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ROLE OF LICENSING / FRANCHISING OF INTELLECTUAL PROPERTY RIGHTS AND
OTHER TECHNOLOGY TRANSFER AGREEMENTS IN BUSINESS PARTNERSHIPS
AND STRATEGIC ALLIANCES FOR ENHANCING THE COMPETITIVENESS OF
PRODUCTS AND SERVICES OF SMEs

Mr. Richard Gallafent, Gallafent & Co, London, United Kingdom

1. Introduction

The subject on which I have to speak today is one which, although it may appear to be very specific, in fact goes to the heart of developing a vigorous mixed economy providing a framework enabling people to realise their potential and lead rich and fulfilling lives. We have progressed from primitive predominantly agrarian civilisations to modern states in which the manufacturing and services sectors play a vital role in contributing to economic progress. This really only clarified with the industrial revolution and is now being given added pace by the information revolution which is taking place at the moment.

As the industrial revolution gathered pace, so various legal concepts arose in an attempt to codify and regularise practice in a variety of different areas. The underlying idea in many cases was to clarify what individuals and groups of individuals could legitimately do and, in contrast, what they could not do. The ownership and possession of physical goods is conceptually straightforward and even primitive societies had notions of property and the concept that, while property could be freely given by one person to another, it was wrong for one person to take another's property without consent. Throughout history, it has been clear that it is wrong for one person to appropriate another's physical property, but it is only in recent centuries that this concept has been extended to what would not originally have been regarded as "property" at all, viz. Ideas and concepts.

Development of legal regulations in this area tended over the centuries to be specific to particular areas, but the concepts of copying go back to Greek and Roman times, and with the benefit of the historical perspective from the 21st Century, we can see now that the early developments were the precursors of what today is a highly sophisticated system of dealing with the whole concept of copying, fitted onto the social and economic background during and since the industrial revolution.

2. Intellectual property rights

This convenient term encompasses a wide variety of areas of activity, and it is only fairly recently that the term has come to embrace the full spectrum of patents, trademarks, designs, copyright, neighbouring rights and analogous systems. Even as late as the middle of the last Century, the term "intellectual property" tended to mean copyright, with the term "industrial property" being used for patents, registered designs and trademarks, but with the realisation that all of these systems shared a fundamental conceptual basis of dealing with copying, and with the increasing interaction between them, the term "intellectual property" was extended to cover the whole range. The interaction is most evident by considering many manufactured products where the underlying idea of conceiving of the product at all may well be patentable, the appearance protectable by way of design, and the desire to indicate manufacturing origin leading to the use of trademarks.

Traditional copyright played little part in many early manufactures, but, even prior to the beginnings of the information revolution, copyright was important, for example with respect to written material associated with products, particularly technically complex products, such as illustrated instruction or maintenance manuals. Now we are in the information revolution, we can see that many new products rely extensively on some form of information coded within them, very often in the form of a computer programme. Computer programmes, because of their intangible nature, did not fit happily into the patent systems operative at the time that computer programmes were invented, but they did fit, albeit not without some initial concerns, into a copyright system.

Because ideas and concepts, unlike physical property, can be easily replicated and have no physical location, there has been a major consolidation over the last 150 years towards adopting a generally harmonised global approach.

The workers of the harmonisation engine are, of course, one of our hosts at this conference, the World Intellectual Property Organization, which, as you are all aware, not only takes care of the operation, development, updating and revision of the numerous international intellectual property treaties, but additionally provides a focus for coherent development on a global basis.

Thus it is that WIPO continues the work carried on by groups of nations acting in concert which really started in the 19th Century and the attempts, in harmony with the World Trade Organisation, to maintain and continue to develop a global agreed background of intellectual property rights. Without it, I, as a British practitioner, would have very little to say to this gathering where I could be sure that what I said was of any relevance. As it is, however, there is an agreed core of intellectual property rights which, with local variations to suit differing circumstances in differing countries, regulates the activity of copying on a similar basis throughout the developed world and, indeed, in the developing countries.

