

# Savouring the eureka moment is not enough

Great ideas but no follow through is where Kiwi innovators go wrong

**Patrick Casey**

Scientist Paul Callaghan's call to arms in his new book *Wool to Weta* and the Food Innovation New Zealand announcement are ample evidence of the importance of innovation to future economic prosperity.

While no one doubts the quality of Kiwi innovation, we often drop the ball when it comes to turning this into a sustainable, profitable venture.

Intellectual property licensing is a core route to market for many Kiwi companies. The licensing of innovation conjures up thoughts of the "bach, boat and beamer" funded by a revenue stream after years of blood, sweat and tears in R&D.

The reality is rather different. Good quality innovation can often be scuppered by inadequate licensing arrangements.

And this risk is even more pronounced in a difficult economic climate where only quality innovation coupled with robust contractual arrangements will succeed. So what can innovative Kiwi companies do to help ensure their prosperity through licensing?

## **Protect your field of dreams**

The foundation of a licence agreement is setting the limits of a licensee's activities. An exclusive licence for a particular country (for example, Australia) or countries is the most common licence granted by companies. It is a powerful right.

In isolation, an exclusive licence

performance expectations within a licence agreement.

Performance is not achieved through vague "reasonable endeavour" or "best effort" obligations, but through minimum (and realistic) performance expectations including sales and revenue targets and "milestone" payments. She'll be right just won't do.

Performance levels that work are often agreed after constructive information exchange between the parties rather than simply imposed.

Once set, performance expectations must be managed, including through the exercise of audit rights. In the case of royalty payments, a UK study late last year found approximately 75% of licensees to have made errors in self-reporting of royalties or to have under-reported by as much as 20%.

In a difficult economic climate, the inclusion and, more importantly, the exercise of audit rights should be top

can result in a licensee being given the right to use the innovation to the exclusion of all other people (including the innovative Kiwi company) without further restriction. But what if the licensee does not have the expertise to develop all possible uses of the innovation?

A field of use licence grants rights to the licensee to commercialise some, but not all, possible uses of the intellectual property. This allows a company to slice and dice intellectual property to cover, say, a particular indication (in the case of a pharmaceutical or veterinary drug) or a particular food type (in the case of a biomolecule).

This sounds attractive in principle but through punch and counterpunch in the negotiating process, field of use licences can end up being circular, lack precise boundaries or simply be "fudged" in the interests of getting the deal done.

Contentious field of use issues don't go away just because a deal is done. They will in fact only get worse.

A recent dispute in the US saw the parties go before an arbitrator four times in the space of six years. The protracted litigation between Apple Computer and Apple Records (the brand behind the Beatles) in respect of online and digital music applications shows how field of use disputes can materialise as technologies converge.

The eureka moment that led to the innovation in the first place must be matched with forward thinking as to current and future applications for the innovation, especially where a long-term licence arrangement is contemplated.

## **Don't forget performance**

While the most effective licensing arrangements will always result from a collaborative partnership, this should not be at the expense of reasonable

of mind for New Zealand companies involved in licensing.

Although other, less extreme, consequences will often also be covered, performance should also have a specific link to the term and termination provisions and any rights of renewal in a licence agreement.

Negotiating parties who are focused on establishing a relationship can often shy away from the issue of what it will take to end the relationship. However, without clear parameters around those failures in performance that will entitle each party to terminate a licence agreement, companies and their licensees can be left in an uncertain position as to when a failure in performance is sufficient to justify termination.

Patrick Casey is a senior associate in Simpson Grierson's intellectual property team. Email: patrick.casey@simpsongrierson.com