International Licensing and Technology Transfer: Practice and the Law

General Editors

Adam Liberman
Peter Chrocziel
Russell E. Levine, P.C.

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Chapter 2

Intellectual Property Rights: Legislation, Regulations, Directives and Policies

Philippines

Patricia A. O. Bunye

Cruz Marcelo & Tenefrancia

This chapter has been reviewed by the Author and is up-to-date as of December 2017

LICENSING INTELLECTUAL PROPERTY RIGHTS IN THE PHILIPPINES

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Types of Intellectual Property	Technical solution of a problem in any field of human activity	Original intellectual creations in the literary or artistic domain	Composition of lines, colours or any three-dimensional form which gives a special appearance or pattern	Visible sign capable of distinguishing goods or services of enterprise
Rights available to be licensed	Making, using, selling, offering for sale, importing of a product and/or use of a process	Reproduction, dramatization, first public distribution, rental, public display, public performance other communication to public	Making or using a composition of lines, colours or any three-dimensional form which gives a special appearance or pattern	Use in commerce of a mark or a dominant feature in connection with sale, offering for sale, distribution, advertising
Source of Right to grant licenses	The term 'technology transfer arrangements' refers to contracts or agreements involving the transfer of systematic knowledge for the manufacture of a product, the application of a process, or rendering of a service including management contracts; and the transfer, assignment and ***licensing of all forms of intellectual property rights***, including licensing of computer software except computer software developed for mass market. (Emphasis supplied) [s. 4.2, IP Code]			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Formalities required to create a license (other than usual contractual requirements)	Non-compliance with either the mandatory provisions [s. 88, IP Code] or the prohibited clauses [s. 87, IP Code] under the IP Code shall render the technology transfer arrangement unenforceable, unless the same is registered with, and approved by, the Documentation, Information and Technology Transfer Bureau ('DITTB') of the Intellectual Property Office ('IPO') (s. 92, IP Code).	The copyright is not deemed assigned *inter vivo* in whole or in part unless there is a written indication of such intention (s. 180.2, IP Code).	Non-compliance with either the mandatory provisions or the prohibited clauses under the IP Code shall render the technology transfer arrangement unenforceable, unless the same is registered with, and approved by, the DITTB of the IPO (s. 92, IP Code).	An essential feature which distinguishes a trademark license agreement is the quality control provision. This indispensable condition of a valid trademark license is essentially a control on the nature and quality of the goods or services sold under the trademark. Control is necessary to ensure that the licensee's products are of equal quality to the products previously associated with the licensor's trademark (s. 150.1, IP Code).

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Registration or recordal requirements for license	As a general rule, technology transfer arrangements which comply with sections 87 and 88 of the IP Code (i.e., which contain none of the prohibited clauses under section 87 and include all the mandatory provisions required under section 88) need not be registered with the DITTB (s. 92, IP Code). Non-conformance with any of the said provisions shall automatically render the technology transfer arrangement unenforceable, unless approved and registered with the DITTB as falling under exceptional cases.	No registration requirement. But an assignment or exclusive license may be filed with the National Library upon payment of the prescribed fee for registration in the books and records kept for that purpose (s. 182, IP Code).	No provision on licensing requirements in the IP Code. However, Rule 1900 of Part 19 of the Rules and Regulations states that the provisions on the 'Recording of Assignment of Letters Patent and other Instruments affecting Title to Patents, Including Licenses; Surrender, Correction, and Amendments of Patent; Recordal and Assignment and Transmission of Rights' as provided for in Part 12 of the Regulations for Patents shall apply, *mutatis mutandis,* to industrial designs. Part 12 requires that the assignment be in writing and notarized,	A trademark license contract shall be submitted to the IPO which shall keep its contents confidential but shall record it and publish a reference thereto. A trademark license contract shall have no effect against third parties until recording is effected (s. 150.2, IP Code). Any trademark license agreement shall be applied for clearance with the DITTB and shall be recorded only upon certification by the Director of the DITTB that the agreement does not violate sections 87 and 88 of the IP Code.

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Registration or recordal requirements for license			and that the assignment must be accompanied by the appointment of a resident agent if the assignee is not domiciled in the Philippines.	
Rights that can be excluded by contract or which can only be excluded by contract	The following prohibited clauses should not be contained in the license agreement: 1. Those which impose upon the licensee the obligation to acquire from a specific source capital goods, intermediate products, raw materials, and other technologies, or of permanently employing personnel indicated by the licensor;	The copyright may be assigned in whole or in part. Within the scope of the assignment, the assignee is entitled to all the rights and remedies which the assignor had. (s. 180.1, IP Code).	No existing provision limiting rights that can be excluded by contract. However, if the contract may be considered a technology transfer arrangement, then the same must comply with Sections 87 and 88, IP Code.	No existing provision limiting rights that can be excluded by contract.

