

Innovation and licensing strategies in EU

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Overview

- I. Introduction
- II. Potential IP strategy
- III. Licensing of IPR
- IV. Information channels in EU



I. Introduction

- ▼ Patent filing (« Privileges ») rhymes with wealth and economic growth (Venice – USA)
- ▼ « *Intellectual property is not only artistic but fully economic* » André Malraux
- ▼ 30% of the assets of multinational companies are a matter of IP
- ▼ Extreme profitability: IBM = 1,5 billion euros from the exploitation of its IP (20 % of its result, +/- 2% of its turnover)



Introduction

- ▼ Parameters of intangible assets (IA) strategies
 - ▼ « *The key to growth is the introduction of higher dimensions of consciousness into our awareness* » Lao Tzu
 - ▼ « *Revealing too much of his intentions and realizations, is renouncing to the fruits of his genius* » Filippo Brunelleschi
 - ▼ « *The patent system added the fuel of interest to the fire of genius* » Abraham Lincoln



Introduction - Some facts about IPR in China

- ▼ China: Major player in the international economic scene
 - ▼ Chinese Market attracts more and more people
 - ▼ Need to preserve their rights
 - ▼ From foreigners
 - ▼ Also locally
 - ▼ Chinese industry is increasingly filing for IPRs
- ▼ China: Member of most international IP treaties and conventions
 - ▼ Berne Convention of 1886 for the protection of literary and artistic works (1992)
 - ▼ WTO Trips Agreement (2001)
 - ▼ Madrid Agreement and Protocol (1989 and 1995)



Introduction - Some facts about IPR in China

- ▼ Patent Cooperation Treaty (PCT) (1994)
- ▼ Etc...
- ▼ Improvement of IP legislation and enforcement system
 - ▼ Crucial for attracting foreign investment, technology and know-how (KH)
 - ▼ Copyright act (revised in 2001) - National copyright agency
 - ▼ Patent act (revised in 2000)
 - ▼ Trade mark act (revised in 2001)
 - ▼ Customs seizures act (modified 2004)
- ▼ Filing procedures for industrial property rights have been facilitated
- ▼ Legal redress: administrative and judicial (civil & criminal)
- ▼ China Patent Office, see www.chinatradeoffice.com



Introduction - Some figures

▼ Patent applications

- ▼ China is now ranked 5th worldwide for the number of patent applications after seeing 30% increase from 2008, according to the statistics on 2009 patent applications (WIPO).
 - ▼ 2005: 2512 applications
 - ▼ 2006: 3937 applications
 - ▼ 2007: 5465 applications
 - ▼ 2008: 6128 applications
 - ▼ 2009: **7946 applications**

▼ Trademark applications

- ▼ China remained in 2009 the most designated country in international trademark applications - reflecting sustained interest by foreign companies in trading in China



II. Potential of IP Strategy

- ▼ Often underestimated
- ▼ Corporate asset
 - ▼ Not only defensive, but offensive business tool
- ▼ Maximizing value: IP management strategy
 - ▼ Exhaustive audit/screening of the company's intangible assets
 - ▼ Fragility - impact on evaluation (i.e. dispute on patent regarding core business)
 - ▼ Identification of deficiencies and weaknesses (analysis of intrinsic and peripheral risks)
 - ▼ Theoretical scope of IPR
 - ▼ Tree diagram of the IP « staff » (management interviews – technical executive)



Potential of IP Strategy

- ▼ Gathering of all contracts/licences (missing contracts, free lance)
- ▼ Perusal of public registers
- ▼ Solve weaknesses and mitigate dangers (downstream remedies : addendums , warrenties, etc...)
- ▼ Early patenting, trade mark/design registration
- ▼ Licensing, cross-licensing
 - ▼ *Licensing-out*: technologies: incomes, technological development
 - ▼ *Licensing-In*: access to new technologies, increase performance, development of internal R&D, improve own products, freedom to operate
 - ▼ Joint ventures
- ▼ Tax driven (patent) strategy
 - ▼ Belgian and Luxemburg examples



Any protection in the absence of IP management Strategy?

▼ Intangible assets?



