

IP Issues in Worldwide Technology Collaborations

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As the world shrinks, and as more and more companies are involved daily in technology and other intellectual property collaborations, the complexity of issues that arise in these collaborations increases. The issues range from the mundane to the surprising to those that require deep thought and complex solutions. Because of the large number of jurisdictions and the infinite amount of possible collaborations, it is impossible to address all issues that may arise. This paper will simply attempt to address some common issues.

License language

The license grant provision is usually the most important language in any license. The license grant should track the language of statutes that define the intellectual property rights at issue. For example, in the U.S., a patent grants the rights to exclude others from making, using, selling and importing the claimed invention. Other US IP rights use different language to describe the exclusive rights, and certainly statutes in other countries use their own language to define the IP rights. It is crucial that any multi-country license use the appropriate language for the IP rights included in the license.

In worldwide collaborations, translation issues can become critical. The implications of a single word are important in any license grant, and translation issues may make it difficult to discover misunderstandings about what rights have been granted until late in the relationship. A grant “under a patent,” for example, is ambiguous. Does it include all rights under the patent? The right to sublicense or assign? The right to make?

See Appendix A.

Licensed rights ownership – due diligence

Before any company commits to a license in which it is to be a licensee, it is crucial that the company perform proper due diligence to determine whether the proposed licensor truly has the necessary rights in the property to be licensed. In dealings with foreign licensors, this can be a very difficult task. The task is even more difficult when the licensor is a foreign government or when the licensor derives its own rights from a foreign government. Due diligence often reveals that the promised rights are non-existent, or are fatally conditional. Often, the licensor and the foreign government may be willing to correct problems disclosed by the due diligence, but the process of correction can be painful and time-consuming.

See Appendix B

Licensed rights – territorial issues

Territorial issues arise in many ways in multi-country IP collaborations. One such issue concerns the territorial limits of patents and trademarks. If a company obtains a worldwide license from a company under a single patent or trademark from a single country, the “worldwide rights” may be ethereal. Due diligence is required to understand the true territorial extent and limits of the IP rights to be licensed. Once the territorial limits are understood, then analysis is required to determine whether the IP or the technology has any real value or potential value beyond those territorial limits. Technology patented in only limited countries may still have value as a trade secret in other countries, or, conversely, the patents may have destroyed the trade secret value of the technology. Trademarks protected only in certain countries may have no value outside those limits. Squatters may have already staked out trademark protection outside the limits of the licensed rights. It is crucial that one understand the true territorial limits of the licensed rights and the implications of those limitations.

See Appendix C

Licensed rights – governmental rights and regulation issues

Multi-country technology or IP collaborations often run into issues where local governments have, by law, rights in the licensed technology or IP. Other times, a government may, after the license is executed, declare that it has rights in the IP or technology. Still other issues arise simply because a local government has regulated the IP or technology and requires certain licenses before certain events under the license may occur. Bureaucratic nightmares often interfere with multi-country collaborations, causing what seemed like an event that would occur quickly to become a far off goal that cannot be reached because of bureaucratic red tape. All of these issues may be unfortunate surprises after-the-fact. Again, due diligence is required to avoid such surprises.

See Appendix D.

Sovereignty and governmental pride

When more than one country is involved, what might be deemed “governmental pride” can become an issue. Most government contracts require dispute resolution to occur within their borders. When two or more governments are involved in a collaboration, this can become a Catch 22. Government A will not agree that the law of Government B will govern the contract or that arbitration or lawsuits will occur on Government B soil. Truly creative solutions are often called for to resolve these issues.

Developed IP Ownership

In any license of IP or technology, the issue of who owns technology or IP developed during the term of the license is important to all parties. Pride, mistrust, suspicion, secrecy, and government requirements all play a part in resolving these issues and in living with the resolution.

