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INTELLECTUAL PROPERTY LICENSING IN THE PHILIPPINES

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OUTLINE

I. Introduction to Licensing

II. Voluntary Licensing

III. Preparing to License

IV. Negotiating the Agreement



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I. Introduction to Licensing



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MODES OF COMMERCIALIZATION

A company or individual can profitably exploit intellectual property in several ways:

- Initiating a new venture to develop, manufacture, and sell products
- Buying an existing company with the required assets
- Establishing a joint venture
- Forming a strategic alliance
- Selling the intellectual property rights to a third party



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■ Licensing

- > Licensing In
- > Licensing Out

Circumstances of the technology owner usually dictate the type of arrangement adopted.



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FACTORS TO CONSIDER:

- Technology being commercialized
- Intellectual Property protecting the technology
- Nature of Market/Potential market at the time the technology will be market-ready
- Commercial position and financial strength of potential allies and competitors
- Resources of the parties
- Applicable laws
- Hurdles [costs, regulatory, business and other barriers] to successful commercialization



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There is no one way to commercialize technology and no best way.

- Each technology has its own set of variables impacting on it.
- Whatever process is employed, important to gather as much INFORMATION as possible to be able to produce the APPROPRIATE PLAN.



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In any mode of commercialization: **DUE DILIGENCE AND WELL-CRAFTED CONTRACTS ARE KEY!**

Need for sound legal advice: AVOID inadvertent loss of IP rights, missed opportunities to get the best deal. GAIN full understanding of alternative ways to implement a sharing, transfer or exchange of IP rights. Perform legal due diligence.



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LICENSING AS A BUSINESS STRATEGY

What is licensing? In a strictly legal sense, a license is the grant by one person to another, of permission to do something that the first person has a legal right to prohibit.



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In the context of our discussions on the commercialization of intellectual property, we may also use the following definition of licensing:

“A license is the granting of permission or rights to make, use and/or sell a certain product, design or process or to perform certain other actions, the granting being done by a party who has the right to do so.”



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- An intellectual property license agreement usually includes a variety of grants in which a licensor sells or leases to a licensee the use of certain industrial property rights and/or technical expertise. These rights may include patents, trademarks, copyrights, trade secrets, know how and technical assistance.



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In the context of technology transfer, the term “license” is used to include any relationship of cooperation between parties, whereby one party, the licensor [possessor of the technology], gives assistance, usually in the form of know-how, technical or marketing skills and often, the right to use the intellectual property, in return for compensation, usually in money, from the other party, the licensee, who wishes to obtain the advantage of the other’s technology.



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The word “technology” here is not limited to technology in the scientific or engineering sense. Much of the most valuable “technology” may be in the form of business management, financial management or marketing expertise.



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WHY LICENSE? To a university or research facility, the licensing of technology is not usually the main objective in creating a useful advance in knowledge. However, there is normally the desire on the part of an inventor to:

- Develop, manufacture and sell his invention for the benefit of the public so that initial investment in research will result in some ultimate value to society
- Derive satisfaction and motivation as a result of the development of his work
- Earn income through royalties or fees. At a minimum the inventor surely would like to recover the costs of research



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PROBLEM: Many researchers or inventors on their own cannot bring about the commercialization of their research results.

Among the obstacles are: lack of resources, lack of expertise or experience and lack of direct access to the market.

SOLUTION: For this reason, it is often more practical for a researcher or inventor to license the results of his research or his invention.



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Reasons for Licensing

- *To generate income from intellectual property resources*
- *To provide a second source of supply*
- *To exploit other markets*
- *To gain side benefits*
- *To minimize legal expenses*
- *To generate revenue in foreign markets*



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SHOULD YOU LICENSE?

- Can the technology or product be developed in-house and, if so, how much time will it take and what will it cost?
- Does the product or technology to be licensed fulfill all of the requirements, both technologically and from a marketing perspective? Are the license terms reasonable, and can competitive licensed products be manufactured and marketed?
- Will the licensor be willing and able to fulfill all its obligations under the license? If support, and are those resources compatible with licensee's personnel and operations?



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What are the advantages of licensing?

Advantages for Licensor:

- ◆ income
- ◆ new uses of technology
- ◆ no need for capital or permanent staff
- ◆ opportunities
- ◆ equity improvement
- ◆ R & D improvement
- ◆ market improvement
- ◆ preparation for other markets



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Advantages for Licensee:

- ◆ immediate access to technology
- ◆ lowers entrepreneurial risk
- ◆ adds to existing resources or skills
- ◆ provides route to diversification



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DEVELOPING A LICENSING STRATEGY

- Any strategy chosen should support the overall business plan.
- Projected revenues from the planned licensing activity must be adequate to support the effort and provide a reasonable return on any investments made.



