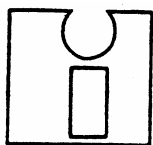


WIPO-IFIA/SEL/02/1

ORIGINAL: English

DATE: December 2002



INTERNATIONAL FEDERATION OF
INVENTORS' ASSOCIATIONS



WORLD INTELLECTUAL
PROPERTY ORGANIZATION

**WIPO-IFIA INTERNATIONAL SYMPOSIUM ON
THE COMMERCIALIZATION OF INVENTIONS
IN THE GLOBAL MARKET**

organized by
the World Intellectual Property Organization (WIPO)
and
the International Federation of Inventors' Associations (IFIA)
in cooperation with
the Korean Intellectual Property Office (KIPO)
and
the Korea Invention Promotion Association (KIPA)

Seoul, December 4 to 7, 2002

ENTREPRENEURSHIP AND THE COMMERCIALIZATION OF INVENTIONS
AND RESEARCH RESULTS

THE ROLE OF LICENSING IN A GLOBALIZING ENVIRONMENT

*Document presented by Mr. Heinz Goddar, European Patent and Trademark Attorney,
Boehmert and Boehmert/Forrester and Boehmert, and Past President of
Licensing Executives International (LES), Munich*

A. INTELLECTUAL PROPERTY RIGHTS (IPRS) AND SURVIVAL IN A GLOBAL ENVIRONMENT

1. Local and regional markets, which in the past, particularly before a country joined the World Trade Organization (WTO), were still at least to a certain extent, isolated from the highly industrialized world market, are losing more and more of their regional character and are becoming transparent in the sense of being interconnected with other regional markets in the world. A company that in the past may have been able, for instance as an owner of new technology, to use that new technology for the sale purposes of its local market without even thinking of other parts of the world, either is or will be facing the challenges but also the opportunities of worldwide competition, in the sense that survival for a broad range of technology is possible only if the products concerned conform to certain kinds of world-wide standard.

2. All this is changing rapidly, and in particular the entry of countries into WTO dramatically increases the speed of change in terms of local markets to the competition of a global environment. At the same time TRIPS, the acceptance of which necessarily accompanies a country's membership of WTO, makes the protection of technology by enforceable IPRs so much stronger than before TRIPS-compatible prosecution and enforcement rights were introduced that sometimes IPRs, especially patents and copyright, are looked on by the industry of a country joining WTO as unfriendly instruments that even threaten to "kill" local industries.

3. The purpose of this paper is to show how IPRs, if used in their "friendly" capacity as instruments that enhance the possibilities of technology transfer, can help local industries active in emerging markets to survive in a global environment.

B. WHAT IS LICENSING?

4. Licensing literally means "permitting," and in general terms nothing can be licensed that the potential licensee is able or allowed to do even without permission from the potential licensor.

5. Usually, or at least as this paper understands it, licensing means that a third party, the licensee, is enabled to use patents and other IPRs, owned by the licensor that otherwise he could not use. Distinction has to be made between two completely different aspects of licensing, namely the enabling and the permitting aspect. For instance, in the case of a pure know-how license, licensing means that the licensor enables the licensee to use the licensed know-how by disclosing it to him, as otherwise, without the specific knowledge imparted by licensing, the licensee, in the normal course of events, would not be able to use it. In other cases, as with a pure patent license, where the licensor does not assume any obligation to teach the licensee anything other than might already be learned from a patent specification, there is only licensing in the sense that the licensee is permitted to use the licensor's otherwise exclusive right as conferred by the patent.

6. In any case, securing the exclusivity of a given technology, trademark, design, copyright, or trade secret by acquiring the appropriate IPR is the first duty of a prospective licensor, as without such titles and rights, in other words without IPR in the most general sense, there is nothing for the licensor to prohibit, and conversely nothing for him to permit and ultimately to license.

C. KINDS OF IPR

7. In principle, technology and technology-related inventions can be protected by essentially three different instruments, namely, as far as registered IPRs are concerned, patents, including utility models and special protection certificates (SPCs) and, as far as unregistered IPRs are concerned, trade secrets or copyright.

8. The various kinds of IPR available at present are briefly described in more detail below.

C.1 TRADE SECRET OR PATENT – A BASIC CHOICE

9. Particularly in view of the usually considerable costs of patenting technical inventions, which in a broader sense includes also know-how like computer software, which is not protectable under the patent systems of most countries, it is difficult for a company to decide what kind of its technical know-how, which from here on we shall designate with the general term “invention,” should be protected simply by keeping it secret, and thereby preventing third parties from imitating it through ignorance and what kind should be protected by patents, which from here on we shall regard as including utility models.

10. The question of whether to protect an invention by keeping it secret or by patenting it is one of principle: if one chooses to protect an invention with a patent, publication of the invention has to occur by virtue of the general rule that the grant of a patent is the public's reward to the inventor for not keeping the invention secret but disclosing it. Accordingly, the choice between the alternatives of trade secret and patent protection has to be carefully considered.

