LEGAL PRINCIPLES OF LICENSE PATENT AGREEMENTS IN IMPLEMENTING TRANSFER OF TECHNOLOGY IN INDONESIA

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Abstract

One of the best strategy to transfer techology is to license a patent. Through the grant of a license, the licensee is expected to learn to carry out his own patent in the form of the licensed technology. Through the license, the licensee can make modifications, further development and refinement of technology. The implementation of license can be either covered by know-how agreements or other agreements. In the know-how agreements, the licensee can retrieve knowledge to use the technology optimally. This paper will elaborate the legal principles used in a patent license agreement.

The freedom of contract principle is the main principle of contract to legalize a patent license agreement. Freedom of contract is applied in the manufacture of a patent license agreement. According to the freedom of contract, the parties are free to formulate the license agreement including but not limited to royalty payment, dispute resolution, and the end of the license agreement. The other basic principle of contract covering a patent license agreement is mutual benefit. This principle requires that the parties must obtain economic value (profit) on the agreement. Licensor is willing to obtain royalty payments from the licensee. The royalty belongs to economic rights which is transferable in order to maximize benefit of the patent to the licensor.

In addition, another principle is the principle of equality. Equality does not mean only the licensor who has a right to terminate the license agreement but also the licensee does. In practice, when the licensor does not properly fulfill its contractual obligation, the licensee may request the termination of the agreement, and *vice versa*. This reflects equality between the licensor and licensee. Moreover, the right to file a lawsuit and the licensed patent infringement lawsuit is not only beared by the licensor, but also by the licensee.

Keywords : License, Patent, Royalty

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Introduction

Indonesian Patent Act is regulated by Law Number 14 Year 2001. According to article 69 paragraph (1) a patent holder shall have the right to grant a license to other person on the basis of a licensing agreement in order to perform acts as refered to in article 16. Article 69 paragraph (2) said, unless agreed otherwise, the scope of a license as referred to in paragraph (1) shall cover acts as referred to in article 16 and shall continue for the term of the license granted, and shall be effective for the entire territory of the Republic Indonesia (Sati, 2010). Article 16 cover exclusive right of patent holder. The exclusive right contain of rights and obligation of a patent holder.

According to article 1 paragraph (13) license shall mean a permission granted by patent holder to another party by means of an agreement based on the grant of right to enjoy economic benefit of a patent that is protected for a certain period of time and certain requirement (Sati, 2010).

As one of business contracts, patent license agreement also contains some principles on the law of contract which become the foundation for the parties in making and performing the contract. The principles on the law of contract are stipulated in *Burgerlijk Wetboek*. Those principles are the basis that must be obeyed by the parties, so that the license agreement is made not to harm any of the parties and also can be performed fairly.

Discussion

Patent license agreement use the principles of contract law contained in the general agreements of contract. The principles used in the formation and performance of a patent license agreement are :

a. Principle of freedom of contract

This principle asserts that the trademark license agreement is made under the freedom of contract. Freedom of contract is applied in the formation on trademark license agreement. The parties are free to determine the contents of the license agreement in accordance with their wishes concerning royalty payment, dispute resolution, and the termination of the license agreement.

Based on this principle, the parties are expected to gain their expected profits. The trademark owners, called licensor, will have huge economic benefits, as well as the licensee. This is as stated by **Yohanes Sogar Simamora** that the freedom of contract is very important in supporting the interests of economic actors, (Simamora, 2005). Yohanes Sogar Simamora's opinion was inspired by **Atiyah's** opinion which stated that the contents of the contract generally relates to economic exchange, (Simamora, 2005). Therefore, **Yohanes Sogar Simamora** further

stated that the law of contract is a legal instrument governing the exchange of it and provide protection to the injured party, (Simamora, 2005).

According to **Atiyah**, the principle of freedom of contract is growing due to the nature law inspiration and the philosophy of *laissez faire* which is very dominant. The judges at that time understood the theory of natural law as every person has the right to have (right to own property) and therefore they have the right to take legal actions to sell or purchase or other kind on concern to their property and make their own contracts, (Simamora, 2005). The principle of freedom of contract in the background of individualism, was born in ancient Greece, and then forwarded by the Epicuristen and thrive in the era of *reinaissance* through the teachings of **Hugo de Groot**, **Thomas Hobbes**, **John Locke and Rousseau**. According to the idea of individualism, each person is free to obtain what they wants. Moving on from that sense, in the law of contract, this concept is manifested in the freedom of contract, (Simamora, 2005).

