

**MANUPATRA INTELLECTUAL PROPERTY REPORTS**

- Appeal filed will be considered maintainable in the eyes of law if the remedy has been pursued in a bona-fide manner and that the principle of limitation will not apply  
[*Lakha Ram Sharma v. Balar Marketing Private Limited and Ors*] 0001
- Authorship of any work can only be determined if the work comes into existence  
[*Ramesh Sippy v. Shaan Ranjeet Uttamsingh and Ors*] 0032
- If on a whole comparison a deception and likelihood is caused between the two Trade marks, then a case of passing off is established  
[*Boehringer Ingelheim Pharma GMBH and Co. KG v. Premchand Godha and Anr.*] B-2
- The test for the technical prong is essentially the same as that for infringement; i.e., a comparison of the alleged domestic product against the asserted claims  
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- Protection for traditional cultural expression and traditional knowledge E-1
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of the Plaintiffs', i.e. 'rediff' and that the notice of motion is made absolute in terms of prayer clauses.

Since the year 2000, there have been other judgments also rendered by High Courts and the apex Court of the country over the issue that whether the domain name is capable of distinguishing the good or service offered to the users of internet and

whether the principles of Trade mark law and in particular those relating to passing off apply in case of similar domain names? The questions were also answered in affirmative by Supreme Court of India in matter of *Satyam Infoway Ltd v. Sifynet Solutions Pvt. Ltd*; applying the principles laid down in the judgment of Bombay High Court.

## Guidelines to Intellectual Property Licensing and Its Adherence to Competition Laws

Abishek Raman\*

*Intellectual property laws allow its owners to exclude others from performing certain specified acts, at the same time it allows him to grant third parties special permission to perform any of those acts through licensing, while retaining ownership. The article discusses the issues in relation with the major provisions in a typical licensing agreement as well as those that are specific or unique to the different types of intellectual property licenses and their validity with respect to competition laws. The traditional role of competition law has been to promote efficiency in the market and thereby prevent market distortions whereas the role of IPR has been the promotion of innovations by granting protection and rights over inventions. Yet, it is understood that the two realms can, not only co-exist but also complement each other. The article explores the possibility of executing licensing agreements in tune with Intellectual Property Laws and Competition law.*

### Introduction:

In the quickly developing arena of Intellectual Property Rights licensing transactions are widely used ahead of other models of transaction such as leasing & renting, assignment of rights, dedication of work to public domain etc. because licensing enables the holder of

such rights to use it as a tool for doing a variety of productive activities. More often than not, licensing enables flexibility, diversity, choice and also provides for creative distribution models, innovative collaborations and new works or invention. This enables the licensor to derive profits from his rights,

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without losing actual ownership over the said rights. Licensing agreements enable the owner to dictate the scope and nature of utility of the said rights to the party who wishes to exploit them. Such agreements are now a common occurrence and the parties involved must ensure that the provisions and clauses included in these agreements are mutually favorable and are not in violation any other statute in force. Competition laws which aims to ensure free economic development of the country by promoting and sustaining competition in the market, specifies certain types of arrangements or agreements that are considered to be against the spirit of competition and hence are prohibited; however certain exceptions are also paved for the benefit of the owner of intellectual property to ensure they can make optimal market utilization of their rights enshrined to them through IP laws. While there are certain provisions that are common to licensing of all kinds of intellectual properties, more commonly known as general principles of licensing, there are other more specific provisions to be dealt with in respect each individual type of intellectual property licensing. The challenge lies in incorporating both these elements to arrive at a comprehensive agreement.

*A licensing agreement is a legal contract between two parties, known as the licensor and the licensee*

#### **Licensing of intellectual property: An overview**

A licensing agreement is a legal contract between two parties, known as the licensor and the licensee. In a typical

licensing agreement, the licensor grants the licensee the right to produce and sell goods, apply a brand name or Trade mark, or use patented technology owned by the licensor or reproduce, offer for sale, publicly perform, or have made products or works protected by the intellectual property, or engage in all or any combination of these activities. In exchange, the licensee usually submits to a series of conditions regarding the use of the licensor's property and agrees to make payments known as royalties.<sup>1</sup> Like any normal contract, the parties are subject to the provisions and the terms that are mentioned within it.

A variety of such licensing agreements are available, which may be broadly categorized as the following with respect to licensing of intellectual property:

1. Technology transfer License Agreement
2. Trade mark License Agreement
3. Copyright License Agreement

In practice, all or some of these agreements often form part of one single contract since in transfers of this nature many rights are involved due to the divisible nature of such Intellectual Property Rights.<sup>2</sup>

An example to illustrate the same would be a Copyright license that allows the Copyright to be used and applied to a variety of products to form the basis of a new work. Most comic strips like Superman, Spiderman lead to the making of television shows, movies, action figurines and even clothing apparel; this is because the author allowed his Copyright to be applied in these arenas through licensing.

