



European IPR Helpdesk

Fact Sheet

Commercialising Intellectual Property: Joint Ventures

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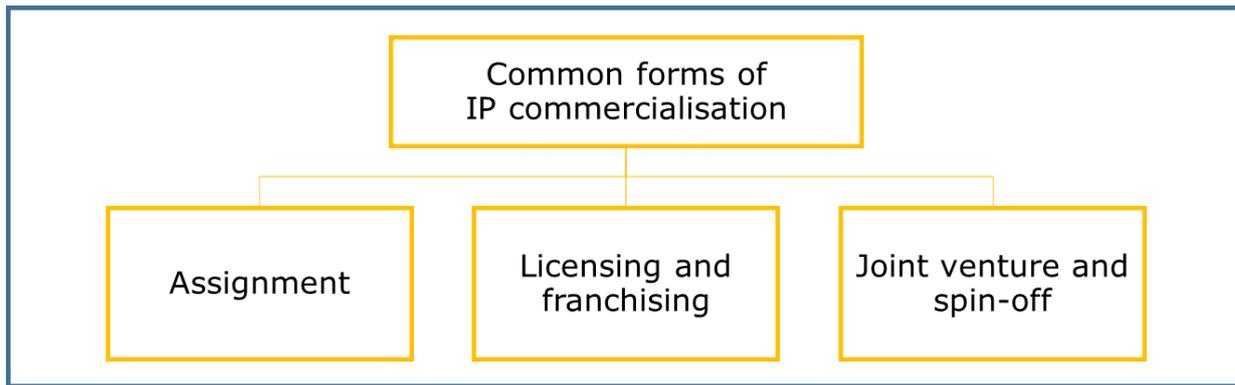
1. Joint ventures	3
1.1. Advantages of joint ventures	4
1.2. Intellectual property and joint ventures.....	5
1.3. Intellectual property in the lifecycle of joint ventures	6
1.3.1. Pre-contractual stage.....	7
1.3.2. Contractual stage.....	8
1.3.3. Implementation stage.....	9
1.3.4. Termination stage	10
Useful Resources	11

“Commercialising IP” is a series of fact sheets aiming to provide an introduction to the forms of commercialisation that can be useful for the less advanced public likely to be involved in exploitation of intangible assets. Content provided therein is not intended to be exhaustive, and professional advice is strongly recommended when it comes to choosing the most suitable commercialisation practice for your organisation and dealing with the complex legal issues surrounding contractual arrangements. However, with these guides we aim to give you some understanding of the basic principles, which can help you save money and time.

Commercialisation is the process of bringing intellectual property (IP) to the market in order to be exploited.

IP commercialisation can take different forms. The most common are summarised in the following diagram:

¹ This fact sheet was initially developed in January 2013 and updated in November 2015.



The financial success of any IP exploitation will certainly depend on the choice of the most appropriate commercialisation form, which should be based on:

- The organisation's business objectives
- The form of intellectual property
- The economic resources at its disposal

Risks should also be taken into account. Although the very nature of risks will depend on the type of commercialisation, their identification, assessment and management would give organisations more security.

- The IP risks specific to commercialisation activities are those related to:
 - The nature of the product and/or services
 - Confidentiality
 - Legal and financial matters
 - Business reputation

An assessment of the risks can be based on the likelihood of the event occurrence (e.g. ownership disputes, third party infringement, etc.) and the associated consequences (e.g. irrelevant, moderate or important). Depending on the outcomes assessment, organisations will be able to make appropriate decisions about the risk management actions to be adopted (e.g. subscribing to an appropriate insurance, revising relevant clauses within contracts, etc.).

The present fact sheet focuses on joint ventures (JV) and will put forward some practical and legal issues, mainly from the perspective of the ownership and exploitation of IP. Organisations need to anticipate and properly manage legal aspects, in order to be able to maximise the financial gains that such settlements are aimed at.

Overall, joint ventures have the goal to further develop and/or commercialise intellectual assets belonging to existing organisations, through a separate legal entity or in project collaborations. In both cases, venture partners will license or assign their IP for it to be used for the scope of the JV.

Joint venture practices are widely spread across the industry sectors, but also occur in the academic environment.

1. Joint ventures

A joint venture can be described as a *form of business association between two or more independent organisations (joint venturers) to undertake a common project or to achieve a certain goal.*

More specifically, the parties to a joint venture share risks and contribute with their intellectual capital towards technology research and development, production, marketing and commercialisation².