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
	2. Those pursuant to which the licensor reserves the right to fix the sale or resale prices of the products manufactured on the basis of the license; 3. Those that contain restrictions regarding the volume and structure of production; 4. Those that prohibit the use of competitive technologies in a non-exclusive technology transfer agreement; 5. Those that establish a full or partial purchase option in favour of the licensor;			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Rights that can be excluded by contract or which can only be excluded by contract	6. Those that obligate the licensee to transfer for free to the licensor the inventions or improvements that may be obtained through the use of the licensed technology; 7. Those that require payment of royalties to the owners of patents for patents which are not used; 8. Those that prohibit the licensee to export the licensed product unless justified for the protection of the legitimate interest of the licensor such as exports to countries where exclusive licenses to manufacture and/or distribute the licensed product(s) have already been granted;			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
	9. Those which restrict the use of the technology supplied after the expiration of the technology transfer arrangement, except in cases of early termination of the technology transfer arrangement due to reason(s) attributable to the licensee; 10. Those which require payments for patents and other industrial property rights after their expiration, termination arrangement; 11. Those which require that the technology recipient shall not contest the validity of any of the patents of the technology supplier;			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Rights that can be excluded by contract or which can only be excluded by contract	12. Those which restrict the research and development activities of the licensee designed to absorb and adapt the transferred technology to local conditions or to initiate research and development programs in connection with new products, processes or equipment; 13. Those which prevent the licensee from adapting the imported technology to local conditions, or introducing innovation to it, as long as it does not impair the quality standards prescribed by the licensor;			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
	14. Those which exempt the licensor for liability for non-fulfilment of his responsibilities under the technology transfer arrangement and/or liability arising from third party suits brought about by the use of the licensed product or the licensed technology; and 15. Other clauses with equivalent effects (s. 87, IP Code). Moreover, the following provisions must be included in the license agreement: 1. That the laws of the Philippines shall govern the interpretation of the same and in the event of litigation, the			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Rights that can be excluded by contract or which can only be excluded by contract	venue shall bev the proper court in the place where the licensee has its principal office; 2. Continued access to improvements in techniques and processes related to the technology shall be made available during the period of the technology transfer arrangement; 3. In the event the technology transfer arrangement shall provide for arbitration, the Procedure of Arbitration of the Arbitration Law of the Philippines or the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL)			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
	or the Rules of Conciliation and Arbitration of the International Chamber of Commerce (ICC) shall apply and the venue of arbitration shall be the Philippines or any neutral country; and 4. The Philippine taxes on all payments relating to the technology transfer arrangement shall be borne by the licensor (s. 88, IP Code).			
Entitlement of co-owner to license	When two or more persons have jointly made an invention, the right to a patent shall belong to them jointly (s. 28, IP Code).	If two or more persons jointly own a copyright or any part thereof, neither of the owners shall be entitled to grant licenses without the prior written consent of the other owner or owners (s. 180.3, IP Code).	When two or more persons have jointly made an industrial design, the right to the same shall belong to them jointly (s. 119.1, IP Code vis-à-vis s. 28 thereof).	No provision under the IP Code. General law that joint obligation is presumed under the Civil Code may apply.

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Entitlement of co-owner to license	In case of collaborative research where two (2) or more Research and Development Institutions ('RDI') conducted the research funded by the Government Funding Agency ('GFA'), the RDIs shall own the intellectual property rights jointly or as otherwise stipulated in the research agreement between them (s. 6(b), Technology Transfer Act of 2009).			
Compulsory licensing provisions that may apply	The IPO's Director of Legal Affairs may grant a license to exploit a patented invention, even without the agreement of the patent owner, in favour of any person who has shown his capability to exploit the invention, under any of the following circumstances:	No applicable compulsory licensing provisions.	No applicable compulsory licensing provisions.	No applicable compulsory license provisions.