#### **General provisions of intellectual property licensing agreements**

The following provisions are considered to be the most general principles and clauses that have to be inserted in any

1 <http://www.inc.com/encyclopedia/licensing-agreements.html>

2 [http://www.wipo.int/sme/en/ip\\_business/licensing/licensing.htm](http://www.wipo.int/sme/en/ip_business/licensing/licensing.htm)

regular licensing agreement with respect to intellectual property:

**A. Definition of the licensed Property**

In any license agreement the specific identity of the licensed subject matter should be clearly and unambiguously defined. If such a subject matter is registered in multiple classes, the licensor must clearly specify the classes to which such license is provided for the licensee. Especially with respect to Intellectual Property Rights, often a license agreement contains an attached schedule that sets forth a full description of the property licensed including title or description, registrations number of the licensed items, as well as the date of registration and jurisdiction.<sup>3</sup>

**B. Jurisdiction**

The license agreement should include a clear statement of the geographic locations within which the license is to apply. During the term of the agreement these locations could be amended, through express consent from the parties involved. The agreement may also reasonably restrict the field or area in which the licensee may exercise his right, provided such restriction is not anti-competitive in nature.<sup>4</sup>

**C. Grant of license**

The actual grant of license should be expressed in present tense in the agreement by the licensor in order to avoid any possible ambiguity that may arise due to the usage of a future time reference. The purpose of such license grant is to ensure that there is clear knowledge as to the subject matter of the license as well as the outlines or conditions that are laid down by the licensor at the very outset.

A grant may allow a licensee to make, use, sell, import, reproduce, offer for sale, publicly perform, or have made products or works protected by the intellectual property, or engage in all or any combination of these activities.<sup>5</sup> The grant of license is of two broad types: "non-exclusive" and "exclusive" licenses. When the licensor give someone a non-exclusive license, it gives the licensee permission to exercise the right in question, but it also reserves the right to continue exercising it by the licensor himself and to authorize others to do so. However, when the licensor grants someone an exclusive license, it promises the licensee and only the licensee may exercise the right that is so licensed.

**D. Term or duration of the license**

Term or duration of a contract may be structured in different ways. The simplest and most common method to structure such a term is by merely assigning a certain fixed period of time expressly in the agreement. However, the term may also be perpetual, that is, the term continues without end. In many cases the parties to the agreement may choose to agree upon certain terms that may provide certain amount of flexibility to both parties. This can be done, when the parties agree a upon an initial term for the license at the end of which, the parties may opt to continue the term further or after giving prior notice, may choose to end the term of the agreement. An evergreen term, is one that renews itself automatically, until one of the parties, on advance notice, chooses to terminate it. However, the licensee must ensure that the term of

3 Epstein A. Michael, *Epstein on intellectual property*, Aspen Publications, 5<sup>th</sup> edition, 2008, pg 18-4

4 Epstein A. Michael, *Epstein on intellectual property*, Aspen Publications, 5<sup>th</sup> edition, 2008, pg 18-7

5 Epstein A. Michael, *Epstein on intellectual property*, Aspen publications, 5<sup>th</sup> edition, 2008, pg 18-5

the license should never exceed the actual term of protection granted to the Intellectual Property Right.

Either party may cancel the agreement if the other party is in material breach thereof by providing written notice of breach to the other party describing the nature of the breach. If the party receiving such a notice does not rectify its breach within 30 days, the agreement shall automatically terminate, this process is called cancellation. Following such termination or cancellation of the agreement, all confidentiality obligations, obligations to return materials, limits on liability, and dispute resolution provisions shall survive and continue in full force.<sup>6</sup>

#### E. Consideration

Consideration being an inseparable part of any contract may take the guise of a fixed fee, royalty<sup>7</sup> or calculated as a percentage of the licensee's sales or income, or a fixed payment upon execution of the agreement followed by periodic payments of royalties.<sup>8</sup> Consideration may also take the form of a cross-license<sup>9</sup>. In addition the agreement must incorporate provisions that dictate the modus of payment, frequency and the requisition

to maintain accounts of profits and other relevant transactions.

#### F. Confidentiality

Though confidentiality is implied in contracts of such nature, it is prudent and safe to have a clause that restricts use and disclosure of such information that is confidential. The use should be limited to ensure that the recipient is not deriving additional benefits from the disclosure of the confidential information. There may also be a provision exempting a party from compliance, if the party is under a court order to disclose the other party's confidential information, provided that the owner of the confidential information is given notice of the court order and a chance to respond and/or contest the order.<sup>10</sup> Such an exemption also applies when the information falls into the public domain.

#### G. Warrantees

A warranty is an undertaking or stipulation that a certain fact in relation to the subject of the contract is or shall be as it is stated or promised; and refers to an agreement to protect the recipient against loss if the fact is or becomes untrue.<sup>11</sup>

6 Gomulkiewicz, Robert W., *Licensing intellectual property: law and application*, Aspen publications, Gomulkiewicz, Robert W., Xuan-Thao Nguyen, Danielle Conway-Jones, 2008, pg 70

7 Royalty: A payment to an owner for the use of property, especially patents, copyrighted works, franchises or natural resources. A royalty payment is made to the legal owner of a property, patent, copyrighted work or franchise by those who wish to make use of it for the purposes of generating revenue or other such desirable activities. In most cases, royalties are designed to compensate the owner for the asset's use, and are legally binding.

