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# Granting a licence to manufacture products

## outline

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## abstract

An exporter has researched and developed a product. The product may be just a prototype or it may be fully developed and market ready. In either case, the exporter may lack the resources or the competitive advantage to manufacture and market it overseas.

An exporter in these circumstances might well consider granting someone else the right to manufacture and market the product in a defined territory using the exporter's technology, know-how and intellectual property.

A licence agreement is one of the most difficult legal relationships to nail down. The reason for this is that technology, know-how and intellectual property are, by their nature, intangible. It is not easy to ask someone to pay substantial sums for something that can't be seen, felt, smelled, heard or tasted.

Because it is so difficult to determine the value of intangible property, the seller lives in fear of charging too little and the buyer lives in fear of paying too much! It is very difficult to create a balanced relationship, one that will endure the tests of time and the challenges of the market place.

Nonetheless, a licence to manufacture may be the only viable option available to an exporter lacking either the resources or the time to do it themselves. If so, this outline will help an exporter to cover all aspects of the relationship:

- **The Licensed Products**  
What's covered and what isn't? The subject considers product extensions and enhancements.
- **Territory and Exclusivity**  
Specify any territorial limitations. Is the licence exclusive or non-exclusive?
- **Obligations of Licensee and Licensor**  
The parties should specify their obligations to each other.
- **Licence Fees and Royalties**  
State the consideration for the licence.
- **Term**  
How long will the licence last?
- **Performance**  
Set minimum performance criteria. This is essential!
- **Manufacturing or Marketing Competitive Products**  
Impose reasonable limitations upon the licensee's right to do so.
- **Enhancements**  
Who owns the enhancement? This is always a delicate issue!
- **Quality Control**  
Specify the quality standards to which the licensee must comply.

As stated above, licence agreements have a tendency to become 'unstuck'. The reasons why this happens are many. The licensor may have misrepresented the state of development of the product. The licensee may not have done its sums properly to determine the true manufacturing costs. The licensee may have miscalculated the market for the product.

Many exporters see licence agreements as a 'licence to print money'. They are anything but that! They require hard work and a huge commitment by both parties, particularly during the critical first year.

Experience has shown that if the licence agreement can survive the first two years, the prognosis is good for the rest of its life. Therefore, no expense should be spared to getting the relationship off to a good start.

This outline will help an exporter to consider all issues that could potentially derail the relationship. As such, it removes much of the uncertainty that causes these type of relationships to self destruct.

## 1. details about the licensee

1.1. Name: \_\_\_\_\_

(hereinafter referred to as the "Licensee")

1.1.1. Is this a corporation?

1.2. Address:

1.3. Telephone No:

1.4. Facsimile No:

1.5. Name of Principal:

1.5.1. Title?

## 2. the licensed products

2.1. Describe the Licensed Products in as much detail as possible.

## 3. licensed territory

3.1. Are sales of the Licensed Products limited to a specific territory?

3.1.1. If so, what is that territory?

## 4. is the manufacturing licence exclusive

4.1. Can the Licensor contract with other prospective licensees to produce the Licensed Products?

4.2. Can the Licensor export the same or similar products into the licensed territory?

## 5. exactly what are the licensor's obligations

- 5.1. Purely to transmit drawings.
- 5.2. Technical support.
  - 5.2.1. If so, what type and how much.
- 5.3. Supply of any raw materials and/or components.
- 5.4. Marketing support.
  - 5.4.1. If so, what type and how much.
- 5.5. Anything else.

## 6. exactly what are the licensees obligations

- 6.1. Product development.
- 6.2. Manufacturing.
- 6.3. Marketing and promotion.
- 6.4. Distribution.
- 6.5. Other obligations.

## 7. compensation

- 7.1. Will money be paid up front by way of an establishment fee.
- 7.2. Royalty.
  - 7.2.1. Fixed or variable depending upon turnover.
  - 7.2.2. Is any withholding tax required by law to be deducted from the royalties in the country in which the Licensee resides.
  - 7.2.3. Is there a tax treaty in effect between the Licensee's and Licensor's countries.
- 7.3. Any other form of compensation.

## 8. term of agreement

- 8.1. Initial term.
- 8.2. Renewal options.
  - 8.2.1. If so, on same or different terms and conditions.

