require a certain sophistication, which many patent attorneys have not yet acquired.

SHOULD YOU GET A PATENT?

Why should a company or individual attempt to get a patent? Sometimes he may be as well off if he keeps the invention secret, particularly if no one could discover what the invention involved merely from inspecting the product. This would be true, for example, for an improvement invention on a catalyst which is used to make a chemical or a polymer. Also, the temperature, time, or pressure cycle used to make a material would be impossible to determine from looking at the end product.

However, many, many inventions can be readily determined once the product is sold and, if this is the case and the inventor has not attempted to get a patent, anyone is free to copy his invention. If the invention is at all successful, you can be sure that someone will try to copy it. The patent may give the patent owner an opportunity to get some protection for his research and development expenditures.

Of course, anyone involved with research and development realizes that much of it does not result in actual products. Many companies have not really succeeded in directing research and development so that enough new products are developed to justify the work involved. However, if a patentable new product results from the research and development and if the owner of the research and development gets a patent, others may be prevented from copying the results of his research. If others could merely copy his product, it would give them a significant advantage since they would not have to spend any research and development money and therefore would be able to sell the product for less . Also, if everyone could copy a company's product, the incentive to spend large sums of money on research and development would be seriously reduced. The patent may permit its owner to recoup some of his research costs by licensing others, either in his own country or abroad.

ARE PATENTS ONLY FOR THE BENEFIT OF LARGE CORPORATIONS?

One of the most important reasons for the patent system is that it is one of the few ways that a small company may compete against a big company. Unfortunately, in society today, the legal system is usually so complex, so time consuming, and so expensive that often it is very difficult for the

individual or the small company to use his patent against the large company.

It can readily be seen that if an inventor, such as Edwin Land of Polaroid, made an invention and introduced a new product, such as the Polaroid camera, without patent protection, other large companies would merely copy his camera and film material. They would make it and sell it at a cheaper price than Land was able to since he had to pay for his research and the other companies did not.

If the small company can develop a good patent position on its product, it can prevent the large corporations from competing with it for a limited period of time until the patent expires and, if the company is smart enough and aggressive enough, by then it will have moved on to other inventions as has the Polaroid Corporation. Then the organization does not care if the rest of the world copies its older inventions.

For example, no patents would be infringed today if you developed a camera which made "instant" sepia pictures, as was the case with the early Polaroid products. The patents on these materials expired long ago. However, there is no present market for these items and, thus, it is of no concern to the Polaroid Corporation that the public can make these products using their expired patents.

Without the patent system, the small company would be completely at the mercy of the large corporation with its tremendous financial, marketing, and manufacturing capability and there would be more large corporations, and fewer small companies, than there are today. As Polaroid's Dr. Land has said, "The only thing that keeps us alive is our brilliance. The only way to protect our brilliance is our patents."

Patents, of course, may be very useful in various technology transfer and joint venture business arrangements, since they may be an important part of a company's contribution in these business arrangements.

II. TRADE SECRETS AND TECHNICAL KNOW-HOW

A second important category of proprietary assets, and one which is of even greater importance than patents in most technology transfer

agreements, are what may be called *trade secrets* or *know-how*.

This is really something that you know that someone else doesn't know about how to do something. This might be knowing how to make a particular chemical or how to process a particular soft drink, or, in general, anything which a person or a company learns and which is not obvious from looking at the final product.

For example, some have said that the most important thing Eastman Kodak Corporation has to prevent others from being able to compete with it in the film business is the know-how it has developed over the years on how to coat various photographic materials on film. The exact conditions, the particular materials used, etc., are much more important than the Kodak patents covering the company's various film coating. Even if Kodak had no patents, it would be nearly impossible for another company to compete with Kodak in these areas.

Another famous trade secret is the formula for Coca-Cola, which allegedly is known to only two or three people. Many have tried to imitate the taste, but these imitations are not "the real thing."

A trade secret or know-how has an indefinite life, if it can be kept secret. Some trade secrets become known in in a fairly short time after the product involved has been sold, where others, such as the Coca-Cola formula, may remain secret for many, many years.

In a licensing or technology transfer arrangement, the fact that someone may be able to obtain copies of patents owned by another may be very useful to him, but, in most cases, it will not really help him actually making the product involved under commercial conditions. While a skilled person can make the patented invention work in a laboratory, the know-how and knowledge which has been acquired by the patent owner in actually building his plant and manufacturing the product is extremely valuable. Thus, in many cases, particularly in chemical technology, the know-how is the most important part of a technology transfer agreement.

If a patent owner has a patent on a conceptual invention which was not commercially developed and he has no know-how, it is very difficult to license such a patent, because the licensee knows he will have to spend a lot of money himself developing the know-how before he is able to make the

product. While he might be interested in taking a license under such a patent, it will certainly not be worth as much money as it would if there were enough know-how and trade secrets involved so he could make a commercial product immediately.

This is usually the case with patents owned by the U.S. Government, which is the largest owner of patents in the United States. While these patents are nearly always available for license, usually the government does not have the necessary trade secrets or know-how available. Thus very few government patents have been licensed.

