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# Successful University Licensing: Blending The Academic And Entrepreneurial Cultures



BY JOSEPH D. FONDACARO, PH.D. AND RICHARD J. KORDAL,

*This article is submitted as part of the ongoing activities of the Industry-University Transaction Committee of LES (USA & Canada), Inc.*

Creating a technology licensing program and establishing its activities within the academic research culture are a challenging undertaking. For those just beginning a program in technology transfer at an academic research center, introducing the obvious business and entrepreneurial objectives of the program may be the most difficult of any of its subsequent responsibilities. This article is intended to identify some of the important cultural barriers that may be encountered in setting an academic technology transfer office in place and hopefully will provide some helpful suggestions for overcoming these barriers and achieving a successful and productive academic technology licensing program.

## Introduction

Perhaps the thought that comes to mind when one thinks of the traditional academic and industry research cultures is the grade school experiment that introduces students to the principles of magnetism. This simple principle states that like poles of a magnet repel each other. The "likeness" or similarities of academic and industry research stem from the fact that both cultures thrive on the discovery of new technology. Both have experienced leadership and well-trained professional staff utilizing the most modern research technologies and time-tested scientific principles in their experimental protocols.

However, unlike the simple magnet experiment of grade school science, it is the differences that cause these cultures to naturally "repel" each other. Clearly, the mission of academia is the creation and dissemination of knowledge and the education of the next generation. Industry, on the other hand, must stay focused on increasing shareholder value. In the laboratory setting, academic research is typically curiosity-driven basic research. Priorities are set by the principal investigator and discoveries are often serendipitous with an eye towards publications, the acquisition of grants and the furtherance of one's career. In contrast, the research priorities in industry laboratories are usually set by management and discoveries are controlled (at least to the greater extent) with research results being confidential and proprietary and directed towards products, profits and enhanced company growth. Thus, these very basic objectives create cultures which have very different endpoints and missions.

## Recent Success

Notwithstanding these cultural differences, licensing of technology from academic research institutes to private industry has helped drive economic growth in the United States.<sup>1</sup> However, the growth of university to industry technology transfer has raised some interest-

ing questions in the minds of both academics and industry researchers and management. For example, academic researchers may well ask, "why partner with industry?" A close look at some of the answers to this question may be quite revealing and attractive to the academic researchers. For one, they may find a realistic application of their research to the public benefit. Exposure of academic researchers to industry investigators may bring rewarding scientific collaborations, additional sources of research support and may result in added revenues to the academic research endowment. In support of the former advantage, a recent study revealed that university-industry collaborative papers are more often cited than single university publications.<sup>2</sup> In support of this latter advantage, a brief look at the most recent Association of University Technology Managers (AUTM) survey results indicates that in fiscal year 1999, industry sponsored research to universities totalled \$2.7 billion and licensing revenues reached \$862 million. These represent rewards that perhaps are not initially realized by academic researchers or their institutions.

Recently, industry has been pouring vast sums into research and

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1. Rogers, E.M., Yin, J. and Hoffman, J. (2000). Assessing the Effectiveness of Technology Transfer Offices at U.S. Research Universities. *J. Assoc. Univ. Tech. Mgrs.*, XII: 47-80.

2. Hicks, D. and Hamilton, K. Does University-Industry Collaboration Adversely Affect University Research? *Issues in Science and Technology*, Summer, 1999.

development. According to a recent *New York Times* article, between 1994 and 1999, American industrial R&D grew from \$97.1 billion to \$166 billion. This is more than double the spending of the federal government which in 1999 was about \$70 billion. Surprisingly, the segment that grew the fastest was basic research, up 79% to \$10.9 billion.<sup>3</sup> Although industry-sponsored research is still relatively small compared to the federal government expenditures, representing about 10% of the total, it is nonetheless significant and growing. The Industrial Research Institute predicts industry-sponsored research will double over the next ten years.<sup>4</sup> Thus, it is an important source of research funding that should not be overlooked.

Likewise, industry may ask, "why partner with academics?" Again, thoughtful consideration would reveal that academic laboratories are a rich source of new technology, many, if not most of which, can be applied to or become the basis of new products. Also, given the resources required to build and to support research infrastructure, industry may actually find it less expensive to support academic research laboratories and to license-in technologies. Certainly, and for the most part, the biotech industry was built and continually relies on academic laboratories for their early stage technologies as a base for potential products.

Once again, the AUTM survey results from fiscal year 1999 support these conclusions. Academic research centers received over 12,000 new invention disclosures from their faculty and filed 5,545 new U.S. patent applications. In addition, there were 8,308 licenses/options executed, 3,661 U.S. patents issued and 344 new companies formed. Clearly, these data support the notion of academic research laboratories as a "mother lode" of

new ideas and technologies from which new start-up companies and novel products can be realized.

It is generally agreed that the Bayh-Dole Act of 1980 was the impetus for the formal introduction of the technology transfer process into academic life. Without an exhaustive review of the Bayh-Dole Act, its major thrust is to allow universities and small businesses to retain title to inventions discovered or created from research supported, in whole or in part, by federal funds. In addition, the Act allowed the granting of term-of-patent licenses to these technologies. Most importantly, the Bayh-Dole Act specifically promotes and upholds the principle that the American public has a right to benefit from the research it supports. Thus, the technology transfer process received a formal "blessing" from federal government resulting in academic centers, the private sector and the general public having benefited significantly over the last 10-15 years.

### Critical Success Factors

Therefore, with the obvious intellectual and financial advantages to both parties (supported by the AUTM FY 1999 survey data) and the recognition by the federal government that academic research should be part of the product development process, how are the entrepreneurial and academic cultures blended by and within an academic technology licensing program? It is the authors' opinion that while many factors are required to blend these cultures, there are three of particular importance: the institution's policy on intellectual property, the revenue sharing policy and faculty/staff involvement in the technology transfer process.

The common objectives of colleges and universities are education, research and public service.<sup>5</sup> However, it is of paramount importance that any institution involved in or

contemplating a technology transfer program establish a policy on intellectual property. This policy should clearly and succinctly delineate that the academic institution owns the rights to any intellectual property conceived and/or reduced to practice by its employees. This is particularly true where employees are full-time and salary support, supplies, office and lab space and other resources of the institution are utilized in the research. This is also applicable where grant monies, awarded to an institution on behalf of a researcher, are administered by the institution. The policy should apply to faculty, administrators, technicians and all other employees of the academic research institute. While post doctoral fellows and graduate students are included, there is still an unanswered question among licensing professionals as to whether undergraduate students and volunteers should be subject to the policy.

The policy on intellectual property should not only define ownership but should also include statements on transfer of ownership, rights and obligations of the employer and employees, royalty sharing (discussed in more detail below) and procedures for waiver of the policy. In developing such a policy, it is helpful to look at existing policies from several institutions of relatively similar size and mission. Likewise, constant feedback from faculty and staff, administrators and other groups covered by the policy is essential. This will necessarily involve many drafts, many presentations and several open forums for discussion. These are all time consuming but, in the long run, positive experiences for the beginning office. The final obvious step is getting approval of the top administrators and the Board of Directors. If due diligence is exercised, swift approval at this final level is the likely outcome.

The second important driver of blending these cultures is the royalty or revenue sharing structure that is usually contained within the intellectual property policy. An equitable policy is based on all revenues received from a license minus

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3. Broad, W., U.S. Back on Top in Industry Research. *New York Times*, December 28, 1999.

4. Industrial Research Institute. *Industrial Research and Development Facts*. Washington,

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5. Ku, Katherine (1999). *University Licensing and Technology Transfer*. *The Licensing Journal*, 19(5): 13-16.

legal, patent and other expenses associated with the license, such as market and/or patentability searches, consultants, and expenses incurred by the technology transfer office during license negotiations, to name a few. A distribution policy based on cumulative net revenues will be the initial positive step towards approval at all levels.

How net revenues are distributed is often times a contentious issue. However, gathering comparative information from policies of other institutions of similar size and mission is again a recommended beginning. Although wide variation may exist, typically, net revenue shares go to the inventor(s), the department or division in which the inventor is a member and the institution. In these times of increased faculty mobility, a contingent statement is recommended for the inventor's share in the event an inventor leaves the institution.

The third, and perhaps most integral component of a successful technology transfer program is faculty and staff involvement. Involving faculty and staff from the outset accomplishes two extremely important objectives: education and compliance. Most faculty and staff are unaware and inexperienced in the processes and procedures commonly utilized in licensing technology, establishing confidentiality, securing corporate-sponsored research support and finalizing transfer of research materials. Involving faculty and staff will make them aware and knowledgeable as to how and why certain procedures and documents are necessary. Likewise, if the expectation and desired outcome is compliance with new procedures and practices introduced by this "culture shift," faculty and staff need to "buy in" to the technology transfer program. In other words, a successful program in technology transfer is a consensual program.

Achieving these objectives begins very early with faculty and staff involvement in the form of feedback during the preparation and or modification of the policy on intellectual property addressed earlier. Also,

maintaining visibility, attending faculty seminars, and overall demonstrating a true interest in their research programs tends to break down many of the initial barriers to compliance. Faculty and staff will need to identify what's in it for them, so count on protracted periods of reluctance, skepticism and rebuke by some if not many. There will be some from whom you will never hear and/or convince that your program is fair, equitable and necessary. It is recommended that you discuss these cases with your lead administrator.

One very positive step is for the university's various administrative offices to take a more team approach to promoting collaborations with industry. These offices can take a more proactive approach to marketing their research strengths to corporate America. In addition, the university could help motivate faculty involvement by modifying their performance metrics to include university-wide recognition for participation in industry-university collaborations. Specifically, universities can begin to include entrepreneurial activities in the criteria for reappointment, promotion and tenure. One such program has recently instituted this concept<sup>6</sup> and it is expected to realize a marked increase in invention disclosure submissions and licensing activity. On the faculty side, some keys to a successful collaboration with industry include a willingness on the part of faculty to tie their university research timeliness to the company schedule and to incorporate projects that fit with the company's research agenda.<sup>7</sup>

### Conclusion

Perhaps the most formidable challenge to establishing an office of technology transfer is introducing into the academic research environment

those aspects of the business and entrepreneurial culture necessary for a successful technology licensing program. While at first glance, the essential elements of these cultures would suggest an improbable outcome, current data and trends in university-industry transactions present a very positive picture of success. Understanding of the academic culture, involvement in the day-to-day research environment, a fair and equitable intellectual property policy, administrative support and faculty/staff involvement are key elements in creating and maintaining a successful academic research-based technology licensing program.

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6. University of Cincinnati Department of Biomedical Engineering, 2000.

7. Business - Higher Education Forum. Working Together, Creating Knowledge: The University-Industry Research Collaboration Initiative (viewable at: [www.acenet.edu/bookstore](http://www.acenet.edu/bookstore)).

# Valuation Of BioPharm Intellectual Property: Focus On Research Tools And Platform Technology

BY SAM KHOURY, PH.D. &  
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The valuation of intangible assets typically covers selected economic theories behind valuations, including the well-known Market, Cost, and Income approaches. In an effort to educate biopharmaceutical professionals on the details of intangible asset appraisals, we focus here on two areas within the biopharmaceutical field that create special problems for assigning an accurate value to technology – research tools and platform technology. How should an appraiser value these types of technology?

For this, it is critical to understand the basic concepts of valuations and then to design valuation methodologies so that they address the uniqueness of biopharmaceutical technologies. Although the biopharmaceutical industry subscribes to the same economic principles as other industries, it is sufficiently different to require special modification to standard valuation procedures. Market, cost, and income approaches will always apply to this industry because they reflect economic theories; however, for conducting a specific valuation, these general approaches should be modified to reflect the realities of the biopharmaceutical industry. In this industry, there is significant uncertainty in the successful conversion of technologies into final commercial enterprises; moreover, technologies must pass many governmental regulations. These factors dictate the design of unique approaches to capture the uncertainties in the commercialization of biopharmaceutical technologies. These approaches include (a) the royalty rate, (b) Monte Carlo approach, and (c) probability analysis combined with the income

approach.

Before understanding the mechanics of valuation and the aforementioned approaches, it is important to understand certain elements in order to arrive at a good conclusion of value. In the past, appraisers assumed that a technology could not be separated from its associated business, so they conducted the valuation of the business and then concluded that the technology component must be equal to the value of the business. Now, we recognize this to be a false concept in that there is more value in the business (vis-à-vis sales and marketing, as well as manufacturing) than in the value of the technology. So, to value a technology, it is necessary to extract the contribution of the technology from the total value of the business.

## A. Valuation Basics

The most important element in a valuation is to understand the context of valuation. The appraiser needs to know the purpose of the valuation exercise when determining the value of a specific bundle of technology. In other words, is the value of the technology stemming from internal development using in-house business know-how and manufacturing capabilities, or through a joint venture partner with the necessary complementary assets, or for a pure licensing opportunity? Although the technology bundle is the same, the dollar value of the technology could be significantly different depending on the specific context in which the technology is leveraged.

The second step is to identify the technology bundle in need of valuation. Often a valuation exercise is started when the client gives the appraiser a set of patents. Then,

subsequent interviews with R&D personnel indicate that significant know-how, trade secrets, and trademarks are critical to the success of the business. So, valuing the technology bundle from the standpoint of patents only versus patents plus additional intangible assets will result in different values.

The third step is to identify whether the technology bundle being valued represents a key technology or an incremental improvement to an existing technology. A key technology is that which can create a stand-alone business around itself, while an incremental improvement represents an enhancement to an existing product and/or process. This concept is critical because, in an incremental valuation, one calculates the additional review expected from the improvement, whereas a key technology represents the total revenue from the market application or profitability arising from the sale of the associated product.

Valuation is basically an attempt to measure the impact of the technology on the total business. Simply, technology impacts a business in two general ways: by reducing costs or by generating additional revenue. Further complexity comes out of the details. For example, if a technology reduces costs, how exactly does it do this? Does the technology improve yield so that a company can avoid building another plant? This sce-

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nario is very common in the electrical generation industry. Or does the technology allow the company to use cheaper raw materials, resulting in improved profits per each unit of product produced?

However, if the technology increases revenue, then detailed follow-up questioning should be directed toward how this additional revenue is generated. Does the technology create a stand-alone business generating completely new revenue from new products? Alternatively, an improvement to a product may result in an increase in market share. Everyone is familiar with “new and improved” slogans that are put on products to correspond with a company’s developmental improvements. Examples of this notion include liquid detergents and fabric softeners within a controlled release capsule. Alternatively, a technology could maintain the same market share but lead to an increase in price. This is typical in the electronics industry, where continuous improvements are necessary to keep the prices high. For example, Palm Pilot puts additional functionalities on its products and then charges higher prices; likewise, in the computer industry, innovation is retained so as not to lose market share.

In other words, the technology can contribute to market volume by selling more or by offering enhanced properties for which the customer is willing to pay a higher price or by allowing the product to be manufactured at lower cost. All the above scenarios have a positive impact on profit and result in enhanced revenue to the owner of the technology.

## B. Valuation Variables

Having set up the problem and decided upon the approach to be followed for determining the value of the technology, it is important to look at the information necessary for determining the value of the technology. The factors used for this determination are discussed in detail below.

Valuation variables are boundaries applied to the valuation exercise so that one can arrive at a reasonable assignment of value. These boundaries

include the following:

- Valuation period
- Market size and growth
- Revenues projected for the business enterprise
- Analyses of the probability for commercial success of the technology
- Risk and discount rates
- Royalty rates

Once these variables are derived through research, they may be used in different valuation approaches in order to give the best representation of value.

In determining the valuation (time) period, one needs to assign two end points, the ending date and the beginning date. The ending date is easy to assign for a biopharmaceutical technology. It is usually the last day of a patent’s life or any extensions due to the Hatch-Waxman Act, which accounts for delays due to the approval process of the specific product (e. g., drug). This extension could be up to five years.

On the other hand, for a biopharmaceutical technology, it is difficult to assign the beginning date on which the product starts to generate revenue. Considerable uncertainty in the success of the technology through human clinical trials and delays due to governmental approvals make it difficult to assign a starting date. As a result, one usually looks for and examines technologies that are similar or comparable to those being valued in order to get an understanding of the time it took for these comparable technologies to be initially commercialized. This information is readily available in the biopharmaceutical industry. So, although one could argue that the specific technology being valued could take longer to commercialize, it is reasonable to assume that it will require a similar or even shorter time to commercialization, since the current managers of the technology could learn from others in the industry and complete the commercialization process faster.

The analysis of market size and growth is one of the most misunderstood concepts in the bio-

pharmaceutical industry. We have reviewed many business plans for solid, innovative technologies and, in almost every case, the author of the business plan addresses the market for the specific technology as the total market available because it is assumed that the technology will solve problems associated with the whole disease. So, a typical business plan statement is, “this technology is very critical to oncology study and addresses the multibillion dollar worldwide market for cancer ailments.” However, investigations of the technology and the related patent literature reveal that the technology is mainly effective for skin and lung cancer and not for all other forms of cancer. That is, the market is no longer the multibillion-dollar market for all cancer therapeutics, but rather it is specific to the market for skin and lung cancers.

The next step is to examine the growth rate of these diseases for the past few years, from which it can be reasonably assumed that similar growth could be anticipated in the future. If the treatment cost per patient is known, then the revenue (i.e., the market for the technology) can be calculated.

For every industry, appraisers must determine different elements of risk for the revenue that a company expects to generate. In general, these elements include country risk, industry risk, company risk, and technology risk. In the pharmaceutical industry, a technology’s development stage is one of the critical elements in assigning risk. That is, in early stages, such as drug discovery or preclinical testing, a new pharmaceutical is at greater risk than when it is in Phase II or Phase III clinical trials. However, in assessing early-stage risk, there are enough data and statistical studies to aid in measuring the probability of success for any pharmaceutical technology at any of the required development stages.

Once an appraiser determines the expected revenue, it is critical to determine how much money is necessary for a company to develop the technology all the way to commercialization. In other words, how much

of the total revenue will a company retain at the end? If we know that a specific company is implementing the technology, then this exercise is simple—the specific company’s profit margins and their tax rate are used. However, if the company is a hypothetical organization or the company is not sure which specific licensee will be commercializing the technology, then a proxy market approach must be used. This approach entails that a large number of companies existing in the same industry or possessing similar technologies be analyzed; moreover, it is essential that these companies are public so that one can find public information on their financial performance. This analysis relies on two key assumptions: (1) in an efficient market, everything levitates toward equilibrium, resulting in similar performance, and (2) the management of the current technology will perform similarly to that of other companies in similar circumstances.

Once the variables of the technology are determined, then all pieces of the puzzle are in place to assemble the final valuation and, hence, determine the value of the technology.

### C. Valuation Approaches

In the biopharmaceutical arena, three main approaches are most used. These approaches are (1) the Income approach, (2) the Probability Analysis approach, and (3) the Royalty Income approach.

