

Fall 1979

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Recommended Citation

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TORT LIABILITY THAT MAY ATTACH TO INTELLECTUAL PROPERTY LICENSING

W. R. NORRIS*

INTRODUCTION

Due to the wide applicability of the functions of tort law, there has emerged an interface between the field of intellectual property licensing and tort law which by definition applies to legal responsibilities outside the scope of the licensing contract. However, there appears to be a dearth of case law and companion writings on tort liability in the fields of know-how and patent licensing even though tort liability has become well established in the field of trademark licensing over the past few years.

The reasons for the development of this dichotomy are not clear. Between the licensor and licensee of technology and/or patents, one can speculate that the agreement has generally been sufficient in outlining performances and remedies required by the parties, even though some theories support extracontractual remedies in tort.¹ Lacking privity with the technology licensor, a third party customer of the licensee is likely to target his recourse against the licensee-manufacturer. The reason for this may be that the licensee-manufacturer has the greatest visibility and is most immediate in the chain of commerce. The fact that the manufacturer is incidentally a licensee is easily overlooked or, in fact, may be ignored to keep proceedings simple.

There are occasions when the only deep-pocket defendant in sight is the licensor. Other occasions arise when the third party claimant has no satisfactory recourse against the manufacturer. An example of the latter situation is when the claimant is an employee of the licensee-manufacturer and is limited in his potential recovery by state workmen's compensation laws. The few definitive cases existing on tort, *i.e.*, extracontractual, liabilities related to technology licensing fall into these categories.

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1. Vukowich, *Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements*, 50 J. PAT. OFF. SOC'Y 307 (1968).

Unlike antitrust law, which regulates and delimits the exercise of intellectual property rights, the peripheral impingement of tort law more subtly springs from responsibilities of ownership and the exercise of intellectual property rights. The dynamics of tort law development impacting this specialized interface in licensing situations in which tort responsibility surfaces are important points of inquiry.

Clearly, one of the trends that affects the merchantability of intellectual property and may force more extracontractual responsibility upon the licensor is the rapid development of federal regulations concerning product standards. Higher product standards lead to higher levels of product liability risks for licensee-manufacturers. These risks may be statutorily imposed or may simply be the result of higher norms for product design and performance. The licensor's financial participation and involvement with the licensee's activities make him an additional target for the expanding classes of third party claimants. As between the licensor and licensee, the licensor is a logical companion for risk dividing under developing law of comparative negligence and contribution.²

Another trend on the domestic scene which affects the merchantability of intellectual property is the evolution of tort law itself. It is notorious that within recent years tort doctrines have both increased the number of plaintiffs who may recover in product liability situations and broadened the classes of potential defendants. In this manner, the legal system is spreading the costs of personal injuries and pecuniary losses over a larger population.

A third trend hovers on the international horizon where there are a number of initiatives to produce codes and guidelines which generally would hold the intellectual property licensor to higher performance standards and thereby raise the potential for tort liability.³

These forces of change warrant close examination with particular emphasis on increasing the resolution of the focus of the examination by reviewing the present case law on licensor responsibilities in tort concerning trademark, know-how and pat-

2. Birnbaum, *Spread of Comparative Fault Emphasizes Indemnity Contribution*, NAT'L L.J., Jan. 15, 1979, at 26. [hereinafter cited as Birnbaum].

3. See *How Standard of Conduct is Determined*, RESTATEMENT (SECOND) OF TORTS § 285 (1965). To the extent the international guidelines modify commercial customs, increase foreseeable licensee reliance or establish a legal standard, there appears to be a greater chance for recognition of a standard of conduct favoring the licensee and third parties in a tort action. *Id.*

ent licensing. Included are some conclusionary statements concerning the contractual considerations when dealing with the extracontractual side of the licensor/licensee/third party relationships with respect to the issue of tort liability.

CURRENT TRENDS: THE THREE FORCES

Governmental Product and Process Regulation

Although its full reach in tort law is yet to be assessed, the trend with the greatest potential for producing change is the recent explosion in governmental regulation of product and process standards.

Regulation of product standards is not a wholly new idea. The Federal Trade Commission (FTC), Food and Drug Administration (FDA), The United States Postal Service (USPS), and the Environmental Protection Agency (EPA), have all had consumer protection programs for some years. The Consumers Product Safety Act of 1970⁴ and the Toxic Substance Control Act of 1976,⁵ as administered by the EPA, have significantly broadened the scope and depth of federal impact on product standards and have ultimately widened the scope of the possible liability which may attach to the bargain of many licensing agreements.

It is beyond the scope of this undertaking to sketch the full regulatory picture, but consideration should also be given to federal laws promulgating specialized controls such as the Flammable Fabrics Act,⁶ the Federal Insecticide, Fungicide and Rodenticide Act,⁷ the Federal Hazardous Substances Act,⁸ the National Traffic and Motor Vehicle Safety Act,⁹ the Poison Prevention Packaging Act,¹⁰ the Noise Control Act,¹¹ and the environmental protection laws directed to air,¹² water,¹³ and solid waste¹⁴ controls. Moreover, by recent Presidential executive or-

4. 15 U.S.C. §§ 2051-2081 (Supp. III 1973).

5. 15 U.S.C. §§ 2601-2629 (Supp. VI 1976).

6. 15 U.S.C. § 1191 (1970).

7. 15 U.S.C. § 136 (1970).

8. 15 U.S.C. § 1261 (1970), *as amended by* Act of May 11, 1976, Pub. L. No. 94-284 § 3(c), 90 Stat. 503; Act of Nov. 10, 1978, Pub. L. No. 95-631 § 9, 92 Stat. 3747.

9. 15 U.S.C. §§ 1381-1431 (1975).

10. 15 U.S.C. § 1471 (1970), *as amended by* Act of May 11, 1976, Pub. L. No. 94-284 § 3(a), 90 Stat. 503.