III. TRADEMARKS

A TRADEMARK IS A BRAND NAME

A trademark is not the name of a particular product. It is not the generic name of a product. It should be thought of as a brand name of a product, very much like a person's first name with the last name being the generic product. For example, "Kodak" is a well known trademark for a brand of cameras. In that case "camera" is the generic name of the product. Thus, Kodak cameras.

A trademark is nearly always an adjective modifying a noun, which is the generic name. Thus, it is a brand mark. When talking of trademarks, probably one of the best ways to remember what is and what is not a trademark is to use the word "brand" after every trademark. Some companies do this in an effort to protect their trademarks when they feel there is some danger of them being lost because the general public is starting to use them to describe anyone's product which is similar.

An example of this is Scotch tape, which is made by the 3M Company, owner of the trademark "Scotch." In all their product literature labels, advertising, etc., the tape is referred to as "Scotch brand tape." Thus, if you talk about something by putting "brand" after the trademark, you will then be able to tell that the trademark is the brand name of the product and not the product itself.

For example, a well-known mark in the United States is "Frigidaire." Of course, Frigidaire was first used on refrigerators and in order to

distinguish the fact that Frigidaire is a brand name, it might be appropriate to refer to Frigidaire brand refrigerators, which would be distinct from some other brands of refrigerators. Another indication that this trademark is a brand name is the fact that it is also used on a number of other products, such as Frigidaire stoves, Frigidaire dishwashers, Frigidaire washing machines, Frigidaire clothes driers, etc. There are no frigidaires, but there is a Frigidaire refrigerator, etc.

Another well-known trademark in the United States is "Hotpoint," which was originally used on Hotpoint stoves. Again, there are many other Hotpoint products, including Hotpoint refrigerators.

One advantage of a mark like Hotpoint is that the general public will not normally refer to Hotpoints, but will refer to Hotpoint stoves, etc.

Sometimes when selecting a trademark, marketing and advertising people like to pick a mark that can easily be used generically, whereas a trademark lawyer would much prefer a mark which is a coined word devoid of meaning, like Kodak, which can be an extremely powerful mark. Even then, there may be a danger that people will refer to the camera as "a Kodak" rather than "a Kodak camera."

The same word can be a trademark for different products, even though the trademark is owned by different companies, as long as the public is not confused and would not think that the products are made by the same company. An example of this in the United States is "Cadillac" automobiles and "Cadillac" cat food, which are made by different companies.

WHY IS PROPER USE OF A TRADEMARK IMPORTANT?

This proper use becomes very important because, under the law in most countries, a trademark owner can lose his trademark if it becomes generic by evolving into the actual name of a product, rather than a particular brand of product. Thus, if the public, newspapers, advertising media, etc., start to use the trademark as if it is actually describing the product itself and do not use the trademark as a brand for a particular manufacturer's product, the trademark can become available to all. This usually occurs when another organization, which wishes to make or sell a similar product, calls its product by the name of the first manufacturer's product and thus, of course, tries to get a free ride on the well-known name. If the first

trademark owner maintained his trademark properly, he will be able to prevent the copier from using that mark.

There are a number of words, such as escalator, linoleum, thermos bottle, and aspirin (in the United States, but not in many other countries), which used to be trademarks but have now become the generic name of the type of product. Anyone can make, use, or sell a product and call it that particular name. Often this happens when a second manufacturer puts his name in front of the former trademark; thus, he will be using his name or his brand as a trademark of his own but is getting the advantage of the well-known previous mark. The trademark owner sues, the infringer convinces the court that the mark is now generic because of improper use, and then anyone can use it.

One of the responsibilities of the trademark people at any company is to review all advertisements, labels, publications, etc., of the company for the correct use of our trademarks. They must be used as adjectives, and they must be indicated as being trademarks. They can be shown to be trademarks by capitalizing at least the first letter of the mark, and by putting a small "TM" after it, or, preferably, if the trademark is registered, by putting a "R"after it. If trademarks are consistently used as nouns, they become generic and thus lost, and then competitors can use them on their products, reaping the benefit of the reputation which the trademarked products have.

ARE TRADEMARKS OF ANY BENEFIT TO SOCIETY?

If all products of a certain type are called by the same word, the consumer has no way of telling the products apart. Thus, when a consumer buys a product and likes it, and goes back to the store to buy another one, if all similar products are sold under the same name, she cannot tell which were the products she liked and is not able to get a product with the quality she desires.

Some economists feel that trademarks should be abolished and all products should be sold with the same specifications with no brand identification on them. This would be fine for the fly-by-night operator who could put out a product which might very well have inferior properties, just barely within, or possibly below, government specifications, to make a few fast dollars.

No one could identify his particular products and he would have no responsibility to the consumer nor the public in general.

If someone made a better product, consumers could not identify it, the better product would not enjoy greater sales, and there would be no incentive for the manufacturer to make a better product.

Any identification scheme, whether products are identified by numbers, brand marks, names, company names,or by any other technique, actually results in a trademark system .

The biggest advantage of a trademark to the consumer is that she can buy the products which are sold with a brand mark which she has come to rely upon and she can avoid the products she does not like which are made and sold under another brand mark.

