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Essentials of International IP Licensing Agreements

THESIS

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DECLARATION

I, Osman Bugra Beydogan, hereby declare that this dissertation, namely **"Essentials of International IP Licensing Agreements"**, is my own work and the sources of information and material I have used have been fully indicated by means of reference.

Osman Bugra Beydogan

Debrecen, May 2017

To Umran Gormez, my guide light and faithful lawyer

LIST OF ABBREVIATIONS

EPC: The European Patent Convention

EU: European Union

EUIPO: European Union Intellectual Property Office

EUTM: European Union Trademark

IP: Intellectual Property

PCT: Patent Cooperation Treaty

TRIPS: The Agreement on Trade Related Aspects of Intellectual Property Rights

US: United States of America

WIPO: World Intellectual Property Organization

WTO: World Trade Organization

WCT: WIPO Copyright Treaty

#CHAPTER ONE:

A GENERAL OVERVIEW OF LICENSE AND LICENSING AGREEMENTS

License agreements, as a matter of fact, involve plenty of technicalities along with commercial considerations. In this manner, before diving in detailed structural analysis of such agreements, it is necessary to lay down a general overview in order to provide a better understanding. To this end, aforementioned chapter concerns to the following matters; (i) the term "license"; (ii) functioning of license; (iii) content of license agreements; (iv) potential interests of those who enter into a licensing agreement; (v) difference between licensing an assignment.

1. What is a License?

Etymologically speaking, the term "license" finds its roots in Latin term "licentia" which refers to freedom, liberty, that is to say, formal and usually written permission from authority to do something.[1] Similarly, in contemporary meaning the term "license" refers to an authorization for a particular conduct. For instance, a driving license refers to a permission granted by the competent authority, in most of the cases government, which authorizes its owner to operate a designated group of motor-vehicles.

2. What is an Intellectual Property Licensing?

In broad terms, intellectual property licensing is conduct thorough which the holder of subjecting intellectual property or another competent person/entity (the licensor) authorizes another person/party (the licensee) to exploit the rights which are attributed to the relevant intellectual property for a definite period of time. On the other hand, such an authorization is granted by means of an agreement, namely licensing or license agreement. The parties to a licensing agreement undertake particular obligations, in this regard the licensor`s main obligation appears to be making the licensed intellectual property available for the licensee`s exploitation. Meanwhile the licensee undertakes the obligation to pay a consideration to the licensor in return of the rights granted upon her/him. Although, apart from these main obligations, each party undertakes a wide collection of other obligations as it will be examined in following chapters. All the rights and obligations arising from licensing must be exercised by the parties in accordance with the extent and limits set out in provision of the agreement. It is necessary to emphasize that use of intellectual properties in absence of such

[1] http://www.etymonline.com/index.php?term=licence&allowed_in_frame=0, Accessed (02.05.2017)

authorization, namely license, constitutes infringement of intellectual property rights. Besides the tort characteristic of infringement, in most of jurisdictions, intellectual property infringement brings along a criminal liability.

Considering such situations, when a tangible property is given by the owner to another party, for the purpose of exploitation for a definite period of time and in return for a particular amount of consideration, such agreement is most likely to constitute a rental agreement or lease agreement. However, in respect of subject matter, intellectual property agreements put forward substantial differences from other agreements. Insofar as intellectual properties generally comprised of intangible properties, physical transfer of them is often impossible. To this end, intellectual property rights may be transferred either by assignment or by licensing. On the other hand, a wide collection of intellectual property rights may be subjected to license agreements regardless they are protected by a typical intellectual property right. However some jurisdictions may have restrictions or special provisions as to licensing of unregistered intellectual properties. Similarly, some jurisdiction may require intellectual property agreement to be concluded only in written form, however theoretically, as a reflection of contractual freedom, license agreements may also be concluded in other methods. Finally it is important to note that, in international practice, license agreements are concluded in written form in consideration of certainty.

3. Why is it Necessary?

Insofar as licensing agreements, in a very broad sense, convert the reflections of creativity of human brain into commercial profit, a wide range of reasons may lead the future parties to enter into licensing agreements. In this some cases when the right owner itself has no facility to make profit from the intellectual property, licensing means to commercialize this IP, therefore to benefit from it by way of revenues. In other respects, licensing may help the right holder to reach new markets that she/he may otherwise not be able to reach by investing in that market or; by establishing subsidiaries or agencies or; by appointing distributors.[2] Also in terms of licensing of manufacturing right it may be advantageous for the licensor to manufacture its products overseas if the labor in the target market is cheaper than the origin of the licensor. Similarly, local product may be more favored in targeted market than the imports, moreover in some countries local products are encouraged by means of tax

[2] Attree Rebecca, *A Specially Commissioned Report: International Commercial Agreements*, Thorogood, (2002), p.195

advantages.[3] On the other hand, licensing an IP right to a licensee, which has reliable experience and good reputation in the specific field that the licensed IP is concerned to, will certainly be beneficial from the view point of the licensor. Eventually the most significant commercial advantage of licensing from the view point of the licensor becomes apparent as regards to investment and risks. That is to say, in some cases when the licensee has its own infrastructure and facilities, the licensor may avoid the cost of building new business facilities. Furthermore, insofar as the licensee is likely to be familiar and to have more information as to the market in which the licensed IP will be exploited, the licensor may avoid the risk of entering an unfamiliar market.

Similarly, the licensee`s interest to an agreement may also be to profit from the licensor`s name, good reputation and experiences as to specific field of licensed intellectual property. This aim becomes primarily important when the licensee is granted a trademark license and manufacture particular products under licensed trademark which is widely accepted in the relevant market. Finally the licensee may, therefore, avoid the costs of research and development activities.

4. Distinction Between Licensing and Assignment

In broad terms, the rights attributed to intellectual properties may be transferred in two different ways, namely licensing and assignment. In this regard, it has vital importance to note the distinction between licensing and assignment however those two institutions may seem close to each other in some particular respects.

Most importantly licensing transaction transfers the right to exploit the licensed intellectual property to licensee for a period of time, whereas assignment transaction transfers the ownership title of the intellectual property from the assignor to the assignee. In other words, in licensing transaction, the licensee retains the ownership however in some cases (e.g. exclusive license) mere ownership title does not give the right to exploit the licensed IP to the owner. Therefore assignment transaction may be considered as "sales of intellectual property".[4] In other respects, depending on jurisdiction, assignment of intellectual property involves relatively strict procedures. In other word, some jurisdictions allows the assignment of IP rights only when the assignment is made in written way, whereas in some cases license

[3] Sieberson Stephen C., King Bruce A., *International Business Contracting: Theory and Practice*, Carolina Academic Press, (2015), p.145

[4] European IPR Helpdesk, *Commercialising Intellectual Property*: Licence Agreements, p.4

agreements may be established orally. Finally it is necessary to note that, by virtue of their nature, assignment is often a one-time agreement whereas licensing agreements may be established repeatedly and even simultaneously provided that non-exclusive license is granted.[5]

[5] European IPR Helpdesk, *Commercialising Intellectual Property*: Licence Agreements, p.4 https://www.iprhelpdesk.eu/Fact-Sheet-Commercialising-IP-Licence-Agreements, Accessed (05.05.2017)

#CHAPTER TWO;

IP RIGHTS SUBJECTING TO LICENSE AGREEMENTS and TYPES OF LICENSE

1. INTELLECTUAL PROPERTY RIGHTS SUBJECTING TO LICENSING AGREEMENTS

1.1. Patents

A patent is an IP right which confers on right holder an exclusive right to manufacture, sell and use the patented invention for a limited period time.[6] Exclusivity in this regard refers to right holder`s monopoly power to exploit the patented invention in a broad meaning on one hand, and his/her right to prevent other person or persons from using and making commercial profit out of relevant invention on the other hand. In the light of basic definition, subject matter of a patent appears to be an invention. Nevertheless not every invention complies with patentability requirements. However each country, on the basis of national legislation, may have slightly different regulations concerning to patentability of inventions, on the level of international law there are particular and widely accepted criteria as to patentability. That is to say concerned invention should meet such requirements as; *Novelty*: invention must not have been disclosed in such a way that it had become publicly available before patent application[7]; *Expediency*: invention must be functional for the purpose that it serves for, so that it can deliver promised outcome and *Convenience for industrial application:* capacity of invention to subject industrial activities.

Having regard to international aspect, Patent Cooperation Treaty (PCT), which was established under WIPO, and European Patent Convention (EPC) lay down particular negative criteria concerning to patentability.

PCT Provision excludes following subjects out of its scope emphasising that no International Searching Authority is required to search an international application of such subjects;[8]

a) Scientific and mathematical theories,

[6] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), p.1

[7] Idib.