8 Epstein A. Michael, *Epstein on intellectual property*, Aspen publications, 5<sup>th</sup> edition, 2008, pg 18-(8, 9)

9 Cross-license: a license that is granted by a patent holder to another (as a competitor) who reciprocates with a similar license and that is designed to control the marketing of the products involved or to further their development.

10 <http://www.jurisdiction.com/patweb13.pdf>, pg 28.

11 <http://www.ipwatchdog.com/2013/04/05/contracts-101-covenants-representations-and-warranties-in-ip-license-agreements/id=38621/>

Warranty may be of two types; firstly express warranties arise from express language in the license agreement or through the conduct of the parties. Implied warranties are promises that are so fundamental to the transaction, that the promises should be assumed to exist in every contract unless the parties clearly express a contrary intent.<sup>12</sup>

#### H. Indemnity and Severability

An indemnification provision allows one party (indemnifier) to take financial responsibility for any liability incurred by the other party (indemnity holder) in certain situations as dictated by the agreement. Such a provision may also impose liability on the indemnifier to defend the indemnity holder against any legal actions that may arise due to such a situation. In a licensing transaction, each party usually indemnifies the other for liability relating to its own breaches of any representation, warranty, or promise.<sup>13</sup>

The severability clause present in an agreement provides that if any provision of the agreement becomes invalid, illegal, void or unenforceable under any law that is applicable to this agreement, each such provision shall be deemed amended to conform to the applicable law or, if it cannot be amended without materially altering the terms of the agreement, such provision shall be deleted without altering the validity of the rest of the provisions of the agreement.<sup>14</sup>

#### I. Infringement

License provisions regarding infringement may deal with either claims that third parties are infringing the licensed intellectual property or (and) claims that the licensed property itself infringes rights of others. The provisions of the license agreement may either authorize a licensee to raise independent infringement actions against third party infringers on behalf of itself (or the licensor) or require the licensor to sue the third party infringer in cases of infringement claims where third parties are infringing the licensed intellectual property. Likewise the provision may also require the licensor to defend the licensee in cases where the licensed intellectual property infringes the rights of others. The provision usually creates a duty on both parties to provide notice if such party has knowledge of any third party infringement on the licensed intellectual property or when such licensed intellectual property infringes the rights of a third party.<sup>15</sup>

#### Special provisions which are included in licensing agreements for Trade marks, Patents and Copyrights:

Other than the general provisions that are to be included in all contracts of licensing of intellectual property, there are certain other provisions that are to be carefully noted with respect to specific issues that may arise through licensing of a specific Trade mark, patent or Copyright. Based on the type of intellectual property that is being

12 Gomulkiewicz, Robert W., Licensing intellectual property: law and application, Aspen publications, Gomulkiewicz, Robert W., Xuan-Thao Nguyen, Danielle Conway-Jones, 2008, pg 73

13 Epstein A. Michael, Epstein on intellectual property, Aspen publications, 5<sup>th</sup> edition, 2008, pg18-20

14 Gomulkiewicz, Robert W., Licensing intellectual property: law and application, Aspen publications, Gomulkiewicz, Robert W., Xuan-Thao Nguyen, Danielle Conway-Jones, 2008, pg 78

15 Epstein A. Michael, Epstein on intellectual property, Aspen Publications, 5<sup>th</sup> edition, 2008, pg18-(14, 15)

licensed, the parties must be diligent in including certain other provisions, other than those mentioned above in order to safeguard their own rights. These provisions must be based on the nature of the intellectual property that is to be licensed and the specific issues that could arise due to its licensing.

A. Special provisions for Trade mark license agreements

Trade mark licensing can be a lucrative business, if effectively managed. A Trade mark owner (licensor) can transfer his rights with respect to his Trade mark either by way of assignment or by licensing.<sup>16</sup>

In Trade mark licensing, a Trade mark owner grants permission to another person (licensee) to use that Trade mark on mutually agreed terms and conditions. Trade mark licensing was considered to be impossible at one time given that one of the functions of a Trade mark was to indicate source. However, Trade mark licensing

became acceptable where the licensor remained in control of the nature and quality of the goods or services sold in association with the Trade mark.<sup>17</sup>

Licensing of Trade marks in India is permitted under the Trade marks Act, 1999, where the proprietor of a Trade mark may, license the rights in the Trade mark to a third party, thereby permitting the third party to use the Trade mark in the course of trade.<sup>18</sup>

According to the Act, permitted use is the use of a registered mark by the registered user or any person, having consent from the registered proprietor, other than the registered proprietor or registered user having connection in the course of trade in relation to the goods or services<sup>19</sup>. In accordance with Section 48 and, subject to the provisions of Section 49<sup>20</sup> a person other than a registered proprietor of a Trade mark may be registered as a registered user thereof in any or all of the goods or services covered under

16 <http://www.mondaq.com/india/x/202886/Trademark/Assignment+Licensing+Of+Trade+marks+In+India>

17 [http://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip\\_panorama\\_12\\_learning\\_points.pdf](http://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_panorama_12_learning_points.pdf), pg 5.

