

Lesson 7

What is Licensing?

LEARNING OBJECTIVE

- **To understand the concept of Licensing in International Context**
- **To analyze what are the prerequisites of Licensing**
- **To understand the merits of Licensing**
- **To understand the demerits of Licensing in International Context**
- **To find out the difficulties firms have faced in going for Licensing**
- **To look at Licensing from practical point of view**
- **To search for various business opportunities in Licensing**
- **To understand how to evaluate a Licensing Arrangement**
- **To learn from the past mistakes of corporate world**

Interaction

This Lesson is about the promise that intellectual property holds for generating wealth from international trade. The U.S. government and U.S. corporations have employed various means to secure the benefits of selling intellectual property abroad. The most flexible and useful method of transferring this form of property is the licensing agreement. However, for a licensing agreement to work, the intellectual property must first be recognized as "property" to be protected by law by the countries of both the licensor and the licensee. Not all countries recognize and protect intellectual property. This paper discusses the perils associated with licensing intellectual property abroad and the methods for securing the wealth generated by this important form of property

CONCEPTUAL DISCUSSION ON The Basics of Licensing

What Is Licensing?

Licensing is a legal agreement between the owner of intellectual property such as a copyright, patent or trademark and someone who wants to use that IP. The licensee pays "rent" to the licensor for the use of an idea/product/process that is otherwise protected by IP law. Like a lease on a building, the license is for a specific period of time, though it may provide forwaIs. The licensee uses that idea/product/process to sell products or services and earn money.

Rights and Responsibilities

The licensee is "renting" the IP rights and does not own them. The licensing agreement may restrict the licensee to a specific geographical area or put other restrictions on their ability to use the licensed property. This is similar to the difference between owning and renting a home. A homeowner can make very big changes in owned property but a renter is limited by their lease from making major changes without the agreement of the landlord.

The licensor is responsible during the term of the license for maintaining and defending the value of the intellectual property so that the licensee can profit by producing goods or services using the licensed property.

What sorts of things get licensed?

Anything that can be protected by copyright, patent, trademark or trade secret can be licensed. Trade secrets are particularly sensitive for their owners to license. Trade secrets are only useful IP as long as they are indeed secret. The more people who know about it, the more likely it is that the secret will become known. If everyone had the exact recipe for Coca-Cola, there would be bottling plants around the world producing something that consumers would know was exactly the same as Coke.

Usually, licenses are granted for IP like:

- Technology
- Software

- Manufacturing processes
- Products
- Music
- Art

INTRODUCTION

This paper is about the promise that intellectual property holds for generating wealth from international trade. The U.S. government and U.S. corporations have employed various means to secure the benefits of selling intellectual property abroad. The most flexible and useful method of transferring this form of property is the licensing agreement. However, for a licensing agreement to work, the intellectual property must first be recognized as "property" to be protected by law by the countries of both the licensor and the licensee. Not all countries recognize and protect intellectual property. This paper discusses the perils associated with licensing intellectual property abroad and the methods for securing the wealth generated by this important form of property.

II. INTERNATIONAL LICENSING AND U.S. EXPORTS

In 1947, intellectual property comprised just under ten percent of all U.S. exports. In 1986, the last time the government compiled the statistic, the figure had grown to more than 37 percent today, the best estimate is that intellectual property accounts for well over 50 percent of U.S. exports.

In general, wealth from trade in intellectual property is generated in two ways. The first way is for the owner of the intellectual property to incorporate the intangible intellectual property into a tangible product, which he can make and sell himself. The second way is for the owner of the intellectual property to license the intangible intellectual property to another, who will make and sell a tangible product, in consideration for something in return, usually a royalty.

III. THE BUSINESS REASONS FOR LICENSING AGREEMENTS

A license grants rights in property without transferring ownership of the property. For a license of intellectual property to be effective, the following must be satisfied: first, one must have ownership of relevant intellectual property or authority from the owner to grant a license; second, the intellectual property must be protected by law or at least eligible for protection; and third, the license must specify what rights with respect to intellectual property it purports to grant to the licensee and reserve to the licensor.

