



## European IPR Helpdesk

### Fact Sheet

### *Technology Licensing-in*

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#### **Introduction**

Technological innovation is a key component for companies to face more and more increasing market competition. Indeed, since new products with new functions appear on the market on a regular basis, companies need to innovate by developing or acquiring technology.

The process of acquiring the rights related to a third party's technology through a licence agreement is indicated as technology licensing-in.

This fact sheet analyses the most relevant issues related to technology licensing-in, giving readers an overview of the preliminary steps and practical suggestions to follow in order to get prepared for future negotiations<sup>1</sup>.

Entering into licensing-in negotiations is often complex and requires specific legal expertise. Therefore, anyone entering into such negotiations is well advised to consult a lawyer who will be able to assess the particularities of the situation at hand.

## **1. Using pre-existing technology**

### **1.1 Why?**

Broadly speaking, technology refers to end results of scientific research and technological development in the form of inventions, know-how and computer programs which are used for creating new or improved products and services.

Instead of investing in technology creation, it may make good business sense to use or adapt a technological solution developed by others, particularly where a company:

(i) needs to bring to the market new products incorporating a third party technology in a short time;

(ii) does not have the resources (human and/or financial) to conduct its own research and development;

(iii) needs technologies which are part of industry national or international standards set by standard-setting organisations;

(iv) needs to maintain a market position that is threatened by the commercialisation of a new technology;

(v) discovers that its new or improved product violates the intellectual property owned by a third party.

### **1.2 How?**

Inventions, know-how and computer programs are protectable through Intellectual Property (hereinafter also "IP").

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<sup>1</sup> We advise readers who are not familiar with licensing issues, to read this document along with the European IPR Helpdesk fact sheet "*Commercialising Intellectual Property: Licence agreement*" available in our online [library](#).

Technology	Intellectual Property
Inventions	Patents <sup>2</sup> , Trade secret <sup>3</sup>
Know-how	Trade secret
Computer programs	Copyright, Patents <sup>4</sup>

Using a third party's IP protected technology is possible **upon authorisation** by entering into a licence agreement - a contract under which the holder of Intellectual Property (licensor) grants permission for its use to another person (licensee). Without such an agreement, the use of third parties' IP protected technology could be considered an infringement<sup>5</sup>.

If technology is not protected (i.e. **technology in public domain**), it is freely available and no need of licence exists.

## 2. Technology licensing-in

**Acquiring the rights** related to a third party's technology through a licence agreement is indicated as technology *licensing-in*.

**Granting the right** to use an IP protected technology is called technology *licensing-out*.

Although any licence agreement implies both, this fact sheet focuses on technology licensing-in. Therefore, the following paragraphs explain the steps that potential licensees should follow before and during negotiations as well as after the conclusion of the agreement.

### 2.1 Advantages and risks of technology licensing-in

Assessing the benefits as well as the potential risks of acquiring a third party's technology is necessary before entering into licensing-in negotiations.

<sup>2</sup> In some countries, inventions are also protectable as utility models. Also called "petty patents" or "innovation patents", their protection is usually shorter than a patent and an inferior inventive step is required for their grant. Due to the lack of any harmonisation of this matter in Europe regarding this intellectual property right, this fact sheet will just take into consideration patent protected technology the inventions protected by patents. Nevertheless, similar considerations should be deemed valid for the licence of technology protected by utility models instead of patents.

<sup>3</sup> For further information on trade secret, please refer to the European IPR Helpdesk fact sheet on "*How to manage confidential business information*" published in our online [library](#).

<sup>4</sup> In Europe, a computer programs claimed "as such" are not patentable. Further information on the topic can be found at the following [link](#).

<sup>5</sup> Certain uses of the IP rights are admitted by the law and do not require the prior consent of its owner (so called "legal exceptions"). For example, Article 6 of the Directive 2009/24/EC provides for a specific exception allowing the decompilation of a copyrighted computer program.

### Advantages

The licensee:

- can get a faster access to certain markets;
- can access innovative technologies and expertise without developing in-house R&D activities;
- may obtain rights to a product/process whose effectiveness has been proved.

### Risks

- the licensed technology may become obsolete;
- high royalties to be paid may determine a non-competitive product market price;
- the licensee can become technologically dependent on the licensor who can then impose unfavourable terms for the renewal of the contract;
- in case of non-exclusive licence, the same technology could be licensed to competitors.

