

Role of licensing and Joint venture agreement in the world of Patents

Patents provide exclusive rights to inventors by which they can prevent others manufacturing, using, offering for sale, selling or importing the invention for a prescribed period. Therefore, a license agreement allows the inventor to monetize the patent by allowing licensees to manufacture, use, offer for sale, sell or import the invention in return for a royalty. Licensing agreements can be beneficial for inventors in situations when they do not have manufacturing or marketing capacity. They may provide the rights to the licensee and reap the benefits by way of royalty. However, in view of weak IP enforcement laws and prolonged judicial proceedings certain manufacturers and sellers infringe upon the patents to avoid the licensing fee and associated royalties. This scenario can be seen in developing countries such as China and India.

Further, inventors from foreign countries often exploit manufacturing capacity of developing countries such as India, China, Vietnam, Bangladesh, etc. by way of Joint Ventures (JVs). Therefore, in a JV one JV partner may contribute to a JV company by way of technology transfer through IP such as patents. Such JV partner may seek royalties or other controlling rights in the JV company based on the importance of the technology transfer. JVs are also a go to method for investing in India by foreign nationals or companies.

However, IP audit of all parties before a JV is established as essential to prevent any future disputes¹. The intellectual property including patents contributed by each party at the time of the JV is called Background IP. Also, the IP which is created after the joint venture which may be owned jointly by the parties is called Foreground IP. Therefore, an initial IP audit of the IP owned by all parties and a licensing agreement for the Background IP is helpful in order for the parties to protect their rights and control over their IP².

Further, the JV should lay down the grounds based on which the ownership of the foreground IP created during the due course of the joint venture. Ownership clause should define the criteria based on which the ownership of the foreground IP is to be decided and the profits and revenue generated may be shared.

Also, the exit clauses should outline the ways in which the background IP and the foreground IP related licenses would operate in case a shareholder ceases or chooses to exit the JV. This is to prevent any foreseeable impact on the ongoing business due to termination of a license of an IP key to the business. Valuation mechanism should be outlined for each shareholder's shares corresponding to their IP contribution.

Further, in cases where the JV has licensed its IP to a third party, how would the license agreement be treated if any party of the JV is to exit.

¹ <https://ssrana.in/ufaqs/intellectual-property-fdi-joint-venture-india/>

² <https://blog.ipleaders.in/intellectual-property-issues-joint-ventures/>

Further, in case there are no exit clauses defined for the IP owned by the JV, during a dissolution the Foreground IP would be treated in analogous manner as other assets. An exit clause may provide licensing rights to all parties for the IP, or an option for parties to purchase the IP.³

Therefore, a licensing agreement forms an integral and essential part of a Joint Venture agreement when it comes to patents.

³ <https://www.nortonrosefulbright.com/en/knowledge/publications/c19352aa/joint-ventures-ip-ownership-and-development-considerations>