

14 A Comparative Analysis on the No-Challenge Obligation in the Patent Licensing and Assignment Agreement between Korea, Japan, the US and Germany^(*)

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There is a lot of debate both in the inside and outside of Korea about the possibility of invalidity claims made by either the licensee or the assignor of the patent rights. Most controversial are particularly the problems whether including "no-challenge" provision in license agreement is a misuse of the patent right or constitutes an anti-competitive behavior under the antitrust law and whether the licensee or the assignor is, based on the principle of trust and good faith, prohibited from challenging the validity of the licensed or assigned patent, even if there is no such provision. This issue consists fundamentally of conflicts between general principles of the contract law such as the principle of trust and good faith or the principal of estoppel and the purpose of the patent system to promote industrial development. The research will compare and analyze how the laws, judicial precedents and theories of Korea, Japan, the US and Germany inclusive of EU are implemented, applied and interpreted regarding such conflicts and conclusively will suggest a reasonable standard as to how to deal with these problems.

I Introduction

There is a continuous debate, not only in Korea but also in many other countries, about whether a person who has assigned a patent right through a technology transfer agreement or a licensee may claim the invalidity of the relevant patent right. There is the issue of whether imposing a no-challenge obligation so as to prevent a person who has concluded a license agreement from challenging the licensee in terms of the validity of the patent right subject to the agreement falls under violation of the principle of trust and good faith, a misuse of the patent right or an act of unfair trade under the antitrust law. This issue fundamentally arises from conflicts between doctrines based on the general principles of the contract law, such as the principle of

trust and good faith or the principle of estoppel, and the purpose of the patent system to promote industrial development.

In practice, the no-challenge obligation generally means the obligation not to challenge the validity of a patent or know-how. That is, in a patent license agreement, it means the "licensee's obligation not to challenge the licensor in terms of the validity of the patent subject to the agreement," while in a know-how license agreement, it means the "licensee's obligation not to challenge the licensor in terms of whether the know-how subject to the agreement has been publicly known."^(*) In actual practice, it is common to insert a provision on such a no-challenge obligation – that is, a "no-challenge provision" – in a license agreement.^(**) In addition, many conflicts relating to the infringement or

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(*) Japan Fair Trade Commission, "Guidelines for Patent and Know-How Licensing Agreements under the Antimonopoly Act" (1999.7.30) 4-3-(4) and Japan Fair Trade Commission, the "Guidelines for the Use of Intellectual Property under the Antimonopoly Act" (2007.9.28), 4-4-(7).

(**) Masahiko Amemiya, "Kenrifusōgimu ni tsuite" (Concerning the no-challenge obligation), *Tokkyo Kanri*, vol.36, no.8 (1986), p.991, 996.

invalidity of a patent are solved through settlement or granting of a cross-license. In such a case, it is considered ordinary for the parties concerned to agree to the no-challenge obligation.^{(*)3} The no-challenge provision is subject to certain restrictions under the antitrust law of each country since it enables technology and know-how that do not have legitimacy worthy of legal protection to be protected as a patent or trade secret for quite a while and thereby restricts free competition. In addition, the provision lies outside the purpose of patent law and trade secret protection law, namely to promote industrial development by granting exclusive rights for technology and know-how that fulfill certain requirements.

Even if an agreement does not include a no-challenge provision, the no-challenge obligation may arise in some cases from the relationship of trust between the parties concerned. For example, when a licensee is using the relevant technology without any risk of patent infringement while eliminating competitors and subsequently claims the invalidity of the patent to escape paying license fees due to a change in the circumstances, such a claim can be regarded as being against the principle of trust and good faith or the principle of estoppel. However, if the claim of invalidity by a licensee is prohibited, there will be concern about damage to the public interest for free competition to be guaranteed through elimination of unfair patents. Therefore, the propriety of finding the no-challenge obligation based on the principle of trust and good faith has become subject to numerous debates in both judicial precedents and theories in each country. The no-challenge obligation based on the principle of trust and good faith also becomes an issue in relation to the assignor of a patent. For example, there is the question of whether an assignor is permitted, in terms of the principle of trust and good faith or the principle of estoppel, to file a request for a trial for invalidation of a

patent assigned or to make a defense of invalidity thereof in an infringement lawsuit if the assignee institutes a lawsuit against the assignor on the grounds of infringement of the patent in the case where an inventor (in many cases, an employed inventor) continues to use his/her patented invention even after he/she has assigned his/her right to a third party.