Thus, if a company makes a refrigerator that a consumer buys and likes, the consumer may very well buy a stove or a dishwasher with the same brand mark. On the other hand, if she did not like the original refrigerator, she will probably not buy the stove or other appliance with the same brand mark. So it is very important that a manufacturer who wishes to protect his reputation use a brand mark to identify his products to the consumer. Of course, if a particular product has a fault in it, the brand mark is very important so that the consumer can identify and contact the manufacturer to get the product repaired or replaced.

A trademark is really a guarantee of a particular quality.

REVOCATION OR FORFEITURE OF TRADEMARKS

Some people, particularly those in developing countries, are in favor of giving the local government the power to revoke or forfeit a trademark if the trademark owner has done something bad. Strictly speaking, when a trademark is revoked or forfeited, it merely means that the trademark owner no longer owns a mark and therefore he can no longer prevent others from using his former mark. This is the case with escalator, linoleum, etc. Everyone is able to use the former brand name; it is not owned by anyone, and the public cannot differentiate the product manufacturer from a similar product made by another manufacturer.

If for example, a bad product comes out, such as the drug called "Thalidomide," it doesn't benefit the consumer if the trademark "Thalidomide" is revoked or forfeited because to do so does not prohibit anyone from using the mark, or mean that the product is banned On the contrary, everyone can use the mark, including the former owner, and they could sell the same product and call it Thalidomide or anything else they desire. Thus, revoking or forfeiting a trademark does not ban a product but merely makes the former brand name available to all. Revocation or forfeiture does not remove the mark from usage; it merely lets everyone use it and thus no longer serves any function for the consumer to distinguish one manufacturer's products from another's.

In some countries, the use of a particular mark may be prohibited, but this is not the case in the industrially developed countries. Revoking a particular trademark does not confer any benefit upon society. It may cause some damage to the trademark owner, but the consumer does not obtain any particular benefit from that Thus, revoking or forfeiting the trademark Thalidomide would not help the public interest because the product would still be available and everyone could use the word "Thalidomide" to describe the product. Of course, if you were to sell the same product and not call it Thalidomide, because of the word's bad reputation, you would be perfectly free to do so, and the consumer would not be protected.

Instead of attacking the trademark of a faulty product, the product itself should be banned, and, if the trademark owner wished to use his particular trademark on other products, he should be free to do so. In the real world, however, if the product has a bad reputation, such as the case of Thalidomide, you can be sure that the trademark owner will certainly not use that mark on any other product, since it would have a bad reputation to start, and thus, in effect, neither he nor anyone else will want to use a mark such as Thalidomide.

IMPORTANCE OF TRADEMARKS

With many products, and in license agreements involving them, a trademark may not have any significant value, particularly if the product is not sold directly to the consumer. However, in many cases where the product is sold directly to the consumer, the trademark is extremely

valuable. For example, I mentioned previously the trade secret involving the formula for Coca-Cola. This is a very valuable asset of the Coca-Cola Company. However, the trade secret is not nearly as valuable to the company as is the trademark "Coca-Cola."

For example, if I knew the trade secret for the Coca-Cola formula and I could make an identical product but had to sell it under the name "Blair's Cola," I would have to spend a tremendous amount of money on advertising, marketing, getting my product known, etc., before its quality would result in sales and profits to me.

On the other hand, if I were able to sell any brown-colored soft drink under the trademark Coca-Cola, I would immediately have large sales and would make a tremendous amount of money before the consumers decided that my rather ordinary soft drink did not taste as good as Coca-Cola. Even if the taste of my soft drink was only average, I might still continue to sell large quantities of it under the Coca-Cola brand mark.

LIFE OF TRADEMARKS

Another advantage of a trademark is that it has indefinite life when properly used In most countries a trademark registration has a specific life. However, usually the trademark registration can be renewed as many times as you want, particularly if the mark is still used, in countries such as the United States.

If the mark is used, and the use is distinctive and proper (as an adjective and not as a noun), it may continue to be used indefinitely. This is the reason that proper trademark use is so important, because if the trademark is once lost, it is no longer owned by one enterprise, and anyone can use it. But if it is used properly and is still owned by the trademark owner, it may become well-known and very valuable over the years.

TRADEMARK OWNED BY FOREIGN OWNERS

Some developing countries and some economists feel that local trademarks owned by foreigners are a distinct disadvantage to the developing countries and that, in general, the developing countries have no need for trademarks.

In today's markets where products are sold all over the world by many enterprises from many countries, trademarks are quite important. In the United States, there are many foreign-owned trademarks used on a regular basis which are "household words" to the American consumer.

For example, from Japan, Toyota, Datsun, and Honda automobiles, Sony and Toshiba television, Minolta cameras, Suntory whiskey, Yamaha pianos, etc., are extremely well-known, and the consumer often buys the imported product because of the reputation for quality associated with the trademark used on the product. Other well-known foreign-owned trademarks in the United States include German marks, Volkswagon (automobiles), Mercedes (automobiles), and Zeiss (lenses); the Dutch mark, Norelco (razors and many other products); the Swiss marks, Ciba (pharmaceuticals), Geigy (chemicals), and Nestle chocolate and foods); the French marks, Chanel (perfume), Renault (automobiles), and St. Laurent (clothing); the British marks, Wedgewood (pottery) and Rolls-Royce (automobiles); the Polish marks, Krakus (ham), and Atlanta (ham); and the Soviet mark, Stolichnaya (vodka). There are many others.