18 [http://www.pmgip.com/trademark\\_licensing\\_india.html](http://www.pmgip.com/trademark_licensing_india.html)

19 Section 2 (1) (r) (i) & (ii) of the Trade marks Act, 1999.

20 Section 49 of the Trade marks Act, 1999 - 'Registration as registered user':

(1) Where it is proposed that a person should be registered as a registered user of a Trade mark, the registered proprietor and the proposed registered user shall jointly apply in writing to the Registrar in the prescribed manner, and every such application shall be accompanied by-

(a) The agreement in writing or a duly authenticated copy thereof, entered into between the registered proprietor and the proposed registered user with respect to the permitted use of the Trade mark; and

(b) An affidavit made by the registered proprietor or by some person authorized to the satisfaction of the Registrar to act on his behalf,-

And

(c) Such further documents or other evidence as may be required by the Registrar or as may be prescribed.

(2) When the requirements of sub-section (1) have been complied with, the Registrar shall register the Proposed registered user in respect of the goods or services as to which he is satisfied.

(3) The Registrar shall issue notice in the prescribed manner of the registration of a person as a registered user, to other registered users of the Trade mark, if any.

(4) The Registrar shall, if so requested by the applicant, take steps for securing the information given for the purposes of an application under this section (other than matter entered in the register) is not disclosed to rivals in trade.

the registered Trade mark. The use of the Trade mark permitted as above shall be deemed to be use by the proprietor of the Trade mark for the purposes of the Act or any other law.<sup>21</sup>

Certain special provisions that are to be considered when an agreement for Trade mark licensing is concerned:

#### 1. Good Will

The value of a Trade mark consists, in large part, of its effectiveness at calling to the customer's mind the owner's reputation for quality in connection with the goods or services sold under the Trade mark. These positive feelings that are invoked in the mind of the consumer through such a mark are called goodwill. Therefore, protecting such goodwill is definitely fundamental to the owner of any Trade mark.

Hence it is absolutely vital for the licensor to include, through a provision, a formal renunciation of goodwill by the licensee. Any and all goodwill arising from the licensee's use of the Trade mark must inure solely to the benefit of the licensor, and the licensee cannot assert any claim over such goodwill during or after the term of licensing.<sup>22</sup>

#### 2. Quality Control standards

The licensor must be certain to select a manufacturer who is willing to maintain the value and integrity of the Trade mark and allow for licensed products or services that maintain the uniform,

consistent quality expected by consumers of the brand. He should also possess similar goals, effective support teams and management infrastructure, financial stability and distribution channels that are commensurate with the brand.<sup>23</sup> Thus it is necessary that the licensor, through provisions of the agreement ensures that there is compliance of such quality control standards, and absence of which may lead to the loss of value of the Trade mark or misuse of rights by the licensee.

Apart from these two important provisions, the licensor should include such provisions that ensure that the mark remains associated with his own goods or service and make sure that the licensee does not misuse the mark in such a way that certain modifications are made to the mark to enhance his own goodwill at the detriment of the licensor.

#### B. Special provisions for Copyright license agreements

According to the Copyrights act of 1957, the owner of the Copyright in any existing work or the prospective owner of the Copyright in any future work may grant any interest in the right by license in writing signed by him or by his duly authorized agent, provided that in the case of a license relating to Copyright in any future work, the license shall take effect only when the work comes into existence.<sup>24</sup> The statute also stipulates that the provisions of Section 19<sup>25</sup>

21 'Registered user' according to Section 48 of the Trade marks Act, 1999.

22 Epstein A. Michael, Epstein on intellectual property, 5<sup>th</sup> edition, 2008, pg 18-(22, 23)

23 <http://www.metrocorpounsel.com/articles/8654/quality-control-trademark-licensing>

24 Section 30 of the Copyrights Act, 1957

25 Section 19 of the Copyrights Act, 1957

(1) Mode of Assignment. No assignment of the copyright in any work shall be valid unless it is in writing signed by the assignor or by his duly authorized agent.

(2) The assignment of the copyright in any work shall, among other things, - indicate clearly the rights proposed to be assigned and the size of the work.



and 19A<sup>26</sup> shall, with any necessary adaptation or modification, apply in relation to license under Section 30 as they apply in relation to assignment of Copyright in a work.<sup>27</sup>

In the case of a literary, dramatic or musical work, the author has the right to do and authorize the doing of any of the following acts, namely: to reproduce the work in any material form, to publish the work, to perform the work in public, to produce, reproduce, perform or publish any translation of the work, to make any cinematograph film or a record in respect of the work, to communicate the work by radio broadcast or to communicate to the public by a loud- speaker or any other similar instrument the broadcast of the work and to make any adaptation of the work.<sup>28</sup>