11. 42 U.S.C. § 4901 (Supp. III 1973).

12. 42 U.S.C. § 1857, Pub. L. No. 90-148 (1967) and Pub. L. No. 91-604 (1970).

13. 33 U.S.C. § 466, Pub. L. No. 89-234 (1965), *as amended by* Act of Apr. 3, 1970, Pub. L. No. 91-224, 84 Stat. 91.

14. 42 U.S.C. § 3251 (1976).

der, federal agencies have been asked to comply with policies of the National Environmental Policy Act before granting project approvals for foreign countries, *i.e.*, loans by the Eximbank, technology export approvals, *et cetera*.¹⁵ The impact of this panoply of laws affecting licensor-licensee relationships will be unfolding for years, but it seems clear that the traditional licensor-licensee relationship may be affected at almost any stage of the relationship, *i.e.*, precontractual representations, licensed product design, product manufacturing, and initial and continued market access.

While federal laws and regulations promulgated under federal agencies do not set standards of conduct by which negligence is determined under state law, the federally developed standards are convenient and sometimes conclusive criteria for the finding of tort liability. The Restatement (Second) of Torts states the rule as follows:

The standard of conduct of a reasonable man may be

- (a) established by a legislative enactment or administrative regulation which so provides, or
- (b) adopted by the court from a legislative enactment or an administrative regulation which does not so provide . . .¹⁶

The Restatement further explains:

The court may adopt as the standard of conduct of a reasonable man the requirements of a legislative enactment or an administrative regulation whose purpose is found to be exclusively or in part

- (a) To protect a class of persons which include the one whose interest is invaded and
- (b) To protect the particular interest which is invaded and
- (c) To protect that interest against the kind of harm which has resulted and
- (d) To protect that interest against a particular hazard from which the harm results.¹⁷

Apparently, the federal product standards which have as their objectives the protection of consumers will influence, if not determine, the duty to be imposed upon a defendant in a negligence action or the finding of an unreasonable product risk as a point of departure into strict product liability doctrines. Those persons injured as a result of knowing or willful violations of a "safety rule" may also be allowed to recover costs of suing and reasonable attorney fees, in addition to damages.¹⁸

15. Exec. Order No. 12,114, *signed by* President Carter, Jan. 4, 1979. *See* Nat'l Environmental Policy Act of 1969, 42 U.S.C. § 4331 *et seq.* (1970), enacted as Pub. L. No. 91-190, § 101 *et seq.*, 83 Stat. 852 *et seq.*

16. RESTATEMENT (SECOND) OF TORTS § 285 (1965).

17. *Id.* § 286.

18. 15 U.S.C. § 2072 (1972), *as amended by* Act of May 11, 1976, Pub. L. No. 94-284, 90 Stat. 507.

A primary purpose of many of these regulations is the reduction of injury risks to consumers. The effect is naturally to increase product standards and tighten enforcement of these regulations. From the licensor's viewpoint, the merchantability or fitness of transferred technology may well be called into question, either before or after the licensing agreement has been concluded, thereby widening the scope of his responsibilities to causes of action sounding in tort with respect to his trademark, know-how or patent license. While such scrutiny and reallocation of risk may be socially laudable, an assessment of technology that is too severe against the innovator-licensor could stifle financial incentives for innovation and transfer of intellectual property.¹⁹

Tort Doctrine Evolution

Another force of change in the law of extracontractual licensor responsibilities is in the evolution of tort law itself, particularly the law applicable to consumer product injury cases. The abandonment of the necessity of privity with the defendant to recover in warranty and the subsequent abandonment of defendant's fault, either intentional or negligent, led to the founding of the doctrine of "strict liability."

The Restatement (Second) of Torts defines "strict liability" as follows:

Special Liability of Seller of Product for Physical Harm to User
or Consumer

- (1) One who sells any product in a defective condition unreasonably dangerous to the user or consumer or to his property is subject to liability for physical harm thereby caused to the ultimate user or consumer or to his property if
 - (a) the seller is engaged in the business of selling such product, and
 - (b) it is expected to and does reach the user or consumer without substantial change in the condition in which it was sold.

19. Katz, *The Function of Tort Liability in Technology Assessment*, 38 U. CIN. L. REV. 587 (1969). In describing the role of tort law for technology assessment, the author states:

In focusing upon tort law in relation to technology assessment, we turn back to a consideration of technology assessment in the private sector, for tort actions occur mainly among private parties. Shifts in certain doctrines of tort liability or in their applications, or even the acceleration of contemporary trends in the evolution of certain doctrines, could alter the terms of industrial cost-benefit calculations by converting certain 'social costs' into enterprise costs, or internalizing 'external costs'. There is, of course, nothing new about making certain accidents, or measures to prevent them, costs of doing business.
Id. at 606.

- (2) The rule stated in Subsection (1) applies although
 - (a) the seller has exercised all possible care in the preparation and the sale of his product, and
 - (b) the user or consumer has not bought the product from or entered into any contractual relation with the seller.²⁰

The philosophy behind the doctrine of strict liability attempts to achieve two major goals: 1) to place the burden of liability on the person who is best able to reduce the risk and 2) to allocate cost of the injured person's recovery over a larger population. One may ask whether a licensor traditionally has the control to reduce risks. In cases discussing this question, courts have assimilated a license associated with some form of technical assistance to a "sale" contemplated by this rule of strict liability.