However, developing countries also have marks that are known, and in many cases are becoming better known all the time. A few of these include the Mexican marks, Kahlua (liqueur), Casa-Blanca (beer), Sausa and Jose Cuervo (tequila); and the Brazilian marks, Brahma Chopp (beer), Danemann (cigars), and Pele (many products are associated with this famous soccer player's name). More and more trademarks will be coming from the developing countries as they develop their export markets. Without trademarks, the developing countries will not be able to generate substantial sales, as have the Japanese, Germans, British, etc.

THE TRADEMARK COPIER

In the United States and many other countries, the largest problem with trademarks, and the cause of most litigation on trademarks, is the attempts by some individuals to take advantage of another's trademark by copying the trademark and then selling inferior goods under the trademark, thus deceiving the consumer. If anyone can use a trademark, or if a trademark owner cannot protect the use of his trademark, cheap, inferior quality goods can be foisted off on the consumer, who will be deceived and cheated out of his money by paying for a poor quality imitation.

DO TRADEMARKS PREVENT ANYONE FROM MAKING A PRODUCT?

A trademark does not prevent anyone from making any product. It merely prevents someone from identifying his product by using the same, or similar, brand name. As a matter of fact, if a competitor of a trademark owner made a product with better quality and properties than the product of the trademark owner, the competitor would not want to use a trademark of an inferior product but would prefer to develop his own trademark for his higher quality product. Thus, most of the copies made of brand names are inferior and are done in an effort to deceive the consumer and the public.

IV. TRADE NAMES

Another proprietary asset is that known as a *trade name*. The trade name is merely the name under which an organization does business. Thus, a trade name is a company name and it is not necessarily a trademark. Of course, the same word, such as "Westinghouse," may be both a trade name, as in the case of the Westinghouse Electric Corporation, and may also be used as a trademark on the products of the company. Of course, Westinghouse has many other trademarks which involve words completely different from Westinghouse, but the trade name of the company is Westinghouse.

PART TWO

TECHNOLOGY TRANSFER AND LICENSING

LICENSING IN GENERAL

When you are licensing something, you are really giving the other person permission to use the property you have. Thus, when you are licensing proprietary assets, you will let another person use one or more of your inventions, your knowledge about how to do something, and/or your product brand name. The business arrangement to accomplish this is called a license, or technology transfer agreement.

The license may include teaching the licensee how to use the inventions and/or the licensor's knowledge. It may be a one-time technology transfer or it may be continual so that continuing technology improvements of the licensor are made available to the licensee, and sometimes vice versa.

Many people who are not involved in corporate licensing believe that corporations, particularly large ones, are nearly always the licensors in the license agreement and that the licensee is more likely to be a small company. This is not necessarily the case. Most corporations have as many license agreements in which they are licensees as those in which they are licensors. In the negotiation of a license, the important factor is not the size of the organization involved. The real factors are the value of the technology, the strength of the other party's desire to use the technology, and the skill of the people doing the negotiating on each side. It is not unusual for a small organization to be represented by someone who is more skillful and experienced in license negotiations than the person representing the large corporation. The number of those people representing a multibillion dollar organization in negotiations will be approximately the same as the number representing the small organization. Skilled licensing people are never overawed by the size of the organization on the other side.

Another point to keep in mind is that the length of an agreement involving technology is approximately the same regardless of whether a few thousand or many millions of dollars are involved.

PATENT LICENSING

When you license a patent to someone else, you are really telling them you will not sue them for infringing your patent . Thus, when you are negotiating with others,you must make certain that both parties clearly understand what the effect is of the patent and what the effect is of patents owned by others. The rights of the parties should be set forth in the agreement so that (l) either the licensee understands that the licensor is not responsible for something the licensee might do under the license which could infringe the patents of others or (2) that the licensor has some responsibility to help the license if patents owned by others are infringed by the licensee's actions. Sometimes this responsibility may be satisfied by a royalty sharing arrangement of some sort or, if the license is required to pay a royalty to a third party, the license may be permitted to deduct part or all of the royalty he has to pay to the other patent owner from the royalty he pays to the licensor.

For example, if the owner of the dial telephone patent licensed someone to make dial telephones, the license agreement should make very clear the situation with respect to the owner of the basic telephone patent.

The more usual situation is that the licensee merely gets the license (permission) from the licensor and conducts his own searches on the products that he makes to use whether they infringe the patents of others, but if this is the case, it should be specified in the license agreement.

OTHER KINDS OF LICENSING

It is comparatively rare when a license will be only a patent license. Usually, trade secrets or know-how may be just as important, and, in many cases, substantially more important than the patent rights. Often you license a package of patents and know-how to the other party. Of course, it may be that a trademark is part of a license as well .

Trademarks may also be licensed with a package of know-how. For example, shirt companies, such as Manhattan or Arrow, have licensees in many countries of the world that make shirts in accordance with the technology of the licensor and are permitted to use a trademark on the shirt

if it measures up to the standards required by the trademark owner. Thus, Manhattan and Arrow are well-known names in the shirt business in many foreign countries, and the fact that the trademark is on the shirt tells the customer that it meets certain quality standards which they can rely upon if they buy the shirt.

