

## Understanding Licensing Agreements in India: Benefits and Risks

written by King Stubb & Kasiva | March 20, 2023



Licensing Agreements are defined as a contract between two parties known as licensor and licensee where the licensor grants the right to use the trademark, brand name, patent technology, or ability to produce and sell the goods which are owned by the licensor. A licensing agreement grants the licensee the ability to use the intellectual property which is owned by the licensor. The licensor generally uses it to commercialize their intellectual property. It allows one party i.e., licensee to use and earn revenue from the property of the owner i.e., the licensor.

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Importance of Licensing Agreements

Licensing Agreement is the most effective solution for protecting intellectual property. It allows the owner of the intellectual property to approve the third parties to use, resell and alter the property for a mutually agreed-upon price, without transferring ownership to the third party. There are three important categories of licensing agreements:

- Licenses for the standardized markets, for example, the creation of USB devices.
- License for using products like patent
- License for universal rights to use intellectual property, which includes individual components used to create the original property.

For licensing agreements to be effective, there are a few factors that should be important. All parties should be clear on who owns the rights of trademark and patent before the licensing agreement. The following categories should specify the following details:

- Geographical range
- Nature of the IP registration
- Trademark range for services or products.

Types of Licensing Agreements in India

Intellectual property licensing in India consists of three types of licensing agreements:

- Trademark Licensing - In India trademark licensing is governed by section 49 of the Trademarks Act, 1999. Section 49 explains that the owner of the mark and the proposed user should jointly apply for the respective user to become a registered user of the said mark. This Act doesn't explain the license but mentions about licensee as a registered user. It directs that the license needs to be written and allows the licensee to be a registered or unregistered user. The unregistered users cannot institute infringement under the Act whereas the registered user may institute.
- Patent Licensing - Patent generally covers innovation and science. Patent licensing agreements are the documents by which an owner of a patent allows someone else to use their patent. The patent owners choose to license their patent so that they can manufacture and distribute it globally. The individuals which create innovations are not the same parties who manufacture and distribute them. These licenses are generally the most difficult types of license agreements because of everything involved in obtaining and maintaining a patent.
- Copyright Licensing - Licensing is defined under Chapter IV of the Copyright Act. Section 30 of the Act explains that it permits the owner of the copyright in existing work or any future work may license the rights in copyright in writing by him or any of his duly authorized agents. The licenses in the future will take effect only when its work comes into existence. The process of granting licenses concerning literary, dramatic, musical, and artistic works contained in cinematography films or sound recordings can be carried out through a registered copyright society. The owner of copyrights can issue the licenses, in his capacity, concerning his works according to his obligations as a member of a registered copyright society.

Legal Requirements for Licensing Agreements in India

- Registration of Agreement - In the process of legal Requirements for

Licensing Agreements in India license agreements can be registered with the Registrar of Trade Marks and Copyright Office. Registration of the license agreement provides legal protection to the licensor and licensee by forming the ownership and validity of the Agreement. It also helps in solving disputes between the parties, as well as offering evidence in cases of infringement and litigation. The grant clause conveys the intellectual property that is the subject of the license agreement and it sets the rights that are being granted to the licensee. The consideration clause is considered as most important clause of the agreement. It can be established in different ways, with the licensor getting the fee of the license initially and royalties depending upon the revenue or sales of a licensee. The time in the agreement should be specified clearly, it should not exceed the protection accorded over the property. The rules related to the warranty are very important. They are the promises made by the parties to each other, if false would result in a breach of the agreement. Dispute resolution is beneficial to incorporate the provisions related to dispute resolution to ensure smooth proceedings in case any kind of dispute arises.