[8] See. Regulations Under PCT, Rule 39 *Subject Matter under Article 17(2)(a)(i),* http://www.wipo.int/pct/en/texts/rules/r39.htm, Accessed (06.05.2017)

b) Plant or animal varieties or essentially biological processes for the production of plants and animals, other than microbiological processes and the products of such processes,
c) Schemes, rules or methods of doing business, performing purely mental acts or playing games,
d) Methods for treatment of the human or animal body by surgery or therapy, as well as diagnostic methods,
e) Mere presentations of information,
f) Computer programs to the extent that the International Searching Authority is not equipped to search prior art concerning such programs.

EPC Provision, not very differently from PCT, excludes some particular contents from its scope, by means of Article 52. In this connection, (a) discoveries, scientific theories and mathematical methods; (b) aesthetic creations; (c) schemes, rules and methods for performing mental acts, playing games or doing business, and programs for computers; (d) presentation of information do not qualify as patentable subject matter within the meaning of European Patent.[9]

1.2. Trademarks

Trademarks may be defined, in broad terms, as any means of indicators that are capable of distinguishing the goods or services produced/provided by a particular enterprise from those which are manufactured or provided by other enterprises. In this regard, a trademark refers to source of goods or services in a definable manner. Another substantial functioning of trademarks is to indicate the quality of the product that is to say a well known trademark provides the licensee a credibility in the targeted marked. To this end, in vast majority of the cases where a trademark license is granted, the licensor intends to include a quality control provision in the agreement in order to preserve its good reputation by ensuring the licensee complies with certain standards of concerning mark. This sort of clauses are specifically important in terms of guarantee marks which aim to inform the customers that related product

[9] See. The European Patent Convention, Article 52 Patentable Inventions, https://www.epo.org/law-practice/legal-texts/html/epc/2016/e/ar52.html, Accessed (06.05.2017)

or service complies with certain quality standards. In this connection, the grants which do not include such clause are called "naked license".[10]

Such indicators to be used as trademark, on the other hand, may emerge in variety of forms. That is to say, a trademark can be a word, a phrase, group of words as well as they can be symbols, colours, designs, melodies and even a fragrances as long as such indicators are capable of being formulized or being represented graphically or being published and reproduced by printing. Although a word or group of words which directly refers to nature or to name of the product shall not qualify as trademark. Moreover, in most of the cases, it is not allowed to register a word (or group of words) as trademark if such words are identical or analogue to another trademark which has been already registered. Therefore, it is crucial to apply for registration of intended trademark before relevant product is nationally or internationally marketed under that trademark.

On the other hand, a trademark is normally possessed when it is dully registered at relevant national or international registry. However in some cases, such as when registry cannot be processed immediately due to time or budget issues, an unregistered trademark may allow the manufacturer to enjoy unregistered trademark which provides considerably weaker rights than registered trademarks, for a particular period of time and in pursuant of relevant law.[11]

However it is not strictly realistic to argue that a world-wide trademark registry and a unified protection exist, there are two major mechanisms that make an international trademark provision available. In this regard it is necessary to mention Madrid System and Trademark Directive of the EU;

a) *WIPO – Madrid System*: Madrid System Intellectual Protection of Trademark, which emerges from Madrid Agreement Concerning the International Registration of Marks and Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, offers the widest range of international trademark protection with 98 member states in which such registry is available.[12]

[10] Poltorak Alexander I., Lerner Paul J., *Essentials of Licensing Intellectual Property*, John Wiley & Sons Inc., (2004), p.88

[11] Attree Rebecca, *A Specially Commissioned Report: International Commercial Agreements*, Thorogood, (2002), p.198

[12] See. <http://www.wipo.int/export/sites/www/treaties/en/documents/pdf/madrid_marks.pdf> for the list of member states.

In this regard one application to be processed in office of origin (basic application) will provide the protection for the trademark in designated member states. By the virtue of the fact that only one application fee is paid and entire procedure is run by the same office, such a system claim to be time and cost effective. In order an international application to be filed, the applicant must have already been holding a national trademark or have filed an application in national IP office prior to international application. Upon filing an international application, the national IP office certifies this application and forwards it to WIPO for a formal examination. Applications that duly complied with formal examination are recorded and announced by means of WIPO Gazette of International Marks. Meanwhile the certificate of international registration is forwarded to national IP offices of the countries in which the applicant demands for protection of its certified trademark. As the last step, national IP offices those countries assess the forwarded certificate, in pursuant their national legislation, and decide whether or not they can protect relevant trademark in that specific territory. Finally, it is necessary to note that the protection provided by means of Madrid System is available for a, renewable, 10-year period.[13]

b) *European Union Trademark (EUTM)*: Trademark legislation in the EU has been harmonised and unified by means of EU Trademark Directive[14] and the Amending Regulation[15]. Therefore a European Union Trademark provides certain level of protection and enforceability throughout all 28 members states of the Community. In consideration of EUTM system, one single registration procedure, which is processed European Intellectual Property Office (EUIPO), is merely enough to create a European Trademark. However national trademarks, which are not entitled to enjoy Community-wide protection, are still available in accordance with national law of each member state. Consequently, a European Union Trademark confers on the right holder exclusive rights such as (i) Preventing third parties from using a mark, which is identical or confusingly similar to the registered mark, on the same or similar goods / services; (ii) if the registered mark has Community-wide reputation, right holder may prevent third parties from using

[13] *Protecting Your Marks Abroad THE MADRID SYSTEM,* http://www.wipo.int/edocs/pubdocs/en/marks/1039/wipo_pub_1039.pdf , Accessed (09.05.2017)
[14] Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks
[15] Regulation (EU) 2015/2424

a mark which is the same or confusingly similar to registered mark, regardless of identity or similarity of latter goods / services. In this connection, it has to be noted that the EU Trademark system, like WIPO provision, ensures a 10-year period of protection. Although EU Trademarks which have not been put to genuine use within the territory of the Community are no longer fully protected by the EU Trademark legislation against third parties` claim.

1.3. Copyrights

A copyright confers on right holder, who is the first creator of the work in most of the cases, such exclusive rights as right to copy, sell, distribute, re-produce, license and publicly perform or exhibit the protected work. In order for a work to enjoy the protection within the meaning of copyrights, it must be in an original and creative character. Although copyrights do not serve for protection of mere ideas but such protections are available only for specific expressions of the ideas which, therefore, become apparent by means of original and creative works. On the other hand, an original work automatically subjects to copyright at the very moment it is created. Moreover, unlike patents and trademarks, copyrights have a considerable flexibility in terms of subject matter to be protected. That is to say, many different types of subject matters such as such as literary, dramatic, musical, or artistic works; sound recordings; film, radio, and television broadcasts; and computer software fall under scope of copyright protection. Although copyright offers much narrower scope of protection than a patent or trademark in so far as the underlying idea itself is not protected.[16] Hence, when the same idea as in another work is expressed in a different way, even if the difference is very slight, the latter work will also be protected through copyrights. On the other hand, harmonisation of copyright relating laws on international level has been pretty much reached by means of the Berne Convention for the Protection of Literary and Artistic Works, WIPO Copyright Treaty (WCT) under the Berne Convention and TRIPS Agreements. Therefore, (i) computer programs and (ii) compilations of data or other materials, namely, databases which qualify as intellectual creation have been included in the scope of copyright protection by means of WCT.

[16] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), p.3

1.4. Know-How and Trade Secrets

Know-how and trade secrets may broadly be defined as any kind of knowledge or information which is not known by the public or, at least, is not easily accessible by the others. Moreover, key point in identification of know-how and trade secrets is their commercial-economic value which, therefore, creates an advantage upon their holder. Unlike other intellectual property rights, know-how and trade secrets are not protected by patent, copyright or trademark, that is to say, such rights fall under the title of "unregistered rights". In this connection, those rights, in most of jurisdictions, are protected only by basic principles of law such as contract law, tort law and criminal law. Such intellectual properties, as a matter of fact, do not have specific appearance so that exact limitation of their scope can be stated. Accordingly, recipe of some particular products or an unpatented innovation may give rise to know-how or trade secrets.

In consideration of license agreements, know-how and trade secrets are, in majority of the cases, are put in documentary form or demonstrated in other transferrable forms to be provided with license agreement. In addition, those documents or demonstrations are often supplemented and clarified by oral information.[17]

2. SCOPE OF GRANTS AND TYPES OF LICENSE

In order to get a better understanding of this issue, it necessary to emphasize that the licenses granted by means of a licensing agreement may be classified based upon their characteristics. In other words, exclusivity degree of grants and the legal basis that leads the parties to conclude such an agreement as well as licensees` right to grant a sublicense may identify the structure and essence of the grants that involved in particular licensing agreements. Such characteristics therefore are strongly related to scope of the grants.