Franchising, of course, is a specialized form of licensing which usually involves a trademark and often includes know-how.

HOW DOES LICENSING COME ABOUT?

How does licensing, or technology transfer, actually occur? In market-economy countries, (Western Europe, U.S., Canada, Japan, etc.), licensing will nearly always take place among non-governmental organizations, which may involve individuals, very large corporations, small corporations, universities, research laboratories, or other organizations. In most countries, such as the United States, the government does not get involved unless the business arrangement involves the export of certain types of technology, such as technology which can be used for military purposes. In other market-economy countries, there may be governmental financial controls involved and sometimes other approvals are necessary.

In the planned-economy countries (USSR and Eastern Europe), on the other hand, a license agreement always involves the government as a party to the agreement. In planned-economy countries, and in many developing nations, the government may be interested in obtaining certain technology or in licensing certain technology and is very much involved.

In the planned-economy countries, contrasted with the market-economy countries, the organization which owns the technology or which will use the acquired technology is usually not the entity that makes the final decision on licensing because this is a governmental policy decision.

FINDING A LICENSEE

If a technology owner wishes to license something, how do these arrangements usually come about or how are they initiated? The technology owner may go out and find a licensee (an organization wanting to use his proprietary assets) as part of the planned marketing strategy. The technology may involve a domestic product line of the licensor that for

one reason or another he does not feel able to market adequately, domestically and/or internationally, in ways which do not involve technology transfer or license agreements.

Of course, the technology may also involve a by-product which is not part of the main product line. However, as a general rule, this type of licensing is not nearly as important nor as easy to license as main product line technology transfer.

To find a license, the licensor may use a variety of techniques including (1) contacting those known to be marketing in the same or similar fields, (2) attending trade shows to find companies marketing similar products, (3) approaching companies who would need the product to help them expand into related markets, (4) searching publications such as the Thomas Register, technical journals, trade journals, etc., (5) making a patent search to see who is doing research and is active in similar fields, (6) contacting his country's embassies or his bank in foreign countries, (7) using a licensing consultant to find a license, or (8) using a license broker or license scout to find a licensee.

Of course, the licensor may be approached by a potential licensee, who asks for a license under the licensor's technology, but this situation may not result in the best possible business arrangement. However, it has the advantage that a potential licensee is available who is interested in getting a license and using the technology. Many licenses come about this way.

Another possible way of granting a license occurs if you find an item which infringes one of your patents. You would contact the manufacturer of that item and convince him to take a license under your patent. Usually, the license will not involve technology or know-how and will be merely a patent license.

The settlement of a patent controversy involving two inventors who have made a similar invention at about the same time can also result in a patent license.

Licenses may be exchanged on different products, possibly with no royalty being paid by either party if the licenses have nearly the same value, or, in some cases, a reduced royalty will be paid by one party but not by the

other.

FINDING A LICENSOR

A licensee may find a licensor as part of a planned marketing strategy to acquire licenses to make certain products so that he may expand his product line.

The licensee may discover a product of another company that he would like to make. He could then contact the company to see if he could get a license to make the product.

Of course, the licensee may be approached by the potential licensor. The licensee may also be negotiated as settlement of a patent controversy.

The license may have made a search on a product line he wishes to consider and he may find that another company has patents relating to the product involved. The patent owner can then be contacted about granting a license.

Of course, the techniques mentioned above for use by the licensor can also be used by the licensee to locate available technology.

NEGOTIATING THE TECHNOLOGY TRANSFER AGREEMENT

Technology transfer or licensing may involve a wide variety of business arrangements. By and large, each technology transfer arrangement is a separate kind of business deal and there are no "form agreements" involved Forms are used only if the same technology is going to be licensed to more than one company under the same terms. Sometimes certain standard clauses may be used, but even here it is amazing the number of times that a particular situation requires a special clause, and the "standard" clause is not appropriate.

In negotiating licenses a company must be very careful to ensure that it is represented by a licensing expert who may be an employee or an outside consultant. Most lawyers know nothing about licensing, and even many patent lawyers are not particularly skilled in this field, so hiring a lawyer may not solve the problem. It is always more difficult to negotiate a license agreement with one who is no expert because he does not know

where he can and cannot be flexible during the negotiations. A representative who is not experienced in licensing cannot do a good job of protecting his client's interest or working out a reasonable business deal.

Those who are experienced in licensing have learned over the years that the only really successful license deal is one that is good for both parties. It is usually not a useful exercise to act like some lawyers do and make the very best deal possible for their client and, if the other party gets a bad deal, that is his problem.

Nothing is more irksome than the lawyer who has one set of clauses and reasoning which he uses when his client is a licensor and a completely different set of clauses and reasoning which he uses when his client is a licensee. On most occasions, what is reasonable for the licensee is also reasonable for the licensor and therefore often a clause which is useful in a licensor situation should also be useful in a licensee situation. A licensing negotiation should not be a contest between lawyers on each side trying to put something over on each other but should be a reasonable discussion which works out with a meeting of the minds so that the best business deal is struck for both parties and both sides have an opportunity to make the most money.