There are three broad categories of licenses for intellectual property: technology licenses, publishing and entertainment licenses, and trademark and merchandising licenses. Technology licenses cover patents, patentable inventions, trade secrets, "know-how," confidential information, copyrights in technical material (software, databases, instruction manuals), and semiconductors mask works. Publishing and entertainment

licenses cover copyrights in creative properties such as books, plays, movies, videotapes, television productions, music, and multimedia. Trademark and merchandising licenses cover trademarks, trade names, trade dress (the way products or services are packaged or presented), and rights of publicity.

There are at least nine business reasons why a firm may choose to license its intellectual property.

First, licensing adds the resources of the licensee to those of the licensor. By granting the licensee the right to market and distribute the licensor's product, the licensor can penetrate markets it could not hope to serve. For example, in licensing Microsoft's disk operating system software ("MS-DOS") to IBM, Microsoft obtained the benefit of IBM's global sales, marketing, and distribution systems.

Second, licensing broadens geographic markets. Most products going into foreign countries require some form of adaptation: labels and instructions must be translated; goods may require modification to conform with local laws and regulations; and marketing may have to be adjusted.

Third, licensing broadens product markets. A firm may have the resources to exploit its intellectual property through only one product, but the intellectual property may be applicable to other products or services. For example, producers of movies and television shows do not usually have the resources to mass produce and distribute video tapes. The producers will license their intellectual property, the copyright, to firms that can make master videotapes, manufacture the copies/, and distribute the cassettes.

Fourth, if a firm has insufficient capital or personnel to enter a market quickly, delegating through licensing speeds up the process. For example, small biotechnology companies license their intellectual property to large drug companies not only to distribute their product to more people but to beat their competitors to market.

Fifth, some products sell best when they are incorporated or sold for use with another product. For example, software is best supplied with the hardware rather than as an optional package. Microsoft's MS-DOS became the industry standard operating system as the IBM-PC became the industry standard microcomputer. Third party software companies had to write for an MS-DOS environment to gather the greatest market share for their product, which further increased the market penetration of MS-DOS.

Sixth, a company may license at the request of a firm in a noncompeting field. Licensing for this purpose works best when the licensor has no interest in exploiting the intellectual property in the no competing field. For example, a developer of mainframe computer software with expertise only in mainframes might grant a license to a developer of software for personal computers. If the licensee's market is too close to the licensor's market, undesired competition may be created.

Seventh, licensing is one way for a firm to barter for technology it would otherwise have to pay for. A licensor may barter for the licensee's improvements to the intellectual property. Improvements to the intellectual property are granted back to the licensor. Another technology barter scheme is cross licensing. Cross licensing occurs when two competing firms with different research and development strengths can take advantage of the other's progress. Cross licensing creates the same sort of synergy as a joint venture without the inconvenience and delay of setting up joint operations.

Eighth, when the licensor's trademark is licensed for use in the market along with the intellectual property, then the licensee's marketing efforts benefit the licensor's reputation and goodwill (as long as the licensee maintains quality in product, service, and sales). For example, AT&T, new to the mass computer market, gained positive publicity

Finally, licensing may allow a firm to achieve some degree of control over its own innovations and also over the direction of the industry. For example, if Microsoft did not allow MS-DOS to be licensed, IBM would probably have developed an operating system on its own which might have been very different from MS-DOS and taken away MS-DOS's place in the operating systems market.

IV. GLOBAL CHANGES THAT HAVE FACILITATED INTERNATIONAL LICENSING

As previously/ discussed, the last decade has seen a sharp rise in the export of intellectual property from the U.S. There are many reasons for this phenomenon, but undoubtedly a radical, pro-Western shift in the zeitgeist of Eastern Europe and Asia is the engine behind this rise in exports. This new zeitgeist has fostered economic and political change. First, the Soviet Union has collapsed and with it the reason for restricting trade to members of the former WARSAW pact. Second, Eastern Europe has embraced capitalism. Third, countries in Asia and in the developing-world have created a low-wage, technically skilled industrial base to compete in the global economy or to serve as a platform for U.S. and European off-shore manufacturing. Fourth, China has opened its borders to trade with the U.S., to supply its population with consumer goods and to build a modern infrastructure for future development. Finally, distrust of the Japanese by other Asians and the preference for an economic and military counter-weight to Japanese power has further increased exports from the U.S to the region. The desire of the U.S. to export high technology was not always so strong. A cold war with communist countries lasting almost half a century shaped an economic policy averse to exports of technology.

