

Licensing – is this a good strategy for expanding business overseas?

A business, which has developed a product/service with a trademark, patent, copyright or possibly trade secrets can give a foreign business limited rights to produce and sell the product or deliver the service. This is called MANUFACTURING UNDER LICENCE (MUL). It can be an inexpensive way of expanding business revenue in new markets but depends on good intellectual property (IP) protection in the export market. PIRACY could reduce earnings and create new competitors.

What is a Licensing Agreement?

In simple terms, it is a contractual right that gives someone permission to do a certain activity or to use certain property owned by someone else. Increasingly, these agreements are being reached between companies located in different parts of the world.

An international license agreement doesn't have to be long or complicated. It can be straightforward and enforceable. However, many issues come up when drafting a license agreement. Laws relating to intellectual property can be extremely complicated. A qualified lawyer with International expertise can provide invaluable help with drafting your agreement and enforcing it.

Exclusive Property Rights

Before you start negotiating an International license agreement, you must ensure you have exclusive property rights. International and in-country laws often change in this area so we urge you to seek specialized legal counsel (we can provide you with a list of these if you want). The most secure way to lock in your rights is to register for any or all of the following that apply to your situation:

- Patents – inventions
- Trademarks – words, names or symbols identifying goods made or sold, distinguishing them from others.
- Copyrights – original works of authorship fixed in any tangible form.

The application process can be rigorous and different across regions of the World. You may have to disclose your ideas publicly at this stage. You may also want to further protect your intellectual property by relying on laws. Generally, these laws protect internally guarded ideas, formulas, codes or other information giving a business competitive advantage.

What Does a Licensing Agreement Contain?

Once you have no doubt that you have exclusive property rights, you're ready to start work on drafting the International licensing agreement. Although we do strongly advise seeking legal expertise, most International license agreements do contain the following 6 main provisions:-

1. **Approval of licensed goods.** When major U.S. manufacturers license products to companies abroad, they often arrange periodic inspections of the manufacturing facilities to ensure the quality of the goods (and also to monitor whether the licensee is siphoning off products or engaging in illegal labor practices). This offers some assurance of consistency and quality for your work.

2. **Royalties and accounting.** Payment of royalties from a foreign licensee can get tricky, especially when you consider issues like:

- currency conversion rates (we suggest you insist on receiving payments in your home currency)
- method of payment (we suggest wire transfer or direct deposits)
- taxes – these may be applied against your sales or royalties. Often, but not always the taxes on royalties are higher than taxes on regular income (before signing the license, inquire into national or local tariffs or taxes that may apply and speak to an accounting specialist with expertise in these matters).
- audit provision (which is a wise provision that allows you to inspect the foreign licensee's financial records/books).

3. **Jurisdiction.** This is the power of a court to bind the parties by its decision. Unless the company does substantial business in the states, the only way to get a foreign licensee into a U.S. court is to include a provision in the license agreement that requires the licensee to consent to U.S. jurisdiction.

4. **Choice of law.** Every country (and every state) has laws as to how contracts are interpreted. The licensee will want the disputes to be resolved under the laws of its own country. Try to include in your agreement that disputes will be resolved under U.S. law for copyright purposes and the laws of your state when it comes to contract issues. (This would be different for non US companies of course)

5. **Arbitration.** In arbitration, instead of filing a lawsuit, the parties hire a neutral arbitrator to evaluate the dispute and make a determination. You'll almost always benefit by agreeing to have disputes arbitrated and inserting this in your

agreement. If possible, your agreement should award attorneys' fees to the prevailing party in the arbitration.

Try to get the licensee to agree to arbitrate the matter in your Country. If the licensee does not agree, there are three popular International cities for international arbitration:

- London (The London Court of International Arbitration).
- Paris (The International Court of Arbitration of the International Chamber of Commerce).
- Stockholm (The Arbitration Institute of the Stockholm Chamber of Commerce).

6. **Foreign registrations.** If your works are protected by U.S. intellectual property laws like copyright or design patent law, you should determine whether it's worth your while to obtain foreign copyright or patent registration in the countries where your work is being manufactured or distributed. You may be able to require that the licensee handles these administrative tasks and makes a contribution towards the cost – a good time to have these discussions is at time of contract negotiation.

Include these provisions in your international licensing agreement and you'll be well on your way to international business success.

ADVANTAGES OF LICENSING

- No investment needed
- No market/political risk
- Return on research & design (R&D)
- Revenue from new markets
- Some patent protection
- Benefits for business and partner
- Avoids tariffs & other customs fees
- Avoids high cost shipping
- Reduce disruption of manufacturing product in US
- Rapid entry into the market (compared to making overseas investment or distribution)
- No capital requirements
- Returns realized more quickly

DISADVANTAGES OF LICENSING

- Low return on sales
- High taxes on royalties
- Limits national expansion

- Product development may not reach potential
- Depends on licensee performance
- Requires strong IP protection
- Control lost over manufacturing and marketing
- Quality control issues
- Licensee may become a competitor if too much knowledge and know-how is transferred – risk of them re-engineering your product
- Licensee controls pricing
- Fewer profits than exporting
- Host country could prevent export of products manufactured in the future

LICENSING OPTIONS

- A one-off lump sum payment to the licensor.
- A fixed annual fee with no royalty.
- An ongoing royalty based only on a percentage of licensee's sales of the licensed products with no advanced or guaranteed minimum royalty payments.
- An ongoing royalty in a fixed amount based on each licensed product sold with no advanced or guaranteed minimum royalty payments.
- An ongoing royalty based only on a percentage of licensee's sales of the licensed products with either or both an advance against royalties and an annual minimum royalty.
- An ongoing royalty based on the number of 'hits' that occur on a Website featuring the licensed property.
- A combination of the above.

ATLANTRIC ALSO SUGGESTS

- That your company ensures that it holds back some know-how
- You employ suitable legal & accounting resources that have International expertise in licensing deals. Your contract will be a vital part of such a deal.
- Your company makes sure any private investors you have are OK with a long-distance venture like this?

WE CAN HELP

Contact us at administrator@atlantric.com if you would like to be directed towards one of our trade experts or visit us at www.atlantric.com