Licensing is in many respects like marriage. In choosing your partner, you can never tell what the real facts are going to be until it is too late. You do the best you can in your investigations and you should retain as much freedom as possible to correct the situation if it is not working satisfactorily. Thus, a properly organized licensing program will provide for this continuing contact and will give the licensee the service and help he needs to be an effective operator and to return maximum amounts both to himself and to the licensor. The licensor must help the license as much as possible because the amount of money the licensor makes depends on how successful the licensee is. If the licensee is not successful, the licensor will not receive an adequate return.

LICENSE ROYALTIES

Experienced licensing people realize that the license must take the major risk in a licensing venture and therefore the license should get the major share of the profit. The licensee must build a plant, if necessary, buy

equipment, spend money on manufacturing and marketing and,if the project fails, the license has a large loss. The licensor takes little, if any, risk.

The returns to the licensor, of course, may come in a variety of ways. Some possible payment arrangements include (1) a lump sum, paid up license or (2) a down payment with a royalty which may be based on (a) percentage of sales, (b) percentage of profit, or (c) a fixed amount per item.

It should be noted that often those not sophisticated in licensing attempt to make a deal involving the payment of a specified share of the profits. While this sounds good in theory, in practice it is extremely dangerous. In the first place, there are many definitions of profit, all of which involve sales less certain costs. Unless these items are very carefully defined, there will nearly always be an argument between the licensor and the licensee about how much should be paid. Also, the licensee will not want the licensor to have full access to all his accounting books and records, and thus be able to learn about all his costs, etc.

The far more common method, and by far much more desirable, is to pay a percentage of sales as the royalty. This actual percentage may be negotiated using factors involving contemplated profits, but the actual royalty itself should be calculated on the percentage of sales. For example, if there are both valuable patents and technology involved, a rule of thumb might be that the licensor should obtain between about 20% and about 35% of the licensee's profits.

For example, if a licensee calculates, and the figures are reasonable to the licensor, that his before tax profits on this new product may be about 25% of sales, and if the licensor feels that a royalty of about 20% of the licensee's profits would be reasonable, the resulting figure would be 5% of net sales. Net sales is comparatively easy to define and to determine.

The licensor should have the right to examine the licensee's books to the extent of determining net sales. It is unlikely there will be any serious arguments in determining these figures.

Often lawyers are not good at thinking of the practical long term effects of

an agreement which they are negotiating. However, experienced licensing people know that the license agreement lasts for many years and that the organizations on both sides must live with the agreement. Therefore, an attempt must be made to strike a reasonable deal with reasonable clauses and conditions so that both parties will make money.

Of course, after the license agreement has been executed, it should not be forgotten and put in a drawer. The licensing and technical people should continue to contact the other party, as there may be necessary technical information that should be provided. There may be problems which appear to be insurmountable to the licensee, but which the licensor can easily solve. Continuing contacts have been found to be essential to a good return.

SHOULD PATENT LICENSES BE FREE?

Some economists feel that licensing an invention which has been used in a product by the patent owner should be done for free or, at most, for only the additional cost of the actual licensing process, including the negotiations, agreement drafting, etc. These economists usually have no knowledge of how research and development is actually done and do not appear to realize that for every product which is successful, many, many products are not successful. Most research does not result directly in a new product at that time, even though the research may be useful for generating information which is the basis of further research and development in the future and which may ultimately result in other new products.

It is more realistic to look at the entire research and development costs of the organization, including the small business or individual inventor. Usually the patent owner will have to make extra amounts of money on any new product he makes himself and licenses to others in order to pay for the research he did which turned out to be unsuccessful.

SANFORIZED: A CASE HISTORY

A classic example of how to combine inventions, patents, technology, and trademarks in an intelligent manner is the case of the trademark "Sanforized." "Sanforized" refers to a process which was originally

invented by Sanford Cluettand the trademark is owned by the U.S. company, Cluett Peabody, which, among other things, makes Arrow shirts. It is a process used to make cloth so that the cloth, and the clothing made from the cloth, will not shrink when washed. Shrinking was a serious problem many years ago. People used to buy shirts, dresses, blouses, or other clothing and when the clothes were washed, they would shrink substantially and, of course, would not fit.

The Sanforized process was patented and was licensed to many licensees throughout the world. By using this process the licensees were able to make clothing that did not shrink and, therefore, the licensees were able to increase their sales and the consumer was able to buy clothes that did not shrink. Everyone was better off than they had been before the process was invented.

The trademark "Sanforized" was obtained for the process and was included in the license, so that all the licensees could call their products "Sanforized" Because of the wide usage, the advertising done by Cluett Peabody and its licensees and the excellence of the process, the trademark became very well known. The Cluett Peabody company set up an extensive quality control system, including a quality control laboratory where samples of the cloth made by the licensees using the process was tested to make sure it was within the proper specifications and would not shrink. Consumers, seeing the mark "Sanforized" on a product, had confidence that it would not shrink when washed.

After a number of years, the patents on the process expired but the trademark continued, the licensing program continued, and the trademark was still very valuable. Even though anyone could treat their cloth using the same process, they could not call it "Sanforized." Since the consumer knew when she saw the "Sanforized" trademark on a product that it would not shrink, she had confidence in buying this shirt.