IPR duration

Right	EU	China
Copyright	Author's life +70 years	Author's life + 50 years
Unregistered Design	3 years	?
Design	5 years x 5	10 years
Trade Mark	10 years x ...	10 years x ...
Patent	20 years + 5 (SPC)	20 years
Plant breeders	25 or 30 years	20 or 15 years
Trade secret/ Know-How	Unlimited	Unlimited



Intangible assets – Horizontal plan

▼ Signs

▼ Trade marks (registered)

- ▼ Monopoly of use
- ▼ Necessity of a registration before the competent authority (retroactivity) i.e. (Office of Harmonization for the Internal Market – OHIM)
- ▼ Special protection (classes)
- ▼ Territorial protection
 - ▼ National trademark i.e. Benelux, France etc.. (**EU directive 89/104 and national laws**)
 - ▼ Community trademark (27 Member States) : **EU regulation 40/94**
- ▼ Verbal, figurative, semi- figurative trade marks
- ▼ Proceedings in progress (opposition (2/3 months))
- ▼ Priorities (6 months)
- ▼ Cobranding



Intangible assets – Horizontal plan

- ▼ Others
 - ▼ Domain names (i.e. www.register.be)
 - ▼ Trade names (vs. trade mark)

- ▼ Products contents used by the company
 - ▼ Copyright – **Berne Convention of 1886, EU directives and national laws**
 - ▼ Monopoly of exploitation
 - ▼ No formality – registration requirement
 - ▼ Moral rights vs. economic rights
 - ▼ Large scope : “literary and artistic works” = creations
 - ▼ Slogans, manuals, databases, logos (≠ trade marks), advertising, architectural works, photographs, journalistic articles, etc...
 - ▼ Derived works
 - ▼ Software (copyright and computer program protection) **EU directive 91/250 and national laws**
 - ▼ Databases (+ copyright) **EU directive 96/9 and national laws**
 - ▼ Designs
 - ▼ National or Community (**EU regulation 6/2002**)



Intangible assets – Horizontal plan

- ▼ Inventions – products et processes used/developed by the company
- ▼ Patents
 - ▼ Monopoly of the holder
 - ▼ Necessity of a registration before the competent authority
 - ▼ National patents
 - ▼ Inventions (products & processes)
 - ▼ Duration of protection (absence of retroactivity)
 - ▼ Proceedings in progress (oppositions (6 months))
 - ▼ Intrinsic quality of the patent
 - ▼ Know-How (confidentiality)



Upstream strategical thoughts

- ▼ Which protection to choose?
 - ▼ Costs
 - ▼ Patent vs. Copyrights
 - ▼ Copyrights vs. trade marks
 - ▼ Trade Secret/Know-How (ex. Coca-Cola, Nutella)
 - ▼ Complex confidentiality issue: need strong CA
 - ▼ Set up of specific work processes (ex. Nutella)
 - ▼ Protection duration
 - ▼ Succession/sequence of protections (ex. folding bikes)
 - ▼ Seasonal products (ex. shoes, fashion, except basic lines)
 - ▼ Protection scope
 - ▼ Territoriality vs. worldwide protection
 - ▼ Combination of protection (software – source code issue)



Upstream strategical thoughts

- ▼ Formalities
 - ▼ Filing procedure
 - ▼ Patent, Trade Marks
 - ▼ EP between 2 and 3 years to grant (10/12 for medicines) – Supplementary Protection Certificate
 - ▼ CTM between 12 and 18 months to registration
 - ▼ Disclosure – Publicity
 - ▼ Patent application = public disclosure, enters in the « state of the art » (see hereafter)
 - ▼ Automatic Protection worldwide
- ▼ Enforcement
 - ▼ Registered intangible asset
 - ▼ Unregistered intangible asset



III. Licensing of IPR

- ▼ Fundamental: understand technology (patent) and the market and its economics
- ▼ Not a specifically regulated contract (except copyright!) but general contract law restrictions to freedom to contract apply + antitrust restrictions
- ▼ Importance of a written contract
 - ▼ Proof
 - ▼ Clarity
 - ▼ Copyright : mandatory requirement (BE) mandatory requirement of specific clauses i.e. territory, extent and remuneration for each mode of exploitation licenced
 - ▼ Patent: requirement (BE)



General Framework (1)

▼ What's in a license?

“A license will typically involve the licensor putting the licensee in a position to make or produce products or operate processes by disclosing its experience to the licensee and giving it the right to operate under any relevant IPRs”

▼ IPRs involved may include:

▼ Patents

- ▼ Products themselves
- ▼ processes for their manufacture
- ▼ both

▼ Know how

- ▼ Licensor discloses its secrets in return for licensors to keep them secret and only to use them as agreed

▼ Copyright

▼ Trade marks

▼ Designs



General Framework (2)

- ▼ What are the types of licensing agreements ? (1)
 - ▼ Technology licensing (patent)
 - ▼ Used when you want to improve the quality of a product or when you want to manufacture a (new) product using the right owned by others
 - ▼ Franchise or trade mark license agreement
 - ▼ Used when you want to market a product or a concept where the brand or design is owned by others
 - ▼ Copyright license agreement
 - ▼ Used when you want to manufacture, distribute or market the result of a literary or artistic effort
 - ▼ License agreement in the context of joint ventures
 - ▼ Used to regulate the use of proprietary information by the other party and the conditions of this use