3. Licensing

It is worth re-stating what licensing is: it is the formal granting of permission by someone who owns rights to someone else to use them. Put another way, without a license to use the intellectual property rights, to "copy" in some way, such copying would be improper and could, by using the local legal system, be stopped if the originator wished that to happen. I believe it is well worth while remembering this underlying truth, one so basic that it is often forgotten, since it provides a philosophical underpinning for the arrangements which parties need to make.

In many ways, a license under an intellectual property right is like many other contracts, but while many contracts in respect of real property are simple and straightforward, and do not vary very much with the type of property concerned, the same cannot be said for intellectual property. Thus, the underlying contract to purchase an article is very much the same whether you are purchasing the article from an individual or a company and whether the article in question is a pencil, a motor car, a sculpture, or even an animal. In intellectual property, however, there is very often a need for licensing arrangements to be worked out specifically to suit the particular transaction concerned, in particular to reflect what the licensee has in terms of intellectual property and what the licensee is permitted to make of that intellectual property.

Thus, it arises that where copying of matters protected by way of intellectual property law is concerned, contracting parties need to give far more attention to working out just what it is each wants from the transaction and particularly reflecting their mutual desires and obligations in an appropriate contract document, conveniently called a license.

The value of licensing to small and medium sized enterprises is substantial. This arises from two principal considerations, one of which corresponds to taking licenses from others and the other to giving licenses to others.

Many small and medium sized enterprises do not have the capacity to carry out large quantities of research and development. In order to stay in business, they need to manufacture their products, or provide their services, or, of course, both, and for the small or medium sized enterprise, that must take priority because it brings in income enabling those who work in the enterprise to be paid and hopefully some form of surplus to be created for future investment. This does not, however, provide a happy environment in which otherwise productive people can spend the time thinking, testing and experimenting to develop new products or techniques.

Large organisations do, however, put substantial quantities of effort into research and development and, of course, much research takes place within institutions supported by the State, notably, but not exclusively, academic institutions. These have the capacity to produce technical advances, but, particularly in the case of the academic institutions, not the capacity to commercialise them by way of manufacture, or the provision of a service. In order to take advantage of technical advances, therefore, the small or medium sized enterprise needs to receive technology transferred from larger organisations such as those just mentioned. This is one incentive for licensing.

In contrast, although many small and medium sized enterprises do not make substantial provisions for structured "research and development", the ingenuity and creativity of those who work in small and medium sized enterprises is very often surprisingly substantial, and inevitably solving problems which arise during the operation of small and medium sized enterprises can give rise to ideas which are of far greater applicability than in the business of the enterprise concerned. Economically, however, such small and medium sized enterprises are not usually in a position to take advantage directly themselves of those wider possibilities.

To take a very simple example, a small enterprise with a few machine tools making metal components may well be the source of an invention related to one of those machine tools which makes it work better, for example by reducing the reject rate of the components concerned, or increasing their quality in some respect. The enterprise has made an invention, but this is one which can perhaps be exploited throughout the industrial base which uses those types of machine tool. The mechanism of licensing enables that invention to be more broadly adopted for the general good.

4. Competitiveness

How does this background translate into the whole question of competitiveness? The answer is not a straightforward or simple one and I can do no more than indicate some of the ways in which competitiveness is influenced.

Perhaps the most obvious is that of improving production to enable the same good to be produced more simply and accordingly at lower cost. If the cost of production is lower, the manufacturer has more ability to compete in the marketplace on the basis of price. By licensing out to third parties an invention of that nature, the originator may enable others to become more competitive. Equally, by licensing in technology, particularly technology developed geographically remote from the manufacturer in question, the manufacturer's own competitiveness may be enhanced. For these reasons, in order to compete in an increasingly crowded marketplace, small and medium sized enterprises need to bear in mind the ability to enhance their competitiveness by taking licenses.

Of course, in many ways, particularly patents are seen as potentially instruments which can stifle competition. If, by good fortune, a particular invention leads to a substantially superior product, then that product, particularly if it can be brought to the market for no increase in cost compared to the traditional product, can enable a manufacturer to outstrip and outsell the competition which, because it cannot copy without a license, may be thereby put at a competitive disadvantage. Of course, that does not last forever because patents are, by their very nature, of limited effectiveness in time. There is, however, another aspect which should temper the obvious and immediate reaction if one has a much better product, viz. to ensure that you and you alone manufacture that product. That is simply one of capacity.