If emphasis is placed on the principle of the freedom of contract and the principle of trust and good faith, it will be necessary to allow the no-challenge obligation based on the validity of a no-challenge provision and the relationship of trust. On the other hand, there is the issue of the need to guarantee free competition to the maximum possible extent in the interest of the general public, by eliminating patents that are not worthy of protection. The validity of a no-challenge provision and the issue of the degree to which the no-challenge obligation based on the principle of trust and good faith is allowed are closely related to each country's laws and legislative policy regarding its patent system as well as competition policy. In countries where the effective means of claiming the invalidity of a patent are sufficiently guaranteed for third parties other than licensees and assignors, concern about damage to the public interest will not grow even if a no-challenge provision or compliance with the no-challenge obligation based on the principle of trust and good faith is allowed to a certain extent. In addition, if a patent is regarded as an exclusive right mainly in the sense that it inhibits free competition, no-challenge provisions and the no-challenge obligation based on the principle of trust and good faith will have to be allowed only to a very limited extent. This research first considers, through comparison, how the laws of Korea, Japan, the United States, Germany and Europe stipulate no-challenge provisions included in agreements and how judicial precedents and theories in each country deal with

(*)3) Katsuyuki Izumi, "Tokkyo raisensu keiyaku ni okeru fusōgimu to dokusenkinshihō" (No-challenge obligation in a patent license agreement and the antitrust law), I.P. Annual Report 2006, Bessatsu NBL, no. 116, p.239, 240.

no-challenge provisions and the no-challenge obligation based on the relationship of trust, and then presents a reasonable standard set by the author for the solution of this issue.

II Trends in Each Country

1 Korea

Firstly, looking at the means of claiming the invalidity of a patent, under Korean law, it is possible to do so by filing a request with the Korean Intellectual Property Office (KIPO). In addition, though only an interested party or an examiner may in principle request a trial for invalidation, anyone may request such a trial during the period from the date of registration of establishment of a patent right to within three months after the publication of registration (Article 133 of the Korean Patent Law). However, it has been allowed to make a defense of misuse (invalidity) of a right in infringement lawsuits since the Supreme Court of Korea's^{(*)4} holding in 2004 to the effect that a court examining a patent infringement lawsuit may determine whether it is obvious that the relevant patent has grounds for invalidation. The no-challenge obligation was questioned in association with requests for a trial for invalidation in the past. However, it seems that the presence of the no-challenge obligation has also come to be questioned in association with a defense of invalidity in an infringement lawsuit since the Supreme Court decision in 2004.

However, in terms of the structure of the system of trial for patent invalidation, in judicial precedents and theories in Korea, the issue of the licensee's no-challenge obligation

is still not dealt with independently but rather in association with whether the licensee is eligible to be a person who requests a trial for patent invalidation as an interested party. According to judicial precedents, an interested party who may request a trial for invalidation refers to a person who is subject to assertion of a right by the right holder or has the risk of becoming subject to such an assertion and has a direct and realistic interest that can be damaged by it.^{(*)5} Judicial precedents define a licensee, in general, as a person who does not have the risk of becoming subject to the assertion of a right by the patentee, and do not recognize that a licensee has any interest.^{(*)6} However, some judicial precedents recognize this;^{(*)7} therefore, it is impossible to learn the determined attitude of judicial precedents. However, in theories, the prevailing opinion denies the no-challenge obligation stipulated under the principle of trust and good faith while giving preference to the public interest through elimination of unfair patents over the relationship of trust between the parties concerned.^{(*)8} There has been neither judicial precedent nor theory regarding the assignor's no-challenge obligation.

With regard to no-challenge provisions, the validity thereof has been found in principle both in judicial precedents and theories.^{(*)9} However, this does not apply to cases where the antitrust law is violated. The antitrust law still does not mention whether to allow a no-challenge provision. However, Article 3, item 15 of the "Types and Standards of the Acts of Unfair Trade under an International Agreement"^{(*)10} in 1997 and Article 3, item 16 of the "Examination

(*)4 Supreme Court decision of 2004.10.28, 2000Da69194 (Publication 215 (2004.12.1), 1915).

(*)5 Supreme Court decision of 1980.6.24, 79Fu92 (Publication 638 (1980.8.15), 12973); Supreme Court decision of 1981.4.14, 79Fu90 (Publication 657 (1981.6.1), 13906).

(*)6 Supreme Court decision of 1981.7.28, 80Fu77 (Publication 665 (1981.10.1), 14265); Supreme Court decision of 1983.12.27, 82Fu58 (Publication 722 (1984.2.15), 264); Supreme Court decision of 1977.3.22, 76Fu7.