Many appraisers typically rely on the “cost” and “market” approaches. Although these are generally applicable in valuation, they are rarely used in biopharmaceutical valuations. The Cost approach is usually used when the application is at such an early stage of development that its market application is still unclear.

In the biopharmaceutical industry, a company practicing a technology will typically develop that technology on a global scale and will rarely license it to competitors using a known market number for the sale of that technology. As such, the “market” approach is rarely used for biopharmaceuticals. This runs contrary to what is observed in other

industries, such as the chemical sector. For example, in this industry, the costs of manufacturing and shipping of polyethylene and polypropylene are so high relative to profit margins that one single company cannot muster the financial resources to supply the entire world’s needs of these commodity chemicals.

The biopharmaceutical market is different altogether. In fact, if a company cannot have access to the global market, in many cases, it would not develop the market, since (1) the costs to bring inventions to market are prohibitively high, and (2) pursuing a global market is the only way a company can support its growth.

The Income approach is calculated by determining the total revenue that could be generated from the anticipated sales of a product. In this approach, the net income (or, more accurately, the cash flow that could be generated from this revenue) must be calculated. This requires that all costs associated with the generation of revenue must be subtracted from the total predicted revenue. Such costs include the costs of production, sales, marketing, R&D, and regulatory approvals, as well as, of course, taxes. The anticipated future revenue is then discounted at a special discount rate. In the Income approach, the discount rate is the most critical variable, since it captures all of the important elements of risks, namely, the country, the industry, the company, and the technology.

The Probability Analysis is a refinement of the Income approach. A biopharmaceutical technology can experience several outcomes and take a number of different paths, which generate a number of “go/no go” decisions during the course of a biopharmaceutical’s development. Thus, it is often worthwhile to do probability analysis for biopharmaceutical valuations.

In this analysis, the appraiser conducts an income calculation at the last successful step of each of the different paths or steps in development. Then, using statistical probabilities through research, the appraiser reduces the value based on the probability of

passing from one stage to the next.

If the unknown in the probabilities does not reside in moving from one step to the other but rather in variables such as sales price, cost of production, degree of market penetration, etc., then it is possible to conduct a Monte Carlo analysis of all the variables, in which case analysis software will conduct enough iterations to obtain a most probable value. But, like any valuation approach, the quality of input (to capture the ranges of all the variables) is critical to deriving a logical and accurate value.

In most industries, one royalty rate is usually used to calculate the royalty income; however, in the biopharmaceutical industry, the situation is different. The long development time of a biopharmaceutical and the prevalence of “development-stage” companies that concentrate on developing technologies up to a certain phase have made it necessary to offer milestone payments until a commercial product is produced. Then, at the time of commercialization, a royalty rate kicks in to capture a return based on the revenue from product sold.

These milestone payments are usually paid by large pharmaceutical companies at the beginning of each phase. For example, upon successful completion of its pre-clinical testing, a company would receive \$2.5 million at the beginning of Phase I clinical testing from a co-development partner so that its technology can be developed to Phase II clinical testing. Then, the company would request another milestone payment to proceed to the next phase. Such milestone payments, along with royalty rates, represent one specific example. A wide range exists for milestone payments and royalty rates that could be charged, depending on the strength and the size of the market, the availability of competitive technology, and the corresponding stage of development. In general, if a company asks for large sums of milestone payments, then royalty rate at the end would be lower; alternatively, if milestone payments are low, then royalty rate would be high. So, one must look at the whole package in its

entirety to determine the availability of profit margins remaining for the final producer of the products.

So far, we have outlined the most popular valuation methodologies used in the valuation of biopharma technology. Each of these methods can be used to determine the value of a technology; however, depending on the purpose of the valuation, one method is invariably favored over the other. Although this selection is not absolute, Probability Analysis and the Income approach are used in combination when valuing technology for the purpose of raising capital (e. g., first or second round funding, initial public offering (IPO), or even mergers & acquisitions).

If the client is interested in licensing the technology, then the Royalty Income approach is used. In many instances, the appraiser should conduct both of the above approaches to determine if any large discrepancies exist. If so, then, the assumptions in the models must be revisited. Typically, our experience shows that the assumptions are internally consistent when the different valuation methods yield values that are within 80-90% of each other.

#### D. Specific Examples

In the biopharmaceutical field, two areas create special problems for assigning an accurate value to a technology – research tools and platform technology. How should an appraiser proceed to value these types of technology?

##### *i. Research Tools*

Research tools, in general, could mean developed methods and reagents and /or data compilation used by scientists to develop therapeutically useful medications. From a business point of view, research tools should be defined as innovative approaches permitting scientists to do their job better, cheaper, and/or faster. Better could mean a more accurate analysis of an assay from, for example, better imaging software or higher resolution in a diagnostic tool. Cheaper could mean cost reductions from using cheaper equipment or labor or less expensive raw materials to produce a medication. Faster means

progressing from one phase to another faster or delivering end products more quickly to the marketplace than could be done before.

In all of the above definitions, one must determine if the research tool solves the rate-determining step in development. That is, if a research tool can increase the speed of a step, but that step is not the slowest in the process, the total impact of the technology cannot practically be measured because there is another step that is slower and rate-determining. In those instances, being faster, although interesting, does not impact the total value because it has no impact on the delivery of the final product.

However, if it is a key step, then it will have a major impact on the total value of the technology. For example, in the mapping of the human genome, several technologies were developed to screen larger numbers of genes faster, and the final impact was that final results were delivered ahead of schedule. So, the tools that were developed had an obvious impact on the rate-limiting step. In such a case, value is measured by the reduced costs of delivering the final results. That is, what would have been the cost of developing the database of the human genome using old versus new methods? In this case, the impact may be measured in labor, material and equipment. In conducting the valuation, the income approach would be used for each technology; then, the two values for both technologies would be subtracted from each other to yield the Net Value, which represents the impact of the faster research tool.

If the technology is “better,” then is it improved sufficiently to expand the market or to permit a new application. One example is enhanced MRI imaging wherein computers can display slices of the brain, liver, or other organs in the body. This enhanced imaging technique will have an impact on both doctors, who will prescribe this test, and insurance companies, who will pay for it, because less accurate measurements would result in more expensive treatments for undetected cancers or other ailments that

could be otherwise detected with the technology. So, the valuation calculation rests on the assumption that this enhancement will result in more support for the use of this diagnostic tool, resulting in additional revenue arising from screening more patients. In a valuation such as this, it is also important to follow how payments are done – i.e., is it a onetime fee or a per-test revenue stream?

If the new technology is cheaper, then the valuation is simple. One simply totals all of the cost savings, which will measure the impact due to a cheaper technology. The total cost savings are considered as the value if the technology is implemented internally by the company.

If the cost savings can be realized by using cheaper raw materials to produce a certain drug but the company has to invest more money into capital equipment to permit use of the cheaper materials, then this additional spending by the company must be subtracted from the total cost-saving benefits.

There are many discussions of reach-through royalty rates whereby companies who have developed research tools desire royalty rates on related, finished products because their tools helped companies identify the human genome faster. However, this is difficult to quantify, so licensors can seek but are rarely granted such rates for research tools. This reach-through is justified and appears only in patents wherein the claims cover both the tool(s) and the end product(s) that could be generated from using such tool(s).

Finally, the final value in a cost-saving scenario should be divided between both parties in a licensing deal, i.e., benefit is shared between the two parties. In a real-life situation, however, the split is closer to 25-75%, based on the costs of the complementary assets needed to commercialize the technology.

##### *ii. Platform Technology*

The other set of technologies that is difficult to value includes Platform Technology, which is defined as a new area of science that has multiple market applications. The term

“platform” refers to the possibility of developing the technology into two stages. First, the basic working understanding of the technology is developed; once that is established, then, work is started on developing specific market applications.

Examples of platform technology include stem cells, superconductivity, and nanoparticles. In all of these examples, the development of a finished product depends on a basic understanding of related material science. This understanding might include novel ideas that are patented. Then, or at an earlier stage, an organization could patent different market applications from such materials.

A dilemma exists on how to conduct such a valuation. In fact, such a valuation is not difficult; however, appraisers create confusion by trying to lump both stages into one and then trying to arrive to a single number. In other words, they mix two different types of technologies into one valuation approach. In reality, there are two valuations: the first one calculates the value of the basic science, and the second values the market applications. Valuing basic science entails using Cost or Market approaches. As we have seen using a Royalty Rate approach, milestone payments are used in earlier stages of development to cover expenses and some profit. So, in the case of a platform technology, if a patent covers the basic science, then the Cost or the Market comparable approach should be applied in the valuation. If the technology is specific for a market application, then the Income/Probability approach is appropriate. If an organization has both parts of the platform technology, then two valuations must be done and then added with special care to ensure that one portion of the technology is not double-counted into another. This approach can be illustrated using stems cells as an example.

In Figure 1, we have outlined the mechanics of stem cell biology into eight steps, each of which has associated patents. But, in reality, this scheme could be grouped into two phases. Patented technologies re-

lated to steps 1 through 5 represent the development and enabling of the platform technology, while steps 6 through 8 present the implementation of the platform technology into specific market applications.

### Figure 1

The first step in valuing a platform technology is to define how it applies to each of these two phases. This will help the appraiser to decide on the best approach to calculate the value.

The first phase of the stem cell platform technology begins with a human egg, from which contents are removed. Then, a stem cell is inserted into the egg. Then, DNA from the skin cells of a patient is injected into the new progenitor cell and then those stems cells containing the DNA of the patient are allowed to grow. Up to this point, there are no market applications. So, for any patented technology on methods, tools, and procedures that apply to stem cells, it is necessary to measure the cost savings or the market value for such research versus using other comparables.

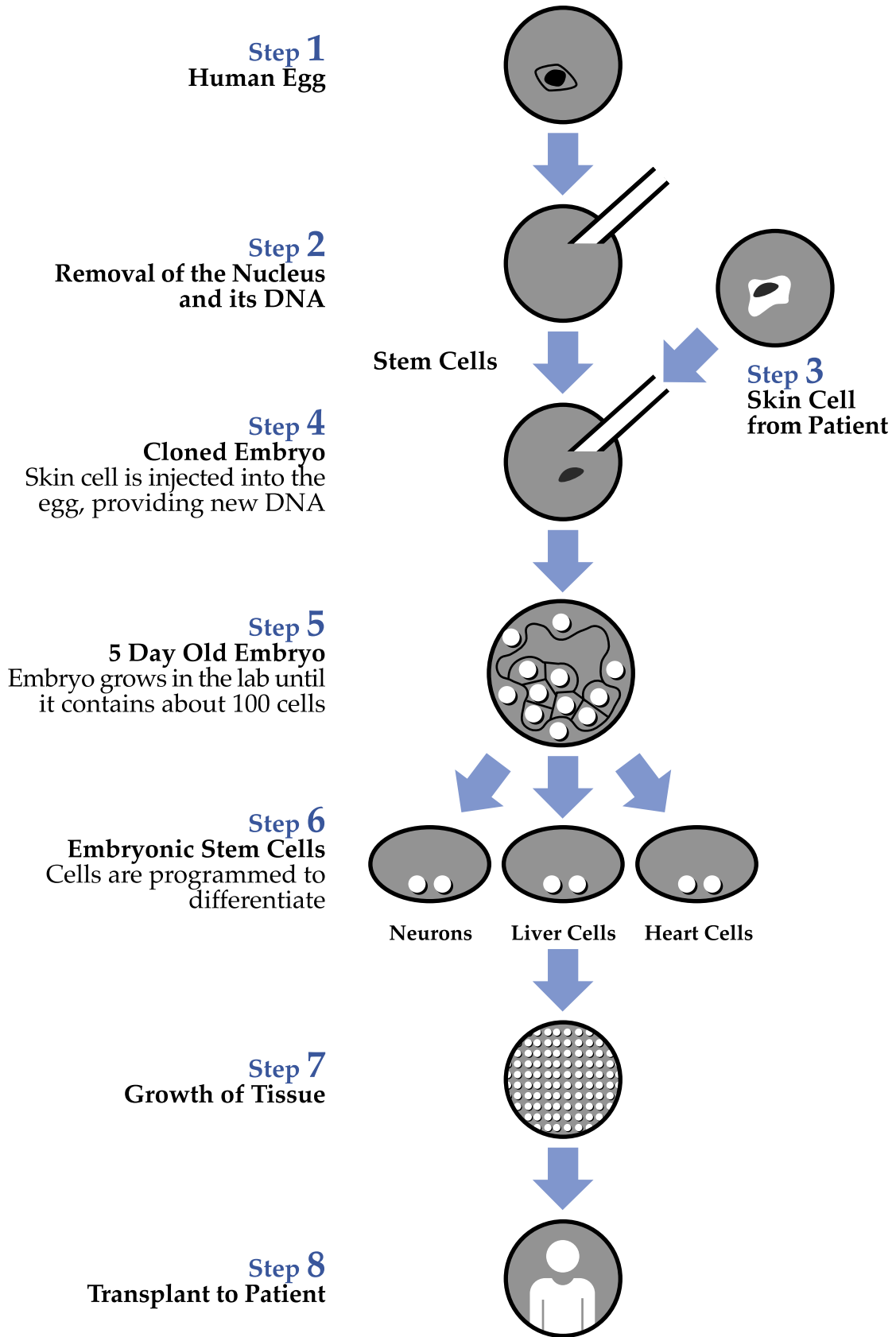
In the second phase, one can start examining the technology in terms of its impact on the patient, which translates to market applications. So, if the schematic (the stem cell process) is followed from step 5 onward, the technology begins to take shape. That is, in one scenario, the developing stem cells could be programmed to differentiate into neurons, which could be used for treating neurodegenerative diseases (such as Parkinson’s disease) or spinal cord injuries. In this case, the calculation would rely on the Income approach because a number of cases can be defined for each market. Then, one can calculate the revenue generated and the profit margins, resulting in a final calculation of the income that could be produced from transforming stem cells into neurons. Similarly, one can do the calculations for the differentiation of stem cells into liver cells and heart cells, which would have their own unique medical and market applications.

In summary, it is critical to under-

stand the basic concepts of valuations and then to design valuations so that they address the uniqueness of biopharmaceutical technologies.

Cost and Market Methods

Income Method



# Valuation Of Technological Intangible Assets



BY PIERRE BREESE\*

## Abstract

*From knowledge management to intangible asset creation*

The intangible economy is not a virtual economy. Know-how, information, knowledge, intellectual property: these terms cover different components of an organization's "cognitive property," the importance of which in the intangible economy is well-known. These components require new forms of "management" – with this term covering operation and strategy. They also require expertise with financial and legal tools to convert them into accounting "assets" and legal objects.

By giving them a legal form and organizing their ownership, they become a source of value for the business, quantifiable using objective and rigorous methods. The term "intangible assets" involves the rigorous organization of the ownership of rights, which involves strategic choices, particularly in groups of companies.

Financial valuation methods such as the updated future cash-flow method or the historical cost are used to establish an objective value, analytically to set a pivot price for transfers, investment or take-over mergers.

These methods may also be used to build financial management reports reflecting the progression of intangible property and completing conventional accounting indicators.

## The increasing importance of intangible assets

Economic agents, manufacturers and consumers, act, according to the neoclassic balance theory, in order to maximize

their personal benefit and use, in an environment characterized by uncertainty. Our economy is a market economy and some trends in its progression may be observed:

- globalization of trade,
- acceleration and toughening of competition modes,
- inter-sector technology distribution,
- increase in intangible assets,
- standardization of dominant technologies such as information technology, telecommunications and biotechnologies.

The increase in intangible assets is a recent phenomenon and, in order to incorporate it in business management, the development of new methodological tools is required.

As early as 1989 the French Economic and social council underlined its importance in its report<sup>1</sup> entitled "L'investissement intellectuel, facteur de modernisation de l'industrie française" (Intellectual investment, a factor in the modernisation of French industry). In this way, this report observes a multiplication by a factor of 1.4 to 1.8 of the proportion of intangible investment in relation to total investment, for all OECD countries. Other general indicators

prove the intangible investment is increasing at a higher rate than tangible investment.

The increase in intangible assets is particularly conveyed by the growth in the tertiary and quaternary sectors, which is essentially due to technological progress. The increasingly important role of information in productive sectors is particularly significant.

The productive assets of businesses are now composed less of buildings and machines and more of intellectual property rights and technical, commercial and organizational know-how. A study by the National Bureau of Economic Research<sup>2</sup> demonstrates the essential role of innovation in economic development, since, over the last century, the American Gross National Product has increased fourfold while the invested capital only increased threefold, the difference being explained by technological progress.

## The patent, right of ownership of capitalised technical knowledge

Intangible assets represent a set composed of very varied and disparate elements.

Firstly, intangible assets are not visible straightaway, making them difficult to determine. The very nature of intangible assets is at the root of our problems, the fact that they are nonphysical entities alters our scope for action.

From an economic viewpoint, intangible investment characterized by the absence of tangible consistency

1. Report presented on behalf of the French Economic and social council by Mr. H. BOUCHET-"L'investissement intellectuel, facteur de modernisation de l'industrie française" (Intellectual investment, a factor in the modernization of French industry)-Conseil économique et social-Sessions of 27 and 28 June 1989. Published in "Journal officiel du Conseil économique et social."

2. "Innovation & economic growth"- The journal of economics-National Bureau of Economic Research-1980.

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will be considered as an expense with no physical contra for which, in some cases, it is not even possible to convey the products obtained from this expenditure technically, not even in paper form. The same applies for training and sometimes the acquisition of know-how.

The definition of intangible assets will be different according to the vision adopted. Accountants refer to intangible assets but do not give them a real definition. Objects are considered according to the financial flow: however, this definition is not relevant since it observes an expense, and its contra is frequently invisible. It only takes a vague definition of intangible assets into account and if intangible investment is approached more specifically, accountants define it as all fixed assets other than tangible and financial assets. Therefore, its definition is not satisfactory.

In more operational terms, intangible assets appear to cover a set of concepts that contribute to a business's competitiveness: know-how, information, knowledge and intellectual property. These terms cover different components of an organization's "cognitive property," the importance of which in the intangible economy is well-known.

For legal specialists, these different components are distinguished clearly:

The right gives these cognitive components a financial reality to make them property attached to the business and justifying their economic incorporation in transactions.

### Valuation methods

Experts use three patent valuation methods based on research costs, on profits, or on updated future royalties.

#### A. Research cost or "historical cost" method

The value of the patent is equal to the total sum of research and development expenses incurred to complete the invention or make the patent application. It is calculated both for the know-how and the patent. We have already seen that the costs incurred to produce an asset do

not represent its market value. At the very most, the value determined in this way will enable the grantor to set a reasonable price threshold, since by selling at this price, the acquirer will not have to invest the same expenditure and obtain the same result after many years. However, an invention may sometimes have incurred costs higher than its value. Therefore, it will be necessary beforehand to meet certain conditions so this is not the case, in particular:

- the market for the product using the technology exists, and is not protected by barriers to entry;
- industrial operation proves to be possible, at a production and marketing cost level in line with that which the market is prepared to pay, taking competition into account. This industrial operation will not require disproportionate investments in relation to the expected profitability.