Even if the licensor of technology or patents is not brought into the suit, either by the consumer or other downstream claimant, there is still the added prospect of risk for him since his licensee may implead him under comparative fault rules which in turn put the licensee in a position to claim contribution.²¹ The facts of the impleader must support joint or concurrent liability,²² but it should be noted that it does not matter that the claimant may base the cause of action on "strict liability" insofar as the licensee's right of contribution may exist.²³

While there are no known cases dealing with a third party customer cause of action against the licensee where joint liability or joint tort doctrine was applied to a licensing relationship,

20. RESTATEMENT (SECOND) OF TORTS § 402(a) (1965).

21. See Birnbaum, *supra* note 2.

22. *Dole v. Dow Chem. Co.*, 30 N.Y.2d 143, 282 N.E.2d 288, 331 N.Y.S.2d 382 (1972). In this case, the New York Court of Appeals abrogated the all-or-nothing implied indemnity rule on the grounds that it did not produce the desired allocation of loss and that the "active-passive" test for determining indemnification proved elusive and difficult to apply fairly. Here, decedent's wife sued the manufacturer of a fumigant on the ground that it had failed to properly warn of the danger. The manufacturer then instituted a third party action against the decedent's employer for using improper precautions in fumigating and failing to follow the instructions on the label. The court adopted an equitable rule of apportionment of the damages among joint or concurrent tortfeasors based on their degree of fault. In essence, the court adopted the doctrine of comparative fault among joint tortfeasors.

23. See Birnbaum, *supra* note 2:

Both New York and California have allowed contribution among tortfeasors who have committed different types of non-intentional acts that cause plaintiff's injury. Thus, the manufacturer of a defective product sued on strict liability or warranty theory may seek contribution from a third party whose negligent use of product was also a cause of plaintiff's injury.

Id. at 26.

it is conceivable that licensing relationship might meet the criteria for joint liability. In other words, if the licensor is not solely responsible under negligence or strict liability doctrines to a third party claimant, he may still be jointly liable with his licensee. The relationship between actors in a joint tort can be very casual. A good review of the law is set out in *Hall v. E.I. du Pont de Nemours & Co.* (The Blasting Caps Case).²⁴ In that case, the plaintiff alleged that the entire blasting cap industry was jointly responsible for not having placed warnings on each individual blasting cap and as a consequence an unreasonable risk was created. The particular manufacturer of the cap who caused the injury was not known, but the plaintiff sought to place liability on the entire industry. The court observed:

Joint tort liability is not limited to a narrow set of relationships and circumstances. It has been imposed in a wide range of situations, requiring varying standards of care, in which defendants cooperate in various degrees, enter into business and property relationships, and undertake to supply goods for public consumption.²⁵

International Horizons

Another dynamic area which may have consequences for the intellectual property licensor is the development of international guidelines for intellectual property transfer, *i.e.*, the initiative of The United Nations Council on Trade and Development (UNCTAD) to draft an "International Code of Conduct for the Transfer of Technology." It is in this connection that the licensor's potential liability to third parties for his licensee's products surfaces as a major point of negotiation. The question arises with respect to the chapter of the proposed code on "Guarantees, Responsibilities and Obligations" of licensors and licen-

24. 345 F. Supp. 353 (E.D.N.Y. 1972).

25. *Id.* at 371. The court went on to discuss the questions underlying joint liability which included: (1) the problem of joint or group control of risk: the need to deter hazardous behavior by groups of multiple defendants as well as by individuals; (2) the problem of enterprise liability: the policy of assigning the foreseeable costs of an activity to those in the most strategic position to reduce them; and (3) the problem of fairness with respect to the burden of proof: the desire to avoid denying recovery to an innocent injured plaintiff because proof of causation may be within defendant's control or entirely unavailable. Proof of the first of these points may be shown by the existence of an explicit agreement and joint action, parallel behavior of defendants to support an inference of tacit agreement or cooperation or that defendants acting independently adhered to an industry-wide standard or custom. The court ultimately held on defendant's motion for dismissal that plaintiff's allegations of joint knowledge and action raised issues of fact and law sufficient to preclude dismissal for failure to state a claim. However, allegations against a non-producer of the product on a theory of industry-wide responsibility did not state a claim on which relief could be granted in view of the arbitrary basis for selection of only two manufacturers to defend.

sees. A recent composite draft²⁶ by UNCTAD Working Group 2 composed of experts from Country Groups B, D and 77²⁷ proposes, with some differences in preferred language, that the licensor undertakes to guarantee that the technology meets the description contained in the technology transfer agreement²⁸ and the technology is suitable for such use.²⁹ Similar demands are being made of licensors in the World Intellectual Property Organization's (WIPO) Model Law Draft for licensing regulation.³⁰ It proposes to prohibit as "restrictive" any term which "exempts the transferor from any liability resulting from any defect inherent in the technology to which the contract relates or to restrict such liability."³¹

Although the indemnity intended for breach of a guarantee of technology is the licensee's direct pecuniary loss, potential extracontractual liability to the licensee and third parties in tort could significantly extend the licensor's financial risk.³² For instance, third party product liability actions founded upon a "product design" negligence doctrine could seemingly be a legal outgrowth of licensor responsibility defined by such warranty language.³³

26. U.N. DOC. TD/CODE TOT/C.11/CRP.1 (1978). *See generally* Blair, *United Nations International Code of Conduct on the Transfer of Technology*, 13 J. MAR. L. REV. 163 (1979).

27. Group B roughly aligns with the Developed Country OECD block, Group D the Eastern Socialist block and Group 77 the so-called developing countries largely located in South America, Africa and Asia.

28. U.N. DOC. TD/CODE TOT/C.11/CRP.1 CHAIRMANS COMPROMISE TEXT WG 4/W P 63 *Contractual Phase* ¶ 4(iv.) (1978).

29. *Id.* at ¶ 4(v).

30. WIPO Doc. WG/ML/INV/VII/4 (1978).

31. *Id.* at § 303.

32. *See* W. PROSSER, *HANDBOOK OF THE LAW OF TORTS* (4th ed. 1971) [hereinafter cited as PROSSER]. Prosser states in considering misfeasance in the performance of contractual obligations as a foundation for tort: "The principle which seems to have emerged from the decisions in the United States is that there will be liability in tort for misperformance of contract whenever there would be liability for gratuitous performance without the contract." *Id.* at 17.