The principle of freedom of contract is also known in English law. As stated by **Anson** *"a promise is more than a mere statement of intension for it imports a willingness on the part of the promiser to be bound to the person to whom it is made"* (Soenandar Et All, 2001). Because of this, the principle of freedom of contract was applied universally.

Agus Yudha Hernoko stated that the principle of freedom of contract gives freedom to the parties to make a contract with any form or format (written, oral, scripless, paperless, authentic, non- authentic, unilateral, adhesion, standard, etc.), as well as to determine the content or substance of the parties desired, (Hernoko, 2007). The same opinion was stated by **Peter Mahmud Marzuki**, he said that in the principle of freedom of contract every person is free to make an agreement, (Hernoko, 2007).

While according to the **Taryana Soenandar**, the Principles of International Commercial Contracts (UNIDROIT) embodiment of freedom of contract are: (Soenandar, Et. All, 2001).

a. freedom to determine the contents of the contract ;
b. freedom to determine the form of the contract ;
c. contract binding as law ;
d. mandatory rules as an exception , and
e. international characteristics and the purpose of UNIDROIT principles that must be considered in the interpretation of the contract .

Meanwhile, according to **Sutan Remi Sjahdeni** principle of freedom of contract under the Indonesian's law are in the scope of the agreement as follows : (Hernoko, 2007).

a. freedom to make or not make a contract ;

b. the freedom to choose with whom he/she wants make a contract ;
c. freedom to determine the object ;
d. freedom to determine the form of the contract;
e. freedom to receive or deviate the Act that are optional (*aanvullend*) .

From some of these opinions, we can see the desire of freedom in making a contract. That spirit can be achieved when the parties are in a balance position, both regarding their rights and obligations, as well as the bargaining position. When one party is not in the same position and equal, it will be very difficult to make it happen.

The principle of freedom of contract is implemented in the content/substance of the agreement relating the royalty payments, the validity period of the license agreement, dispute resolution and many others. Articles 63 to 73 of Law Number 14/2001 regarding Patents which regulates that the patent license has no provisions on how royalties are to be paid by the licensee to the licensor. Similarly, the technical payment, whether every month or every year, this is up to the parties to set in the agreement. It is also related to the termination of the agreement which is also not regulated in Article 63 to 73.

The parties may also determine the aspect of dispute resolution. Usually in other contracts, including license contracts, dispute resolution is set in its own article. Then, the provisions related to the contents of the type of dispute resolution based on consensus of the parties with take into consideration about dispute mechanisms, for example in courts, arbitration or out of court settlements.

Some aspects of the agreement that allow the parties to determine in the license agreement is something that can bring freedom conducive situation for the parties to perform the agreement. However, according to **Mochamad Isnaeni**, the freedom is not absolute (Isnaeni, 2004). Freedom, according to **Mochamad Isnaeni,** is limited by the wills and statements declared by the opponent party. The freedom is also constrained by the principle of consensualism, (Isnaeni, 2004) . Besides that, the freedom of contract must not be contradictory with the law, public policy and morality, (Isnaeni, 2004).

There are several opinions stating that freedom of contract principles also has some limitations. **Setiawan** stated that the limitation of freedon of contract is affected by : (Hernoko, 2007).

a. development of the doctrine of good faith ;
b. development of the doctrine of abuse of state ;
c. the increasing number of standard contracts ;
d. development of economic law .

Meanwhile, **Purwahid Patrik** stated the limitation of freedom of contract is caused by : (Hernoko, 2007).

a. economic development formed trade alliances, legal entities or trusts, and other community factions (eg : class workers and peasants) ;
b. the correctional (vermaatschappelijking) desire a balance between the individual and society are drawn to social justice ;
c. onset formalism agreement ;
d. more regulations in the field of administrative law .

Sri Soedewi Maschoen Sofwan argues the limitation of freedom of contract is as a result of : (Hernoko, 2007).

a. developments in the field of socio-economic communities (eg: merger or corporate centralization) ;
b. government intervention to protect the interests of general or the weak ;
c. the flow in the community who want the social welfare ;

From the opinions of the limitation of freedom of contract, it is clearly that this is close with the implementation of the patent license agreement. Although basically a trademark license agreement is made on the basis of freedom of contract, but in certain situation this is also limited by Acts. There are Acts that must not be infringed. The provisions contained in Article 71 paragraph (1) of Patent Act which requires that the license agreement shall not contain provisions that either directly or indirectly can cause adverse effects on Indonesian's economy or contain some restrictions that impede the ability of the Indonesian nation in mastering and developing technologies in general.