- Payment of royalties - Royalties are defined as a payment made to a licensor by a licensee for the right to use intellectual property. These payments are based on the percentage of the licensee's gross revenue from the licensed property. These payments are common in license agreements for software, copyrights, patents, and trademarks. According to the terms and conditions of the license agreement, licensees will be responsible for paying the royalties to the licensor. The agreement will specify the amount of the royalty, how it will be calculated, and when it is due. If there is a case of failure, then it can result in the termination of the licensee agreement and attract legal consequences. There are some common types of royalties as follows:
- Book royalties - They are generally paid to the authors by publishers and for every book which is sold, the author will receive an agreed amount.
- Performance royalties -The owner of copyrighted music gets an amount when the music is played by a radio station, used in a movie, or by a third party.
- Patent royalties - The innovators patent their products, then if a third party wishes to use the same product, they must enter into a licensing agreement which will require them to pay royalties to the patent owner.
- Franchise royalties - A franchisee, will have to pay a royalty to the franchisor for the right to open a branch under the company name.
- Mineral royalty - These are paid by the mineral extractors to property owners and the party that needs to extract the minerals will pay the property owner an amount that will be based on either revenue or units.

#### Termination clauses

The termination clauses are an important part of licensing agreements in India, and they outline the terms and conditions under which either party may terminate the agreement. It is also called a severance clause, which authorizes the parties to terminate an agreement without breaching the contract under early termination and mutual termination. The parties can avoid a dispute by agreeing to a termination clause. There are some common termination clauses that are used in a licensing agreement in India:

- Termination for breach - This clause outlines the specific circumstances under which either party may terminate the agreement for breach of any term or condition of the agreement.
- Termination for convenience - It allows either party to terminate the

agreement without any specific reason by providing the notice to the other party.

- Termination for insolvency - It allows either party to terminate the agreement if the opposite party becomes insolvent, bankrupt, or unable to meet its financial obligations.
- Termination for Non-Performance - It allows either party to terminate the agreement if the other party fails to perform its obligations under the agreement as agreed.
- Termination from Force Majeure - It allows either party to terminate the agreement if any extraordinary event beyond their control makes it impossible to continue the agreement.

#### Non-Disclosure Agreement

Non-Disclosure Agreements are agreements that are signed between two people or entities in writing then that information will be confidential and will pass from one person to another, the nature, and purpose of the information and most essentially an undertaking from one person receiving the information should not reveal it to anyone for a limited time period.

This agreement helps in protecting the intellectual property rights of the parties which include its databases, client lists, proprietary information, etc. It helps in maintaining the secrecy between the parties binding them legally through various clauses established under the agreement. It prohibits the receiving party from disclosing confidential information. There are many clauses that maintain a timeline in which a party is obliged to maintain secrecy.

If any party infringes the agreement, it would be liable to compensate the damages to the aggrieved party. The dispute can also be referred to Arbitration or even taken to court if needed.

#### Licensing Agreement Negotiation in India

Steps of Licensing Agreement Negotiation in India are as follows:

##### Pre-Negotiation Process

The Pre-negotiation planning affects the return on licensing more than on actual negotiation, irrespective of how the negotiation performed. The pre-negotiation process includes the following steps: -

- The first step is to conduct research on a licensing agreement, the potential licensee, and the market. It includes identifying the best models and strategies for licensing, understanding the market opportunities and challenges along with evaluating the potential licensee's record and capabilities.
- The second step is defining objectives, which includes identifying the goals of both parties such as cost savings, revenue targets, or market share, and determining what to achieve from Licensing Agreement Negotiation in India.
- The third step will be to analyse the alternative options and potential outcomes. It includes considering alternative licensing models and assessing the risk and rewards of different alternatives.
- Developing a strategy based on research, objectives and alternative analysis will be the next step. It involves setting priorities, identifying the key issues, and developing a negotiation plan that forms and outlines the steps that can be taken during the negotiation process.
- It is very necessary to collect all the important data and information before entering into negotiations. It includes financial statements, marketing plans, product specifications, and other relevant documents.