In commenting upon third party standing in misfeasance situations, Prosser states: "Where the defendant has in fact misperformed his contract and is to be charged with 'misfeasance' resulting in injury to a third person, it is to be expected that liability to third persons will be found more readily; and in general this has been true." *Id.* at 626.

33. *See* PROSSER, *supra* note 32:

There are . . . two particular areas in which the liability of the manufacturer, even though it may occasionally be called strict, appears to rest primarily upon a departure from proper standards of care, so that the tort is essentially a matter of negligence.

One of these involves the design of the product, which includes plan, structure, choice of materials and specifications. There is no doubt whatever that the manufacturer is under a duty to use reasonable care to design a product that is reasonably safe for its intended

The warranty question is also taken up in the Andean Common Market Code: "Every license contract shall contain provisions which assure the quality of the products and services provided by the owner of the license."³⁴

However far reaching these ideas may appear, there is reportedly some precedent for applying implied warranties of fitness for a particular purpose in a technological transfer contained in the laws of a number of countries. For instance, Belgian law holds the licensor to a warranty that the patented invention is technically feasible, although not necessarily profitable, unless the obligation is disclaimed.³⁵ In a similar vein, a licensor's obligation to assist or guarantee technical performance to some degree may be implied where the agreement is silent on the point according to the laws of Denmark, Germany, Greece, Italy, Japan, Spain, Switzerland, Turkey, and Yugoslavia.³⁶ In Korea, a "technology inducement contract" normally obligates a licensor to guarantee the quality of goods produced under the contract.³⁷ Argentina's recent license registration law introduces a novel feature to clarify the licensor's obligations. It requires the technology transfer agreement to contain a recital that the licensor is familiar with Argentine law. Provisions of its statute are thus incorporated by reference making the licensor a guarantor of the "technical ends" of the technology.³⁸

use, and for other uses which are foreseeably probable. The question turns on what is reasonable care and what is reasonable safety.

Id. at 644-45.

34. Agreement of Cartagena: *Regulation for Application of Provisions Concerning Industrial Property*, Dec. 85, art. 82 (June 5, 1974).

35. G. POLLZIEN & G. BRONFEN, *INTERNATIONAL LICENSING AGREEMENT* (1965).

36. *Id.* at 75 (Denmark), 144 (Germany), 160 (Greece), 180 (Italy), 193 (Japan), 263 (Spain), 292 (Switzerland), 310 (Turkey), 344 (Yugoslavia).

37. B.H. LEE, *PATENT, TRADEMARK AND LICENSING IN KOREA* 171 (2d ed. 1978).

38. Argentina Transfer of Technology Law No. 21.617 (1977):
PRIOR EXAMINATION AND MANDATORY CLAUSES

Article 7: The legal acts which in accordance with the preceding Articles, are subject to non-automatic registration in accordance with the provisions of this law, shall be subject to prior examination by the Authority of Application.

In order that the Act may be approved, it must contain, at least the following clauses: . . .

(d) In those acts whereby technology is transferred, determination of the technical ends aimed at by the receiver through said transfer.

(e) Declaration by the supplier of the technology stating that he knows the content of this law.

IMPLIED CLAUSES

Article 8: Every act submitted to the provisions of this law will be subject to the following provisions, whether they are or not included in

Summarily, extracontractual licensing relationships are being influenced by current trends in governmental regulation of product standards, the evolution of tort doctrines which is broadening the classes of product injury claimants and responsible defendants, and an international impetus which is widening the horizons concerning the licensors ever-increasing responsibilities for the performance of technology-related "sales" underlying their intellectual property rights.

IMPACT ON LICENSORS

As pervasive as these trends appear, expectedly, some impact will be felt by intellectual property licensors. Notably, the development of tort liability associated with the various forms of intellectual property such as trademarks, know-how, and patents (no comment is made on copyrights), has evolved independently. Each category involves sufficiently separate premises and propositions in the stream of commerce. Although they may be classified together as intangible intellectual property interests, the licensor's responsibilities at law are distinctively different for each category.

Trademark Licensing

The development of a licensor's vicarious liability in the field of trademark licensing was recently surveyed by M. F. Goldstein, in *Products Liability and the Trademark Owner: When a Trademark Is a Warranty*.³⁹ The author traces the development of strict liability for product endorsers, or certifiers, and for ordinary licensors of the trademark property right. According to the mandates of Sections 5 and 45 of the Lanham Act,⁴⁰ the trademark owner is required to retain actual control of the nature and quality of the product on which the trademark is used. This requirement has become the foundation for the trademark owner's strict liability obligations at law for the benefit of third party consumers. The article concludes that warranty liability may well extend to all products promoted under family brands or company trademarks.

In addition to strict product liability, trademark liability

said act, except when the Authority of the Application on issuing its approval expressly and with good reasons resolves to the contrary: (a) The supplier guarantees that the technology to be transferred enables the receiver upon its acquisition, to obtain the technical ends he aims at, to the extent described in the legal act in accordance with item (d) of the preceding Article.

39. M.F. Goldstein, *Product Liability and the Trademark Owner: When a Trademark is a Warranty*, 67 TRADEMARK REP. 587 (1977).

40. 15 U.S.C. § 1127 (1970).

cases have also been founded on such tort or quasi-contractual doctrines as negligent misrepresentation,⁴¹ apparent authority and estoppel,⁴² and implied warranty.⁴³

A recent case comment on *City of Hartford v. Associated Construction Co.*⁴⁴ reports how a trademark licensor was held strictly liable for property damages in licensing its trademark on a roofing material. The plaintiff conceded that the trademark licensee-franchisee applied the roofing product to one of its schools in conformity with the licensor's formulation, specifications, advertisements, promotional material and trademark licensing agreement. Nevertheless, it claimed, in the court's words:

The plaintiff, in substance, seeks to impose strict liability upon the owner of a registered trademark who has licensed its composition and use by a franchise agreement with another and thereby caused harm to the property of the ultimate user or consumer of the trademark product. The claim is unique. It's without precedent or parallel. The issue is, however, of great importance to the commercial marketplace in the light of the contemporary popularity of franchise agreements for the manufacture and sale by licensees of trademarked products in designated territories in substitution for the traditional direct marketing of goods by the trademark owners.⁴⁵

After reviewing the role of trademarks in commerce and the trademark owner's obligation to control the quality of products bearing its mark, the court held the licensor-franchisor strictly liable on the basis of its "legal responsibility" to consumers of its licensee's product amounting to a guarantee of the roofing product.

