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Intellectual Property Law for Non-IP Lawyers

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Intellectual Property Licensing

Intellectual Property Law for Non-IP Lawyers

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INTELLECTUAL PROPERTY LICENSING

INTRODUCTION

Licensing is a flexible and useful method of transferring intellectual property rights that offers significant opportunities for wealth creation. A licence permits risk allocation and reward-sharing in varied ways. A well-drafted licence may allow a licensor to increase revenue and technology utilization without relinquishing valuable intellectual property rights, and may allow a licensee to build a profitable business without incurring substantial expenditures and risk associated with research and development. This paper will canvas the basics of licensing including: the grant of rights, restrictions of use, responsibilities of the parties to the agreement, compensation structures, representations and warranties and termination issues.

NATURE OF A LICENCE

A licence is essentially a permission to do something that the licensor is able to prevent. One might think of permission form the government to drive a vehicle on a public highway (driver's licence) or the permission from a regulatory body to practise a profession or the permission from the owner of a copyright to make copies.

Licences share certain characteristics that distinguish them from other types of transactions. As opposed to sales transactions, title to property does not pass in a licence. Further, a licence differs from an assignment in that an assignment generally involves all property rights being transferred by the assignor, while a licensor retains at least some of those rights itself. This can have important consequences for litigation to prevent infringement of the underlying intellectual property by third parties. When compared to a distribution relationship, one might argue that there is some overlap with respect to the permission to sell, but a distributor's rights are in the physical items being distributed, not in the underlying intellectual property rights. For example, the distributor will have the right to sell the embodiments of an invention, but has no rights in the invention itself. Similarly, in a Software As a Service Agreement, the rights are to receive the benefit of services using software but there is no right to use the software itself.

The permission granted in a licence of intellectual property rights derives from the limited monopoly that is held by the owner of the intellectual property right. This monopoly basis can bring a licence into conflict with competition or anti-trust laws, or at least create a tension between the two. Some examples are referred to below.

GRANT OF LICENCE

A licence is fundamentally a grant of rights making the grant clause is of key importance in establishing the boundaries of the licence. In the case of intellectual property licences, clearly defining the subject matter of the licence, the extent of exclusivity rights, the territory covered, any restrictions on field of use and the duration of the licensed rights can be particularly important.

Subject Matter

Among other things, the subject-matter of a grant of intellectual property rights might relate to a process or product protected by patent or trade secret, a name or logo protected by trademark, a work protected by copyright, or a combination of any or all of these things. Where the technology derives from a single, existing form of intellectual property right, defining the licence grant can, in many cases, be based upon the ownership rights associated with that intellectual property right. For an issued Canadian patent, the rights should be based on those set out in the Patent Act, "making, constructing and using the invention and selling it to others to be used", or a subset thereof. For an issued U.S. patent, the collection of rights that should be used as the starting point are to make, (have made), use, sell, offer for sale and import. Licences of copyrighted works have a more complex set of rights to consider, depending upon the type of work, but the basic right is to make copies. There are trade-offs to be negotiated between a broad, expansive statement of the rights licensed versus a narrow, limited statement, but it is advantageous to everyone if the statement can be clear and precise. Whether or not the rights granted include a right to grant any sub-licences to third parties should be addressed expressly.

Defining the subject matter of a grant of intellectual property rights related to data can be particularly challenging given the developing and often contradictory claims of ownership to data under the statutory, copyright or confidential information laws in different jurisdictions.[1]

Exclusivity

In addition to the subject matter that lies at the heart of the licence grant, decisions also have to be made regarding the extent to which the licensee may be given exclusive rights to use that subject matter. Wording around the nature of exclusivity serves to delineate the scope of the licensee's rights vis-a-vis other parties, both the licensor and third parties. Three descriptors are used: exclusive, non-exclusive and sole. Describing a licence as exclusive means that only the licensee can use the rights granted under the licence, to the exclusion of even the licensor. In comparison,

[1] For an introduction to some of the issues, see Scassa, Teresa, Data Ownership (September 4, 2018). CIGI Papers No. 187; Ottawa Faculty of Law Working Paper No. 2018-26, online <https://ssrn.com/abstract=3251542>