General Framework (3)

- ▼ What are the types of licensing agreements? (2)
 - ▼ Non-exclusive license
 - ▼ On the same territory, the holder of the IPR will be able to grant additional licenses and to use the invention itself
 - ▼ Little economic value
 - ▼ But can be beneficial to the parties
 - ▼ Sole license
 - ▼ Right holder pledges not to grant a license to anyone else within the territory of protection
 - ▼ Does not exclude the IPR holder from using the invention by itself
 - ▼ Exclusive license
 - ▼ Similar to the sole license but right holder is under an obligation not to use within the territory



General Framework (4)

- ▼ Licensing-out : a (low risk?) way to
 - ▼ Capitalize on IP assets and create an income source
 - ▼ Disseminate technology/work to a wider group of users and potential developers
 - ▼ Catalyze further innovation, development and commercialization



General Framework (5)

- ▼ Reasons for licensing-out
 - ▼ Extending sales
 - ▼ Way to allocate capacity between the products within licensor's range of products
 - ▼ Generating income from unused IP
 - ▼ Prolonging product life
 - ▼ Way to phase out existing products to make resources available for new ones (e.g.cars)
 - ▼ Avoiding litigation
 - ▼ Can be advantageous to offer a license to a possible infringer
 - ▼ Litigation should be last resort



General Framework (6)

- ▼ Disadvantages of licensing-out
 - ▼ Licensor's own investments may generate more profit
 - ▼ Licensee could become a competitor
 - ▼ Licensor may need to continue development costs at great expenses
 - ▼ Licensor may become reliant on the licensee's expertise and resources for generating profits



General Framework (7)

▼ Reasons for licensing-in

- ▼ Access to technologies/works
- ▼ Spur innovation and improve company's own products
- ▼ Opportunities may be created for related or similar products
- ▼ Freedom to operate in ways that may be otherwise prohibited
- ▼ Avoiding or settling litigation



General Framework (8)

- ▼ Disadvantages of licensing-in
 - ▼ It adds a layer of expenses
 - ▼ It may require financial commitment for a technology that is not ready
 - ▼ Licensee may become too technologically reliant



Typical Content

- ▼ IP ownership (Foreground IP; Background IP)
- ▼ License scope
- ▼ Remuneration
- ▼ Term & Termination
- ▼ Assignability & Sublicense
- ▼ Warranties & Indemnities
- ▼ Improvements & Grant-backs
- ▼ Prosecution & Enforcement
- ▼ Confidentiality
- ▼ Jurisdiction
- ▼ Choice of Law
- ▼ Change of control
- ▼ Post termination phase
- ▼ « Technicalities »



License Scope (1)

- ▼ Must be defined precisely
- ▼ Key parameters:
 - ▼ Identity and definition of licensed rights
 - ▼ Licensed activities, including field of use
 - ▼ Extend to which (if at all) exclusivity is to be given to the licensee
 - ▼ Territory
- ▼ IP covered must be clearly identified:
 - ▼ If registered rights : by listing their registration numbers in a schedule
 - ▼ If unregistered rights (incl. KH) :
 - ▼ By listing or describing them in a schedule
 - ▼ Or by referring to their subject matter (all KH relating to the licensed technology)
 - ▼ If future rights : may need do be listed (! Contribution of IA latest versions)



License Scope (2)

- ▼ Remember:
 - ▼ What territory?
 - ▼ What term? (! Duration of the IPR)
 - ▼ What Intellectual Property?
 - ▼ To do what?
 - ▼ Activities:
 - ▼ Make, produce, market, distribute, sell, use
 - ▼ Exclusive, sole or non exclusive?
 - ▼ Sublicenses?



License Scope (3)

▼ Territory

- ▼ Critical/ Must be defined as precisely as possible
 - ▼ If necessary : countries listed in schedule
 - ▼ Territorial restrictions (exhaustion of IP rights)

▼ Exclusivity?