An earlier Pennsylvania case illustrates a variety of theories for the third party claim.⁴⁶ In this case, a woman was burned by a dress bearing the defendant's fabric certification label. The court, facing plaintiff's theories of strict liability, breach of warranty and negligence, affirmed a jury verdict against the owner of the trademark, citing the Restatement (Second) of Torts, Section 402A. Defendant had argued that as a mere licensor (certifier) of a trademark he was not a "seller" within the meaning of Section 402A, but the court answered that: "Defendants were sufficiently involved in the manufacturing process to be a seller

41. *Pike v. Frank G. Hough Co.*, 275 Cal. App. 2d 680, 80 Cal. Rptr. 501 (1969).

42. *Gizzi v. Texaco, Inc.*, 437 F.2d 308 (3d Cir. 1971).

43. *Kasel v. Remington Arms Co., Inc.*, 24 Cal. App. 3d 711, 101 Cal. Rptr. 314 (1972).

44. Comment, *City of Hartford v. Associated Constr. Co.*, 383 PAT. T.M. COPYRIGHT J. A-1 (1978).

45. *Id.*

46. *Carter v. J. Bancroft & Sons*, 360 F. Supp. 1103 (E.D. Pa. 1973).

under the law of Pennsylvania."⁴⁷ The court further held under Pennsylvania law that one who puts out as his own product goods manufactured by another is subject to the same liability as though he were the manufacturer on the authority of Pennsylvania's adoption of Section 400 of the Restatement (Second) of Torts.⁴⁸

In a footnote, the court pointed to still another theory for the plaintiff's case:

It might be appropriate to point out that by providing the specifications and prescribing and controlling the quality standards of the BAN-LON fabric, defendants were involved in the manufacture of a component, the BAN-LON fabric that went into the final product, the dress. In this regard, we note that Pennsylvania Supreme Court has declared that a manufacturer of a defective component part of a product is liable under Section 402A for an injury to the ultimate user. Citing *Burbage v. Boiler Engineering and Supply Co.*, 433 Pa. 319 (1969).⁴⁹

The licensed label did indeed reflect a strong presence of the trademark owner's obligations and duties extending into the manufacturing operations. It read in pertinent part: "BAN-LON is a trademark identifying garment fabrics and articles made according to specification and quality standards prescribed and controlled by Joseph Bancroft & Sons Co., a division of Indianhead, Inc."⁵⁰ Quickly reflecting upon the question of whether state case law will be imported into federal regulatory jurisprudence, this interpretive definition of "sellers" could conceivably bring a trademark licensor within the purview of manufacturing persons directly regulated by the Consumers Product Safety Act.⁵¹

47. *Id.* at 1107.

48. *Id.* at 1106. RESTATEMENT (SECOND) OF TORTS § 400, Comment d was relied upon which states:

Thus, one puts out a chattel as his own product when he puts it out under his name or affixes to it his trade name or trademark. When such identification is referred to on the label as an indication of the quality or wholesomeness of the chattel, there is an added emphasis that the user can rely upon the reputation of the person so identified

49. *Carter v. J. Bancroft & Sons*, 360 F. Supp. at 1107 n.2.

50. *Id.* at 1106.

51. 15 U.S.C. § 2051 *et seq.* (Supp. III 1973).

For a discussion of state tort law's relationship to the construction of another federal regulatory law, *see Amoco Oil Co. v. Environmental Protection Agency*, 543 F.2d 270 (D.C. Cir. 1976). The court observed:

As a starting point, it should be noted that the EPA is not 'properly authorized' to impose a blanket vicarious liability. There is nothing in the statutory grant of power to the administrator 'by regulation [to] control or prohibit the manufacture, introduction into commerce, offering for sale, or sale of any fuel or fuel additive for use in a motor vehicle or motor vehicle engine' that expressly or impliedly authorizes him to alter the settled law between the lessor and the lessee as to their re-

Looking towards international developments in this field, it is clear that the products liability proposal of the EEC⁵² would hold the trademark licensor individually and severally liable with its licensee for product injuries suffered by consumers. This conclusion follows from the proposal's definition of a "producer" as including "the producer of any material or component, and any person who, by putting his name, trademark, or other distinguishing feature on the article represents himself as its producer."⁵³

Technology Licensing

In know-how and patent licensing, there is relatively little case law on the extracontractual responsibilities of the intellectual property owner. Predictably, licensees have looked to the licensing contract for their remedies. Lacking the publicity associated with a trademark, injured third parties are without readily available knowledge or information about the licensor's participation. Moreover, the injured third party does not ordinarily have grounds to claim detrimental reliance. Nevertheless, there have been some cases brought against technology licensors on negligence, implied warranty and strict liability theories arising out of know-how transfer and licensing situations.

In one such case, Universal Oil Products Co. (UOP) was sued under the Oklahoma wrongful death statute by the estate of Marker, one of its licensee's employees.⁵⁴ UOP had licensed Tidewater, the employer of Marker, to use a patented refining process. UOP also furnished Tidewater with plans and specifications for construction of the unit used in the licensed process. UOP further sold Tidewater a catalyst for use in the process. On one occasion, the old catalyst had not completely cooled when Marker was lowered into the vessel to carry out a recharging procedure. He was killed by carbon monoxide given off by the hot catalyst.

