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WIPO NATIONAL SEMINAR ON THE VALUATION OF INDUSTRIAL PROPERTY ASSETS

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**THEME I: THE IMPORTANCE OF ASSESSING THE VALUE OF INDUSTRIAL
PROPERTY ASSETS - VIEWPOINT OF AN INSTITUTION FOR THE MANAGEMENT
OF INDUSTRIAL PROPERTY RIGHTS**

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1. The last 10 years have seen a growth in the recognition of the true value of intellectual property in commercial terms.
2. One does not have to search hard for evidence of this. The World Trade Organisation has recognised the importance of intellectual property by its adoption of measures relating to Trade Related Intellectual Property issues (TRIPs).
3. The World Intellectual Property Organisation (WIPO) has been consistently encouraging developing countries to adopt appropriate intellectual property roles and has instituted the Madrid Protocol in another attempt to streamline the registration of Trade Marks throughout the world.
4. In the European Union, the Community Trade Mark has been introduced and copyright harmonised between the Member States.
5. Regardless of whether the intellectual property rights are patents, trade marks, copyrights, designs or know-how, the exploitation of these intellectual property rights is perhaps most easily, effectively and profitably achieved by the licensing of their use and exploitation to third parties.
6. Professions and entire industries have been created around the licensing of intellectual property.
7. The omnipresent licensing executives (boasting a subtle mix of legal knowledge, numeracy, years of experience and a good deal of business sense) have established a healthy and active professional body - the Licensing Executives Society (LES) with representation in most developed countries.
8. Trade bodies such as the International Licensing Industry Merchandisers Association also actively represent those companies dedicated to licensing. Publications such as "*The International Licensing Directory*" give some idea of the current licensing industries' state of health. The ILD contains references to 2,000 licensing agents, 10,000 properties and 4,000 manufacturers all involved in the licensing of trade marks.
9. Some properties have become incredibly valuable. For example, the "Barbie Doll" property has been valued at over \$2 billion. It has been suggested that if the top 25 LMI member licensors pooled their properties the valuation of them would add up to somewhere between \$12 billion and \$20 billion.

The Basic Issues

10. Whilst licensing is somewhat of a generic term, including a whole host of activities ranging from the manufacture of pain killers, through the establishment of fast food chains to the manufacture of children's toys, there are certain issues that concern all forms of licensing and which it is important to properly deal with if a commercial venture is to be successful.

11. It is suggested that these key issues include Valuation, Income, Structure (including Taxation), and Post-Termination Restrictions. In other words what is it worth? What will I get for it? and how can I stop the Licensee using it after the Licence ends?

Valuation -What is it worth?

12. Intellectual property is like any other asset. Ultimately its value is what people are willing to pay for it. However, when considering the commercial viability of licensing as compared to some other form of exploitation it is important to try and scientifically arrive at a reasonable valuation.

13. It is only when both the potential Licensor and the potential Licensee have taken a view as to the value of the property that negotiations can take place and ultimately a licence agreed.

14. When entering into a licence agreement, the licensor undertakes a number of major commitments. These might include:

- The relinquishing of valuable patent rights;
- The relinquishing of opportunities to develop in turn business in the licensed territory;
- Undertaking to transfer know-how;
- Undertaking continuing technical and/or marketing support;
- Making improvements available;
- Allowing the use of valuable trade marks.

15. These commitments all cost money, although the costs are not always appreciated by the inexperienced licensor.

16. Royalties and other sums paid in return for licensed intellectual property represent a return on a valuable asset. As with any other asset, the owner can expect to have a fair return.

17. How to calculate that return is something that has long been debated in licensing circles. Using a so called "industry norm" can be dangerous. It is at best an uninformed guess in obtaining a fair return on one of the licensor's most important assets. It should also be borne in mind that so called "industry norms" were often set many years ago and are now out of date.

18. Some individuals have come up with complex equations which supposedly enable the proper calculation of the intellectual property's true value.

19. Clearly, there is no right or wrong way to calculate the value. However, it is important to take into account of all the relevant factors.