## 2.2 Before entering into a licence agreement

### 2.2.1 Identifying technology of interest

Identifying a pre-existing technology fitting the company's needs and objectives is a core step before entering into a licence agreement.

For this purpose, it is necessary to find out existing technologies by consulting various sources of information<sup>6</sup>.

Patent information, for instance, is an extremely valuable source of technological information widely accessible through free on-line databases (e.g. [Espacenet](#), [Patentscope](#))<sup>7</sup> provided by the national and international patent offices.

As regards software, most of the searches are performed on Internet through web blogs, websites and databases.

Furthermore, licensing-in opportunities are regularly published by research institutions and private companies on dedicated on-line platforms containing data on available technology, its IPR status (e.g. patent pending, secret know-how, etc.) and the type of partnership considered by its owner (e.g. licence agreement).

<sup>6</sup> Online database collections such as [Proquest Dialogue](#), professional and business magazines and patent information databases can be used as a source of technical information.

<sup>7</sup> For further information on patent information searches, please refer to the European IPR Helpdesk fact sheet on "How to search for patent information" published in our online [library](#).

Examples of on-line platforms containing data on available technology:

*Enterprise Europe Network (EEN)*

<http://een.ec.europa.eu/content/technology-transfer>

*European Organization for Nuclear Research (CERN)*

<http://knowledgetransfer.web.cern.ch/technology-transfer/external-partners/opportunities>

### 2.2.2 Public domain assessment

A technology can be in public domain because it is not protectable by Intellectual Property or because the protection is no longer in force. Public domain technology is freely available and no authorization is needed to use it.

Thus, once a company has identified a technology of interest, it is crucial to assess whether or not it is in the public domain.

#### *a) Patent protected technology*

A patent falls into public domain once it is no longer in force due to:

- the expiration of its term (the maximum possible term being 20 years from the date of filing)<sup>8</sup>;
- non-payment of maintenance fees;
- invalidation in a court proceeding.



Since patent protection is territorial, when assessing whether a patent is in the public domain, it is necessary to check its validity in the relevant countries by accessing national IP registries.

#### *b) Software*

In Europe, original computer programs as such are protected by copyright, since the source code is considered a literary work.

While copyright protection arises automatically, in some countries, the author or owner of the work is free to dedicate its software to the public domain and consequently renounce to his exclusive rights<sup>9</sup>. In this case, third parties can use

<sup>8</sup> Please consider that in the EU, the term of patent protection can be extended to compensate for pre-marketing regulatory approval (e.g. [Supplementary Protection Certificates](#)).

<sup>9</sup> Please consider that copyright law generally attributes to the author two categories of rights: economic rights (allowing the exclusive economic exploitation of the work) and moral rights (protecting the reputation and the personality of the author, including the right of attribution and the right of integrity of the work). In most European countries, moral rights are not waivable. More

the source code without restrictions (e.g. to revise it, to embed it into another software, etc.). There is no official form for dedicating a creative work to the public domain. The author could simply include a public domain notice clearly indicating the status of the work.

An example of such notice can be:



For legal certainty, it is advisable to check with the creator if the software has been dedicated to public domain (most software contains contact information such as an email address, website, or postal address).

Furthermore, please consider that the availability of software for free does not necessarily mean that the software is in public domain. In some cases, copyright protected software can be accessed for free but its use is only allowed under a licence (e.g. free and open source licence).

### **2.3 Preparing for negotiation: due diligence**

The licensee will usually have to make a substantial financial investment in order to undertake a licensing project, and may want to ensure that it will have the opportunity to realise a reasonable return on that investment. Accordingly, before entering into negotiations, a licensee should conduct an IP due diligence<sup>10</sup> in order to ascertain that the licensed technology:

- is protected by Intellectual Property Rights (IPR) whose validity cannot be easily challenged;
- is owned by the licensor;
- has not been already licensed to competitors operating in the same market.

### **2.4 Negotiating the licence agreement**

Every licence agreement is unique, reflecting the particular needs and expectations of the licensor and the licensee. However, certain issues are fundamental to the success of an agreement and remain common to most licence agreements.

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particularly, as regards software, many European legislations concede either no moral rights or limited recognition.