Two theories of negligence were advanced: (1) the towers had been negligently designed, and (2) the defendant had a duty to warn of the carbon monoxide hazard. Even considering the early date of this case, the court had little difficulty in dispensing with the requirements of contractual privity. However, the court rejected liability founded upon negligent design since it

spective responsibilities in tort, so as to make the refiner liable for independent lessees as though they were mere subservient employees. *Id.* at 275.

52. [1976] COMM. MKT. REP. (CCH) ¶ 9891.

53. *Id.*

54. *Marker v. Universal Oil Prods. Co.*, 250 F.2d 603 (10th Cir. 1957).

found there was no defect in the construction or structural features of the reactor. Marker alleged that safety precautions required a provision for side entrances but this was countered by the court as not being economically feasible. This ruling was based upon an earlier case where the court reasoned:

[T]here was no obligation resting on the defendant manufacturer to adopt every possible new device which might possibly have been conceived or invented, if there were any; it is not of itself negligence to use a particular design or method in the manufacture and handling of a product or doing a job which is reasonably safe and in customary usage in the industry, although other possible designs, whether in use in the industry or not might be conceived which would be safer and evidence as to what is thought by some to be a safer design or method or product is not admissible.⁵⁵

Presently, OSHA standards, with their high priority concerning a worker's health and safety, might have led the court to rule differently, particularly if an OSHA standard was in some way directly involved.

As to the second claim, the court held UOP had no duty to warn Tidewater of the carbon monoxide hazard, relying upon the Restatement of Torts:

One who supplies a chattel to others to use for any purpose is under a duty to exercise reasonable care to inform them of its dangerous character insofar as it is known to him or of facts which to his knowledge make it likely to be dangerous, if, but only if, he has no reasons to expect those for whose use the chattel is supplied will discover its condition and realize the danger involved therein.⁵⁶

Interestingly, the court assimilated, without discussion, the licensor to the position of one who supplies a chattel to others, subject to the same duty to forewarn of danger. For a licensor, are the plans or written reports that often accompany the transfer of know-how "chattels" and the license a "sale"?

In another case, an estate of a licensee's employee sued the know-how supplier on a claim for breach of express warranty of the licensing agreement, a warranty by its terms running only to the claimant's employer.⁵⁷ Here, Scientific Design (SD) had agreed "to perform in a good and workmanlike manner the complete design and engineering services, home office preparation and the placement of purchase orders as Witco's agent, expediting inspection in vendor's shops as required in SD's judgment and technical supervision of initial operation of the plant."⁵⁸

55. *Day v. Barber-Colman Co.*, 10 Ill. App. 2d 494, 508, 135 N.E.2d 231, 238 (1956).

56. *RESTATEMENT OF TORTS* § 3881 (1938).

57. *LaRossa v. Scientific Design Co.*, 402 F.2d 937 (3d Cir. 1968).

58. *Id.* at 939 n.3.

SD's obligation to furnish technical supervision of the initial operation of the plant terminated on a date no later than three months after the date of start-up.

The plaintiff maintained this warranty was breached as a result of the employee's getting cancer from vanadium dust ingested during the installation of the catalyst. This occurred while SD was obliged to provide start-up assistance. The court held that SD's "good and workmanlike execution of its obligations under the contract required only the exercise of due care or the absence of negligence,"⁵⁹ and there was no proof of such a claim before the court. Had there been misfeasance in the performance of the contractual warranty, there appears to be little question that the employee's lack of privity would have barred recovery.

The plaintiff's second and main claim was founded on an "implied warranty" (another term for strict liability) for the safety of all those who might be affected by the licensor's performance under the contract. The court examined New Jersey law on the doctrine of strict liability. It concluded that, although the doctrine of strict tort liability without proof of negligence had been recognized in New Jersey, the employee of the licensee did not fall within the class of persons to whom the "strict liability" doctrine extended, *i.e.*, he was not a consumer.⁶⁰ The licensee, as the decedent's employer, was considered to be a more appropriate insurer against the harm than the licensor, who was only exercising a supervisory authority delegated to it by the licensee. While the licensor-supplier of technology thus escaped strict liability, it was only because the plaintiff was not within the class of third parties protected by the strict tort liability doctrine as defined in New Jersey.

Another case combining factual elements of trademark use, duty to warn and joint tort liability deals with a common marketing situation in which the seller of goods is drawn into a position of legal responsibility by its gratuitous supply of technical information.⁶¹ In order to sell a patented water repellent, duPont gave a downstream manufacturer the formulation for its application consisting of ninety-eight percent of a flammable solvent recommended by a supplier of solvents and two percent of its own product which was nonflammable. A customer of the downstream manufacturer was burned while using the formulation. He sought to recover from the component suppliers since

59. *Id.* at 940.

60. *Id.* at 943.

61. *E. I. du Pont de Nemours & Co. v. McCain*, 414 F.2d 369 (5th Cir. 1969).

the actual manufacturer of the formulation was thinly capitalized. The claimant's theories of liability were founded upon negligence and strict liability in tort.

In the lower court, the jury verdict held the defendant liable for negligence. This verdict was founded upon the defendant's (1) failure to test the end product, (2) permission that its name be used on the label without determining the safety of the end product, and (3) permission that its name be used on the label without determining whether the warning was adequate. The duPont Company contended that under the ruling of the *Prestonettes* case,⁶² it could not prevent the downstream manufacturer, who purchased the patented and trademarked water repellent from it, from using the water repellent's trademark on its own product's label. The trial court found, however, that duPont had retained the right to make the ultimate decision as to the label on the product and to approve the use of the trademark on the label. These facts coupled with the defendant's activities in advising the downstream manufacturer of the formula, contacting the supplier of the solvent and conducting quality control tests were sufficient to support the jury's verdict of negligence.