- It is important to determine the decision maker on both sides of the negotiation table. Understanding who has the authority to make a decision will help to streamline the process and avoid distractions.
- It is important to build an appositive relationship with the potential licensee who is serious about the success of the licensing agreement. It involves establishing trust, mutual respect, and open communication.

#### Key Negotiation issues

Some issues of negotiation are as follows:

- The ownership of intellectual property is an important concern for licensors and licensees, the issue will be who owns the patents, copyrights, trademarks, and trade secrets and who can use them.
- The royalty payment is an important negotiation issue in which the compensation is paid by the licensee to the licensor for the right to use the licensed technology. The manner and amount of payment which includes the ongoing royalties also needs to be discussed.
- The licensor and licensee must negotiate the terms under which the license can use the technology including the usage limitations and exclusivity.
- The termination provisions must negotiate to avoid disputes over the ability of either party to terminate the licensing agreement. The identifying of events, which triggers termination, and analysing the consequences of termination.
- The provisions of warranty and indemnity of a licensing agreement protect both parties from any issue arising out of licensed technology. These provisions should be carefully negotiated and drafted to ensure that both parties are protected.
- The parties to the agreement must agree on the terms of confidentiality and data privacy. It is considered an important part and it includes the different types of information that are considered confidential and analysing the measures to be taken to protect it.
- The Parties must agree on the dispute resolution mechanisms which will apply if there will a case of disagreement between them. It includes mediation or arbitration, depending on the dispute and needs of the parties involved.

#### Drafting the Agreement

1. Grant of License- This is the most important clause in drafting the licensing agreement. It defines how the rights will be transferred and how the remaining agreement will be made. It will cover the scope of content which is being granted by the licensor. There are two types of licenses granted exclusive and non-exclusive grant of license. An exclusive grant of license allows a particular party who is entering into the agreement to occupy the content and not any third party. A non-exclusive grant of a license will not urge any restrictions to license the content to any number of licenses.
2. Term and termination- This clause explains the duration of the agreement. Ether party can terminate upon the days written in the notice to the other party when there is a case of a breach in the agreement. When the agreement is terminated, all rights, which are granted to the licensee, will immediately cease, and the licensee shall return the licensed property to the respective licensor.
3. Confidentiality- Both parties can enter into a non-disclosure agreement, and it is the duty of the licensee to keep the content of the agreement confidential. It is important to give detailed information about clauses which includes all the confidential information.

4. Warranties and Representations- In this clause each party represents and warrants that it has the full power and authority to enter into the agreement and to perform its obligations in the agreement. The Licensor and warrants have the right to grant the license granted and it is the sole owner of the Licensed Property.
5. Dispute Resolution- According to the laws of the state, the agreement will be governed without conflicting laws and provisions.

#### Execution and Implementation

1. Negotiation - Both parties negotiate the terms and conditions of the licensing agreement, which includes the scope of the license, duration, geographic territory, and royalties or fees payable applicable.
2. Drafting - After agreeing to the terms of the agreement, it is drafted by the legal counsel of both parties. It should be clear and concise, along with the rights and obligations of both parties.
3. Signing - The agreement will be legally binding when parties sign the licensing agreement.
4. Payment - The licensee should pay the amount decided upon royalties according to the terms of the agreement.
5. Implementation - According to the terms of the agreement, the licensee implements the licensed technology. The licensee should provide support, training, and other assistance to ensure that the process is successful.
6. Monitoring - The licensor monitors the terms and conditions and compliances of the licensee to ensure that the product is being used appropriately.
7. Renewal or termination - If the parties agree the agreement can be renewed or if either of the parties breached the agreement or it expires then the agreement will terminate.

Similarly, both parties should work together to ensure the successful execution and implementation of the licensing agreement.

