The intangibility of intellectual property ensures returns to its owner, even after it has been offered to one party. It is said that the economic potential of a work determines the extent to which a work may be exploited. Accordingly, licensing is being looked as one of the most ‘rewarding’ aspects of intellectual property creation. Today, be it music, machines or software, most creators consider licensing as the next step for their creation. An intellectual property (IP) licence must reflect the quintessential element of all licensing agreements, that is, ‘a meeting of the minds’. It is noteworthy how the IP licensing process has evolved into a well-recognized source of national income. However, in the absence of an IP protection regime, international licences would be futile as individuals or companies would not be willing to pay for something that they can obtain without running the risk of accounting for their use to the IP owner(s). Countries have devised their own mechanisms to deal with IP theft of their corporations in other countries. International laws are also playing an instrumental role in combating the problem. Knowing one’s partner is vital for both the parties involved in licensing. This paper deals with the basic concepts of IP licensing and its importance. It also underlines the revenue generating power of IP with the global rise. For a practical understanding of the subject, the paper elucidates points for parties to bear in mind while drafting licensing agreements and the predominant types of IP licences in the market today.

**Keywords:** Revenue generation ability, intellectual property licence agreements, global aspect, types of licences

The word ‘licence’ has been derived from the Latin term ‘licentia’ meaning ‘freedom’ or ‘liberty’. To a layman, a ‘licence’ means ‘a permission to use another’s property’. The licensee is given a right to make a specified use, without which he would be liable for infringement of the licensor’s property rights. In legal parlance, a licence is recognized as a waiver of a right to sue or prosecute the licensee for conduct that, in the absence of a licence, would be actionable.

**Key Provisions in Licences**

The quintessential element of a licence is that it must show ‘a meeting of the minds’. A licence includes all or some of the following clauses:

**Recitals:** This clause incorporates the circumstances surrounding the licence. It is also known as the ‘Whereas’ clause, because it usually begins with this word. Contrary to common belief, this clause does not provide the operational terms of the agreement. Even though recitals are no longer considered essential, this clause may still, in some cases, be useful for front page identification of the subject matter of the licence.

**Definitions:** Although there is no legal obligation to provide a definitions clause, it is vital for setting out the intention of the parties with precision. Terms basic to the agreement should be defined at the very outset, so that the reader gets immediately familiarized with them. Later references to such defined terms should be in capitalized form so that the reader is aware that the terms have been explained under the definitions.

**Grant Clause:** The heart of the agreement, the granting clause, provides the purpose of the agreement. Rights not expressly granted under this clause are presumed to be reserved by the licensor for oneself. Thus, it is essential that this clause expressly provides all that is granted under the licence. The clause should also specify the geographical as well as durational extent of the right granted under the licence.

**Payment/Royalty:** From a business point of view, this clause is the most important. However, from the legal viewpoint, granting, definition and termination clauses (in the same order) are equally important. In addition to the modes of royalty payment, this clause should also include tax liabilities.

**Ownership:** This clause may be included in the grant clause to resolve issues about the ownership of the property being granted. Also, it must be clear from the

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beginning that the licence does not transfer ownership, it only grants a right to use the licensor’s property. Several warranties may thus be provided (generally requested by the licensee), such as, a warranty on the existence of the licensed right, warranty that the right is owned by the licensor (not already assigned or exclusively licensed), eventually a warranty on the validity of the right (even if not common).

**Rights and Obligations:** As a matter of principle, the parties agree to their respective rights and duties towards each other during the pendency of the licence. The clause also provides for sharing of costs in the event of an infringement action based upon third-party ownership of the subject matter.

**Dispute Resolution:** Parties need to decide the jurisdiction where disputes will be resolved as well as the laws governing the dispute resolution process.

**Termination:** It is important to determine beforehand which terms in the agreement are going to survive the licence.

**Owner and Licensee**

The owner of an IP has a set of defined rights in his creation, outlined by law. For instance, under the IP law of India, it is only the patentee who has the right to manufacture the article invented or manufacture an article according to the invented process for a limited period.

