

## PATENT OWNERSHIP AND TRANSACTIONS: PROBLEMS AND CONCERNS

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### Abstract

Patent right confers exclusive rights to the patent holder thereby preventing others to make and use the invention. Licensing of patents forms a mechanism where for a limited time the licensee obtains rights to make, use and sell products (or process that lead to products). It is pertinent to note that patent licensing integrally involves know-how. With the growth of the digital technology, there is huge complexity in dealing with ownership in relation to technology and patent agreements. The nature and scope of patent rights in an invention, the background Intellectual Property (IP) and joint developments are some challenges concerning patent transactions. Through an analysis of judicial pronouncements, the present study attempts to analyze some of these concerns on patent ownership and transactions.

**Key words:** patent, ownership, licensing, invention, technology agreements, judicial pronouncements

### Introduction

Ownership of property has always been the center of a dispute in the legal forum. Ownership gives birth to many rights which are associated with the property. Patent rights being an intellectual property rights are subject to general rules of ownership and transfer of property.<sup>1</sup> The patent owner enjoys all the rights, title, and interests which are granted by the patent. A patent owner enjoys the entire attributes equivalent to personal property.<sup>2</sup> Also, patent as well as the patent applications are assignable by law only if they are given by an instrument in writing.<sup>3</sup> In Patent law, the general established rule is that in the absence of a written

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<sup>1</sup> 8 DONALD S., CHISUM, CHISUM ON PATENTS, 22-2 (8th. Ed. Lexis Nexis 2005).

<sup>2</sup> 35 U.S.C Section 261.

<sup>3</sup> 35 U.S.C Section 261.

agreement to the contrary the employee owns inventions made in the course of his employment, unless the employee was "hired to invent."<sup>4</sup> However, the law is not clear as to the ownership of patentable inventions or unpatentable creations made in the course of a consulting relationship<sup>5</sup> in cases where there is no written agreement.

Patent rights are different from any other form of the property so the rules adopted with respect to co-owners of ordinary chattels cannot safely be followed in these cases.<sup>6</sup> Further organizations collaborate to generate patentable intellectual property with the expectation that they will jointly own the intellectual property that arises from their collaboration.<sup>7</sup> This joint ownership can have unexpected consequences. Sometimes, these consequences can operate to the disadvantage of one joint owner, or even to the disadvantage of all the joint owners, limiting their ability to bargain and negotiate, as well as affecting their economic interests, in ways that the joint owners did not anticipate.<sup>8</sup>

In today's technologically advanced society, most of the market competition is focused on improving the current technology. Companies are in cut-throat competition to put their hands on an innovation. All they want is to claim the ownership over such technology, mainly on the patent grants. Further, there are varieties of agreements involved in technology-based agreements such as collaborative agreements, joint-ownership agreements, co-ownership agreements, licensing, assignment and so on. All of these agreements deal with ownership of patents, giving birth to various concerns in respect of patent rights. Generally, companies or corporate entities involved in the area will not like to lose ownership of patents. Unlike other areas, intellectual property concerning patents often includes background IP. Further, a lot of patents know how is essentially integral to their working. This makes the area of patents interesting from the dimension of ownership.

### **Patent ownership and IP licensing**

The factors influencing the grant of IP licenses are many based on commercial, legal and regulatory factors that inform and influence patent ownership and licensing arrangements-intentionally or

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<sup>4</sup> Cisco v. United Parcel Service, Inc. No. 1101, slip opinion, A.2d (1984).

<sup>5</sup> Robert S. Bramson, *Ownership of Patents, Trade Secrets and Copyrights: An Outline*, 25 AMERICAN BAR ASSOCIATION, 291-299 (1985).

<sup>6</sup> Talbot v. Quaker-State Oil Refining, 104 F.2d 967, 968 (3d Cir. 1939).

<sup>7</sup> *Id.* at 22-3.

<sup>8</sup> *Id.* at 22-4.

otherwise. In the case of license grants for each of the different forms of intellectual property rights differ according to the governing statute or law and industry practices. Therefore, the scope of rights in the license grant needs to reflect the different rights concerning each intellectual property rights involved in the transaction and the subject matter of the licensed technology.<sup>9</sup> Further, it is found in prior works on IP licensing that certain basic issues arise, regarding patent licensing, these are:

- Whether the intellectual property rights to be licensed are limited to existing IP rights or are intended to cover future rights? (Examples of future rights include new IP rights that may arise in the future, such as patent rights that may issue concerning the licensed subject matter as discussed above and IP rights in improvements to licensed technology that will be made on an ongoing basis during the term of the agreement.)
- Whether the Licensor owns all of the IP rights it licenses or whether it is a Licensee of some of the rights and will be sublicensing these rights to the Licensee or service recipient in a given transaction?
- Whether the license limitations appropriate?<sup>10</sup>