Once it has entered the public domain, a patent will be of no value since it can be used by anyone. However, know-how draws its value from secrecy, or at least its difficulty or the time required to obtain it. Medical research sometimes takes over 10 years of development, but its value is considerably greater than its cost in most cases.

Given that there does not appear to be a direct relationship between the cost and value of a patent or know-how, we will opt for a method based on the income generated from these assets.

#### B. Profit method

The patent is valued at 20 percent of the projected profits for the period covering its use.

$$V = 20\% \sum_{j=1}^n B_j$$

where,  $B_j$  = projected profits for the year  $j$ ,  $n$  = the planned number of years of use of the patent, which cannot exceed the maximum period of legal protection provided by the patent, i.e. 20 years from the application date. Note that  $n$  depends on the state of the art in the sector and its foreseeable progression which

could render the valued technology obsolete through competition.

The choice of the 20 percent coefficient is based on a distribution of future profits between the grantor and acquirer, who will take on the risks of future use. In this way, 20 percent is assigned to the grantor as a remuneration for their research work, 80 percent of the profits being allocated to the transferee who will generally need to use industrial operation and marketing resources for the product covered by the invention. This 20/80 distribution will vary according to the transfer conditions, and in this case of a patent already in commercial use, this ratio will increase considerably.

The future profit determination method remains vague and this simplistic method does not enlighten us on the essential parameters involved in its determination. No method produces systematic characteristics specific to the techniques, i.e. it may be contained in a document the importance of which is vital in the production of an asset. It may also represent an easily replaceable secondary element, and, in this case, its value does not systematically depend on the results obtained by the use of the overall product.

#### C. Updated future royalty method

This method is of great interest since it accounts for the patient's economic potential and the associated risks and uncertainties, on the date on which the valuation is carried out. It is conducted by updating the projected royalties paid for a license, calculated according to the expected turnover, weighted by a risk factor representing the resulting legal risks and technical and commercial risks.

In finance, risk is defined as the relative variability of expected income, i.e. the probability of seeing income vary upwards or downwards. There are many potential causes of variation which are difficult to measure, but they must be studied to represent the value more accurately. The formula is expressed as follows:

where:

$T_r$  = Royalty rate usually applied in the technical sector  
 $CA_i$  = projected turnover “ex works” for year  $i$   
 $\beta$  = Update rate resulting from risk analysis  
 $n$  = Update period, or project period of application of right  
 $R_j$  = Legal risk coefficient  
 $R_t$  = Technical and commercial risk coefficient

The application of the updated future royalty method includes three steps:

1. Determination of legal risks, in the form of an audit of the patent(s) and attribution of a coefficient representing the estimated level of risk. This work is conveyed by an argued report, enabling the acquirer to check the basis for the coefficients, and, if required, objectively discuss the risks for which a divergence is found. The technical and commercial risks are determined in relation to the progress of the project concerned by the patent.

2. Determination of economic potential, by analyzing the record of the use of the patent, and, failing this, using a market study.

3. Determination of financial parameters: update rate according to the risk summary, and royalty rate with reference to practices in the field in question.

### Determination of legal risks

Legal risk factors account for the uncertainties liable to affect the use of the patent. These uncertainties are quantified by a coefficient  $C_j$  determined after an analysis of the patent’s status with respect to the main risks:

- insufficient technical scope to prevent patent being bypassed
- limited territorial scope preventing effective control of certain markets
- weakness of intrinsic and extrinsic validity, liable to result in a rejection or cancellation of the patent
- questionable freedom of use, liable to give rise to disputes
- Know-how is defined as a “substantial and formalized set of knowledge that is not directly accessible.” It

only exists in a “legal” sense when the concept of formalization (in the form of a report, specifications, an operating manual, etc.) is presented, and it may be the subject of a transaction, for example in the form of know-how transfer agreement.

- Knowledge may be qualified as a precursor to know-how. It may become know-how by means of a formalization operation and “expertise compilation” methods developed elsewhere (MKSM, KOD, etc.)

- Information becomes knowledge when those skilled in the art attempt to understand to associate it with this knowledge (giving meaning to the information known)

The patent represents the final stage of formalization, provided that the validity conditions are regulated in a very detailed manner. Initially, the individual embodies the idea or technique, the right will represent the intangible object by means of a document, the patent, which, through its claims, defines the scope and limitations of this know-how in relation to other know-how. Embodied by a person, the invention cannot be used, except by its creator.

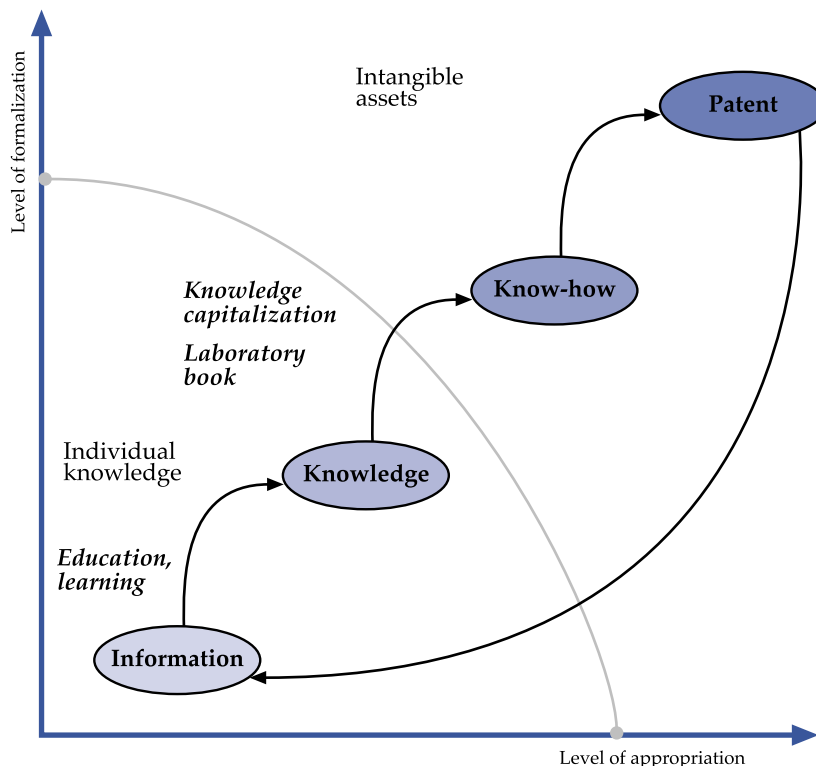
With the patent, it becomes accessible to others and thus gains in value, it is simply necessary to exchange it for the technique to be used and valued at another scale.

Each of these parameters is subject to arguments justifying the choice of coefficient. These arguments may be discussed when the report is presented.

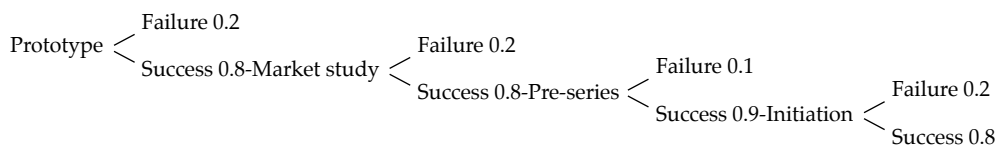
The determination of the technical risk coefficient is based on the life curve of the product covered by the invention under valuation. This life curve is broken down into four phases. Each phase is governed by the success of the previous phase:

- the initiation phase;
- the rapid growth phase;
- the operating phase (stabilized market share);
- the period of decline.

The legal and technical risk coefficients are then taken into account to determine the update rate. The update rate corresponds to the rate used to convert future currency into current currency. This rate accounts for the remuneration level that an invested sum would have yielded in



For example, the decision tree may have the following profile:



another type of risk-free investment (risk-free rate), for example treasury bills, and the risk related to the type of activity in which the investment is made. In this way, this rate must reflect the average level of risk of the sector, and not the level of risk specific to the business which purchases the right, since the aim is to value the asset and not the acquirer.

The data relating to the projected turnover is a result of extrapolating historical data if it exists, or an independent and objective market study. In the latter case, the update rate will

overwrite medium and long-term projections.

The updated future royalty method makes it possible to calculate an objective value, analytically and accounting for the prospects for use of the invention, influenced by the risk factors liable to hamper the operation of the patent at the time of the valuation. This method will be illustrated by a demonstration during the intervention.

### Conclusion: Financial impact of strategic patent management

The proposed valuation methods may also be used to build financial management reports reflecting the progression of intangible property and completing conventional accounting indicators.

A definite source of expenditure, and possibly of investment, the patent application policy takes on real meaning when it aims to create real assets for the business. In this perspective, valuation tools are essential to check the value of patents at a given time, and to monitor the

<b>Assignee</b>	XXXXXXXXXX	<b>Comments</b>
<b>Patent N°</b>	FR01/01 xxx du 19 xx 2001	This is an example of use of a simplified patent valuation tool, developed by the firm Breese Majerowicz. Case of a recent patent application, undergoing examination, and a product which has not yet been launched onto the market.
<b>Date</b>	21/09/2001	

LEGAL RISKS	Score between 0 and 10
Value the <b>technical scope</b> of your protection. Is it easy to bypass your patent? In this case the score will be close to 0. Is it a basic patent, on which all alternative embodiments and improvements will depend? In this case, the score will be close to 10.	<input type="text"/>
Value the <b>territorial scope</b> of your protection. Is your invention only protected in France? In this case, the score will be close to 0. Have you made extensions in countries in which the main manufacturers are located in the main markets? In this case, the score will be close to 10.	<input type="text"/>
Value the <b>intrinsic validity</b> of your protection. Is the disclosure brief? In this case, the score will be close to 0. Is the invention described fully? In this case, the score will be close to 10.	<input type="text"/>
Value the <b>extrinsic validity</b> of your protection. Do a large number of relevant priorities exist? In this case, the score will be close to 0. If the patents were issued by the European Patent Office, in Germany, Japan and the United States, the score will be close to 10.	<input type="text"/>
Value the <b>freedom of use</b> of your protection. Does the patent represent an improvement which cannot be used without the approval of a third party holding an older patent? In this case, the score will be close to 0. Can the patent be used without any risk of a third party claiming priority? The score will be close to 10.	<input type="text"/>

<b>State of progress of project</b> 1 - Idea, concept 2 - Prototype 3 - Market study • 4 - Pre-series 5 - Successful launch 6 - Operation	<b>Financial parameters</b> Specify the update rate corresponding to the capital payment that the acquirer could expect by investing the sum incurred to purchase the payment. <input style="width:80%;" type="text"/>  Specify the standard royalty rate in the field of the invention. <input style="width:80%;" type="text"/>	<b>RISK FACTOR</b> <input style="width:90%;" type="text" value="100.0%"/> Legal coeff. <input style="width:90%;" type="text" value="63.1%"/> Economic coeff. <input style="width:90%;" type="text" value="42.0%"/>
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2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	3900 Kecus	22,000 Kecus	46,000 Kecus	46,000 Kecus	60,000 Kecus	60,000 Kecus	60,000 Kecus	60,000 Kecus	60,000 Kecus
< >	< >	< >	< >	< >	< >	< >	< >	< >	< >

<b>Total updated royalties</b>	1,862 Kecus	<b>Value of patent</b>	493 Kecus
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# Swiss Law And Swiss Arbitration For International License Agreements: More Than The Myth Of Neutrality?



BY ANDREA MONDINI\*

**I**nternational license agreements should include a choice of law provision and either a jurisdiction clause or an arbitration clause. But why do e.g. a British licensor and a Japanese licensee agree on Swiss law and Swiss arbitration in their license agreement? Probably, because neither party wanted to be subject to the law and jurisdiction of the other party. Looking for a “neutral” legal system and seat of arbitration, Switzerland came to their mind when thinking of a neutral forum.

But is there more to Swiss law and Swiss arbitration than just the myth of neutrality? The answer is yes: Switzerland has a long tradition of serving as a favorite location for international arbitration. According to a statistic of the International Chamber of Commerce (ICC), for the year 2000 Switzerland was the most frequently chosen country as the place of arbitration under the auspices of the ICC. Additionally, Switzerland is one of the leading nations as to the nationality of arbitrators appointed in ICC arbitration cases; as a consequence, Swiss arbitration practitioners have developed a considerable expertise in acting as arbitrators and in representing parties in international arbitration cases. Besides its long-standing historical tradition of neutrality, there are numerous further reasons why Switzerland is a popular venue for arbitration: its central geographical location; its well-developed and pragmatic legal system; its multicultural and multilingual society; the reliability and high standards of public services and infrastructure; and the enactment of one of the most modern and liberal laws on international arbitration.

This article briefly explores the

main principles of Swiss arbitration law and of Swiss licensing law.

## Swiss Arbitration Law

In light of the increasing importance of international arbitration, Switzerland enacted in Chapter 12 of the Swiss Private International Law Act (“PILA”) a modern set of rules governing international arbitration. This set of rules applies to all international arbitrations conducted in Switzerland, provided that the seat of the arbitral tribunal is in Switzerland.

Chapter 12 PILA provides the fundamental framework to ensure a proper constitution and functioning of arbitral tribunals. At the same time, it leaves open a very large degree of flexibility so as to accommodate the various legal and procedural cultures of the parties involved. Disputes arising out of license agreements are arbitrable in Switzerland just like any other dispute involving pecuniary interests (Article 177 PILA).

Chapter 12 PILA applies both to institutional arbitration (i.e. arbitration conducted under the auspices of an institution, such as the various chambers of commerce, ICC and LCIA) as well as to ad hoc arbitration (i.e. arbitration not administered by an arbitral institution).

## The arbitration clause

With respect to the formal requirements, Swiss law requires only that the arbitration clause be made in writing, by telegram, telex, telefax, or any other means of communication allowing the agreement to be evidenced by a text. Neither a signature nor an exchange of documents is required. Furthermore, an arbitration clause is deemed valid

if it conforms to the law chosen by the parties, or the law governing the subject matter of the dispute, or to Swiss law. This provision reflects the principle of *in favorem validitatis*, i.e. the policy of favoring the validity of an agreement to arbitrate. The validity of an arbitration clause may not be contested on the ground that the main contract, of which the arbitration clause is a part, may not be valid.

## Appointment of arbitrators

The arbitral tribunal is appointed pursuant to the parties’ arbitration clause. Where such clause refers to particular institutional arbitration rules, these rules will apply. If a party does not cooperate in appointing the arbitrators, the other party may request the assistance of the state court located at the seat of the tribunal. The same court may be called upon in the case of a dispute regarding the challenge of an arbitrator. Therefore, it is important to specify in the arbitration clause the city in which the arbitral tribunal will have its seat.

## Procedure

An arbitral tribunal has the authority to decide on its own jurisdiction. On the merits, the arbitral tribunal must decide the dispute according to the law chosen by the parties or, in the absence of such a choice, according to the law with which the case has the closest connection.

Preliminary or interim injunctions are often crucial in licensing

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disputes: absent an agreement to the contrary between the parties, each party has the option to request such preliminary injunctions either from the competent state court or from the arbitral tribunal. Under Swiss arbitration law, arbitral tribunals have the power to grant interim relief and its orders are binding on the parties.

Once the arbitral tribunal has been constituted, a suitable procedure and a timetable is established. In Swiss arbitration, the parties and the arbitral tribunal are free to determine the procedural rules suitable to an efficient resolution of their specific dispute, without being bound to domestic codes of civil procedure applicable before state courts. Usually, the arbitral tribunal directs the parties to file a single or double exchange of briefs containing a detailed statement of the relevant facts and the documents relied on, as well as a discussion of the issues of law. Discovery of documents is granted in exceptional circumstances only, and to a limited extent only. Upon completion of the exchange of briefs, arbitral tribunals often direct the parties to file witness statements. At a subsequent hearing, the witnesses may be examined by the arbitrators and by the parties. Post-hearing briefs or final oral arguments are often provided for at the end of the final hearing.

### Arbitral awards

Arbitral awards are final and enforceable upon notification to the parties. Article 190(2) PILA provides that an arbitral award may be set aside only on five limited grounds: (a) if the arbitral tribunal was improperly constituted; (b) if the arbitral tribunal wrongly accepted or declined jurisdiction; (c) if the arbitral tribunal decided points which were not submitted to it, or failed to decide on filed requests; (d) if the arbitral tribunal violated the principle of equal treatment of the parties or the right to be heard; or (e) if the award is contrary to public policy. Such a challenge goes directly to the Swiss Federal Supreme Court (the highest court in Switzerland), thus bypassing the domestic chain of appeals.

An arbitral award will not be set aside on the basis of incorrect find-

ings of fact or errors of law. Broadly speaking, the Swiss Federal Supreme Court will only set aside an arbitral award due to severe violations of due process or a clear violation of public policy. As a result, challenges of arbitral awards are rarely successful in Switzerland. If none of the parties to an arbitration agreement is domiciled in Switzerland, the parties may even agree to exclude completely any and all action to set aside the award.

### Arbitration Rules of Chambers of Commerce

Most of the larger Swiss cities have local chambers of commerce which issue arbitration rules and provide administrative services to facilitate arbitration. Such arbitration rules have been issued, for instance, by the chambers of commerce of Basle, Bern, Geneva, Lugano, Vaud (Lausanne) and Zurich. Among these rules, those of the Zurich Chamber of Commerce ("ZCC") and the Geneva Chamber of Commerce and Industry ("CCIG") are the most widely used. Both Chambers offer all necessary assistance for the organization and the conduct of arbitral proceedings. The involvement of these Chambers is particularly useful in connection with the appointment of arbitrators. Also, institutional arbitration under the auspices of these Chambers provides the parties with a useful framework with which many Swiss practitioners are familiar and with fee schedules enabling all parties involved better to foresee the costs of arbitration. The costs are usually assessed on the basis of the difficulty of the case, the time spent by the arbitrators, the qualifications required from the arbitrators and the amount in dispute.

Arbitration rules as well as the wording for the standard arbitration clauses of these Chambers can be ordered at:

*Zurich Chamber of Commerce, Bleicherweg 5, P.O. Box 4031, CH-8022 Zurich, Tel. +41 1 221 07 37, Fax. + 41 1 211 76 15; Internet: <www.zurichcci.ch> and:*

*Chamber of Commerce and Industry of Geneva, P.O. Box 5039, CH-1204 Geneva, Tel. +41 22 819 91 11,*

*Fax. +41 22 819 91 00, Internet: <www.ccig.ch>*

### Enforcement

Awards rendered by arbitral tribunals with seat in Switzerland are enforceable in over 120 countries, including virtually all industrialized countries, based on the New York Convention on Enforcement of Awards of 1958. Under the New York Convention, the enforcement of arbitral awards may be denied under limited grounds only. A review on the merits is excluded.