The author in the case of an artistic work has the right to do or authorize the doing of any of the following acts, namely: to reproduce the work in any material form, to publish the work, to include the work in any cinematograph film and to make any adaptation of the work.<sup>29</sup>

The author in the case of a cinematograph film, has the right to do or authorize the doing of any of the following acts, namely: to make a copy of the film, to cause the film, in so far as it consists of visual images, to be seen in public and, in so far as it

consists of sounds, to be heard in public; to make any record embodying the recording in any part of the sound track associated with the film by utilizing such sound track and to communicate the film by broadcast.<sup>30</sup> Problems arise when the parties to a licensing agreement seek to ascertain whether the licensed work is authorized to be copied, distributed or broadcasted in a new medium. Hence the provisions with respect to the same must be made expressly by the author upon the creation of a licensing agreement.<sup>31</sup>

In cases of software licenses, the licensee should make sure that certain special provisions are included in the licensing agreement such as:

a) Technical support provisions

Due to the complex nature of computer software programs, the licensors are usually unwilling to assume the risk or provide guarantee over the functioning of their software in the licensee's computer system, instead they tend to offer technical support for a stipulated time period. This creates a unique problem for the licensee, in the sense that it has the mere access to utilize the software and no access to the source code, which is maintained as a secret by the licensor. So when a problem presents itself, the licensee is completely dependent upon the

26 Section 19A of the Copyrights Act, 1957:

Disputes with respect to assignment of copyright: Where any dispute arises with respect to the assignment disputes of, or any of the terms of, the assignment of, any copyright, the Copyright Board may, on receipt of a complaint from any of the parties to the dispute and after holding such inquiry as it may deem necessary, pass such orders as it may deem fit, including orders by way of giving permission to the owner of the copyright to revoke its assignment if the terms of the assignment are harsh to him or if the publisher unduly delays the publication of the work or by way of issue of a certificate for the recovery of any royalty due to the copyright Holder.

27 Section 30A of the Copyrights Act, 1957

28 Section 14 (1) (a) of the Copyrights Act, 1957

29 Section 14 (1) (b) of the Copyrights Act, 1957

30 Section 14 (1) (c) of the Copyrights Act, 1957

31 Gomulkiewicz, Robert W., Licensing intellectual property: law and application, Aspen publications, Gomulkiewicz, Robert W., Xuan-Thao Nguyen, Danielle Conway-Jones, 2008, pg 269

licensor to offer support to fix such problems. Hence, it is important for the licensee to ensure specific provisions are drawn in the agreement with respect to the degree and nature of support that is offered by the licensor to ensure that sufficient help can be provided through various means like telephone support, online or e-mail support and on-site support technicians.<sup>32</sup>

b) Software defects

Licensees should ensure that a provision in the licensing agreement insists that the licensor warrants that the licensed software, at the time of delivery to the licensee, does not contain any malicious computer codes, such as viruses or worms that could affect or infect the other systems of the licensee.<sup>33</sup>

C. Special provisions for patent license agreements

Patent licensing plays a vital role in technology commercialization. By granting a patent license to a person, the patent owner (licensor) authorizes the person (licensee) to exercise the patent rights that are vested in the former, under certain stipulated circumstances.<sup>34</sup>

Indian Patent Act contains specific provisions with regard to licensing of patents. Subject to the provisions contained in this Act relating to co-ownership<sup>35</sup>, the person or persons registered as proprietor of a patent shall have power to assign, grant licenses under, or otherwise deal with, the patent and to give effectual receipts for any consideration for any such assignment, license or dealing, provided that any equities in respect of the patent may be enforced in like manner as in respect of any other movable property.<sup>36</sup> However, such a transfer will be subject to other provisions of the statute such as Section 68<sup>37</sup>, Section 69(1)<sup>38</sup> and Section 69(2)<sup>39</sup>.

- 32 Epstein A. Michael, *Epstein on intellectual property*, 5<sup>th</sup> edition, 2008, pg 18-26
- 33 Epstein A. Michael, *Epstein on intellectual property*, 5<sup>th</sup> edition, 2008, pg 18-28
- 34 <http://invntree.com/blogs/indian-perspective-licensing-or-sale-patents>
- 35 Section 50 of the Indian patents Act, 1970- The rights of a co-owner : In case of licensing, the licensor of the Intellectual property right needs to obtain the consent of the co-owner(s) for the agreement to be valid.
- 36 Section 70 of the Indian patents Act, 1970
- 37 Section 68: Assignments, etc., not to be valid unless in they are in writing and registered. An assignment of a patent or of a right 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 the application for registration of such document is filed in the prescribed manner with the Controller within six months from the commencement of this Act or the execution of the document, whichever is later or within such further period not exceeding six months in the aggregate as the Controller on application made in the prescribed manner allows. Provided that the document shall, when registered, have effect from the date of its execution.
- 38 Section 69(1): Where any person becomes entitled by assignment, transmission or operation of law to a patent or to a share in a patent or becomes entitled as a mortgagee, licensee or otherwise to any other interest in a patent, he shall apply in writing in the prescribed manner to the Controller for the registration of his title or, as the case may be, of notice of his interest in the register.
- 39 Section 69(2): Without prejudice to the provisions of sub- section (1), an application for the registration of the title of any person becoming entitled by assignment to a patent or a share in a patent or becoming entitled by virtue of a mortgage, license or other instrument to any other interest in a patent may be made in the prescribed manner by the assignor, mortgagor, licensor or other party to that instrument, as the case may be.