However, if the product did not have the trademark"Sanforized" on it, the consumer was not sure whether it would shrink or not and thus would tend not to buy it. Today the trademark "sanforized" is licensed throughout the world and is an extremely valuable asset of the Cluett Peabody Company. Also, the mark is still very important to the consumer, because she knows that the products marketed with the trademark Sanforized will not shrink.

Some economists believe that Cluett Peabody should not be allowed to continue to own the mark, but that either the licensees should own it and be able to use it without paying a royalty to Cluett Peabody or no one should own it and, therefore, anyone could use it without paying a royalty. If the latter were the case, in the real world, someone would try to save money by not using the process on his cloth, or would not use the process correctly. The cloth, of course, would shrink when washed,but the cloth maker would put the mark "Sanforized" on it anyway, if he didn't have to submit samples to the trademark owner for approval. The consumer, seeing the mark on the product, thought that the product would not shrink when washed and would be deceived and cheated if she bought the product and it shrank when washed.

Even if the former licenses owned and used the mark, some would start cutting corners to save money, would not practice the process well enough so that their products would not shrink, and the consumer would again be deceived and cheated.

This illustrates an intelligent licensing operation where the trademark licensor, the owner of the trademark, requires that the quality of the product being sold by the licensee is still such that the consumer can buy the trademarked product with confidence. Thus, the various Sanforized licensees still regularly found in samples of the product they are making, which are tested in the Cluett Peabody laboratories. If the products fail the tests, the licensee is not permitted to use the trademark on them. Only those products which come within the specifications involved are permitted to be identified by the trademark.

MORE ON QUALITY CONTROL OF A PRODUCT LICENSED UNDER A TRADEMARK

Thus, quality control and inspection are usually a requirement in a trademark license. These requirements are not put in the license agreement so the trademark owner can exert improper control over the trademark licensee, but they are placed there (1) to protect the consumer so that the consumer will know that the product is of a certain standard and has a certain quality, and (2) to protect the rights of the trademark owner in the trademark, because (a) if he does not control the quality of the product being sold under his trademark, the quality of the trademarked

product will soon deteriorate and his trademark will lose its value, and (b) if the quality control mechanism is not required by the license agreement, in most countries, including the United States, the trademark will be lost.

This requirement for control of the quality of the product, which is sold using a trademark by someone licensed to use the trademark, is a problem which many people in developing countries, and many economists in other countries, assume is an improper attempt to control the license. They do not realize that it is not a developed country's developing country problem but is a licensor/licensee problem in that the licensor is usually required to make sure that the product sold with his trademark on it is up to the appropriate quality involved.

Thus, some trademark owners, who are not knowledgeable, do not include such quality control provisions in their license agreement and they lose their trademark.

Sometimes those with a little more knowledge will include the provisions but will not actually control the quality of the product. Again, they lose their trademark.

COMPULSORY TRADEMARK LICENSING

Some years ago a case arose in the United States that caused a lot of controversy and is used by many economists as an example of what should be done in all countries so that consumers can be protected.

In this case, a Federal Trade Commission Administrative Law Judge (an initial hearing officer) decided that the owner of the trademark "Real Lemon," the Borden Company, had violated certain antitrust antimonopoly laws of the United States in maintaining a near-monopoly in their constituted lemon juice market by improperly using its monopoly power against competitors by such tactics as unfair price cutting, etc. Their trademark laws were violated, however. The penalty proposed by the Administrative Law Judge was to require that Borden license the trademark to all its competitors, and thus, let everyone else use it, but require some quality control and the payment of a very small royalty to cover the cost of this quality control. This is known as a "compulsory" license because the trademark owner is required to license his trademark to

anyone who asked for a license.

The case was appealed to the full Federal Trade Commission which reversed the administrative law judge on this point. As a matter of fact, the United States Department of Commerce filed an appeal brief against the decision with respect to the compulsory licensing penalty.

The United States Government has previously required compulsory licensing of patents in certain cases where others had violated the antitrust laws, often when the violation had nothing to do with patents. The patent license arrangement was an alternative to another penalty, such as requiring divesting of part of the patent owner's business, a large fine, etc.

In the Real Lemon case, there was no decision by the Administrative Law Judge that Borden violated trademark laws, and the proposed compulsory license of a trademark was his way to punish Borden instead of issuing a large fine or some other punishment.

If this penalty had been upheld by the FTC and the federal courts, it would have meant that the consumer would have faced a variety of products on the market which were all sold under the brand name "Real Lemon," and she would not have been able to tell the products apart or to use the particular manufacturer's product which she likes best. The consumer will be confused as to which product she would like to use.

BIBLIOGRAPHY—SOME USEFUL BOOKS

PATENTS

Arnold, T., and Vaden III, Frank S., *Invention Protection for Practicing Engineers* (Barnes & Noble, Inc., New York, New York, U.S.A., 1971).

Calvert, Robert Ed., *The Encyclopedia of Patent Practice and Invention Management* (Reinhold Publishing Corp., New York, New York, U.S.A., 1964).

Cropp, J., Harris, D., and Stern, E., *Trade in Innovation - The Ins and Outs of Licensing* (John Wiley & Sons, Ltd., New York, New York, U.S.A., 1970).

