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# Book Review [The Business of Industrial Licensing]

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## BOOK REVIEW

THE BUSINESS OF INDUSTRIAL LICENSING. By Patrick Hearn. Westmead, Farnborough, Hants, England: Gower Publishing Co., Ltd. 1981. Pp. ix + 262. Hardbound. \$45.00.

*Reviewed by David G. Bicknell\**

A barrister and corporate counsel experienced in commercial law, Patrick Hearn indicates in the preface to *The Business of Industrial Licensing* that he has "done his modest best to moisten the contents" of what may appear from its title to be a dry book on a dry subject.<sup>1</sup> Though well-organized and succinct in its coverage, the author adds little moisture to the parched subject matter.

He uses his recently published 262-page volume to address an amazingly wide-ranging field in relatively few pages. *The Business of Industrial Licensing* provides a thumbnail sketch of the legal constraints in the fields of patents, trademarks, trade secrets and copyrights as they exist in Great Britain, the European Economic Community, and Western Europe in general.

Mr. Hearn did not intend, however, to address the legal intricacies of such a broad field. Rather, he raises questions that might not otherwise be asked by the businessperson or the corporate counsel when negotiation for a licensing agreement is in its incipient stages. His stated purpose is "to provide those involved in the negotiation of [licensing] contracts with sufficient guidance as to their content to enable them to present to the legal practitioner enough detail as to the intentions of the parties upon which he may base a viable draft for

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1. P. HEARN, *THE BUSINESS OF INDUSTRIAL LICENSING*, vii (1981).

further discussion."<sup>2</sup>

Hearn does a creditable job of illustration, thereby adding what little moisture is present in this otherwise dry book. He illustrates how, by the use of the protection afforded trademarks and trade secrets, the Benedictine monks of France accomplished that which could not be done with a patent. They have maintained monopoly rights to "the most exotic alcoholic beverage in the world, that is the delicious liqueur sold under the trademark 'Benedictine.'"<sup>3</sup> The illustration sketches the registration of the trademark throughout the world and details the distinctive marks and emblems that have been utilized to protect not only the contents, but also the packaging.<sup>4</sup>

The illustration accomplishes two objectives. It stimulates the interest of the reader, and illustrates that which a bare description of trademarks and trade secrets would not demonstrate. It is this illustrative flair that is absent throughout most of the book.

Nevertheless, *The Business of Industrial Licensing* will appeal to all attorneys engaged in the gentle art of negotiation. In particular, it holds special appeal for those negotiating international agreements.

For corporate counsel and the general practitioner who is asked to assist in the negotiation of an international licensing agreement, *The Business of Industrial Licensing* may provide all the assistance needed to open negotiations before turning them over to a specialist. This is particularly true for those attorneys whose clients are participating in the expansion of high technology business in Great Britain and Western Europe. For attorneys representing the dozens of American high technology companies that have established operations in the British Isles, the book will be especially interesting; Mr. Hearn is a British barrister with 30 years experience in negotiating licensing agreements.

Part I, where Hearn introduces the subject matter of his book, is of use to attorneys negotiating international licensing agreements. It includes a description of each type of industrial property with which Hearn deals in subsequent chapters,<sup>5</sup> in

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2. *Id.* at ix.

3. *Id.* at 6.

4. *Id.* at 180-83.

5. *Id.* at 3-5.

addition to a short course in the law of commercial contracts.<sup>6</sup> He also discusses clauses common to all international licensing agreements<sup>7</sup> and, finally, attempts to warn the reader about unfair competition rules in the European Economic Community.<sup>8</sup>

Practitioners will find most of Part I helpful in avoiding the "pitfalls" inherent in negotiating an international agreement, whatever its nature. For example, in one section he points out the common difficulty of simply describing the parties to an agreement. He illustrates the problem with a reference to the legal capacities to contract of public and private companies in West Germany.

The day-to-day management of a German company is by law vested in one, and often two, *Geschäftsführer*. In addition to their managerial duties they are legal representatives of the company and they will be required to sign all agreements on its behalf. Exercising general control over their activities is a board of management; and in the case of a company with more than 500 employees there is a supervisory board which represents the shareholders and the workers.<sup>9</sup>

he remainder of the book discusses the different classes of industrial property. In Parts II, III, and IV, Hearn treats patents, trade secrets and trademarks. Each of those parts has three chapters. In the first chapter of each part, Hearn briefly describes the laws relating to each type of property. The second chapter sets forth terms Hearn feels should be included in licenses for that property. The final chapter of each part treats the complex issues of monopolistic enterprise in the European Economic Community and how the anti-monopolistic rules of Article 85 of the Treaty of Rome<sup>10</sup> affect agreements for the licensing of those properties.

Part II, dealing with the patent, is the longest and the driest portion of the book. Its 64 pages contain neither case studies nor illustrations of the points raised by the author. Rather, Part II consists of a series of lists separated by intro-

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6. *Id.* at 8-12.

7. *Id.* at 13-17.

8. *Id.* at 21-44.

9. *Id.* at 14.

10. Treaty of Rome, Mar. 25, 1957, 298 U.N.T.S. 11 (establishing the European Economic Community).

ductory and conclusory text. These lists include various international patents,<sup>11</sup> principals of law relating to the patentability of inventions,<sup>12</sup> remedies available to the owner of an infringed patent,<sup>13</sup> and grounds for the premature termination of a patent license.<sup>14</sup> There are many lists relating to Common Market regulation of patent licensing.