Although small enterprises can grow to be medium sized enterprises and medium sized enterprises can grow and become major corporations, it takes time and it is hard work and fraught with problems. The time scale is usually considerably longer than the maximum term of a patent. Particularly in the case that the enterprise itself cannot satisfy demand, licensing arrangements provide a way of enabling the demand to be met and at the same time providing some useful additional income to the small and medium sized enterprise concerned.

However, the role of licensing is not restricted to compensating for under capacity and providing some income. Instead it provides a mechanism which has at least two other important attributes:

The first of these is that licensing particularly of patented technology does not put the protection at risk. It is sometimes very tempting for a small enterprise to adopt a restrictive and proprietorial attitude and refuse to license anyone else. In the case of some developments, this runs the risk that if someone wants to copy sufficiently intensely, they will, and, when challenged, they will question whether the right should be enjoyed at all - specifically they will challenge the validity of the protection that has been obtained by way of a patent. Such challenges are expensive, both in terms of the legal advice necessary to rebut them, but they are also expensive in terms of the time needed to be spent by personnel on their resolution. It is very often better to give a license and enable the licensee to enjoy the benefits of the invention as well as the licensor than to put the entire right at risk.

Separately, but most importantly, licensing arrangements also provide a medium for technical and technological exchange. Although licensing arrangements in the patent field are occasionally devoid of any such arrangements, many provide for an exchange of technical information between the parties and, in particular, for each party to advise the other of further developments which may be made during the course of operation. Licensing can thus open up a channel for communicating developments and new technology to the benefit of both licensor and licensee.

The above observations are fairly specifically directed to the licensing of patented technology, but the general approach operates across the whole spectrum of intellectual property rights.

Thus, designs may be protected and licensed, for example for items which are both pleasing to view and well -engineered.

Interms of registered trademarks, although considerations of the maintenance of quality sometimes militate against trademark licensing, it can be very important if the original trademark owner does not have the capacity to supply demand for the branded goods in question. Particularly in the case of items which are consumed in quantity, which are easy to produce locally, but which are uneconomical to transport, advantages may be gained by both the trademark owner and a licensee in coming to appropriate licensing arrangements.

Even in the case of copyright, it is entirely conceivable to think of ways in which SMEs may operate in an effective fashion. For example, a small educational book company may choose to operate part (or, indeed, all) of its business by taking the best and most effective educational literature produced elsewhere, and localising it by way of translation and other editorial attention, and then selling into a local market. Using the original material legitimately requires a copyright license from the original publishers, or, in some cases, direct from the authors, but it is easy to see that a good niche business can be built upon such a basis which would give good commercial opportunities for small and medium sized enterprises.

5. Technology transfer

These remarks bring me onto the specific areas reflected in the title of this presentation of technology transfer and franchising.

Turning to the first of these, despite the formal nature of the modern patents systems, requiring the disclosure of inventions accompanied by descriptions of how they can be put into practice and definitions of the protected area, it is rare for anyone to be able easily or quickly to take a new process or new article as described in a patent specification and put it into practice or manufacture. The written material produced in order to secure a patent does not attempt to be exhaustive, but rather to focus on the particular inventive development which has been made and to explain it in details sufficient to enable the "mankind in the art" to reproduce the invention.

However, there is a world of difference between being able to carry out on a laboratory or workshop scale a newly invented process or manufacture a single newly invented article and the commercially satisfactory operation of the process or manufacture of the article in quantity. For that, very often, a very much more substantial quantity of background information is required, very often referred to under the portmanteau term "knowhow". The giving and receiving of a license provides a mechanism whereby, as well as the formal permission being given to use that which would otherwise be forbidden, provisions are made enabling the licensee to acquire, rapidly and effectively, the necessary knowhow. Indeed, it is not unusual for patent license agreements to include not only obligations on the licensor formally to transfer the knowhow in some written form, but additionally to provide technical assistance in terms of operatives and training to enable the licensee to produce the goods in question, or adopt the new process. Thus, the technology developed by the originator is transferred to the licensee.