(*)7 Supreme Court decision of 1980.3.25, 79Fu78 (Publication 633 (1980.6.1), 12789); Supreme Court decision of 1980.5.13, 79Fu74; Supreme Court decision of 1984.5.29, 82Fu30 (Publication 733 (1984.8.1), 1188).

(*)8 Song Yeong-sik, Lee Sang-jeong and Hwang Jong-hwan, *Intellectual Property Law (I)*, 9th ed., (Yuk Phub Sa, 2005), p.343; Yun Seon-hui, *Patent Law*, (Bob Mun Sa, 2003), p.588.

(*)9 Song Yeong-sik, Lee Sang-jeong and Hwang Jong-hwan, supra note 8, 343; Yun Seon-hui, supra note 8, p.588; Hwang Jong-hwan, "Consideration of the licensee's no-challenge obligation," *Industrial Property Right*, no. 27 (1989.1): p.47, 51-52.

(*)10 Korea Fair Trade Commission, Examination No. 1997-23.

Guidelines for the Unfair Exercise of Intellectual Property Rights”^{(*)11} in 2000 explicitly prohibit right of rescission provisions by stipulating that “the case where a third party challenges the validity or public knowledge of technology subject to an agreement and the case where a provider may terminate an agreement” fall under acts of unfair trade. However, taking into account that a no-challenge provision restricts competition more than a right of rescission provision, it shall be deemed to fall under an act of unfair trade. In theories,^{(*)12} the same understanding is adopted. On the other hand, since the Supreme Court decision in 2004,^{(*)13} it has been allowed to make a defense of invalidity in an infringement lawsuit. Therefore, there seems to be the possibility that judicial precedents regarding the presence of the no-challenge obligation based on the principle of trust and good faith will arise in Korea in the future.

2 Japan

Despite the deletion of restrictive requirements for eligibility for a demandant of a trial for invalidation through the 1959 revision of the Patent Act (Article 123(1) of the said Act), it has been understood thereafter in many theories^{(*)14} and judicial precedents^{(*)15} in Japan that a person may file a request for a trial for invalidation if he/she has an interest. This idea is in accordance with the principle of civil procedure to the effect that “no profits from proceedings, no right to proceed.” Consequently, with regard to the licensee’s no-challenge obligation, past judicial precedents in Japan have focused mainly on whether the licensee is eligible to file a request for a trial for invalidation – that is, whether the licensee is an interested

party. However, the 2003 revision of the Patent Act made it possible for anyone to file a request for a trial for invalidation (Article 123(2) of the Japanese Patent Act), and it has become unnecessary to associate the licensee’s no-challenge obligation with the issue of whether the licensee is an interested party. In addition, in the “Kilby” decision^{(*)16} in 2000, the Supreme Court allowed making a defense of invalidity of a patent in an infringement lawsuit, and the propriety of finding the no-challenge obligation was questioned in relation to a defense of invalidity. However, in contrast with the United States and Germany, there seems to be no judicial precedent in Japan regarding the licensee’s no-challenge obligation based on the principle of trust and good faith between the parties concerned or the principle of estoppel.

Before the 2003 revision of the Patent Act, an interested party who may file a request for a trial for invalidation was defined as “a person who suffers direct disadvantage for any reason due to the presence of a patent right that shall be invalidated,”^{(*)17} and those who actually exploit or are preparing to exploit technology that is identical or equivalent to the relevant patented invention and those who have received a warning fell under such a definition.^{(*)18} According to this, licensees do not fall under interested parties since they are in a position that receives benefits from the survival of the relevant patent right. Therefore, they are not allowed to file a request for a trial for invalidation. Consequently, the no-challenge obligation has to be affirmed. However, in judicial precedents, the court ultimately denied the licensee’s no-challenge obligation by holding that a licensee has an interest in filing a

(*)11 Korea Fair Trade Commission, 2000.8.30.

(*)12 For example, see Yun Seon-hui, *supra* note 8, 588.

(*)13 Supreme Court decision of 2004.10.28, 2000Da69194 (Publication 215 (2004.12.1), 1915).

(*)14 Regarding this, see Nobuhiro Nakayama, *Kogōshoyūkenhō (jō) tokkyohō, dainihanzōhoban* (Industrial property law (1) patent law, 2nd enlarged edition) (Kobundo, 2000), p.240, and documents cited therein.

(*)15 Tokyo High Court decision of 1966.9.27 – “Sealed Stirring Device” (*Gyōshū*, vol. 17, no. 9: 1,119).

(*)16 Supreme Court decision of 2000.4.11, 1998(O)364.