2.1. Non-Exclusive and Exclusive Licenses

Considering exclusivity level of a license refers to quantity of persons upon whom the right of use of concerning IP rights is granted, exclusivity character of a license has substantial importance on economic level. In this context a non-exclusive license, like other sort of licenses, legally authorizes the licensee to use concerning IP right but not on an exclusive level. That is to say the licensor has right to appoint other person or persons to use

[17] Attree Rebecca, *A Specially Commissioned Report: International Commercial Agreements*, Thorogood, (2002), p.198

the same IP right by means of another licensing agreements. Moreover, right holder him/herself still retains the right to use the concerning IP. Non-exclusive licenses on the other hand considered as default form. Therefore, unless otherwise consented upon in licensing agreements, granted licenses qualify as non-exclusive license.[18]

On the other hand, an exclusive license emerges when parties mutually consent upon, by means of an exclusivity clause, in the agreement that no other person <either individual or legal entity> can be granted the right to use the same IP rights. In this context, an exclusive license, unlike non-exclusive model, allows only the licensee to use relevant IP rights. Hence, unless otherwise provided in agreement, even original holder of the IP right will no longer be competent to use relevant right. Eventually exclusive licenses create a monopoly effect in favor of licensee whereas right holder is left only with bare title of relevant IP right.[19] To this end it is necessary to lay down the distinction between sole and co-exclusive licensing which, at some points, differ from classic appearance of exclusive license;

a. **Sole License:** Differently from classic exclusive license, parties agree upon such a clause that the licensor shall not grant any other license concerning to same IP right but licensor him/herself still possesses right to use this relevant right.
b. **Co-exclusive License:** However in this model the license is granted upon more than one person, licensor agrees that such a grant shall not exceed a limited group of people**.**

2.2. Non-Compulsory and Compulsory Licenses

Non-compulsory licensing, whereas compulsory licensing appears to be an exceptional situation, constitutes classic form of licensing. That is to say non-compulsory licensing comes in existence when holder of an intellectual property right legally authorizes someone else, which can be either individual or legal entity, to use or profit by IP rights in question. To this end, a classic licence is simply a permission given by the owner, with his / her free will, of the relevant intellectual property rights to a user to do something which the owner could otherwise prevent.[20]

[18] Karahan, S., Suluk, C., Saraç, T. and Nal, T., *Fikri Mülkiyet Hukukunun Esasları*. 3rd ed., Seckin, (2013), p.357
[19] Poltorak Alexander I., Lerner Paul J., *Essentials of Licensing Intellectual Property*, John Wiley & Sons Inc., (2004), p.69
[20] Nicolson Fiona, Potocka Isabel, Lawrence Sophie, Wilson Charlie, *BRISTOWS IP Licensing Handbook,* Bristows, (2011), p.6

However in case of compulsory licensing, differently from classic appearance, consent of IP right holder is far from being essential of license grant. Therefore compulsory licensing may be expressed as granting of a licence by a governmental authority or any means of legislation regardless of IP right holder`s permission. As applied to international intellectual property rights, it allows governments to grant licenses for patent use on the ground that the right holder is either not using the right within the country or is not using the right adequately.[21]

The exercise of compulsory licensing can be observed at both national and international level, however international provisions of such licenses arising from international agreements are necessarily to be implemented by national government at national level. United States regulation concerning to license for making and distributing phonorecords[22], in this regard, set a decent example of compulsory licensing at national level. Indeed, Section 115 US Copyright Act, under particular circumstances, makes a compulsory licensing available by means of following provision;

> *"When phonorecords of a nondramatic musical work have been distributed to the public in the United States under the authority of the copyright owner, any other person, including those who make phonorecords or digital phonorecord deliveries, may, by complying with the provisions of this section, obtain a compulsory license to make and distribute phonorecords of the work..."*

In recognition of international dimension of compulsory licensing, most significant example arises from compulsory licensing of pharmaceuticals established by Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). Inasmuch as access to drugs against life-threatening diseases by less developed countries with insufficient or no manufacturing capacity is notably restricted by virtue of effects of IP rights on prices, and whereas activists and pharmaceutical companies seek to advance their respective policies over the right to access to medicines, removal of such a restriction has been crucial issue. In this context TRIPS Agreement, more specifically Doha Declaration on TRIPS and Public Health (2001), established a compulsory licensing in such a way that when generic drug is produced only for purpose of meeting the domestic need but not for export, each WTO

[21] Ford Sara M., *Compulsory Licensing Provisions Under the TRIPs Agreement: Balancing Pills and Patents,* American University International Law Review 15, no. 4,(2000)

[22] See. https://www.copyright.gov/circs/circ73.pdf , Accessed (03.05.2017)

member state has right to grant compulsory licenses and freedom to determine the fields to be granted such kind of licences upon.[23]

Finally it has to be noted that compulsory licensing of trademarks is not permitted under provision of TRIPS Agreement.[24]

2.3. Sublicense

Right to sublicense may be broadly defined as licensee`s right to grant another license within the scope of licensing agreement through which she/he is authorised to exploit relevant IP rights. Licensee of the main agreement therefore obtains the title of "sub-licensor", whereas person or persons upon whom a sublicense is granted becomes a "sub-licensee". In other words, scope of the rights to be granted by means of a sublicense cannot exceed the scope of original license agreement. On the other hand, licensee of main agreement is entitled to sublicense only when she/he is explicitly authorised by IP right holder by means of main licensing agreement.[25]

In practical terms and in consideration of dynamic structure of business activities which licensing agreements mostly concern to, more specifically in international practise, role sublicensing appears to be crucial. In this context reasons why such a secondary licensing method is desired may vary. First of all, in consideration of commercial entities, which accommodate a vast number of affiliate companies, may reasonable opt for such a method in order to provide a broader use of granted IP rights within their commercial scope by means of sublicensing such rights to affiliate entities. Secondly, a necessity emerges when licensee have no easy access to entire territory covered in the license agreement so that grant of sublicense upon third persons on local basis may substantially help licensee (sub-licensor) to reach entire territory.[26] In this respect, physical – geographic circumstances may also give a rise to necessity of use sublicensing.

[23] See. Declaration On The Trips Agreement And Public Health, https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.pdf , Accessed (03.05.2017)
[24] See. Article 21, TRIPS Agreement
[25] Karahan, S., Suluk, C., Saraç, T. and Nal, T., *Fikri Mülkiyet Hukukunun Esasları*. 3rd ed., Seckin, (2013), p.357.
[26] European IPR Helpdesk, *Commercialising Intellectual Property: Licence Agreements*, https://www.iprhelpdesk.eu/Fact-Sheet-Commercialising-IP-Licence-Agreements, Accessed (05.05.2017)

3. LIMITATIONS ON SCOPE OF GRANT

3.1. Territorial Limitation

Territory, within the meaning of licensing agreements, may be defined as a geographical scope where the licensee is authorised to exploit licensed IP rights. Considering functioning of licensing in the meaning of accession to international and overseas markets, territorial scope to be covered by the agreement has a great importance. That is to say, the achievability of intended commercial goal, which therefore lead the parties to conclude a licensing agreement, is substantially dependent on elaborate designation of geographical scope.

Whereas contractual freedom is essential of contracts, parties to a license agreement freely designate territorial scope of licensing agreements. Having regard to such a freedom, parties may define the scope as broad as "world-wide" or cover a wide range such as "Asia" or "European Customs Union countries". In consideration of international licensing, territorial scope generally covers a broad geography nonetheless there is no obstacle for parties to agree upon a narrower territorial scope such as a province.

3.2. Field of Use

Restriction on field of use is a limitation when the licensor limits the area or purpose in which licensed IP right can be exploited by the licensee. In other words, functioning of a field of use limitation is to shrink the broad application of concerned right down to a particularly designated, so that limited, area or purpose. Given that, where a licensor holds a patent for a robotic technology invention, a licensee may be granted the right to manufacture and sell this product. However the licensor, by means of field of use restriction, may limit the scope of this grant only to manufacture of surgical operation technology. Such restrictions may also serve as an instrument to provide the standardization by limiting the grant to the production of a particular style or size of product or to the use of grant only in a designated sector of the market.[27]

[27] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), p.11

3.3. Release

In legal terminology, a release is an agreement or declaration of a unilateral will to release somebody from legal liability arising from a specific activity. In such cases when a license enters into force as a component of settlement to infringement proceedings, it appears to be necessary to cover in the grants provision a release concerning to infringement that allegedly has occurred prior to the date of agreement.[28] However in most of the cases release is provided conditionally in such a manner that the licensor reserves its rights to claim damages for the past infringements upon any potential breach to be committed by the licensee in the future. Therefore, such a provision will preserve the infringing party from legal liability as long as the infringing party abides by her/his obligations under the agreement.

