Intellectual property aspects of joint ventures

Introduction

There are probably few joint ventures that do not involve at least one category of intellectual property right even though the joint venture partners may not always recognise the fact. However, intellectual property plays a more prominent part in three types of joint venture:

(1) Where protection given by intellectual property is at the heart of the transaction because one party brings to it an invention and the other provides the finance and marketing skills needed to exploit it. The patent and any associated know-how is all that the inventor may have to contribute and, on the other side, the entrepreneur will want to be very certain that he is not about to apply substantial resources to the development of a product which cannot be protected from copyists.

(2) There are an increasing number of areas where research and development work is so complex that two companies in the same field find it necessary to share the risks and costs; the telecommunications field is just one where quite substantial companies have found it necessary in the last few years to secure partners who will share the burden of research in this way.

(3) A third category, which can give rise to some of the more challenging problems in respect of intellectual property, comes into existence where one partner has skills in one field but needs the help of another, operating in a different field, to produce a commercial product.

Intellectual property rights are likely to play an important part in any of these categories of joint venture both at the outset when the partners who pool their resources contribute existing intellectual property rights and throughout the life of the arrangement, as further rights come into existence.

This article sets out to examine some of the practical problems which may arise in dealing with intellectual property in the context of a joint venture and what steps can be taken to alleviate them. It does so in the context of English domestic law and does not try to examine the substantial additional complexities which arise in a joint venture which has an international element.

In the case of those rights whose existence depends on certain formalities, for example patents, registered designs and registered trade marks, the very existence of those formalities may concentrate the minds of the partners on the relevant issues. In the case of rights which come into existence by operation of law and without any registration procedure or other formality, for example copyright, confidential know-how and the new design right created under the Copyright Designs and Patents Act 1988, the chances of those issues being overlooked are increased.

The issues will be addressed without a detailed analysis of the various structures which joint venture partners may select. The questions that need to be asked are generally the same whether the arrangement is operated through a separate company jointly owned by the partners or is regulated solely by contract. The central issue in every case is who has the right to exploit, and the right to permit others to exploit, intellectual property rights which are either contributed to a joint venture or are developed in the course of it.

Policy Issues

It is important that the joint venture partners agree at the outset, in general terms, the policy that they intend to adopt. For example, whether they will seek patent protection or rely on secrecy, or whether intellectual property rights should be licensed to competitors or retained within the organisation.

Clearly the policy will need to be pursued in a flexible and pragmatic manner but the discipline of establishing it will reduce the risk of disagreements later and may bring to light fundamental differences of approach before the partners become contractually committed to one another.

The first stage of the exercise will be to clarify what intellectual property rights are to be contributed and who owns them. In cases where the joint venture is established in order to exploit a particular invention, the answer to the first question will be relatively straightforward. But even then one needs to be careful. For example, if one joint venture partner contributes the basic patent covering a pharmaceutically useful substance, the other partner will need to be sure that the follow-up patent, which may disclose the best method of isolating the substance, is not held back.

If the joint venture is more widely based, then the task of isolating the rights to be contributed may be a great deal more complicated. There is, however, very considerable risk in proceeding to the detailed drafting of terms until that fundamental analysis has been completed.

Documenting ownership formally may seem unnecessary. But suppose that, just after the joint venture has been established or, even worse, just after it has launched its first product, a third party comes on to the scene, claims that the whole development has been based upon a crucial piece of confidential information which one of the partners stole from him. The innocent joint venture partner would no doubt be able to claim that as the transferor had transferred as beneficial owner he had impliedly warranted his title to the right. Claims might also be based on misrepresentation. But any need to consider litigation might have been avoided if the asking of the appropriate questions, and the incorporation of the answers into an express warranty, had concentrated the mind of the contributing partner on the need to check that he owned the rights that he was about to transfer.

The next question that should be asked is what interest does the owner wish to contribute to the joint venture. Does he intend to transfer all his rights, or is he only intending to give the joint venture vehicle, or the other partner, a licence to use them? And if a licence, is it exclusive or non-exclusive and should it be limited to particular technical areas of operation?

The nature of the interest transferred may go some way to answering the next question, which is what will happen to the contributed rights if and when the joint venture comes to an end. Will they revert to the contributing partner? Will the other partner have any right to continue using them, and if so is that to be an entirely open licence or should it be limited to use only for further work in the area in which the joint venture operated?

