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Patent Licensing Agreement and Clauses Covered under it

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ABSTRACT

Patent Licensing has now become an emerging tool to use the technology which is not available in the country. That technology which has been protected by a foreign person in another country can now be used with some formalities only. A patent license is a license granted by the owner which is licensor to a person who wishes to use that license known as licensee. The granted license can also come with conditions of using it in certain parameters and within the limits provided. Patent licensing plays a great role in increasing the economy as well. Without any infringement the technology can be used and also the indigenous technology can be granted in the same way to another country which yields economic benefits like (i) where the license granted is exclusive in nature the licensee already has an advantage over its rivals (ii) the technology can be used directly without investing any money and time in it. There are also some rights and liabilities that are imposed on both licensor and licensee like there are additional charges which are to be decided by the parties, and any new release to be notified to the party also certain terms are included like how the renewal of license and no reverse engineering is to be done. This paper deals with the patent licensing agreement and the clauses covered under it which will be followed by the laws applicable, legal issues between licensor and licensee, and the use of the licensed property. It will further describe important terms and specific provisions related to the agreement and things that are necessary to be considered while drafting the agreement.

Keywords: *additional charges, new release, renewal of license, reverse engineering.*

I. INTRODUCTION

A patent is an exclusive right granted for an invention, which is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem. To get a patent, technical information about the invention must be disclosed to

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public in a patent application.³

Patent Licensing Agreement:

This is an agreement between the IP right holder and the individual who wants to use those rights. The IP right holder may permit that person to use those rights within certain limits and parameters. In this the IP right holder grants a license to the person for specific use of the property or rights. The person who grants the license is the licensor and the person to whom the license has been granted is known as the licensee. Licensing agreements can be made for anything specific. It can either be property, selling or making of a particular item, use of that particular item for which the owner grants the permission. Generally, these agreements are made for the use of intellectual property.

The license are granted for the use of IP rights or any property. When the agreement is made between a person and the owner and a license is granted to use a particular patent, is known as patent licensing agreement.

For the purpose of the agreement there are certain things that need to be completed when the license is granted. Certain parameters are set out for the licensee which can not be breached as well as relevant requirements which need to be fulfilled by both the parties. Specific provisions that deals with licensing agreements like restriction over the use of granted license, reverse engineering, and the number of licensee that are to be granted and not exceed are also included.

Though additional licensee can be there if the licensor wishes to.

II. TYPES OF PATENT LICENSE:

There are eight types of patent license-

- 1. Exclusive License-** in this license, the licensor transfers all his rights to licensee and the only thing the licensor has left with is the title. The licensor can use the license in anyway that needed with all the exclusive rights of patent. The only thing that the licensee can not do is to grant the patent to someone else.
- 2. Non-exclusive License-** in this, the license can be granted to more then one party and all of them will have rights over the licensed product.
- 3. Sub License-** in this, the licensee has a right to further grant the license to any third party for the making of the product. In other words the licensee can enter into a contract with any organization to make further products by granting the license.

³ WIPO, Patent, <https://www.wipo.int/patents/en/>

4. **Cross- License-** it simply means exchange of license. It is made between different organizations and the creators. Such exchange is done when the product needs a support of other product to make its place in the market.
5. **Compulsory License-** this patent comes into picture when the product is pharmaceutical in nature. In this government license the patent to other creators to make the product even against the will of the actual inventor. It happens in the cases of viral diseases has been spread and a cure of it has made and it need of the time to create such medicines in more quantity.
6. **Voluntary License-** this is also given in the case of pharmaceutical products. it can be considered as an act of goodwill from the inventor towards the society where the inventor itself license the patent to another manufacturer or manufacturers either exclusive or non- exclusive to manufacture such medicines regarding the terms of contract as well. It can also be given to more then one licensee to manufacture, sell and distribute the same in different markets.
7. **Carrot License-** it is a market practice where the licensee is not under any obligation, need or eager to get the patent but the licensor convince the person to get the license. Basically the licensor tries to convince the person that if they take the license it will get them a huge benefit and will increase their profit if they get the license.
8. **Stick License-** this license is total contrast to the carrot license. In this the person is already in use of your patented product and meanwhile infringing your patent. In this you don't tell them about the benefits or convince them to get the license in fact you give them option either to get the patent of the same or face the litigation.

III. REASONS TO GRANT A PATENT LICENSE

A patent license is granted by the licensor to the licensee to use the invention made by the licensor. It is beneficial for both the parties economically, technically and financially. The licensor gets the desired finance in exchange of the rights granted and the licensee gets the desired rights to use the patent. Licensee can be anyone, it may be an individual, a company or even country. Licensing is quite beneficial for the licensee as well as licensor as licensor will also have an upper hand over the party to whom the license is granted i.e. licensee.