The provisions of Article 71 paragraph (1) on Patent Act is enforceable, so that, this must be obeyed by the parties. If this is violated by the parties, the agreement can not be listed at the office of the Directorate General of Intellectual Property. Directorate General of IPR will refuse the registration of license agreements that violate these guidelines. While, recording the license agreement is one of the obligations to be undertaken by the parties as mandated in Article 72 paragraph (1) on Patent Act. If this is not registrated, the license agreement will not be affected to the parties concerned and the third parties.

Patent license agreement is closely related to economic aspects. Economic benefits for the parties will be the main goal. On the other hand, the agreement also brings economic benefits for the country. The existence of a patent license agreement will be followed by other business activities such as the establishment of a new manufacturer (new investment), new laborer, and for the state this will bring income of tax revenue, because each business activity has to pay taxes. If

the activity is conducted for a long period of time, then in the future this will improve the country's economic growth. Based on this aspect, it is clear that the patent license agreement strongly supports the state in promoting economic's development. On that basis, the state has an interest in the license agreement in Indonesia which will not inflict a financial loss or impede technological progress. On the contrary, the existence of the license agreement should be able to support the government in improving the economy and developing the technology. This can be provided by materials supply chain taken from Indonesia, working the local laborer, and etc. In the aspect of technology development , patent license agreement must be able to provide added value for the country in terms of technology transfer.

Implementation of the principle of freedom of contract in the patent license agreement can be seen in the terms of royalty payments. Royalties should be paid by the licensee to the licensor as the patent owner is entirely dependent on their mutual consent. The parties are free to determine when it should be paid and the price. Patent law does not specify about it. On that basis, any royalty payments are made every six months or once a year. If this is done every six months, the cost calculated from each unit of goods produced within a period of six months or each unit of goods sold in the period of six months. If the royalty is paid annually, the amount is calculated from each unit of goods produced during the year or each unit of goods sold during the year. **Rahmi Jened** stated that to determine the amount of royalty payments are generally based on the total sales of the licensee, (Jened, 2007). The parties are free to determine the payment method of patent license agreement.

b . Principle of consensualism

This principle is based on the provisions of Article 1320 BW governing the validity of terms of the contract, which requires for :

1. consent of the parties ;
2. the capability to make an agreement;
3. certain objects ;
4. lawful cause

ad.1 . The agreement of the parties .

Consent is the basis of the occurrence or the birth of an agreement, including trademark license agreement. An agreement is considered to occur at the time of the meeting of minds by the parties to make a contract. Consent implies that the parties mutually express their interests to close a deal and the will of the parties in accordance with the will of the other party, (Thamrin, 2007). The terms of this agreement, each party's position is principled, because it directly concerns against what the will of the parties. The will is what is really desired to do by the party, (Thamrin,

2007). **Subekti** argues that consent is the meaning of consensus, means that between the parties concerned reached a conformity of will, what was intended by the party is also intended by another, (Subekti, 1985).

While according to **Mochamad Isnaeni**, the term signifies implicitly consent that was definitely made by at least two parties. This means that each party should express their wills through a statement to reach a consent, (Isnaeni, 2006). Furthermore he said that a consent is the meeting of an offer and acceptance. When a party makes an offer and it is accepted by another party, then a contract exists, so that both parties are bound, (Isnaeni, 2006). In this case consent is an important moment for the formation of the contract, and thus the parties are bound to carry out the obligations set forth in clause agreed upon, (Isnaeni, 2006).

According to **Agus Yudha Hernoko,** consensualism principle has close links with the principle of freedom of contract and the principle of the binding force contained in Article 1338 (1) BW, (Hernoko, 2007). It is also said by **Subekti** that consensualism can be found in Article 1320 jo. 1338 BW, (Hernoko, 2007). Violation of this provision will make an agreement invalid and not bound as law. Furthermore, **Agus Yudha Hernoko** said that consensualism principle is the soul of an agreement. It was inferred from the parties agreement, however in certain situations there is an agreement that does not reflect the true will. This was caused by the defect will (*wilsgebreke*) that affect the onset of the agreement, (Hernoko, 2007).

According to **Mochamad Isnaeni,** if there are defects in the formation of an agreement, this may be caused by erroneous (*dwaling*), duress (dwang), and fraud (bedrog). Thus, the parties are given the opportunity to set aside the contract. This is based on the good faith principle that must be respected by the opponent. If a party does not disclose any important information regarding with the essential information, then the opponent party discover the real situation, thus, this opponent party will not sign the contract, (Isnaeni, 2006). Furthermore, according to **Mochamad Isnaeni** the opponent party may claim for damages. If there are some evidences that one party forcing the other party to conclude contracts in ways that are contrary to law, it is reasonable to classifiy the party as being in bad faith, so as to give the other party the opportunity to request the null of contract, (Isnaeni, 2006).