Because the role that IP plays in establishing such collaboration is a central one, it is fundamental that joint venturers clearly define at the outset the ownership of the IP to be created by the joint venture and the parties' rights upon it. It is also necessary to agree on the initial contribution of each venturer as well as on the respective responsibilities and obligations. All this can be set out either by a specific contractual arrangement corresponding to a *non-incorporated joint venture* (contractual model), or in a joint venture agreement setting up an independent legal entity – *joint venture company* (entity model)³. The difference between the two forms is that, the **contractual model**⁴ is normally used for collaborations that are narrow in scope and with a short-term ending, while the **entity model** is usually chosen for long-term partnerships with a broader scope and not limited in time⁵.

² There exist other forms of joint ventures such as purchasing or network joint ventures. For the purpose of the present fact sheet only those aimed at exploiting intangibles will be considered.

³ A combination of the two models is also possible yet less used in practice because of its significant complexity.

⁴ The contractual model can be applied to a R&D project, within the contract setting out the rules governing the research collaboration.

⁵ Within this model it is possible to operate a JV through a limited liability company, an operating company or an IP holding company.

Setting up a successful joint venture pass through the selection of suitable partners. Answering the following questions may help with the choice of a joint venture partner(s):

- ✓ Why does it want to participate in a joint venture?
- ✓ Are its business goals compatible with other venturers?
- ✓ Which resources is it willing to bring to the joint venture?
- ✓ What is its expertise in the relevant project's fields?
- ✓ Which experience does it have in commercialisation?
- ✓ What is its reputation/influence in the marketplace?

Such preliminary analysis will also help identifying the structure model of the future joint venture - short-term collaboration or long-lasting partnership.

Independently from the model adopted, any agreement setting up a joint venture would need to cover as a minimum the following structure:

IP checklist in JV agreements	
PARTIES	<ul style="list-style-type: none"> - Entering of new partners in the joint venture - Exit of partners from the project - Insolvency of partners
FINANCE	<ul style="list-style-type: none"> - The parties' financial contribution in terms of intangibles
MANAGEMENT	<ul style="list-style-type: none"> - IP management structure: <ul style="list-style-type: none"> o IP management committee (patent filings, IP licensing, dispute resolution, etc.) o Exploitation manager (exploitation of IP)
IPR	<ul style="list-style-type: none"> - Background brought by each party - Background developed in parallel⁶ - Ownership of IP and IPR generated within the JV - IPR costs - Access rights
TERMINATION	<ul style="list-style-type: none"> - IP and related rights in the case of unexpected termination - IP and related rights after expected termination
OTHERS	<ul style="list-style-type: none"> - Insurances - IP counselling

1.1. Advantages of joint ventures

The main reasons for setting up a joint venture are to expand business into new geographic area, into new product categories and to establish strategic partnership in parallel markets.

⁶ This is also called *sideground*, intended as background generated during, but not within the purpose of the JV.

Joint ventures can be considered a convenient means for organisations to exploit and share intellectual assets with reduced financial investment. Hence, organisations having limited financial resources may be able to develop new technology or to take product to the market at costs that would be otherwise prohibitive, with a likely rapid business growth.

Joint ventures are attractive for several reasons. The most significant advantage results in the *ability of an organisation to reap some economic benefits from the commercialisation of its already existing IP, or the one resulting from the joint venture, by sharing the expertise, technology and strength with another organisation*. Other associated advantages can be summarised as follow:

- *Access to technology at affordable prices*
- *Access to resources not present on the market*
- *Sharing of R&D, marketing and commercialisation costs*
- *Utilisation of unused or not-usable IP assets*
- *Reduced investment risks*
- *Development of new products*
- *Access to new markets*

1.2. Intellectual property and joint ventures

Thus, to participate in a joint venture the parties need to bring into the project their own intellectual property (IP) assets as well as to access the IP previously belonging to other venturers. This is normally called *IP background*. In the same breath, the joint venture will generate IP that will be owned by the respective party, developing it and used by other venturers. This is referred to as *IP foreground*.

Summing up, the IP components in a JV consist in:

- *Pre-existing background*, comprising IP prior to the JV, and *sideground*, covering IP generated during the JV, but not as a consequence of it.
- *Derivative foreground*, which is IP generated jointly or individually as a purpose of the JV, and *non-derivative foreground*, counting IP further developed, based on the derivative foreground.

The intellectual property rights portfolio of a joint venture usually consists in: *patents, trade marks, and copyright*.

PATENTS: Concerning patents, it is important to consider two main aspects: *novelty* and *inventive step* (non-obviousness). Any prior use, publication or other public disclosure will ban the invention from being patented for lack of novelty. This means that both internal and external measures should be adopted to avoid any leak of information.

The non-obviousness requirement, on the other hand, advises that the parties should share information internally to identify if some form of prior art would be an impediment to patent filings. All other issues related to ownership and licensing are examined in the next paragraph.