(*)17 Tokyo High Court decision of 1963.1.31 – “Synthetic Resin Decorative Laminate” (*Gyōshū*, vol. 14, no. 1: 95).

(*)18 See Nobuhiro Nakayama, *supra* note 14, p.240.

request for a trial for invalidation.^(*19) In addition, many theories adopt a view denying the licensee's no-challenge obligation in principle, in consideration of the purpose of the patent system and the situation at the time of conclusion of a license agreement.^(*20) In some such theories, interest and the no-challenge obligation are seen as separate issues, and it is considered undesirable to find the no-challenge obligation based on the principle of trust and good faith even in consideration of the situation at the time of conclusion of a license agreement, since a licensee also has an interest, as he/she suffers disadvantage, such as the payment of license fees, due to the survival of the relevant patent right. Contrary to this, there has been neither judicial precedent nor theory regarding the assignor's no-challenge obligation.

With regard to no-challenge provisions, the effect thereof is generally recognized unless there is a situation such as the occurrence of an act against public order and morality in the process of concluding an agreement and the misuse of an advantageous position.^(*21) In terms of judicial precedents, the court held that a request for a trial for invalidation shall be dismissed in the case where there has been a settlement between the parties concerned, though this is not related to the no-challenge provision itself.^(*22) With regard to whether a no-challenge provision violates the Antimonopoly Act, the "Guidelines for the Use of Intellectual Property under the Antimonopoly Act"^(*23) in 2007 allow the act of adding the no-challenge obligation on the premise that a no-challenge provision

contributes to stimulating competition by facilitating technology transactions and is unlikely to lessen competition directly. However, said act is deemed to fall under the category of unfair trade practice in exceptional cases where it impedes fair competition as the use of technology associated with the right that should be invalidated is restricted due to the survival of that right. Said guidelines consider that the right of rescission provision does not fall under the category of unfair trade practice in principle.^(*24)

3 United States

The methods of claiming the invalidity of a patent in the United States are the "ex parte reexamination" (Sections 302-307 of the U.S. patent law) and "inter partes reexamination" (Sections 311-318 of the U.S. patent law) procedures. However, these procedures are actually not widely used due to restrictions on the participation of a third party in the reexamination procedures and restrictions on appeal to the court.^(*25) Consequently, in many cases, the no-challenge obligation becomes an issue, particularly in infringement lawsuits in association with a defense of invalidity.

In the past, U.S. judicial precedents have adopted the view that a licensee cannot claim the invalidity of a licensed patent due to licensee estoppel. However, the no-challenge obligation has been denied since the holding in the *Lear* case^(*26) in 1969 to the effect that a licensee may claim the invalidity of a licensed patent for the public interest. At the same time, mainstream judicial precedents

(*19) Tokyo High Court decision of 1963.1.31 – "Synthetic Resin Decorative Laminate" (*Gyōshū*, vol. 14, no. 1: 95); Tokyo High Court decision of 1985.7.30 – "Faucet Splice Fitting Design" (*Gyōshū*, vol. 17, no. 2: 344).

(*20) Nobuhiro Nakayama, *supra* note 14, p.438-439; Katsuyuki Izumi, *supra* note 3, p.243, and Ryuichiro Sengen, *Tokkyohō kōgi* (Lecture on patent law), 4th ed. (Yuyusha, 2003), 201, cited therein.

(*21) Nobuhiro Nakayama, *supra* note 14, p. 242 and 439 and note 6.

(*22) Tokyo High Court decision of 1980.12.23 (*Torikeshisoshoshu*, 15); Tokyo High Court decision of 1983.3.30 (*Torikeshisoshoshu*, 186).

(*23) Japan Fair Trade Commission, "Guidelines for the Use of Intellectual Property under the Antimonopoly Act" (2007.9.28), 4-4-(7).

(*24) *Id.*

(*25) "Amerika tokkyohō seido bunseki oyobi jijiten ni kansuru kenkyū" (Analysis of U.S. patent law and system and research on topical issues), *Japan Patent Office Research Report*, 2006.9.8: 191 and 199 .