<sup>10</sup> For further information on IP due diligence, please refer to the European IPR Helpdesk factsheet “*IP due diligence: assessing value and risks of intangibles*” available in our [library](#).

The next paragraphs follow the common structure of a licence agreement analysing its key clauses from the perspective of the licensee.

### 2.4.1 Definitions

The definition section is the dictionary for each agreement. The definitions are used to simplify drafting and interpretation since they state the agreed meaning of key terms used within the contract.

This section should clearly identify the technology and related IPR, subject to the agreement. Indeed, the technology should be described in detail and all the rights needed to its exploitation should be identified (software licence, patent licence, know-how licence, etc.).

A patent is generally identified with its application/registration number and filing date. It is also usual to include the related patent documents in an annex to the contract.

Considered that software and know-how are not subject to registration<sup>11</sup>, it is not possible to identify them with a register number. Therefore, it is necessary to describe them within a definition that has to include an explicit reference to a technical annex identifying the features and the development status of the software/know-how.



In order to ensure that the licensee acquires all the necessary rights to successfully exploit the licensed software, it is important to insert a broad definition, including the executable source code, its future updates and all the ancillary elements for its proper function.



The licensed know-how should be defined in the broadest way encompassing any proprietary information, formula, process, technique, idea, invention which is directly related to or can be used in connection with the licensed technology.

### 2.4.2 Licence grant

The licence grant provisions set out the rights granted to the licensee, as well as any limitations on those rights.

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<sup>11</sup> Even though registration is not a requirement for copyright protection, some national laws allow it. Using these non-mandatory registration systems may prove to be useful in some situations, particularly when it is necessary to demonstrate a certain date of creation. An example of such registration is i-DEPOT, a service offered by the Benelux Office for Intellectual Property. Further information on i-DEPOT is available at the following [link](#).

As regards the **rights granted**, the parties are free to include in the scope of the licence all or just a part of the rights provided by law to the owner of the Intellectual Property.



Licensees should care to obtain all the rights that are necessary for the optimal exploitation of the licensed technology including also the right to perform further R&D activities, should it be of interest.

As regards possible limitations, they can be related to the **geographical scope** of the licence, i.e. the territories where the licensee will be authorised to use the licensed IPR.

They can also concern the **exclusivity**<sup>12</sup> of the licence itself. The licensee may seek exclusivity as to the territorial coverage of the licence in order to protect its financial interest against potential competitors<sup>13</sup>. However, it may imply a higher compensation.

The **field of use** of the licensed technology may be contractually limited to develop specific products or for particular purposes (e.g. software licence limited to a particular machine or work station).



Licensees should carefully examine any proposed limitations concerning the field of use, taking into account the planned exploitation of the licensed technology.

A licence agreement should clearly state if the licensee will have the **right to sub-licence**. This is highly determined by the planned exploitation strategy.

If a licence is being entered into as part of a litigation settlement, the grant section should include a **release** against infringement alleged to occur prior to the date of the agreement.

### 2.4.3 Consideration

Any contract generally has "consideration": something valuable flowing between the parties.

<sup>12</sup> For further information on the different types of licenses (exclusive, sole and non-exclusive) please refer European IPR Helpdesk fact sheet on "*Commercialising Intellectual Property: Licence Agreements*" published in our online [library](#).

<sup>13</sup> The validity of an exclusive license agreement should be assessed also with reference to competition law issues.

In a technology licence agreement, the consideration of the licensor is the grant of the right to use the protected technology. The consideration of the licensee is generally the payment in exchange for the licence grant.

### Payments

The payment calculation may be determined on the basis of an IP valuation<sup>14</sup>. Usually the licensee will pay a lump-sum (amount determined up-front) or royalties (periodic amounts calculated on the base of the licensee's selling performance).

Royalties may be calculated on the basis of a percentage of the selling price or a fixed amount per each product unit sold (*per unit*), among others.

When negotiating the **royalty calculation method**, licensees should take into consideration the planned use of the licensed technology.

In particular, if a licensee plans to develop several improvements to the licensor's technology affecting the selling price, it may be advisable:

- to fix the amount of royalty payable on a per unit sold basis, so that the licensor is not overly compensated; or
- set a maximum royalties or caps that might be payable in a given period or over the total term of the agreement (e.g. setting an over-all amount of royalties payable, and have the licence be fully paid-up after that amount).

