LICENSING: HOW TO AVOID ENTERING INTO A BADLY DRAFTED AGREEMENT PART I

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The legal drafting of agreements such as licensing and transfer of technology agreements is usually left to professionals; however, it is often important for business people to have a clearer understanding of some of the issues that may arise in the negotiation and drafting of such transactions. In a series of articles, we will go through some of the key points that are common to both licensing and other types of technology transfer agreements.

Grant of rights

The grant provision is the essence of a licensing agreement because it establishes the subject matter of the licence and the rights that are to be extended to the licensee. It is very important to adequately define the technology that will be transferred. If this clause is unclear or improperly understood, it could result in a dispute between the parties which may eventually require the intervention of the courts.

The language used in licensing agreements can sometimes be ambiguous. A term that is known to mean one thing in one country may not be known to have the same meaning in another country. This is especially true when distinguishing between the grant of an "exclusive", "sole", and "non-exclusive" licence. The grant of an exclusive licence customarily precludes the possibility of withholding a right.

However, in some countries, the word "exclusive" standing alone can be ambiguous because although it certainly means that no other licensees can be contemplated, it is not always clear whether the licensor has also reserved for himself any of the licensed rights (this is usually referred to as a "sole" licence).

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The words "sole and exclusive" are sometimes used together to describe an exclusive licence but should be avoided because in fact the terms are contradictory. Furthermore, an expression such as "open exclusive licence" which is sometimes used will not necessarily mean the same thing for one person as it will for another. In such cases it is essential to include further descriptive language in order to leave no doubt as to the legal character of the licence being granted.

The grant provision must also foresee the right to either make, use or sell the licensed product or a combination of these rights. When the grant provides for the right to "make, use and sell", a patentee is completely waiving his right to exclude the licensee from enjoyment of the patented invention within the territory to which the patent pertains. It is therefore viewed as not necessary to use words such as "have made, ...lease, ... or otherwise dispose of". If such words are used, the courts may be forced to interpret the clause restrictively since there has been a departure from the common language used in these clauses. Hence, it is not always wise to try to clarify by adding more legal terms which are not necessary, because this could have the opposite effect and may cause confusion. If such terms must be used because of surrounding circumstances, they should be used in a non-limitative list.

The rights to make, use and sell, although often seen together, are separable. However a grant that only provides for the right to make the product would be useless without the additional right to either use or sell such a product. It is therefore very likely that when the grant provides only for the right to make the product, the courts will also imply a right to use or sell.

Our next Newsletter will touch upon sections often not thoroughly considered by the parties to an agreement, for example: "most-favoured-licensee" clauses and "best effort" clauses. If you wish to obtain more information concerning the above issues or any other issues relating to licensing and technology transfers, do not hesitate to contact François Painchaud or any other member of our Technology Transfer Group.

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