20. One of the factors that will be involved here is how and to what extent the right itself is protected.

Patenting

21. An important issue in this respect is whether or not this invention or process is patented.

Factors against Patenting

22. If you cannot keep an invention secret, that does not mean that you must patent it, assuming of course that it is patentable. It may be a waste of resources applying to patent an invention that is unlikely to be anything more than a passing fad, although it may be difficult establishing its potential longevity when the patent filing decision has to be made.

23. In rapidly advancing areas of technology, the pace of innovation might well make obsolete an invention long before a patent could be granted for it. Only where an invention is a basic step (e.g. the "gene-splicing" method invented by Cohen and Boyer) may it be worthwhile patenting in certain areas.

24. The more valuable an invention, the more will rivals be attracted to it. A patent will only hinder copying where the patent owner has the means to litigate infringements. Inventors with limited or no litigious resources, may be wasting money on patenting if they lack the means effectively to police or enforce a patent (or have little prospect of attracting the backing of a person or corporation with those means). Getting patents and defending them can be quite costly.

25. Method or process patents can be particularly difficult to police effectively. Where implementation of a process requires no special equipment, and the process is a laboratory technique, its use may be virtually impossible to police, and patent infringements may occur with impunity.

26. The policing task is usually easier, assuming the patent owner has the necessary policing resources, where the process is meant for use on an industrial scale or where its use leaves a "fingerprint" on the resulting product.

27. The extent of the protection afforded by a patent depends on the "claims".

Factors in Favour of Patenting

28. While the total cost of obtaining and maintaining, let alone enforcing, patents on an international scale can be prohibitive for an individual inventor or indeed a small firm, the cost of an initial application in most countries is fairly modest. Moreover, it is advisable, before opening negotiations with a potential backer or developer, for the inventor to have applied for a patent on his or her invention, otherwise there could be a dispute later on as to ownership of the invention, particularly where a potential developer is already working in the technical field to which the invention contributes.

29. Indeed, some firms may refuse to discuss business relating to an unpatented invention because they do not want to be bound by a confidentiality obligation if negotiations with the inventor should come to nothing.

30. A patent application also allows salient details of the invention to be made public without risk to its novelty or priority date. It may be important to publicise an invention, for example, in order to attract investment in the shares of the company that owns the invention.

31. This cannot be done prior to filing for a patent without putting novelty at serious risk. A company may seek to heighten its profile in the market by announcing an important, albeit filed-for, development. It may also do wonders for the morale of the employee(s) named as inventor(s) in the application. Advancement of scientists or engineers engaged in research and development within a corporate organisation may be linked to patented inventions or at least influenced by them.

32. A firm involved in research and development funded by outside backers may have little else to show investors in the early stages of the project beyond a list of patents applied for. Investors and bank managers have been known to view patents applied for or granted as evidence that the work they are funding is in fact progressing positively towards the goals of the project, without appreciating the often precarious nature of the rights involved.

33. Thus, patenting may be prompted by a need to maintain backing for a project; to add that extra gloss to the work under way.

34. Patent portfolios have already been mentioned; an application may enhance an existing portfolio, and help fortify the protective screen around a technology. A clutch of interlocking patents will be that much more difficult to penetrate, circumvent, or challenge effectively. Patents may serve as "counters" or provide leverage when bargaining for access to competing or complementary technology in other hands.

35. Even a potentially invalid patent backed by sufficient litigious resources can have a nuisance or deterrent value, and thus may serve as a pawn in bargaining. It is not unknown for a firm to take a license under a patent of suspect validity, since a modest royalty may be cheaper than litigation.

36. In favour of patenting also are the legal remedies that are available to a patent owner. These are more extensive than the remedies available for breach of confidence relating to a trade secret. Under most patent systems, rights of action for patent infringement usually stem back to a point in the application stage, so that rivals who, without the applicant's license, exploit the invention whilst the patent application is pending can be pursued as infringers after the patent has been granted.

37. The decision whether to apply for a patent involves a balancing of commercial and legal risks. If you can see no commercial or other advantage or "kudos" in applying for a patent, then an alternative investment for your money will be more profitable or enjoyable.

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