(*26) *Lear, Inc. v. Adkins*, 395 U.S. 653 (U.S. 1969).

seem to find the no-challenge obligation based on assignor estoppel. As one of the reasons why U.S. judicial precedents have come to deny the licensee's no-challenge obligation, some cite the point that, under the U.S. patent system, a third party is unlikely to be able to claim the invalidity of a patent in reality. ^(*27)

Firstly, in relation to the licensee's no-challenge obligation, U.S. judicial precedents have mostly found the licensee's no-challenge obligation based on the principle of estoppel up to the Hazeltine decision ^(*28) in 1950. As seen in the Sola Electric decision (1942), ^(*29) the Katzinger decision (1947) ^(*30) and the MacGregor decision (1947), ^(*31) the courts eliminated the application of the principle of estoppel in exceptional cases where there is a violation of the antitrust law, such as a binding provision on price. However, since the Lear decision in 1969, the courts have allowed licensees to claim the invalidity of inventions that are not worthy of protection, putting more emphasis on the public interest nature of the patent system than the principle of estoppel, which is a contractual principle. In the Lear decision, the Supreme Court of the United States did not apply the principle of estoppel to the licensee and allowed the licensee to attack the validity of the relevant patent. However, as the prerequisites, the licensee was required to have violated the license agreement and to have failed to pay license fees. The MedImmune decision ^(*32) in 2007 is significant for the point that the court held that a licensee who does not violate the license agreement may also challenge the validity of the relevant patent. That is, owing to the MedImmune decision, it has become possible for licensees to file lawsuits for a

declaratory judgment in which the validity of the relevant patent is contested, while paying license fees under protest to retain the relevant right. This is obviously more advantageous to the licensees' side in that licensees may attack the validity of the relevant patent rights without worrying about having infringement lawsuits filed by the patentees.

In relation to the assignor's no-challenge obligation, both in the Westinghouse decision ^(*33) in 1924 and in the Scott Paper decision ^(*34) in 1945, the court essentially found assignor estoppel but allowed a defense of publicly known art, thereby virtually narrowing the scope of application of the estoppel. After this, with regard to licensee estoppel, the Lear decision was rendered in 1969. Some lower court decisions rendered immediately after said decision showed an attitude denying assignor estoppel under the influence of the Lear decision. However, the court has found assignor estoppel again in decisions rendered after the Diamond Scientific decision ^(*35) of the United States Court of Appeals for the Federal Circuit (CAFC) in 1988. It is obvious that the CAFC did not totally leave the public interest emphasized in the Lear decision – that is, guarantee of free competition – out of consideration ^(*36) but put more emphasis on the trust and good faith of the parties concerned. If the CAFC intended to protect the interests of the general public to the maximum possible extent, it would have to completely deny the no-challenge obligation of licensees and assignors. There is the view that a reason why the Supreme Court of the United States and the CAFC reached different conclusions though they considered the public interest and the private interest together is

^(*27) Bodewig, "Nichtangriffspflichten des Veräußerers im US-amerikanischen Patentrecht", GRUR Int. 2004, 918, 919.

^(*28) Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (U.S. 1950).

^(*29) Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173 (U.S. 1942).

^(*30) Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394 (U.S. 1947).

^(*31) MacGregor v. Westinghouse Electric & Mfg. Co., 329 U.S. 402 (U.S. 1947).

^(*32) MedImmune, Inc. v. Genentech, Inc., 127 S.Ct. 764 (2007).

^(*33) Westinghouse Electric & Mfg. Co. v. Formica Insulation Co., 266 U.S. 342 (U.S. 1924).

^(*34) Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (U.S. 1945).

^(*35) Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220 (Fed. Cir. 1988).

^(*36) 848 F.2d 1220, 1224-1225 (Fed. Cir. 1988).

found in the pro-patent attitude of the latter.^(*)37) The Supreme Court of the United States has not rendered any decision finding the assignor's no-challenge obligation since the Diamond Scientific decision. However, although the Supreme Court has had opportunities to present an opinion contrary to that of the CAFC in many cases, it has yet to render a decision to such effect. Consequently, it would be safe to say at present that U.S. judicial precedents find assignor estoppel in a determined way.^(*)38)

There is no cut-and-dry explanation of the attitude toward no-challenge provisions that is taken in U.S. judicial precedents. Firstly, in the past, the Supreme Court of the United States did not generally invalidate no-challenge provisions included in license agreements, but adopted the idea that licensees may still claim the invalidity of the relevant patent because such provisions are not enforceable agreements.^(*)39) In judicial precedents after the Lear decision in 1969, the court considers no-challenge provisions to be invalid.^(*)40) Regarding settlement agreements or no-challenge provisions included in settlement agreements, U.S. judicial precedents consider no-challenge provisions based on an extra-judicial settlement agreement to be unenforceable^(*)41) but consider those based on a judicial settlement agreement to be enforceable.^(*)42) Analyzing reasons for finding the validity and enforceability of no-challenge provisions based on a judicial settlement agreement, in the Hemstreet decision^(*)43) in 1988 and Foster decision^(*)44) in 1991, the court dismissed an invalidity claim on the grounds of the res adjudicata of a settlement order based on a

settlement agreement or a consent judgment. In the Flex-Foot decision^(*)45) in 2001, the court cited, as one of the reasons, the point that a settlement agreement has been concluded after the institution of the lawsuit and after the discovery procedures, though there was neither a settlement order nor consent judgment. On the other hand, it is possible to say that the conclusions in the Golden State decision^(*)46) in 1971 and the Hemstreet decision in 1988 and subsequent decisions were different, since the former was rendered immediately after the Lear decision in 1969 but the latter were rendered by the CAFC at a time when the pro-patent policy was being enforced.