Do You Know Your Economic ABC's Patents: Spur to American Progress, (Government Printing Office Washington, DC 20231 U.S.A., 1969).

General Information Concerning Patents (U.S. Department of Commerce, Washington, DC 20231, U.S.A., 1974).

Jones, Stacy V., *The Inventor's Patent Handbook*, Rev. Ed. (The Dial Press, New York, New York, U.S.A., 1969).

Kitner, Earl W., and Lahr, Jack L., *An Intellectual Property Law Primer* Second Edition, (Clark Boardman Company, Ltd., New York, New York, U.S.A., 1982.)

Questions & Answers About Patents: Answers to Questions Frequently Asked About Patents (U.S. Patent and Trademark Office, Washington, DC 20231, U.S.A.).

Rosenberg, Peter D., *Patent Law Fundamentals* (Clark Boardman Co., Ltd., New York, New York, U.S.A., 1975).

Sperber, Philip, *Intellectual Property Management: Law-Business-Strategy,* Vol. 3 (Clark Boardman Co., Ltd., New York, New York, U.S.A., 1974).

Konold, William G., et al., *What Every Engineer Should Know about Patents* (Marcel Dekker, Inc., 270 Madison Ave., New York, New York 10016, U.S.A., 1989).

The ABC's of Intellectual Property (Prepared and distributed by Intellectual Property Owners, Inc., 1880 K Street, N.W., Suite 402, Washington, DC 20006, U.S.A.).

TRADEMARKS

McCarthy, J. Thomas, *Trademarks and Unfair Competition,* 2nd. Ed., (Lawyers Co-operative Publishing Co., Rochester, New York 14694, U.S.A., 1988).

General Information Concerning Trademarks (U.S. Department of Commerce, Washington, DC 20231, U.S.A., Rev. 1970).

Gilson, Jerome, *Trademark Protection and Practice*, 5 vol. (Matthew Bender & Company, Inc., 11 Penn Plaza, New York, New York 10001, U.S.A., 1989).

Greenbaum, Arthur, *Current Developments in Trademark Law* (Practising Law Institute, 810 Seventh Avenue, New York, New York 10019, U.S.A., 1976).

Hill, Contrad, R., *Trademarks and Brand Management: Selected Annotations* (The United States Trademark Association, 6 East 45th Street, New York, New York 10017, U.S.A., 1976).

Trademark Management (The United States Trademark Association, 6 East 45th Street, New York, New York 10017, U.S.A., 1960).

LICENSING OR TECHNOLOGY TRANSFER

Bloxam, George, *Licensing Rights in Technology - A Legal Guide to Managers in Negotiation* (Gower Press Ltd., 140 Great Portland Street, London W1N 5TA, England, 1971).

Cropp, J., Harris, D., and Stern, E., *Trade in Innovation - The Ins and Outs of Licensing* (John Wiley & Sons, Ltd., New York, New York, U.S.A., 1970).

Doi, T., and Shattuck, W., *Patent and Know-How Licensing in Japan and the United States*, No. 5 (University of Washington Press, Seattle, Washington 98105, U.S.A., 1977).

Eckstrom, Lawrence J., *Licensing in Foreign and Domestic Operations* Third Edition (Clark Boardman Company, Ltd., New York, New York, U.S.A., 1985).

Einhord, Harold, *Patent Licensing Transactions*, 2 vol. (Matthew Bender, 11 Penn Plaza, New York, New York 10001, U.S.A., 1989).

Goldscheider, Robert, et al., *The Law and Business of Licensing* (Clark Board Company, Ltd., New York, New York, U.S.A., 1989).

Les Nouvelles, a quarterly journal published by the LIcensing Executive Society. This is the only journal that deals solely with licensing or technology transfer. The journal is sent to LES members and is available for subscription by governmental agencies or libraries by writing to Mr. Jack Stuart Ott, 1444 West Tenth Street, Cleveland, Ohio 44113, U.S.A.)

Licensing Guide for Developing Countries (World Intellectual Property Organization, Section des Publications, 32, Chemin des Columbettes, 1211 Geneva 20, Switzerland, 1977).

Matsunaga, Yoshio, *Successful Licensing To and From Japan*, (Nihon Brain Corporation, Sankei Annex 901, 1-7-1 Otemachi, Chiyoda-ku, Tokyo, Japan, Rev. 1977).

Mayers, Harry R. and Brunsvold, Brian G., *Drafting Patent License Agreements,* Second Edition (The Bureau of National Affairs, Inc., Washington, DC 20037, U.S.A., 1984).

Melville, L.W., *Forms and Agreements on Intellectual Property and International Licensing* (Clark Boardman Company, Ltd., New York, New York, U.S.A., 1976)

Nordhaus, Raymond, C., *Patent Licensing Agreements (Laws and Forms)* (Jural Publishing Company, 7122 North Clark Street, Chicago, Illinois, U.S.A., 1981).

Pollzien, Gotz M., and Langen, Eugen, *International Licensing Agreements,* Second Edition (The Bobbs-Merrill Company, Inc., New York, New York, U.S.A., 1973).

Trademark Licensing (The United States Trademark Association, 6 East 45th Street, New York, New York 10017, U.S.A., 1962).