This is a case where one can see that the precise format of the joint venture will not be significant. A licence from company A to company B permitting B to use certain intellectual property rights for the sole purpose of its contribution to a joint venture between the two companies, would no doubt incorporate terms dealing with this problem. But if the licence were granted to a separate company, jointly owned by the joint venture partners, the position would not be significantly different in practice. No doubt the detailed drafting of the termination provisions in the two licences would look slightly different. So would the provisions dealing with the consequences of that termination. For example, in the case of the joint venture company, the licence might contain a provision to the effect that, in addition to other events leading to its automatic termination, it should come to an end if the joint venture company were deadlocked, or if it passed certain resolutions or if it were the subject of a shareholders' petition to wind-up on the grounds that the majority shareholder was acting oppressively. But the difference will lie only in the mechanics for dealing with a single underlying issue.

Further questions need to be answered in the case of intellectual property rights developed in the course of the joint venture's operation. Perhaps the first one is what should happen when the joint venture develops an improvement to an invention or concept which was originally contributed by one of the partners. Is the improvement to be owned by the contributor of the original concept? Or is it to be jointly owned?

In the absence of express terms governing the position, ownership may well be joint. That might not be very satisfactory from the point of view of the original contributor. If the joint venture comes to an end he will then be restricted in exploiting the underlying invention because, in commercial terms, the improvement will probably be essential for exploiting the original. On the other hand, the joint venture partner who has co-operated in taking a raw concept contributed by his partner, and developing it into a commercially viable product, will not wish to find that effort totally wasted. He will wish to ensure, not only that the improvements to which he has contributed are jointly owned, but also that he retains some rights under the original patent even after the joint venture ends. A patent covering an improvement is of little value if the patent protecting the underlying technology is not available.

The solution adopted by the joint venture partners may be that, regardless of where ownership lies, both partners should be free to work the improvement patent after termination. The need will still exist, in those circumstances, to ensure that any underlying technology contributed by one partner remains available to both. Otherwise one of the ex-partners will be left having a theoretical right to exploit the jointly developed improvement but being blocked from putting it to any good use because of the existence of the original patent.

If, by design or neglect, jointly developed works are jointly owned, the partners will have to accept that their ability to license third parties will be restricted. They will have to obtain the consent of the other joint owner before this can be done. In the case of a separate corporate vehicle the consequences of joint ownership on the freedom to license third parties will need to be reflected in the documents used to establish the joint venture. It may be necessary to include in the Shareholder's Agreement certain reserved policy matters and to include the granting of licences among them. It would then be a question of contract between the two parties that decisions on that issue would not be taken without both parties' consent. Alternatively, the Articles of Association of the joint venture vehicle might provide that decisions on licensing would only be taken with the concurrence of, say, one director from each side. This would give better protection; there would at least be a chance that a third party, contracting with the company, would be on notice of any breach of the condition. That would not be the case if the right of veto was set out merely in a private shareholder's agreement.

The importance of providing precise rules on this issue, in one form or another, is greater where one joint venture partner might not share the other's enthusiasm for licensing third parties. For example, a software house and a bank may co-operate in developing a suite of programs. If those programs give the bank a competitive edge over others it will be reluctant to see that advantage eroded by licences being granted to other banks. The software house, on the other hand, will want to maximise the revenue to be derived from its efforts by licensing as widely as possible.

The situation that sometimes arises is that one of the joint venture partners is much more enthusiastic about a particular development than the other. One may want to apply for worldwide patents and the other may not. If the more enthusiastic one files the applications at his own expense, what happens if his judgment is ultimately vindicated by the patent becoming a money-spinner? The previously reluctant partner may now see the error of his ways and want to participate. Can he buy his way back in by paying half of the outlay, or must he contribute a sum which more closely reflects the value of the patent? The same problem may arise if one partner wants to abandon patents by not paying renewal fees and the other wishes to maintain them. Clear procedures for dealing with problems of this kind may avoid much heartache later.

If the parties are happy with the consequences of joint ownership outlined above, the absence of specific provisions vesting ownership in one or other of the joint venture partners, with or without a licence in favour of the other partner, may not create problems. However, there may be cases where difficulties arise as to whether an item of intellectual property developed while the joint venture was in operation really fell to be treated as jointly owned. Work carried out in the mainstream of the joint venture activities would not normally pose problems. But what would be the position if one of the partners developed a piece of equipment which did not fall within the central purpose of the joint venture, but facilitated one of the subsidiary processess involved in it? For example, a piece of laboratory equipment might be developed to overcome a difficulty faced during the joint development of a pharmaceutical product. The result might be something which would not automatically be treated as jointly owned. If the courts then found, when they came to look at the Agreement, that the joint venture activities were quite tightly defined and were limited to the production of chemical compounds, it could be argued that an engineered item fell outside its scope.

