

MOST FAVOURED-LICENSEE CLAUSES IN LICENCE AGREEMENTS

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The extent of the rights granted to a licensee is often determined by the types of clauses found in the licensing agreement between the licensor and the licensee. The knowledge and understanding of such clauses is essential to the drafting and interpretation of licensing agreements. The following article describes a type of clause which can be included in licensing agreements.

The licensor who enters into a licensing agreement should do everything possible to avoid including a most-favoured-licensee provision in the agreement. The licensee on the other hand will want to make sure that he includes a provision where he is treated as well as a subsequent licensee, if not more advantageous-ly. If the parties do decide to include such a clause in the agreement, it should be drafted very carefully.

In a recent American decision, *Studiengesellschaft Kohle, m.b. v. Hercules Inc.*, 105 F.3d 629 (Fed.Cir. 1997), we see the disadvantages that could arise for a licensor who includes a most-favoured-licensee provision in the licensing agreement. In this case, the Court was forced to conclude that the licensor had breached the licensing agreement when he had failed to inform the licensee of a licence that he had granted to a subsequent licensee. The original licensee had managed to have included in the agreement a very broad most-favoured-licensee provision and when the time came to have it interpreted, the Court had no choice but to rule in the licensee's favour.

The biggest problem with this type of provision is that not enough thought is given to the content and not enough limitations are placed on its applicability. In negotiating this type of clause there are certain factors that need to be taken into consideration as possible restrictions to the clause: i) a time constraint could be placed in the licence; ii) there could be a limitation

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to specific patents and/or pending applications; iii) the most-favoured-licensee clause may be limited to non-litigation related licenses.

If such a clause is to be included in the agreement, the licensor should require that the licensee be forced to accept all the terms that appear in the more favourable agreement, rather than allowing him to choose only selected terms that are to his advantage.

Other types of clauses in licence agreements will be reviewed in an upcoming edition of our Newsletter.

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