While looking prior to IP litigation scenario of licensing in Australia, it is found that even when there is some form of written or oral agreement, such as one relating to the distribution of product or services embodying the patented invention, it may not deal expressly with patent licensing issues.<sup>11</sup> The patents are assigned successively from one company to another, without the Register being updated, this would result in different owners at law (as reflected in the Register) and in equity (as reflected in assignment agreements or deeds).<sup>12</sup>

Further while seeking answers to understand license grant to mixed ownership firm, it is found that through notice of publication the inventor attracts potential buyers, investors or licensees of the technology and gives notice to potential infringers who could be approached after the grant of the patent. Therefore,

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<sup>9</sup> Tanenbaum, William A., *Negotiating and Drafting IP License Grants: Practical Steps to Protect the Interests of Licensors and Licensees with Exemplary License Provisions*, 30 COMPUTER AND INTERNET LAWYER, 1-3 (2013).

<sup>10</sup> *Id.* at 30.

<sup>11</sup> Katrina Crooks & Duncan Longstaff, *Getting Ownership and Licensing of Australian Patents Right before Litigation*, THE LICENSING JOURNAL, 1-7 (2017).

<sup>12</sup> *Id.* at 39.

it was viewed that the companies are to keep an eye on the latest patent publications in the jurisdiction of interest, to be aware of competitor innovations as well as to identify potential opportunities for acquisition/licensing from academic or other potential sources of innovation and technology.<sup>13</sup>

While looking into the scenario of IP licensing in India, we see that the Government of India is working to rapidly reform the country's intellectual property system and deserves tremendous credit for its efforts. Further, India being a founding member of the World Trade Organization (WTO) and is subject to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights, therefore it was concluded that India had modified its patent law to better inform to its treaty obligations, but the recent trend toward broadening compulsory licensing has been regarded as a potential concern for companies concerned about India's ability to protect intellectual property rights.<sup>14</sup>

### **Ownership concerns in patent assignments**

In IP related transaction a universal practice has been established whereby the employers would require the employees (especially the ones involved with the technical knowhow) to enter into agreements which would assign the rights to the invention to the employer, which is created by the employee during the course of the employment. Such assignments give rise to certain concerns relating to the nature of patent ownership.

- **The United Kingdom**

Section 30 (6) (a) of UK Patent Act, 1977 is applicable on the assignment of patents. This Section provides that an assignment or mortgage shall be valid only if it is in writing and signed by or on behalf of appropriate parties.<sup>15</sup> Further Section 7 (2) (b) of the UK Patent Act provides a patent for any invention may be granted to any person who at the time of making the invention is entitled to whole of the property in it by virtue of any enforceable term of any agreement entered into with the inventor before the making of the invention.<sup>16</sup>

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<sup>13</sup> Juan Alejandro Gelvesa, & John S. Heywood, *How does a mixed ownership firm license a patent?*, 59 ECONOMIC MODELLING, 278-284 (2016).

<sup>14</sup> Barot, Hitesh S., Charan Sandhu, & Pravin Anand, *Current Issues in Indian IP Licensing*, 33 THE LICENSING JOURNAL, 17-18 (2013).

<sup>15</sup> Section 30 (6), Patents Act, 1977.

<sup>16</sup> Section 7(2) (b), Patents Act, 1977.

In respect of entitlement of ownership over the patented invention, Section 39 of the UK Patent Act ensures the conditions of such entitlement made by an employee to an employer under certain circumstances, which are:

- (a) “If it was made in the course of normal duties as an employee or in the course of duties specifically assigned to him (but outside his normal duties) and the circumstances in the either case where such an invention might reasonably be expected result therefrom.<sup>17</sup>
- (b) It was made in the course of duties of the employee which duties were such as to give rise to a special obligation to further the interest of the employer's undertaking.<sup>18</sup>”

In the case of *LIFFE v. Pinkava*<sup>19</sup>, the UK court thoroughly examined the said provision. Herein Pinkava was an employed in LIFFE to devise new products which certain technical requirements. LIFFE had assigned Pinkava to develop products of relevant kind, and the inventions were made. Thereon, Pinkava claimed ownership over these inventions, which was upheld in Court, as these inventions were made in the course of duties specifically assigned to him and not in his normal or ordinary course of employment. The Court of Appeal, while upholding the trial courts judgment observed that Section 39 focusses on the "duties" of the employee that are the obligations and the primary source of such duty arises from the contract of employment.<sup>20</sup> But the contract in itself is not the sole conclusion of duty, the actions of employer and employee over time which may broaden or constrict the scope of entitlements.<sup>21</sup>

- **The United States**

In the US the ownership and assignment of patents are discussed in 35 USC 261 as ownership and assignability of “applications for patent, patents, or any interest therein” and to recordation of such “interest”. It is seen in the US, the

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<sup>17</sup> Section 39(1)(a), Patents Act, 1977.