Whether or not problems are caused by one joint venture partner claiming sole rights over intellectual property developed from peripheral activities will depend upon the commercial importance of the particular development. It could be argued that, for developments which are not essential to the joint venture's aims, it is not so important where the dividing line is drawn so long as it is drawn somewhere and so long as it is fairly clear.

In this connection recitals in the underlying Agreement may have an important role. Sometimes they seem to be rather an unnecessary preamble to the essence of an Agreement. Even though they cannot be looked at to help interpret what the main provisions mean, they do set them in context. In the event of disputes of the kind discussed above, that alone may well help the court to decide what is a mainstream joint venture activity and what is not.

In the case of trade marks it is equally vital that the parties decide at the start whether they intend to retain any part of each partner's mark or name in the title under which the joint venture intends to trade. If the marks of individual partners are used there is a danger that their validity may be impaired either because one or both are not being used by their own proprietor or because their use by both the proprietor and the joint venture detract from their distinctiveness. Problems may also arise if the joint venture is brought to an end after it has developed a reputation under a distinctive name incorporating elements of both partners' marks or corporate titles. Dismembering such a composite brand name may be uncomfortable and the subsequent development of a separate image by the former partners may be difficult. This will be particularly so for a company whose own trade mark or corporate title is less well known than that of its former partner. It may find that the association with a stronger name has significantly reduced the public's perception of its own name and increased the difficulty of promoting the business after it has withdrawn from the joint venture. Cases have even arisen where the absence of clear rules within the joint venture agreement has made it uncertain whether a retiring partner could insist on the removal of its name from the trading style of a continuing joint venture. That is obviously an extreme case, but those contemplating joint ventures should not underestimate the value of the trade marks contributed nor the harm that they may suffer if not protected while out of the contributing partners' complete control.

Formalities on Transfer of Rights

It is obviously important that any assignments or licences, ancillary to the main joint venture arrangement, should be in writing and thoroughly drafted in order to reflect the policy decisions which this article has urged potential partners to make. There are, however, additional formalities which may need to be followed in certain circumstances. If a patent is to be assigned to a joint venture, the participants should ensure that the assignment is in writing and signed by or on behalf of the parties to the transaction, otherwise it will be void. A purported assignment which does not comply with the requirements of the Patents Act 1977 will probably be construed as an agreement to assign, if it is an enforceable contract. An agreement to assign does not alter the proprietorship of a patent, but gives a right in equity to have the proprietorship altered in law.

No particular form of assignment document is required but it is important that the assignment is recorded at the Patents Office, since a later registered assignment may defeat an earlier unregistered one.

A licence can be in any form and, subject to proof of existence, an oral licence will be enforceable. However, in view of the problems of uncertainty and of the effect of failure to register a transaction relating to a patent, it is obviously essential in practice that a licence should be both in writing and recorded at the Patents Office.

The registration of an assignment or licence not only preserves title but may also be crucial in the attack on infringers. Failure to register will not preclude the joint venture from commencing infringement proceedings, but the right to recover damages could be affected. Section 68 of the Patents Act 1977 provides that unless the transaction is registered within six months of its date, or the court is satified that it was not practicable to register it in that period, the assignee/licensee shall not be entitled to recover damages or an account of profits in respect of infringement subsequent to the transaction. Thus, although the joint venture may be successful in restraining an infringer, it will not be able to recover its loss and damage as a result of the infringer's activities.

Procedural difficulties may also arise when assigning or licensing trade marks. English law has come only rather reluctantly to accept that a mark can be properly transferred on its own, without the goodwill in the business to which it relates. In the case of unregistered marks there is considerable doubt as to whether this can ever be done. If it is to be done in the case of a registered mark then it is necessary to have the assignment advertised in the official trade marks journal.

In the case of a licence, certain formalities are required in order to be sure that the licensee's use of the mark is deemed to be use by the proprietor. The registration cannot then be attacked on the ground that the proprietor has not made use of the mark. However, in order to be registered the licence must include certain minimum ***I.C.C.L.R. 119*** provisions intended to establish an element of control by the proprietor over the use of the mark by the licensee and over the quality of the goods or services to be provided under it. For the licensee a failure to register will inhibit his ability to attack infringers.

Difficulty arises if a joint venture partner wishes to contribute a mark which he has himself licensed from the proprietor. It will be necessary, in those circumstances, to persuade the proprietor to enter into a direct licence in favour of the joint venture partner or the joint venture company and to use contractual provisions in the documentation in order to protect the original licensee from the danger of being cut out of the transaction by the other two parties.