With regard to the issue of the obligation to pay unpaid license fees in the case where a patent turned out to be invalid, in the SGK decision^(*)47) in 1997, the CAFC put restrictions on the Lear decision of 1969 by holding that the licensee cannot claim the suspension of payment of license fees until he/she suspends the payment of license fees and notifies the licensor of the fact that he/she is suspending that payment since the relevant patent is invalid.

4 Germany

Firstly, looking at the methods of claiming the invalidity of a patent, under the German Patent Act, there are invalidation proceedings (Sections 22 and 81 of the Act) and opposition procedure (Section 59 of the Act). Although any person may lodge either of them, an opposition must be lodged within three months of the publication of granting of a patent. Neither invalidation proceedings

(*)37) Bodewig, *supra* note 27, S.922.

(*)38) *Id.*, S. 922-923.

(*)40) *Pope Mfg. Co. v. Gormully*, 144 U.S. 224 (U.S. 1892); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947).

(*)40) *Bendix Corp. v. Balax, Inc.*, 471 F.2d 149 (7th Cir. 1972).

(*)41) *Massillion-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444 F.2d 425 (9th Cir. 1971).

(*)42) *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348 (Fed. Cir. 1988); *Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (Fed. Cir. 1991); *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362 (Fed. Cir. 2001).

(*)43) *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348 (Fed. Cir. 1988).

(*)44) *Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (Fed. Cir. 1991).

(*)45) *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362 (Fed. Cir. 2001).

(*)46) *Massillion-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444 F.2d 425 (9th Cir. 1971).

(*)47) *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.*, 112 F.3d 1561 (Fed. Cir. 1997).

nor opposition will be accepted if there is a no-challenge agreement between the parties concerned or if a no-challenge obligation is found due to a special relationship between the parties concerned.^(*48) In Germany, the separation of authority between the patent office and court is relatively rigorously maintained. It is thus not allowed to make a defense of invalidity in an infringement lawsuit, and only “Einwand des freien Stand der Technik (Formstein-Einwand) (defense of free technical level)” is permitted. Therefore, in Germany, the no-challenge obligation does not become an issue in association with a defense of invalidity in an infringement lawsuit.

In past judicial precedents and theories in Germany, invalidation proceedings lodged by any of the following persons were not accepted on the basis of the principle of trust and good faith: (i) an assignor of a patent, (ii) a member of an association who has offered the patent to the association, (iii) an employee who has assigned his/her employee’s invention to his/her employer (the same applies to cases where the employment relationship has been terminated), (iv) a licensee in the case where there is a license agreement on cooperative work based on deep-seated belief, for example, where the contractual relationship between the parties concerned has characteristics similar to an association, and (v) a party concerned who has agreed on close cooperative work with another party concerned in association with the use of the patented invention of that other party.^(*49) That is, in judicial precedents in Germany, the court widely recognized the no-challenge obligation based on the principle of trust and good faith in the case where a special relationship of trust, such as the relationship between a licensee and a licensor, between an assignor and an assignee of a patent or between union members, is recognized between the parties concerned. Explicit no-challenge provisions

were also regarded as valid in principle, and this validity was recognized especially in the case of a judicial or extra-judicial settlement or a gratuitous license.^(*50)

In the German Act against Restraints of Competition, revised in 2005, the provision of Section 17, paragraph 2, sentence 3 of the old Act deeming no-challenge provisions to be valid was deleted. Thereby, no-challenge provisions have come to be deemed invalid in principle. This is understood as being in line with the spirit of the European Community Law, which is aimed at guaranteeing free competition to the maximum possible extent. On the other hand, it is unclear to what extent the implicit no-challenge obligation is found based on the duty of loyalty arising from a special relationship between the parties concerned. However, in this regard, it would also be necessary to take into account the European Competition Law, which is aimed at guaranteeing free competition to the maximum possible extent, and the purpose of the revision of the German Act against Restraints of Competition. That is, it is necessary to pay attention to the fact that the legislative policy was changed to put greater importance on the guarantee of free competition than the trust and good faith of the parties concerned. In the end, it would be necessary to say that the scope within which the implicit no-challenge obligation can be found was narrowed down compared to the past.