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STRATEGY CONSIDERATIONS

- Exclusivity
- Cross-Licensing
- Additional Licenses Required
- Market and Territorial Restrictions
- Other Restrictions
- Future Developments



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- Technical Assistance
- Royalties
- Sublicensing
- Warranties, Indemnification, and Liability
- **Anti-trust/Restraint of Trade**
- **Taxes**



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FINANCIAL CONSIDERATIONS

The major costs associated with licensing include:

- *Personnel*
- *Travel, entertainment, and communications*
- *Professional fees*



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II. Voluntary Licensing

Overview of IP Code Provisions



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- The law on voluntary licensing is embodied in Republic Act No. 8293, also known as the "Intellectual Property Code of the Philippines" ("IPC"), specifically in Sections 85-92 thereof.
- The purpose of voluntary licensing is to encourage the transfer and dissemination of technology and to prevent or control practices and conditions that may constitute abuse of intellectual property rights, thereby causing adverse effects on competition and trade (Section 85, IPC).



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The term **'TECHNOLOGY TRANSFER ARRANGEMENTS'** refers to contracts or Agreements involving the transfer of systematic knowledge for the manufacture of a product, the application of a process, or rendering of a service including management contracts; and the transfer, assignment and licensing of all forms of intellectual property rights, including licensing of computer software except computer software developed for mass market.

[Section 4.2 of the IPC]



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The licensing of copyright is considered a technology transfer arrangement only if it involves the transfer of systematic knowledge.

[Rule 1 (n), IRR]



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The term 'intellectual property rights' consists of:

- Copyright and Related Rights;
- Trademarks and Service Marks;
- Geographic Indications;
- Industrial Designs;
- Patents;
- Layout-Designs (Topographies) of Integrated Circuits; and
- Protection of Undisclosed Information.

[Section 4.1 of the IPC; Rule 1 (f), IRR]



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“Computer software developed for mass market” means computer software that:

- (i) is produced, made and marketed for a broad range of purposes and users including end-users and commercial users;
- (ii) is sold over the counter or via standard delivery mechanisms;
- (iii) involves payments that are not based on royalty;



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(iv) generally provides for an indefinite term for the use of the software; and

(v) does not need any customization by the supplier or distributor.

[Rule 1 (c), IRR]



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General Rule:

Technology Transfer Arrangements, as defined in the IPC, which comply with Sections 87 and 88 thereof (*i.e.*, which contain none of the prohibited clauses under Section 87 and include all the mandatory provisions required under Section 88) need not be registered with the Documentation, Information and Technology Transfer Bureau ("DITTB") of the Intellectual Property Office.



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However, non-compliance with either the mandatory provisions or the prohibited clauses shall render the technology transfer arrangement unenforceable unless the same is registered with, and approved by, the DITTB Section 91 of the IPC which provides for exceptional cases where the parties to a technology transfer arrangement may be exempted from compliance with Sections 87 and 88.



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OPTIONS

In the event that the provisions of a technology transfer arrangement do not comply with Sections 87 and 88 of the IPC, the parties may amend the said provisions of the agreement to conform with Sections 87 and 88 of the IPC, to avoid registering the agreement with the DITTB.

On the other hand, the parties may opt to retain the original provisions as drafted and request for an exemption from the DITTB's registration requirements pursuant to Section 91 of the IPC.



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CAUTION: Non-compliance with Sections 87 and 88 of the IPC shall render the technology transfer arrangement **unenforceable**.

Whether or not the provisions in a technology transfer arrangement are revised to comply with Sections 87 and 88 of the IPC, it is strongly recommended that the agreement be submitted for **pre-clearance** with the DITTB to ensure that all the provisions of the agreement shall be enforceable in the Philippines.



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This is particularly advisable since Section 87.15 of the IPC prohibits provisions that are considered as having "equivalent effects" to the restrictive provisions under Sections 87.1 to 87.14 of the IPC, and the DITTB would be in the best position to determine if any such provisions with "equivalent effects" are present in the technology transfer arrangement.