<sup>18</sup> Section 39(1)(b), Patents Act, 1977.

<sup>19</sup> (2006) EWHC 595 (Pat.).

<sup>20</sup> *Forte v. Martinex* (1947) 64 R.P.C 26.

<sup>21</sup> Nikhil Issar & Akshay Goel, *A Critique of the Indian Patent Assignments Regime: Pre- Invention Assignments and Employee’s Invention*, 18 JOURNAL OF INTELLECTUAL PROPERTY RIGHTS, 83-89(2017).

registration of assignment is not mandatory for such applications.<sup>22</sup> As per their findings, the ownership of technology represented in a patent application seems to be recognized by global patent regimes and is made available to the public from the date of publication.<sup>23</sup> To get a clear picture of US perspective on assignment, it is important to look into the widely criticized judgment of *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*<sup>24</sup> In this case, the employee-inventor Dr. Holodniy a research fellow and employee of the Stanford University was sent to Cetus Company for studying the developing methods for quantifying blood-borne levels of HIV. This research was being undertaken by the Company. He was under a contract with the Company as well as the University. In the former, he had agreed to assign all the inventions made as consequences of access of the Cetus facility to the Company, and in the latter, he had assigned his future inventions in the course of such employment to the University. He developed the Noble Prize winning procedure while working in the Company with the other employees. He later returned to the University and tested the same using University resources. The patent for this procedure was by Stanford University. Thereon, Roche Molecular System developed HIV Kits based on the patented technology by acquiring the research works through the contract between Dr. Holodniy and Cetus Company.

The major issue over the dispute revolved over the ownership of the invention, i.e., whether the University or the Company was entitled to it. The court held that the impact of Small Business Patent Procedures Act of 1980 (popularly referred as Bayh- Dole Act), does not vest the title of federally funded inventions to federal contractors, rather the norm of patent law, that rights in the invention belong to inventor subsists over it. This judgment raises certain concerns over the aspect of patent ownership, as it increases the potential of post-invention ownership issues, resulting in negative impact on private investments on universities for research.

- **India**

The aspect of assignment under Indian law is underlined in Section 68 of The Patents Act, 1970. The provision states: “an

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<sup>22</sup> Velsicol Corp. v. Hyman, 405 Ill. 352, 90 N.E.2d 717, See also United States v. Dubilier Condenser Corp. 289 U.S. 178 (1932).

<sup>23</sup> *Id.* at 53.

<sup>24</sup> 131 S. Ct. 2188 (2011).

assignment of a patent or a share in a patent, a mortgage, licence or the creation of any other interest in a patent shall not be valid unless the same was in writing, and the agreement between the parties concerned is reduced to the form of a document embodying all the terms and conditions governing their rights and obligations and duly executed.”<sup>25</sup>

It is seen that this provision does not entitle the ownership of inventions to the employers if it is done while performing the normal duties during the course of his employment. In *Darius Rutton Kavasmaneck v. Gharda Chemicals*<sup>26</sup>, the patent ownership issues came before the court on application of Section 68. The plaintiff was a minority shareholder of the company had filed a suit on behalf of the Company against the Managing Director, who is also the shareholder of the company and receives forty percent of the profits according to the Shareholders Agreement. The company was dependent on the expertise of the Managing Director in the area of chemical research for its functioning. The Company and the Managing Director had agreed wherein the Company acknowledged the ownership of any invention which is made during his tenure of Managing Director vest over him and Company would not claim ownership over such inventions. It was discovered that the Managing Director had claimed patent ownership over various inventions for which he had utilized the resources of the Company. The Court held that plaintiff's claim on patent ownership cannot be granted as the Indian Statute does not recognize that the employee's patent belongs to the employer. It was also found that the Managing Director had neither he demanded any royalty for the company nor such inventions were part of the purpose of its employment. This decision did not apply the principle underlined by the English law, as observed by the Court that the British Law has a bare provision whereas the Indian Statute lays silent.

### **Patent ownership and IP disputes**

Intellectual property litigation reflects both competition and conflict. Since the technological era, ownership of IP has been a contention for dispute before the court of law. The characteristics of patent litigation provided that ownership in respect of patents provides exclusive rights to the patent owner to prevent third parties, who do not have his consent, from the act of making, using, offering for sale, selling or importing his invention within

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<sup>25</sup> Section 68, The Patents Act, 1970.