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
	(1) National emergency or other circumstances of extreme urgency; (2) where the public interest, in particular, national security, nutrition, health or the development of other vital sectors of the national economy as determined by the appropriate agency of the Government, so requires; or (3) where a judicial or administrative body has determined that the manner of exploitation by the owner of the patent or his licensee is anti-competitive; (4) in case of public non-commercial use of the patent by the patentee, without satisfactory reason; (5) if the patented invention is not being worked in the Philippines			

(*Continued*)

	Patents/Utility Models	*Copyrights*	*Designs*	*Trademarks*
Compulsory licensing provisions that may apply	on a commercial scale, although capable of being worked, without satisfactory reason: Provided, That the importation of the patented article shall constitute working or using the patent; and (6) where the demand for patented drugs and medicines is not being met to an adequate extent and on reasonable terms, as determined by the Secretary of the Department of Health. [s. 93, IP Code, as amended by the Universally Accessible Cheaper and Quality Medicines Act of 2008 (Republic Act No. 9502)].			

Chapter 5

Tax Considerations in Structuring International Licensing and Technology Transfer Arrangements

Philippines

Patricia A. O. Bunye

Cruz Marcelo & Tenefrancia

This chapter is reviewed by the Author and is up-to-date as of December 2017

Philippines

Patricia A. O. Bunye

Cruz Marcelo & Tenefrancia

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Philippines

1. OVERVIEW OF THE PHILIPPINES TAX SYSTEM

Two types of taxes are applicable to licence agreements under the Code ('NIRC'), as revised: (i) Value Added Tax (VAT); and (ii) Final Tax on Royalties.

1.1. Value Added Tax

Section 105 of the NIRC provides for the payment of VAT for the sale, barter, exchange or lease of goods or properties, rendition of services and importation of goods. The term 'goods or properties' is not limited only to tangible objects but also includes intangible objects capable of pecuniary estimation, such as intellectual property. The term shall include the right or the privilege to use patent, copyright, design or model, plan, secret formula or process, goodwill, trademark, trade brand or other like property or right.

Since licence agreements involve the lease of the right to use the licensor's intellectual property, and they are governed by section 108 of the NIRC. There shall be levied, assessed and collected, a VAT equivalent to 12% of gross receipts derived from the sale or exchange of services, including the use or lease of properties.[1] More particularly, the phrase 'sale and exchange of services' includes: the lease or the use of or the right or privilege to use any copyright, patent, design or model, plan secret formula or process, goodwill, trademark, trade brand or other like property or right; the supply of scientific, technical, industrial or commercial knowledge or information; and the supply of any assistance that is ancillary and subsidiary to and is furnished as a means of enabling the application or enjoyment of any such property.

The transaction shall be subject to the VAT irrespective of the place where the licensing agreement was executed provided that the property is leased or used in the Philippines.[2]

1. National Internal Revenue Code, s. 108(A).
2. NIRC, as amended by RA 9337, s. 108 (A).

The person liable to pay the VAT, as provided by section 114 of the NIRC, shall file a quarterly return of the amount of his gross sales or receipts within twenty-five days following the close of each taxable quarter prescribed for each taxpayer: Provided, however, that VAT-registered persons shall pay the VAT on a monthly basis, i.e., on or before 20th of every month following the close of the taxable month.[3]

1.2. Final Tax on Royalties

The term 'royalties' as generally used means payment of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, or films or tapes used for radio or television broadcasting, any patent, trademark, design, or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

The term 'use' shall include the reselling or distribution of software. Software is generally assimilated as a literary, artistic or scientific work protected by the copyright laws of various countries including the Philippines. Thus, payments in consideration for the use of, or the right to use, a copyright or a copyrighted article relating to software are generally royalties.[4]

Royalties received on account of the licensing agreement shall be subject to the final tax as provided by the NIRC. Since royalties are proceeds paid to the owner of the right, then such income on the part of the owner is taxable.[5]

Section 24(B) of the NIRC imposes a final tax of 20% on royalties[6] if the taxpayer is an individual. However, when such an individual is a non-resident alien not engaged in trade or business, the royalty payment shall be subject to a final tax of 25% on the gross amount.

