



## European IPR Helpdesk

### Fact Sheet

# *How to deal with IP-related issues in transnational negotiations*

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### **Introduction**

Negotiating intellectual property (IP) transactions<sup>1</sup> is not an easy task and can be extremely demanding. In order to avoid common missteps, there are some considerations that any person negotiating IP assets should bear in mind. First and foremost, as negotiations are deemed to start before sitting at the negotiating table, preparing oneself carefully beforehand proves to be fundamental for beneficial and successful discussions. For this reason, this fact sheet has the purpose of getting you prepared not only during the process but well in advance.

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<sup>1</sup> The term transactions can entail the definitive assignment of an IP asset as well as its licensing. The following agreements are examples of IP transactions: licence agreements, assignments and joint ventures.

Therefore, this document aims to focus on some of the key aspects related to IP asset negotiations, mainly at transnational level, where the negotiating parties' objectives are broader, given the breadth of the marketplace. Although all the following aspects are generally considered crucial when negotiating an IP transaction, they should nevertheless pertain to the type of agreement you are dealing with and address the transaction specific issues.

Targeted both to businesses and independent innovators, this fact sheet will nevertheless not make you a skilled negotiator, so it is strongly advised to always seek professional legal advice when dealing with IP transactions.

## 1 Before the negotiation

In IP transactions, it is crucial for both parties to clearly **define the subject matter of the agreement**. Therefore, the first thing to know is what the IP that you want to negotiate consists of, whether it be a *patent* for a technology, a *trade mark* for a product (e.g. integrating that technology), or a *copyright* for software (e.g. implemented within that product). In *licence agreements*, you should also be clear regarding what rights you intend to grant with respect to that IP, namely:

<i>Rights to grant</i>	<b>Patents</b>	<b>Trade marks</b>	<b>Software</b>
<b>Territorial range</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Type of use</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Duration</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Right to sublicense</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

### 1.1 IP structure and team work

To start with, a crucial aspect before entering into negotiations concerns the arrangement for an **internal IP structure**, responsible for all the related steps to take in the negotiation phases<sup>2</sup>. This would also represent a reference point for your whole team as regards IP-related issues. IP awareness is, in fact, an imperative in order to succeed in the coordination of your firm's commercial objectives and reaching the negotiation goals. Having all your team on the same wavelength as your business strategy will be likely to help avoid your plans being sabotaged.

<sup>2</sup> In some cases, mainly for micro and small entities, the person responsible for IP management can be the same as the owner.

It is fundamentally important to have a person competent with IP-related matters with you during negotiation, acting also as an *enforcer*<sup>3</sup>. Indeed, it is advisable that you do not participate at the talks alone, at least at the first meetings. Bringing along a *knowledgeable IP person* can help you gain a comprehensive understanding of the IP issues at stake.

Furthermore, note that negotiation is **team work**. That is, since the agreement you are going to sign involves complex legal, financial and technical aspects, expertise from all of these areas are therefore needed, and recommended at the negotiating table. This would help give *credibility* to your image in your counterpart's eyes and help discussions advance in the way you planned.

## 1.2 Conduct due diligence search

Due diligence, intended as the exercise to gather as much information as possible in order to arrive at the negotiation well prepared, is the most important aspect before engaging in an IP transaction. Talks themselves are the culmination of a process. *Being informed of the market, the technology, the potential partner and its particular business positions and objectives is decisive for ensuring a successful negotiation.*

### 1.2.1 Freedom to operate

If you are to acquire the rights of or a licence to a certain technology, make sure that there are no other restrictions on the use of it and that no third parties' rights are involved; put simply, that the technology concerned can be commercialised with limited risk of liability for infringement - what is known as **freedom to operate**.

You should then be aware of any IP belonging to you and your counterpart and, most importantly, put the IP concerned and its prospective development into the context of the business process, which entails the commercialisation in the marketplace and the other party's objectives and corporate issues.

In order to do so, gathering data related to that specific IP beforehand is considered best practice. For this, it is recommended that an IP professional or national IP office be consulted. The latter may either conduct IP searches<sup>4</sup> or assist you in conducting them.

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<sup>3</sup> This person should in fact give force to your assertions and also provide evidence for the counterpart's ones.

<sup>4</sup> You might also want start searching by yourself. To this end, the European IPR Helpdesk has issues two fact sheets to introduce you to patent and trademark searching using the most relevant databases at the European and International level. These documents are accessible at <http://www.iprhelpdesk.eu/library/fact-sheets>.