Entity ownership

In multi-country collaborations, national laws often dictate the creation of a new legal entity as the licensee – an entity owned by multiple parties and often even in part by a government. Often, national constitutional issues come into play in this area. Requirements for specific minimum percentage ownership by nationals or for maximum ownership percentages by foreigners, have implications for how the licensor may be willing to license the IP or technology. This is yet another area where creativity is often required.

Employee Secrecy and IP Ownership Issues

US companies are often surprised to learn that despite their best efforts to protect their IP from misappropriation by their international partner, the employees of the international partner do not share in the obligations. One must insure that the employees understand their obligations and agree to them. Obligating the international partner to enforce the obligation may also be helpful.

Forced licenses of IP, Forced IP transfer, Restricted Terminations

Some countries have legal requirements that force IP or technology grants to national entities, or force assignment of ownership in IP or technology, or that severely restrict a foreign licensor's ability to terminate a licensee. An owner of valuable technology or IP must be extremely careful not to inadvertently fall into one of these legal traps. Doing business in such countries is still possible, but it requires due diligence and careful deal structuring.

Real world issue – exporting or importing products, technology, IP, and money

Multi-country collaborations often run into complications involving the export or import of products, technology, and IP, or even in just getting money in and out of the country. Many products and much technology is heavily regulated or restricted with respect to import or export. Issues of national security often come into play. Further, many countries restrict the ability of a foreign company to take money out of the country. These issues often require bureaucratic solutions and creative legal relationships. For example, Brazil requires registration of licenses. Renewal of the license requires a showing of new improvements. The licensor must also demonstrate actual technology transfer.

Litigation issues – Can I enforce my rights?

As with any other legal relationship, in a multi-country collaboration, one must think ahead to the possibility of a problem. What happens if the deal goes bad? How can I enforce my rights? This issue becomes very complicated on the world-wide scale. For example, it is illegal in some countries simply to take a deposition. It may be impossible ever to get the testimony or other evidence needed to prove your case. Other countries are notorious for their lack of IP enforcement. Any multi-country collaboration must consider whether the deal can ever really be enforced or whether all depends on the trustworthiness of the other party.

Antitrust issues in licenses

All collaborations of any kind – within a single country or across several countries, can have antitrust implications. Collaboration – at least improper collaboration – is the basis of much antitrust law. Due diligence is required to understand the antitrust implications of any such collaboration. Among other possible areas, antitrust issues can arise with respect to price provisions, non-compete provisions, territorial restrictions, and termination rights.

Warranty and warranty remedy issues

In any licensing arrangement, the agreements must be clear about all warranties, all exclusions of warranties, and all remedies for warranties. In any multi-country transactions, the exclusion of warranties is critical and sensitive. A party must be clear about all warranties that it wishes to exclude. But problems can arise if the party is unaware of implied warranties that must be expressly mentioned in the exclusion or worse still, if the party expressly excludes a warranty that the law prohibits a party from excluding. As always, due diligence is required.

IP infringement suits

In today's world of patent troll suits, any IP or technology collaboration must consider the possibility of patent suits against one party or the other. Conversely, the parties should also agree how to handle IP suits against others relating to the collaboration. Some of the most difficult issues concern who will pay for and manage the suits and how to split the damages awarded.

IP maintenance fees

A somewhat mundane issue, but a very important issue, concerns maintenance fees for IP. For example, most patents and trademarks require periodic payment of “maintenance fees” to continue or renew the patent or trademark. Failure to pay the fees leads to abandonment of the property. Usually, the licensor in any license will retain this right. But the licensee should have failsafe provisions. It is often the licensee who has the biggest stake in the continuing viability of the patent or trademark. Therefore, the licensee will want to obligate the licensor to pay the fees and the licensee will further want to have the right to pay the fees if the licensor fails to pay or fails to provide assurance of payment.

Grant back issues and grant back extension issues

Many multi-country IP or technology collaborations have grantback licenses that may be simple or may be complex. Some grantback licensing arrangements involve networks of licensees and sublicensees. The grantbacks can be valuable for all parties, but they can also be a nuisance, or worse still, can become an attack on the “family jewels” of a company. Careful negotiations are required to strike the proper balance.