Patent license agreement will not be born without a consent between the licensor and the licensee. The agreement begins with the mutual consents of the licensee to use trademarks owned by the licensor in certain conditions. The requirements are basically also a licensor wishes to give consent. Because there are two requirements, the parties must agree on a few things such as : how long the license agreement will be exist, how much the royalty payment to be paid by the licensee to the licensor and so on. If the parties have agreed on some requirements, then the agreement is concluded, which is must be declared earlier in the form of a written agreement by law. The Act

requires the agreement made in a written form, because the license agreement must be registered in the Directorate General of Intellectual Property Rights (IPR) of the Ministry of Law and Human Rights .

ad.2 . The capability to make an agreement;

The second terms in the license agreement, that this has to be made by a notarial deed. In the deed, of course, as the notary public officials will require that the parties must fullfil the requirements of Article 1330 BW about the capability for the person. When the parties come before the Notary, they will be asked concerning the age of each party at the time when they are enter into a contract. If the parties do not fullfil the age requirement, the notary must refuse to make deed of the contract.

Article 330 BW states that, a person is not capable to make a contract if he is under twenty- one years old or has not married yet. The capability factor and marriage as defined in Article 330 BW is not absolute, because even though a person is considered an adult according to the criteria of the article, but if the person is put under guardianship because of dumb, insane or extravagant, it is considered legally incompetent to do legal actions, (Thamrin, 2007). The criteria of capability to take legal actions according to BW are twenty-one years old or before twenty- one years old, but has married, all concerned are not placed under guardianship.

Under Law Number 1 In 1974 regarding marriage, the provision was changed into 18 years old (see Article 47 jo. Article 50 of the Marriage Act). 18 years maturity has also been strengthened by the Supreme Court, for instance in its decision Number : K/Sip/1976 477, dated October 13, 1976, (Fuadi, 1999). It is also reaffirmed in the Article 39 paragraph (1) of Notary Act which states that adults are individuals who are 18 years old.

ad.3 Certain objects ;

The third requirement is a particular case has two meanings, mean an object and non-material object, (Thamrin, 2007). Understanding of a material object is as set out in Article 1333 and 1334 BW using the word goods, which include motion goods, the goods remain, and intangible goods, both existing and or in the future. While the notion of a non material suggests that the reference to a particular thing is a performance in a contract. The performance may give something, do something or not to do something. The patents are categorized as movable intangible things. As movable intangible things, patents can be the object of the agreement, in this case is in the form of a patent license agreement. In this context, it seems more appropriate if certain things are given meaning as an object of an agreement which has had a clear character for both parties in the agreement. Clarity about the object of the agreement has an important meaning, because it will make it easier for the parties in performing the rights and obligations. If the object

of the agreement is unclear, vague or are not likely to be implemented, this will result in the null and void agreement.

Setiawan said that the object of an agreement is the performance of the parties could be giving something, doing something and not to do something, (Setiawan, 1994). Related to patent license agreement, the licensor are required to give permission to the licensee to use the patent for a certain time, while the licensee is required to do something with the right of using proprietary rights contained on the trademark rights to produce the goods and pay the royalty.

The object of a patent license agreement must also fullfil several requirements that must be obeyed, permitted and possible to perform, (Setiawan, 1994). Certain terms herein refers to certain patents licensed for certain goods and or services as well.

ad.4 . Lawful cause

Article 1337 BW asserts that any reason is prohibited, to the extent prohibited by law, or if contrary to morality or public policy. According to that provisions relating to the validity of the agreement as the fourth provision that lawful cause means the agreement must not be contrary to law, morals and public policy. According to **Niuwenhuis** causa is the goal of the agreement, the goal to be achieved by the parties to an agreement,(Saragih, 1985). **Niuewenhuis** requires that the causa or lawful reason in principle agreements must not be contrary to the law, morality and public policy.

c. Principle of equal position

If we see the rights and obligations as explained before, the licensor and the licensee have the same position (equals). That Equal position is proved in the termination of a contract, which is not only owned by the licensor but also owned by the licensee. So, in the license contract, when the licensor can not properly fulfill its obligation, the licensee may request cancellation of the agreement, and vice versa. This is a reflection of equality between them. In addition, the right to propose a lawsuit and trademark infringement is not only owned by the licensor as the owner of the trademark, but also by the licensee. In this case the position of the licensee to ask for the compensation damages for patent infringement is also given by the Patent Act.

d. Principle of Mutually Beneficial

This principle requires that the parties must obtain economic value (profit) on the agreement they made. Licensor obtains royalty payments received from the licensee. That payment is a benefit to the licensor, because the economic value on the trademark contribute to its owner.