Maintaining Control over Intellectual Property Rights

Any industrial concern engaged in research and development has to take great care to protect its intellectual property rights, not only by patenting but also by implementing security measures to prevent them being lost or devalued. The problem is greater in the case of a joint venture. If it is operated through a separate corporate vehicle, there may be fewer resources available to it than to its parents. That shortage may be remedied by giving it access to the patent department or company secretary's section of one of the partners. But the lines of communication are likely to be stretched and, whatever the form of the joint venture, there is a danger that the partners will be uncertain who is responsible. It is in just these circumstances that the task of overseeing essential record-keeping and other disciplines may be neglected.

Many dangers arise from any detachment from central control. At the most basic level responsibility must be attributed for dealing with communication from the Patent Office and for paying renewal fees on patents, trade marks and registered designs.

Disclosure of new technical information prior to it being patented, except under certain special circumstances referred to in the Patents Act 1977, will result in the loss of a valuable asset, since the subsequent application to patent the invention will fail for lack of novelty. The information will by then already be in the public domain. The same applies to registered designs. Controlling technical staff so that they do not publish an article in a specialist magazine, or present a paper disclosing the key elements of their new invention, before patent protection has been secured, is an essential discipline which is made more difficult to enforce if research and development personnel are established in a separate joint venture operation at a location away from the watchful eye of senior management and the patent department.

There are a number of instances where it is important, if rights are to be protected, that proper records are kept. For example, if an organisation which develops a new design for a product fails to retain a drawing, photograph or prototype recording its creation then the task of proving that an unregistered design right has come into existence may be impossible. If the design record is not dated or does not include details of the individual designer then, again, difficuties may arise if it becomes necessary to take action against an infringer.

Ownership may depend on whether the designer who actually put pen to paper was employed by, or commissioned by, the person who claims ownership. In a joint venture, where separate teams of employees are combined, sloppiness in this area could well cause difficulties, particularly if it became necessary to take urgent action against an infringer. Again, this is an area where control may be lost in the case of an organisation detached, either physically or psychologically, from the joint venture ‘parents’.

The service contracts imposed on staff by each potential partner should have been reviewed before completion to ensure that they incorporate terms dealing with confidentiality, the ownership of inventions and appropriate restrictive covenants. They also need to be kept under review to ensure that the ability to rely upon confidentiality provisions or restrictive covenants is not impaired by out-of-date descriptions of the employee's duties. These, again, are areas where problems may arise if either the joint venture is detached from the control of the responsible joint venture partners' personnel department or, worse still, if it is never established which of the partners should have control over the updating of employee's contracts and job descriptions.

The access by individuals to information acquired or generated by the joint venture must also be regulated. To bind individuals by contract is not in itself sufficient. Although the joint venture company or partner can make a claim for breach of contract, by that stage the information may already have been disclosed. It is therefore essential to implement a policy regulating the flow and disclosure of sensitive information. Employers must ensure that their employees are constantly aware of their obligation not to disclose technical information and knowhow and should understand the value of such information to the organisation. The use and development of such information should be strictly controlled. Measures which should be introduced include permitting only limited access to secret information and keeping records of who has access, the status of the person and the state and stage of development. In addition, regular checks should be made on the safety and security of the information itself to ensure that nothing goes missing. To the extent that information is stored in a computer system strict password control and access logging should be imposed by the parents.

It is, of course, one of the potential advantages of the joint venture that, by setting up a closely knit team which is detached from the mainstream activities of both joint venture partners, the ability to retain secrecy ought to be improved. That advantage may be lost if the same detachment leads to slackness in security.

If a patented invention is licensed exclusively to one of the partners or to a jointly owned company, the contributing partner must make checks during the period of the licence, not only to ensure that the terms of the licence have been complied with, but also that the patent is being worked to its fullest extent and that demand is being met. If it is not, and three years have elapsed since the grant of the patent, it is open to any person to apply to the Comptroller of Patents for a compulsory licence or to have the patent endorsed 'Licences of Right'. The grounds for such an application, in short summary, are that the patent is being insufficiently worked and therefore the invention ***I.C.C.L.R. 120** is being suppressed. Similar provisions apply to registered designs under section 10 of the Registered Designs Act 1949.

Conclusion

The primary message of this article has been to stress the importance of first establishing a clear policy, then documenting the transaction with care so that the legal contract accurately reflects that policy and, finally, monitoring conduct of the business thereafter to ensure that the commercial purpose is not undermined in the course of day-to-day operations. It may be said that such advice to plan, document and then implement is neither new nor applicable only to the particular subject-matter; it could be applied to any business venture in any field. However, when the business under consideration is a joint venture and it involves intellectual property, failure to apply those principles to the intellectual property elements of the co-operation may lead, not only to the failure of the particular transaction, but also to the loss of valuable property rights which may have cost a great deal to establish, in terms both of money and human resources.