Précis Paper

Commercialisation of Intellectual Property

A discussion about the types of intellectual property in commercialisation agreements, the phases of commercialisation and the need for the protection of intellectual property both on a domestic and global scale.

Discussion Includes

- Phases of commercialisation
- Trade marks
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Commercialisation of Intellectual Property

In this edition of BenchTV, Donna Short (Partner – Addisons, Sydney) and Hazel McDwyer (Special Counsel – Addisons, Sydney) discuss the phases of a commercialisation project, the types of intellectual property in commercialisation agreements, and the need for the protection of intellectual property both on a domestic and global scale.

Phases of commercialisation

1. There are broadly four phases which reflect a product's lifespan.
2. Phase one is research and development.
3. Phase two is the creation of a prototype or prototypes and it is at this stage that manufacturing agreements with third parties may be drawn up.
4. It is important to ensure that confidentiality agreements are in place prior to this, and indeed from the very beginning of a product's lifespan.
5. Phase three is when the prototype has been developed and is at the stage of manufacturing. This stage involves the final refinements on the prototype.
6. It is at this stage that a manufacturer will be appointed to manufacture the technology product. At this stage branding issues will also be looked at and trade marks will become important.
7. Phase four is distribution, including the appointment of a distributor if the company is not going to distribute the product itself and also if the product is going to be distributed internationally.

Trade marks

8. There are a number of different types of intellectual property relevant to commercialisation.
9. A trade mark is a sign used to distinguish goods and services of one trader from those of another trader. A registered trade mark will give an exclusive right to use the trade mark and also to authorise others to do so.
10. Trade marks should be considered at an early stage of commercialisation as it takes 7.5 months to register a trade mark in Australia and ideally the trade mark will be registered by the time the product goes to market.
11. Unregistered trade marks can be used and are protected by common law rights. In regard to unregistered trade marks, if someone else uses the same mark or a deceptively similar mark for the same or a similar good or service the causes of actions available are passing off or a claim in misleading and deceptive conduct – under the Australian Consumer Law in Schedule 2 to the Australian *Competition and Consumer Act 2010 (Cth)*.

12. For commercialisation, it is better to register trade marks so as to obtain protection under the *Trade Marks Act 1995* (Cth). This will make it much easier to pursue infringement proceedings, if necessary.
13. Trade marks are registered for 10 years and then they can be renewed at 10 year intervals in perpetuity.
14. Trade marks can be assigned or licensed and they are an asset of the company.
15. If a company wishes to assign a trade mark, it must be in writing and once the assignment is completed, it needs to be registered with the relevant trade marks office so that it is recorded on the register.

Patents

16. Patents are another form of IP protection which are granted under the *Patents Act 1990* (Cth) and they confer on the patentee the exclusive right to exploit an invention.
17. There are two types of patents in Australia; a standard patent or an innovation patent.
18. In order to have an invention patented it needs to be new, involve an inventive step and be able to be used in an industry.
19. Once a standard patent is granted it will last for 20 years. Pharmaceutical patents can be granted for up to 25 years.
20. The innovation patent has a shorter period of protection, lasting for 8 years.
21. The threshold for patentability for an innovation patent is lower than that for a standard patent and that is, that there must be an innovative step – rather than an inventive step.
22. An innovative patent covers more incremental inventions and is useful where you have a patent which may not be needed for 20 years.
23. Further, an innovative patent is cheaper and easier to get registered and once registered, an innovative patent gives the same rights as a standard patent, just for a shorter lifespan.
24. A patent must be kept confidential until the patent application has been filed. This is because once it is in the public domain, rights to obtain a patent will be lost.
25. Therefore, it is important to have a non-disclosure agreement if engaging in discussions with other parties early in the piece so that the invention stays confidential.
26. A provisional patent application allows a patentee 12 months to decide whether they want to proceed with a standard patent application or a PCT Application, while keeping the priority date.
27. Unlike copyright under the *Copyright Act 1968* (Cth), there is no automatic provision for the employer of an employee to own the patent that the employee has invented under the *Patents Act 1990* (Cth).
28. It is important to ensure that relevant agreements are in place with employees and contractors to make sure that if an employer comes up with an invention, they assign it to their employer early on.

29. If a patent is jointly owned by two parties, they are holders in equal and undivided shares as tenants in common. A joint owner cannot assign or license the patent without the consent of the other owner.
30. A patent is personal property, so it can be assigned or licensed.