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III. Preparing to License



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- *What to license*
- *Counsel*
- *Licensing strategy*
- *Market analysis*
- *Revenue potential estimation*
- *Resource requirements*



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- Preparations by a prospective licensor:
 - a) identifying and locating potential licensees;
 - b) look at companies working in, or interested in the technology area subject of the invention. May also look at companies with which one has an existing relationship;
 - c) consider facilities, areas of competence, and place in the industry of which the company is part;
 - d) consider marketing ability;
 - e) analyze the company's inclination to prioritize this licensing project;



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- f) gaining and keeping company interest
arrange a demonstration of the technology;
- g) consider facilities, areas of competence, and
place in the industry of which the company is
part;
- h) present a complete and objective analysis of
the product; highlight the advantages it can
give to the prospective client;
- i) preparing a licensing memoranda (Marketing
tool);
 - Must be brief but accurate
 - Must be customized to the background or
needs of the target licensee



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Licensing Memoranda

- brief, accurate and clearly written description of the pertinent aspects of the technology transaction that the licensor seeks to conclude.
- The summary should be customized with the background or needs of the target licensee in mind.



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Licensing memoranda usually include the following sections:

- Introduction or Executive Summary:
 - o brief overview of the licensor's position
 - o focus on the points showing that the recipient of the Licensing Memo is an appropriate licensee candidate.
 - o short description (one page or less) presenting novel features, advantages over existing products, and the applications for the invention.
 - o gain company attention/interest, to a level where it will send representatives to visit the inventors and learn in detail about the technology.



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- Description and Brief History of the Licensor
 - o credentials of the licensor and other factors which led to the invention or development sought to be licensed should be explained.
 - o persuade the licensee that the licensor is capable and worth collaborating with.



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■ Summary of Technology

- o short, non-technical description which emphasizes the operating and business advantages to the potential licensee, without ignoring possible weakness, problems, or further development work that may be required before the technology can be expected to generate profits
- o Technical analyses and illustrations can be provided in annexes to the memorandum
- o photos or actual samples of the licensed products
- o video to demonstrate or illustrate certain inventions.



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- Reference to Intellectual Property Portfolio:
 - o Existing patents or pending patent applications in all or part of the proposed licensed territory
 - o Copies of any issued patents proposed to be licensed can be annexed to the memorandum for prompt analysis by the patent department of the prospective licensee - shortens time for evaluation/deliberation.
 - o Legal opinion of patent lawyer regarding scope and enforceability of the patents concerned [assuming it is positive]



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- Descriptions of the types of know-how possessed by the proprietor, as well as the means of making this available to the licensee
- Availability of trouble-shooting and consulting services, including the extent to which this can be offered without special charges
- Possibility for trademark licensing; emphasize goodwill already
- Business Analysis: cash flow and profitability analysis of the anticipated business. [The figures provide a logical basis for the proposed payments and other expectations from the licensee.]



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■ SUGGESTED TRANSACTION:

- o "bottom line" of the licensing proposal
- o outline of suggested business framework for the transaction, including the basic form, e.g. exclusive or non-exclusive license, joint venture, strategic partnership, etc.
- o If the proposed form and price of the transaction is carefully thought out, and is well calculated to be profitable to both parties, this contributes to a positive negotiating environment. The licensor should give the impression that it has thoughtfully worked out the format.
- o Allow a certain amount of "flexibility" for counter-proposals and alternate ideas.



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Identifying & Locating Potential Licensees/Selecting Licensee Candidates.

- The licensor must do his homework in identifying and selecting potential licensees.
- Look at companies either working in or interested in the technology area subject of the invention. Companies with an existing relationship (via prior licensing agreements, affiliates programs, or for other reasons) are the next best source to contact.
- “Cold calling” is very rarely successful in generating a license, although it may be necessary if the above sources do not produce candidates.



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The licensor or his representatives should conduct a thorough investigation of the licensee's facilities, his areas of competence and his place in the industry of which he is part. The licensor will want to gather information such as:

General:

- Full name and address of headquarters.
- Annual report.
- Capitalization.
- Annual turnover (total company expenses).
- Annual profit before taxes.
- Total number of employees.
- Principal products, relative place in the market and profitability.



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- Secondary products, relative in the market and profitability.
- Locations for main and branch production operations and products made at each.
- Locations for main and branch offices and research and development facilities.
- Number of employees at each facility.



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Specific:

- Experience with other product or process licenses. For what, with whom, how successful?
- Facilities available for licensed product or process.
- Personnel available for license operation and qualification of same.
- Estimated costs for new license program equipment to be purchased and schedule for same
- Market and sales predictions-timetable.