The following provisions that are mentioned are with special reference to technological, biotechnological and pharmaceutical patent licensing. In these industries, licensing has become a key strategy for companies either seeking access to new technologies or hoping to profit from their research and development.<sup>40</sup> Initial development in these industries is often performed by small start-up companies lacking the desire or the resources to fully develop and commercialize a technology. Licensing provides income to the developing company without the necessity to engage in such actions and at the same time it allows licensees to access such technology with significant reduction in the investment of their time and resources, when compared to them trying to develop the same technology internally.<sup>41</sup> In these industries, non-exclusive licensing is generally confined to peripheral inventions, such as drug delivery systems or discovery methods. Typically, licensees will require an exclusive license. Exclusivity is important in the biotechnology and pharmaceutical industries where the cost of technology development and the time that is taken to obtain necessary regulatory approvals can be significant.<sup>42</sup>

While technological transactions are much more extensive in these industries, from an intellectual property licensing standpoint, special considerations arise with respect to the following:

#### 1. Patent term restoration

Subject to laws enacted in a particular country, Patent term restoration allows the term of a qualifying patent to be extended if a patent owner is unable to commercialize a product due to any delays caused by regulatory reviews or approvals that are required to be obtained before the product can be marketed or sold.<sup>43</sup>

However such scope of term restoration is applicable only to cases where the delay is caused due to regulatory reviews or approval, any delay caused by the party himself will not be considered.

#### 2. Licensor's Improvements

A licensor may be continually making improvements to its technology, and filing for new intellectual property registrations as a result, even after the effective date of the licensing agreement. The treatment of those improvements should be negotiated as part of the overall license agreement.<sup>44</sup>

Minor improvements are often licensed to the licensee for little additional consideration. The licensor may also require the licensee to grant rights in the improvements developed by the licensee through a grant-back provision in the agreement, back to the licensor. However, grant-back provisions should be carefully drafted so as to comply with competition laws.<sup>45</sup> The licensor may restrict access to its technology by excluding improvements from the scope of the rights granted to the licensee at the very

40 In a survey of more than 3000 biotechnology firms, the U.S Bureau of industry and security found that 53% of the firms were focused primarily on developing technologies that could be licensed to others and 47% were primarily focused on acquiring technologies through licensing agreements. See, U.S department of commerce's bureau of industry and security, A survey of the use biotechnology in U.S. industry 14(2003).

41 Epstein A. Michael, Epstein on intellectual property, 5th edition, 2008, pg18-(48)

42 Epstein A. Michael, Epstein on intellectual property, 5th edition, 2008, pg18-(49, 50)

43 Epstein A. Michael, Epstein on intellectual property, 5th edition, 2008, pg18-(49)

44 <http://www.jurisdiction.com/lic101.pdf>

45 [http://www.iplg.com/files/Les\\_Nouvelles\\_article\\_by\\_Kim-Helms.pdf](http://www.iplg.com/files/Les_Nouvelles_article_by_Kim-Helms.pdf)

outset, especially where the technology is an early stage or it is likely that the licensor will develop successive generations of the licensed property.<sup>46</sup>

*Intellectual property right is an exception to the general rule promoting free competition*

### Intellectual Property Rights and Competition laws

Intellectual Property Rights provide exclusive rights to the holders to perform a productive or commercial activity. But this does not automatically include the right to exert restrictive or monopoly power in a market. An Intellectual Property Right generates market power. The potential pejorative character of the power may be unjustifiably great because of public policies like the encouragement of inventions. On the other hand, if investment of resources to produce ideas or to convey information is left unprotected, the competitors may take advantage and benefit by not being obliged to pay anything for what they utilize. This may result in lack of incentives to invest in ideas or information and the consumer may be correspondingly poorer. What is called for is a balance between abuse of market power and protection of the property holders' rights.<sup>47</sup>

Intellectual Property Right is an exception to the general rule promoting free competition. The protection is not meant to continue even after the objectives of Intellectual Property Right have been achieved. In cases where Intellectual Property Right is unable to prevent the extension of such power beyond the realm of the intended protection, competition is capable of playing this limiting role. Hence the attitude of competition law to Intellectual Property Right is not hostile. It acts to ensure that the inherent purpose of the rights is not defeated, if and when the Intellectual Property Right owner exceeds the essential function for which the right is granted, such as protection of innovators' achievements against free-riders and protection of the firm's reputation and identity. Such an occasion may arise when contractual exercise of Intellectual Property Rights, resulting in competitive restraints, far in excess of the need to protect the owner against free-riders. It may also happen when an Intellectual Property Right grants such a degree of market dominance that compulsory license of the right to a third party is justified.<sup>48</sup>