Under section 27(D) of the NIRC, if the taxpayer is a domestic corporation, a 20% final tax on the amount of the royalties is imposed, except in the case of non-resident foreign corporation which is generally subject to a uniform income tax rate of 30% on all its income derived within the Philippines.[7]

Under Revenue Regulation 02-98, the payor of the royalty is constituted as the withholding agent who shall be primarily responsible for the withholding of the final tax thereon. The final withholding taxes withheld by the withholding agent shall be paid upon filing a Withholding Tax Return with the proper Revenue District Office within ten days after the end of each month except

3. NIRC, as amended by RA 9337, s. 114.
4. Revenue Memorandum Circular No. 77-03.
5. Section 32(A), NIRC.
6. Royalties on books, other literary works and musical compositions is given a preferential rate of 10% by the NIRC.
7. NIRC, as amended by RA 9337, s. 28(B)(1).

for taxes withheld for the month of December of each year, which shall be filed on or before 15 January of the following year.[8]

Royalties and similar fees can be remitted abroad under a technology transfer arrangement ('TTA') provided that parties have obtained a certification by the Documentation, Information and Technology Transfer Bureau ('DITTB') that it conforms to the provisions of the IP Code. While a certificate of compliance or registration from the DITTB is not necessary in order to charge royalties under a TTA, it is required for certain purposes such as filing a claim for refund of overpaid withholding taxes on royalties, the application of preferential tax rates under a tax treaty or remitting royalty payments abroad through Authorized Agent Banks ('AAB').

Prior approval from the Bangko Sentral ng Pilipinas (Central Bank of the Philippines; 'BSP') is not required in order to remit royalties to foreign licensors. The remittance of royalties, fees or similar payments to a foreign company, net of the applicable taxes, may be made through AABs without need of BSP approval. However, AABs may ask for the following documents: (i) copy of the certification of compliance by the DITTB and (ii) proof of payment of withholding tax.

2. MANDATORY TAX PROVISION IN A VOLUNTARY LICENCE AGREEMENT (IP CODE)

One of the mandatory provisions under section 88 of the IP Code is that the payment of Philippine taxes relating to the TTA shall be borne by the licensor. Section 88.4 provides:

> 88.4. The Philippine taxes on all payments relating to the technology transfer arrangement shall be borne by the licensor.

The DITTB generally strictly requires that the actual wording of section 88.4 be adopted in a TTA. For example, some licence agreements provide that all payments made by the licensee to the licensor are net of withholding taxes. While the provision implies that the licensee is merely the withholding agent of the licensor, who is still liable to pay the tax, the DITTB has disallowed such a provision as the same does not expressly stipulate that the liability is shouldered by the licensor.

Notwithstanding the foregoing, there have been very rare instances when the DITTB allowed the licensee to bear some of the taxes relating to the TTA, since the requirement under section 88.4 was substantially complied with by the parties. In one instance, the parties retained the actual wording of section 88.4, but qualified the same such that all other taxes which may be shifted by the licensor to the licensee under Philippine tax laws, i.e., VAT or those which

8. Revenue Regulation 6-2001.

do not directly relate to payments made under the licence agreement, such as the documentary stamp taxes, shall be borne by the licensee. The DITTB found the same to be compliant under section 88.4 of the IP Code and issued a Certificate of Compliance of the TTA with sections 87 and 88 of the IP Code.

3. APPLICATION OF TAX TREATIES

A foreign corporation, such as a foreign franchisor, whether or not engaged in trade or business in the Philippines, is taxed on income derived from sources within the Philippines based on section 23(F) of the NIRC. Such corporation may, however, be exempted from the payment of such tax if the income is considered exempt, pursuant to a tax treaty binding upon the Philippine Government.

A foreign corporation is deemed to be engaged in trade or is doing business in the Philippines when it is engaged in continuous commercial dealings and performance of acts or works or exercise of functions normally incident to, and in progressive prosecution of, the purpose and object of its organization.[9] Section 3(d) of the Foreign Investments Act of 1991 specifies the following acts as 'continuous commercial dealings' constituting doing business in the Philippines:

(a) soliciting orders or service contracts;
(b) opening offices or branches;
(c) appointing representatives or distributors domiciled in the Philippines or who in any calendar year stay in the country for a period or periods totalling 180 days or more;
(d) participating in the management, supervision or control of any domestic business, firm, entity or corporation in the Philippines; and
(e) any other act or acts which imply a continuity of commercial dealings or arrangements, and contemplate to that extent the performance of acts or works, or the exercise of functions normally incident to, and in progressive prosecution of, commercial gain or the purpose of object of the business organization.

In the absence of a tax treaty, the income derived by foreign corporations not engaged in trade or business in the Philippines is generally subject to income tax at the rate of 30% based on the gross amount thereof. The above-mentioned tax shall be withheld by the franchisee as the representative of the government, in accordance with section 57 of the NIRC.

9. *Mentholathum Co., Inc., et al. v. Mangaliman, et al.* 72 Phil. 524 (1941).

