India creates a safe haven for IP licensing

IP licensing is helping more multinational companies enter the Indian markets than ever before. This has been prompted by the lifting of trade restrictions and administrative hurdles and a tougher approach to misuse

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Licensing as a business strategy
The importance of licensing as a business strategy has grown over the years as a consequence of increased industrialisation, which has led to diminishing real estate resources and increasing infrastructure costs. Building tangible assets now requires not only greater effort and investment, but also an increased burden of risk. Businesses are adapting by developing or acquiring intangible assets and exploiting these as alternate or additional sources of wealth. With time, collaborations and alliances involving licences of strong IP have become critical to a business's success.

The importance of licensing can also be attributed to:

- Increasing competition in different industry sectors and across product categories.
- A desire to expand beyond domestic markets.
- The convergence and harmonisation of quality standards across the world as a result of globalisation.

Often, an innovator company or individual does not have sufficient funds and resources to exploit commercially its IP. Thus, collaborating with other entities is a logical way to reap economic benefits from untapped IP. For example, an inventor may develop a new mobile phone technology which contains various components that are protected by means of patents, designs and copyrights. To manufacture each component would require separate infrastructure, technology and skills which the inventor does not by itself possess. Thus, licensing becomes a critical tool to commercialise the technology and earn money from it. Similarly, creative fields such as music, art and film thrive on licensing arrangements.

Corporations invest huge amounts of money in developing resources that can either be licensed out or used to identify new innovations in the market and work on favourable options of acquiring these. Corporate teams undergo intensive training and acquire skills that help them to interpret licence terms and learn how to negotiate favourable licences, as well as to avoid legal pitfalls. Licensing is essentially a business decision and is adopted as a strategy after weighing all pros and cons. A clear-cut, well-monitored licensing programme can ameliorate many common licensing-related problems.

Applicable Indian legislation
Licensing IP as a business strategy has been on the rise in India since 1991 as a result of various government bans and restrictions on trade being lifted, and administrative hurdles being reduced through domestic legislation and international agreements and treaties. More multinational companies have ventured into the Indian markets than ever and are thriving through their licensees and authorised dealers. The proliferation of technology and scientific research centres in the country has also led to research collaborations and the licensing of innovations developed through such research.

Reasons to license	Reasons not to license
• It allows the IP holder to control the product and its market development. • It increases the costs for competitors, which are burdened with paying royalties. • It allows IP holders to enter new product markets without having to take the risk of product development. • It allows IP holders to expand into new markets (either geographic or sectoral). • It allows IP holders to obtain new rights in return for some of their own (ie, cross-licensing). • It helps an IP holder build a reputation as an innovator. • Licensing is a common way to end litigation.	• IP holders can lose control over their product or market as licensees develop their own improvements. • IP holders can lose contact with their customers. • IP holders have less incentive to grow as licences substitute for this. • Licensees may exploit the IP more successfully than the IP holders and receive a better return. • There is an increased risk of piracy and unauthorised use.

The Indian legislature has set out clear guidelines in the various acts pertaining to IP, specifically:

- The Trademarks Act 1999.
- The Copyright Act 1957 (last amended 1999).
- The Patents (Amendment) Act 2005.
- The Designs Act 2000.

While these acts all lay down the specific requirements for licensing, basic laws of contract also determine the scope and context of any IP licence. In addition, India acceded to the Berne Convention for the Protection of Literary and Artistic Works as early as 31st January 1975. On 7th September 1998, India acceded to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty and the Trademark Law Treaty. The Paris Convention lays down basic international principles governing the protection of patents, trademarks and industrial designs; as a signatory, India is obliged to extend reciprocal IP arrangements to all countries that are party to the convention. Further, in February 2007 India ratified its accession to the Madrid Agreement on Trademarks.