### 1.2.2 Competitive analysis

A due diligence investigation can be beneficial to a better understanding of the purchaser's position in the negotiation by:

- **Identifying** its **business goals** and the **IP strategy** as well as the pressure it has to meet them (e.g. the need to license in);
- **Analysing** its products or services so as to discover **what IP it is using**;
- **Ascertaining** what are its **accounting options** (e.g. whether it prefers to amortise the IP-related costs over the expected life of the asset, or pay them immediately as cost of sales);
- **Segmenting** its **patent portfolio**, to grasp the core area of business and determine its technology needs.

This practice, also referred to as **competitive intelligence**<sup>5</sup>, is seen as crucial in pushing forward the decision process, as being aware about the counterpart's motivations and needs is favourable to a faster conclusion of the negotiations, since you already know where to aim at. However, the state of the negotiator selling the technology is also important, as the company's financial health, IP strategy and market share are definitely relevant in showing the counterpart commercial confidence.

Carrying out this kind of analysis will also help you gather data to **estimate technology context and "lifetime"**. Indeed, entering into negotiations includes not only looking into the details of the technology object of the contract, but also checking whether there are other similar technologies either in development or on the market that could offer the same technical result. Regarding this, the following should be verified prior to negotiations.

- ✓ **Priority**
- ✓ **Filing**
- ✓ **Expiration dates**
- ✓ **Any possibility that these technologies can be licensed**
- ✓ **The likelihoods of *inventing* and *designing around***

Besides, technologies can easily become obsolete given the never-ending innovative process. Therefore, already prior to the talks, you should make an

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<sup>5</sup> Competitive intelligence is a legal business practice concerned with gathering information about products, customers and competitors (i.e. *external business environment*) in order to accomplish a business strategy. This kind of service is normally offered by specialised organisations for a fee. Nevertheless, such info can be also "freely" collected through business relationships, precisely by getting information through the suppliers', costumers', or business partners' network.

overall assessment of the *lifespan* of the technology at issue. More precisely it would be advisable to somehow foresee the time during which such a technology is expected to maintain its market value. This is of course not an easy job but, after having gathered market data and having realised that new technical solutions are likely to be developed in the near future, it would be advisable to include clauses within the *licence agreements* foreseeing the possibility to revise their terms and giving both parties the chance to terminate the contract.

### 1.3 Prepare a summary of the negotiating issues

Once you have carried out the above exercises, you can already prepare a *Heads of Agreement*. This document, also known as *Proposed Basis of Agreement*, represents a summary of the key commercial issues that you wish to tackle at the negotiating table and to be included in the licence agreement. Within this template you may identify the issues that you consider being of maximum and minimum importance for you, as well as anticipating those likely to be more or less important to the other party.

This kind of guideline will certainly help initiate and progress the negotiations as well as more easily achieve the final agreement. Note, however, that this does not mean that you must achieve all the positions established in the outline. You should be *flexible* and recognise that talks can bring forward some outcomes that can prove to be less or *even more optimal* than those foreseen in the Heads of Agreement.

Heads of Agreement with a breakdown of the key issues may also be presented to the other partners in the transaction, which can be very helpful to initiate negotiations and to organise the discussions. Starting with such a document instead of a draft agreement might also prove to be easier.

### 1.4 Define the transaction value

As with any other transaction, when entering into IP negotiations a price for the technology at issue must be defined. Although the value of an intangible is not as easy to determine as for tangible assets, several methods exist to facilitate this task. At this stage three issues need to be assessed:

- How much the counterpart is ready to pay;
- How much should be paid for the technology;
- Which is the most suitable payment.

As for the first issues, a purchaser will indeed base its decision on whether the technology will enhance its ability to gain revenues rather than on its theoretical value. In this case, an assessment between the inherent value of the technology and the cost of production should be made to determine whether, at the end of the acquisition and utilisation, there is still a margin of profit once the product is ultimately marketed.

### 1.4.1 Technology valuation

Concisely, there are several valuation criteria that, given the structure of this document, cannot be exhaustively explained. Those most relevant are:

- **Cost approach** – the technology value is expressed by costs associated with development, protection and commercialisation. All this represents the minimum recoverable by the seller, plus interest;
- **Income approach** – the valuation here involves some measures indicating the amount of income that the new technology is likely to generate. The parties' respective shares and benefits should be calculated based on a royalty formula;
- **Market approach** – other market transactions of similar technology are compared to determine the value of an intangible awaiting negotiation discussions.

Other criteria playing a key role in the transaction valuation can be: IP protection, market and competitive considerations (e.g. market share and third parties), financial considerations (e.g. profits, production costs), allocation of risks (e.g. product liability, costs of enforcement and warranty), legal considerations (e.g. duration of the license rights).