### Swiss Licensing Law

#### General principles

Under Swiss Law, license agreements (like almost all other contracts) are governed mainly by the Swiss Code of Obligations ("CO"). Generally speaking, Swiss licensing law is very liberal and contains few mandatory provisions only, thus leaving it primarily up to the parties to determine their contractual rights and obligations. A mandatory rule is the right to terminate a license with immediate effect for just cause, i.e. when the relationship of trust between the parties is destroyed and, therefore, it would be intolerable under principles of good faith to insist on continuation of the contractual relationship until the end of the term of the agreement or until expiration of the contractual termination period.

No specific formal requirements exist under Swiss law with regard to the conclusion of license agreements. Neither a signature nor any other formality is required. Although in practice most license agreements provide for royalty payment, there is no requirement that a consideration be provided for. From a contractual point of view, the parties are entirely free to determine the royalty rate and royalty mechanism like, e.g. running royalties, lump sum royalties etc. (tax law aspects, however, should be checked).

If the intellectual property right which is the object of the license agreement (e.g. the licensed patent or trademark) is invalidated, the license agreement is deemed to be null and void as well (Art. 20 CO).

However, according to decisions of the Swiss Federal Supreme Court, the licensee is barred from claiming a refund of the royalties he already paid under the license agreement in reliance of the validity of the licensed intellectual property right.

### Foreign competition laws

Because Switzerland is not member of the European Union, a choice of Swiss law does not per se encompass EU competition law. However, parties cannot avoid EU competition law by resorting to Swiss law and/or Swiss arbitration.

In fact, even where the parties chose Swiss law to govern their license agreement, mandatory foreign laws, including competition laws, may have to be applied by Swiss courts and also by Swiss arbitral tribunals (Art. 19 and Art. 137 par. 1 PILA). The Swiss Federal Supreme Court decided in 1992 that an arbitral tribunal sitting in Switzerland not only has the authority but also a duty to scrutinize a contract which has effects on the EU market in respect of its compatibility with EU competition law (Decision of the Federal Court 118 II 193). Moreover, a judgment rendered on June 1, 1999 by the European Court of Justice (C-125/97 Benetton) held that the

omission by an arbitral tribunal to take into account EU antitrust law constitutes a ground for annulment of the arbitration award for failure to observe public policy, even if neither the parties nor the arbitrators had raised such antitrust issues in the course of the arbitration proceedings. Although not directly binding on a Swiss arbitral tribunal, this judgment certainly has a persuasive effect.

Therefore, irrespective of a choice of Swiss law and/or Swiss arbitration, when drafting a license agreement having effects on the EU market, the parties should make sure that their agreement complies with EU competition law.

### Conclusion

Beyond the myth of neutrality, Swiss arbitration law and Swiss licensing law are liberal and well-developed, and are thus often provided for in international license agreements. However, parties should keep in mind that foreign competition laws cannot be avoided by simply resorting to Swiss law and/or Swiss arbitration.

# Pending Changes Of The German Employees' Invention Law – The Impact On University Inventions



BY HEINZ GODDAR\*

## 1. Ownership of Employees' Inventions in Germany

### 1.1. Principles and Historical Background

Before licensing any intellectual property rights, obviously it must be made certain that the respective inventions really are owned by the party wishing to grant rights resulting therefrom. Of specific importance is that in Germany very peculiar rules exist, binding and not being able to be excluded by employment agreements, which employers must follow in order to get ownership of inventions.

Whilst in many, if not most other countries, worldwide as well as in Europe, employers and employees can determine by employment contract, usually to be freely agreed, whether inventions made by the employee in the course of his employment under certain provisions become the property of the employer, in most instances even without any specific remuneration of considerable amount for the employee. The legal situation in Germany is totally different. German Law, particularly the so-called "Law relating to Inventions made by Employees," in the following designated as "The Law," unavoidably and bindingly determines that inventions made by employees first of all belong to them, and only by a special act and against a special remuneration can become the property of the employer.

To understand this, the historical background is of assistance. In 1936, the German Patent Law introduced the principle that the right and title to an invention first of all belongs to the inventor, whilst until then in case of inventions created in companies' one had assumed that inventions could be created by legal entities

by themselves, e.g. in cases where whole departments etc., consisting of many individuals, had contributed to the invention. What The Law, at that time, did not say was how the property of the invention could go over from the employee to the employer. Then, in 1942, the famous "Göring-Speer-Verordnung" issued, named after Hermann Göring and Albert Speer, two ministers of the German Government responsible for increasing the output of German industry in relation to materials important for World War II. The purpose of the Göring-Speer-Verordnung was to encourage inventors not only to make inventions, but also to notify those inventions to the employer as soon as possible, so that the employing company could make use of the inventions, possibly in a sense favorable for the interest of the German Government in winning the war. In order to stipulate the interest of the inventors, the principle of a specific remuneration for inventions made by employees was introduced.

Based on the principles of the Göring-Speer-Verordnung, in 1957 a more detailed and sophisticated Act issued, namely The Law discussed above, which retained the principles as outlined in the Göring-Speer-Verordnung as its base, i.e. initial private ownership of any invention made by employees by the respective employee, transfer of the property to the employer by specific, individual assignment act, and specific remuneration for the inventor.

On November 30, 2001, the German parliament issued a new law concerning inventions made at universities, eliminating the so-called "professors' privilege", which will

be explained in more detail later on, with practically immediate effect.

Further changes of The Law are in the legislative process, aiming, in particular, to a) the possibility to make inventions of employees directly and automatically becoming the property of the employer after notification of such inventions to the employer, and replacing the former system of rather sophisticated calculation of remunerations for inventors by a staggered system of lump sum payments.

### 1.2. Employees' Inventions

The Law, in its present form, has to do with inventions made by employees. Accordingly, one has to determine first what, in the sense of The Law, is an invention, furthermore, what is an employee, and finally, what kind of inventions made by employees are subject of the provisions of The Law.

#### 1.2.1. Definition of Invention

Inventions in the sense of The Law are only technical inventions which in principle can be protected under German Law by a patent or by a utility model, the latter in this sense and for the purpose of this paper being considered as a kind of a patent (for small inventions). The Law is not related to other creations of employees, which may be protected by design, copyright etc., and accordingly creations of the aforementioned kind are not subject of the binding regulations of The Law. This has the consequence that, as far as e.g. copyright creations are concerned,

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by employment contract in advance employee and employer can agree that the rights in relation to all such creations made by the employee during the course of its employment with factual effect belong to the employer, without any specific remuneration etc. Such agreements can not be made, as already mentioned under 1., in relation to technical inventions protectable, in a strict sense, by either patent or utility model.

### 1.2.2. Definition of Employee

Only such inventions are ruled by The Law which are made by employees. Employees are persons employed by an employer in the sense of German Labour Law and jurisdiction. It is, in view of the summarizing character of this paper, difficult to define positively what an employee in this sense is under German Law, but negatively one can say that e.g. representatives of legal entities, like managing directors of companies, i.e. all persons which have a employer-like position, are not employees, so that The Law does not apply to inventions made by such persons. The consequence is that e.g. by the appointment agreement for a managing director of a certain company it can be agreed between the company and the managing director, totally different from inventions made by employees, that inventions made by the managing director belong to the company with factual effect from the time of their creation; even the remuneration question can be fully anticipated, e.g. by agreeing that no specific remunerations should be paid.

Also, if the employment is not under German Law, particularly in all instances where one party, namely either the employee or the employer, are not of German nationality and residence, respectively, by employment contract it can be regulated that the legal provisions, as far as inventions made by the employee are concerned, of the respective foreign country are used. In case of carefully drafted employment contracts in such instances of foreign-related employment contracts the consequences of The Law, which sometimes particularly foreign companies do not consider as specifi-

cally advantageous in Germany, can be circumvented.

Specific Aspects of The Law relating to inventions made in public service, and particularly by universities, have to be taken into due consideration.

Insofar, The Law provides for inventions made by “normal“ employees in public service, like scientists, essentially to be handled in a similar manner as in case of employees in private practice. Par. 42 of The Law in its already revised form, however, provides for inventions made by professors and assistants, as well as of any other employees of universities, to be “normal” inventions, too, i.e. in principle “belonging” to universities in the sense that they can be acquired, according to mechanism as provided in The Law, by universities.

### 1.2.3. Service Inventions and Free Inventions

Not all inventions made by employees, even employees in private practice, are subject of The Law. Rather The Law makes a distinction between so-called service inventions, namely a kind of invention which is bindingly regulated by The Law, and free inventions.

Service Inventions are such inventions which either originate from the regular work of the employee which he is doing in a company because of his employment contract, e.g. when a chemist working in research and development of a pharmaceutical company invents a new pharmaceutical, or which essentially is based upon experiences of the company. All other inventions are free inventions, e.g. in a case when the aforementioned research chemist of the pharmaceutical company invents a new musical instrument. It does not matter, however, to give another example, whether the aforementioned research chemist makes the invention during his working hours in the company or at home during the weekend, as long as the aforementioned conditions, namely either originating from the work of the inventor or essentially based on the experiences of the company, are fulfilled.

When talking about “inventions” in

the following, in connection with The Law, usually “service inventions” are meant, if not otherwise stated.

### 1.3. Obligations of Employee after Invention - Private Practice

Whenever a “normal” employee, whether in private practice or in public service, has made an invention, certain duties must be fulfilled in relation to the employer, depending upon the character of the invention.

In case of service inventions, the employee has the duty immediately and completely to notify any such invention made by it to the employer in writing. At that time, the invention is still the property of the employee, and also by the notification to the employer the property and title in the invention do not change. The notification must be complete i.e. must enable the employer to get knowledge of the invention, including the state of the art on which the invention is based, the problem which is solved by the invention, the solution proposed by the invention, the contribution of the internal knowledge inside the company to the creation of the invention, and also the contribution of possible co-inventors.

In case of free inventions, or of inventions from which the inventor believes that they are free inventions, the employee has to inform the employer in a manner which enables the employer to make up its own mind whether the respective invention is a free or a service invention. Such information is not necessary, however, if it is obvious that the invention is of no interest to the employer, an example being the musical instrument mentioned above.

### 1.4. Acquisition of Ownership by Employer - Private Practice

After receipt of a notification of a Service Invention or information of a free invention in accordance with 1.3., such information of the employer by the employee having to be in writing, the employer has a term of two months to object to the notification because of incompleteness, for instance, when the employer cannot see, in case of several co-inventors,

what the personal contributions in percentages of the various inventors are, and of two months in case of an information relating to a free invention to object to the character of the invention as being “free,” rather to consider it as service invention.

If the employer, within the aforementioned term of three months, does not object to the declaration of the inventor that the respective invention is a free invention, the employer has no possibility anymore to get hold of the invention, rather the employee can dispose of it freely, e.g. sell it to third parties, etc.

If the employer gives a declaration of incompleteness to the inventor in case of the notification of a service invention, the employer for the time being has not to observe any further terms, other than to wait until a completed notification of invention is made by the respective employee, in which case the aforementioned term of two months for objecting to completeness begins again, giving the employer again the opportunity to object to the completeness of the invention should the new, revised notification not yet be complete.

As soon as the employer for the first time does not notify the employee, in case of a service invention, within the aforementioned two months term of any incompleteness of the notification of invention, retroactively from the date of receipt of the notification of invention or its last completion, respectively, a four month term begins during which the employer has the possibility to get certain rights in the invention or to lose them finally, as explained in the following.

One of the possibilities the employer has during the aforementioned binding four months term is to declare to the employee, unrestricted claiming of the invention. By this unilateral act of the employer with factual effect the property of the invention goes to the employer, and from that moment onwards the invention no longer belongs to the employee, but to the employer.

Usually, most service inventions are handled in this manner, because the aforementioned unrestricted claim is

the only possibility of the employer to get full hold of an invention and to prevent the inventor from being left with any right giving the inventor the possibility independently to make use of the invention, e.g. by licensing out to third parties etc.

Another possibility, often used by employers when they believe that the respective invention is not important enough for the company to be unrestrictedly claimed, is that the employer declares a limited claiming of the invention. This limited claiming has the effect that the property of the invention remains with the employee, that the employee has the right to protect the invention e.g. by a patent application at its own cost and in its own name, and that the employee is entitled to make use of the invention by e.g. licensing it out to a third party. In such cases, however, the employer by its limited claiming of the invention has the right non-exclusively to use the invention should the employer come to the decision in the future that such use for the employer’s company would be useful. The advantage of such limited claiming is, as far as the employer is concerned, that no costs for patent protection etc. must be borne by the employer; the negative effect is, of course, that the employer, because of lack of full ownership of the invention, cannot prevent third parties, like competitors, from using the invention, should its employee decide to make use of the invention in such a sense.

If, finally, the employer does not react within the above mentioned four month term, the invention becomes free, and this has the same effect as if the employer within the four month term would explicitly declare to the employee that the invention should be free. Such a released invention, whether by explicit declaration by the employer or factually, remains the sole property of the employee. The employee can sell the invention, license it out, and there are no remaining rights of the employer in relation to such an invention. Obviously, the employer will make use of this possibility only in cases where it is absolutely sure that either the

invention is not patentable at all or the invention is totally useless for the employer.

It should be noted, in this regard, that the employer cannot avoid to make a choice between unrestricted claiming, limited claiming, and factual or explicit release by stating to the employee that it does not consider the invention as being patentable. In such a case, the employer has the possibility to run the risk of release, as mentioned above.

### **1.5. Inventions made by University Employees - Old Law**

The “old law”, still applicable to inventions made by university employees before December 31, 2001, and, in special cases of inventions made by university professors, assistants and lecturers, before December 31, 2002, as will be explained in more detail below, differentiates between inventions made by “normal” employees in public service, and professors/assistants/lecturers.

There are important exemptions, however, namely essentially as follows:

First, instead of claiming the service invention and therefore by unilateral act transferring the ownership of the invention from the employee to the employer, e.g. a university or a research institute, in a prearranged manner, even by employment contract, the employer can renounce its right to acquire ownership and instead agree on a reasonable participation of the employer, e.g. the university, in the profit made by the employee when exploiting the invention. In other words, by employment agreement the university can make sure that the employee remains the owner of all inventions made, but has to contribute e.g. 20% of any royalty income, just as an example, to the university.

The aforementioned provision of The Law in accordance with par. 40 is particularly important in case of cooperations between universities and private sponsors, since in such cases, as the reader certainly will know, the sponsor usually wishes to get as much as possible ownership of any inventions resulting from such

cooperation, and at least this is the case in Germany. The aforementioned arrangement makes it possible to get, through the flexibility of The Law, to solutions which are acceptable for all of universities, sponsors, and the employees of universities.

As a second, important deviation from the regulation of inventions made in private service, par. 40 of The Law provides for the possibility that the employee, making an invention and remaining owner thereof because of the above mentioned arrangements, may be prevented by instruction of the university, the Ministry of Science or the like (in any case, according to German public service law, the "highest" authority ruling the respective job) from using the invention in certain manners, if this is in the "public interest." As an example, an employee working in defence related matters might be prevented from using such inventions by licensing to companies in certain third countries, even in cases where such inventions would not become subject of a secrecy order of the Patent Office and the Ministry of Defence anyway.

Just to complete the question of "normal" employees in public service, the aforementioned regulations essentially also relate to inventions made by "normal" public servants and soldiers, though the latter fact may not be of such great interest in the context of this paper.

Par. 42 of the "Old Law" provided for inventions of professors, lecturers and scientific assistants to be free, i.e. all such inventions were not subject to the restricting regulations of The Law as far as ownership and evaluation of inventions by employees, whether in private or in public service, are concerned. The aforementioned regulation privileged the aforementioned group of persons to a high extent and was the basis for most of the co-operations between university institutes and private sponsors, in order to create "independent" inventions in the sense that the sponsor could get hold thereof.

As a matter of course, professors only could use the aforementioned provisions fully if they made sure

that no other "normal" employees of the university were involved in the coming into existence of inventions of the kind in question. Very often this was done by making sure that contributions to the invention only came from students, postgraduate scholars etc., all of whom do not get into a regular employment arrangement with the university and the professor, respectively, rather only into a kind of private nonemployment, but sponsored semi-tutorship under the respective professor.

If it was not avoidable that the university professor etc. made use of "normal" employees in public service, e. g. of the university, including public servants, the above mentioned flexibilities of the Old Law had to be taken into consideration, namely with regard to participation of the universities etc. in the profits made out of such inventions.

It should be duly noted, however, that par. 42 of the "Old Law" even in cases of inventions made by professors etc., gave the possibility that the university, in a case where specific university means were used for the coming into existence of the respective invention, might participate in the profit achieved by the professor etc.

According to the personal experience of the author, however, in most instances the aforementioned possibilities of universities to participate in the profit made by "normal" employees, public servants and professor, practically never were used.

### **1.7. University Inventions - New Law**

The new Law, by the revision of particularly par. 42 of the Law, in accordance with the decision of the German parliament of November 30, 2001, has given up, first of all, the distinction between inventions made at universities by "normal" employees, like workers, scientific personnel of a "non-professor" nature etc., and those of professors/assistants/lecturers.

All inventions made by employees at universities are covered by the Law, including those made by professors, assistants and lectur-

ers, in the following just designated as "professors," in other words, the so-called "Professors' Privilege" has been deleted.

Also the new Law, however, does not cover inventions made by "non-employees" at universities, like students, scholars etc., so that in these cases special regulations will have to be found on a contractual basis between professors, universities, sponsors, etc.

All inventions made by university employees, including professors, will now have to be notified to the university, but only if the inventor intends and is in agreement with, respectively, publication of her/his invention. If the inventor does not wish to publish, like e.g. in cases where he/she considers a publication as detrimental for public security, health, morality considerations etc., there is no duty to notify the invention to the university.

Two months after the notification of the invention to the university the inventor is entitled to publish the respective invention.

Within the normal "claiming" term, i.e. up to four months after the notification of the invention has been received by the university, the university can unrestrictedly claim the invention and therefore acquire ownership thereof, like in private practice.

Factually, however, the aforementioned four month term which otherwise in private industry is available for a decision whether to claim an invention and patent it or not for universities is restricted to two months, because of the regulation that the inventor "regularly" may publish two months after his notifying of the invention to the university. That means, in practice, that universities that wish to patent inventions made by employees, like professors, will only have two months time for this decision process, including formulation of a patent application and depositing it at a patent office, e.g. the German or the European Patent Office!

If the university has claimed the invention and thereby has acquired

property thereof, and if the university later on uses the invention e.g. by selling it or licensing it out, the inventor is entitled to 30% of the brut (gross) income, like royalty income, of the university.

The new law applies to all inventions, as already said, made by university employees after February 6, 2002. If carriers of the former Professors' Privilege, however, because of existing contracts concluded with private cooperation partners, like industry companies, before the coming into force of the new law, i.e. before February 6, 2002, are obliged to transfer their obligations, as it formerly was usually the practice in Germany, to the cooperation partner. The Professors' Privilege for such inventions is extended to be applicable until February 6, 2003. Inventions made from February 7, 2002, until February 6, 2003, in other words, are still subject to the Professors' Privilege, if the aforementioned conditions are fulfilled. Even if existing agreements provide differently, however, inventions made after February 6, 2003, by professors will be subject to the new law, i.e. the universities will also in these cases have the possibility to acquire ownership of such inventions by claiming, with the remuneration consequences as discussed above.