Understanding licence contracts and avoiding legal pitfalls

Licensing arrangements often run into antitrust issues as they sometimes impose restraints that adversely affect competition, resulting in market division or price fixing. Antitrust concerns may arise when a licensing arrangement harms competition by affecting the price, quantity, quality or variety of goods and services, between either existing competitors or likely potential competitors in a relevant market. In India, courts tend to determine such effects by asking whether the agreement is an undue restraint of trade and, if so, whether the restraint is reasonable. India has witnessed few antitrust cases on the scale seen, for instance, in the United States. Each licence is specific to the parties, and the nature of collaboration between them and the provisions vary from transaction to transaction. Some of these scenarios are discussed below.

Exclusive licences

Licensing arrangements may involve exclusivity if the licensor grants an exclusive licence which restricts the rights of the licensor to sub-license or the use of the IP itself. Another form of exclusivity is exclusive dealing, which arises when a licence prevents or restrains the licensee from licensing, selling, distributing or using rival technologies. Such restrictions may shut out access to or increase competitors' costs of obtaining important inputs, or facilitate coordination in price increases and are likely to be held to be anti-competitive.

Cross-licensing

Agreements whereby owners of different IP (eg, patents or know-how) license rights to one another are commonly referred to as cross-licences. Generally, these are viewed as pro-competitive. However the agreement may come under scrutiny to determine the purpose of the cross-licence and ascertain whether the arrangement creates a monopoly power in the relevant market beyond that existing before the agreement.

Grantbacks

These arrangements can be pro-competitive

1. Grant of a licence

Trademark	Copyright	Patent	Design
Section 38 "[A] registered trade mark shall, subject to the provisions of this Chapter, be assignable and transmissible, whether with or without the goodwill of the business concerned and in respect either of all the goods or services in respect of which the trade mark is registered or of some only of those goods or services."	Section 30 "The owner of the copyright in any existing work or the prospective owner of the copyright in any future work may grant any interest in the right by license in writing signed by him or by his duly authorized agent: Provided that in the case of a license relating to copyright in any future work, the license shall take effect only when the work comes into existence."	Section 70 "[T]he person or persons registered as grantee or proprietor of a patent shall have power to assign, grant licenses under, or otherwise deal with, the patent and to give effectual receipts for any consideration for any such assignment, license or dealing."	Section 30(4) "The person registered as the proprietor of a design shall, subject to the provisions of this Act and to any rights appearing from the register to be vested in any other person, have power absolutely to assign, grant licenses as to, or otherwise deal with, the design and to give effectual receipts for any consideration for any such assignment, license or dealing."

2. Right to sue

Trademark	Copyright	Patent	Design
Section 52 "(1) …a registered user may institute proceedings for infringement in his own name as if he were the registered proprietor making the registered proprietor a defendant and the rights and obligations of such registered user in such case being concurrent with those of the registered proprietor (2)… a registered proprietor so added as defendant shall not be liable for any cost unless he enters an appearance and takes part in the proceedings." The definition of 'registered user' set out in Section 45 includes an assignee and a licensee.	Section 55 "(1) Where copyright is any work has been infringed, the owner of the copyright shall, except as otherwise provided by this Act, be entitled to all such remedies by way of injunction, damages, accounts and otherwise as are or may be conferred by law for the infringement of a right." The expression 'owner of copyright' is defined in Section 54 to include an exclusive licensee.	Section 109 "(1) The holder of an exclusive license shall have the like right as the patentee to institute a suit in respect of any infringement of the patent committed after the date of the license."	A mere licensee is not a proprietor of the design and cannot file a suit for infringement on its own and must join the proprietor as co-plaintiff. An exclusive licensee can institute an infringement suit by joining the proprietor either as co-plaintiff or adding the proprietor as a defendant.

because they permit the licensor to license the technology without any risk that it will be foreclosed from the market. However, such arrangements can have an anti-competitive effect if they substantially reduce the licensee's incentive to engage in research and thereby reduce competition. The key factors considered in evaluating a grantback provision are:

- Whether the grantback is exclusive or non-exclusive.
- Whether (if the grantback is exclusive) the licensee retains the right to use the improvements.
- Whether the grantback precludes, permits or requires the licensor to grant sub-licences.
- Whether the grantback is limited to the scope of the licensed patents or covers inventions which would not infringe the licensed patent.
- The duration of the grantback.
- Whether the grantback is royalty free.
- The parties' market power.
- Whether the parties are competitors.
- The grantback's effect on incentives for developmental research.