### 1.4.2 Royalty rates definition

One fundamental issue within negotiations is certainly **monetary terms**, more precisely whether there will be an upfront payment at the contract signature or whether a deal needs to be struck on the royalties schedule, structure and rate. In the latter case, it is advisable to gather information about the **royalty rate applied to intangibles similar to those object of the contract**, in order to get a leeway for price negotiation. To determine the intangible value and identify comparable royalties, you can:

- **Consult royalty rate databases**, which are also helpful to check exclusivity, duration and territoriality of licences<sup>6</sup>;
- **Consider** the rates that you or your counterpart pay for the use of other **comparable technologies**;
- In the case of licences, **establish** them according to the **scope** and the terms of **use**;
- **Evaluate** the overall **commercial relationship** with the other part (e.g. whether you are competitors, long-term partners, inventor and producer, etc.);

<sup>6</sup> You might also want to be supported by organisations such Licensing Executive Society International (LESI), which advises on all the issues related to licensing, the transfer of technology, and the commercialisation of intellectual property rights. LESI is a global umbrella organisation composed by 32 national and regional LES member societies. You can access the website at <http://www.lesi.org/>, and from there be redirected to your national contact point.

- **Analyse** the **competitiveness** in the same market sector and territory.

All the above is only a *non-exhaustive list* of some factors useful to determine what a correct royalty rate could be.

Summing up, within IP transactions it is extremely important to be supported by **relevant** and **objective** *documentation* related to *technical, financial or other business data*. Going into negotiations equipped with this kind of data will help to:

- ❖ **Corroborate** your assertions and make it easier for the other party to understand them;
- ❖ **Strengthen** your position, since you will be perceived by your counterpart as a reliable partner to work with;
- ❖ **Have some discount effect** on the technology transfer, further to commercial considerations based on the market data that you are provided with.

## 2 At the negotiating table

In this phase the negotiators will explore the possible relationship to come and the principal commercial terms to be included within the final agreement, as well as other legal issues<sup>7</sup> related to the forthcoming commercial partnership. Parties should be aware that each of them is bringing something of value to the relationship. The key to a successful negotiation consist in understanding *what that value is*.

### 2.1 Reach a win-win agreement

Contract negotiations are normally a long process where both parties should consider making some concessions to satisfy the other party's interests, whenever necessary to avoid blocking issues. Mainly *within licence agreements*, what you are about to start is often a long-term business relationship. Insisting inconsiderately to have the "envisaged" agreement signed can create a contentious relationship likely to run into complications in the future. Therefore, *flexibility* in IP negotiations can always help in resolving pending issues and reaching a workable agreement, so as to have more chance to succeed within the partnership.

It is then advisable to show the willingness to reach a "**win-win**" agreement through reasonable statements. At the negotiating table, parties should focus on

<sup>7</sup> General legal considerations may concern waivers, force majeure, anti-competitive practices, national regulations, alternative dispute resolutions, and the like.

the matters in hand and be hard on the problems that arise, but be soft with the persons sitting around. Therefore, it is important to be firm on your perspectives, always being willing to understand the other party's needs and business goals. Reaching a *win-win* agreement stands then for obtaining a deal that gives as much commercial flexibility, rights and lucrative possibilities as possible to both parties.

*Accordingly, a long-term and profitable relationship should be the primary purpose of the negotiations.*

## 2.2 Disclose confidentially

When sitting at the negotiating table it is good practice to ask a potential partner to sign a **Non-Disclosure Agreement (NDA** - otherwise called *confidentiality agreement*)<sup>8</sup> before confiding any sensitive figures about your business. The perception that the counterpart might have about your request to sign an NDA can be very positive. It shows the seriousness of your idea and that you do not want it to be passed on to any other person without your written permission. It also gives credibility on how you carry on businesses as you are making clear that you do not want to do it under uncertain legal terms.

However, investors are often reluctant to sign an NDA for several reasons. The main one is that they may already be working on a similar technology; furthermore, they do not want to preclude the development of similar ideas or simply do not want to be legally bound. In this latter case, be cautious with the information that you are going to disclose. Firstly, consider the reputation of the person or company you are dealing with; secondly, try to disclose information around the secret by superficially presenting your technology and concentrating your assertions on its profitability, without disclosing the novelty associated with it. Be firm that you need to safeguard your confidential information and that you will not share it without a NDA in place.

## 2.3 Consider improvements

An important item that needs to be negotiated in many *IP transactions* is the ownership of the likely improvements to the technology and the access to them. This is a rather sensitive matter since tensions are frequent when it comes to decide who will be the owner of any improvements made in the course of business relationship.