5 European Union

On the European Union level, neither patent invalidation proceedings nor patent infringement lawsuits exist. Therefore, it becomes an issue whether a no-challenge provision explicitly set by the parties concerned in an agreement violates the competition law of the European Union. On the premise that elimination of all obstacles to economic activities that arise from unfairly

(*48) BGH GRUR 1987, 900, 901 - “Entwässerungsanlage”; BGH GRUR 1971, 243, 244 - “Gewindeschneidvorrichtungen”; BGH GRUR 1965, 135, 137 - “Vanal-Patent.”

(*49) BGH GRUR 1989, 39, 40 - “Flächenentlüftung.”

(*50) BPatG GRUR Int. 1997, 631, 634 - “Nichtangriffspflicht.”

granted patent rights contributes to the public interest, the Court of Justice of the European Communities (EuGH) stated as follows: Protection from attack against the validity of a patent is not included in the inherent nature of patent rights, and thus, no-challenge provisions do not fall under the scope of patent rights; such provisions are prohibited in accordance with the Treaty establishing the European Community, as they unfairly restrict competition between business operators. ^{(*)51}

In addition, according to the Commission Regulation (EC) No 772/2004, ^{(*)52} revised in 2004, and the Commission Regulation (EC) No 2659/2000 of 2000, ^{(*)53} the competition law of the European Union is applicable to no-challenge provisions without any restrictions. Therefore, no-challenge provisions are prohibited in principle. However, no-challenge provisions relating to know-how, ^{(*)54} a settlement, ^{(*)55} or joint research and development^{(*)56} are permitted as exceptions. In addition, provisions for right of rescission are considered to be permitted. ^{(*)57}

III Evaluation by a Comparative Method

With regard to the validity of the no-challenge obligation based on the relationship of trust between the parties concerned and no-challenge provisions in agreements, their handling by law differs depending on the competition policy of the country in question. In the United States and Germany, there were once many judicial precedents regarding the no-challenge obligation of the licensee and assignor based on the principle of trust and good faith or the principle of estoppel. There were also active theoretical discussions thereon. Around the

time of the Lear decision in 1969, the United States shifted from a positive attitude toward the licensee's no-challenge obligation to a negative attitude toward it, and this attitude has been firmly maintained in U.S. judicial precedents up until now. At the same time, the assignor's no-challenge obligation has been found on the grounds of the principle of estoppel. The effect of a no-challenge provision is recognized in principle only where it is included in a judicial settlement.

In Germany, no-challenge provisions were deemed valid under the antitrust law before the 2005 revision of the Act against Restraints of Competition, and the no-challenge obligation based on the relationship of trust was also relatively widely recognized. However, due to application of the competition law of the European Union through the revision of said Act, no-challenge provisions in agreements are expected to be prohibited in the future, and the scope of finding the no-challenge obligation based on the principle of trust and good faith is also expected to be narrowed, taking into account the competition policy of the European Union, which is aimed at guaranteeing free competition to the maximum possible extent. In the case of the European Union, no-challenge provisions are prohibited in principle, but those relating to know-how, a settlement or joint research and development are permitted as exceptions. Right of rescission provisions are considered valid in the United States, Germany and the European Union.

In Japan, prior to the 2003 revision of the Patent Act, both judicial precedents and major theories required the demandant of a trial for invalidation to have an interest. Therefore, discussions about the no-challenge obligation were focused on whether licensees

^{(*)51} EuGH GRUR Int. 1986, 635, 641 - "Windsurfing International."

^{(*)52} Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L 123, 27/04/2004, p.11.

^{(*)53} Article 5(1)(b) of Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements (OJ L 304, 05/12/2000, p.7).

^{(*)54} No. 112 in the Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (OJ C 101, 27/04/2004, p.2).

^{(*)55} Id. No. 209.

^{(*)56} Contrary interpretation of Article 5(1)(b) of Regulation No 2659/2000.

^{(*)57} Article 5(1)(c) of Regulation No 772/2004.

fall under interested parties. The same can be said for Korea. However, in the Supreme Court decision in 2000, making a defense of invalidity in an infringement lawsuit was allowed. The Patent Act, revised in 2003, clearly specified that any person may file a request for a trial for invalidation. Due to these, it is expected that there will be court decisions regarding the propriety of finding the no-challenge obligation based on the principle of trust and good faith in the future. Under the Japanese antitrust law, no-challenge provisions, not to mention right of rescission provisions, are considered to be permitted in principle.

