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## Leveraging IP: Licensing, Franchising, Merchandising

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## Overview

- I. Introduction
- II. Licensing
- III. Franchising
- IV. Merchandising

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## Introduction

## Introduction

### The power of Intellectual Property Rights

- The intangible nature of IPRs is at the same time their weakness...



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## Introduction

... and their strength



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## Introduction

### How can you capitalize on and generate profits from your IPRs ?

- By enforcing your IPRs against infringers  
Ex.: NTP – Research in Motion patent litigation settlement
- By commercially exploiting your IPRs:
  - *Direct* exploitation by the IP owner
  - *Indirect* exploitation by third parties based on contractual agreements with the IP owner

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Introduction

**Indirect exploitation of the IPRs**  
by third parties based on contractual agreements

- Advantages:
  - => low investment / low risk
  - => Potentially high return
- Drawback: Lack of control ?

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Introduction

**Indirect exploitation of the IPRs**  
by third parties based on contractual agreements

- Assignment of the IPRs to a third party

vs

- License of the IPRs to a third party

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Introduction

**Key Distinction**  
Assignment or license of IPRs ?

- **Assignment** = transfer of the ownership of the IPRs (// sale)
- **License** = grant of a right to use the IPRs to a third party under contractually agreed conditions (// lease)

N.B. Distinction between the *sale* of the physical object (ex. CD) and the grant of a *license* on the IPRs (ex. software)

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**Licensing**

Licensing

**Generating revenues through licensing**

- **Stanford University**: approx. 50 mio. USD / year including revenues from ... 
- **IBM**: approx. 2 bio. USD / year 
- **Ralph Lauren**: approx. 150 mio USD / year 

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Licensing

**Licensed rights**

- All (registered or unregistered) IPRs: trademarks, patents, designs, copyrights, know-how
- Combination of IPRs  
Ex.: patents *and* know-how / designs *and* trademarks (etc.)

**Broad scope of licensing agreements**

- Commercial / industrial license agreements (ex. patent license) vs individual license agreements (ex. software)

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## Introduction

## Various types of licenses

- Exclusive license (in a specified field/territory) *vs* non-exclusive license
- N.B. *sole license* (licensor's own use is permitted)
- Cross-license
- Sub-license

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## Licensing

## Key elements of a licensing agreement

- Licensor: grant of the right to use specified IPRs by licensee
  - Licensee: payment of *royalties* to the licensor
- N.B. Various systems of remuneration: flat upfront fee, unit-based royalties, profit-based royalties (etc.)

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## Licensing

## Key elements of a licensing agreement

- Scope of the license:
  - Exclusivity
  - Scope of use (manufacture / distribution)
  - Territory
  - Right to sublicense

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## Licensing

## Key elements of a licensing agreement

- Representations and warranties
  - Validity of the IPRs (best knowledge?)
  - Indemnification (limitation of)
- Enforcement of the IPRs against third party infringers
  - Liability of the licensor ?
  - Standing to sue of the (exclusive) licensee ?

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## Licensing

## Key elements of a licensing agreement

- Control over licensee's accounting methods (for purpose of checking the amount of the royalties)
- Control over licensee's use of the IPRs with respect to:
  - Quality of the products sold under licensor's IPRs
  - Prohibition to misappropriate licensor's IPRs

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## Licensing

## Right of the licensee to register a domain name corresponding to the licensor's trademark ?

- WIPO Domain Name decision D2006-0958 ([www.risknav.org](http://www.risknav.org)): «[excerpt from Section 9 of the disputed License Agreement] Licensee shall, in all documentation, advertising, websites, presentations or other public releases about any products or applications that contain or use the Licensed Materials, identify MITRE as the creator of RiskNav. [...]. Licensee shall not use RiskNav, the names of The MITRE Corporation, MITRE, nor any adaptation thereof except as described above without the prior written consent of MITRE »