1. **Economic benefit-** the licensor gets the desired amount of money in exchange of license. Licensor holds the right to add as many licensee as it desires and sell the

patent on his own terms. It also plays a crucial role in sharpening the competitive edge of licensor in the market. For licensee he gets the desired rights to use the patent in market and make money for his own.

2. **Technical benefit-** the licensor holds the right to make any kind of modification in the patent granted. He can grant license for both exclusive and non-exclusive rights of the patent. For licensee he doesn't have to give time to make such technology. He can directly use the patent once granted which saves his time for new inventions that he wants to make.
3. **Financial benefit-** both licensee and licensor gets the financial benefit. For licensor, he can grant license to as many licensee on his own desired price. It's the licensor's choice when and to whom the license is to grant either before or after he exhausts the patent. For licensee he doesn't have to invest any money in making the product. He can directly use that patent which is invented by someone else just after the necessary formalities.

There are other benefits too to the licensor when he licenses the product like licensing will get an easy way to introduce the product in the market, making one's own place in the market as inventor of such product, the cost for making the product can easily be reimbursed by licensing and also when there are more than one licensee the licensor gets huge benefit and for a longer time, licensor also has choice to grant the patent in different ways as mentioned above. Besides this they always have time to invent new products.

What does licensor provide to licensee-

1. Access to the software/product/site
2. Relevant documentation of the software/product
3. Material related to the licensed product
4. Material related to the licensed product
5. Source code and object, user instructions and the manual by the licensor.
6. Confidential information.

Rights of the patent holder/ licensor-

1. The licensor has the right to make any kind of modifications in the patent.
2. The licensor has the right to make additional licensee on his choice.
3. The licensor can put certain restrictions on the use of licensed product of his choice.

4. The licensor has the right to put his own terms and conditions in the agreement.
5. The licensor has the right to put restriction on the area of use regarding licensed product.
6. The licensor has the right to get royalty.

IV. PATENT LICENSING ROYALTY RATES?

Patent licensing royalty rates are a percentage of the gross or net profit made on each sale of a product. Generally, a royalty is provided between the inventor (the licensor) and manufacturer, publisher, agent, or distributor (the licensee). Essentially, an inventor will enter into a license arrangement to have the manufacturer, publisher, agent, or distributor of the product sell it for the inventor. Since the licensee is doing the legwork, it will be the main party benefiting from selling the product; however, the license arrangement will establish a royalty rate, which is the rate the inventor will receive every time the product sells.⁴

Royalty rate is the right of the inventor who get compensated in exchange of the use of his invention. It can be made through different methods like in proportion to the profit that the licensee gets on each use or it can also be in fixed rate as mentioned in the agreement.

V. THINGS TO BE INCLUDED IN THE LICENSING AGREEMENT

While making the agreement there are important and relevant things that are to be mentioned in the agreement only. They are-

1. Laws applicable- the specific laws that the agreement deals with are-

- Indian Contract Act 1872
- India Patent Act 1970
- Consumer Protection Act 1986
- Other relevant laws.

2. Things to be considered while drafting the agreement-

- The first thing to be done is to ensure whether the person who is granting the license has a right to do so or not.
- Ensure that the licensor is capable enough to provide any guarantees and warranties.

⁴ Patent licensing royalty rates, upcounsel, (Oct. 4, 2020, 15:21 PM), <https://www.upcounsel.com/patent-licensing-royalty-rates>

- Consider the relevant limitations that are applied in the agreement.
- Review all the terms that are mentioned in the contract.
- Review the rights and liabilities of both licensor and licensee.
- Ensure the provisions and procedures which are applicable in respect of confidentiality, support and training system if any.
- Consider the resolution methods mentioned in the agreement whether it's through court or alternative dispute resolution method. If ADR is used then which method and its procedure should also be made clear.
- Ensure the laws that are applicable must be mentioned in the agreement.
- Make sure that no such terms or clauses are used which is illegal and against the proper use of license and restrict its use for no reason.
- Consider all the rights and liabilities are mentioned clearly, in proper form and should not be vague.
- Consider the procedure which will be applicable in testing.
- If there is some sort of training is provided by the licensor then what will be the procedure of it.
- Licensor should ensure that all the terms which are to be fulfilled by the licensee are mentioned in the agreement.
- The applicable terms and details of licensed product are clearly stated in the agreement and understood by both the parties.
- The restriction which are applicable related to modification and change in licensed product are made clear in the agreement.
- The renewal process should be clear to both the parties and also agreed by both in the same manner.
- Whether the renewal of license is automatic or it has to go through the certain procedure shall be made clear and can also be mentioned in the agreement.