#### Intellectual Property Licensing in India

- Importance of Intellectual Property Licensing in India - The licensing of intellectual property increases a company's ability to grow its business, launch new services and products, and expand in a wider range of geographic markets. When companies are willing to pay a considerable amount of money to use another company's intellectual property in their own products then licensing serves as a good source of revenue for many of them. It creates a passive income for the IP owner, without any overheads. It provides new opportunities in business for the licensor and licensee. It enables the businessman to enter new markets and expand their business to provide a potential for better marketing.
- Intellectual Property Laws in India- In India IP laws are designed to protect the rights of creators and inventors. The concept of IP refers to products of human creation that are protected by law. In the 19<sup>th</sup> century the first patent law was enacted since then many laws have been made to protect different types of IPs such as trademarks, and copyrights. Patents and design. The laws governing IP in India are-
  - Patent Act
  - Copyright Act
  - Trademark Act
  - Design Act
  - Farmers Rights Act and Protection of plant varieties
  - Geographical Indications of Goods Act

These laws provide legal recourse for those whose IP rights have been violated and ensure that their works are not infringed. Overall, these laws are comparable to those in other countries which provide good protection to encourage creativity and innovation.

- Filing Requirements for Patents, Trademarks, and Copyrights in India- The filing requirements for a patent are it should be in writing with a description of the invention, including technical specifications and drawings. The claims define the scope of the invention and the details about how the invention is new and inventive. The information about the inventor and assignee. The maintenance and payment of filing fees are required. Trademark - A description of marks that includes any design elements or logos. Then a list of goods and services which the mark will represent. The proof of use of mark India and the information about the applicant and their business. Lastly, the maintenance and payment of filing fees are required. For Copyrights - The evidence of ownership or any authorization to file on behalf of the owner. A copy of the work being claimed, such as a manuscript, music work, or artwork. Finally, the maintenance and payment of filing fees are required.

These requirements are subject to change and additional requirements can apply to specific types of Intellectual Property.

#### Conclusion

The licensing agreement grants the licensee the right to use the IP in exchange for payment of royalty, there are several risks and benefits as follows:

#### Benefits

- When parties enter into an agreement, the licensee does not have to invest in research, development, and manufacturing, which significantly reduces the financial risk.
- It provides an opportunity to generate additional income through licensing fees.
- It helps companies to enter new markets and make brands recognized by leveraging the brand name.
- A licensee can bring new products very rapidly to market without having to start initially.
- It gives access to licensees for valuable technology, which it may not have been able to obtain.
- It also provides a competitive advantage to licensees over their competitors.

#### Risks

1. The licensing agreement results in IP disputes which is a costly and time taking process.
2. It can damage the licensor's brand if the licensor may lose control over how the licensee uses their intellectual property.
3. The licensee may not maintain the quality of IP and produce inferior products, which can damage the licensor's reputation.
4. The payment of royalties is not decided, it can affect the process by various factors.

A licensing agreement may limit the licensee's ability to expand its market share or enter new markets.

#### FAQs

What is a licensing agreement?

It is defined as a legal contract between two parties, where one party grants

permission to another party to use their Intellectual property, for a particular fee. It can include invention, design, or trademark.

What are the benefits of licensing agreements in India?

1. Access to new markets and customers
2. The ability to exploit unused technology assets
3. Mitigation of competition
4. Increased revenue streams and profits
5. Reduced risk and costs along with research and development

What are the risks of licensing agreements in India?

1. The termination of the licensing agreement
2. Litigation and disputes
3. Inadequate protection of Intellectual property rights
4. Lack of quality control and product safety
5. Not able to meet contractual obligations

What are the legal requirements for licensing agreements in India?

The legal requirements for licensing agreements in India are:

1. It must be in writing
2. It must include the rights and obligations of both parties
3. It must include the terms and conditions of the agreement
4. It must specify the duration of the licensee
5. It must identify the intellectual property being licensed
6. It must comply with all the latest and updated laws in India

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Tel: [+91 11 41032969](tel:+911141032969) | Email: [info@ksandk.com](mailto:info@ksandk.com)