[28] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), p.12

#CHAPTER THREE;

ANATOMY OF LICENSE AGREEMENTS

In consideration of intellectual property rights involved and of expectations or interest of the parties, each licensing agreement is likely to be formed in a different way than the others. Moreover, practical needs and experiences in commercial activities lead the parties to conclude licensing agreement involving wide collection of IP rights so called "mixed license". In other words, a licensing agreement does not necessarily cover an IP right in its entirety but only some particular aspects or rights of an intellectual property may be licensed as long as consent of parties meets. Therefore, it is not realistic to suggest a unified format for licensing agreements. Although possible to demonstrate a general framework through which licensing agreements most likely to take shape. Hence, this chapter is to demonstrate a general framework of licensing agreements.

1. Identification of the Parties

Parties to a licensing agreement typically consist of (i) "licensor" the party that has a legit ground -namely licensor may be a right holder or a licensee who has been entitled to sublicense- for granting a license for relevant IP right; and (ii) the party that intends to exploit relevant IP rights in return for a particular consideration, so called "licensee". On the other hand, both licensor and licensee, more specifically in case of joint IP right ownership, may on a plural basis.

In such cases when parties to the agreement are made up of individuals or single entities identification of parties may seem to be simple and relatively hassle-free. Nevertheless, in practical terms, large legal entities that accommodate plenty of sub-companies, units and affiliations under their umbrella are involved in licensing agreements as well as other commercial agreements.[29] This complex structure, therefore, gives rise to such questions as which entity or entities will be authorised to exploit the granted rights; and whether the contracting party qualifies as a legal entity so that it would be legally capable of performing the agreement, specifically in financial terms. To this end, an explicit identification of parties in the agreement appears to be beneficial for both sides.

[29] ICC Services , *Intellectual Property Licensing*, Paris, France,(2014), p.4

In so far as correct identification of the parties in the agreement is directly related to determination of the persons to be bound by the agreement and to its enforceability, it is important to ensure that the following details are explicitly stated;

i. *Full legal names of the parties, including commercial name*
ii. *Their anticipated title under the contract (Licensor / Licensee;* in case multiple licensors or licensees involved, it may be helpful to enumerate them.
iii. *Country of origin;* in a manner that refers to national law under which the company incorporated.
iv. *Place of registered seat (full address)*
v. *Company registration number*

Finally it is necessary to emphasize that in cases when sub-companies are involved in the agreement, it may be functional to add the parent entity in the agreement as a guarantor.[30]

2. Recitals / Background

A recital, as a very early section of agreements, is set to put forward the background of the agreement including interest of the parties, underlying reasons and motivations of the parties to conclude the relevant agreement. As mentioned in earlier chapter, the parties may conclude a licensing agreement as a part of settlement procedure arising from an infringing conduct. In this connection, recitals part is the place to emphasize such specific impetus as well as to mention the definite infringing event that the settlement procedure arose from. Accordingly, in this section, the parties clarify their will to enter under a licensing agreement stating the interest of each party. That is to say, the licensor is to identify what particular IP right she/he holds and is willing to license upon the licensee under the agreement by declaring she/he has legit right to do so. The licensee, on the other hand, explicitly states their interest and request to enter into an agreement concerning to grant of IP rights which is set a great length in provision of the agreement. Therefore it is critical to put emphasis on the point that however in most of the cases the recitals are not likely to concern the actual provision of execution of agreements, the parties hereby express their intention to be bound by the provision ensured in later parts of the agreement. The parties, to this end, necessarily to make sure that the recitals do not comprise any contrasting statement to the main provision of the agreement. Yet another crucial functioning of the recitals becomes significant in terms of

[30] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), (2003), p.6

interpretation of agreements in such a manner that they serve as departure point of interpretation of the agreement. In case any ambiguity, causing from the agreement, lays an obstacle in terms of interpretation, recitals may be helpful to address the actual intention of the parties so that a coherent interpretation, most likely with the intent of settling a dispute, can be managed.

3. Definitions

Considering involvement of a diverse range of industrial subject matters, technical details and, of course, legal terms in such agreements, the contractual terminology is, generally, structured in a complicated manner. To this end, definition of terms in the agreement shapes the main guidelines of interpretation for both parties and legal experts. Thus, definitions section is where the terms that are given place in entire text of the agreement are listed and explained in a manner that what those key terms should mean within the terminology of the relevant agreement. The parties, on the other hand, do not necessarily have to use a language in pursuant of meanings of the words in common sense, yet the terminology parties agreed upon will override the common terminology in terms of interpretation of the agreement. In this respect the parties should clearly agree upon the context of contractual terms so that an objective understanding of language, at least between the parties, can be provided.

The functionality of definitions becomes apparent not only in terms of interpretation but also scope of grants or limitations on the scope may be imposed by means of definitions. In case the term "territory" is specifically defined as a piece of land, such limitation will determine the territorial scope of the granted license. Similarly, the IP rights subjected to the agreement may be particularly set in definitions section (e.g. *"exclusive right to manufacture and to distribute XYZ product"*), in such circumstances the definition will designate the scope of the grant therefore subject matter can be addressed as "licensed IP" in the main body of the agreement. Finally, it may be beneficial to point out that the definitions parts are generally put in an alphabetic order and located in early parts of the agreements in so far as they establish the essential instruments to understand the contract.[31]

[31] European IPR Helpdesk, Commercialising Intellectual Property: Licence Agreements,p.6 https://www.iprhelpdesk.eu/Fact-Sheet-Commercialising-IP-Licence-Agreements, Accessed (12.05.2017)

4. Grant of Rights

As it designates the scope of the license and how freely those licensed rights can be exploited by the licensee, namely extent of the rights, grant of rights provision appears to be the most critical part in terms of licensed subject matter and limitations therefore it comprises the core of the agreement.

This provision, in very basic terms, contains the subject matter of the agreement. In other words, the licensee hereby with this provision ensures what she/he will be granted by concluding the agreement. From this point of view, the provision may seem to concern to the licensee`s profit from the contract. Nevertheless such provision is critical not only for the licensee but also for the licensor. That is to say, this provision also establishes the scope of the rights the licensor will still retain, whereas the licensee obtains some particular rights. On the other hand, a grant of rights provision typically contains following elements;

i. Which particular intellectual property and which particular IP right/s among the scale of that IP is being licensed.
ii. Exclusivity degree of the license
iii. The extent of the license being granted, in consideration of limitation on the scope

By virtue of contractual freedom, parties may freely agree on which IP rights to be licensed under a licensing agreement. On the other hand every single intellectual property confers variety of rights on its holder. Therefore when a licensing agreement is concluded, the licensor do not necessarily to license all the rights of relevant intellectual property that she/he holds. Similarly, a licensee, in commercial terms, may not need entire rights of an intellectual property or not every right may be profitable for them. In this regard practical needs of each party will form the scope of the grant. For instance, in case of a patent licensing, the parties may perfectly agree on granting the right to manufacture and use but also exclude the right to sell from the scope of the license. Although in vast majority of practical examples the parties intend to establish mixed contracts, such as “manufacturing and distribution agreement”, rather than typical IP licensing. Since the identification of granted rights directly and heavily related to manageability of commercial interest attributed to the agreement, both parties must pay a maximum level of attention in crafting this content. Consequently, all those provisions, which are shaped on the basis of interest of the parties,

are to be established under grant of right section although parties may name this section in different ways.

Yet another critical issue to be made certain in the scope of grant arises from determination of exclusivity degree of the grant. As already mentioned in earlier chapter, the licensor may retain the right to grant other licenses concerning to the same IP rights to third parties (non-exclusive license); or retain the rights just for him/herself so that she/he keeps exploiting the relevant rights simultaneously with the licensee (sole license); or makes the relevant right available only for the licensee, therefore even the licensor itself can no longer exploit those rights (exclusive license). Such clauses determining the exclusivity degree, as a matter of fact, has substantial effects on competitiveness in commercial manner and, naturally, on economic aspect. In other words, an exclusive license which therefore creates a monopoly situation in favour of the licensee is likely to be more profitable from the point of view of the licensee. Nevertheless in so far as a potential monopoly causing by exclusivity may give rise to anti-competitive situation in the relevant market, the parties, in drafting exclusivity level, should consider the national jurisdiction of competition law in the territory where the licensed right aim to be exploited. In parallel with exclusivity degree, it is also crucial for both parties so determine whether or not the licensee is authorised to grant a sublicense or assign them. As a matter of fact this provision becomes critical when the licensee accommodates sub-companies or affiliations, which actually intends to exploit the licensed rights. Even in such cases when the licensee is permitted to grant sublicenses, its right to sublicense may be limited to some particular respects, right to sublicense, for instance, may be limited to only subsidiaries of the licensee or to a designated territory. Besides, in case the licensee authorised to grant sublicense, it is necessary for parties to clarify some important points concerning to sublicensing right such as[32]; (i) whether or not the licensee is competent to determine the parties whom will be granted sublicense, whereas the licensor may perfectly limit scale of sub-licensees to the affiliates of the licensee or to a designated group of people/entities; (ii) Question of what provision will apply in future sublicensing agreements. Generally, license agreements intend to establish that the same provision put forward in the main licensing agreements, as far as they are suitable for sublicensing, should apply in sublicense agreements. Moreover, the licensor may also establish a conditional provision in such a way that the grant of a sublicense by the licensee