3. Specific Provisions-

- **License grant-** a licensor grants the license to the licensee which is non-transferable and non-exclusive in nature and can not be assigned to anyone else by licensee.

- **Permitted use-** though the license has been granted but the exclusive use of it is still to the holder only. The licensee is liable to use it only to the extent which is permitted.
- **Restriction-** the licensed product are licensed and not sold and accordingly all rights are reserved to the licensor only. The licensee must not exceed the limits provided to use the product and must comply with the terms.
- **No Reverse Engineering-** the licensee is not supposed (or allow any other person) to reverse engineer the product or any part of it by any way of disassemble or decompile to know its manufacturing method or process of working.

4. Restrictions and obligations on the licensee not to-

- Modify the licensed products
- Incorporate other software
- Assign or transfer, encumber or charge the licensed product
- Remove any copyright or other proprietary notice on the licensed product
- Circumvent the owner or licensor in connection with the intent of the agreement or agreed services
- Resell, distribute or use except as permitted under the licensed agreement.

5. Important terms that are used- some technical terms that are used in the agreement are-

- **Licensed product-** means any software, program, product, or database for which the license has been granted with the relevant documentation by the licensor.
- **Additional charges-** means the charges at the licensor's for hourly or other specified rates that are decided by them time to time on the basis of services and materials.
- **Business day-** any week day except Saturday and Sunday or the days on which the banks are open for services in the city of London.
- **Use-** means the storage, selling, buying, putting on display, access, installation of the product of software which is in the documentation is use of the licensed product.

- **New release-** means any modified version, corrected or improved of any product developed by the licensor from time to time and substantially with new feature that makes the product or software better than previous version.
- **Program Documentation-** the instructions manuals, user guides and other information identified in the schedule to be made available from time to time during the term of this license by or on behalf of the licensor at its discretion in either printed or machine readable form to the licensee.

6. Contractual and legal issues- there can also legal issues that generally arises between licensor and licensee-

- **The obligation and its enforceability** - The obligations that are implied by the licensor must be enforceable and obliged by the licensee.
- **Terms of payment and taxes-** The terms of payment as how, when and where to give and other requisites, the taxes that need to be paid on time must be clear and be mentioned in agreement.
- **By what laws contract should be governed and implemented-** The laws that are applicable should also be mentioned in the agreement.
- **Duration, renewal and termination by the party-** The duration of license, renewal process and termination process should be clear and agreed by the parties.
- **Issues raised after termination-** It should be made clear that if any issue is raised after the termination then how it will be dealt by the parties and its process. If any ADR is to be taken it must be mentioned.
- **Laws to be applied even after termination-** Certain laws that are applicable even after the termination of contract should be made clear. Such as the licensee will not use the patent in name of licensor once the contract is terminated.

7. Licensing and use of intellectual properties-

- Registration should be done in the proper manner
- The restrictions applied in the use of license and the scope and extent of licensee should be made clear.
- The protections that are given to both licensor and licensee should be known to the parties and the same to be mentioned in agreement.

- The limitations and preventions that are applied on the misuse should be mentioned in the agreement.

VI. REGISTRATION OF THE LICENSED PATENT

Section 68 of Patent Act, 1970 Assignments, etc., not to be valid unless in writing and duly executed. An assignment of a patent or of a share in a patent, a mortgage, license or the creation of any other interest in a patent shall not be valid unless the same were in writing and the agreement between the parties concerned is reduced to the form of a document embodying all the terms and conditions governing their rights and obligations and duly executed.⁵

Thus it makes it crystal clear that the agreement shall not be valid unless-

1. It is in writing
2. It shall be duly executed
3. The document must mention all the terms and conditions governing their rights and obligations.

Section 69 of patent act, 1970 says that-

Registration of assignment, transmission etc-⁶

1. Where any person becomes entitled to a patent or to a share in patent by any operation of law either by assignment, transmission or as a mortgagee, licensee or any other interest, he shall apply for the registration of his title in the register to the controller.
2. On the application, if the controller is satisfied that the person is entitled to get the patent or the license by way of assignment, transmission, mortgagee, licensee or as a patent holder shall register his name in the register as proprietor or co-proprietor. The essentials of the instrument or documents by which title is derived shall also be attached in the register.
3. If the person is entitled to any other interest in the patent then the controller shall mention the same in the register with the required instrument.
4. The controller has a right to refuse the registration if there is any dispute between the parties regarding the legality of the transaction and can hold the registration unless there determined by a competent court.

⁵ The Patents Act, 1970, No. 15, Acts of Parliament, 2005 (India)

⁶ The Patents Act, 1970, No. 15, Acts of Parliament, 2005 (India)

5. All the documents that are required for the evidencing of rights over the patent shall be submitted to the controller.
6. The licensee, when the license is granted can request the controller to not to disclose any terms of license or patent and keep them secured unless a court mandates it by any judgement.
7. It is specified that neither a court or any controller will recognize the patent or any license in that matter if the same has not been mentioned in the register. Though in some cases court may ask for the reason in writing.