V. LIMITS ON INTERNATIONAL LICENSING: THE COLD WAR AND RESTRICTIONS ON THE Congress obtains its power to regulate exports from the Commerce Clause The first major attempt at controlling international trade for security reasons was the Export Control Act of 1949 which resulted in a near total embargo of trade with the communist countries of Eastern Europe. Soon after, the informal Coordinating Committee on Export Control (CoComm) was created comprising representatives from NATO and Japan to protect the mutual security of member states.

The Export Administration Act of 1979 (EAA) gives the Department of Commerce the authority to administer a system of export controls in order to protect our national security, advance U.S. foreign policy goals, and restrict the export of resources in short supply domestically. CoComm and the various federal agencies (especially DOD) create lists of technologies that are candidates for export restrictions. These lists serve as a source for the list of items controlled by the Commerce Department. This/ list of goods that may be exported upon approval by the Commerce Department is called the Commerce Control List (CCL). Almost every good or technology is controlled in the sense that it is illegal to export without a license.

All U.S. exporters must first get a license from the Department of Commerce in order to sell a product outside of the U.S. There are two types of licenses: general and validated. Items or technologies that are controlled (listed in the CCL) require a validated license. For an item not on the CCL, a general license is required, but permission for each shipment is not necessary. For a good on the CCL, the validated license must describe all the details of the transaction and is reviewed carefully by the Office of Export Administration on a case-by-case basis. The licensing process can be time-consuming and expensive, especially if a validated license is needed.

One example where CoComm has failed in its mission to control the export of critical technology came to light in the mass media in 1987. It was discovered that certain corporations were selling computer controlled milling equipment to the Soviet Union for the grinding of high tolerance parts. Toshiba Corporation of Japan and Kongsberg Vaapenfabrikk of Norway sold computer controlled, multi-axis milling machines to the Soviet Union since the mid-1970's. These machines were used to grind high tolerance propellers that could help make a submarine very quiet underwater. Almost overnight the Soviet nuclear submarine fleet went from being noisy and easily traceable by U.S. hunter-killer submarines to quiet and nearly undetectable.

The end of the cold war has had a substantial impact on freeing the hand of business in the area of exporting technology. For example, the rules and regulations issued by the Commerce Department relating to the People's Republic of China show that many high technology items are available for export, including lasers, computers, high speed digital telecommunications equipment, computer controlled milling equipment, modems, microwave technology, thermal imaging equipment, and/ global positioning satellite receivers. Obviously, most of these technologies have direct military application. This may be why Commerce Department regulations sometime specify that the end-user must have a peaceful application before the product can be exported.

CoComm has been disbanded but will probably be replaced by an organization more focused on rogue nations/ like Iran, Iraq, Libya, and North Korea. The Clinton Administration has removed many of the restrictions on computers and telecommunications technology so that a validated license is unnecessary. Sale of computers executing up to 260 MTOPS (millions of theoretical operations per second) have been decontrolled to almost all destinations. Computers used to be controlled at 12.5 MTOPS, roughly the speed of an early 1980's Apple Macintosh.

The EAA has been criticized for setting up a license approval process that is complicated and redundant and hurts U.S. exports. Since 1979, however, Congress has amended the EAA to streamline the licensing process. The administration of the lists can be a highly political issue between agencies and the EAA exempts nearly all actions and regulations from judicial review under the Administrative Procedure Act. Notwithstanding bureaucratic inefficiency and infighting, as commercial interests take precedence over military concerns, the trend in removing export restrictions will probably continue in order to help U.S. business compete in the global economy.

Licenses and the Law

- Licenses represent an agreement between the library that seeks to make an electronic resource available for its readers or constituents, and a publisher or vendor who has the rights to such resources and seeks to make them available in the library marketplace. License terms and conditions must be fully available to customers in advance of their contracting for said resources. Every license is subject to discussion of terms and to negotiation between the parties.
- . In the case of "shrink-wrapped" and "click-through" non-negotiated licenses, the terms should support public policies in such areas as copyright, privacy, intellectual freedom, and consumer rights.
- Licenses (contracts) for information should not exclude or negatively impact for users of the information any statutory rights that may be granted by applicable copyright law.
- The choice of applicable law should be acceptable for both parties. Preferably it should be the national or state law of the licensee.
- Licenses should be negotiated and written in the primary language of the library customer.

