**Licencing of Patent Applications – Pre-Grant Royalty Earning**

Research and development is costly. International patent portfolios even more so. The business strategy of most corporations, when filing a patent application, is to seek some return on R&D investment, mostly through self-exploitation of the products of R&D, or through royalty earnings from intellectual Property (IP).

The time frame between filing a patent application to grant can take many years. Patent offices’ backlogs often result in a three year (or longer) delay before any office actions are issued or an application is reviewed.

Legislation provides for the licensing of pending applications in certain countries provided the patent application has been published. The risk of refunding a paid royalty, or forfeiting future royalties for the licensor remains if the patent is not granted, or not granted in a form reading onto the licence granting provisions.

What is there to be gained by a licensee by paying a royalty before a patent issues? Attractive alternatives include:

* Access to know-how and confidential information (or trade secrets) not disclosed on the patent application but essential to the exploitation of the invention
* Access to improvements to technology (whether patentable or not)

The possibility of licensing pending patent applications (provisional rights) and earning royalty income therefrom as provided under certain countries patent law systems presents an important business tool. This is so as the pre-issuance use of the invention may represent substantial value to a company during the time consuming patent prosecution wherein an examination period may span several years.

Opportunities for licensing revenue for a pending patent application are limited and it depends on the specific circumstances (i.e. independent licensing, as part of Merger and Acquisition), the type of invention, technology transfer possibilities, additional know-how underlying to the invention.

Where some form of technology transfer is part of the transaction it is generally easier to negotiate royalty payments as such deals provide access to new technology as well as a right under a future patent.

The key is for the licensor to convince a licensee that it has something to gain by paying a royalty before a patent is granted. Royalties are easier to negotiate where the patent application has not yet published, and the licensee is paying a royalty for the ability to obtain confidential information or some useful know-how that is not included in the patent application; or where the applicant is willing to offer the licensee a reduced long-term royalty, some level of exclusivity, or another benefit in exchange for royalties while the application is still pending.

Care should however be taken where global patent portfolios are licenced and the licensing of pending patent applications is not allowed by any specific country’s laws, or where there is an obligation to refund the royalty paid to the licensor in case of revocation or non-grant of the licenced patent applications.

Licence agreements should always include provisions concerning rejection, revocation and the like concerning the patents or patent applications covered by the licence so that it is clear to the licensee and licensor what the strategy is in the event of a patent not coming into effect or being invalidated. Furthermore, the regulations and exceptions of the antitrust regulations of the each country that effects the agreement have to be considered.

**Country overview of pure patent licenses: licensing of pending patent applications**

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| Country | Patent law and relevant provisions | Freedom of contract/registration requirements |
| Australia | The Patents Act, 1990. S 13(1) S145 | Freedom of contract prevails and parties are free to contract with respect to license fees on pending application. O obligation for registration of patent licenses |
| Brazil | Industrial Property Law of Brazil, Law no. 9.279, of May 14, 1996  **Articles 42, 61, 62, 63** | There is no specific guideline attesting that royalties are only payable after grant of the patent. However based on interpretation of the law only after grant is the payment of royalties allowed. It is a requirement to record a patent licence once a patent is granted. It is however advisable and possible to record a patent licence agreement when the patent is still pending. Calculation of royalties from the date of the licence agreement being recorded at the Patengt office |
| China | Patent Law of the People’s Republic of China (as amended December 27, 2008, Article 13 | Licensing of a patent application after publication is acceptable. Registration of licenses is a requirement. The application for registration of licences is complex and needs to meet specific requirements; and it and the parties would be well advised to seek the assistance of local counsel |
| European Union | European Patent Convention (EPC). Art. 73 EPC; Rules 22, 23 and 24 EPC. | It is possible to license pending patent applications under the EPC. Licences (also explicitly mentioned exclusive licences and sub licences. Rule 24 EPC) with regard to pending patent applications can be recorded in the Register of European Patents. |
| India | The Patent Amendments Act 15 of 2005. Section 11A (7)and S69  Where a pending patent is the subject matter of a licence, the terms with respect to royalty payments and restitution thereof in case of a non-grant would be governed by the terms of the licence agreement. However, for a pure patent licence, as there is no longer a licensable subject matter, the licensee would be at liberty to terminate the licence agreement subject to any additional termination provisions in the licence contract. | No express provision for the licensing of patent applications.  provides that on and from the date of publication of an application for a patent until the date of grant of patent in respect of such application, the applicant shall have the same privileges and rights as if a patent for the invention had been granted on the date of publication, provided that the applicant shall not be entitled to institute any proceedings for infringement until the patent has been granted. Thus there is no specific restriction to enter into a licence agreement while a published application is pending and earn royalties or licence fees from it. The risk, however, is that, as the proprietor licensor is not able to sue for patent infringement until the grant of patent, potential licensees may be reluctant, or even refuse, to enter into a licence and use the published invention as there is no enforceable right.  Section 69 embodies the proper procedure for registration of a licence agreement. |
| Indonesia | Indonesian Patent Law No. 14 of 2001. Article 1, 16 , 69, 71 and 72. | It is not possible to license and earn royalties for a pending patent application in Indonesia.  A licensing agreement shall be recorded and by the Registry to have legal effect concerning third parties. |
| Malaysia | Malaysian Patents Act 1983 Part IX (Section 41-46) | Licensing of pending patent applications is possible, but at the risk of the patent owner. The recording of a licence contract is only applicable for a granted patent in respect of which the owner of a patent (the “licensor”) may apply to the Registrar in accordance with the prescribed regulations for an entry to be made in the Register by which the licensor grants to another person (the “licensee”) a licence which enables/provides the licensee with the rights of the owner of the patent. |
| Singapore | Singapore Patents Act, Section 43 | It is possible to license and earn royalties for a pending patent application. It is not required to record the licence agreement at the patent office for it to have commercial effect between the contracting parties |
| Philippines | The Intellectual Property Code Republic Act No. 8293 (Extracts) as amended by Act No. 9502 of 2008 (effective: July 4, 2008) governs Patent Law in the Philippines. | It is possible to license and earn royalties for a pending patent application. However, licensing of pending patent applications (or patents) must comply with the mandatory (S88) and prohibited clauses (S87) of the IP Code |
| Japan | Japanese Patent Law, Law No. 16 of 2008, which came into effect on April 1, 2009, Article 34 | It is possible to grant provisional exclusive licences and provisional non-exclusive licences which are based on a pending application. |
| Thailand | Thai Patent Act (Patent Act B.E. 2522) Section 45(1) | It is not possible to license and earn royalties for a pending patent application in Thailand. |
| South Africa | Patents Act 57, 1978 S45 (1) ; Sections 53-58. | It is not possible to license a patent application in terms of South African law. |
| New Zealand | New Zealand Patents Act 2013. Article 18 and 81 | After a complete specification relating to a patent application has become open to public inspection and until a patent is granted on the application, the nominated person has the same privileges and rights as the nominated person would have had if a patent for the invention had been granted on the day when the specification became open to public inspection. A patent license agreement must be registered after the grant of the patent, even if the licence agreement was prepared and signed before the patent was granted. |
| USA | American Inventor Protection Act of 1999," 35 U.S.C. § 154(d) | Patentee may acquire a reasonable royalty from a third party that infringes a published application claim provided: actual **notice** is given to the third party by the applicant (the inventor needs to send a cease-and-desist letter), and **a patent issues** from the application with a substantially identical claim. |

**Dr. Madelein Kleyn**

Fellow

Anton Mostert Chair of Intellectual Property Law

Stellenbosch University

General Manager, Legal of Oro Agri International Ltd (www.oroagri.com)