<sup>26</sup> 2015(2) Bom. CR 100.

the country.<sup>27</sup> it was observed by the author that the firms that compete for research and production often infringe, or directly challenge each other's patent right.<sup>28</sup>

In Indian scenario, Section 153 and Rule 134 (1) (a) to (k) of the Patent Act, 1970 provides information regarding patent ownership is provided on inquiry, in respect of "patents and applications" as to when certain actions have taken place concerning a patent or application.<sup>29</sup> In the case of *SERGI Transformer Explosion Prevention Technologies Private Limited v. CTR Manufacturing Industries Limited and Ors.*,<sup>30</sup> it was brought before the court that the registration of the license agreement is mandatory for considering it a valid document. The suit involved a permanent injunction against the defendants from infringing the patent in respect of "Method and Device for Preventing/Protecting Electrical Transformer against Explosion and Fire." The Plaintiff SERGI Transformers claimed exclusive license for the said technology based on the license agreement for which the process of registration was initiated but was pending before the Patent Office in Kolkata. During the pendency of the application, the injunction suit was initiated. The court while analyzing the validity of the agreement, relied upon Section 69 of the Patents Act, viewing them through before and after the amendment of 2005. It was observed that post-amendment the validity of such license agreement could be considered only after the document is registered in the Office of Controller unless the Controller or Court direct otherwise providing the reasons in writing. It seems that the court was hesitant to grant relief on the basis of pending registration of the patent, which raises concerns over the ownership of such applications, as there is already a backlog of such pending registrations.

Not just the ownership aspect in general, there has also been certain differences in the nature of ownership. The nature of academic employment was that inventions devised by academics be treated differently from those devised by their corporate counterparts was held by Federal Court in the case of the

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<sup>27</sup> Section 48, The Patent Act, 1970.

<sup>28</sup> Jean O. Lanjouw & Mark Schankerman, *Characteristics of Patent Litigation: A Window on Competition*, 32 THE RAND JOURNAL OF ECONOMICS, 129-151(2001).

<sup>29</sup> Andrew F. Christie, Stuart D'Aloisio, Katerina L. Gaita, Melanie J. Howlett & Elizabeth M. Webster, *Analysis of the Legal Framework for Patent Ownership in Publicly Funded Research Institutions*, WJSM EIP, COMMONWEALTH DEPARTMENT OF EDUCATION SCIENCE AND TRAINING, ISBN: 0 642 77330 0, (2003).

<sup>30</sup> 2015(64) PTC 357(Del)



*University of Western Australia v. Gray*<sup>31</sup>. According to the Court, academic employment is sufficiently different from other kinds of employment to require that inventions devised by academic employees be treated differently from those devised by private sector employees.<sup>32</sup> Courts acknowledges the special issues raised by the recognition of exclusionary rights of ‘property’ in respect of academic and professional inventions, the possibility of morality- and policy-based limits on such rights and the inappropriateness and undesirability of an ownership regime based on a paradigm in which not all employment relationships can be readily or satisfactorily accommodated.<sup>33</sup>

### Conclusion

It is seen that patent ownership lies in blurred lines of Indian Patent law. In respect of the relationship between employer and employee, especially in licensing agreements involving a patented invention, the issue of claim over ownership is mostly brought in. The inventor – owner claims, ensure upon the patentee the exclusive right over the patented invention. The concerns raised by the decisions of the Indian Court in *Darius Rutton Kavasmaneck v. Gharda Chemicals* and *SERGI Transformer Explosion Prevention Technologies Private Limited v. CTR Manufacturing Industries Limited and Ors.*, depicts a path of uncertainty on the entitlement of ownership on such inventions under the Indian law, which can be overcome in future.

This research work states few suggestions to overcome these concerns arising out of the flaw in the Indian patent law:

- Considering the license agreement as a valid document wherein such application of registration is still in pendency, taking into account the date of filing of such application.
- Providing the entitlement of ownership to the employer over the inventions made by the employee using the employer's resources during his employment, out of his normal duties.
- Emphasis on the terms of assignments and license to be undertaken to ensure a clear picture of entitlement of the ownership rights on the patents.

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<sup>31</sup> 179 FCR 346 (2009).

<sup>32</sup> Upreti & Pratyush Nath, *Enforcing IPRs through Investor-State Dispute Settlement: A Paradigm Shift in Global IP Practice: Enforcing IPRs through ISDS*, 19 THE JOURNAL OF WORLD INTELLECTUAL PROPERTY, 53-82 (2016).

<sup>33</sup> Justine Pila, *Sewing the Fly Buttons on the Statute: Employee Inventions and the Employment Context*, 32 Oxford Journal of Legal Studies, 265–295 (2012).

After due consideration of said factors the Patent Act, 1970 would entrust the rights of the patent on the owner of such inventions, encourage increasing private and public investments over research institutions as well as companies engaged in research activities. The emergence of better protection on patent ownerships would pave the way for corporate entities to pool in their resources to get access and control over latest technological inventions. Patents have always been great assets for any corporate entity, and through these changes, such entities would invest more in its research activities, for the ensuring a better innovative future.

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