In order to ensure that no other licensee will receive better royalty rates, the licensee may wish to include a **most favoured nation clause**.



A most favoured nation clause is a provision by which a licensor agrees to accord to the licensee contractual conditions that are no less favourable than those accorded to any other licensee

This provision will allow the licensee to maintain a competitive market position assuring that he will, at all times, be paying a royalty rate that is at least as favourable as that applied to any other licensee.

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<sup>14</sup> For more information on IP valuation, please refer to the European IPR Helpdesk fact sheet on "*Intellectual Property Valuation*" published on our online [library](#).

### Royalty-free licensees

Licensees can benefit from technologies that are available on a royalty-free basis<sup>15</sup>.

The phenomenon of royalty-free licences is more common with specific reference to software. In this regard, free and open source software<sup>16</sup> is distributed under a royalty-free licence<sup>17</sup> allowing its source code to be used, modified and/or shared under defined terms and conditions. Although these copyrighted computer programs are available under a free licence, their use implies two main risks:

- a) third parties' IP infringement: given the fact that free and open source software rarely comes with a warranty or indemnity of non-infringement, a company licensing open source software may be assuming substantial risks.



Determine how long the open source code has been widely available: if it has been distributed for many years with no claims of infringement, the risk that it infringes is less.

- b) viral licence: the free and open source licence can include a clause stating that any work, containing or deriving from (in whole or in part) the program acquired under the open source licence, will become entirely open source. It means that including just a part of an open source code in proprietary software will make the entire work freely available under an open source licence (so called "viral effect").



Don't distribute software including open source code licensed under viral licences unless you intend to assume the risk that the entire software becomes open source.

<sup>15</sup> Some research institutions have such practices. E.g. *CERN Easy Access to IP*, the initiative promoted by the European Organization for Nuclear Research (CERN). Further information is available at the following [link](#).

<sup>16</sup> Free software licence specificities are defined by the Free Software Foundation. Open Source as such is defined by the Open Source Initiative. It should be noted that although both share similar objectives their definitions differ in so far as the Free Software Foundation relies on philosophical principles such as the notion of freedom whereas the Open Source Initiative refers to a more business-oriented approach. For the sake of simplicity, no difference will be made between these two underlying principles and reference will only be made to "free and open source software".

<sup>17</sup> For further information on Free and Open Source Software licence, please refer to the European IPR Helpdesk fact sheet on "*IPR Management in Software Development*" published in our online [library](#).

#### 2.4.4 Warranties

A licensee's worst fear is to be involved in an Intellectual Property infringement action, or to find out that he is paying a licence fee for a technology that competitors are exploiting for free because the related patents are invalid.

Although such risks can be mitigated by performing a due diligence before entering into negotiations, provisions containing warranties should be considered as a complementary measure.

For this purpose, it is strongly advised to include a set of representations and warranties mainly concerning:

- Ownership: the licensor has to represent and warrant that it is the exclusive legal owner of the licensed IPR;
- Non-Infringement: the licensor has to represent and warrant that the use by the licensee of the licensed Intellectual Property does not infringe any third party IPR.

#### 2.4.5 Indemnity

If the licensor's warranty concerning ownership and non-infringement is wrong, then the licensee risks exposure to Intellectual Property litigation.



Since the licensor is providing the technology and is making money from the transaction, licensee has to insist upon the licensor indemnifying him against the risk of litigation. The obligation to indemnify should also be accompanied by an obligation to defend.

#### 2.4.6 Termination

A licence agreement should specify the date it commences and an expiration date, unless it is intended to be a perpetual agreement.

However, it is critical that a licensee has the right to terminate the agreement if the licensed IP right is declared invalid or, in case of licence of know-how, the confidential information has been disclosed to the public by no fault of the licensee.

#### 2.4.7 Improvements

Along the duration of the contract, licensed technology can be subject to further R&D activities both by the licensor and the licensee.

### Licensor's improvements

When the licensor improves the licensed technology, the licensee could risk to pay royalties for a technology that is obsolete. As a consequence, it is important to clearly address the treatment of the licensor's improvement within the licence agreement.