Field of use restriction

Licensing arrangements sometimes restrict the use of licensed IP to a particular field (eg, product or geographical), even when there are other distinct fields in which it is useful. These types of agreement can promote

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competition because they provide licensees with strong incentives to develop the market by focusing on a particular field. It is important to weigh the degree to which the restriction restrains competition against the legitimate goals it may produce. Geographic restrictions are permitted by patent law, the only exception being when they further market division among competitors.

Agreements that deter research

Agreements that deter or discourage research and development are usually held to be anti-competitive as they retard innovation and adversely affect development. For example, a pooling arrangement that requires members to grant licences to each other for current and future technology at minimal cost may reduce the incentives of its members to engage in research and development, because members of the pool are obliged to share their successful research and development and can thus free ride on the accomplishments of other pool members.

Agreements that result in price fixing

A licence can be challenged as anti-competitive if it involves naked price fixing or market division.

Tying arrangements

Such arrangements are *per se* illegal if it is established that:

- The products or services tied are unrelated.
- The sale or agreement to sell one product or service is contingent upon the purchase of the other product or service.
- The licensor uses its market position and dominance to impose such arrangements upon the purchasers to restrain trade in the market.

No-challenge clause

No-challenge clauses have been held to be anti-competitive. In an attempted monopolisation case, proof that the patents were bought as part of a scheme to acquire or maintain monopoly power may be anti-competitive, as this results in the licensee paying royalties even if the patent is invalid.

Conclusion

There have been instances of licensing arrangements running into trouble after both long-term and relatively shorter-term cooperation. There are also instances of long-term, enduring licensor-licensee relations that give hope for the success of this business model. It is important to check thoroughly the background of a proposed licensee, particularly to see whether it has been involved in legal disputes in the past. Examples can be cited from different industry segments where licensing arrangements went sour and reached the courts. For example, Ziff Davis Inc, owner of the well-known *PC Magazine*, and Vogel Media International GmbH, owner of the well-known *CHIP Magazine*, both had misadventures with their Indian licensees nearly a decade ago. In the *Ziff Davis Case*, the court firmly upheld the principles of licensee estoppel and emphasised that a licensee that has acknowledged the proprietary rights of a licensor over the licensed trademarks cannot subsequently deny these. Other examples of cases with a licensing history in the manufacturing sector involve medical equipment (Synthes AG), electrical equipment (Telemecanique SA), garments (Hang Ten), and also services such as software (Executrain, Inc) and education courses (Kaplan, Inc). Interestingly all these cases involved an IP violation and ended well for the licensors, resulting in the licensee being restrained from misusing the licensed IP or voluntarily undertaking in the court proceedings to refrain from doing so.

In nearly all cases, the reasons for the collapse of licensing arrangements boil down to:

- Mistrust or breakdown of personal relations between the contracting parties.
- Monetary issues such as division of profits and allocation of budgets for and sharing of advertisement and promotion costs.
- Better business projections or sweeping change in the business vision or market environment, coupled with a good equation with a potential partner.
- Breach of the agreement by misuse of the licensed IP by the licensee.

These factors may sound suspiciously analogous to the factors that make a marriage work or fail – unsurprisingly, because the relations are contractual in essence. Thus, while a number of safeguards can be built into licensing agreements to plug all foreseeable loopholes, there will also be factors that cannot be envisioned which will test the fundamental strength of the relations between the contracting parties. *iam*

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