Designs

31. Protection for a design in Australia can be granted and registered under the *Designs Act 2003* (Cth).
32. A design registration covers design features such as the visual features of an industrial product.
33. In order to obtain design protection, the design must be new and distinctive, i.e. not be in the public domain.
34. A design application should be filed before manufacture and prior to the design being in the public domain.
35. Design protection lasts for 5 years and can be extended for a further 5 years only.
36. Certification of the design does not happen automatically and must be applied for.
37. While a design can be registered, it cannot actually be enforced until it is certified.
38. As a commercialised product, it would be better for a design to be certified as this makes it more valuable.
39. Designs can also be assigned and licensed and if this is done, it must be in writing.

Copyright

40. Copyright is not a registered protection in Australia and it subsists on the creation of a work.
41. Under the *Copyright Act 1968* (Cth) there are a number of areas of protection including literary works, musical works, artistic works and dramatic works as well as subject matter other than works such as sound recordings, films, sound broadcasts and published editions of works.
42. Computer programs are also classed as literary works to be protected under the *Copyright Act 1968* (Cth) and therefore object code and source code are protected. A lot of commercialisation projects involve some form of software, so it is important that commercialisation agreements cover copyright works.
43. If an employee in a company creates a copyright work in the course of his employment, the employer will own it under the *Copyright Act 1968* (Cth), however if an independent contractor to a company creates a copyright work, the contractor owns the work and the contracting the company would require an assignment of the copyright to it.
44. Copyright gives the owner exclusive rights to do certain things with the work such as adapting the work, reproducing it, licensing it etc.

45. For a literary, artistic or musical work, the period of copyright protection is the life of the author plus 70 years.
46. For other types of works such as a TV or sound broadcast, the period of copyright protection is 50 years from the broadcast or the published edition.
47. Moral rights can often be overlooked and are non-economic rights which belong to the person who created the work, regardless of who owns the copyright.
48. There are three types of moral rights;
    i. Right of attribution which is the right to be known as the author of the work;
    ii. Right of integrity of authorship which stops third parties from doing anything derogatory to the work;
    iii. Right to stop false attribution of a work, that is to have somebody who is not the author of a work named as the author.
49. Moral rights cannot be assigned or licensed.
50. When you are seeking to commercialise a copyright work it is important to ensure that you have a moral rights consent from the author of the work.
51. Employees can give a more general moral rights consent, whilst contractors must do so more specifically.

Forms of Commercialisation

52. There are three main forms of commercialisation; assignments, licensing and joint ventures.
53. There are also other forms of commercialisation such as franchising and research contracts.

Assignment

54. Assignment relates to transferring right, title and interest in intellectual property.
55. All or part of the intellectual property may be assigned, for example, it is possible to assign trade marks in specific countries or in relation to specific goods or services.
56. Assignments generally must be in writing and for registered intellectual property, they need to be recorded on the relevant registers.
57. A key part of an Assignment Deed is for the assignor to warrant that they own the intellectual property.
58. It is useful to get an indemnity from the assignor so that they indemnify the assignee if there is a breach of any of the warranties made by them.
59. A Deed of Assignment should also note that there are no encumbrances on the intellectual property.
60. As part of the assignment process, some companies will make an assignment of intellectual property and then license it back in order to commercialise the IP.

61. This can be useful if there is a group restructure and an IP holding company, so the IP can be assigned to the relevant holding company and then licensed it back to all the various companies who use it.
62. This allows for a potential revenue stream to be generated and for the IP to be held by the holding company so that it is safe if anything happens to the licensees.

Licensing

63. It is important to have a licence agreement in writing to ensure that the requisite terms and conditions are clear.
64. Licence agreements occur where the licensor retains ownership of the IP but licenses to another party.
65. There are three main forms of licensing arrangements;
    i. A non-exclusive arrangement - where a licensor licenses to a number of different licensees;
    ii. A sole licence - where the licensor grants a sole licence to a third party to use the intellectual property but retains the right to also use the IP;
    iii. An exclusive licence – where the licensor grants an exclusive licence to use the IP to a third party. In this instance, even the IP owner does not have the right to use the IP in the relevant territory.
66. The benefit of an exclusive licence is that the licensor can charge a higher licence fee, with no expenses in commercialising and better control over how it is going to be licensed as this can all be negotiated into an agreement.
67. The advantages for a licensee to an exclusive licence is a better return on investment, more power in relation to negotiation and that they can potentially use it as security.
68. A non-exclusive licence gives the potential for a licensor to license to a large number of licensees for a low price, such as for software.
69. A non-exclusive licence can exist in a standard form agreement which makes it easy as there is no need for negotiations.
70. The most important clause in a licence agreement is the grant of a licence, which needs to detail the type of intellectual property being licensed as well as the rights being granted.
71. Further, the territory needs to be considered, i.e. whether it will just be in Australia or global as does the price - a licence fee can be paid or a licensor can be paid royalties.
72. Whether or not the licensee will be permitted to sub-license must also be made clear in the licence agreement.
73. In regard to patents, the licence agreement must set out that the patent owner maintains the patent (in regard to maintenance fees) and also the way in which any rights of the patent will be enforced.
74. Section 145 of the *Patents Act 1900* (Cth) provides that at the end of the patent term, either party can give 3 months written notice to terminate the licence.