The Indian Competition Law, namely, the Competition Act, 2002 deals with the applicability of Section 3<sup>49</sup>, which-  
prohibitions relating to anti-competitive agreements to

46 Epstein A. Michael, pg18-(49, 50), Epstein on intellectual property, 5th edition, 2008

47 [http://competitioncommission.gov.in/advocacy/PP-CCL\\_IPR\\_7\\_12.pdf](http://competitioncommission.gov.in/advocacy/PP-CCL_IPR_7_12.pdf), pg 2

48 [http://www.nujslawreview.org/pdf/articles/2011\\_1/gitanjali.pdf](http://www.nujslawreview.org/pdf/articles/2011_1/gitanjali.pdf), pg 120-121

49 Anti- competitive agreements.-

(1) No enterprise or association of enterprises or person or association of persons shall enter into any agreement in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services, which causes or is likely to cause an appreciable adverse effect on competition within India.

(2) Any agreement entered into in contravention of the provisions contained in sub- Section (1) shall be void.

(3) Any agreement entered into between enterprises or associations of enterprises or persons or associations of persons or between any person and enterprise or practice carried on, or decision taken by, any association of enterprises or association of persons, including cartels, engaged in identical or similar trade of goods or provision of services; which-

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Intellectual Property Rights. However, an express provision to the Section provides that nothing contained in this Section shall restrict-

(i) The right of any person to restrain any infringement of, or to impose reasonable conditions, as may be necessary for protecting any of his rights which have been or may be conferred upon him under-

- (a) The Copyright Act, 1957;
- (b) The Patents Act, 1970;
- (c) The Trade and Merchandise Marks Act, 1958 or the Trade marks Act, 1999;
- (d) The Geographical Indications of Goods (Registration and Protection) Act, 1999;
- (e) The Designs Act, 2000;
- (f) The Semi-conductor Integrated Circuits Layout- Design Act, 2000;

(ii) The right of any person to export goods from India to the extent to which the agreement relates exclusively to the production, supply, distribution or control of goods or provision of services for such export.<sup>50</sup>

In other words, by implication, unreasonable conditions in an Intellectual Property Right agreement

that will not fall within the bundle of rights that normally form a part of Intellectual Property Rights would be covered under the scope of Section 3 of the Act. Section 3(5) of the Act declares that "reasonable conditions as may be necessary for protecting" any Intellectual Property Right will not attract the ambit of Section 3.

The expression "reasonable conditions" has not been defined or explained in the Competition Act. By implication, unreasonable conditions that attach to an Intellectual Property Right will attract the implications under Section 3<sup>51</sup>. In other words, licensing arrangements likely to affect adversely the prices, quantities, quality or varieties of goods and services will fall within the contours of competition law as long as they are not in reasonable juxtaposition with the bundle of rights that go with Intellectual Property Rights.

The following are certain types of conditions or arrangements involved in the arena of Intellectual Property Rights that are considered as unreasonable or beyond the scope of the bundle of rights that maybe derived from such Intellectual Property Rights:

#### 1. Tie-in arrangements

Tie-in arrangement is a type of such restrictive practice wherein a licensee may be required to acquire particular goods (unpatented materials e.g. raw

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- (a) directly or indirectly determines purchase or sale prices;
- (b) limits or controls production, supply, markets, technical development, investment or provision of services;
- (c) shares the market or source of production or provision of services by way of allocation of geographical area of market, or type of goods or services, or number of customers in the market or any other similar way;
- (d) directly or indirectly results in bid rigging or collusive bidding, shall be presumed to have an appreciable adverse effect on competition: Provided that nothing contained in this sub-section shall apply to any agreement entered into by way of joint ventures if such agreement increases efficiency in production, supply, distribution, storage, acquisition or control of goods or provision of services.

<sup>50</sup> Section 3(5) of the Competition Act, 2002

<sup>51</sup> [http://www.competition-commission-india.nic.in/advocacy/Intellectual\\_property\\_rights.PDF](http://www.competition-commission-india.nic.in/advocacy/Intellectual_property_rights.PDF), pg 5

materials) solely from the patentee, thus foreclosing the opportunities of other producers. There could be an arrangement forbidding a licensee to compete, or to handle goods which compete with the licensor's interest.<sup>52</sup> Such arrangements are usually considered to hinder the spirit of completion and hence not allowed by the competition act.<sup>53</sup>

#### 2. Grant backs

A provision in the Intellectual Property licensing agreement requiring the licensee to assign any improvements or modifications made by it, back to the licensor is referred to as a grant back provisions. These provisions are not unlawful per se, however such provisions attract complications when the rights required to be granted back are far broader than the rights originally licensed or when such practices are generally against the norms of the industry in question. Such factors may demonstrate the unreasonableness of such grant back agreements. Likewise, such a grant back provision may hinder the incentives of licensee to innovate due to structure of such a provision, and hence it would amount to violation of competition laws.<sup>54</sup>

