

Commercializing Your Agricultural Project IPRs

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Introduction

This article covers the commercialization of intellectual property rights (IPRs) derived from agricultural research projects. It defines key terms and deals with the cost of commercializing IPRs. Other issues addressed are commercialization models, website and checklist.

Definitions

“Commercialization” is the process of introducing a new product or production method into the market.

“Intellectual Property” refers to creations of the mind such as new plant varieties, patents (drought tolerant, herbicide tolerant and insect resistant traits) and trade or service marks.

“Project Intellectual Property” means any intellectual property (IP) that is conceived, created, or developed by a party in the course of performing the project as opposed to prior to, or independent of, any research performed under the project (“Background IP”).

Cost of Commercializing IPRs

One key challenge in the development of project IPRs, such as patents and new plant varieties, is the cost and difficulty of commercializing such IPRs. Such a process usually requires a range of different sources of funding, expertise and other resources. IPR protection needs to be properly managed so that it does not become a burden.¹

Patents are expensive to obtain, especially if applied for in many countries. Patents are also expensive to annually renew and enforce in case of infringement. Not all patented inventions are technologically successful or commercially viable. Consequently, the international Patent Cooperation Treaty system grants a 90% fee reduction to individual applicants from countries with per capita national income below US\$3000 and all categories of applicants from Least Developed Countries.² Other IPRs such as plant breeder’s rights and trademarks normally cost less than patents.

Despite the cost involved in protecting project IPRs, a public sector or charitably funded organization that does not retain some IPRs over the new technologies it produces runs the risk of losing control over the development or application of such technologies to private entities.

¹ World Intellectual Property Organization (WIPO), *DL-204E Biotechnology and Intellectual Property – 2010 Session* (Sept. 16 to Nov. 25), 7.2.

² *Ibid.*

Commercialization Models

Another crucial challenge in commercializing project IPR lies in finding a suitable commercialization model to gain suitable returns from the IPR.³ In commercializing project IPR, you can choose between the following commercialization models-

- Joint venture agreement
- Spin-off or start-up company
- Assignment
- License

Joint venture agreement

A joint venture agreement involves a formal and legally binding commitment between two or more partners to collaborate for a specific purpose (e.g. bio-control or machinery manufacturing and sale) and for a limited duration. Before entering into a joint venture agreement, it is advisable to investigate potential commercial partners in order to ensure that the objectives of such partners are consistent with project objectives.⁴

Since joint venture arrangements are not corporations, such arrangements are not normally able to enter legal commitments or own IPRs so that the partners are directly responsible for any losses or other liabilities. Joint venture agreements are ideal when the goal is to keep an institution's research activities separate from its commercialization activities while attracting financial support from those prepared to take a risk with an unproven technology.⁵

Spin-off or start-up company

A company is a legal person which can own, license IP and enter into legal commitments in its own right. A spin-off company is an independent company created from an existing legal body such as a research institute. A start-up company is a new company in its early stages of development.⁶

Due to their separate legal identities, spin-off and start-up companies keep the main research efforts of an institution focused on broader scientific and public objectives and protected from commercial risks while still allowing the institution to benefit from the commercialization of its research thereby strengthening the institution's capacity to do scientific research.⁷

The company is usually owned through shares (equity) which represent a portion of the assets and entitlement to company profits. Investors can purchase shares in the company thereby bringing in new financial resources to support technology development and the investors may benefit from the rise in the value of their shares and receive a portion of

³ WIPO op cit note 1.

⁴ Idem at 7.4.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

company profits according to the number of shares they own. An initial public offering occurs when a start-up company's shares are first made available to the public on the open stock market. However, start-up or spin-off companies require business skills, marketing skills, management skills and substantial capital for facilities, staff, etc.⁸

Assignment

An assignment of IPR is the sale of the IPR or the share of the IPR. Assignments of IPRs do not have to cover all the IPRs. An assignment of IPR normally deprives the IP owner of any possibility of further licensing or commercially exploiting the IP owner's IPRs. Consequently, the amount charged for an assignment is usually much higher than the royalty fee charged for a license.⁹

License

A license is a contract which creates legal obligations between, and defines the commercial relationship that applies to, the parties to the contract. A license is a grant of permission made by the IP owner (licensor) to another (licensee) to exercise any specified rights, in certain territories and time periods. Licensing is a good way for the licensor to benefit from its IP as the licensor retains ownership of the IPR while allowing others to use the IPR in return for benefits such as royalties.¹⁰ Royalties are usage-based payments made by the licensee to the licensor for the right to on-going use of the IPR.

The License should outline what is being licensed by setting out the IPRs that are being licensed and stating which territory the license applies to. It should state who retains ownership of the licensed IPRs including rights on improvements to the licensed technology. The license should set out whether the licensee could sub-license the IPRs to others.¹¹

The License should also state whether the license is exclusive or non-exclusive. Non-exclusive licenses reserve the right of the licensor to assign licenses to other parties. It has been observed that exclusive licenses promote more seed producer commitment and best market coverage. Also, exclusive licenses could persuade licensees to carry the costs related to variety protection, regulatory approvals, bio-control or machinery registration and testing.