This is of particular importance where the SME has the role of licensee because it enables them to acquire technology which would otherwise be very hard to come by. It is sometimes not so important where the licensee is the larger party whom may be expected to be able to adopt and adapt the technology within their own organisation without so much difficulty, but even in such cases, it is very often the case that the larger party is much assisted by the teaching which the smaller party can provide.

Thus, licensing provides a vehicle for technology transfer between small and medium sized enterprises and others be they like small and medium -sized enterprises or large enterprises, to the mutual benefit of both parties.

6. Franchising

Franchising is, in my view, best thought of as a contractual arrangement usually, though not invariably in the field of service industries rather than manufacturing industry, and which bundle together a wide variety of types of intellectual property right. Thus, while licensing generally is of a single right, for example a patent or (less often a trademark or design), franchising arrangements are essentially those of enabling the copying of a "business". Copying a complete business clearly requires clear access to copy all of the aspects of that business and, in particular, the intellectual property rights associated with the business. Thus, a franchising arrangement may include license components for trademarks – the name of the business - for copyright - the paperwork, business forms, publicity or marketing materials - and for know-how in terms of the detailed knowledge and experience of how to run such a business successfully. Additional components, though they tend to occur less frequently in franchising arrangements, can cover the use of particular designs, or the use of patented methods or processes.

In one sense, franchising arrangements can be thought of as a particular sub -category of technology transfer arrangements, albeit one where the technology content may be relatively small as a proportion of the entire body of information as to how to run such a business. The concept of franchising, however, embracing as it does the replication of an entire business, acts in a very specific way to promote the formation and development of small businesses. In one sense, it can be thought of by way of the biological analogy of cloning:

Someone develops a successful business and rather than grow that business organically as a monolithic organisation, chooses to exploit the success of their own business model by effectively cloning that model, i.e. reproducing fairly exact copies of it in different geographical locations. This has proved a particularly successful approach to growing worldwide businesses in the services sector, but it is by no means confined effectively to that sector. For example, the manufacture, bottling and distribution of a popular beverage may effectively be franchised to local producers, rather than the original manufacturer having to set up subsidiaries, or operating divisions, on a widespread geographical basis. This additionally has the very substantial benefit of involving local investment which, because the investors wish to see a return on their investment, acts as a substantial incentive to successful operation.

Cloning, of course, needs care to ensure that the cloned businesses do operate as the original, and accordingly franchise arrangements very often contain substantial training provisions which come into play at the beginning of the franchising relationship, and continuous downstream monitoring of that operation on the one hand to make sure that the business is being run properly and effectively and the terms and conditions of the franchise agreement are being observed, but also to enable the rapid dissemination of improvements to the business as these come to light, whether discovered by the originator of the business, or whether emerging from a franchisee.

7. Other business partnerships and strategic alliances

The particular types of arrangements discussed above – licensing, technology transfer, franchising, can be seen as three specific types of arrangements which can become to between enterprises and which are sufficiently wide spread to enable their grouping into classes. They represent, however, only examples of specific types of commercial arrangement which can be arrived at between contracting parties. Two other sorts of arrangement which may include such specific types of arrangement are those of business partnerships and strategic alliances. These two terms are not mutually exclusive and serve only to indicate that arrangements between enterprises simply do not always neatly fall into any of these categories.

Within the time and space allotted to this paper, it would be inappropriate to explore in any depth the enormously wide range of other commercial arrangements which could be characterised as business partnerships or strategic alliances. It should suffice, however, to observe that, very often, individual enterprises have complementary skills, product ranges or other attributes where, by agreement between parties, mutual benefits may arise for both parties. There is probably no end to the different arrangements which can usefully be made between enterprises with a view to benefiting both, particularly in areas of developing manufacture and trade. What characterises many such arrangements, however, is a component relating to the use of one or more types of intellectual property right.

Indeed, it could be argued that the very existence of a range of intellectual property rights promotes cooperation and collaboration between individual enterprises, particularly where neither party could proceed with a desirable course of commercial action without needing to use intellectual property rights owned by the other. This is often very apparent in the case of so-called strategic alliances where, for example, an enterprise skilled in the development and production of new therapeutic drugs may not be possessed of expertise in drug delivery systems, while those enterprises which specialise in the development and production of drug delivery systems are pointless in the absence of drugs to deliver!