75. A licence agreement for intellectual property should also cover the marketing and distribution of the products.
76. In regard to trade marks, it is also necessary for a licence agreement to consider section 26 of the *Trade Marks Act 1995* (Cth) which allows specific rights to an authorised user of a trade mark.
77. It would be beneficial for a licensor to a licensing agreement to limit the applicability of section 26 so that the licensor is only providing such rights to the licensee as provided under the licence as there might be additional rights provided to them under the *Trade Marks Act,* if not.

Joint Ventures

78. Joint ventures are where two or more independent entities undertake a common project.
79. An unincorporated joint venture is when the two companies enter into an agreement and the agreement sets out the contractual arrangements.
80. An incorporated joint venture is when the two parties hold shares in the joint venture entity.
81. As a joint venture involves two arm's length parties developing something together, there are many specific issues for joint ventures, including ownership of intellectual property.
82. In regard to an incorporated joint venture arrangement, which can go for a significant period of time, there will be improvements to the intellectual property throughout the lifespan of the joint venture and the question thus becomes who owns the improvements to the intellectual property.
83. Further, a question which needs to be considered is where the intellectual property should go and how can both the parties use the intellectual property after the joint venture finishes.
84. It is important to have a management committee in place and a joint venture agreement can provide for this so that the IP can be exploited and developed in the best way.
85. Before a joint venture is entered into, confidentiality needs to be considered to ensure the other party to the joint venture agreement keeps the information confidential.
86. It is also important to do due diligence on a joint venture partner, since joint ventures can go for a long period of time.
87. Other things to consider in a joint venture agreement include profit sharing, marketing responsibilities, division of territories, commercial exploitation, ownership of improvements of IP and termination rights.

Cross-border issues

88. One of the issues of IP is that it is jurisdictional in nature, that is for example, a patent registered in Australia will not provide any patent rights overseas.

89. Therefore, the patent will need to be registered in all relevant countries, and similar with trade marks.
90. If a company is manufacturing in China, it needs to have trade marks registered in China even if it is not going to be selling the product in China, if you are manufacturing and exporting.
91. Moral rights and translation of the various documents needs to be considered.
92. Further, notorisation and legalisation of documents in some countries, for example the Middle East, can be expensive and therefore clients need to be aware of the cost of protecting their IP across jurisdictions.
93. When dealing with companies in different jurisdictions, it is important to determine which jurisdiction's law will govern the venture.
94. Management committees are important to manage a project on an ongoing basis.
95. How a dispute will be dealt with is also important to consider in an agreement, for example whether international arbitration will be required to settle cross-jurisdictional disputes or whether it be will dealt with internally.

Tips and Tricks

96. A practitioner needs to understand what their client's end goal is.
97. It is also useful to put together a term sheet which sets out the main terms that the parties agree on.
98. Once the basic terms have been agreed on, a practitioner can then start to draft the agreement.
99. Due diligence is key if a client is thinking about involving a third party be it a distributer or a joint venture partner.
100. Ownership of pre-existing and new IP is important. This means ensuring who owns what is known before any arrangement is agreed to as well as what happens to IP as it is developed throughout the course of the relationship.
101. When commercialising and entering into more licences, it is useful to have an IP register in place and have contracts, key dates, royalty payments, any changes in fees, any break clauses or options all recorded on the register.

BIOGRAPHY

Donna Short

Partner – Addisons, Sydney

Donna is involved with the entire IP life cycle from the initial innovation stage, IP protection and commercialisation and enforcement of rights. Her area of expertise also encompasses privacy technology and Australian Consumer Law issues. Donna's practice covers both contentious and non-contentious IP matters. On the commercial side, Donna works with clients to identify and protect their IP, particularly as increasing numbers of clients require assistance with IP transactions with a cross border element. In the privacy area, Donna has extensive experience with privacy projects and aiding clients with privacy compliance procedures and policies, as well as advising on data breach issues and reporting obligations.

Hazel McDwyer

Special Counsel – Addisons, Sydney

Hazel advises clients on all aspects of intellectual property, from brand protection to enforcement as well as on privacy, technology and Australian Consumer issues. Hazel acts for clients in a range of industries such as food and beverage, health, media, financial services and technology from start-ups to ASX listed companies and multinationals. Hazel also advises on privacy compliance issues as well as data breach notifications. Prior to joining Addisons, Hazel worked at Henry Davis York for approximately 10 years. Before that, she worked in leading commercial law firms in Ireland for 8 years.

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