The License should set out how royalty payments will be calculated and when the payments will be made. Royalties are usually based on a percentage of gross or net revenues derived from the use of the IPR or a fixed price per unit sold of an item. The Agricultural Research Council of South Africa obtained R 10,000,000 from license royalties in 2009/2010.¹²

⁸ WIPO op cit note 1 at 7.4.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² S.R. Moephuli, "Agricultural Research: Enhancing Productivity Through Intellectual Property", paper delivered at the WIPO seminar on "How the Private and Public Sectors Use IP to Enhance Agricultural Productivity", Geneva, June 14, 2011, p.25.

Humanitarian Use Licenses (HUL) for research projects usually stipulate that commercialization licenses issued under such research licenses should be based on the royalty free principle. HUL stimulates less costly research and development (R&D) by companies and research institutes in developing countries especially for neglected agricultural constraints. HUL generates positive publicity for technology donors especially in the biotechnology sector. HUL could also serve as a long-term strategy to convert currently unprofitable markets into profitable future markets.

The license could require the licensee not to assert claims or to seek damages against the licensor or other parties for the licensee's or its end users use of the licensed IPR. The license usually protects technology donors from liability through the inclusion of warranty disclaimers, insurance and indemnification provisions. Reach through clauses may enable the license to be terminated if the licensee violates the license by selling the seed to eligible farmers at unaffordable prices.

Another concern of technology donors is the possible misuse of IPRs and associated confidential information. The license usually contains provisions governing the use of IPRs and confidential information.

Trade and service marks can also be licensed. An example of a trademark is the word¹³ –

STRIGAWAY®

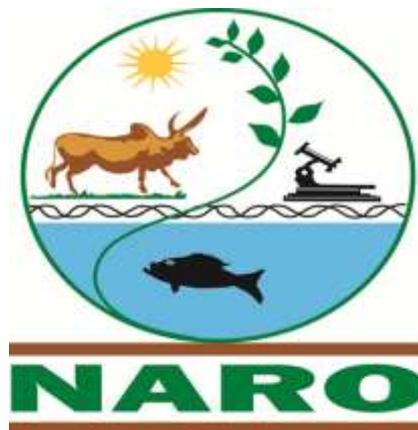
The above trademark was registered by BASF AG in Kenya, Mozambique and Tanzania.

Another example is¹⁴ –

AFLASAFE KE1™

The above trademark has been applied for by the International Institute for Tropical Agriculture (IITA) through AATF in Kenya.

An example of a combined word and design mark for agricultural services is¹⁵-



¹³ Courtesy of BASF AG.

¹⁴ Courtesy of the International Institute for Tropical Agriculture.

¹⁵ Courtesy of the National Agricultural Research Organization of Uganda.

The following are examples of trade and service mark license clauses-

- Licensee shall use the licensed trade or service mark on all promotional materials produced that refer to project products.
- Licensee shall use the licensed trade or service mark in any marketing or advertising describing project products.
- Licensee shall use the licensed trade or service mark in a featured and prominent manner.
- Licensee shall use the licensed trade or service mark with project products sold or offered for sale.
- Licensee shall use the licensed trade or service mark only with products that meets the quality assurance, stewardship and performance obligations of the project.
- Neither licensee, nor entities which are affiliates of licensee, shall use any other trade/service mark or name in association with project products that is confusingly similar to or, in licensor's judgment, suggestive of, the licensed trade or service mark.
- Licensee shall be allowed to use its own trade or service mark in association with the licensed trade or service mark.
- If licensee learns of any unauthorised use of the licensed trade or service mark or any colourable imitation of, or trade or service mark confusingly similar to, the licensed trade or service mark, licensee shall immediately inform licensor in writing of such unauthorized use.
- Licensee may require all its packers and distributors to attach to the product of the project (where commercially practicable and consistent with normal industry practice) and its bags, cartons, boxes, pallets, or containers, sold under the license contract, a durable and legible label or tag specifying the correct name of the licensed variety designation and licensed trade or service mark.¹⁶

The following are examples of trademark labels¹⁷-



¹⁶ W.T. Tucker and G.S. Ross, *“Use of Trademarks in a Plant-Licensing Program”*, Intellectual Property Management in Health and Agricultural Innovation – A Handbook of Best Practices, Volume Two, 2007, 1066.

¹⁷ Courtesy of the Kenya Agricultural Research Institute and IITA.



The license may include performance milestones and set target dates for such milestones to be met. The aim of performance milestones is to measure the progress and impact of the project. The license will clearly stipulate the term of the license, effect of termination, governing law and dispute settlement procedures.

Commercialization Website

The website will contain-

- Information on the project.
- List of IPRs available for licensing.
- License Application Form (including Seed or Manufacturing Company Selection Criteria).

Commercialization Checklist¹⁸

- Combined R&D and IP Strategy
- Patent Survey
- New IPR
- IPR Protection
- IPR Cost Tracking
- Business Research
- Commercialization Model Decision
- Freedom To Operate
- IPR Enforcement
- Expert Advice

Conclusion

The commercialization of project IPR is the final crucial phase in achieving the objectives of a project. Commercialization leads to impact on the ground and such impact has presently become the most important condition for securing donor funding for such projects.

¹⁸ WIPO op cit note 1.