### **1.8. Future changes of the German law**

According to a pending draft law concerning a more drastic and general reform of The Law, dramatic changes, also for private practice, will take place, namely as follows:

a) No claiming of the invention will be necessary anymore in order to obtain ownership thereof by the employer, including universities, rather after notification such an invention belongs to the university.

b) Remunerations are no longer calculated in a more or less sophisticated manner based on actual use of the invention by the employer, like by well-known license analogy principles, rather fixed amounts will have to be paid in a "staggered" form. A first amount, probably about US \$1,000, will have to be paid shortly

after notification. A second amount, of e.g. US \$2,000, will have to be paid at the time of starting commercial use of the invention. In case of particularly high turnovers obtained by the invention, further fixed lump-sum payments will have to be made, in accordance with certain turnover thresholds met.

The aforementioned general reform is still under heavy discussion in Germany. For the time being it cannot be foreseen yet in which form the new law will become applicable.

## **2. Conclusions**

With all probability, the revision of the law which has already taken place in Germany, ending nearly 60 years of the Professors' Privilege, will lead to the result that all inventions made at universities in future will become available to the university for evaluation. For this purpose, universities in Germany now will be provided with full-staffed intellectual asset management offices, like we have known for many years from e.g. U.S. universities. In Germany, departments of this kind had very little to do in the past, because the most valuable inventions, made by professors, went out of the universities' hands by private cooperation agreements, as already discussed above. In the future, all this will be over. Private industry will have to negotiate with universities in order to get hold, e.g. by licensing, of university based inventions, even if the cooperation partners of the industry company are professors, with whom otherwise a more or less "private" deal had been made in the past.

Also, the very high remuneration of university inventors, namely 30% of the brut e.g. royalty income of the universities, probably will lead to the result that many more university inventions are notified to the universities, the latter taking care of all patent application and evaluation procedures etc. The remuneration will be distinctly higher than in private industry, at least as soon as the above mentioned further reform of The Law will take place, which may be considered by jurisdiction in Germany as a balancing against the

disadvantages which the professors at universities will have to suffer by losing their Professors' Privilege. The latter question, however, might still lead to interesting constitution law discussions, because professors in Germany have considered their Professors' Privilege always as a part of their "deal" with government, i.e. practically part of their consti-

# Andean Outlook

A recurring feature  
by Natalia Tobón of Cavelier Abogados

*A review and commentary on recent developments in the law of the Andean Community (Columbia, Venezuela, Ecuador, Perú and Bolivia) that relate to the field of licensing.*



## Licenses In Columbia: Legal Regime And Late Developments

**A** license agreement is the instrument through which a party called licensor, owner of a right in an intangible asset, grants to another party, called the licensee, rights to exploit, use or manufacture the intangible asset.

The Colombian legislation distinguishes corporeal or tangible assets from incorporeal or intangible assets. The former are goods perceivable by the senses, such as a house or a book, while intangibles cannot be so perceived, which is the case of, for example, industrial property rights.

In Colombia, where the regulation of these topics is very similar to the regulation in other Andean Community countries (Bolivia, Ecuador, Peru and Venezuela) the following industrial property rights may be licensed:

- Trademarks and service trademarks
- Industrial designs
- Patents of invention
- Utility models
- Layout-designs for integrated circuits
- Trade names, emblems and slogans
- Copyright in literary, artistic and musical works
- Computer programs
- Neighboring copyrights
- Domain names (Internet addresses)
- Know-how
- Trade secrets

Usually, the licensee benefits from the manufacture or use of an intangible the success of which has already been proven in the market.

In this sense, mark licensing enables the identification of the products manufactured by the licensee with a mark belonging to a third party and having good commercial repute and representation.

Patent or know-how licensing enables the licensee to incorporate inventions or technical procedures originally of others in the manufacturing of his products.

Computer program licensing enables the licensee to install the program in his computer hard drive so it can

carry out certain specific functions.

Licensors may derive the following benefits:

- Additional income from intangible assets in the nature of royalties.
- Protection of industrial property rights against possible litigations for nonuse.
- Ready compliance with the international exchange laws when transferring money abroad.
- Access for their goods or services to other markets.

Before subscribing a licensing agreement, the following should be considered:

- The financial standing and expertise of the other party to the agreement.
- That the intellectual property intended to be licensed is properly protected.
- That the terms and usages of the intellectual property rights are clearly and precisely negotiated.
- That all the industrial property rights involved are clearly defined, if possible in a separate Exhibit attached to the contract.
- Specification as to whether royalty payments will be due to the owner of intellectual property rights for their use.
- That the termination clauses for the agreement are established, considering as many events as possible.
- That an efficient and secure procedure for settling disputes between the parties is clearly specified.

In Colombia the following clauses cannot be included in licensing agreements:

- Clauses demanding the purchase of a determined technology.
- Clauses enabling the licensor to set product prices.
- Clauses restricting production volume or structure.
- Clauses prohibiting the use of competitors' technology.
- Clauses providing a partial or total call option favoring the technology seller.
- Clauses compelling the technology buyer to transfer inventions or improvements obtained from the use of such technology to seller.
- Clauses requiring royalty payment for the licensing of expired marks or patents.

## 1. Legal Framework

Licensing agreements are regulated in Colombia by the following decisions and laws:

- Decision 486 of the Andean Community
- Decision 351 of the Andean Community
- Decision 291 of the Andean Community
- Law 155 of 1959 and Decree 2153 of 1992 on trading practices that hinder free competition

## 2. Licensing agreements over industrial property rights not registered in Colombia

It is possible to enter into license agreements referring to industrial property rights not registered in Colombia. In the case of marks, patents, utility models, industrial designs and integrated circuit layout designs, Colombian law requires only that either the respective registration or the right be previously requested for their licensing.

## 3. Legal requirements for licensing agreements

The licensing agreement must be in writing for recordal purposes. The recordal depends on the type of contract.

International technical assistance, technical service, basic engineering and technology licensing or transfer agreements must be recorded before the Ministry of Foreign Trade.

Agreements that include industrial property rights must be recorded before the Superintendence of Industry and Commerce.

Agreements between national companies are to be recorded only before the Superintendence of Industry and Commerce.

Licensing agreements on artistic, literary works, neighboring rights and computer programs must be recorded at the Copyright Office.

## 4. Consequences of failure to register a licensing agreement in Colombia

- The agreement will not be enforceable against third parties, particularly in litigation cases.
- The mark may be cancelled for lack of use.
- The licensor will not benefit from tax exemptions in the event of transferring money abroad.
- The opposing party in a litigation may question the validity of the agreement.

## 5. Late developments in licensing

The Superintendence of Industry and Commerce is the entity responsible for solving consultations on licensing issues in Colombia.

Below we include the most recent decisions made by the Superintendence, such that those who may be interested in conducting businesses in Colombia can know the position of the entity in this field.

### a. Opinion 01405270 of June 26, 2001

*Thesis:*

Those who may wish to use a trademark previously registered in Colombia must execute a license agreement

with the owner of the mark.

The term of a license agreement shall not exceed the validity of the trademark registration, and the agreement shall be recorded for this term or for the term specified in the agreement, which may never exceed the validity of the registration.

Regarding the use of works protected by copyright, the National Copyright Directorate grants the authorization for each form of exploitation.

*Legal Grounds:*

Article 162 of Decision 486 of the Commission of the Andean Community provides for that “the proprietor of a trademark registered or applied for may grant a license to one or more third parties to exploit the mark.”

“All licenses for use of trademarks shall be registered with the national competent office. Failure to register shall cause that the license not be enforceable against third parties.”

### b. Opinion 01047984 of June 26, 2001

*Thesis:*

The person registering a trademark is the person having the right in the same. Law has established a series of actions to protect the legitimate owner of a trademark, whose right may be affected by the use of the mark in the market by a third party without authorization.

One of the defense mechanisms is the report of trademark usurpation, which is under the jurisdiction of the criminal law, and the demand of injunction measures, which is a civil action.

For the purpose of demanding injunction measures against a third party using a mark without authorization, the owner of the mark must prove his ownership with the certificate issued by the Superintendence; he must prove the unauthorized use of the mark by the third party, and he must specify the injunction measures he wishes the judge to decree.

*Legal Grounds:*

By virtue of Article 154 of Decision 486 of the Commission of the Andean Community, the right to the exclusive use of a trademark is acquired only through its registration with the national competent office, which in Colombia is the Superintendence of Industry and Commerce.

Nevertheless, the owner of a trademark registration may assign the rights he has in the registration or license the mark, provided that this is informed to the Superintendence and the requirements established for this purpose are met.

### c. Opinion 01010101 of March 27, 2001

*Thesis:*

1. Article 162 of Decision 486 of the Commission of the Andean Community sets forth the following: “the proprietor of a trademark registered or applied for may license the mark to one or more third parties for them to exploit it.”

“All the licenses for use of trademarks must be reg-

istered with the national competent office. Failure to register shall cause that the license agreement not be enforceable against third parties.”

Then, the legitimate owner is who must use the trademark. Failure to use it can originate a cancellation action, to the extent that the Andean provision concerning use is not being complied with.

2. Effects of a license agreement when it has not been registered with the Superintendence of Industry and Commerce.

According to Article 1602 of the Civil Code, all contracts legally entered into acquire the force of a law for the contracting parties. Therefore, they may not be invalidated except by mutual consent or existence of legal causes allowing it.

The purpose of the recordal of the agreement before the Superintendence of Industry and Commerce is to make it public, which is what allows the parties to enforce it against interested third parties.

However, the failure to record a license agreement with the Superintendence does not exempt the parties from fulfilling their contractual obligations.

# EU Review

A recurring feature  
by Alec Burnside,  
Linklaters & Alliance, Brussels

*A review and commentary on recent decisions relating to licensing in the European Union.*



## EU Developments - United States Steel Tariffs

**O**n March 5, 2002, President George W. Bush announced that the United States would impose temporary safeguard measures on imports into the U.S. of a wide range of steel products, to be effective from March 20, 2002. The move has been internationally condemned as inconsistent with WTO rules and the spirit of free trade but there is also wide recognition that the decision was taken for domestic political reasons.

Put crudely, the “trade war” which the President’s proclamation has unleashed between the U.S. and most of its trading partners has come about through payment of a political debt. Bush won the crucial steel-producing state of West Virginia by only 40,000 votes, after he and Vice President Cheney pledged to come to the aid of steel workers during the 2000 election campaign.

On March 5, 2002 it was time to deliver on pre-election promises, with a timely eye also to the autumn election for the House of Representatives. And we should not overlook the fact that Bush is still seeking trade promotion authority in Congress. The House of Representatives has obliged, but what will happen in the Senate? Although many commentators have said that the steel safeguards will damage Bush’s free trade agenda, this is not necessarily so. He has his eye on the bigger prize of a broad trade promotion authority, otherwise known as “fast track”, or the requisite grant of authority from Congress for the Administration to negotiate trade deals. For that the President needs the votes of particular Senators in particular states.

So it is against this background that one has to view Bush’s steel announcement. The non-U.S. companies now facing U.S. tariffs on steel as high as 30 percent are the victims of what is essentially a domestically motivated political decision, albeit with global fallout.

Such a political decision would not have been necessary in 2002 if, over the last thirty years, the U.S. industry had been exposed by previous Administrations to market forces. But over the decades it has been consistently shielded by protectionist measures, estimated (by the American Institute for International Steel in 2000) to have totalled more than U.S. \$ 23 billion since 1975, in the form

of pension guarantees, loan guarantees, special tax and environmental exemptions, research and development grants and “Buy American” provisions.

### International Legal Response and Outcomes

The E.U. and other WTO Members have reacted to the U.S. measures using the international legal framework available under the auspices of the WTO. Broadly, a two-pronged attack has been mounted: a request for consultations with the United States under the WTO Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), most likely leading to a panel and, at the same time, consultations under the WTO Agreement on Safeguards. Points of dispute under the latter which are not solved during consultations will no doubt be encompassed in a panel constituted under the DSU. A third way forward, while not directed against the United States specifically, would be for the Europeans to impose their own safeguards, if the diversion of imports from the U.S. now causes increased imports.

It will be a long process. We have already seen affected WTO Members demanding compensation from the United States, under the Safeguards Agreement, because the U.S. must endeavour to maintain a substantially equivalent level of trade concessions with those countries while the steel safeguards continue. Later, if a WTO panel finds that the safeguard measures were imposed illegally, the U.S. will have to bring its measures into conformity with WTO law—how this might be done is a matter of conjecture.

### Section 201 and GATT Article XIX

The United States has certainly given its new steel tariffs and tariff rate quotas a veneer of WTO-legality. The President’s decision to impose safeguard measures is the definitive step in what is known as a “Section 201” or “escape clause” proceeding. Section 201 of the United States Trade Act of 1974 is the provision which implements Article XIX of GATT and the WTO Safeguards Agreement in United States domestic law. Essentially, GATT Article XIX permits the suspension of tariff concessions and most favored nation (MFN) treatment if increased quantities of imports threaten or cause serious injury to a domestic industry.

Under Section 201, decisions on import adjustments are made by the President after recommendations by

the International Trade Commission (ITC). The ITC is responsible for investigating whether the increase in imports is a “substantial cause of serious injury” or threatens serious injury, to the domestic producers of the imported item in question.

Safeguard measures are “special” measures compared to countervailing and antidumping measures. For the latter two, WTO-sanctioned, trade protection remedies, one not only needs a finding of injury, but also that there is evidence of an unfair trade practice. But for safeguard relief, only a finding of serious injury or threat thereof is necessary. Safeguard remedies are simply a reaction to the fact of increased import competition.

### **Was there an Increase in Imports?**

U.S. law considers that imports have increased when the increase is “either actual or relative to domestic production.” But the WTO Appellate Body held in the *Argentina—Footwear* case that the increase in imports must be sudden, recent, sharp and significant. The E.U. has presented data for the first half of 2001 which shows that imports for almost all the products concerned decreased substantially and, if the period 1998–2000 is examined, imports of the two largest product groups, flat and long products, which represent almost 90 per cent of all steel imports into the U.S., decreased substantially.

### **Unforeseen?**

Even if there really was an increase in imports, Article XIX of GATT also requires that they be the result of “unforeseen developments.” No less than four WTO Appellate Body reports have found that “unforeseen developments” must be demonstrated as a matter of fact in the investigation report before the safeguard measure is applied. The negative situation in which certain U.S. steel companies find themselves today is in no way unforeseen. The December 2001 ITC Report on steel contains not a single overt reference to the “unforeseen developments” criteria, though the E.U. has now listed this as one of its points of dispute in its request for WTO consultations.

### **Double Protection and Causation**

Granted, the U.S. industry is in trouble. But were its difficulties caused by foreign imports, especially when, as of the end of 2001, there were already 156 U.S. antidumping and countervailing measures in place covering 79 percent of U.S. steel imports? For steel products hit with safeguard measures which are already covered by antidumping and countervailing measures, why should U.S. producers get double relief? Surely the antidumping and countervailing measures must already remedy some of the injury which the U.S. industry claims to be suffering, and the WTO Safeguards Agreement only allows safeguard measures to be applied “to the extent necessary to prevent or remedy serious injury and to facilitate adjustment.”

On causation, the U.S. has already been severely taken to task in the WTO, most recently in October 2001 in *Line Pipe from Korea*. In a safeguard investigation, the ITC must examine whether the subject article is being imported in such increased quantities as to be a “substantial

cause” of serious injury or threat. U.S. law defines “substantial cause” as meaning “a cause which is important and not less than any other cause.” In the words of the ITC, “increased imports must be both an important cause of the serious injury or threat and a cause that is equal to or greater than any other cause.” The ITC must, by law, take into account all economic factors that it considers relevant, and must examine factors other than imports.

Although the ITC did pay lip service to several alternate sources of injury to the domestic industry, including declining domestic demand, intra-industry competition, domestic capacity increases, buyer consolidation, excess leverage of domestic producers, and legacy costs, the thrust of its discussion on causation centers on the surges in imports and it was dismissive of these other factors. The various government subsidies the industry has received in recent years were not addressed as “other factors.” Interestingly, in *Line Pipe from Korea*, the WTO Panel found that the ITC did not adequately explain how it had separated the injurious effects of the decline in the oil and gas industry from the injurious effects of the increased imports. This was a breach of Article 4.2(b) of the Safeguards Agreement, which stipulates that injury caused by other factors cannot be attributed to the increased imports. It would not be hard to run a very similar argument in this case.

### **Trade Protection Injury Analysis Unsatisfactory by Definition**

The assumptions made by the ITC in its causation discussion reflect the limited nature of the injury discussion generally: by the ITC, in antidumping, countervailing and safeguard investigations, and of other administrative authorities around the world, including the European Commission when it makes its injury assessments in trade cases. Objective economic criteria should be spelled out in the law to assess whether domestic industry has been injured—economic analysis, not unlike that used in merger investigations, is needed. Domestic competitive behavior of the industry under examination should be crucial but injury analysis in these cases rarely adequately encompasses such factors. Why? Because, quite simply, antidumping, countervailing and safeguard remedies are protectionist instruments.

### **Domestic Anti-Competitive Conduct Now a Factor to Be Considered in European CVD Cases**

In September 2001, the Court of First Instance of the European Communities in Luxembourg sent out a cry of pragmatism against this entrenched state of affairs in *Mukand*, which went largely unnoticed on the international stage. In examining the 1998 imposition of European countervailing duties against Indian imports of stainless steel bright bars, it found that the subsidized imports must cause material injury to a Community industry and that any harm caused by other factors, in particular by anti-competitive conduct on the part of Community industry itself, must not be attributed to the imports in question.

In the background to that case, while officials in the European Commission’s Directorate-General for Trade

had been busying themselves with the countervailing investigation, their colleagues in D.G. Competition had been looking into whether European producers of stainless steel flat products were acting in a concerted manner to illegally fix pricing components and thus distort competition. In January 1998 the Commission found that these producers were guilty of anti-competitive behavior and six companies were fined a total of ECU 27 million.

The producers of flat stainless steel products in the antitrust investigation were not the same as those producing stainless steel bright bars comprising the domestic industry in the countervailing investigation, although they were sometimes related. Furthermore, a separate antitrust investigation by D.G. Competition into the behavior of the European bright bar producers was ultimately rejected. But the Indian bright bar producers were able to provide D.G. Trade with conclusive proof that Community producers of bright bars had, for at least a decade, applied the same alloy surcharge as that applied by the flats producers which had been found to breach competition rules.