Nevertheless, Part II contains information which will prove essential to the American attorney who endeavors to draft a boilerplate license for a nation in the European Economic Community. The anti-monopolistic atmosphere of the European Economic Community is quite foreign to American attorneys and business executives. For example, a government may invalidate a patent license if "[i]t is apparent that the products enjoying exclusivity of sale in any territory have no competition from other products serving a similar purpose or use."<sup>15</sup>

The one truly fascinating aspect of Part II was Hearn's descriptions of the changing nature of the international patent. He points to Munich, West Germany, as the clearinghouse for most multi-nation patents in Western Europe and the British Isles. He also describes the evolving idea of an international patent with one application, one patent office (in Munich), and one set of procedures all leading to a patent valid in any nation of the European Economic Community.<sup>16</sup>

Know-how, or what we would refer to as trade secrets, is the subject of Part III. This area is of particular interest to those representing a high technology firm that wants to expand internationally but wishes to avoid the capital outlay required to set up an overseas production facility. He begins with an old, but amusing illustration to familiarize the reader with trade secrets. A factory, having installed a new machine, was unable to make it operate. After consulting many experts to no avail, the company heard of a genius. He was summoned to the scene and he examined the mechanism at great length. Taking a small hammer, he struck a light blow on the machine's casing and commanded it to "start," which it did. A

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11. HEARN, *supra* note 1, at 49-54.

12. *Id.* at 54-55.

13. *Id.* at 60.

14. *Id.* at 78-79.

15. *Id.* at 95.

16. *Id.* at 50-53.

bill was received by the company in the sum of 100 pounds. The directors were shocked and demanded an itemized account. "It arrived and read as follows:

For tapping one machine with one hammer	6d.
For knowing where to tap	<u>L 99 19s. 6d.</u>
Total	L100 0s. 0d." <sup>17</sup>

Hearn points out the difficulties inherent in the negotiation of all trade secret license agreements. The negotiations leading to an agreement will be conducted in a particularly hard-headed atmosphere because of the vulnerability to exposure of the property in question. Moreover, in order for the potential licensee to assess the value of the trade secret, he must have some knowledge of the secret. This places the licensor in the uncomfortable position of having to reveal his valuable know-how, thereby exposing himself to the possibility of infringement.<sup>18</sup> Licensors are, therefore, exceedingly wary.

It is in his treatment of trade secrets that Hearn emphasizes the European Economic Community's near prohibition of exclusive licenses for individual member states. Any such clause or contract is automatically regarded with disfavor by the EEC Commission.<sup>19</sup>

Trademarks have assumed increasing significance with the development of mass media advertising and self-service shopping.<sup>20</sup> In Part IV the author assesses these changes and notes that, in contrast to the other forms of industrial property, the duration of the protection afforded to trademarks can be indefinite,<sup>21</sup> provided renewal fees are paid.

Part IV also includes a discussion of the never-ending problem of "passing off," the name of the common law action to stop a trademark infringement. "At its simplest the act of passing off means one person presenting goods for sale to the public in such a manner as to mislead the purchaser of such goods into thinking that they are the goods of another

. . . ."<sup>22</sup>

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17. *Id.* at 109.

18. *Id.* at 119-20.

19. *Id.* at 148-49.

20. *Id.* at 159.

21. *Id.* at 161.

22. *Id.* at 177.

Hearn indicates that international trademark rights are broadening in Western Europe. He cites as an example the case of *Maxim's Limited v. Dye*.<sup>23</sup> Maxim's, the famous Parisian restaurant was granted an injunction to prevent a restaurant in Norwich, England, from making use of that name. The "international goodwill vested in the name, and the fact that customers might think the Norwich restaurant was an English branch of the plaintiff's" are both noted by Hearn as support for the injunction.<sup>24</sup> Therefore, it is the protection of the public from the unscrupulous merchant and not the protection of the trademark holder that is the focus of the law.<sup>25</sup>

Nevertheless, in returning to the illustration of the liqueur Benedictine, the author demonstrates how useful trademarks can be in protecting the holder. He cites examples of countries where imitations have been quickly removed from the market.<sup>26</sup>

Part V includes a brief discussion concerning the licensing of industrial designs under copyright law and draws a parallel between agreements for the licensing of patents and agreements for the licensing of industrial designs.

Finally, Part VI, entitled "Sample Heads of Agreement," was intended by the author as a check list of subjects which should be included in a typical licensing agreement.

The author provides sufficient information to instruct the experienced layman or the general practitioner in collecting relevant information concerning the intentions of the parties to a licensing agreement. The information can then be presented to a specialist in sufficient detail to enable preparation of a draft agreement. An uninformed reader is transformed into a cautious negotiator.

The book's focus on the negotiation of international licensing agreements limits its appeal to the Bar in general. Nevertheless, for those practitioners representing clients having or seeking great technological abilities, especially those seeking to expand their markets to Great Britain or Western Europe, the book may serve as a handy primer. After completing *The Business of Industrial Licensing*, the reader will not possess the expertise or knowledge required to complete the

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23. [1977] 1 W.L.R. 1155.

24. HEARN, *supra* note 1, at 180.

25. *Id.* at 180.

26. *Id.* at 182.

negotiation of an international licensing agreement, but then, that is a part of the message of the book.