In the case of Korea, a person is required to have an interest in order to file a request for a trial for invalidation. There is no judicial precedent regarding the propriety of finding the no-challenge obligation set based on the principle of trust and good faith, in association with a request for a trial for invalidation. However, after the Supreme Court decision in 2004, it is allowed to make a defense of invalidity in an infringement lawsuit. Therefore, it is expected that there will be court decisions regarding the no-challenge obligation based on the principle of trust and good faith in the future. In Korea, right of rescission provisions are considered to fall under the category of unfair trade practice under the antitrust law, and no-challenge provisions are understood in the same manner. Therefore, in this regard, Korea takes an opposite stance to Japan, the United States, Germany and the European Union.

IV Conclusion

Debate about the no-challenge obligation relating to patented inventions or know-how based on the principle of trust and good faith and no-challenge provisions in agreements arises from conflicts between contract law and antitrust law or the purpose of the patent system. From the

perspective of contract law, it is necessary to perform said obligation in accordance with the principle of trust and good faith, in compliance with an agreement reached between the parties concerned. On the other hand, from the perspective of antitrust law, it is necessary to guarantee free and fair competition by eliminating patents that are not worthy of protection. It is possible to say that, in the past, the laws and court decisions of each country respected the relationship of trust and contractual agreements between the parties concerned and strongly affirmed the validity of the no-challenge obligation and no-challenge provisions. However, since the *Lear* decision^(*58) in 1969 in the United States, the laws and practices of each country have mostly come to give priority to the public interest through elimination of unfair patents. In judicial precedents in Japan, the court stated that a licensee may, in principle, file a request for a trial for invalidation, ultimately putting more emphasis on the public interest than the private interest. In judicial precedents in Germany, the court, in principle, did not find the licensee's no-challenge obligation except when there is a special relationship of trust between the parties concerned. With regard to no-challenge provisions, the U.S. court denies the enforceability and validity thereof except when such a provision is based on a judicial settlement of which *res adjudicata* is found, and thereby gives priority to the public interest through elimination of unfair patents. Meanwhile, Regulation No 772/2004 of the European Union shows the most radical attitude by essentially prohibiting no-challenge provisions.^(*59) In short, these countries are thought to tend to find claims of invalidity of unfair patents extensively on the premise that the presence of unfair patents is contrary to the public interest. However, if the validity of the no-challenge obligation and no-challenge provisions is denied, patentees' positions and patent rights will be vulnerable, which will ultimately work against patentees

(*58) *Lear, Inc. v. Adkins*, 395 U.S. 653 (U.S. 1969).

(*59) Article 5(1)(c) of Regulation No 772/2004.

who intend to exploit their technologies in the industry through licensing. That will reduce the incentive for technological development and will also impede industrial development and technological innovation in the long term.^(*60)

It is interesting fact that the fact that the no-challenge obligation and no-challenge provisions play the role of facilitating competition in the ultimate sense is cited as a reason in all positive and negative views on their validity. The no-challenge obligation and no-challenge provisions function as patentees' motive for licensing their technologies, and they promote competition by facilitating the granting of licenses for technologies.^(*61) On the other hand, if the validity of the no-challenge obligation or no-challenge provisions is denied, licensees will be less reluctant to conclude license agreements, and the parties concerned will conclude license agreements more easily, thereby promoting competition.^(*62) In short, these cases resemble each other in terms of the ultimate goal – namely, promotion of competition – but different methods are taken to achieve that goal. In the market, new technology is always being developed, and companies can be at once licensors and licensees. Therefore, neither affirmation nor denial of the no-challenge obligation by the antitrust authorities is necessarily advantageous to specific companies. As both affirmation and denial of the no-challenge obligation function to facilitate competition to a certain extent, it is considered undesirable to adopt a policy that affirms or denies the no-challenge obligation without exception. It is desirable to flexibly manage the scope of exception while essentially affirming or denying the no-challenge obligation, in consideration of the economic conditions and the level of technological development at that given moment.

(*60) Ulmer-Eilfort/Boulware, "Challenging Licensed Intellectual Property Rights Under U.S. and European Laws. The U.S. Supreme Court Abandons the Principle of Licensee Estoppel," IIC 2007, p.759, 764.

(*61) Jones, "Licensee estoppel: an overview of the position under English and European law," Journal of Intellectual Property Law & Practice, 2007, Vol.2, No.11, p.750, p.754.

(*62) See id.