Appendix A
License Grant Language

Example 1

Licensor grants to Licensee a fully-paid-up, exclusive license under the Patent:

- A. to use, sell, import, transfer, and distribute the Products in the Territory, and to grant sublicenses under all such rights; and
- B. upon occurrence of an Escrow Event, to make, have made, use, sell, import, transfer, and distribute, modify, copy, and create derivative works of the Products in the Territory, and to grant sublicenses under all such rights, all solely for the following purposes and for no other purpose:
 - 1. to complete and deliver (and exercise other necessary rights relating to) Products which, as of the occurrence of the Escrow Event:
 - (a) were already ordered, or
 - (b) were in progress of being assembled, or
 - (c) were the subject of an existing contractual obligation of PI to provide to any person, or
 - 2. to repair, maintain and support (and exercise other necessary rights relating to) existing Products or Products completed as permitted above.

Example 2

Subject to the terms and conditions of this Agreement, Licensor grants to Licensee a nonexclusive, royalty-bearing, terminable, license under the Patents and under all trade secret rights and other intellectual property rights of Licensor relating to the Technology (but not trademark rights or trade name rights) to make (but not to have made), to use, and to sell Licensed Products. Licensee shall have no right to grant sublicenses.

Example 3

Licensor grants to Licensee a royalty-bearing license under Licensed Patents to manufacture, have manufactured, use, offer for sale, sell, lease, and/or import Licensed Products in the Licensed Field in the Licensed Territory. This license grant is exclusive only to the extent indicated in Section 1 of the Patent License Agreement. Otherwise, the license grant is non-exclusive.

Appendix B
IP Due Diligence

Schedule all domestic and foreign patents and patent applications of the Company, and get copies of all issued, unexpired patents.

Schedule of all domestic and foreign trademarks, trade names, service marks, brand names, logos and other trade designations (including unregistered names and marks) and trademark and service mark registrations and applications (state and federal) of the Company.

Schedule all domestic and foreign copyright registrations, and applications to register copyrights of the Company.

Prepare a chain of title of each item of Intellectual Property, together with all documents that disclose, evidence or refer to any part of such chain of title.

Obtain copies of all agreements with third parties for the design and development of the Company's products.

Appendix C
Territory Issues

Example 1

“Licensed Territory” means the territory so indicated as the Licensed Territory in Section 1 of the Patent License Agreement, subject to the then-current applicable article, item, service, technology, and technical data-specific requirements of the U.S. export laws and regulations.

Licensee will use diligent and commercially reasonable efforts to Actively Commercialize Licensed Products in the Licensed Field in the Licensed Territory.

Licensee will pay a running royalty equal to the percent of Net Sales for Licensed Products Sold in each Contract Quarter.

Example 2

The “Territory” means the United States of America, including all territories, districts, and possessions.

Appendix D
Governmental Rights and Regulation

Example 1

Compliance: At its own cost, Licensee shall comply with all rules and regulations of every administrative or other governmental authority located in the Territory having jurisdiction over the handling, use, or sale of the Products. Licensor shall, at its cost, make any changes or modifications to the Products required for the Products to comply with all rules and regulations of every administrative or other governmental authority located in the Territory having jurisdiction over the handling, use, or sale of the Products. Licensee, with the reasonable cooperation of Licensor, shall comply with applicable U.S. Food and Drug Administration laws and regulations. Licensor shall work with Licensee to meet all US statutory and regulatory requirements and to meet the requirements of Licensee's customers. If the cost to Licensor of changes or modifications required under this section exceeds \$xxx, then the parties shall, in good faith, attempt to agree to a method of shared costs.

Regulatory Assistance: Each party shall cooperate with the other in any efforts to meet regulatory and other governmental approvals and requirements.