- ▼ Value of a license depends heavily on degree of exclusivity
- ▼ If exclusivity is considered, licensor should ensure that:
 - ▼ Exclusive license is the best way to exploit potential of technology/work
 - ▼ Licensee's resulting product will be superior to its competitor's
 - ▼ Licensee has adequate marketing and production resources
 - ▼ Sanction: conversion into non exclusivity
- ▼ Advantages of non-exclusive licenses:
 - ▼ Ability to license to several companies
 - ▼ Less risks for both parties
 - ▼ Licensor retains more control
 - ▼ Licensee pays reduced royalties



Remuneration (1)

- ▼ License remuneration
 - ▼ Either alone or in combination
 - ▼ Royalties
 - ▼ Lump-sum payments
 - ▼ Equity
 - ▼ Cross-license

 - ▼ Basis of Royalty calculation:
 - ▼ Percentage of net-sales
 - ▼ Fixed sum per item
 - ▼ Share of net profits from the licensee's selling operation
 - ▼ Performance
 - ▼ Market conditions



Remuneration (2)

- ▼ Many approaches possible (technologies)
 - ▼ Typically : percentage of the arm's length sale price of the licensed products
 - ▼ Alternatively : fixed payment per licensed product
 - ▼ + : protection against price-cutting by licensee
 - ▼ Alternatively : share of licensee's profits from the sales
 - ▼ - : more complex to structure and administer



Remuneration (3)

- ▼ Minimum royalties
 - ▼ Licensor can impose performance targets to ensure full exploitation of the technology
 - ▼ Especially important with exclusive licenses
 - ▼ Consequences in case of failure to reach targets:
 - ▼ Licensor can :
 - ▼ License becomes non-exclusive
 - ▼ Termination of the license



Remuneration (4)

- ▼ Beware : what happens in case of
 - ▼ IPR prosecution : payment of expenses
 - ▼ IPR being invalidated



Term & termination (1)

- ▼ Common grounds for termination by the licensor include
 - ▼ material breach and failure to remedy it after due notice;
 - ▼ bankruptcy or insolvency of the licensee;
 - ▼ the licensee's ceasing to carry on business;
 - ▼ failure by the licensee to achieve performance standards (for example, failure to achieve minimum sales or royalties. The licensee may wish to have the right to avoid termination by paying the minimum royalty);
 - ▼ a material change in the ownership or control of the licensee
 - ▼ withdrawal of government consents; and
 - ▼ challenges to IPR validity by licensee.



Term & termination (2)

- ▼ Common concerns of licensor in case of early termination
 - ▼ to oblige the licensee to assist in any reversion of rights;
 - ▼ to oblige the licensee to deliver up other materials relating to the licensed technology (samples, advertising materials...);
 - ▼ to oblige the licensee to transfer its ongoing development activities concerning the licensed technology;
 - ▼ to make provision for the sale of unsold products by the licensee for a limited period after termination (subject to payment of royalties) or for the grant of an option to purchase unsold stock at a pre-agreed price;
 - ▼ to ensure the survival of certain clauses in the licence, such as those relating to auditing, confidentiality, intellectual property rights and limitations of liability, as well as some payment terms if appropriate
- ▼ Negotiate express post termination provisions to address consequences of termination (non poaching or non competition clauses)



Assignability & sublicenses

- ▼ May a sublicense be granted under the contract?
 - ▼ If yes : what scope (in any case not broader than the license, but usually more restrictive)
 - ▼ If contract is silent : Belgian law → *intuitu personae* = No
- ▼ Usually
 - ▼ In writing
 - ▼ Requiring consent of, or prior notice to, licensor
 - ▼ At licensee's risk (≠ Assignment)
 - ▼ Terminated (or being assigned) at termination of the license
- ▼ Under Belgian law, beware formalities
 - ▼ Patent & copyright: Licenses and assignments → in writing
 - ▼ Patents: Recordal (opposability to third parties)



Warranties & indemnities

- ▼ Warranties should be considered very carefully
- ▼ Licensor's will generally be required to warrant that:
 - ▼ the licensed IPRs are owned by the licensor; and
 - ▼ That, to the licensor's best knowledge, the use of the technology/work/sign does not infringe any intellectual property rights of third parties, or at least that it is not the subject of claims or disputes



Specific questions (1)

- ▼ Improvements & Grant-back (technologies)
 - ▼ Licensor and Licensee have conflicting interest
 - ▼ the licensor may want to license a new development it has made to a competitor of the licensee
 - ▼ the licensee is unlikely to want to pay royalties to use something it has developed and believes it already owns or has the right to use
 - ▼ Issues for negotiation include
 - ▼ the right of exploitation of improvements (not merely their disclosure);
 - ▼ access to improvements made by other licensees;
 - ▼ ownership of intellectual property rights in improvements;
 - ▼ fees for the right to exploit improvements;
 - ▼ provision for regular technology audits during the term of the licence with the view to identify new IP as it is generated.