An article by W. T. Vukowich, *Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements*,⁶³ outlines a number of the considerations that bear on the possibility of an implied warranty arising in a know-how license. Although the discussion is in the context of contractual obligations running directly between the licensor and licensee, as adjudged against the background of the law of sales, the same circumstances out of which contractual implied warranties arise may also give rise to warranty in tort upon which strict liability may be based. Illustratively, Vukowich cites several authorities supporting the proposition that persons who supply plans and specifications to a contractor impliedly warrant their correctness and will be liable for all damages suffered by the contractor because the supplied plans or specifications are inaccurate.⁶⁴ For a third party lacking privity with the supplier of the plans and specifications, the claimant's theory for recovery may be founded upon misfeasance.⁶⁵

It may not always follow that implied warranties in the context of contractual enforcement may evolve into implied warran-

62. *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924).

63. Vukowich, *Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements*, 50 J. PAT. OFF. SOC'Y 307 (1968).

64. *Id.* at 315, & n.38.

65. See PROSSER, *supra* note 32, at 626.

ties in tort to the benefit of third party claimants. However, some authorities have accepted a very simple rationale in allowing third party causes of action based on a theory of strict liability. The prospect that a third party claimant who already has a strict liability action against his seller who in turn has a warranty action in contract against its supplier in the line of commerce is reason enough to allow the third party direct action against that supplier ultimately responsible. In the product design example previously discussed, the injured third party claimant who had an action against the licensee-manufacturer on warranty-based strict liability would be allowed to recover directly from the licensor whose misfeasance was responsible for his injury.⁶⁶

Patent Licenses

Although patents were sometimes involved in the facts of the technology supply situations previously discussed, there are no known cases dealing with the simple act of granting a patent license which ultimately gave rise to third party product liability. By their statutory nature, patents are addressed to those skilled in the art.⁶⁷ Moreover, important considerations of public policy should allow the innovative and patenting process to proceed at an early stage of technological development with a minimum of financial risk to the patent owner for technical imperfections.⁶⁸ In the past, the Patent Office has occasionally at-

66. PROSSER, *supra* note 32, at 650-51 discusses the three arguments relied upon by courts in applying the "strict liability" principles:

1. The public interest in human life and safety demands the maximum protection possible that the law can give against dangerous defects in products which consumers must buy and against which they are helpless to protect themselves and it justifies the imposition, upon all suppliers of such products, of full responsibility for the harm they cause even though the supplier has done his best. . . .
2. The maker, by placing the goods on the market, represents to the public that they are suitable and safe for use; and by packaging, advertising or otherwise, he does everything that he can to induce that belief. . . .
3. It is already possible to enforce strict liability by resort to a series of actions, in which the retailer is first held liable on a warranty to his purchaser, and indemnity on warranty is then sought successively from other suppliers, until the manufacturer finally pays the damages, with the added costs of repeated litigation. This is an expensive, time-consuming, and wasteful process, and it may be interrupted by insolvency, lack of jurisdiction, disclaimers, or the statute of limitations, anywhere along the line. What is called for is a direct action which will afford a short cut.

Id. at 651.

67. 35 U.S.C. § 112 (1970).

68. Though it did not involve a licensing situation, *Woods v. Luertzing Corp.*, No. L18099-76 (N.J. Super. Ct. Mar. 8, 1979), commented on in 428 PAT.

tempted to evaluate the safety, effectiveness and reliability of disclosed technology as an inquiry adjunct to determining utility,⁶⁹ but this has been held to be beyond its congressional mandate.⁷⁰

Conceivably, a patent specification could be so poorly written or misdescriptive of the technology to be utilized that some of the formulations of the Restatement (Second) of Torts on the subject of misrepresentation might be a basis for extracontractual liability as between the licensor and licensee. Specific reference should be made to Section 551,⁷¹ *Liability for Nondisclosure*, Section 552,⁷² *Information Negligently Supplied for the Guidance of Others* and Section 552(c),⁷³ *Misrepresentation in Sale, Rental or Exchange Transaction*. Notably, a comment on the latter rule mentions patents:

Sale, rental or exchange. The cases to which the rule of strict liability for innocent misrepresentation stated in this section has been applied thus far have generally been confined to sale, rental or exchange transactions between the plaintiff and the defendant. This includes any sale, rental or exchange of land, chattels, securities or anything else of value, such as copyrights, *patents* and other valuable intangible rights.⁷⁴

These torts are generally limited to the recovery of pecuni-

T.M. COPYRIGHT J. (BNA) A-7 (May 10, 1979), limits a patentee's tort liability exposure while perfecting the patented device on grounds of public policy. Plaintiff Woods was injured in the course of helping the defendant test a patented device. In bringing negligence, strict liability and implied warranty claims, Woods relied heavily on the latter two counts because the device had been patented. Allegedly this put the device in the "stream of commerce," even though no sales had been made. In granting the defendant's motion for summary judgment denying the strict liability and implied warranty claims, the court took note of public policy considerations underlying product development and concluded: "If knowledge of dangerous propensities is to be imputed to the manufacturer of a product, . . . in fairness the manufacturer should have a means for testing the product without being threatened with strict liability while testing."

69. 35 U.S.C. § 101 (1970).

70. See *In re Krimmel*, 292 F.2d 948, 130 U.S.P.Q. 215 (C.C.P.A. 1961). The court stated with reference to the applicant's failure to respond to a safe, effective and reliable challenge by the Examiner that:

[A]lthough we have no doubt that the Patent Office has, in the case at bar, acted in good faith and with proper motives, the fact remains that the Patent Office has not been charged by Congress with the task of protecting the public against possible misuse of chemical patents. There is nothing in the patent statute or any other statutes called to our attention which gives the Patent Office the right or duty to require an applicant to prove that compounds or other materials which he is claiming, and which he has stated are useful for 'pharmaceutical applications', are safe, effective and reliable for use with humans.