What is important for the successful operation of any such strategic alliance, or, indeed, any other type of business partnership, is that there is an understanding and comprehension of the issues involved by both parties and that, to an appropriate extent, the detail of those arrangements is committed to some form of documentation which serves as a reference point for both parties to work with.

The preceding sections of this paper have been exclusively directed to looking at the types of arrangements which can become to between enterprises, or occasionally between an enterprise and an individual, relating to various types of intellectual property right. Such arrangements can be highly profitable and productive for all parties concerned, but, in order for that to occur, it is necessary for the parties to understand that they need to come to mutually agreeable arrangements and to understand what those arrangements actually mean in practice.

Focussed into the area of intellectual property with which this international forum is concerned, this means, in practice, that there is a need for at least a moderate understanding of intellectual property issues on the part of SMEs and the individuals who operate them. While, as mentioned above, once upon a time secrecy operated as a barrier to commercial exploitation and development, this has been replaced in modern times by ignorance on the part of enterprises operating a commercial role.

It is, of course, a truism that ignorance restricts individuals and enterprises from fulfilling a greater potential and, on the other hand, that knowledge increases that potential. This is of particular concern in the whole area of intellectual property which is inadequately and insufficiently understood by many people.

In the case of large undertakings, mechanisms can be put in place which avoid the disadvantage of ignorance or inadequate knowledge in intellectual property matters: the large undertaking has the capacity to employ specialists, or, indeed, whole departments of specialists in the intellectual property field, and a multi-national corporation will very often have both a patent department and a trademark department, each well-staffed by skilled professionals whose duty it is to take care of those aspects of the intellectual property owned by the large undertaking, and to engage where necessary in licensing or like activity with other parties, or in enforcement proceedings if infringement of a right occurs which cannot be resolved by agreement.

That luxury is, however, simply denied to the majority of SMEs simply on account of their size. Instead, they have to rely for intellectual property expertise on support from outside.

Three things are accordingly important for the SME sector of the economy in connection with intellectual property:

The first is the existence of external expertise in intellectual property matters. The second is the availability of that expertise to the SME. The third, and, in my view, by far the most important, is the consciousness within the SME themselves of intellectual property issues.

It is a regrettable fact that although intellectual property laws underpin very large areas of industry and commerce, they do so in a way which is not very noticeable and, indeed, in many ways opaque to the outsider. Very simply, people simply do not think very often about intellectual property. The basic reason for this is not that they are incapable of doing so, but that there is a lack of education and awareness of the issues. If any enterprise is to take advantage of the intellectual property systems and, as indicated above, thereby to enhance their own commercial prospects and particularly their competitiveness, they need to be aware of the intellectual property systems and aware of how to get help when help is necessary.

This means a sufficient knowledge to be able to detect when help is necessary. This is particularly difficult in terms of the existing SME sector and, unless something is done about educating people about intellectual property at the secondary and tertiary education levels, this problem will remain.

One specific support area for SMEs which I believe receives too little attention is the structured provision of education and the enhancement of awareness in the intellectual property field to those enterprises. It never ceases to amaze me how many individuals one comes across who are, by objective standards, successful businessmen, but who have managed to become so without any real understanding of the intellectual property area. Such understanding as they have is often piecemeal and derived from such specific experience as may have come their way.

This can mean on occasion that opportunities are lost simply due to ignorance, which is obviously regrettable, both from the point of the individual SME itself and, when broadened out to the overall economy, bad for business and the economy in general.

Although it may seem initially to have no very specific product benefits, education in the field of intellectual property, particularly in the SME sector, is vital if the creative energies of those who operate in this sector are to be channelled for maximum benefit.

As other speakers at this forum have illustrated, this is an exercise which needs support from the State or Governmental sector if it is to be effective, both in the fields of direct education at secondary and tertiary level, but subsequently in much more targeted fashion via SME support systems. We have heard from others how vital supporting and encouraging SMEs is and I am sure I do not more than underline the importance of education which has already been mentioned by others.

8. Conclusion

With education, support and encouragement, SMEs are capable of entering into a wide variety of contractual arrangements based around intellectual property rights of one or more types. Entry into those arrangements can benefit both the rightsholder and the rights user with consequent specific benefits for the parties concerned and general benefits for the entire economy.

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