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## Licensing

**Key elements of a licensing agreement**

- Confidentiality
- Term of the agreement: early termination / termination for breach of the agreement / post termination obligations
- Governing law
- Jurisdiction / dispute settlement (mediation - arbitration under the WIPO rules)

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## Licensing

**Problematic elements of a licensing agreement**

- Obligation of the licensee to use the licensed IPRs ?
- Prohibition to challenge the validity of the licensed IPRs ?  
*See Lear v. Atkins, US Sup. Ct, 365 U.S. 653 (1969); Medimmune v. Genentech, US Sup. Ct, January 9, 2007, 549 U.S. \_\_\_\_ 2007*
- Obligation to pay royalties after the expiration of the relevant IPRs ?  
*See Brulotte v. Thys Co., 379 U.S. 29 (1964)*

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## Licensing

**Freedom of contract vs competition law**

- Contractual constraints resulting from competition law (art. 81 para. 1 EC Treaty)  
=> Anti-competitive effects of contractual provisions (price fixing / tying provisions)
- Potential justifications for agreements promoting « technical or economic progress » (art. 81 para. 3 EC Treaty):  
=> Technology Transfer Block Exemption Regulation 772/2004

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## Licensing

**Tax aspects of licensing**

- Choice of efficient tax structure for holding / exploiting IPRs  
=> IP holding company to be incorporated in a low tax country with a good network of double tax treaties (in order to avoid withholding taxes on royalties!)  
Ex: Switzerland  
N.B. IPRs constraints for location of IP holding company

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**Franchising**

## Franchising

**Examples of franchising businesses**

- *Product* franchising:


 UNITED COLORS OF BENETTON.


 BANG & OLUFSEN B&O

- *Service* franchising:


 MISTER MINIT®


 Jean Louis David

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## Franchising

**Definition of franchising agreements**

- « Contracts under which one party (the franchisor) grants to the other party (the franchisee), in exchange for remuneration, the right to conduct business (franchise business) within the franchisor's network for the purposes of selling certain products on the franchisee's behalf and in the franchisee's name, and whereby the franchisee has the right and the obligation to use the franchisor's tradename or trademark and other intellectual property rights, the know-how and the business model » (Principles of European Law, Commercial Agency, Franchise and Distribution Contracts, 2006)

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## Franchising

**Franchising vs licensing**

- Licensing of IPRs is an element of franchising
- Licensing of IPRs is the means to reach the end

**Goals of franchising**

- For the franchisor: geographically expand its business without taking financial risks
- For the franchisee: benefit from the brand, experience and know-how of the franchisor

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## Franchising

**Key elements of a franchising agreement**

- Franchisor:
  - Making available its commercial concept (including IPRs)
  - Instruction / assistance to the franchisee (services)
  - Supply of products to the franchisee
  - Exclusivity
- Franchisee:
  - Payment of royalties
  - Following the guidelines of the franchisor
  - Promotion

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## Franchising

**Protection of franchisees as weaker contracting parties**

- UNIDROIT Model Franchise Disclosure Law (2002)
  - => Compulsory disclosure of information by franchisor to franchisee before signing the agreement
- Franchisee as *de facto* employee of franchisor ?
- Franchisee as consumer (see European Court of Justice, July 3 1997, Benincasa vs Dentalkit Srl., C-269/95) ?

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**Merchandising**

## Merchandising

**Examples of merchandising businesses**

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## Merchandising

### Definition of merchandising

- Commercial exploitation of a name, symbol ou distinctive sign which has acquired a certain brand recognition in a specific field(s) for the purpose of selling goods or services in other fields

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## Merchandising

### Merchandising vs licensing

- Merchandising is based on licensing

### Goals of merchandising

- For the merchandisor: expand its business to other lines of products / services without taking financial risks
- For the licensee: benefit from the brand recognition of the merchandisor's products / services

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## Conclusion

### Take Away

Even if you can't or don't want to use your IPRs yourself...

Bear in mind that third parties may want to use them !

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### Thank you for your attention

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