8.3. What are the parties rights and obligations upon termination.

8.3.1. Can the Licensee continue to sell unsold stock of Licensed Products after the termination date?

## 9. minimum requirements to maintain licence

9.1. Establish minimum sales or production volumes during the term of the agreement.

9.1.1. Failure to meet those minimums shall give rise to termination at Licensor's option.

## 10. promotion

10.1. Describe the Licensee's obligations to promote the Licensed Products.

10.1.1. Will the Licensee be required to commit to spend a certain sum, expressed as a percentage of sales, to promote the Licensed Products?

## 11. payment terms

11.1. Frequency of payment.

11.2. Manner of payment.

## 12. will the licensee be using any of the licensor's patents

12.1. If so, include clauses relating to incontestability, action against infringers, etc.

## 13. will the licensee be using any of the licensor's trademarks

13.1. If so, include clauses relating to incontestability, action against infringers, etc.

## 14. technology transfer

14.1. Describe the Licensor's obligations to provide:

14.1.1. Documentation to facilitate the technology transfer (i.e. drawings and specifications, manuals, instructions, quality control procedures, etc.)

14.1.2. Technical support.

14.1.3. Training.

14.1.4. Manufacturing support.

14.1.5. Marketing support.

14.1.6. Quality control guidance.

14.2. Indicate what support will be supplied on-site and what support will be provided off-site.

14.2.1. Who bears the cost of on-site support?

## 15. manufacturing competitive products

15.1. Can the Licensee handle products which are competitive to the Licensed Products.

15.2. Set limitations.

15.3. Define what constitutes a "competitive product".

15.4. Establish a time limit.

15.4.1. For example, during the term of the agreement and \_\_\_ years thereafter.

## 16. protection against knock-offs

16.1. Licensee should keep all drawings and other materials supplied by the Licensor confidential.

16.2. Licensee shall not purchase the same or similar products from any other manufacturer but the Licensor, anywhere in the world.

## 17. confidentiality and non-disclosure

17.1. Define what constitutes confidential information and prohibit its disclosure.

## 18. non-assignability of manufacturing rights

18.1. The Licensor will specifically grant the Licensee the rights to manufacture the Licensed Products and no one else.

18.1.1. The Licence cannot be assigned.

18.2. Can the Licensee enter into sub-licenses?

18.2.1. If so, on what terms and conditions?

18.2.2. The Licensee should assume responsibility for the acts and omissions of its sub-licensees.

## 19. design modifications and improvements

19.1. It is almost inevitable that the Licensee will make design modifications and improvements to the Licensed Products.

19.2. Discuss how to ensure that these are covered by the agreement.

## 20. quality control

20.1. Does the Licensor wish to retain any control over the quality of the Licensed Products?

20.1.1. If so, the licensing agreement should establish appropriate quality control safeguards.

20.2. Does the Licensor care if the Licensed Products are of inferior quality?

## 21. plant access

21.1. Does the Licensor wish to include a "plant access" provision for one or both of the following reasons:

21.1.1. To ensure that the products are manufactured to a high standard of quality.

21.1.2. To use as a "reference plant" with other prospective licensees.

## 22. furnishing sales reports

22.1. What information should the sales report contain?

22.2. How frequently should sales reports be sent to the Licensor?

22.3. The Licensor should have the right to audit the Licensee's books and records to verify the accuracy of sales reports.

## 23. possible tie-in with other products

23.1. Some manufacturers tie-in other products to the granting of a licence.

23.1.1. For example, do you wish to use this licence as an opportunity to negotiate the distribution of other products not covered by the licence.

23.1.2. In fact, the licence could form part of a comprehensive distribution agreement.

23.2. As additional consideration for granting the licence, consider requiring the Licensee to purchase other products directly from the Licensor.

## 24. compliance with laws and regulations

24.1. The Licensee will be responsible for all legal compliances.

24.1.1. The Licensee will ensure that the Licensed Products meet or exceed relevant standards, etc.

24.1.2. The Licensor shall make no representations in this regard.

## 25. reputation and creditworthiness of licensee

25.1. Has the Licensor ordered a credit report on the Licensee.

25.2. Has the Licensee furnished business references and have they, too, been checked out.

## 26. alternative dispute resolution procedure

26.1. Do the parties wish to establish an alternative dispute resolution procedure prior to submitting the dispute to arbitration or commencing court proceedings?

## 27. arbitration

27.1. Do the parties wish to provide for the arbitration of all disputes between them?

## 28. insurance

28.1. The Licensee should be responsible for maintaining products liability insurance in effect during the term of the agreement.

28.1.1. The Licensor should be named as an insured party.

## 29. any other considerations

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