TRADE MARKS: The most relevant considerations for trade marks are about their use. Since the parties might need to use the trade marks brought to the project by another partner, this can affect the reputation of the owning party. It is advisable to clearly define in the licence the field of use and its geographical restriction, as well as precise termination conditions.

The same holds true for trade marks generated during the JV. As partners may return to their role as competitors once the JV ends, they should agree on the terms to limit the use of the new trade marks to a confined geographical or product areas after JV termination.

COPYRIGHT: Copyright protection is extremely relevant in JV as all of the software, databases, manuals, drawings and similar works related to the project are in principle subject to copyright. The necessary actions to take are here related to the appropriate allocation of rights (access rights) in order for ventures to share and use all the relevant copyrighted works.

Confidentiality issues are also relevant in joint ventures. Therefore, all possible confidentiality measures should be taken to safeguard the misappropriation or unauthorized use of valuable business information⁷.

1.3. Intellectual property in the lifecycle of joint ventures

Any JV can be sub-divided in four stages:

- I. *Pre-contractual stage (before the signature of the joint venture agreement)*
- II. *Contractual (signing a joint venture agreement)*
- III. *Implementation (fulfilment of the JV contractual obligations)*
- IV. *Termination (end of the JV contractual obligations)*

All the relevant IP terms should be defined within the agreement that either outlines JV collaboration between parties or establishes a new JV company⁸. In the following paragraphs we will see how to deal with the different IP related issues in the different JV stages.

⁷ To have a deeper knowledge on confidential business information, you are advised to read the European IPR Helpdesk fact sheet on "How to manage confidential business information", available in the [library](#).

⁸ See paragraph 1 for the distinction between contractual model and entity model.

1.3.1. Pre-contractual stage

The sharing of **valuable business information** (trade secrets and know-how) is crucial for building a JV partnership, particularly when IP represents a significant contribution. Accordingly, potential partners should carefully protect any confidential information before disclosing it among themselves. This can be done by signing a *Non-Disclosure Agreement* (NDA)⁹. Such an agreement is crucial at this stage where no arrangements are likely to be made and consequently partners are not bound by any other obligation. Once a JV agreement is to be set up, in that case it is possible and advisable to insert *confidentiality clauses* within it.

With regard to **confidentiality provisions** in joint venture agreements, overall they should state:

- The business information to which the obligations apply;
- The specific obligations and restrictions imposed on the recipient;
- The consequences of breach of confidentiality;
- The obligations to be applied after termination of the business relationship.

Furthermore, they should regulate two layers of confidential information, namely the trade secrets brought by partners before the venture and those that are the result of the venture. Accordingly, contractual clauses should define the ownership and protection of trade secrets during and after the joint venture.

Although somewhat onerous, **IP due diligence**¹⁰ proves to be crucial in JV for two set of reasons. Firstly, it helps identify exactly what each party is contributing to the JV in terms of IP background. In the second instance, mainly in transnational JV due diligence establishes whether the IP rights to be contributed cover the required technical field and geographical area.

The organisation **form** of the JV¹¹ is normally set out in the related agreement. However, some considerations are needed beforehand as the JV agreement will be shaped according to the JV structure chosen and the entire success of the project is based on it. Mainly for JV using separate legal entities, it is important

⁹ You can obtain more information on NDA by reading the European IPR Helpdesk fact sheet on "Non-disclosure agreement: a business tool", available in the [library](#). You can also freely download NDA samples on the European IPR Helpdesk [website](#).

¹⁰ A thorough analysis on how to carry out an IP due diligence can be found in the European IPR Helpdesk fact sheet on "IP due diligence: assessing value and risks of intangibles", available in the [library](#).

¹¹ See paragraph 1 for the distinction between contractual model and entity model.

to consider issues that may arise under **competition law**¹². For example, if competitors come together and assign to the JV company all their IP rights, or grant to it exclusive licences. This behaviour can be investigated by the EC only once the JV is established, with all the disruptive consequences if the deal is found to be as anti-competitive. A careful consideration of the most law-abiding form of JV is thus recommended at this stage.

1.3.2. Contractual stage

The contractual stage may be considered as a fundamental one, as rules on IP need to be discussed and defined in view of the JV agreement signature. In the negotiation phase, decisions must be taken on whether the **IP background** should be **assigned** or **licensed** (or sub-licensed) to other venturers for project implementation. Background rights are usually licensed since the owner can have continuous control over them that way. The assignment is always possible but trickier, as the former owner would need access rights to the assigned background.