#### 3. Patent pooling

Patent pooling is a restrictive practice, which will not constitute being a part of the bundle of rights forming part of an Intellectual Property Right. This

happens when the firms in a manufacturing industry decide to pool their patents and agree not to grant licenses to third parties, at the same time fixing quotas and prices. They may earn extraordinary profits and keep new entrants out of the market. In particular, if all the technology is locked in a few hands by a pooling agreement, it will be difficult for outsiders to compete.<sup>55</sup>

However, if the licensed right is 'blocked'<sup>56</sup> or is complementary to another Intellectual Property Right, then in such cases patent pooling maybe permitted for the advancement of technology. Therefore the validity of a patent pool depends on its nature and structure; hence the parties should ensure that when such an arrangement is made, principles of competition law are not unreasonably violated as implied in Section 3(5) of the Competition Act, 2002.

#### 4. Package licensing

A licensee may be coerced by the licensor to take several licenses in intellectual property even though the former may not need all of them. This sort of practices are resorted by licensors to ensure that even their lesser valued or in certain cases valueless, intellectual properties derive monetary benefits. This is known as package licensing which may be regarded as anti-competitive.<sup>57</sup> Section 84 (7) of the Indian Patents

52 [http://www.competition-commission-india.nic.in/advocacy/Intellectual\\_property\\_rights.PDF](http://www.competition-commission-india.nic.in/advocacy/Intellectual_property_rights.PDF), pg 07

53 Section 3(4)(1) of the Completion Act 2002: Any agreement amongst enterprises or persons at different stages or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in goods or provision of services, including-(a) tie- in arrangement;

54 Epstein A. Michael, Epstein on intellectual property, Aspen publications, 5th edition, 2008, pg 18-33

55 [http://www.competition-commission-india.nic.in/advocacy/Intellectual\\_property\\_rights.PDF](http://www.competition-commission-india.nic.in/advocacy/Intellectual_property_rights.PDF), pg 06

56 Blocked: meaning- one such licensed right cannot be used practically without the other right also being obtained.

57 [http://www.competition-commission-india.nic.in/advocacy/Intellectual\\_property\\_rights.PDF](http://www.competition-commission-india.nic.in/advocacy/Intellectual_property_rights.PDF), pg 08

Act, 1970 which defines the circumstances in which the law deems the reasonable requirements of the public to have not been met, expressly mentions through a sub provision that if the patentee imposes a condition upon the grant of licenses under the patent to provide exclusive grant back or coercive package licensing<sup>58</sup>. So it is clear that any such type of coercive package licensing is deemed to be anti-competitive in nature.

#### 5. Pay-for-delay agreements

In recent years there has been a growth in a costly legal tactic that more and more branded drug manufacturers have been using to stifle competition from lower-cost generic medicines. These drug makers have been able to sidestep competition by offering

patent settlements that pay generic companies certain sums of money to ensure that they do not bring lower-cost alternatives into the market<sup>59</sup>. This "pay-for-delay" patent settlement effectively blocks all other generic drug competition for a growing number of branded drugs, thereby giving the branded company exclusive monopoly over such patent. Such agreements are strictly against the principles of competition laws and the appropriate authorities may raise actions against any person or company that tries to indulge in such types of agreements.

#### 6. Unreasonable Regulations or conditions.

a) A condition imposing quality control on the licensed patented product beyond those necessary for guaranteeing the effectiveness of the licensed patent may be an Anti-competitive practice.

b) Restricting the right of the licensee to sell the product of the

licensed intellectual property to persons other than those designated by the licensor may be in violation of competition laws.

c) A condition imposed on the licensee to employ or use staff designated by the licensor is likely to be regarded as anti-competitive.

The above list is not exhaustive but illustrative.<sup>60</sup>

#### Conclusion

Licensing transactions if well-planned in a forward-thinking manner will assist both licensees and licensors, particularly those with different types of expertise, to maximize mutual benefits and establish a framework for a solid working relationship in the future. The above discussed provisions provide perspective on the negotiation process as a whole and should aid parties contemplating licensing arrangements in establishing the proper approach for the transaction. It can be observed that though competition laws and Intellectual Property Rights are mutually exclusive subject, these two streams of law are bound to converge. Handling two streams of law without compromising on any individual's rights or public welfare while entering in to a licensing agreement, is where the real challenge lies. With the tentacles of Competition act spreading far and wide it becomes even more pertinent to draft agreements in compliance of the same. Though Competition Act is at its nascent stage in India, the scrutiny of licensing agreements has, started attracting the attention of the Competition Commission of India. Going forward, this situation may go through a dynamic change. Keeping this in mind, it would be most advisable to draft licensing agreements within legal parameters in harmonization with Competition Laws.

58 Section 84 (7) (c) of the Patents Act, 1970

59 <http://www.ftc.gov/opa/reporter/competition/payfordelay.shtml>

60 [http://www.competition-commission-india.nic.in/advocacy/Intellectual\\_property\\_rights.PDF](http://www.competition-commission-india.nic.in/advocacy/Intellectual_property_rights.PDF), pg 09