[32] European IPR Helpdesk, Commercialising Intellectual Property: Licence Agreements,p.8 https://www.iprhelpdesk.eu/Fact-Sheet-Commercialising-IP-Licence-Agreements, Accessed (13.05.2017)

can be established only when the licensee approves; (iii) Whether or not the termination of the main licensing agreement automatically causes the termination of the sublicensing agreement. In this consideration, the parties to the main licensing agreement may agree either on an automatic termination of the sublicense or the licenser may be obliged to maintain the sublicensing agreement. It should also be noted that, unless parties agree otherwise, in case of acquisitions or mergers occur so that assets or obligations of either party get involved in any other entity, licenses and of course intellectual property rights concerned in the license are normally passed to the relevant entity in accordance with applicable law.[33]

Consequently in the light of given considerations, scope of grants in licensing agreements refers directly to practical functioning by containing the subject matter in details and emphasising the restriction or limitations on the exploitation by the licensee. Therefore all the considerations as to the extent of the rights should be clearly ensured in this section of the agreement, namely core element of the agreement. In this regard, the parties should pay a great attention to form the scope in accordance with their interest in the agreement so that the anticipated profit for both parties can be reached.

5. Consideration (Payments / Royalties)

As a natural result of contractual relations, an agreement creates some particular obligations upon the parties meanwhile some rights are conferred upon them. To this end, consideration proves to be the most important obligation of the licensee under a licensing agreement as well as it constitutes a very essential issue in the entirety of the agreement. Hence, consideration may be defined as the economic value, in most of the cases a definite sum of money, which the licensee promises to pay to the licensor in exchange for granted license. Eventually the considerations section of the agreement concerns to determination, calculation and the payment methods of the consideration.

Yet again as a contractual concept, the parties to license agreement have a great freedom to determine the form of consideration as long as intended means of consideration abides by general principles of law. A wide collection of economic values in this context may qualify as consideration. Although in vast majority of the cases this value becomes apparent as a definite or objectively determinable sum of money.

[33] ICC Services , *Intellectual Property Licensing*, Paris, France,(2014) p.6

On the other hand, similarly with the form of consideration, no formal restriction applies on the structure of payments, in this manner the payment may also be performed in variety of ways. The licensor may receive an upfront fee on commencement of the agreement or milestone payments based on achievement of specific goals as well as a combination of these.[34] Nevertheless as regards to payment structure two major concepts, namely paid-up license and running royalties, become prominent;

a) *Paid-up License*: The term "paid-up" refers to those licensing agreements under which the consideration is a fixed sum that can be paid in advance (lump-sum) or over a period of time, as fixed certain number of units, in pursuant of a mutually agreed payment schedule. Therefore particularly agreed sum is not affected by the future success or failure the licensee, in other words, the licensor through this concept prefers a fixed, thusly less risky, sum rather than running royalties. Nevertheless in consideration of the contrary scenario, when the licensee manages a greater success than the licensor anticipate, this concept is likely to involve a considerable risk of profit loss from the view point of the licensee. To this end paid up model generally emerges in case the future success of the license is substantially foreseeable and when the agreement intended to be for a short term.[35]
b) *Running Royalty License*: Having regard to the above mentioned concerns and to pecuniary volume of licensing transactions, agreeing upon paid-up licenses may not always be a realistic alternative. As a matter of fact, in many cases the parties consent on such a payment structure that does not base the consideration on a fixed sum but on the actual revenue that license provides in a particular period of time. In other words, the parties, in most of the cases, agree upon continuous periodic royalty payments which are to be paid in accordance with agreed-on frequency (e.g. on monthly or annual basis). Generally the licensee performs an upfront payment and this initial payment is followed by running royalties. This payment structure thusly, unlike paid-up license, provides a flow of revenue to the licensor on a regular basis so that the licensor may either invest for

[34] Nicolson Fiona, Potocka Isabel, Lawrence Sophie, Wilson Charlie, *BRISTOWS IP Licensing Handbook,* Bristows, (2011), p.7

[35] Poltorak Alexander I., Lerner Paul J., *Essentials of Licensing Intellectual Property*, John Wiley & Sons Inc., (2004), p.100

further development of the IP or attribute it as benefit made out of the IP.[36] Amount of running royalty is often designated to be a particular percentage of net sales or of per unit sold.

In spite of the fact that fixed royalty is particular or objectively determinable sum of money, in case of fixed royalty extended over a period of time, it is necessary for parties to consider the economic variability. To this end, the agreement may contain inflation measures, in other words the fixed royalties may be based on such factor as retail price index or consumer price index so that inflation risk can be relatively reduced.

Another critical question as to royalties arises on the point that whether it is possible to designate a sub limit of revenues the licensor should obtain. This particular issue becomes significant especially when an exclusive license is in question, in so far as granting an exclusive license often keeps the licensor out of the relevant market. In consideration of the potential situations when the granted license substantially fails in the relevant market or the profit from the license is realised far less than the anticipation, the licensor may always face the risk of not making any benefit from the agreement. Yet, in this very situation, as a result of exclusivity of the grant, the licensor will not be able to grant any other licenses, therefore, the relevant intellectual property will appear to be completely unprofitable during the licensing period. Eventually, in order to avoid such a risk, it is always beneficial for the licensor to insist on a minimum payment clause which therefore guarantees a minimum amount of profit from the license. Alternatively, the parties may involve a provision that rules for termination of the license or for changing it into a non-exclusive license, in case of agreed minimum payment is not obtained by the licensor.[37]

Further than all structural consideration and measures for avoiding variety of risks, it is vital for both parties to clearly define the basis for royalty calculations. As mentioned earlier, if the royalty is based on revenues or sales, the royalties are often expressed as a particular percentage. However, it is certainly a lot more important to explicitly define which economic parameter those percentages will be based on (i.e. net revenue or gross profit). This differentiation becomes apparent, especially, in consideration of manufacturing cost and other related deductions such as taxes, shipping costs and packaging costs. That is to say, such

[36] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003),p.13

[37] Nicolson Fiona, Potocka Isabel, Lawrence Sophie, Wilson Charlie, *BRISTOWS IP Licensing Handbook,* Bristows, (2011), p.8

deductions and financial obligations will definitely have a negative impact on the net revenue therefore lower the royalty payment that the licensor will receive.[38] Especially in an international transaction, those deductions and other financial side obligations are likely to be worth significantly more in comparison with a domestic transaction. Taking these factors into account, it is necessary to emphasize that the basis of royalty calculation is one of the key points which requires the greatest care of the parties in negotiation for a licensing agreement. In addition, from the view point of international transactions, determination of the currency in which the payments should be performed is another key issue in so far as currency fluctuations may always accommodate a risk for both parties. This determination therefore emphasizes the party that is going to take the risk.

In parallel with the designation of the royalty calculation basis, the accurate exercise of the designated basis into payments must be provided. Therefore the agreement necessarily to contain a set provisions which sets forth the licensor`s right to supervise the licensee`s compliance with its financial obligations. In this context, the licensee may be obligated to supply the licensor with reports concerning to the sales that constitute the basis of royalty calculation on a regular basis. The licensee also undertakes the obligation of keeping detailed records linked with the licensor`s right of supervision.[39] In addition, the frequency of exercising such supervision may be limited by the licensee, by way of audit clause. Those limitations may be based on a regular period of time or on a reasonable notification to the licensee.

On the other hand, from the view point of the licensee, it is always vital to remain competitive in the market. To this end, the cost of the same or similar kind of license to the licensee should not be significantly higher than it costs to the other actors, namely competitors, of the market. To eliminate this disadvantage, it is beneficial for the licensee to resort a "most favoured nation clause". Such a clause ensures that in case the licensor grants other licenses, under which the circumstances are similar or comparable with the agreement concluded with the licensee, to third parties, the licensee will have right to opt for the royalty rate of the other licenses –if they are more favourable for her/him-. This clause, generally, obligates the licensor to notify the royalty rates of new licenses to the licensee so that the

[38] Cameron Donald M., Borenstein Rowena., *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), p.15

[39] European IPR Helpdesk, Commercialising Intellectual Property: Licence Agreements,p.10 https://www.iprhelpdesk.eu/Fact-Sheet-Commercialising-IP-Licence-Agreements, Accessed (17.05.2017)

licensee can decide whether or not the new royalty rates are more favourable. Finally it is necessary to note that this clause has its practical importance in case of non-exclusive licenses.