When dealing with licence of rights it is important to consider:

- The length of the licence terms: is the license granted for the JV collaboration or does it last after the JV end?
- The scope of the license: geographical and field of use
- The “need of” requirement to access *background, sideground*¹³ and *foreground*
- Non-compete clauses¹⁴
- The block exemptions preventing determinate technology transfer tools (e.g. patents and know-how licences) from the application of the competition law rules¹⁵

During negotiations, parties should also start thinking about the ownership of the IP generated jointly or individually as a purpose of the JV: **IP foreground**. More precisely, they should foresee whether to include joint ownership clauses within the main JV agreement, or to deal with jointly owned IP on a case-by-case basis using distinct joint venture agreements. It is worth noting that if no joint ownership regime is agreed then the default one will apply, in line with the EU

¹² This is the case of Article 101 of the Treaty on the Functioning of the European Union. Nevertheless, venture partners need to abide by national competition law rules too.

¹³ See paragraph 1.2.

¹⁴ Non-compete clause would ensure that valuable business information acquired during the JV is safeguarded for a certain period of time after the JV end.

¹⁵ For more information in the European Competition law rules (also known as antitrust) you can visit http://ec.europa.eu/competition/antitrust/overview_en.html.

national laws, whose differences can undermine future plans for development and exploitation of the generated IP.

1.3.3. Implementation stage

Ownership and **exploitation of foreground** are key issues during the JV execution phase. That is, parties should decide who will own the foreground and who will exploit it.

The law generally provides that rights to foreground resulting from developments made in the course of the JV will belong to the developing party. Most of the EU national legislations provide that IP created by employees in the course of their employment duties is owned by the employer. Thus if the employees of one of the JV party are to create IP, the employing party will own those IP and the related rights.

Another issue that might arise concerns the improvements of an already existing background, made by one of the venturers. Background improvements are often claimed by the background contributor.

All the above is true if no agreement states differently. A clear definition of all these complex aspects is then advisable in *ad hoc* agreements as it would avoid later dispute settlements. A common solution is to assign the entire foreground (IP) to the JV company.

If foreground (IP, IPR) is jointly owned a joint ownership agreement should clearly state the proportion and manner in which the rights are to be held by venturers. An equal sharing of the rights to exploit and transfer foreground, together with the obligations to seek IP rights protection (registration costs), to maintain (life-span costs) and to enforce it may prove to be convenient. Other important aspects to be agreed upon in a **joint ownership** are:

- Some form of territorial division for IPR protection
- Some form of division of market for the commercial exploitation
- The setting up of a regime for use (e.g. licences, limits and profit sharing)

If the JV is a convenient vehicle to exploit IP assets of different organisations, the newly set-up JV company itself can exploit the IP resulting from the JV through production, further R&D, marketing and commercialisation. However, venturers can decide to individually exploit their own foreground. In other cases, they can assign the rights to access foreground to other parties for its exploitation. In order to do so, venture partners may need to grant access to

their background for it to be used together with foreground in the exploitation phase. Concerning access rights, licensor parties may among others:

- Decide the entitlement to grant sub-licences;
- Foresee access rights to sideground;
- Define access rights to background improvements.

Access rights are normally granted in return for royalty payments that can be in the form of a lump sum or as percentage on the revenues generating from the foreground exploitation.

1.3.4. Termination stage

Although an outline of the exit plan could already be drafted at the negotiation phase, the precise terms on which a JV may come into an end are normally agreed during the implementation phase or when a termination event happens.

A friendly termination will see venture partners negotiate the terms related to the foreground repartition, normally based on the contribution of each party, and arrange all the necessary for licenses to terminate. On the other end, it is common practice that when termination is due to a breach of contract, the insolvent party would lose all its rights that should be reverted to other venturers.

Useful Resources

For further information on the topic please also see:

- Fact sheet on “How to manage confidential business information”:
<http://www.iprhelpdesk.eu/Fact-Sheet-How-to-Manage-Confidential-Business-Information>
- Fact sheet on “Non-disclosure agreement: a business tool”:
<http://www.iprhelpdesk.eu/Fact-Sheet-Non-Disclosure-Agreement>
- Fact sheet on “IP due diligence: assessing value and risks of intangibles”:
<http://www.iprhelpdesk.eu/Fact-Sheet-IP-due-diligence>
- N. Parker, “Intellectual property issues in joint ventures and collaborations”, *Journal of Intellectual Property Law & Practice*, 2007, Vol. 2, No. 11
- R. Laurie, “Managing Intellectual Property Allocation in Joint Ventures”, Part 3, Chapter 15, in R. Goldscheider and A. H. Gordon (editors) *Licensing Best Practices: Strategic, Territorial, and Technology Issues*, John Wiley & Sons, Inc. Hoboken, New Jersey, 2006

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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.iprhelpdesk.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.

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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@iprhelpdesk.eu.

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This Fact Sheet has been initially developed under a previous edition of the European IPR Helpdesk (2011-2014). At that time the European IPR Helpdesk operated under a service contract with the European Commission.

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