The Court held that because the institutions had failed to take account of the uniform, consistent industrial practice of Community producers of bright bars, the objective effect of which was automatically to mirror, in the markets for those products, the artificial price increases achieved through concerted practices by producers of flat products, they had disregarded a known factor, other than subsidized imports, which might have been a concurrent cause of the injury sustained by the Community industry. The judgment goes further than the 1992 Extramet decision by the Court of Justice. There, the institutions had not examined the impact of the proven anti-competitive practice (a refusal to supply) at all. In Mukand, the institutions did examine the anti-competitive arguments, but did not properly take them into account and the CFI held that they had reached the wrong conclusion based on the facts.

#### **Free Trade and Competition Policy Have Common Objectives—Should Safeguards, AD and CVD Measures be Allowed to Throw a Spanner in the Works?**

Trade liberalization and antitrust law and policy have the common objectives of increasing economic growth and lowering prices for consumers and business, but trade protective measures, even if carried out legally under WTO rules, are at odds with these objectives. The real question is whether any trade protection measures at all should be sanctioned under international trade law. Would it not be better to simply replace safeguards, antidumping and countervailing measures with adequate international antitrust rules in the longer term? Within the European Union, this has already been successfully achieved at a regional level. And it works in some free trade areas, such as between Australia and New Zealand, although not under NAFTA (North Atlantic Free Trade Agreement).

In the meantime, a Mukand approach in safeguard, antidumping and countervailing cases might at least make for a more rational injury assessment. In the Section 201

ITC findings on steel, imagine for a moment a hypothetical scenario in which previous specific government support to the U.S. industry had already been judged to be an illegal subsidy, or what we would term in European competition law, a prohibited state aid. It's pie in the sky stuff - but it shouldn't be. Antitrust considerations should play a role in trade policy. Because in the real world, markets are increasingly regional and global, and competitive behavior on a market affects international trading conditions.

## **Recent Anti-Trust Cases**

### **Carbonless Paper Cartel**

In December 2001, the Commission announced the second largest fines it has ever imposed in respect of a cartel. The illegal agreement was in the carbonless paper market, credit card slip paper, and, during the period 1992–95, the market was worth a huge 850 million Euros in the European Economic Area. Penalties totalling 313.7 million Euros were imposed on 10 companies from the United Kingdom, France, Germany and Spain, all members of the Association of European Manufacturers of Carbonless Paper (AEMCP).

The cartel was disclosed in 1996 by one of its members, South African company Sappi, which produced details of agreements on price increases and sales quotas, enforced by the exchange of confidential information. Evidence was furnished to the effect that cartel meetings were held from as early as 1989 and persisted after 1995 but, on advice given by the Hearing Officer, the Commission confined its investigations to the period 1992–95 for which it had firm evidence.

As a result of its cooperation, Sappi became the second firm to benefit from full immunity under the Leniency notice. United Kingdom firm Arjo Wiggins Appleton Plc which had a share of 32 percent in the European market and, along with Sappi and French company Bolloré SA, a far higher turnover than the other companies involved was given a stunning fine of 184.27 million Euros. For being the “main instigator” of the cartel, this sum included a 50 percent addition but a 35 percent reduction was given for the fact that the company provided information before the statement of objections was issued. For also providing information at this early stage, Bolloré was given a 20 percent reduction to a fine of 22.68 million Euros and the French Papeteries Mougeot SA, a 50 percent reduction to 3.64 million Euros.

German companies Zanders Feinpapiere AG and Mitsubishi HiTech Paper Bielefeld GmbH and United Kingdom company Carrs Paper Ltd were given a 10 percent reduction for their cooperation, receiving fines of 29.07 million Euros, 21.24 million Euros and 1.57 million Euros respectively. The second highest fine of 33.07 million Euros was given to Papierfabrik August Koehler AG. In addition three Spanish companies, Torraspapel SA, Distribuidora Vizcaina de Papeles SL and Papelera Guipuzcoana de Zicuñaga SA were fined 14.17 million Euros, 1.75 million Euros and 1.54 million Euros

respectively.

### **Zinc Phosphate Cartel**

A cartel on a smaller scale than that in carbonless paper, but one which attracted significant fines in relation to the turnover of the companies involved, was also ruled on last month, in the zinc phosphate sector. Six companies, holding 90 percent of the market for zinc phosphate, an anticorrosion agent used in industrial paints, were fined a total of 11.95 million Euros. The cartel, which involved price-fixing and market sharing, ran from 1994–98, the last planned meeting only being hastily cancelled after the Commission's investigation began.

Norwegian firm Waardals Kjemiske Fabrikker A/S came forward to cooperate with the Commission immediately after the investigation began and with the 50 per cent reduction this earned them, were fined 0.35 million Euros. United Kingdom's Trident Alloys Limited were next to give information and were fined 1.98 million Euros after a 40 percent reduction. The other four firms involved received 10 percent reductions, with France's *Société Nouvelle des Couleurs Zinciques S.A.* being fined 1.53 million Euros, German firm Dr. Hans Heubach GmbH & Co KG 3.78 million Euros and the two United Kingdom companies, Britannia Alloys & Chemicals Limited and James M. Brown Limited, receiving fines of 3.37 million Euros and 0.94 million Euros respectively.

The Commission viewed the cartel as a very serious infringement of competition rules, but while taking into account the limited size of the European market (16 million Euros annually during the period of the cartel) and the fact that the firms involved were SMEs, it stressed that the fines were set at a level sufficient to have a punitive effect.

### **Carlsberg And Heineken Accused Of Market Sharing**

The Commission, as part of its continuing investigation into the beer market, has issued a statement of objections to the Dutch brewer Heineken and its Danish rival Carlsberg, alleging that from 1993–96, they had an agreement to stay off each other's home turf. The agreement not to engage in "intensive activities," such as large-scale marketing, in the home market of the other, was uncovered in dawn raids carried out on the premises of the two companies in March and May 2000. Although it appears that the cartel activity has ceased, the Commission is pursuing the action to emphasize the very serious view it takes of such activity. Carlsberg, however, has denied that such an agreement existed, claiming that contacts between the two firms were nothing more than ordinary business relations.

In December last year, the Commission imposed fines in respect of cartel activity in the beer market in Belgium and Luxembourg (see *In Competition*, December 2001). There are also ongoing investigations concerning brewers in France, Italy and Portugal.

## **Commission Adopts New Leniency Policy**

The Commission is committed to continuing its crusade against cartel activity but is contenting itself with using the carrot of partial or full immunity from fines while the U.S. combines this with the stick of a jail sentence. To make the carrot more effective in encouraging price-fixers and market-sharers to blow the whistle on their fellow cartel members, a new leniency regime will be introduced on February 14, 2002.

Under the old 1996 rules, in order to get full immunity from the sweeping fines the Commission has the power to impose, a company had to provide "decisive" evidence and was excluded if it had been an "instigator" or played a determining role in the cartel. Under these rules, total immunity was granted in three cases and the Commission sees the policy as having been so instrumental in exposing an unprecedented number of cartels last year, that it wants to extend it to provide companies considering spilling the beans greater incentives and greater certainty as to the probable consequences.

The new regime provides that full immunity will be given to the first member of a cartel which provides information about an unknown cartel sufficient to allow the Commission to carry out a dawn raid. If no member comes forward before the cartel is discovered, the first company to provide evidence that enables the Commission to prove the infringement will benefit. Of course, the companies must also continue to cooperate fully and consistently throughout the investigation and must stop all illegal behavior immediately. The graduated reduction in fines for companies that do not qualify for full immunity but have "added significant value" by their evidence will continue. The precise reduction will depend on the timing and quality of the information given.

Another innovation, which gives whistle blowers advance warning of their likely fate, is that the Commission will send letters informing companies of their eligibility for immunity. Companies likely to be granted full immunity will receive such a letter as soon as possible; those qualifying for a reduction, no later than the day the statement of objections is notified.

## **European Court Of Justice**

### **The Wouters Case—The Return Of The Rule Of Reason Or A Public Policy Exemption**

In this judgment, the ECJ held that a ban on multi-disciplinary partnerships (MDPs) was not prohibited by E.U. competition law. While the commercial significance of the judgment is arguably reduced in the light of the Andersen/Enron saga, the Court's reasoning is of potentially great importance.

The Court found that prohibiting MDPs prevented and/or restricted competition as it is liable to "limit production and technical development" within the meaning of Article 81(1)(b). The Court found that lawyers and accountants have complementary expertise and MDPs would provide the advantages of a "one-stop shop." Since legal services frequently require recourse to accountants,

MDPs between members of the two professions would make it possible to offer a wider range of services, and indeed propose new ones. MDPs would be capable of satisfying the needs created by the increasing interpenetration of national markets (i.e. continuous adaptation to international legislation). Finally, the economies of scale resulting from MDPs might reduce the cost of services. A prohibition on MDPs might constitute a structural limit to concentration of law firms and therefore reduce the opportunities to benefit from economies of scale or to enter into association with members of highly concentrated professions.

The Court then reasoned that “unreserved and unlimited authorization” of MDPs between the decentralized legal profession and the highly concentrated accountancy profession could lead to “an overall decrease in the degree of competition prevailing on the market in legal services, as a result of the substantial reduction in the number of undertakings present on the market.” Nevertheless, the Court then applied a proportionality test, and found that the preservation of sufficient competition on the market for legal services could be guaranteed by less extreme measures than a blanket prohibition on all MDPs regardless of the respective size of the law firms and accountancy firms involved.

Thus competition was restricted / distorted. Moreover, intra-Community trade was affected, since the Dutch ban on MDPs reinforced the partitioning of national markets, and applied equally to Dutch lawyers and to visiting lawyers.

However, the Court then went on to find that, notwithstanding its conclusions above, the Dutch ban on MDPs did not infringe Article 81(1). In the words of the Court, “not every agreement between undertakings or any decision of an association of undertakings which restricts the freedom of action of the parties or one of them necessarily falls within the prohibition laid down in Article 81(1) ... account must first of all be taken of the overall context in which the decision of the association of undertakings was taken or produces its effects. More particularly, account must be taken of its objectives ... It has then to be considered whether the consequential effects restrictive of competition are inherent in the pursuit of those objectives.”

The Court referred to the duty of lawyers to act in their client’s sole best interest, to avoid all conflict of interest and to observe strict professional secrecy. These duties required that lawyers should be independent of public authorities, other operators and third parties. Accountants, in particular in The Netherlands, are not however subject to comparable requirements of professional conduct. Moreover, accountants’ audit functions, which are by necessity objective in order to give interested third parties a personal opinion concerning the reliability of the accounts, are to a degree incompatible with lawyers’ advisory activities. Dutch lawyers might not be able to advise and represent their clients independently and in the observance of strict professional secrecy if they were

to belong to an organization responsible for preparing and auditing those clients.

The Court therefore found that the ban on MDPs, while restrictive of competition, did not come within Article 81(1) because of public interest reasons. Until now, the “rule of reason” has been limited to pure competition criteria. Advocate General Léger had, in his Opinion, described the rule of reason as effectively “a purely competitive balance-sheet of the effects of the agreement. Where, taken as a whole, the agreement is capable of encouraging competition on the market, the clauses essential to its performance may escape the prohibition laid down in Article [81(1)] of the Treaty. The only ‘legitimate’ goal which may be pursued in accordance with that provision is therefore exclusively competitive in nature.” To hold that the ban on MDPs does not infringe Article 81(1) because it is necessary to protect the independence of the legal profession and its client loyalty “misconstrues the ratio legis and the structure of the Treaty provisions ... It implies that the Court should consider, in the light of Article [81(1)] of the Treaty exclusively, not only the question of determining whether a restriction of competition exists but also whether or not it might be justified. Such an interpretation is liable to negate a great part of the effectiveness of Article [81(3)] and [86(2)].”

A.G. Léger’s approach was approved by the CFI in *Metropole* shortly afterwards, as well as by the UK’s Competition Commission Appeal Tribunal in *GISC v. ABTA* (both judgments of September 2001). Yet no less than 13 judges of the ECJ ruled that the restriction of competition in this case did not fall within the prohibition of Article 81(1).

Was this a policy decision? After all, the ban on MDPs had not been notified and could not therefore have qualified for exemption, but even if it had, it would have taken a rather extensive interpretation of the criteria of Article 81(3) to allow the Commission to grant an exemption. And the Court could have come to the same result through less dramatic means, as Advocate Léger had proposed, by relying on the derogation contained in Article 86(2) for services of general economic interest. Yet the Court did not even consider the arguments raised in connection with Article 86(2).

Is the Court saying that not all restrictions of competition which affect intra-Community trade are incompatible with the Treaty? If that is the case, why is there no reference to the activities and goals of the Treaty? And why does the Court conclude that the decision does not fall within the prohibition after (and not before) it analyses its restrictive effects?

On any analysis, this judgment represents a shift in the jurisprudence of the Community Courts. So significant in fact that it may be something of a misnomer to call the ratio a “rule of reason” approach. Has the Court created a new public policy defence in Article 81(1)? Or an early (i.e. pre-modernization) decentralization of Article 81(3)? The current view is that the Court wanted to stress that Article 81 should not be used to interfere with legitimate

professional rules. But nowhere is the judgment so limited and, in taking a rather large sledgehammer to crack a rather small nut, the applications and implications of the Wouters judgment remain to be seen.

## Commission Proposal On Software Patents

Without much fanfare, on February 20 the European Commission published a proposal for a Directive setting out rules on the patentability of software inventions. The Commission's proposal is for a Directive to be adopted using the co-decision procedure which gives a role to both the European Council and the European Parliament. The proposal is not a final draft, but is being put forward for discussion. If approved, the Directive may be adopted as is or in amended form. Neither event is likely to occur before 2003. The proposal comes at a time of uncertainty as to where the laws on European software patents are heading. A proposal in the summer of 2000 to reform the European Patent Convention (EPC) to remove the express prohibition on inventions for computer programs "as such" was rejected in a Diplomatic Conference in November 2000. Although debate on that issue has continued, the Boards of Appeal of the European Patent Office (EPO) have meanwhile further developed their own thinking on the patentability of software and business method inventions.

The Commission's proposal defines a new class of inventions entitled "computer-implemented inventions" and goes on to define the conditions under which they

are patentable. The main focus is on whether an invention involves a technical inventive step or, in other words, makes a technical contribution to the art. The contribution is assessed by comparing the invention as a whole against the state of the art. Therefore, if the contribution has a purely economic character - as in some business method inventions - the invention is not patentable. This aspect of the proposal accords with the case law of the Boards of Appeal of the EPO. However, certain other aspects of the proposal appear not to follow the EPO's approach. In particular, the EPO maintains a clear distinction between inventions that are potentially patentable (patentable subject-matter) and the tests for novelty and inventive step. In contrast, the definition of computer-implemented invention in the proposal appears to combine the concepts of patentable subject-matter and novelty. According to the Commission, and again in contrast to recent EPO decisions, programs in isolation from the computer on which they are to be run or even programs recorded on a carrier should not be patentable. This conflict could be significant, as it is possible to envisage the EPO (which is not bound by the Directive) granting a European patent under the EPC which might later be held to be invalid in national courts, under the Directive. One way around this would be to amend the EPC to conform with the Directive; although as there are EPC contracting states which are not EU Member States (and therefore not bound by directives), further political steps are needed to achieve convergence.

# Recent Decisions In The United States

A recurring feature

by Brian Brunsvold and John Paul



Brian Brunsvold



John Paul

In *Gardner v. Nike, Inc.*, No. 00-56404, (9th Cir. Jan. 31, 2002), the Ninth Circuit held that the Copyright Act of 1976 does not permit an exclusive licensee to transfer its rights without the original licensor's consent, absent contractual provisions to the contrary.

In 1992, Nike and Sony entered into a licensing agreement in which Nike transferred to Sony the exclusive, perpetual, worldwide right to use a Nike-created cartoon character. The agreement was silent as to Sony's right to assign its rights under the exclusive license. In 1996, Sony assigned to Gardner its rights in the exclusive license by quitclaim. The district court dismissed a declaratory judgment action filed by Gardner, finding that Gardner did not have standing because the 1976 Copyright Act did not allow Sony to transfer its rights without Nike's consent.

In affirming the district court judgment, the Ninth Circuit first examined the state of copyright law prior to the 1976 Act. The court noted that under the Copyright Act of 1909 licenses were not transferable as a matter of law, as a result of the doctrine of indivisibility, which protected an accused infringer from the harassment of successive law suits. Anything less than an assignment was considered a license, and unlike an assignee, a licensee had no right to resell or sublicense the rights unless expressly authorized. The court then considered the effect of the 1976 act on an exclusive licensee's right to transfer, and concluded that it did not alter the existing law.

The court noted that under § 201 of the 1976 Act ownership of a copyright could be transferred in whole or in part by any means of conveyance or operation of law. Because § 101 of the Act defines transfer of copyright to include exclusive licenses, the court stated that § 201 could be interpreted to as extending this right of transfer to exclusive licensees. The court, however, also noted that other language of § 201 limited the owners of exclusive rights to only those protections and remedies afforded in the 1976 Act, which indicated the law remained unchanged. The court concluded that the 1976 Act does not explicitly address the ability of an exclusive licensee to transfer its rights. Accordingly, the court held that the law limiting an exclusive licensee's ability to transfer its rights remained unchanged.

OFFERS TO LICENSE TO A RESIDENT OF A

## STATE DID NOT CONFER PERSONAL JURISDICTION IN THAT STATE WHERE NO BINDING LICENSE AGREEMENT RESULTED FROM THOSE OFFERS

In *Hildebrand v. Steck Manufacturing Co.*, No. 01-1087, -1195, (Fed. Cir. Feb. 7, 2002), the Federal Circuit reversed a district court's finding of personal jurisdiction based on correspondence and phone calls about licensing directed to the forum state where no binding license agreement or other obligations resulted.

Hildebrand, a Colorado resident, obtained a patent directed to socket wrenches called "Screw Offs" for removing damaged car tire lug nuts. In 1995, Hildebrand confidentially contacted two Ohio manufacturers, Mac Tools (Mac) and Matco Tools (Matco), to explore possible licensing agreements. No agreement was reached. In February 1996, Hildebrand send two cease and desist letters and a sample set of tools to Matco and another manufacturer, Steck Manufacturing (Steck), and an alleged third to Mac. Hildebrand followed the letters with phone calls and an additional letter to Steck in December 1997.

After Hildebrand notified Mac that his patent issued, Mac canceled a \$25,000 order for Steck's product. Steck then filed a declaratory judgment action in an Ohio district court and Hildebrand filed an infringement action in a Colorado district court. The Colorado court transferred the case to Ohio, and, when Hildebrand ceased participating in the case, the Ohio court entered a default judgment against him.

The Federal Circuit reversed the judgment, holding that the Ohio court improperly asserted personal jurisdiction over Hildebrand. The Federal Circuit determined that Hildebrand was not amenable to service of process under the Ohio long-arm statute and that his activities in the forum state did not satisfy the minimum contacts requirement of the Due Process Clause.