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Marketing

- One important factor to consider is the ability of the licensee to market the product in question.
- This may be even more important than possession of suitable manufacturing facilities. Production capability can be contracted out to a third party who could make the licensed products for the licensee under contract.
- The possession of a marketing organization that is equipped and qualified to introduce the products promptly, widely, and effectively, however, is an asset that is not easily and cheaply acquired. A company capable of addressing the various relevant markets for products sought to be licensed is a very desirable potential candidate.



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Making Contact

- Proprietor must help provide meaningful answers to the extensive range of questions which can be expected to be raised by serious prospective licensees.
- Questions and concerns of the potential licensee should be identified and addressed as early as possible. These may include: technical queries, cost and financial matters, environmental and regulatory issues, coverage and enforceability of patents being offered for license, including an analysis of their prosecution history.



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- The licensor should arrange a well-rehearsed demonstration of the technology to representatives of the licensing target company as promptly as possible after an expression of interest.
- If successfully executed, this exercise serves two indispensable purposes: (a) It provides evidence of the accuracy of the claims made by the proprietor in its licensing memorandum, thereby contributing to credibility; and (b) it advances the personal relationships between representatives of the respective parties.



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IV. Negotiating the Agreement



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LICENSING NEGOTIATION - in dealings with the prospective licensee, remember to:

- Negotiate, not litigate
- Come prepared
- Be straightforward; avoid overstating the positive and understating the negative



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Negotiating the Correct Agreement

- Must be conducted by both in a non-adversarial manner with each party showing respect for the contribution and needs of the other.
- License technology license must be built on a trust relationship, since problems will arise from events not anticipated by contract language.
- Understand the needs and concerns of the each party.



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- Aim at structuring an agreement that both sides believe is fair. Creativity is required to find the correct combination of terms and conditions, through an active and open problem-solving approach. The parties involved are not competitors, and mutual gain will occur only if there is full cooperation and respect.
- It has been said that negotiation is 70% preparation and 30% knowing what to do. The side that seems smarter is often just better prepared.
- Being prepared includes knowing how to deal with different cultures or backgrounds, business practices or even the natural differences in personality found in all people.



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- The final negotiated agreement must balance the interests of both the licensor and licensee such that a win-win situation develops. This is best reached through proper preparation, sufficient knowledge and appreciation of the interests, needs and backgrounds of all the negotiating parties.



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Adequate preparation for a licensing negotiation requires a thorough study and analysis of the proposed agreement. Consider:

- Purpose of the License: Be sure to know what the parties want to achieve.
- Subject of the License: A full, accurate definition of the license subject must be available without giving up valuable know-how. If necessary, a confidentiality agreement must be executed.
- Evaluation of the License: The value of the license for each of the parties should be considered
- Parties: Study the proposed parties, determine their needs, potential contributions, characteristics or prejudices



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Ideal Negotiating Team:

- For a major project, there must be a negotiation team composed of persons who have the necessary backgrounds who can take care of the following interests: technical, commercial, legal.
- There must be a team leader who is the only person to make commitments or definite judgments. In some foreign negotiations, the lawyer should not be initially part of the negotiating group because it tends to scare off the other party, although the lawyer should be there every step of the way to study and review the license proposal and to guide the negotiating team.



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Negotiation Tips

- Be a good listener.
- Ask good questions.
- Be aware of cultural practices that may or may not enhance the negotiations.
- Give face whenever possible. Allow others to save face.
- Go behind the scenes.



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- Formulate negotiating problems in such a way as to lead the other party to solutions favorable to your needs.
- Price high and concede slowly; do not appear anxious to settle “at any price.”

He who aspires too little,
is rewarded with little.

When the price is too high,
the customer leaves.

Use good cost analysis when
it is helpful.



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- Determine negotiable points ahead of time. Try to evaluate potential trade-offs in contract terms. Don't concede points too easily. Make sure that the concessions you get are really valuable and are worth the concessions you are giving. Consider having certain requirements in your proposal that you are willing to give up in order to gain concessions on other points from the other party.
- Avoid an indefinite time frame. Not setting a deadline can lead to no agreement at all.



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- Use visual aids where possible – pictures, movies, product samples, graphs
- If you are terminating the negotiations, make a clean break with goodwill on both sides. Try to preserve the relationships forged, since the situation may change and it may be possible to reopen the negotiations in the future.



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