6. Obligations of the Parties

By virtue of its function a licensing agreement essentially obligates the licensor to authorize the licensee to exploit subjecting intellectual property whereas the licensee is obligated to pay designated royalty in exchange of the right conferred upon her/him. However a number of other obligations are also created upon the parties by means of a licensing agreement. To this end, it is necessary to mention typical obligations on the parties under a license agreement.

The licensor is, most importantly, obligated to assist the licensee in respect of exploiting the licensed intellectual property and to provide the required information in a reasonable time so that the licensee can start exploitation. The assistance to be provided by the licensor on the other hand generally involves technical support, training the licensee`s employees. Secondly, the licensor may obligate the licensee to exploit the licensed right by putting an adequate effort. This provision becomes particularly important both in exclusive license and when the consideration is calculated based on revenues. That is to say, because only the licensee exploits the licensed IP in case of exclusive license, reputation and maintenance of the intellectual property is strictly related to the licensee`s effort. Moreover licensee`s performance in exploitation will increase the profit of the intellectual property, therefore licensor`s benefit, in parallel to this, will increase. It should also be considered that in some jurisdictions, particular intellectual properties (e.g. trademarks) are protected as long as they are actively used. Similarly, the agreements often include a provision which sets out that the licensor is obligated to keep up with certain quality standards in manufacturing the licensed product. To provide those quality standards the licensor may intend to include a provision which allows the licensor to inspect the licensee`s plant or the licensee may be obliged to supply the licensor with sample products on a regular basis.[40]

In respect of international licensing agreement, it has a vital importance to set out which party, if required so, will be obligated to obtain the required approvals and permits in the

[40] Nicolson Fiona, Potocka Isabel, Lawrence Sophie, Wilson Charlie, *BRISTOWS IP Licensing Handbook,* Bristows, (2011), p.9

territory of exploitation. In this manner, the licensor often insist on a provision stating that the licensee will have to comply with such requirements. Considering that the licensee possibly has more advanced information as to the national law of the territory in which the license will be used, to obligate the licensee to deal with such requirements appears to be more reasonable.

On the other hand, the licensee is usually obligated to report the infringement of the licensed IP rights to the licensor immediately. However it is more important to determine which party will have to enforce to IP rights in case an infringement by third parties occur. This right, as a matter of fact, may be given to the licensor as well as both parties may be simultaneously charged to enforce the IP rights. Although some jurisdictions establish that when there is no provision in the agreement as to who should enforce the IP rights, both parties are considered to have the right to take necessary actions.

7. Term and Termination

Term of an agreement refers to a particular time period during which the parties` rights and obligations arising from the agreement will be effective. In this manner, licensing agreements, similarly with many other types of agreements, are generally established for a definite period of time. However the parties may perfectly agree upon an agreement with no time limitation, namely perpetual agreements. Yet, even in case a definite period is agreed, some rights and obligations, by virtue of their nature, may exceed the term of the agreement (e.g. confidentiality). Determination of the term, on the other hand, is strictly related to the type of the intellectual property involved and to the intention of the parties. That is to say, considering the rapid changes in market dynamics and in variable economic interest, the parties may always intend to be bound by a long term agreement. So that they can catch alternative deals and retain the power of re-negotiating. In parallel with that, the nature of the subjected intellectual property may also lead the length of the term. For instance a patent, almost in every jurisdiction, subjects to expiration within 20 years starting from application, in this connection, the expiry date of the patent may be departure point in designation of the term of a patent licensing agreement.

In order to avoid the above mentioned risks of long term agreements, the parties, in some cases, resort to agree on a shorter term and renew the agreement on regular basis. To this end, an automatic renewal clause may be imposed into the agreement so that the agreement will be renewed at the end of the term, unless otherwise is notified by one of the parties within

designated timeframe. In addition, whereas an automatic renewal clause applies, it is not necessary for the parties to renegotiate the essential of the new agreement therefore the provision of previous agreement will apply to the new one. Although, even in case of such provision is not imposed, the parties may always agree on a renewal. To do so, the licensee is usually required to notify her/his interest in renewal to the licensor prior to the end of the term.

In consideration of the scenarios when parties somehow step aside from the contractual relation, the agreement must unambiguously lay down termination provision and the circumstances under which each party will have right to terminate. However negotiation on termination provisions when the agreement is not yet in force and when the anticipations as to the future of the agreement is not yet clear may be tricky for the parties.[41] On the other hand, right to terminate may be formed in two different ways; (i) *termination for cause*, this model sets forth the specific background or reasons under which the parties may terminate the agreement; (ii) *termination for convenience*; allows the parties to terminate the agreement any time, independently from any reason, on the condition that appropriate notification is given to the other party. Besides, the timing of the notification necessarily to be set forth in the agreement and it is important to consider, in case the notice period is not specified, that some jurisdictions, therefore governing law of the agreement, may involve a specific or "reasonable period of time" requirement as to the notice period. Eventually the parties, as a matter of course, may freely impose any of these termination concepts into the agreement, nevertheless, having regard to the licensee`s vast amount of business investment based on exploitation of the licensed intellectual property, termination for convenience accommodates a serious risk from the view point of the licensee. It is also necessary to note that when the terminated party, due to the termination, has not had reasonable opportunity to recoup her/his investment, terminating party may be asked for damages.[42] Therefore, in practical terms, the licensees often avoid to consent upon such termination clauses. In other respects termination for cause, unlike the other concept, requires the parties to base the termination on the background or the reasons which have been agreed upon in the agreement. In this regard, reasons for termination often comprised of such events as material breach of the agreement by the other party, failure in payment of royalties, insolvency. In addition, the licensee may

[41] Nicolson Fiona, Potocka Isabel, Lawrence Sophie, Wilson Charlie, *BRISTOWS IP Licensing Handbook,* Bristows, (2011), p.11

[42] ICC Services , *Intellectual Property Licensing*, Paris, France,(2014), p.7

retain the right to terminate in case third parties allege an infringement of other intellectual property rights by the licensed intellectual property. This becomes apparent especially when the agreement does not include indemnification on favour of the licensee by the licensor.

Whereas termination provision serves as guide book of removing the contractual relation, clarification of the consequences of termination is as important as setting out the causes of termination. In other words, the parties necessarily to agree on the financial effects and other obligations of termination so that they can avoid further disputes. In this context, an important question arises as to how the existing license-related products in the licensee`s stock should be treated. The licensor may either resort to retain the right to purchase the existing stock or allow the licensee to continue selling. In second scenario the parties should also agree what basis will apply on the existing licensed products (wind down provision). Secondly, the licensor, in most of the cases, require the licensee to return the materials which provided to the licensee for assisting her/him in exploitation of the licensed IP. This issue becomes crucial especially when know-how or trade secrets are subjected to the license. Moreover, attention should be paid by the parties on some provision of the agreement that, due to their nature, must remain effective after the termination. In this regard, provisions as to treatment of confidential information, indemnification, warranties and representation may remain in force upon the termination.[43] Apart from these typical issues, parties may agree to exceed some other obligations beyond the termination although it is crucial to define the time period in which those obligations will continue.

8. Other Common Provisions and Boiler Plate Clauses

8.1. Representations and Warranties

In intellectual property licensing it is always crucial for the licensee that whether or not the licensor possesses the ownership or, at least, is entitled to license, the subjecting IP right. To this end, licensing agreements contain specific representations and warranties. Most importantly, the licensee may wish the licensor to represent and warrant the validity of the intellectual property and that she/he is the legit owner of the licensed IP without encumbrance, in this context registered intellectual properties may be considered more reliable whereas registry provides a certain amount of transparency. In such cases when the licensor is not the owner, the licensee should require the licensor to commit that she/he has

[43] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003),p.34

the right or approval to license this intellectual property. In parallel with ownership, the licensee may require the licensor to represent and warrant that the licensed intellectual property does not infringe other intellectual properties. Moreover, the licensee often negotiates for an indemnification by the licensee for potential infringement accusations and may require the licensor to police the licensed IP against third party infringements and take the necessary measures to protect it against unlawful exploitation of third parties, therefore, the licensee`s benefits from the license will be protected.[44]

On the other hand, purpose of the warranties and representations provision is not only to reduce the licensee`s risk but provide a favourable risk allocation between the parties. In this manner, the licensor, in this provision, may put forward the limits of her/his liability. Such limitations become apparent in regard to the matters in which the licensor has no direct involvement such as the claims arise from product liability, manufacturing defects or other marketing and management strategies of the licensee. The licensor, in order to avoid such risks, may require the licensor to indemnify her/him from such claims. In addition, the claims arising from the licensor`s excessive exploitation of the licensed IP, namely the claims when exceeds the scope of the grant, should also be exempted from the scope of the licensor`s liability.

