

# The Problems of License Patent Agreement in Indonesia

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Abstract: This paper will elaborate the legal principles used in a patent license agreement. To analyze this substantive, this work will apply normative legal research. At the end, this work offers some substantive and pragmatic approaches. The substantive approach will discuss and examine some theories, norms, and policies. 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 are 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.

## 1 INTRODUCTION

Indonesian Patent Law regulated by Law Number 13 Year 2016. Article 76 (1) states that 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 referred to in article 16. Article 76 (2) said, unless agreed otherwise, the scope of a license as referred to in paragraph (1) shall cover acts as referred to in article 19 and shall continue for the term of the license granted, and shall be effective for the entire territory of the Republic Indonesia. Article 16 cover exclusive right of patent holder. The exclusive right contain of rights and obligation of a patent holder. 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.

## 2 DISCUSSION

Patent license agreement use the principles of contract law contained in the general agreements of contract. Regarding the principles of contract, once the decision to license has been made, a suitable strategy must be developed (Robert C. Megantz, 1996).

The principles used in the formation and performance of a patent license agreement are :

### 2.1 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 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).

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 intention 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.

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.

## 2.2 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

### 2.2.1 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).

### 2.2.2 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 fulfill 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 enter into a contract. If the parties do not fulfill the age requirement, the notary must refuse to make deed of the contract.

### 2.2.3 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.

### 2.2.4 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 *Niuwenhuiscausa* is the goal of the agreement, the goal to be achieved by the parties to an agreement, (Saragih, 1985). *Niuwenhuis* requires that the *causa* or lawful reason in principle agreements must not be contrary to the law, morality and public policy.

### 2.3 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.

### 2.4 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). It is in line to Hayyanul Haq which states, provide benefits and happiness for the wider community is the goal of the establishment of the State listed in the Constitution of the State. (Haq, 2014).

### 2.5 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 Article 1338 Paragraph (3) BW. In this regard, good faith or *bonafides* should be interpreted as reasonable 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 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) Law Number 14/2001 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 80 of Patent Act.

### The Problems of Patent License Agreement

There are some problems regarding patent license agreement that are:

Firstly; when the parties do not obey the obligations. It caused the other party lose some incomes. Secondly: when the licensee use a new patent in the same kind. Thirdly; when the patent become public domain. It means that the duration of licensee agreement quite long than the patent. The registration of patent of patent license, so far not running well, (Ana Nisa Fitriani, 2014). It can make uncertainty in implementation patent license agreement. The problems must be solved, because it caused the goal not running well. To overcome the problems, the government must make a regulation regarding patent license. The supporting regulation must be ready, and the supervision of patent license agreement must be strengthened. It is in line to Loughlan that there are also some areas of patent law in which patentees are prevented from exercising to the full the exclusive rights given by the patents regime (Patria Loughlan, 1998).

### 3 CONCLUSIONS

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. The draft must be suitable to the problems of patent license agreement.

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