These rights are exclusive because only the owner of one or more particular rights that together make up IP ownership may exercise it or permit others to do so. All others seeking to use such work either by reproducing or manufacturing another product must obtain permission from the legal owner of the work. Permission is often (but not always) required because of intellectual property laws that protect creative works such as text, artwork or music. If a person uses an IP protected work without permission, he may well be violating (usually called ‘infringing’) the owner’s rights to that work. There may be some exceptions to this rule where a third person establishes independent creation or prior usage of the property. Infringing someone else’s intellectual property rights may subject him to legal action, including being forced to stop using the work or paying financial damages. Many people operate illegally, either intentionally or through ignorance. They use other people’s work and never seek consent. However, it is far cheaper to obtain a licence than to have a court determine rights to the work.

An IP licence affords a certain right to use an IP. It may be granted by the owner of the right or a licensee who has the right to sublicense. It, therefore, affords permission for an entity to take some action with respect to songs, movies, software, inventions, or whatever is being licensed. However, a licence is not to be equated with ownership.

The fundamental requirement in such licence agreements is that the subject of the licence, i.e., the IP must be recognized and protected by law or at least be eligible for protection as a ‘property’. Further, the licence must specifically define the rights with respect to IP granted under the licence agreement. Thus, it is important to make sure that the terms of a licence are as broad or narrow as is necessary to achieve the goal. The type of action must be expressly set out depending upon the property in question. For instance, in case of a patent, it may be the right to make, use, sell, or offer for sale; in case of a trademark, it may be the right to use the mark in relation to licensee’s goods to identify his goods; and similarly in the case of copyrights, it may include rights such as the right to reproduce, modify, copy, etc. Similarly, the degree of permission granted—for how long, how exclusive, etc.—must be negotiated by the parties as part of the licence agreement.

It must be realized that IP licences are a type of contract, and the law generally applicable to contracts applies to them as well. An author or inventor of IP need not be an expert in contract law, but should have a rudimentary knowledge of how enforceable licences are created.

Under Contract law, a legally binding contract is created when one person agrees to do something for the other in exchange for some consideration or something of value in return. Thus, to reach such a legally binding agreement, one person must offer to do something and the other must accept the offer. However, IP licences involve a lot of negotiations, and the process is not usually as simple as making an offer and having it immediately accepted. Often, there is some negotiation back and forth. For example, the prospective licensee will often accept part of the original offer, but vary some important terms. An acceptance that varies the main terms of an offer serves as a rejection of the offer and becomes a counter-offer. The property owner then has the option
of accepting or rejecting the counter-offer or making his or her own counter-offer. No contract is formed until one side’s offer or counter-offer is fully accepted.

Like other licence arrangements, monetary gains are the driving force behind IP licence agreements. Intellectual property generates money right from the development or creation stage. For instance, a licensor may realize payments for his software right from an embryonic stage. In such a case, the licence provides for the development of the product to be undertaken by the licensee, who undertakes to compensate the inventor for a right to make, use or sell the invention. The licensor may, in turn, reserve a right to the improvement (to his product) developed by the licensee. Both parties negotiate the licence in view of the revenue-generating capacity of the invention.

Once the licence comes to an end, the licensee may be subject to an infringement action just like the rest of the world.

Professor Nicolas S Gikkas assumes that the nine rudimentary business reasons for a firm to license its IP are:

1. Addition of the resources of the licensee to those of the licensor.
2. Broadening of geographic markets.
4. Speeding up of the entry of a firm having insufficient capital or personnel to a market.
5. Some products sell best when they are sold along with another product.
6. A company may license at the request of a firm in a non-competing field.
7. It is one way for a firm to barter for technology it would otherwise have to pay for.
8. When the licensor's trademark is licensed for use in the market along with the IP, then the licensee's marketing efforts benefit the licensor's reputation and goodwill (as long as the licensee maintains quality in product, service, and sales).
9. Licensing may allow a firm to achieve some degree of control over its own innovations and also over the direction of the industry.

**International Aspect**

In the 1990s, an increasing number of policymakers in emerging economic powers recognized the important role of the IP system in the institutional infrastructure for encouraging private investment in research and development (R&D), especially in the industrial and scientific fields. A healthy IP system is considered a key element in encouraging foreign direct investment (FDI). India is a good example of this. An increase and steady level of FDI in the country has been evident ever since patent and trademark reform was introduced in the early 1990s.