C.2 COPYRIGHT

11. Copyright, which is unregistered in Germany for instance, as well as in the majority of countries party to the Berne Convention for the Protection of Literary and Artistic Works, provides sometimes additional, sometimes the only protection for such things as pure software or business methods, which under the law of many countries and under the European Patent Convention (EPC) cannot be patented “as such.”

12. An advantage specific to copyright protection is that it comes into being automatically, namely by the mere creation and “objectivization” of the subject matter, in the sense of it being written down, recorded or otherwise manifested by the author in an objective, provable form.

13. The drawback of copyright protection is that it protects exactly against what its name suggests, namely copying, so that it cannot be enforced against independent creations, and in this it differs from the “absolute” protection afforded by patents.

C.3 RECOMMENDATIONS – WHICH IPR SHOULD ONE CHOOSE?

14. The choice between a trade secret on the one hand and a patent on the other for the protection of an invention has to take many aspects into account. In the decision process, it has first to be considered that where inventions automatically become disclosed by the sale of a product, for instance, they can only be protected by patents, not as trade secrets. If an invention can in principle be protected by either a trade secret or a patent, the question of whether it is actually possible to keep the invention secret (because of cooperative ventures, employees' leave, etc.) has to be carefully checked. The risk of patenting by independent third parties could be protected against by such things as "hidden" publication. If exploitation of the technology by licensing is considered, in most instances it is preferable at least to have its core elements protected by one or several patents.

D. TRENDS AND DEVELOPMENT ON THE INTERNATIONAL LICENSING SCENE: THEIR IMPACT ON DEVELOPING AND EMERGING COUNTRIES

15. Most if not all of the trends and developments observable on the international licensing scene tend nowadays also to apply to the markets of both developing and emerging countries, including, although at a rather higher development level, those of countries in Eastern Europe joining the EPC, as well as countries in Africa and Latin America and, going east beyond Eastern Europe, the successor countries of the former Soviet Union. Where the motivation to exchange technology by licensing in developing and emerging countries, like those of Eastern Europe, cannot yet be determined so clearly as in the United States, for instance, there will be a development similar to what often happens with regard to trends and developments in general business matters when the United States and Europe, especially Germany, are compared: after a few years have passed, usually from three to five, trends noted in the United States more or less explicitly also become observable in Europe. As far as licensing is concerned, it is certain that whatever nowadays are still rather underdeveloped Eastern markets will follow the lead of the United States and Western Europe, namely the regions where licensing already contributes greatly to the wealth of local economies.

D.1 GENERAL TRENDS AND DEVELOPMENTS

16. Licensing is a valuable instrument for helping individuals and enterprises to survive and to be more successful in the global market. Why is that? Small and medium-sized enterprises (SMEs) in particular are unable to act globally for lack of capacity, capital and experience. Accordingly the owner of a certain new technology, which in principle may be useful worldwide, is not able to manufacture products both for a certain home market and for markets elsewhere.

17. This is even more so where for a range of goods, including pharmaceuticals in particular, a wide variety of national admission procedures, standards, and other constraints are imposed.

18. The most natural step in such a situation for a company that is not a "global player" is to look for partners in those parts of the world that cannot be served directly. An ideal form for such a partner, to which the new technology would be transferred, or through which it would be transferred to the foreign market concerned, is that of a licensee.

19. What is more, there is a broad range of technical fields in which the need for new products is permanent. One example is the pharmaceutical industry, but the same applies to the software industry; both are constantly in need of new developments, which by the giants of the world can then develop further on worldwide markets. Again, a small or medium-sized company would not have either the sources of such technology or the knowledge of its being available elsewhere. The natural partner in such a situation would be a licensor, possibly a licensor from abroad and in a similar situation in relation to its own market, who would be willing to grant exclusive rights to a licensee in a certain foreign territory because that territory would be completely out of the licensor's reach.

20. As a consequence of the above situation, which is entirely due to the increasing globalization of world markets mentioned earlier, licensing, both in and out, plays a steadily increasing role in nearly all fields of technology, but particularly in fields such as pharmaceuticals, computer software or telecommunications, which arguably constitute the most prosperous licensing markets in the world.

D.2 SPECIAL CONSIDERATIONS ON DEVELOPING AND EMERGING COUNTRIES

21. With the number of license agreements and similar cooperations discussed under D.1 above increasing worldwide, their impact on developing and emerging countries in particular cannot be overestimated: on the one hand, the worldwide competition of goods will make it more and more necessary for enterprises in all countries, even in emerging markets, to manufacture and sell products capable of competing with similar products, in the sense of embodying similar technical standards and technology, all over the world. This in many instances will make it necessary to license up-to-date technology from licensors in other countries, and that is the challenge.

22. On the other hand, the advantage directly and inherently linked to the increasing globalization of world economies and the ever denser and denser network of license agreements worldwide resulting from it is domestically generated technology, such as biotech or computer-related inventions developed by quite small or medium-sized companies in Japan, will in future no longer be used just on a local or regional scale, but will travel the licensing network and reach every country and industrial region of the world, bringing a highly appreciated income in the form of royalties, which are essentially income beyond the general overheads connected with the development of new technology and which flow into the home countries of the enterprises involved.