The government has provided the procedural aspect of the registration of patent license agreement in The Patent Rules, 2003.

Rule 90 of Patent Rules, 2003 says that-⁷

Registration of title and interest in patents-

1. An application referred to in sub-section (1) or sub-section (2) of section 69 shall be made in Form 16.
2. An application for an entry in the register of patents of any other document purporting to affect the proprietorship of the patent by the person benefiting under the document shall be made in Form 16.

VII. OWNERSHIP OF THE LICENSED PRODUCT

It is to be noted that all rights of the licensed product lies in licensor only. He is the owner of the patent. Though he has the right to transfer or license the patent it's his choice to do so. He may either sell his patent to any company, individual or a country immediately after he has created the product or can do the same after he exhausted the patent. A patent is enforceable for 20 years and after that an application has to be filed for its renewal within 18 months of cessation.

Regarding the rights provided to the licensee, only certain rights that owner provides to the licensee are exercised by him else no additional rights can be exercised by the licensee without licensor's permission.

How Long Does a Patent License Agreement Lasts-

A patent license agreement lasts for as long as the parties agree for the agreement to last. The terms of a patent license agreements are agreed upon by both parties, the agreement usually

⁷ The Patent (amendment) Rules, 2003, Acts of parliament, 2002(India)

spells out the term for how it will last.⁸

Termination of the license-

The product which is licensed can also be terminated if the licensee does not comply with the terms of the agreement and exceed it anyways. These are-

1. Failure to pay licensed fee or other due sums
2. Failure to pay remedy breach or material breach within specified period
3. Breach of agreement
4. Either party ceasing to trade
5. Non performing of services such as maintenance and support
6. Occurrence of insolvency or related events.
7. Winding up or bankruptcy of company or individual
8. Voluntary arrangement to terminate the agreement
9. Administration order
10. Inability to pay debts (provided under section 123 of Insolvency Act 1986)
11. Breach of license provided.

Once the agreement has been terminated the license to use the patent will be ceased and all the confidential documents given to the licensee will also be taken back.

VIII. FACTS RELATED TO PATENT LICENSING IN INDIA

In India the first compulsory license was granted by the CAG of India to *Natco Pharma Ltd.*, and Indian generic drug manufacturer on July-29-2011. The first application for Compulsory License under Section 84(1) of The Patents Act 1970 was filed on July 29, 2011 in respect of the Patent No. 215758 granted on March 03, 2008 to Bayer Corporation., a US based company for the salt 'Sorafenib tosylate', sold under the brand name NEXAVAR for the treatment of the advanced stages of kidney and liver cancer.⁹

IX. CONCLUSION

So far the paper has discussed what patent and patent licensing agreement is with measure benefits regarding economical, technical and financial. Going ahead paper has dealt with

⁸ Noah Adam, what is a patent license agreement, patent rebel (Oct. 5, 2020, 17:45 PM), <https://patentrebel.com/what-is-a-patent-license-agreement/>.

⁹ Swati varshney, compulsory license decisions: a comparative study of facts, lex orbis (oct. 5, 2020, 16:50 PM) <https://www.mondaq.com/india/patent/296912/compulsory-licence-decisions-a-comparative-study-of-facts>.

important terms and provisions that are to be considered and used diligently while drafting the patent licensing agreement. But is patent licensing actually a 'boon or a bane' to the country who is getting the license. It does yield economical, technical and financial benefit to both the countries but does the country who is a licensee is getting that much benefit as the host country or is it actually a hindrance to the country in form of easily available technology in creating indigenous product by giving them a ready made product. The licensee country is not making any indigenous technology and using the patent of another country on its terms and conditions. But not to underestimate the power of the licensee country it can also be seen as an opportunity for it to make a better product then the one existing. After using the technology or the invention it is quite understandable for the licensee to get an idea of the machines and formulas being used in the patented product. Regarding the host country it is very profitable to grant license for the use of their invention. Granting license can be also be seen as an alternative to the selling of patent. In selling of patent the creator might get a huge profit in beginning but in licensing it can get profit for a longer time and also from more then one licensee. The licensor gets the profit in form of royalty rates as well which is either given in fixed amount or on the sale of each product a certain percentage is fixed by the parties. For licensee, it does not have to spent time and money in creating such technology instead it can spent the same in creating other indigenous technology. For the licensee the one who has exclusive rights to use that patent will automatically has an upper hand over its rivals.

So it can be concluded that both the countries either host country or the licensee country gets a huge benefit