In fact, Brazil has witnessed an even more prominent development with the stupendous growth in FDI following the introduction of a new industrial property law in 1996 ($4.4 billion in 1995 to $32.8 billion in 2000).

An interesting trend witnessed over the last few years in the international content licensing arena is that the US companies tend to file mostly software technology patents while Asian companies especially those belonging to Japan tend to file end-user application patents. Also, image processing is the leading software patent in the markets, owing mainly to medical imaging and Japanese copier companies.

It is the human nature not to consider paying for something one can get for free. Thus, in the absence of an IP protection, an international licence would be futile as individuals or companies would not be willing to pay for something that they can obtain without running the risk of accounting for its use to the IP owner.

Countries like the US have their own mechanism to deal with IP theft of their corporations in other countries, Section 301 of the US Trade Act, 1974. Section 301 gives the US executive branch the power to pressurize foreign countries into adopting intellectual property laws to protect US IP abroad. Even if the product or process never makes its way into the US, the President can retaliate with restrictions or duties on other goods made in the infringing country and imported into the US. The threat of trade restrictions or the imposition of such restrictions by the United States Trade Representative (USTR) also gives the US company the leverage it needs to negotiate a licence for the use of its IP.

In addition to such trade-related coercive steps adopted by countries, the domestic law of the country and its international treaty obligations also play a vital role in licensing IP internationally. Thus, it is upon the parties to be aware of what they are getting involved with. Above all, parties need to be certain that they know who they are dealing with and that there is an exit route provided in case something goes
wrong. This is because licensing of intellectual property rights outside a country contains all the challenges associated with such licensing in a country and additional ones.

A licensor must expressly state his intention to retain right to the title and what exactly is the intellectual property and the extent of ownership. A licensor must keep a check on the number of licensees and the type of rights granted to each of the licensees. He must bear in mind the territorial issues that may arise depending on the area where the licence is to be implemented. In addition to this, tracking compliance is important (especially in regard to quality in trademark cases and protection of secret). Often licensors forget that the licence may have created a competitor once the licence arrangement ends.

The foremost thing for a prospective licensee is that he must take due care and ensure that the licensor is the owner of the property that is being licensed. He must check if the property is worth investing in and serves the specific purpose. It is also important to check for other licensees, if any.

The licensee must remember that the right to use the IP is only to the extent described in the licence arrangement because a licence is construed as reserving all other rights. A licensee may protect himself from potential competitors by restricting the licensor’s right to further distribute the licence to antitrust laws. This will depend upon the nature of the licence being entered into by the parties.

In the case of international licensing, special safeguards are involved. It must be ensured that the IP is recognized as ‘property’ to be legally protected by the countries of both licensor and licensee.

It is useful for the licensee to do the negotiation, liaisoning, filing of IP at the concerned offices and the selection of market or potential clients through local attorneys/agents.

**Types of Licences**

Depending upon the needs of the parties involved and the subject matter of the licence, IP licences may be distinctly chosen for their characteristics and benefits to the parties. For instance, a non-exclusive licence may be the simplest form of IP licensing outlining an understanding between the parties that the owner may grant licences to other parties as well. In contrast, an exclusive licence is the most scrutinised form of licence (from an antitrust viewpoint) as it may act as a market monopolizer owing to its basic nature of single parties favouring each other. In such licences, the grantor may reserve rights for himself (such as grant back clauses) under the arrangement and cause other competitors to suffer at the fate of such a licence.

Broadly speaking, there are three categories of IP licences: trademark and merchandising licences, publishing and entertainment licences (copyright) and technology (involving patent and trade secrets) licences. The aforementioned classification is characteristic of the property involved.