Licensees should care to:

- set a broad definition of improvements encompassing any development enhancing the usability, functionality, efficiency, performance or other characteristic of the original technology;
- expressly include the future licensor's improvements in the licensed technology, so that any improvement will automatically fall in the scope of the licence.

### Licensee's improvements

In order to conduct R&D activities on the licensed technology the licensee should be expressly authorised under the term of the licence. Once achieved, the licensor could be interested in the licensee's improvements and may want to insert a clause limiting the rights of the licensee on these improvements (grant back clause).



In order to protect their interests licensees should:

- include among the granted rights the right of performing R&D activities on the licensed technology;
- avoid to agree on clauses assigning or licensing on an exclusive basis the rights on the improvements (i.e. assignment or exclusive grant back clauses).

## **2.5 After the signature: registration of the licence agreement**

In some countries, licences of IPR are subject to registration in dedicated registers (usually at the relevant Intellectual Property Office). If such formality is not performed, the agreement may be considered void or the licensee may lose some rights (such as the right to damages or to request an injunction in case of a third party infringement).

Therefore, once this obligation has been checked in the territory of the licence, licensees should care to perform the registration at the competent Intellectual Property Office.

### TIPS FOR LICENSEES

#### Before entering into a licence agreement:

- ✓ Check if the technology of interest is in the public domain
- ✓ Conduct an IP due diligence on the technology of interest

#### In the negotiation phase:

- ✓ Ensure you obtain a licence to use all the IP rights that are necessary for the optimal exploitation of the technology
- ✓ Carefully consider any proposed limitation concerning the granted rights and the field of use, taking into account the planned exploitation of the licensed technology
- ✓ Consider the intended use of the licensed technology when setting the royalty calculation method
- ✓ Insert a most favoured nation's clause
- ✓ When using free and open source software, consider the implied risks (IP infringement and viral effect)
- ✓ Insert a specific clause allowing the termination of the contract once the licensed IP right is declared invalid or the confidential information has been disclosed to the public
- ✓ Explicitly address the treatment of technology improvements

#### After the signature of the agreement:

- ✓ If required in the territory of the licence, register the agreement at the relevant Intellectual Property Office.

## Useful Resources

For further information on the topic please also see:

- Fact sheet on “How to search for patent information”:  
[http://www.iprhelpdesk.eu/FS\\_How\\_to\\_search\\_for\\_patent\\_information](http://www.iprhelpdesk.eu/FS_How_to_search_for_patent_information)
- Fact sheet on “How to manage confidential business information”:  
[http://www.iprhelpdesk.eu/FS\\_How\\_to\\_manage\\_confidential\\_business\\_information](http://www.iprhelpdesk.eu/FS_How_to_manage_confidential_business_information)
- Fact sheet on “IPR Management in Software Development”:  
[http://www.iprhelpdesk.eu/FS\\_IPR\\_Management\\_in\\_Software\\_Development](http://www.iprhelpdesk.eu/FS_IPR_Management_in_Software_Development)
- Fact sheet on “Commercialising Intellectual Property: Licence Agreements”:  
[http://www.iprhelpdesk.eu/FS\\_Commercialising\\_IP\\_Licence\\_agreements](http://www.iprhelpdesk.eu/FS_Commercialising_IP_Licence_agreements)

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## ABOUT THE EUROPEAN IPR HELPDESK

The European IPR Helpdesk aims at raising awareness of Intellectual Property (IP) and Intellectual Property Rights (IPR) by providing information, direct advice and training on IP and IPR matters to current and potential participants of EU funded projects. In addition, the European IPR Helpdesk provides IP support to EU SMEs negotiating or concluding transnational partnership agreements, especially through the Enterprise Europe Network. All services provided are free of charge.

**Helpline:** The Helpline service answers your IP queries within three working days. Please contact us via registration on our website – [www.iprhelppdesk.eu](http://www.iprhelppdesk.eu) – phone or fax.

**Website:** On our website you can find extensive information and helpful documents on different aspects of IPR and IP management, especially with regard to specific IP questions in the context of EU funded programmes.

**Newsletter and Bulletin:** Keep track of the latest news on IP and read expert articles and case studies by subscribing to our email newsletter and Bulletin.

**Training:** We have designed a training catalogue consisting of nine different modules. If you are interested in planning a session with us, simply send us an email at [training@iprhelppdesk.eu](mailto:training@iprhelppdesk.eu).

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