This applies as much to patents as to trademarks and copyright. In fact, on the trade mark side, the product improvements may involve the brand extension to different products and consequently concern market expansion. In the copyright

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<sup>8</sup> For further information about NDAs, see the European IPR Helpdesk fact sheet "Non-Disclosure Agreement: a business tool". The European IPR Helpdesk has also prepared templates of NDAs to assist you in case you are drafting your own contract. Templates can be found in the *library* section, within the *useful documents* box.

case, an improved version of software can lead to a new version of the copyrighted product. All these cases may cause conflicts if no provisions are included within the agreement.

Therefore it is highly recommended that you regulate the ownership of the improvements<sup>9</sup>, any rights involved therein as well as in any derivative work. Licensors may also ask to be granted access to the licensee improvements on their own technologies (grant-back clause). However, this kind of right is not usually granted when a major company is the licensee.

## 2.4 Allocate risk

Within most IP transactions, the allocation of **liabilities** and **risks** is crucial and, at the same time, a source of divergences due to the different parties' interests. Nevertheless, a comprehensive and well drafted agreement should include terms related to:

- ✓ **Contract compliance**
- ✓ **IP enforcement against third parties**
- ✓ **Non-infringement warranties**

Regarding the first point, it is strongly advisable to negotiate terms during initial talks instead of leaving the **contract compliance** issues until afterwards. The most important issue to think about is the *forum selection*, that is the *jurisdiction* and *tribunal* that will decide when disputes break out (e.g. on the licence rights enforcement or on what basis the license can be terminated). However, resolving cross-border disputes through litigation in national courts may prove to be extremely complicated. Accordingly, parties can choose *alternative dispute resolution (ADR)* procedures. Such mechanisms, namely mediation, arbitration and expert determination, offer high-quality, efficient and cost-effective ways to resolve IP disputes out of court<sup>10</sup>.

The **IP enforcement against third parties** on the contrary concerns the choice of which party is going to control infringements within the marketplace. More precisely, these provisions are meant to assign to one party the responsibility to sue a third party considered to be an infringer. Such provisions are extremely important as they will affect the allocation of financial resources, an area fundamental to any business.

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<sup>9</sup> It is important to take into account the likely event to enter into co-ownership. This being the case, be prepared to set joint ownership agreements.

<sup>10</sup> For a deeper analysis of the ADR mechanisms, see Schallnau, J., 'Efficient Resolution of Disputes in Research & Development Collaborations and Related Commercial Agreements', European IPR Helpdesk Bulletin N°4, January - March 2012, available at [www.iprhelppdesk.eu](http://www.iprhelppdesk.eu).

On the other hand, you can be sued by a third party claiming that you are infringing its IP rights because of the commercialisation of the licensed product (e.g. such product infringes against other parties' patents). Should this be the case, the scenario is rather daunting as indemnifications for IP infringements could be very high and consequently cause financial damage to the liable person. **Warranties for non-infringement** with respect to third parties' IP rights are therefore recommended, insofar as they can help spread the risks and financial costs of enforcement proceedings as well as the prospective compensations originating from there. Nevertheless, it is advisable not to expose oneself towards too onerous warranty concessions, as this can give rise to liabilities which might cause high financial risks.

In conclusion, in order to ensure proper contract compliance and a correct allocation of risks make sure that the agreement be clear and balanced.

## Useful Resources

For the preparation of this fact sheet, the European IPR Helpdesk had in consideration:

- Exchanging Value – Negotiating Technology Licensing Agreements: a Training Manual, published jointly by the World Intellectual Property Organization (WIPO) and the International Trade Centre (ITC), available at [http://www.wipo.int/sme/en/documents/pdf/technology\\_licensing.pdf](http://www.wipo.int/sme/en/documents/pdf/technology_licensing.pdf)

For further information also see:

- Fact sheet on "Non-Disclosure Agreement: a business tool": <http://www.iprhelpdesk.eu/Fact-Sheet-Non-Disclosure-Agreement>
- Fact sheet on "How to search for patent information": <http://www.iprhelpdesk.eu/Fact-Sheet-How-to-Search-for-Patent-Information>
- Fact sheet on "How to search for trademarks": <http://www.iprhelpdesk.eu/Fact-Sheet-How-to-Search-for-Trade-Marks>
- Mutual Non-Disclosure Agreement – European IPR Helpdesk Template: <http://www.iprhelpdesk.eu/Mutual-NDA>
- One-way Non-Disclosure Agreement – European IPR Helpdesk Template: <http://www.iprhelpdesk.eu/One-Way-NDA>

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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.iprhelpdesk.eu](http://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.

**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@iprhelpdesk.eu](mailto:training@iprhelpdesk.eu).

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