**Trademark Licence Agreements**

These licences confer right to use the source indicator of another on goods or services in the market. The function of a trademark to indicate source product was considered deceptive to allow the trademark to be used on goods which originate from a different source. Unrestricted licensing of trademarks was considered trafficking in trademark which is against public interest. However, development of modern industry and commerce has necessitated the licensing of trademarks, particularly, registered trademarks as registered users. The English case, *Coles Proprietary Ltd v Need*⁹, is said to have been the turning point in the court’s view on licensing of trademarks. Till then, courts had been outrightly reluctant to allow licensing of trademarks because of the risk of public deceit involved in several persons using the same mark in the market. Thereafter, the Goschen Committee analysed this issue and informed that such licensing would be beneficial especially for companies/firms which are separate entities in law, but are controlled by a parent company. While accepting that modern commercial development necessitated such licensing arrangements, the committee held that some relaxation of the then existing restrictions on the use of registered trademark by persons other than its proprietor was required and should be permitted. In furtherance of this view, the Indian law of trademark⁹ makes provisions for enabling persons other than the proprietor to be registered as a ‘registered user’ of the trademark in respect of all or any of the goods for which the trademark is registered¹⁰.

However, there remains a vital difference between a trademark and other forms of intellectual property: the commercial exploitation of a registered trademark by licensing others to use it on a royalty basis is not permissible except by registration of the licensee as a
registered user under conditions prescribed by the statute. This is because unrestricted licensing of a trademark will destroy the property rights in the mark and defeat the very purpose of a trademark protection by deceiving the public.

One can estimate the ever-increasing complexity and popularity of trademarks by the ever-popularising concept of character licensing. It is interesting how the concept of character licensing, which many mistake as part of copyright law, is actually a major source for trademark licensing revenues the world over.

The easiest example in the present day that comes to mind is the marketing of the character, ‘Harry Potter’ from JK Rowling’s world famous children book series. Warner Brothers, which acquired worldwide merchandizing rights to the work, was amazed to see the biggest movie opening of all time in November 2002 as Harry Potter and the Sorcerer’s Stone earned an estimated $ 93.5 million in its first three days. The licence rights have been segregated by Warner Brothers between its several business partners/licensees. For instance, Hasbro gained the rights to distribute trading cards and youth electronic games; competitor Mattel to make toys; another company has the rights to make ‘interactive candy’; Electronic Arts, the California software entertainment company, is licensed to make Harry Potter computer and video games; and Coca-Cola has secured still other rights relating to marketing of the film.

Seen in the context of this complex network of agreements, the trademark licence becomes a way of ‘extending the brand’ and co-marketing, so that each product helps sell the other products by reinforcing the popularity of the character.

Trademarks are also the sine qua non of franchising. The International Franchisee Association estimates that franchising accounts for one-third of all retail sales in the United States, including the sales of firms such as McDonald's, Coca-Cola, General Motors, and Re-Max.

India, a country that re-opened its markets to foreign investors in 1992, presently has about 1800 domestic franchisors. As against the US and Europe, franchising in India is dominated by the IT education sector, which alone accounts for 40 % of the Indian franchising business. This is followed by IT-enabled services with 14 % and business services at 11 %.

The strategic use of a trademark in franchising is a valuable business model in many countries. Thus, a company should consider a trademark licensing or franchise agreement if it is: (i) in the business of marketing a product or service and the brand (trademark) of that product is owned by another; or (ii) entering or expanding the existing market for its product or service for which it owns the rights conferred by a trademark.

Copyright Licence Agreements

Copyright is that part of intellectual property law, which offers protection to original works of authorship, such as, books, musical compositions, paintings, architecture and even computer software. The legal protection provided to such works permits the development and flourishing of cultural industries, technology-oriented businesses based on computer software and other technologies as well as the educational arena. The economic exploitation of the work is done by licensing such works to entrepreneurs like publishers, film producers and record manufacturers for a monetary consideration. People who economically exploit the copyright are the greater beneficiaries of the copyright law than the creators of works of copyright.

The size of the copyright industry may be estimated from the statistics of the United States, for the year 2001, where the core copyright industries contributed US $ 535.1 billion to the economy, representing approximately 4.94 % of GDP. This figure has only increased therefrom in light of the various technological and legislative advancements in the country and the world over. A copyright licence grants a right to access and use works of authorship with permission from its owner or organizations representing the owners.

A company may enter into a copyright licence agreement if it: (i) manufactures, distributes or markets the results of the literary and artistic efforts of creators; or (ii) enters a market or expand or extend its market for the literary and artistic efforts of its enterprise.

Since many owners find it hard to manage their rights or offer them in the market on their own, they become part of collective societies and rely on these societies to represent their interests and manage their rights in the market.