Licenses and Values

- . The license agreement should be clear and comprehensive, recognizing the needs of the concerned parties. In particular, important terms should be defined so as to be clearly understood.
- . The license should balance the rights and responsibilities of both parties.
- . The license should provide for remedy periods and other modes of resolution before either cancellation or litigation is contemplated.
- The contracting parties should have the right to back out of the arrangement under appropriate and defined circumstances.

Licenses: Access and Use

- The license should provide access for all of the users affiliated with a licensee, whether institution or consortium, regardless of whether they are on the licensee's premises or away from them.
- The license should provide access to individual, unaffiliated users when on the licensee's premises.
- . The license should provide access for geographically remote sites if they are part of the licensee's organization.
- . Remote access should be provided by way of a web-based, user friendly interface.
- Data that is downloaded locally should be available in multiple standard formats (e.g. PDF, HTML, and SGML), portable to all major computing platforms and networked environments.
- At a minimum the license should permit users to read, download, and print materials for their own personal purposes, without restrictions.
- . Resources provided via remote access to providers' sites should be available on a 24-hour basis, with appropriate "help" or service support, except for short scheduled downtimes announced with adequate notice to the customer library (ies). Penalties may accrue if service commitments are not met.
- A high degree of content stability, both in single and in aggregated resources, should be guaranteed and the institutional customer should be notified of changes. Penalties may accrue if content commitments are not met.

Licenses and End Users

- . Libraries should work with users to educate them about proper use of electronic resources and take reasonable measures to prevent unlawful use, as well as with providers to halt infringing activities if such become known. Nonetheless, the library should not incur legal liability for actions of individual users.
- It is not appropriate to ask the individual user to agree to a contract, such as a "click" contract, where the institution/library has already made -- or may engage in making -- an agreement on behalf of its patrons.
- Users' privacy should be protected and respected in the license and in any intervention made by information providers or intermediaries.
- . The networked information provider should offer usage (as opposed to user) data so that the library licensee may assess the effectiveness of the use of the resource.

Licenses and Perpetual Access

- A license should include provision for affordable, perpetual access to the licensed information by some appropriate and workable means.

- . A license should address provisions for long-term access and archiving of the electronic information resource(s) under consideration and should identify responsibilities for these.

Licenses And Pricing

- Prices should be established so as to encourage use rather than discourage it. For example:
- Many suppliers price electronic information at lower than the print equivalent (if there is one)
- Many suppliers now offer incentives, such as consortial pricing, a choice of pricing models, and the like.
- Prices should be fully disclosed with no hidden charges.
- . An unbundled (from print) price should be offered for electronic versions; a bundled price may be offered as well where this offers advantages for the licensee.
- There should be no penalty for canceling print in order to take up the electronic version of a resource.
- . Requirements for non-disclosure of license terms are generally inappropriate.

Interlibrary Loan

- Provisions for interlibrary loan or equivalent services should be included.
- . In general, libraries should be able to deliver reasonable length extracts from licensed information to libraries that have not signed a contract for that information for use by a specific patron.
- Licenses should support local teaching and learning efforts, from elementary through university level, by permitting links to, or copies of, specific course-related information to appear in online course-support activities such as electronic reserve.
- Distance Independent Learning poses a challenge to providers and libraries. Licensors should recognize the affiliation of users with a given library or institution, regardless of users' physical location and should permit them routine access to licensed electronic information resources

QUESTIONS FOR DISCUSSION

- Q1) what are the relevant considerations you will take into account before going for a Licensing arrangement?
- Q2) Critically evaluate the Licensing as a mode to enter International Business on basis of it's relative merits and demerits.
- Q3) How will you select a Licensing arrangement
- Q4) What are the reasons for which the firms go for licensing arrangements
- Q5) Comment on the Laws of Licensing ???