8.2. Confidential Information

As previously mentioned, confidential information and treatment of those information is vital not only during the term of the agreement but also during negotiations and after termination of the agreement. To this end, a great attention by the parties should be paid on definition of confidential information and how confidential information should be treated. In order to avoid potential confusions as to what qualifies as confidential information the definition should be set out clearly and doubtlessly so that each party will be fully aware of its extent. Whereas know-how and trade secrets are not protected by any typical IP right, confidentiality becomes not only but specifically important when the subject matter of license agreement is comprised of know-how and trade secrets. Due to the nature of such relations, the parties to a license agreement as well as negotiating parties often get to know each other`s confidential information as to technical, economic and structural matters which otherwise would not be exchanged. Furthermore, in know-how and trade secret licensing, subject matter of the license appears to be that specific confidential information. In this manner, when

[44] ICC Services , *Intellectual Property Licensing*, Paris, France,(2014), p.6

subjecting confidential information is, somehow, disclosed and made available to public, it no longer subjects to an IP right, therefore, the interests and benefits of both parties will suffer loss. Thusly, it is crucial for both parties to set out a mutual and objective definition of confidential information.

On the other hand, confidential information may be exchanged in written way or be transferred verbally. It may be beneficial to emphasize in the agreement that not only information which is actively disclosed to the other party but also other information which the other party got to know or has been aware of by means of the agreement fall under scope of "confidential information".[45]

Treatment of such confidential information must also be given place in the agreement. In this regard, the parties generally agree that the use and disclosure of confidential information of the other party is limited to the scope of the agreement and to purpose of execution of the agreement. Another typical provision may be set out to obligate each party to take a particular level of care in order to prevent wrongful disclosure. This point may have significance in terms of employment relations whereas employee`s of each party may reach those confidential information by virtue of the nature of the relevant business. The parties should also pay attention on treatment of confidential information after the expiration of the agreement or upon termination. In this context, it is crucial to include a provision stating that the confidential information shall survive termination and expiration, in addition, duration of survival should also be clarified. Moreover, each party may require the other party to return or destroy the material containing confidential information upon the termination or the expiration. Finally, a provision lays down the exceptions to non-disclosure may be imposed into the agreement. Typically, disclosure of information upon the request of a judicial body and the information which has become publicly know are exempted from the scope of confidentiality.

8.3. Improvements

Intellectual properties, more specifically inventions, do not necessarily keep their first form but some improvements and enhancements on them, in line with developments in technology and with contemporary business interests, may be considered. This sort of

[45] Cameron Donald M., Borenstein Rowena, *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), p.3

improvements or modifications, on the other hand, may be done by any one of the parties. Nevertheless the parties should, in the licensing agreement, determine the provision to access to those improvements by the other party.

In terms of contractual provision, it is important to consider the party who has improved or modified the licensed intellectual property whereas the improvements by the licensor and the improvements by the licensee may lead the parties to conclude different provisions. To this end, it is beneficial to examine those improvements separately;

a) *Licensor Improvements*: In some cases the parties may agree upon such provisions that any kind of licensor improvements should be counted as a part of licensed intellectual property so that the licensor, with no extra process, entitled to exploit modified or improved form of the licensed IP. However in majority of the cases, and especially improvements become apparent in a substantial way, the licensor is more likely to ensure that the ultimate form of the intellectual property may be available for the licensee only upon an extra charge. In this scenario, the agreements should be modified in accordance with extra charge. Alternatively, this point may be imposed into the agreement through an extension. Finally when the licensee is given any means of right to access to the improvements in the agreement, the licensor should be obligated to notify the licensee upon the improvement.
b) *Licensee Improvements*: Differently from the licensor`s improvements, and because the licensee is not the owner of the licensed intellectual property after all, modifications or improvements by the licensee require an authorization in the license agreement. Given that the relevant authorization is provided by the agreement, the licensor may insist in such a clause that obligates the licensee to assign the relevant improvement to the licensor. On the other hand if the agreement allows so, it also possible for the licensee to withhold the improvement. In this case the licensor may request for a license of the improvement, in this manner the licensee may negotiate for a royalty in order to license the improvements to the licensor.

8.4. Assignability

Technically, unless otherwise is provided in agreement, either party can assign their rights under a license agreement. However every jurisdiction has its own approach as to

assignability, in this regard some of them allow only the assignment of the rights but not of obligations whereas some others consider the license agreements as "personal" therefore they cannot be assigned without permission of the other party.[46] In terms of contractual practice, as parallel with the second approach, licensing agreements are often considered personal by the parties. Therefore, assignment of the licensed IP rights, in most of the cases, is possible only upon the consent of the other party. Furthermore, in such cases as merger, another entity may have an access to licensed intellectual property rights. In order to avoid such scenario, the parties may resort to include a clause restricting the change of control over the licensed IP rights. In a similar manner, the licensee may also desire to include a provision that assignment of the licensed intellectual properties requires the consent of the licensee. Finally it is necessary to note that, in some cases, provision of the agreement may set forth an assignment fee as a pre-condition to get consent of the other party.[47]

8.5. Force Majeure

Force majeure concept concerns to events which occur, objectively, beyond the control of the parties and cause a non-performance or delay in performance of the agreement. Those events are typically comprised of extreme occurrences beyond the control of the parties such as war, terrorism; or natural disasters such as earthquake, flood, fire, namely act of God. Although merely those events do not necessarily to remove of delay the obligations of the parties, but they should also be unforeseeable and make the performance temporarily or permanently impossible. In terms of agreements, force majeure clause generally excuses the non-performance for the period of the extreme event and then for a designated period of time. Finally it is necessary to emphasize that when an extensive delay occurs, the parties may be given the right to terminate the agreement, in this regard, the parties are advised to specify the time periods.

8.6. Notices

Under certain circumstances the parties may need to notify the other party as to specific occurrences, for instance, the licensee is often obliged to notify the licensor when the licensed IP rights are infringed, similarly, the licensor may be obligated no notify the licensee when she/he wants to exercise an audit over the financial matters concerning to royalties. In this manner, the parties are advised emphasize the means of notification and the addresses

[46] Battersby Gregory J., *Anatomy of The License Agreement—Part II*, The Licensing Journal, June/July 2011, p.36
[47] Idib.

where the notifications and the copies should be directed to as well as to designate the timeframe of an acceptable notification.

8.7. Dispute Resolution and Governing Law

In respect of international licensing, like other international commercial agreements, determination of dispute resolution methods and the governing law appear to be the most critical point of the agreement. Generally each party will desire to impose their national law, which is likely to be favourable and certainly more familiar, into to the agreement. Although in terms of legal certainty it is crucial to designate one particular governing law. On the other, it also has vital importance to make clear the methods through which potential disputes are to be solved and the forums which are entitled to settle the disputes. To this end, governing law and the forums must be explicitly set out in the agreement, especially when the licensing transaction has an international aspect. Due to importance of this provision, it will be examined in details under the next chapter.

#CHAPTER FOUR;

DISPUTE RESOLUTION and GOVERNING LAW

Generally, at the first glance, commercial functionality and adequacy of licensing agreements appear to be the main concern of the parties. However, realistically, like every business activity, license agreements may accommodate a great variety of potential disputes. In this connection a successful management and resolution of the disputes arising from license agreements is as important as the anticipated commercial interest in the agreement, namely the subject matter of the agreement. Most of the agreements, to this end, include detailed provisions concerning to settlement method of such potential disputes and the choice of applicable law rather than keeping silent. In other words, the agreement itself, in most of the cases puts forward the recipe as to conflict resolution and provides a certain level of legal certainty. Although even the most detailed agreements may sometimes not be able to involve all the aspects of conflict management and enforcement of the contract by law. This issue on the other hand becomes more significant when the license agreement in question has an international feature. That is to say, each party will possibly insist to appoint their national law as applicable law insofar as the national law each party will be more favourable and familiar to the relevant party. In the light of given overview, this chapter will concern to common dispute resolution method and governing law in license agreements.

1. DISPUTE RESOLUTION

Considering the dynamics of business relations, potential disputes arising from commercial agreements should be settled in an effective way so that smooth flowing of business activities can be ensured. In this connection various factors determine the structure of dispute settlement provision in licensing agreements. Typically, in common understanding, the methods are desired to be responsive, cost effective, time effective and easily enforceable. To this end, dispute resolution provisions in licensing agreements are set out in a progressive way from domestic attempts for settlement to judicial resolution.

1.1. Negotiation

Unquestionably the most instant resolution can be reached by means of domestic methods insofar negotiation of the parties to reach a mutually agreed resolution does not involve a specific financial burden and, because the parties do not wait for decision of any kind of judicial body, it emerges as the most adequate way in terms of time efficiency.