The Federal Circuit noted that the Ohio long-arm statute does not grant to Ohio courts jurisdiction to the limits of the Due Process Clause. Ohio law requires, inter alia, that Hildebrand be transacting business in the state for jurisdiction. The court concluded that Hildebrand was not transacting business because his negotiations did result in a substantial connection with the forum. The Federal Circuit noted that no binding license agreements for other

binding obligations with the forum were created.

The Federal Circuit further held that Hildebrand's contacts were insufficient to sustain personal jurisdiction under the Due Process Clause of the Fifth Amendment. The court noted that all of Hildebrand's contacts with the forum state were for the purpose of warning against infringement or negotiating a license agreement, and that Hildebrand lacked a binding obligation in the forum. The court further concluded that the sample tools sent to the forum state were not for sale and were intended only to generate interest in a license agreement and did not constitute contacts upon which jurisdiction could be premised.

#### TRADEMARK ASSIGNMENT IS VALID AND ENTITLES ASSIGNEE TO BRING SUIT AGAINST INFRINGERS EVEN THOUGH ASSIGNOR HAS RIGHT TO RETAKE TITLE TO THE TRADEMARK.

Foreign manufacturers often establish a domestic company to handle the exclusive distribution of their goods in the United States. In such a case, the exclusive U.S. distributor often invests substantial resources in the promotion and sale of the goods in the U.S., and its profitability often depends on its ability to exclude others from improperly importing the foreign manufactured product and encroaching on its sales. This so-called gray market competition results from the importation, without the consent of the domestic trademark owner, of authentic goods manufactured in a foreign country. If an exclusive domestic distributor of a foreign product encounters gray market competition from another domestic entity, the exclusive distributor, if it owns the United States trademark and is independent of the foreign manufacturer, may seek redress under the Tariff Act of 1930.

In *Vittoria North America LLC v. Euro-Asia Imports, Inc.*, 61 USPQ2d 1001 (10th Cir. Dec. 12, 2001), the Tenth Circuit interpreted provisions of the Tariff Act of 1930 designed to protect domestic owners of trademarks affixed to goods produced overseas by foreign manufacturers. The Act provides gray-market protection to U.S. owners of trademarks associated with goods of foreign manufacture, prohibiting any other entity from importing goods bearing that trademark into the United States without the consent of the trademark owner.

The litigation arose from the importation by Euro-Asia Imports, Inc. ("EAI") of bicycle tires manufactured by Vittoria S.p.A. ("Vittoria Italy"). In 1992, Vittoria Italy entered into an agreement with Higdon Tire Company of Oklahoma to form Vittoria North America ("VNA") as an exclusive North American distributor of Vittoria tires. VNA distributed Vittoria tires in the United States from that time forward. EAI, a California company, had been purchasing Vittoria tires overseas and importing them into the United States since the early 1980's. In 1999, Vittoria Italy entered into an assignment agreement with VNA purporting to assign to VNA all right, title, and interest in the United States trademark "Vittoria" together with the goodwill associated with the trademark as well as the

right to sue for infringement of the trademark or injury to the goodwill. Under the agreement, Vittoria retained the right to retake title to the trademark and its associated goodwill upon giving thirty days written notice to VNA. The assignment agreement explicitly stated that its purpose was to permit VNA to act against infringers and unauthorized importers of Vittoria products into the United States.

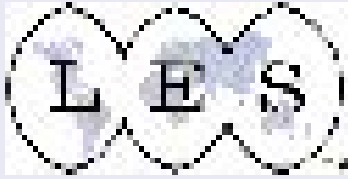
Shortly thereafter, VNA filed suit against EAI alleging that it infringed on VNA's trademark rights by importing Vittoria tires into the United States without first gaining VNA's consent. In order to enjoy protection under the Tariff Act of 1930, VNA must show that it is a United States corporation, that it owns the Vittoria trademark, that the Vittoria trademark is registered in the United States, and that EAI is importing Vittoria branded goods of foreign manufacture into the United States. The district court found that VNA and Vittoria Italy were not commonly controlled, that VNA owned the valid registered trademark, "Vittoria," and that EAI improperly imported Vittoria tires into the United States. The district court enjoined EAI from further importation of Vittoria tires into the United States and the Tenth Circuit affirmed.

The Tenth Circuit, measuring the agreement between Vittoria Italy and VNA against the text of the Tariff Act of 1930, held that a valid transfer of the trademark was effected by the assignment agreement. The valid assignment of a trademark requires the transfer of the goodwill associated with the mark. Because a trademark symbolizes the public's confidence in a particular product, the naked assignment of a trademark without its accompanying goodwill is invalid. This requirement of an accompanying transfer of goodwill with a trademark is best understood as requiring that the assignment not disrupt the existing significance of the mark to consumers. The Tenth Circuit noted that VNA's actions both before and after the transfer were calculated to maintain continuity in the use of the mark and the public's perceptions of the products associated with it. Specifically, VNA placed advertisements, sponsored professional athletes, attended trade shows, and developed a marketing network of sales representatives. Significantly, EAI never alleged any sort of disruption in the kind or quality of the products associated with the mark. Finally, the court found that the transfer of the trademark and its associated goodwill was not invalidated by Vittoria Italy's retention of the right to retake title to the trademark.

The Tenth Circuit next examined the common control exception to the Tariff Act of 1930. The Act excepts from its protection U.S. companies that are commonly controlled by a foreign entity. Common control is defined as effective control in policy and operations and is not necessarily synonymous with common ownership. The common control exception, however, contemplates the kind of control that a parent corporation would exercise over a subsidiary or that a common owner might exert over both organizations. In such a case, the commonly controlled domestic entity needs no protection under the Act because the foreign manufacturer can direct the

sales of its goods so as to avoid improper importation into the U.S. market. The court found that VNA was not tied to Vittoria Italy so as to invoke the common control exception. While Vittoria Italy disbursed advertising funds to VNA and engaged in cooperative planning, VNA retained independent decision making authority in running its business. Therefore, VNA was entitled to protection under the Tariff Act of 1930.

The Tariff Act of 1930 provides a domestic trademark owner a remedy for gray-market competition. If the domestic trademark owner is independent of the foreign manufacturer and possesses the rights and goodwill associated with the mark, then the domestic trademark owner can invoke the protections of the Act. And the U.S. trademark assignment agreement from the foreign company to the U.S. company is effective to provide the U.S. company with the right to sue gray-market competitors for trademark infringement even if the foreign assignor retains the right to retake title to the trademark.



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## Membership Directory On CD-Rom

Due to our rapidly growing membership and online access to our member database, we are discontinuing our practice of publishing an annual roster. Look for a CD-ROM providing a mobile, permanent directory in an upcoming mailing. Printed copies of the roster are also available by completing an order card, also included in the mailing.

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## Call For Papers

Suitable papers for publication in future issues of *les Nouvelles* are being sought. Members or non-members who have presented papers at conferences or created original works are invited to submit their work. Submit in electronic form via e-mail or disk (MS Word or text-only format) to:

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## LES International President

# IP Importance Grows In Japan



by Thierry Sueur  
President, LES International

The LES International Conference, which took place in Osaka, April 7-10, 2002, was of particular interest for LES and for the world of transfer of technology and IP.

It showed to us that Intellectual Property is becoming more and more important in Asia and in Japan and is now a part of the global economy in this part of the world.

Two points enlightened my impression:

- The recent reform of the judicial system in Japan enables courts to make faster decisions on infringement and the awards granted to the IP owners are significantly higher than they used to be.

More particularly, rampant infringement of Intellectual Property rights in developing countries is becoming a major diplomatic issue. Counterfeit products manufactured in other Asian countries cost Japanese firms over 1 trillion Yen every year, while the Tokyo District Court recently ordered the company accused of infringing a pachinko-related patent to pay a record 7.4 billion Yen in damages.

- Prime Minister Koizumi has set up a new panel tasked with turning Japan into a patent superpower.

The Council, headed by the Premier, will devise measures to protect the country's Intellectual Property in order to build its industrial might.

From a general point of view, the conference provided very unusual speakers making lively and sometimes provocative speeches about the economy and about the Japanese themselves.

Needless to say that from the social point of view, the conference was perfectly organized and extremely well attended (over 650 participants from 50 countries) and we had the opportunity to admire the cherry blossoms around Osaka castle.

### International Delegates Meeting

With respect to the International Delegates Meeting, we have continued to work in the direction adopted by the Paris Expanded Board Meeting.

First of all, we had a demonstration of the new Directory made in a CD-ROM form by Christine Mercado of the LES (USA & Canada) Office and the Delegates unanimously considered that this tool would be of great help for the LES members.

New bases for Long-Range Planning was adopted by the Delegates. The changes, as expressed in the new mission statement, are the following:

- setting and promoting of consistent, high professional standards for licensing executives on a global basis
- creating and maintaining various geographically based LES Societies with the necessary quantity and balance of local members
- providing organizational leadership, coordination and advice
- facilitating professional networking between the members of LES Societies

Continued on Page 3

# Osaka Conference Ends In Huge Success

*Osaka, Japan, April 7-10, 2002*

by Masataka Hashimoto Chairman, Organizing Committee

I am writing this report with a lingering feeling of relief and satisfaction.

The 2002 LES International Annual Conference in Osaka is over and all programs scheduled for the period from April 7 to 10 have been successfully carried out. As Chairman of the Organizing Committee, I have the pleasure of reporting that the final turnout was approximately 700 persons, which is evidence of the huge success of the conference. I take this opportunity to express my sincere appreciation to all of the participants who came a long way from their own countries and also the members of the Organizing Committee who have devotedly contributed to the preparation of the conference.

My personal hope for a large turnout changed into firm conviction, when I saw applications flowing in uninterrupted even after the closing date of early registration.

The final number of the participants, including those who made registration on site, reached 693, far beyond our expected maximum number of 600. Participants including accompanying persons were from 47 countries. Among other things, I would like to draw readers' attention to the fact that there were a large number of participants from Asian countries. A total of 114 friends were from 10 Asian countries: China, Korea, Malaysia, Philippines, Singapore, Thailand, India, Taiwan, Mongolia and Nepal. Participants from Japan numbered 257, which was also a pleasant surprise as it far exceeded our expected maximum figure.

It has been 17 years since the last the LESI Conference was held in Asia. Choosing Osaka as the place for the conference might have appealed to our Asian colleagues, as it is geographically easy to access. I sincerely hope that this conference in Osaka will help promote LES activities in Asia and contribute to the success of the 2006 annual conference in Seoul.

Let me touch a little bit upon how the conference was carried out, as I assume a majority of readers were not able to attend it. The venue for the conference was Osaka International Convention Center, which was newly opened two

years ago at Nakanoshima area, central part of Osaka. On Day 1 (April 8), Mr. Thierry Sueur, President of LES International and Mr. Chikao Fukuda, President of LES Japan greeted the participants.

Following them, Mr. Suzuki, Vice Governor of Osaka made a welcome address on behalf of Governor Ohta, who had originally been expected to be on the podium.

The plenary sessions were speeches made by distinguished speakers. Mr. Shiina, Senior Advisor of IBM Japan, started a keynote speech and Mr. Gron-dine, President of American Chamber of Commerce, Japan followed. For the 3 days, ten speakers from the USA, China, Australia, Netherlands, Malaysia and Japan made thought-provoking speeches on various aspects of the conference theme, "International Cooperation towards the Prosperity of Human Beings." We also had 3 guest speakers for dinner and lunch. Work-

shops followed the plenary session each day, where opinions were exchanged actively. All workshops received high attention, and in particular, workshops on April 8 necessitated extra chairs to be brought in for the standing audience.

The International Delegates and Committee Meetings preceded the conference, where representatives of each society got together for policy-making of the LES International. In view of the fact that LESI membership is reaching almost 11,000, LESI recognizes the need of substantive discussion among its members on the expected tasks and roles. LESI has therefore decided to create more opportunities for discussion. Specifically, LESI has introduced, in addition to the regular meetings, a Meeting between the Board and Society Presidents; a Meeting among European Presidents; and a Meeting among Working Groups. These meetings will also be held at the International Delegates and

**See Hashimoto, continued on Page 10**



**MASATAKA HASHIMOTO, Chairman of the Organizing Committee and former president of LES Japan, welcomes attendees at the opening plenary**



**MEMBERS OF OSAKA Tensui-Ren perform the Awa-Odori, a traditional joyous dance.**



**CHIKAO FUKUDA, President of LES Japan greets the hundreds of visitors to his country.**

**FROM LEFT, THE MAYOR of Osaka joins Thierry Sueur, Mel Jager and Chikao Fukuda in the Kagami-Biraki ceremony**

Thierry Sueur, cont'd from Page 1

- providing quality educational content to, and facilitating the sharing of educational contact among LES Societies
  - informing and interacting with global organizations and policy forums concerning the economic significance and importance of licensing and other transfer of technology and intellectual property rights
- During the next meeting, we will continue to work on the changes of LES organization which are needed to reach our new goals.
- For the first time, the Board of LESI met with the National Presidents for one hour and it was decided that this kind of meeting, which seems to be of interest for the Societies, will also take place before and after the Chicago meeting with a specific agenda.
  - In Chicago, we will also experiment with training for the incoming President of LESI and for Chairs and Vice-Chairs of Committees.
  - The Committees meetings were organized in a different format and the future meetings will be made mainly during the International or the USA & Canada Conference in order to have direct contacts with the interested members of LES International.
  - Last but not least, the Awards Committee and the Delegates, by a unanimous vote, decided that the Gold Medal would be awarded to Akira Mifune, Past-President of LES Japan and Past-President of LES International.



## Japan To Launch Drastic IP Reforms

By Jinzo Fujino  
LESJ Information Committee

On January 10, 2002, the National Forum for Intellectual Property Strategy ("Forum") issued a report calling for an immediate and drastic change of intellectual property systems in Japan. The Forum, consisting of 11 members and six staffing people, is a non-profit, non-governmental organization headed by Mr. Hisamitsu Arai, former commissioner of the Japanese Patent Office. While appealing the need for an extensive overhaul of the existing systems, the Forum proposes, in its 59-page report, 100 items for prompt intellectual property-related reforms in the fields of university, education, private business, public service, diplomacy, law-making and judicial system. With a recognition that strengthening the national intellectual property scheme is a key to the survival of Japanese industry faced with global competition, the Forum emphasizes the need for strong political leadership.

A month later, Prime Minister Junichiro Koizumi announced in his policy speech to the National Diet that he is establishing an IP strategy committee within the cabinet. The committee will consist of major cabinet members and outstanding business leaders and university professors. They will discuss desirable forms of intellectual property systems to enhance the international competitiveness of Japanese industries.

At the same time, the Cabinet Office, one of the ministerial departments responsible for science and technology, has announced that it will organize a study group of experts on intellectual property issues. The group is supposed to hold its first meeting in February 2002. After a series of discussion, the group will submit a report within a few months for policy-making and legislation. It is highly likely that the IP strategy committee will hear from the expert group about the IP scheme to be introduced. Reportedly, Mr. Arai, chair of the Forum, has already been appointed as one of the members of the expert group. In the Forum, Mr. Arai suggests the establishment of a government-directed strategy committee as an approach to be urgently taken.

In addition, the Forum proposes a number of specific changes which may significantly affect the practice of technology transfer from university. For example, the report says the necessity of deregulation and law amendment thereby to allow university-affiliated TLOs to engage freely in the transfer of university inventions. Such reform, the report says, will change universities into sources of many basic and value-added inventions, and of new venture business for effective commercialization.

The report also includes many proposals relating to the Japanese Patent Office. For example, the Forum suggests the use of scientific doctorate degree holders as assistants for sweeping out the piled-up files and speeding up examination. Hiring them temporarily or permanently as assistants to or even as examiners will improve examination in quality and speed. It will also create jobs for scientists and engineers with high scientific degrees.

On the enforcement aspect, the Forum proposes the establishment of a special court for intellectual property cases as well as a quick review of intellectual property litigation. The Ministry of Economic and Industry has recently released that the government considers necessary certain law amendments to provide a first instance court with powers to judge the validity of a patent as well as infringement and damages. Under the current law, the Patent Office is the only venue for review of patent validity.

The Forum is now preparing an English version of the report, which is expected to be available shortly through the Internet.

# LES Russia/LES Germany Holds One Day Joint Seminar In Moscow

**O**n June 28, 2002 Moscow will be the site of the joint LES Russia/LES Germany Seminar on "Valuation of Intellectual Property Assets." The venue of the seminar is the Renaissance Moscow Hotel.

In the Seminar Program are:

- Dr. Guenter Isenbruck from "BARDEHLE, PAGENBERG, DOST, ALTENBURG, GEISSLER, ISENBRUCK" (Germany) with "Historical Development of IP-Valuation and Own Experiences from the last 10 Years"
- Dr. Heinz Goddar from "BOEHMERT & BOEHMERT" (Germany) with "Practical Experiences with Valuation of Patent and Know-how Portfolios"
- Speaker from "DELOITTE & TOUCHE GMBH" (Germany) with "Practised Methods and Models of Financial Valuation of IP Rights"
- Speaker from "ARTHUR ANDERSEN CORPORATE FINANCE" (Germany) with "Practised Methods and Models of Financial Valuation of IP Rights"
- Speaker from "Ernst & Young" (Canada); and two Russian speakers.

Two official languages (Russian and English) will give you an opportunity to follow the outstanding team of speakers. The Registration Fee is \$100 USD for LES members \$150 USD for others. The final program will be available in May on the LES Russia website: [www.les-russia.org](http://www.les-russia.org) or at the Organizing Committee.

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## New Board Of Directors For LES Korea Elected

**L**ES Korea held the 2002 Annual Meeting on March 14, 2002 at the Westin Chosun, Seoul. At the meeting Mr. Yoon Bae Kim stepped down from the position of President of LES Korea, after six years of service and Mr. Duk Yeul Baek was elected as new President. In addition, a new slate of LES Korea officers was elected. The new board consists of:

<b>President</b>	Mr. Duk Yeul Baek (Seoul, Korea)
<b>Vice-President</b>	Mr. Seoug Koo Kang (Seoul, Korea)
<b>Board of Directors</b>	Mr. Pham Nghiem Xuan Bac (Hanoi, Vietnam)
	Mr. Tae Ryun Cho (Seoul, Korea)
	Mr. In Sup Dong (Seoul, Korea)
	Mr. Jong-Yoon Kim (Seoul, Korea)
	Ms. Sun Ryung Kim (Seoul, Korea)
	Mr. Yang Oh Kim (Seoul, Korea)
	Mr. Young Phil Lee (Seoul, Korea)
	Mr. Won Son (Seoul, Korea)
	Ms. Hye Sook Wee (Seoul, Korea)
<b>Auditor</b>	Mr. Jae Ryun Song (Seoul, Korea)

The new Board of Directors also designated Ms. Sun Ryung Kim as Secretary and Mr. Seong Koo Kang as Treasurer.

## In Memoriam

**L**eonard B. Mackey, 76, died April 2, 2002 in Sarasota, Florida. President of LESI in 1986 and President of LES (USA & Canada) in 1977-78, Mr. Mackey was a member of the society since the 1960's.