292 F.2d at 954, 130 U.S.P.Q. at 220.

71. RESTATEMENT (SECOND) OF TORTS § 551 (1977).

72. *Id.* § 552.

73. *Id.* § 552C.

74. *Id.* § 552C, Comment c. (emphasis added).

ary losses. Since the claimant must normally have relied upon the information, these rules would not normally apply in favor of third persons who are not parties to the licensing agreement. However, third parties may recover if the misrepresentation is fraudulent or negligent. A comment to Section 552 states:

It is enough that the maker of the representation intends it to reach and influence either a particular person or persons, known to him, or group or class of persons, distinct from the much larger class who might reasonably be expected sooner or later to have access to the information and foreseeably take some action in reliance on it.⁷⁵

How can a patentee, by the simple act of granting a license, place himself in the position of liability to a third party by virtue of either innocent or negligent representations contained in a patent specification? There may be some risk to the patentee if the licensee advertises the fact that the licensed product is patented. Some member of the consuming public might rely on the existence of the patent as giving the product a "kind of official imprimatur."⁷⁶ Moreover, one must keep a wary eye on international transactions concerning the nature of a patentee's duty or a technology supplier's responsibilities to guarantee the suitability of the licensed technology for a particular purpose. There does appear to be some possibility that codes imposing such duties on licensors may be increasing the risk of licensee product liability moving upstream to licensors under extracontractual warranty theories.

CONCLUSION

In the licensing of intellectual property, liability is founded upon acts going beyond the mere waiver or licensing of the underlying intangible rights. In the instance of trademarks, the owner is obligated by law to exercise control, and third party claimants succeed on strict liability doctrine. The injured claimant need only show that the defect in the product represented an unreasonable risk and was the proximate cause of the injury.

While there does not appear to be any way of avoiding this

75. *Id.* § 552, Comment h.

76. *Isenstead v. Watson*, 157 F. Supp. 7 (D.D.C. 1957). Dealing with this point, the court stated:

Great care and scrutiny should be particularly taken in connection with the applications for medical patents. While the granting of a patent does not legally constitute a certificate that the medicine to which it relates is a good medicine and will cure the disease or successfully make the test which it was intended to do, nevertheless, the granting of such a patent gives a kind of official imprimatur to the medicine in question on which as a moral matter some members of the public are likely to rely.

Id. at 9.

responsibility under domestic and developing EEC product liability law, a trademark licensor might consider including in the license a clause providing for accelerated termination for cause whenever the licensee fails to meet, at any time during the life of the agreement, governmentally formulated or sanctioned product standards. While such a clause would not reduce the risk of events during the life of the contract, the licensor would have a switch to turn off the risk generating activity.

If the facts were such as to place the licensor in a position of joint control over the risk, termination and escape clauses could provide for the possibility of the licensor completely severing any connection with the licensee. Such clauses would be particularly desirable if there were different views between the licensor and licensee as to the degree of the ongoing risk.

With regard to know-how licensing, the acts of delivering the know-how and the licensor's direct involvement with the licensee's operation appear to be the potential basis of tort liability to third party claimants. Predictably, third party claimants will attempt to base their claims on theories requiring the least proof, *i.e.*, strict liability or implied warranty theories, however, such claims will normally be backed up by a negligence claim, particularly if there are aspects of product or process design or a duty to warn regarding the use of the technology.

Theories of joint control of the risk or joint tort liability may be a part of the claimant's case, but licensor involvement on this theory may also come about as a result of his licensee impleading him to take advantage of indemnification or contribution doctrines which appear to be on the ascendency. To minimize exposure, the know-how licensor might attempt to reduce or eliminate the licensee's reliance upon his expertise. As a practical matter, this is difficult and clearly against the licensor's interest in obtaining a maximum return. When the risk is significant, the licensor might try to obtain disclaimers of all warranties of merchantability, effectiveness, feasibility, and suitability for a particular purpose. Although contractual terms may not negate the licensor's implied warranties in tort to third parties, the existence of the contractual disclaimer would help to delimit the licensor's involvement in the licensee's operations.

Regarding the control of the scope of liability for the trademark licensor, a clause permitting licensor termination in the event of licensee misuse of the technology, according to agreed criteria, and/or intervening governmental sanctioning of the licensed product, would provide the licensor with the opportunity to cut off prospective liability during the life of the agreement.

A bare patent license appears to pose little risk of liability to third parties. However, a termination option in the event the licensed product encounters unforeseeable defects during the manufacturing process might be desirable to limit future liability risk.

As a caveat for patent owners who authorize the use of their company name in addition to patent number in patent legends on licensed products, they should be wary that the name does not appear as a trademark on the product. Note especially the broad definition of responsible manufacturers under the EEC products liability proposal⁷⁷ and the U.S. Department of Commerce's recent products liability proposal.⁷⁸ While the broad wording of these proposals is probably not intended to catch patent legends, the language appears to call such practices into question.

From the foregoing discussion, it seems that the points of tangency between intellectual property licensing and extracontractual liability, *i.e.*, tort responsibility to licensee and third parties, may arise in many of the commercial transactions relating to intellectual property licensing. Aside from trademark law, which has seen rapid development in recent years, technology transfer transactions, optionally involving patents, have not produced much case law. However, as governmental product standard regulations and tort doctrines continue to evolve, intellectual property licensing will come under increasing assessment in tort. Moreover, the elevation of licensor responsibilities in international transactions to a position of guarantor may well contribute to the further burdening of innovator-licensors with greater responsibilities to third parties in tort liability.

77. [1976] COMM. MKT. REP. (CCH) ¶ 9891. Article 2 reads: "Producer means the producer of the finished article . . . and any person who, by putting his name, trademark, or other distinguishing feature on the article, represents himself as its producer"

78. United States Dep't of Commerce Draft Uniform Product Liability Law, 44 FED. REG. 2996 *et seq.* (1979) (defining manufacturer at 2998).