Specific questions (2)

- ▼ Usual to provide that improvements devised by either party should be disclosed to the other
- ▼ Improvements by Licensor
 - ▼ Not automatically included in the license
- ▼ Improvements by Licensee
 - ▼ NOT that “improvements are owned” by licensor
 - ▼ License to Licensor possible, even outside the field
 - ▼ Safeguards: disclosure requirements, rights of first refusal, option



Specific questions (3)

- ▼ Prosecution & enforcement
 - ▼ Who files/maintains the protection
 - ▼ Who pays (sharing is an option)
 - ▼ Who has the right to file or defend a suit and to settle it
 - ▼ Right of consultation
 - ▼ Needs to be fully negotiated



Specific questions (4)

▼ Joint ownership of IPR

- ▼ situation in which two or more persons share interests in IP rights
- ▼ Typically, joint ownership is created where an IP right comes into existence by the efforts of two or more persons, such as collaborative invention or joint creation
- ▼ Upmost importance of
 - ▼ Detailed provisions on the subject
 - or
 - ▼ Careful choice of law (different regimes)



Specific questions (5)

- ▼ If Belgian law applicable (in absence of specific contractual terms)
 - ▼ Patent
 - ▼ Each patent co-owner can personally exploit the invention
 - ▼ Consent of co-owner (or Court authorization) required to license co-owned patented technology
 - ▼ Preemption right to co-owners if one wants to sell transmit share of the patent
 - ▼ Patent enforcement action : consent of co-owner (or Court authorization) required
 - ▼ but *saisie-description* : each can seize court
 - ▼ Copyright
 - ▼ Indivisible copyright
 - ▼ Management of co-ownership may be contractually agreed
 - ▼ Consent of co-owner (or Court authorization) required to exploit
 - ▼ No consent of co-owners to for copyright enforcement
 - ▼ Individual contributions
 - ▼ Each patent co-owner can personally exploit the invention (without prejudice to the common work)
 - ▼ Unless agreed otherwise, co-owners may not exploit their work with new contributors
 - ▼ Trademarks
 - ▼ No specific regime



Specific questions (6)

▼ Cross-licenses

- ▼ Are commonly negotiated (settlement) when each of two companies has patents that may read on the others' products or processes.
 - ▼ Rather than blocking each other → cross license
 - ▼ Each party is then free to compete: both in designing its products without fear of infringing
- ▼ Key issues:
 - ▼ May or may not include fixed fees or running royalties
 - ▼ Royalties can run in one direction or both
 - ▼ Can involve:
 - ▼ Field of use restrictions
 - ▼ Geographic restrictions
 - ▼ Scope : some or all relevant patents



IV. Information channels in the EU

- ▼ EU and Members States in general provide for clear and transparent information registers
- ▼ Patents
 - ▼ European patents : European Patent office
 - ▼ www.epoline.org (status of the patent i.e. opposition)
 - ▼ National patents
 - ▼ www.espacenet.com (all countries)
 - ▼ Belgium: OPRI
http://economie.fgov.be/fr/entreprises/propriete_intellectuelle/Aspects_institutionnels_et_pratiques/bases_de_donnees/registre_brevets_invention/recherche/index.jsp
 - ▼ France <http://regbrvfr.inpi.fr/portal> <http://fr.espacenet.com/>
 - ▼ UK <http://www.ipo.gov.uk/types/patent/p-os/p-find.htm>
 - ▼ Germany <http://register.dpma.de/DPMAregister/uebersichtpatente>



Information channels in the EU

- ▼ Trademarks and registered designs
 - ▼ Community – OHIM
 - ▼ <http://oami.europa.eu/ows/rw/pages/QPLUS/databases/searchCTM.en.do> (CTM)
 - ▼ <http://oami.europa.eu/ows/rw/pages/QPLUS/databases/searchRCD.en.do> (RCD)
 - ▼ Benelux
 - ▼ <http://register.boip.int/bmbonline/intro/show.do> (TM)
 - ▼ No online register regarding Benelux designs yet
 - ▼ France
 - ▼ <http://bases-marques.inpi.fr/>
 - ▼ <http://bases-modeles.inpi.fr/>
 - ▼ UK
 - ▼ <http://www.ipo.gov.uk/types/tm/t-os/t-find.htm>
 - ▼ <http://www.ipo.gov.uk/types/design/d-os/d-find.htm>
 - ▼ Germany
 - ▼ <http://register.dpma.de/DPMAreger/marke/uebersicht>
 - ▼ <http://register.dpma.de/DPMAreger/gsm/uebersicht>



“Man is not made to build walls but to build bridges”

Lao Tzu

THANK YOU FOR YOUR ATTENTION