Furthermore, disputes between the parties many times arise in a non-essential manner so that the parties may easily reach a middle way to get over the issue only by communicating. As a matter of course, resorting to judicial bodies even in case of petty obstacles would, obviously, not be the most practical alternative. To this end, license agreements typically involve a provision which obligates both parties to put an effort for to reach a domestic remedy, namely to negotiate with the other party, as a very first step of dispute settlement before the involvement of judicial bodies. On the other hand, when the parties made up of legal entities, they may desire to ensure a more systematic negotiation process which requires the same or equivalent ranked managers of both parties to negotiate on a settlement in a vertically progressive way. Such provisions, for instance, may require a negotiation between the product managers of the companies in the first place. If the negotiations are not fruitful, other negotiations respectively between the vice presidents and the CEOs may be required.[48]

1.2. Arbitration and Mediation

Negotiations sometimes, most specifically when the subject matter of the conflict is substantial, may not succeed to conclude a mutually agreed settlement of the relevant conflict. In this scenario, the parties may intend to seek a settlement through arbitration or mediation proceedings, which is still by far more time and cost effective than a court proceeding. Considering such advantages the parties may impose arbitration or mediation clause into the agreement, however even in absence of such clause the parties may always mutually appoint an arbitrator or mediator body upon an event of conflict. Furthermore, an arbitration/mediation clause in the agreement may set it either as optional or mandatory.

On the other hand, in case of a conflict it may be significantly difficult to agree upon the structure of arbitration/mediation bodies. Therefore it may be beneficial for the parties to designate structure and the effects of rulings of such bodies. Consequently, it can be observed that a carefully drafted arbitration/mediation clause often includes; (i) which arbitration law will apply on the procedure of designated arbitration body; (ii) how the cost of proceedings will be allocated or burdened; (iii) number and specifications of the arbitrators; (iv) confidentiality of proceedings.

[48] Cameron Donald M., Borenstein Rowena., *Key Aspects of IP License Agreements*, Ogilvy Renault LLP, (2003), p.30

1.3. Litigation

In cases when an arbitration clause is not given place in the agreement and the parties have not reached as to settlement of dispute before an arbitration/mediation body, court proceedings may be emerged. However, as mentioned before, court proceedings generally give rise to high litigation expenses and mostly prolong the settlement procedure. Furthermore, the agreement constitutes the departure point of forum selection and applicable law, in other words the parties may mutually designate the governing law and court of competent jurisdiction.

When governing law and the forum is ensured in agreement by the parties, court proceedings, apart from time and cost efficiency, are not likely to be problematic. However in respect to international license agreements, whereas the licensor and the licensee are from different jurisdiction, the most important question arises when the parties neglect to choose the applicable law and appoint court of competent jurisdiction, namely forum. To this end, the parties should pay great attention on specification of applicable law and the forum that should have jurisdiction on enforcement of the agreement.

2. GOVERNING LAW

As mentioned earlier, an elaborate international licensing agreement is likely to include a detailed provision as to applicable law and choice of forum so that a particular level of legal certainty may be provided. Similarly, detailed drafting, in such a manner that the agreement lays down its on law with no ambiguity, may lessen the importance of governing law and the forum selection.[49] Furthermore, as a consequence of main principle of contractual relations, namely contractual liberty, the concept party autonomy is widely accepted. In this connection the parties may freely choose the applicable law and the forum of jurisdiction. Nevertheless, a very challenging question of applicable law arises from such cases when choice of applicable law is absent in the agreement.

In consideration of general practice in private international law, some particular and typical connecting factors, in absence of choice of applicable law, may be departure points in determination of applicable law. Aforementioned connective factors may be on; (i) place of

[49] Pedro A. De Miguel Asensio, "The Law Governing Intellectual Property Licensing Agreements (A conflict of Laws Analysis)", *Research Handbook on Intellectual Property Licensing,* Edward Elgar Publishing, (2013),p.313

residence of the party whose obligation is to exercise the characteristic performance of the agreement; (ii) place of performance of the agreement; (iii) the country which has closest connection to the agreement. It is necessary to emphasize that the flexible approaches on the basis of closest connection factor has achieved a wide recognition in general practice.[50] However the assessment of the closest connection, in case of involvement of a number of countries in the agreement, may still appear to be a problematic issue.

On the other hand, the European Union legislation, on the basis of above-mentioned connecting factors, has established a unified provision as to determination of applicable law in absence of choice of law. Rome I Regulation of the EU, similarly with the concept of party autonomy, provides superiority to parties` choice of law. This choice on the other hand may be either expressly stated or implied in the agreement. In respect to cases when such a choice is absent, Article 4 of Rome I Regulation puts forward a determination on the basis of the type of the agreement in question. That is to say, in absence of applicable law clause in agreements for the sale of goods, agreements for providing services and in franchise or distribution agreements, the law of the country of the seller or service provider or franchisee applies. As it is observed on the wording, license agreements are not typically included in the scope of the provision. However, in most of the cases licensing transactions are involved in those specific agreements, most specifically in service provision and franchise agreements. Therefore, as long as the main characteristic of the agreement is saved as one of those which counted in Article 4(1), such provision should be applicable in agreements which involve licensing transaction.

Apart from Article 4(1), which covers aforementioned specific agreements, Rome I regulation has established another provision concerning to agreements which do not fall under the scope of Article 4(1). In this context, Article 4(2) states that if none or more than one of the rules of Article 4(1) apply to the agreement, applicable law is determined on the basis of the residence of the party who exercises the characteristic performance of the relevant agreement. As a matter of fact, whereas license agreements do not typically fall under the scope of Article 4(1), provision of Article 4(2) likely to be applicable on license agreements. In this respect it is crucial to determine which performance in the agreement qualifies as characteristic performance. It is generally accepted that characteristic

[50] Pedro A. De Miguel Asensio, "The Law Governing Intellectual Property Licensing Agreements (A conflict of Laws Analysis)", *Research Handbook on Intellectual Property Licensing,* Edward Elgar Publishing, (2013),p.323

performance in an ordinary licensing agreement appears to be the licensor`s conduct to grant relevant intellectual property rights to the licensee in return for consideration.[51]

Finally it is necessary to note that, Rome I Regulation concern only to choice of law contractual relations.[52] Therefore, other intellectual property disputes which do not arise from licensing agreements, e.g. infringement of third party, will not fall under the scope of Rome I Regulation, whereas third party infringements may qualify as tort, Although choice of law in non-contractual obligations including tort, is regulated under Rome II Regulation.

[51] Pedro A. De Miguel Asensio, "The Law Governing Intellectual Property Licensing Agreements (A conflict of Laws Analysis)", *Research Handbook on Intellectual Property Licensing,* Edward Elgar Publishing, (2013),p.328
[52]Attree Rebecca, *A Specially Commissioned Report: International Commercial Agreements*, Thorogood, (2002), p.203

CONCLUSION

Licensing agreement accommodate a wide collection of commercial considerations and, due to their subject matter, variety of technical issues along with legal nuances. Insofar as the subject matter of license agreements is often intangible properties with great economic values, legal protection and maintenance of such properties involve particular difficulties. However, licensing is the one of most outstanding instrument in the meaning of commercialization of IP rights thus making profit from intellectual properties. Such agreements naturally involve both disadvantages and advantages. Most significantly, license agreements provide an opportunity for the parties to enter into new markets quickly with lesser cost. Similarly, licensing helps the parties to avoid the potential risks as to new markets in which they have no advanced experience. Speaking of trademarks, one party may have chance to convert its commercial reputation into economic profit, whereas the other party may take advantage of other party`s good reputation in targeted market. Furthermore, the parties may expand their business with no giant investment and may avoid research and development expenses. Overseas licensing transactions are, on the other hand, mostly considered for the purpose of enjoying the advantages of target country, such as cheap labour force, more favourable taxes.

On minus side, from the view point of the licensor, licensing often means to gain a competitor in specific field of the license. In this connection commercial interests of the licensor may be affected by this new competitor. Moreover, in case of exclusive license, the licensor`s whole reputation, therefore, commercial and economic interest heavily depends on the licensee`s manner in exploiting the licensed right. This scenario, naturally, involves a substantial risk for the licensor. On the other hand, applicable law and enforceability question, like other international agreements, becomes apparent. To this end, the parties must pay great attention on determination of applicable law and competent forum so that the legal certainty can be provided.

As a matter of fact, main concern of the actors of commerce is to catch the most favourable deal and to enter into contract with reliable persons or entities. Once those commercial interests match, the deal must be ensured by an agreement clearly and carefully crafted, in consideration of potential problematic matters. Such an agreement will therefore give no place to ambiguity and allow the parties to enjoy the advantages of international licensing with minimum risk.

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