As one of property rights, patent contains the economic rights that can provide benefits in the form of royalties. In fact, the economic rights can be diverted or transferred to anyone else (transferable), so that the other person as a recipient of transfer of rights can also take some benefits. The economic benefits gained by a licensee is without spending a lot, the licensee can use the patents that have been well known to consumers, so as to make easier on marketing. Remembering, both gain the economic benefits, that's why the principle of mutual benefit is very familiar to the patent license agreement. It was as stated by **Theofransus Litaay**, "*Licensing is a system for the holder of rights may benefit economically from the right without have to lose their property*", (Litaay. 2007). The opinion emphasizes that each party obtain significant economic benefits of the agreement made, without the party, in this case, the licensor of the patent owner loses the ownership of patent rights. The economic benefits of its form is the benefit that can be valued in money. It was also as said by **Agus Yudha Hernoko** that the significance of contracts in business practice is to ensure the exchange of rights and obligations fairly to the parties, so as to create a contractual relationship that is safe, fair and mutually beneficial, rather than vice versa, to the detriment of either party or even detrimental to the contracting parties, (Hernoko, 2007).

e . Principle of Good Faith

Yohanes Sogar Simamora stated that the principle of good faith has a very important function in contract law. The principle of good faith applies not only at the stage of performance, but also before the signing and closing of a contract phase, (Simamora, 2006). **Yohanes Sogar Simamora** further argues that there are two meanings of good faith. First, in relation to the performance of the contract as specified in Article1338 Paragraph (3) BW. In this regard, good faith or *bonafides* should be interpreted as reasonabe and fairness behavior between the the parties *(redelijkheid en bilijkheid)*. Knowing whether a behavior was reasonable and fair is based on unwritten objective norms. Second, good faith is also defined as a state not aware of any defects, such as payment in good faith as provided in Article 1386 BW, (Simamora, 2005).

The principle of good faith is an essential principle on the performance of a contract. Incidence of disputes on an agreement, usually caused by good faith of the parties in performing the agreement that they made together. Command given by Article 1338 (3) BW is really clear that the parties are required to perform the agreement in honesty as they had made in good faith. Good faith was not only in the performance of the contract, but also in making the contract, (Simamora, 2005).

The principle of good faith in a patent license agreement is executed by the values that live in the society and demands the contents of the agreement itself. Good faith was implemented on the rights and obligations of each party equally and well performed by the parties. Each party has the right and obligation that must be carried out in good faith so as not to harm the other party.

Both licensor and licensee must not violate the agreement they have made before. Implementation of the rights and obligations, the parties are required to perform the clauses they had made, for instance the rights and obligations, royalty payments, termination of the license agreement and so on. Therefore, the principle of good faith in a patent license agreement requires honesty as the basic of its operations.

The principle of good faith is very important, because one of disputes arising under the contract caused by breach of IPR license agreements. Therefore, IPR license agreements should be performed based on the principle of good faith, so there will no dispute arises in the future. The principle of good faith in a patent license agreement also implied in Article 97 paragraph (1) on Patent Law , which states that the Licensee who act in good faith, but then void, remain entitled to perform the license agreement until the expiration of the license agreement.

The provision is clearly to protect the good faith of the licensee that they have the right to use a patent be void by the courts. Furthermore, Article 97 paragraph (2) and (3) states that the Patent Art as a person act in good faith, he was not required to pay royalties to patent owners are void, but the real owner of the patent. If the advance royalty payment was paid at once on the licensor, the licensor must give the part of a royalty to the patent owner who isn't void comparable to the remaining time of the license agreement. What is contained in the provisions above is a proof that the principle of good faith has become one of the requirements in the making of a patent license agreement. The parties must uphold these principles, so that the license agreement can be run properly and not cause problems later on.

The principles of the patent license agreement are basically general principles contained in BW. This is because the practice of the Patent License Agreement in Indonesia is based on principles set out in BW, before the Government Regulations governing patent licenses is mandated in Article 73 of Patent Act.

Conclusion

The government should immediately submit a Draft of Government Regulations governing patent licenses which is set out the form, content and procedure of listing application of license agreement, therefore, there is a legal certainty and the dispute between the parties of the agreement can be resolved. The existence of government regulation that will govern the patent license is also very useful for the Directorate General of IPR to control any license agreement which is contrary to the Patent Act.

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