Movie industry licence agreements are typical examples of licensing in the copyright industries. In the motion picture industry, the work of an IP lawyer follows from the development stage to the distribution
stage of the film. There are four major categories of agreements that come along the way, namely, (i) Development and rights appropriation: At this stage the licensee is usually a production company, which enters into an option agreement with the author or owner of the original screenplay or the underlying property (such as a book, play, life story, treatment or idea), (ii) Preproduction: This primarily involves employment agreements starting from performers to the production personnel, (iii) Financing and production: Large scale projects may be financed by major production companies, while small scale ones enter into production-financing-distribution agreements, where the financing party is an active contributor to the technical and production aspect of the movie and prospective owner of the copyright in the movie, (iv) Distribution and exploitation: The various property rights in a movie provide a number of ways to exploit the work. For example, theatrical, non-theatrical, network television, pay television, home video, foreign distribution, merchandising (which falls under a different category of rights). In recent times, merchandising has evolved as a dominant form of exploitation. Further, product placement and commercial tie-ups also enhance revenues.

The interesting thing about a copyright licence is that at one point, a content licence may be nothing more than a mere sale of a copy of a software program to a single consumer, on another occasion, it may be as complex as a merger between publicly held companies. IP creation in the content industry is said to be truly market-centric. The authors are primarily employees hired by companies to create specific need-oriented works to be offered for sale in the market. The licence costs depend upon the shelf life of the work, often not extending more than five years.

Technology Licence Agreements

These licences grant the licensee right to make, use, sell, import or offer for sale inventions or ideas of others. Many a time, these licence agreements relate to information for the use of technology, protected either as a patent and/or a trade secret. The demarcation between patent and trade secret in the agreement stems from the revenue earning capacity of the property involved. For instance, where, the patent term is considered to fall short for the protection of the property, trade secret extends its protection to a significantly longer period and thereby increases its potential market value. This is because it retains its property value as long as the information is kept confidential between the parties whereas, the value of the property under a patent licence necessarily extinguishes with the patent term.

However, where the property assures returns to its owner on being disclosed and used by more persons, seeking licensing based on a patent right is a more lucrative option.

A technology licence may be express, implied or statutory. It may be exclusive, non-exclusive or limited. The exclusive licence excludes all other persons including the patentee from the right to use the invention. In a limited licence, the restriction may arise as to the scope of use of the licence, that may include either the persons authorized to use; or the time of use; geographical extent of use; or manufacture; or sale of the subject matter of the licence.

IP laws of countries impose various conditions on the licensing of patents. For instance, under the Indian laws, a patent licence or assignment is not valid unless it satisfies the following requirements:

(a) The transmission of rights is a written document embodying all the rights and obligations between the parties;
(b) The said document is registered with Controller of Patents.

University Licensing Agreements

The single most powerful impact of patent licensing in recent years can be seen in the academic world. The economic power of academic research, particularly, in the life sciences, is evident from the fact that US and Canadian universities, teaching hospitals, and research institutions generated nearly $1.1 billion in royalties and fees from discoveries licensed to commercial companies in the year 2001. In US itself universities generated more than $827 million from 7,715 licences. They also received 3,179 new patents and spun-off 402 companies.

Conclusion

The adoption of detailed written contracts for licensing intellectual property is becoming a global practice in present day IP scenario. The reasoning behind this is that the parties are making conscious efforts to avoid or efficaciously deal with disputes arising out of their licensing arrangements. A perfect example of such practice is the Japanese licensing industry. The Japanese have always been known as apprehensive litigators. A direct consequence of this
Japanese nature is that the Japanese have emerged as the leaders in drafting some of the most deliberate and specific contracts for entering into IP licence arrangements, especially, with the West.

It is thus, highly desirable that at the drafting stage itself, parties envisage as many ‘what ifs’ as they can. Many believe, the quintessential point to bear in mind while drafting a licence is to choose a partner that is trustworthy. This is more so in the case of international licensing arrangements, because of the prejudices of the local and international laws governing the transaction.

However, foresight alone cannot cover every eventuality and provide solutions to it in the contract. Parties need to know and understand their own needs and at all times bear the contractual goals while dealing under the agreement. A well drafted agreement can reap benefits for all parties involved and ensure optimum returns for one’s intellect and the intellectual property created thereby.

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