Chapter 6
Competition Law

Philippines

Patricia A. O. Bunye

Cruz Marcelo & Tenefrancia

This chapter has been reviewed by the Author and is up-to-date as of December 2017

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Patricia A. O. Bunye

Cruz Marcelo & Tenefrancia

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Philippines

1. RELEVANT LAWS

1.1. Constitution

Article XII, section 19 of the 1987 Constitution provides that the State shall regulate or prohibit monopolies when the public interest so requires. It further provides that no combinations in restraint of trade or unfair competition shall be allowed.

1.2. Revised Penal Code

Act No. 135, otherwise known as the Revised Penal Code, is one of the oldest laws of the Philippines which cover monopolies and combinations in restraint of trade. Article 186 thereof punishes any person who shall enter into any contract, agreement or conspiracy with another in restraint of trade or in order to prevent free competition. The same Article also punishes any person who shall by himself, or in conspiracy with others, monopolize any merchandise by spreading false rumours or making use of any other article to restrain free competition, in order to alter the merchandise's price. The Article likewise punishes any manufacturer, producer, processor or importer who would combine, conspire or agree with another to make transactions prejudicial to lawful commerce or to make transactions for the purpose of increasing the market price of merchandise in any part of the Philippines.

1.3. An Act to Prohibit Monopolies and Combinations in Restraint of Trade

Most of the provisions of Act No. 3247, otherwise known as An Act to Prohibit Monopolies and Combinations in Restraint of Trade, have been repealed by the Revised Penal Code.

1.4. Civil Code of the Philippines

The Civil Code provides that unfair competition in agricultural, commercial or industrial enterprises or in labour through the use of force, intimidation, deceit, machination or any other unjust, oppressive or highhanded method shall give rise to a right of action for damages to any person who suffers thereby.

1.5. The Price Act

Republic Act No. 7581, otherwise known as The Price Act, contains a provision prohibiting Illegal Acts of Price Manipulation by persons habitually engaged in the production, manufacture, importation, storage, transport, distribution or sale of any basic necessity or prime commodity. A person may be liable for acts of price manipulation through cartels, hoarding or profiteering of the said goods, especially during times of calamity and emergency.

1.6. The Corporation Code

The Corporation Code of the Philippines regulates the mergers and consolidations of corporations. These arrangements are allowed provided the subject corporations submit a Plan and Articles of Merger/Consolidation to the Securities and Exchange Commission ('SEC'). If the SEC is satisfied that such merger/consolidation is not contrary to law, a certificate of merger/consolidation will be issued.

1.7. Executive Order No. 45

Executive Order No. 45 designates the Department of Justice as the Competition Authority, which shall have the following responsibilities:

(a) investigate all cases involving violations of competition laws and prosecute violators to prevent, restrain and punish monopolization, cartels and combinations in restraint of trade;
(b) enforce competition policies and laws to protect consumers from abusive, fraudulent, or harmful corrupt business practices;
(c) supervise competition in markets by ensuring that prohibitions and requirements of competition laws are adhered to, and to this end, call on other government agencies and/or entities for submission of reports and provision for assistance;
(d) monitor and implement measures to promote transparency and accountability in markets;
(e) prepare, publish and disseminate studies and reports on competition to inform and guide the industry and consumers; and
(f) promote international cooperation and strengthen Philippine trade relations with other countries, economies and institutions in trade agreements.

1.8. The Consumer Act

Republic Act No. 7394, otherwise known as the Consumer Act, prohibits deceptive, unfair or unconscionable sales, acts or practices. An act is deemed as a deceptive sale whenever the producer, manufacturer, supplier or seller, through concealment, false representation of fraudulent manipulation, induces a consumer to enter into a sales or lease transaction of any consumer product or service. Indeed, an act is deemed as an unfair or unconscionable sale whenever the producer, manufacturer, distributor, supplier or seller takes advantage of the weakness of the consumer in the form of ignorance, illiteracy, or other physical and mental infirmity and induces him to enter into a sales or lease transaction grossly inimical to the interests of the consumer or grossly one-sided in favour of the seller.

1.9. Downstream Oil Industry Deregulation Act of 1998

Republic Act No. 8479 or the Downstream Oil Industry Deregulation Act seeks to liberalize and deregulate the oil industry in order to ensure free competition. To this end, the law provides that any person or entity may import or purchase any quantity of crude oil and petroleum products, lease, own and operate refineries and market such crude oil and petroleum products. The law likewise provides for a uniform tariff duty on imported crude oil and refined oil and mandates the Department of Trade and Industry ('DTI') to implement programs and information dissemination campaigns for the promotion of fair trade practices and entry of new participants in the industry. To further ensure competition, the Act provides for certain incentives for new investments in refining, storage, marketing and distribution of petroleum products such as income tax holidays and exemption from certain taxes. On the other hand, it provides penalties for cartelization and predatory pricing.