D.3 PRESENT ECONOMIC AND LEGAL STANDARDS OF COUNTRIES JOINING WTO: IS IT NOW TIME FOR THE LICENSING INDUSTRY TO FLOURISH?

23. Looking at the environment described, with the constantly increasing internationalization of technology development and use, and furthermore bearing in mind the progress in high-tech industry that even smaller and medium-sized enterprises in many countries having just joined or considering joining WTO have made in recent decades towards the independent development of high-class technology of world standard, there can be no doubt that one of the ways of succeeding, if not the "Königsweg" or "King's Way" as we say in German, is licensing. Licensing gives the opportunity of increasing the economic standing of a country and even of a region through the exchange of technology. Licensing is the general instrument working in both directions, with the inward licensing of highly developed technology needed in the local market to achieve an internationally acceptable quality and

standard of products, and without ward licensing as the instrument with which to make better use of home-grown technology. The latter means adding to the marginal profit usually obtained by manufacturing, distribution, and so on in the local market the "windfall" profits that do not cause significant additional costs beyond those of obtaining intellectual property rights (IPRs), constituted by royalty income.

24. There is one more contemporary aspect of the suitability of countries entering WTO for licensing that should be mentioned: as already discussed under D.2 above, obviously the reliable prospect of having innovations protected by IPRs and then of enforcing the IPRs is a necessary condition for licensing to flourish. In this regard, particularly the fact of developing and emerging countries joining WTO and therefore accepting the binding regulations of the intellectual property-related provisions of the TRIPS Agreement will create much better possibilities both for protecting such subject matter as computers software and pharmaceuticals, especially in the biotech field, by means of patents, and will demand and necessarily lead to improved enforcement possibilities.

25. Two things should be mentioned here: first, even a country like Germany, with its lack of discovery procedures to prosecute infringement of method of manufacturing patents, will eventually, in order to avoid violating TRIPS obligations, have to modify its legal system to get improvements which in this instance will favor the patentee. There is no doubt that there will be similar developments in other countries.

26. Furthermore, on joining WTO, every country will find itself in the same situation as many countries in emerging markets, for instance in the Arab world, have already faced as far as pharmaceuticals are concerned, namely that patents set in motion in other WTO Member countries during the period between the coming into force of TRIPS (1995) and the time of entry of the country concerned, known as "mailbox patents," having to be recognized and respected by the joining country. As otherwise whole generic industries in such countries would have to be closed, the only solution available is clearly that of licensing arrangements between the foreign owners of such patents and local companies in the country joining WTO. A considerable number of license agreements, leading to situations that can only be beneficial to both domestic entities and foreign patentees, such as U.S., European or Japanese owners of patent rights, will be the natural consequence.

27. To put it in quite general and summary terms, when especially countries with important market capacities join WTO, this will increase the possibilities for the protection and enforcement of intellectual property rights in entering countries. This in turn will enhance the willingness of international innovators to import new technology of the highest standard into countries, something that they have noticeably avoided doing in the past, being afraid that their technology would not be sufficiently respected, to put it bluntly, in a market with means of enforcing patents that were not good in world terms. Another benefit will be a rapid increase in opportunities for and the scale of licensing.

E. THE ROLE OF THE LICENSING EXECUTIVE SOCIETY (LES) IN LICENSING

28. Whoever enters the international world of licensing or wishes to survive in it, should certainly make use of the assistance and experience of licensing executives worldwide.

29. A particularly valuable institution in this area is the Licensing Executives Society (LES), with its 27 member societies worldwide and its holding structure, LES International, of which the author had the honor of being President in 2000. Having more than 10,000 members worldwide and covering, with few exceptions, most of the industrialized and emerging regions of the world, LES has established an ideal networking platform for internationally active licensing practitioners. The focus of LES International, in which it complements organizations like the International Association for the Protection of Industrial Property (AIPPI), the latter focusing on the legal aspects of IPRs, notably how to obtain, protect and enforce them, is an educational society aiming to achieve the goal of free technology transfer and licensing worldwide, in general with a view to the commercialization of IPRs. Particularly for economies now entering the international licensing scene in ever greater strength, in terms of both outward and inward licensing, individual LES membership is a must for persons involved in this type of globalization of local industry. The author has pleasure in inviting those participants who are genuinely interested in licensing and networking on an international scale to join the international LES family.

F. SUMMARY

30. Licensing, both on an exclusive and on a non-exclusive basis, plays a more and more important role in many fields of technology. Owners of patents and other IPRs, particularly trade secrets and copyright, should always consider making better use of such titles by outward licensing. On the other hand, enterprises interested in introducing new technology should always think of inward licensing, in order to avoid the risk of duplicated development which would cause unnecessary costs, that would compare unfavorably with the usual modest royalties observed in many fields of technology.

[End of document - Powerpoint follows]