He was born in Washington, D.C. on August 31, 1925. He received his B.S. in electrical engineering from Rensselaer Polytechnic Institute and his law degree from George Washington University.

He spent his early career at General Electric Corporation, Schenectady, New York and retired as Vice-President and General Counsel of ITT Corporation.

He was active in the American Bar Association, serving on its task force for e-commerce and alternative dispute resolution and chairing Committee 456 World Trade Organization, NAFTA and International Trade. He served as President of the American Intellectual Property Law Association (AIPLA), Vice-President of the International Association for the Protection of Industrial Property, (AIPPI), served on the AIPLA small business committee and chaired the United Nations Coalition Committee. He was also President of the National Inventors Hall of Fame Foundation Board.

In his leisure time, his favorite pursuit was sailing. He was a member of the American Yacht Club, of which he was Secretary and a 31-year member of its Race Committee, and the New York Yacht Club.

He is survived by his wife, Britta, his son, Leonard, of Riverside, Connecticut, two daughters, Cathleen Surface of Richmond, Virginia and Wendy Arendt of Mountain View, California, two stepsons, Eckart Walther and Harald Walther of Palo Alto, California, and eight grandchildren.

## LESI Slate Of Nominees For 2003

The LESI Nominating Committee is pleased to announce that the following slate has been nominated for election to office for the Year 2003. The election will take place at the LESI Delegates Meeting in Chicago this coming September.

<b>President</b>	<b>Melvin F. Jager</b>
<b>Past President</b>	<b>Thierry Sueur</b>
<b>President Elect</b>	<b>Jonas Gulliksson</b>
<b>Vice President</b>	<b>Adam Liberman</b>
<b>Vice President</b>	<b>Luigi Saglietti</b>
<b>Treasurer</b>	<b>Willy Manfroy</b>
<b>Secretary</b>	<b>Barry Quest</b>

Respectfully submitted,  
Edwin A. Shalloway,

## Annual Meeting In Chicago

September 22-28, 2002



Mark your calendar for the LES (USA & Canada) Annual Meeting, taking place in Chicago, Illinois, September 22-25, 2002. The LES International Delegates and Committee meetings will immediately follow on September 25-28. An exciting IP program is lined up covering the latest in health care and high tech, just to name a few. The venue is the SHERATON CHICAGO HOTEL & TOWERS, (1-800-325-3535) Chicago's premier downtown riverfront hotel, just off Michigan Avenue, and within a short walk of Navy Pier, museums, shopping and entertainment. Look for more information on the LES Web site, [www.usa-canada.les.org](http://www.usa-canada.les.org) and in the meeting brochure included in this mailing.

## Comings & Goings

**Daniel M. Chambers** has just become affiliated with the Biotechnology Law Group and can be reached at 658 Marsolan Avenue, Solana Beach, CA 92075 or 858-361-4822. Chambers was formerly with Geneformatics, Inc of San Diego, CA.

**Anthony A. del Campo** has been named vice president for Research and Technology Ventures at Dana-Farber Cancer Institute. Del Campo will oversee the full scope of intellectual property management, technology licensing activities and other interactions with industry, including the negotiation of industry-sponsored basic and clinical science research. Tony was formerly senior director of corporate development at Genome Therapeutics Corporation.

**Henry Fradkin** retired from Ford Motor Company after 30-1/2 years. His last position was the Director of the Technology Commercialization Office, which he created in 1997. He now is the Principal of Value Extraction LLC, a consulting company offering services for commercializing IP and technologies.

**Margaret Mary Kozik Richardson** has been named the new Director of the Office of Patents and Licensing at the University of Medicine and Dentistry of New Jersey (UMDNJ). She can be contacted at the Office of Patents and Licensing, UMDNJ, 335 George Street, Suite 3200, New Brunswick, NJ 08903, USA, <[richarmm@umdnj.edu](mailto:richarmm@umdnj.edu)> or +1-732-235-9350. Richardson's previous assignment was Director of Corporate Relations and Technology Transfer at Children's Hospital in Los Angeles (U.S.C.).

**James E. Malackowski** has accepted the position of President and Chief Executive Officer of Duff & Phelps Capital Partners ("DuffCap"), a new private equity management company. He can be reached at Duff & Phelps Capital Partners, 311 South Wacker Drive, Suite 4200, Chicago, Illinois, USA, 312-697-4630 or <[jmalackowski@duffllc.com](mailto:jmalackowski@duffllc.com)>. Malackowski is currently President of LES (USA & Canada). Prior to DuffCap, Jim was associated with VIGIC Services, LLC.

# Osaka International Conference Exceeds Expectations

**T**wo busloads of attendees from around the world checked into the Rihga Royal Hotel a day early to take part in an introductory tour. Several hundred foreign guests gleefully joined the line of Awa-Odori dancers snaking from one end of the ballroom to the other at Osaka's New Otani Hotel during Monday's informal evening. Some of the most distinguished individuals in the world of Intellectual Property tossed back Sake from little wooden boxes at Wednesday's Gala Dinner at the Osaka International Convention Center.

Read Hashimoto-san's report of the conference and you will learn that almost 700 people took part in the conference. Do the math, subtracting the 257 Japanese participants and 114 from other Asian countries and you will find that close to half of those in attendance came from other parts of the world, including a fair number from Eastern Europe. Some biological clocks were ahead, others behind, and nobody cared! Everybody just threw themselves into the whirlwind of activities planned by the Japanese organizing committee.

The early arrivals had a very full day of touring on Saturday, boarding buses right after breakfast for the Tasaki Pearl Company where displays and a film familiarized the uninitiate with the subject of culturing pearls and, of course, allowed ample time for shopping. Next the bus climbed Mt. Rokko for a view of Kobe from on high and a barbecue luncheon. Then, on to the Hakutsuru Sake Brewery where life-size displays portray the historical method of preparing the popular rice-based beverage. Nearby is a small museum housing the porcelain collection of the man who developed the brewery. Some of the pieces dated to China's Ming Dynasty. There was also a building dedicated to his extensive collection of rugs and carpets.

On Monday, while some took a city tour and others a cooking lesson learning to make miso soup and tempura, others took a tour entitled "Tradi-

tional Industries in Kyoto." First stop on that tour included a tea ceremony and the opportunity to try and then to buy local sweets. Next came a typical Japanese lunch including soup, rice, fish, tempura and pickled vegetables. A craft class followed in which participants stenciled a design on a handkerchief, using a method that is employed in decorating kimonos. A film was presented on the subject, followed by an opportunity for shopping.

Tuesday and Wednesday's tours focused on sight-seeing, offering the destinations of Kyoto, Nara, and Himeji. Kyoto, an ancient capital of Japan, houses the Kinkakuji Temple where guests enjoy the traditional garden and the golden pavilion which was used as a villa of Ashikaga Shogun. Nara, another ancient capital, is noted for its historic buildings, some of which are more than 12 centuries old. It also includes a nature park which is home to a large herd of tame deer. The travel to Himeji involved a trip on the Shinkansen, the famous bullet train, to get to the White Egret Castle, the largest of the dozen existing medieval castles in Japan.

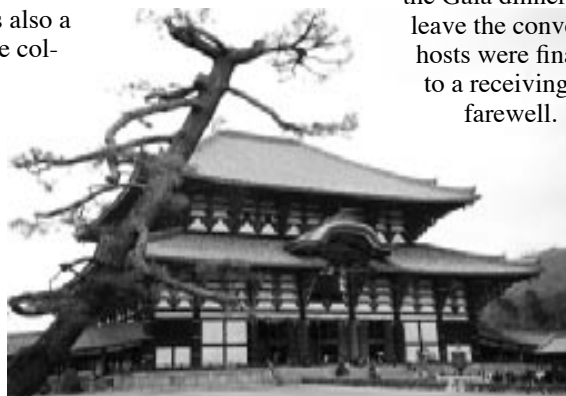
Another tour offered a view of the past, present and future of technology at the Panasonic Hall of Science and Technology. The museum traces the developments that placed Matsushita on the map, from the simple device that distributed electrical energy from a light fixture to the most sophisticated electronic instruments on the market today, and points the direction for what the future holds.

Indicative of the great degree of success of the Osaka conference was the difficulty met by the hosts at the end of the Gala dinner in getting the last of their guests to leave the convention center. With great tact several hosts were finally able to guide the last of the diners to a receiving line of LESJ members who bid them farewell.



**KEN MCKAY OF Sim & McBurney, Toronto, leads a line of LESI dancers.**

Photos by Tom and Pat Ryder



**TODAI-JI TEMPLE, the world's largest wooden structure, is one of the major attractions in Nara.**



**CHIKAU FUKODA, President LES Japan and his wife Kazuko order dinner.**



**MECHTHILD MERLIN OF Germany shows off her award-winning technique in dancing the Awa-Odori.**

## Mifune Awarded LESI Gold Medal

**A**t the recent meeting of the LESI International Delegates in Osaka, a special event happened. The easiest way to explain it is to quote from the committee report.



**Akira Mifune**

“The Gold Medal Award Committee recommends to the Board of Delegates of LESI that the LESI Gold Medal be awarded to Akira Mifune of LES Japan. The LESI Gold Medal is the highest honor that can be bestowed on a member of LES. The award recognizes not only superior contributions and service to LES and LESI, but also to the profession of licensing. The Committee can think of no other LESI member who is more deserving of the award than Akira Mifune.

Akira’s contributions to LES and LESI are too numerous to list in this report. Some of the more significant are service as President of LES Japan (1987-1989), Chairman of the Program Committee for two International Conferences (Tokyo, 1985 & Osaka, 2002), and Chair or Co-chair/Vice Chair of seven LESI Committees. He also was instrumental, as President of LESI, in the cooperation with UNIDO which resulted in the Manual on Technology Transfer Negotiation.

Outside of LES and LESI Akira’s contributions have been equally as significant. For example, he was President of the Pacific Intellectual Property Association (the very important

U.S.-Japan organization devoted to cooperation and harmonization between the two countries); he was a member of the Board of AIPPI Japan (1985-1991); he was Chair or Vice-Chair of the Japan Patent Association’s International Committee; he served on at least three Japan Government advisory committees concerned with licensing and anti-trust and the GATT-TRIPS negotiations; he has also lectured in Japan and in more than 14 countries, usually as a representative of LES and LESI.

Aside from these obvious contributions to LES and LESI and to the licensing profession, Akira has been a leader in LESI in participation in meetings and in social/cultural activities, setting an example for delegates from Japan and from countries around the world.

It is therefore with great pleasure that I, as Chairman of the Awards Committee and the Gold Medal Committee of LESI, together with my fellow committee members, enthusiastically recommend that the LESI Gold Medal be awarded to Akira Mifune of Japan.

Respectfully submitted,

Larry Evans”

The recommendation of the committee was unanimously accepted by the Board of Delegates.

It should be noted that the LESI Gold Medal has only been previously presented to other recipients thirteen times during the history of LESI. It is truly an extraordinary person who merits this award.

Congratulations Mifune-san!



**TEMA AND NABIL Salame** enjoy dinner.

**THE GOLDEN PAVILION** at Kinkakuji Temple is a highlight of tours to Kyoto.

## LES Arab Countries Report

**T**he society held its meetings for the Board of Directors and the General Assembly in Beirut on March 10, 2002, in the attendance of Mr. Thierry Sueur, President of LESI, and Mr. Talal Abu-Ghazaleh, President of LES AC. In the meetings, Mr. Sueur was selected as an honorary board member of the Society for his efforts and support.

The “Software Licensing” seminar, the first LES AC seminar of 2002, was held on March 11 following the meetings. The speakers, Mr. Thierry Sueur, Dr. Heinz Goddar, Microsoft and Oracle, focused on patenting of software in Europe; on-line software licensing; software licensing agreements and the implications of software licensing; and the experience of both Microsoft and Oracle in the Arab Countries.

Upcoming events of LES AC are:

**June 23-24, 2002**

“Basics of Licensing”

Ajman - UAE

**October 8-9, 2002**

“Basics of Licensing”

Casablanca - Morocco

LES Arab Countries has added 13 new members from Egypt, Jordan, Lebanon, Libya, Saudi Arabia, United Arab Emirates and the United Kingdom. (See New Member listing on page 8 in the Blue Pages.)

# Societies Gain New Members

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## Hashimoto's Report

Continued from Page 2

Committee Meetings in Chicago this fall. I am confident that they will work out very well in the near future.

At the Delegates Meetings, membership was approved and a LES flag was given to LES Poland. It was also decided that the Gold Medal Award will be presented to Dr. Akira Mifune. As you know, the Gold Medal Award is the highest award given to a member, who has made distinguished contributions to activities of LESI. Dr. Mifune was elected LESI President in 1992. Since then, he has been contributing LESI activities in a most devoted and energetic manner. His contribution was not limited to LESI activities. For the period of 1987-1989, Dr. Mifune was President of LES Japan. I can say without exaggeration that the present status of LES Japan owes much to his contribution over the past years. I, together with all members of LES Japan, would like to extend our heartfelt congratulations and appreciation to Dr. Mifune.

Conference programs included events for entertainment and excursion. Koto, a traditional Japanese harp, was played by two Koto masters at the welcome & opening ceremony. Many people enjoyed Awa-Odori dance, by joining in the dance lines on the floor. A Kagami-Biraki ceremony preceded the formal dinner, and the playing of Tsugaru Jamisen, a mandolin-like musical instrument, have hopefully added another dimension of Japanese culture. I hope participants enjoyed their optional tours. Our only regret was that the cherry blossoms were already gone, due to unusually warm weather in March. Even without cherry blossoms, however, Kyoto and Nara still are outstanding with their historic temples and shrines, imparting a flavor of ancient Japan.

Now, I look back how we started preparation for the conference. The Organizing Committee was established 4 years ago when Mr. Yamagami was President of LES Japan. Since then, trustee members of LES Japan gathered almost every month to discuss programs and to check the status of preparation. Two years ago, we held, in addition to regular meetings, sub-committee meetings which were divided into two groups: one in the Osaka area and the other in Tokyo. The Tokyo group focused on constructing the program, while the Osaka group concentrated on all the other aspects necessary to implement the conference.

In connection with conference preparation, I have to emphasize the warm and invaluable support of key figures of LES International including Messrs. Goddar, Shalloway and Sueur. They visited the Conference Center and Hotel beforehand to provide us with valuable advice. Chairs of the meetings committee also gave us various recommendations. Taking this opportunity, I would like to express our sincere gratitude to these people. Without their support and advice, the success of the Osaka Conference could not be attained.

Having thus stated, I would conclude my story with the following message: I'll see you all in Oslo, next year.

## LETTERS TO THE EDITOR

To: the Editor

**I find the *les Nouvelles* quite helpful. But it would be twice the value if you would periodically publish an index to the articles. Often I know I have read something, but I am unable to find it.**

Lynn P. Hendrix

Dear Ms Hendrix,

Thank you for your message and your interest in *les Nouvelles*.

I fully understand the value that an index to *les Nouvelles* would provide to the LES membership. Help is on the way. The LES Online Committee is presently working on having the full text of articles from *les Nouvelles* on the LES web-site where all of the articles will be full text searchable.

I think that we all look forward to the day in the very near future when we will be able to go to the *les Nouvelles* portion of the LES web-site and find that article that we know we read "just yesterday" and need to find today.

Best regards,

Thomas G. Ryder

Editor, *les Nouvelles*

# Licensing And Intellectual Property Organizations Meetings

For more information on LES or LESI Meetings call +1-703-836-3106 or go to [www.usa-canada.les.org](http://www.usa-canada.les.org)

- 2002**  
 May 18-22  
 International Trademark Association Annual Meeting  
 Washington, D.C.
- May 29  
 Health Care & Intellectual Property Rights  
 Victoria Hotel, Amsterdam  
[www.les-europe.org/benelux](http://www.les-europe.org/benelux)
- June 10-13  
 LES (USA & Canada) Professional Development Series Fundamentals  
 Chicago, Illinois
- June 26-30  
 American Bar Association Intellectual Property Law Section Summer Conference  
 Loews Philadelphia Hotel Philadelphia, Pennsylvania  
 +1-312-988-5639
- August 8-14  
 American Bar Association Annual Meeting  
 Washington, D.C.
- September 8-11  
 LES Czech Republic  
 LES Pan European Conference  
 Prague Czech Republic
- September 12-13  
 LES (USA & Canada) Essentials of Licensing  
 Airport Marriott South Dallas, Texas
- September 22-25  
 LES (USA & Canada) Annual Meeting
- September 25-28  
 LES International Delegates & Committee Meetings  
 Sheraton Chicago Hotel & Towers Cityfront Center  
 Chicago, Illinois  
 Chair: Thomas Filarski
- October 12-14  
 Seoul International Intellectual Property Conference  
 Westin Chosun  
[www.2002siipc.or.kr](http://www.2002siipc.or.kr)
- October 21-24  
 LES (USA & Canada) Professional Development Series Fundamentals  
 San Francisco, California
- December 2-5  
 LES (USA & Canada) Professional Development Series Fundamentals  
 Philadelphia, Pennsylvania
- December 5-6  
 LES (USA & Canada) Essentials of Licensing  
 New York, New York
- 2003**  
 February 13-15  
 LES Winter Meeting  
 The Grand America Hotel  
 Salt Lake City, Utah  
 Chair: Mark Butler
- May 15-17  
 LES Spring Meeting  
 Philadelphia, Pennsylvania  
 Chair: Brian Oliver
- June 13-15  
 LES International Delegates and Committees Meeting
- June 16-18  
 LES International Annual Conference 2003  
 Radisson SAS Plaza Hotel  
 Oslo, Norway
- September 21-25  
 LES (USA & Canada) Annual Meeting
- September 25-27  
 International Delegates & Committee Meetings  
 Hyatt Regency San Diego  
 San Diego, California  
 Chair: Dwight Olson
- 2004**  
 May 9-11  
 LESI International Delegates and Committee Meetings  
 Cairo, Egypt
- May 11-14  
 LESI Annual Meeting  
 Cairo, Egypt  
[www.lesi2004.org](http://www.lesi2004.org)
- October 17-21  
 LES (USA & Canada) Annual Meeting  
 Boston, Massachusetts
- October 22-24  
 LESI International Delegates and Committee Meetings  
 Boston Copley Place Marriott  
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 +1-703-836-3106  
[www.usa-canada.les.org](http://www.usa-canada.les.org)
- 2005**  
 June 10-16  
 LESI International Delegates and Committee Meetings  
 LESI Annual Meeting  
 Arabella Sheraton Hotel  
 Munich, Germany  
[www.LES-International-Conference-2005-Munich.de](http://www.LES-International-Conference-2005-Munich.de)
- September 25-28  
 LES (USA & Canada) Annual Meeting  
 Phoenix, Arizona
- September 29-October 1  
 LESI International Delegates and Committee Meetings  
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## USA/Canada—Local Chapters

Meetings are held regularly in many locations.  
 Contact the chairperson in your area to attend a local meeting.

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