1.10. Anti-dumping Act

Republic Act No. 8752 or the Anti-Dumping Act of 1999 imposes, after proper investigation, an anti-dumping duty on any product, when such is imported into the country at an export price less than its normal value and is causing or threatening to cause material injury to a domestic industry where the product belongs or to a domestic industry of a like product.

1.11. Electric Power Industry Reform Act of 2001

Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 mandates retail competition and open access on distribution wires subject to certain conditions, such as the establishment of the wholesale electricity spot market and the privatization of at least 70% of the National Power Corporation in Luzon and Visayas.

1.12. Philippine Competition Act

Republic Act No. 10667, otherwise known as the Philippine Competition Act, was signed into law on 21 July 2015 and took effect on 8 August 2015. It defines what constitutes *Anti-Competitive Agreements* and *Abuse of Dominant Position* and provides that the same are prohibited acts with concomitant administrative and criminal penalties to parties entering into such transactions. Further, it provides for the creation of an independent quasi-judicial body known as the Philippine Competition Commission (the 'PCC') tasked with the implementation of the national competition policy and obtain the objectives of the said law. Among the broad powers granted to the PCC is the review of proposed mergers and acquisitions (wherein the value of the proposed transaction exceeds PHP 1 billion or approximately USD 22,200,000) upon notification to it by the parties, and prohibit mergers and acquisitions that will substantially prevent, restrict, or lessen competition in the relevant market. Under the Philippine Competition Act, an agreement entered into in violation of this compulsory notification requirement shall be void and subject the parties to an administrative fine. The Rules and Regulations implementing the Philippine Competition Act took effect on 18 June 2016.

2. INTELLECTUAL PROPERTY CODE PROVISIONS

The Intellectual Property Code of the Philippines ('IP Code') contains provisions expressly prohibiting unfair competition and patent/trademark/copyright infringement.

Generally, there is unfair competition when one passes off his goods, business or services as that of another who has already identified in the public the goods he manufactures. The IP Code lists the following non-exhaustive punishable acts:

(a) any person who shall give his goods the general appearance of that of another, be it as to the goods themselves, or in the wrapping, packaging, devices or words contained therein, which would be likely to influence purchasers to believe that the goods offered are those of a manufacturer or dealer, other than the actual manufacturer or dealer;

(b) any person who by any artifice, or device, or who employs any other means calculated to induce the false belief that such person is offering the services of another who has identified such services in the mind of the public; or

(c) any person who shall make any false statement in the course of trade or who shall commit any other act contrary to good faith of a nature calculated to discredit the goods, business or services of another.

The IP Code likewise punishes patent/copyright/trademark infringement, which is the unauthorized use of the good, process, product, registered trademark, or copyrighted creation, as the case may be. Any person held guilty of infringement may be subject to a civil liability for damages, criminal penalty of imprisonment or fine or both, injunction and forfeiture of the counterfeit goods.

3. JURISPRUDENCE

3.1. *Coca-Cola Bottlers, Philippines Inc. versus Quintin J. Gomez* (G.R. No. 154491, 14 November 2008)

The issue in this case is whether the 'hoarding' of Coca-Cola bottles is punishable as unfair competition under section 168 of the IP Code, specifically under the catch-all phrase 'who shall commit any other act contrary to good faith of a nature calculated to discredit the goods, business or services of another'.

The Supreme Court answered the issue in the negative. In resolving the issue, the Supreme Court came up with two tests: (a) whether the matter is covered by the IP Code, i.e., if it refers to an intellectual property as defined under the IP Code; and (b) if a disputed matter does not expressly refer to an intellectual property right, whether it falls under the general 'unfair competition' concept. The Supreme Court held that the alleged 'hoarding' of the respondents does not relate to the unauthorized use of any patent, trademark, trade name or service mark. Nor are the respondents alleged to be fraudulently 'passing off' their products or services as those of the petitioner.

It appears then that the catch-all phrase 'who shall commit any other act contrary to good faith of a nature calculated to discredit the goods, business or services of another' does not cover all acts which may be deemed anti-competitive. The case limited the said provision to acts involving 'deception' or any other similar act in 'passing off' of goods or services to be those of another who enjoys established goodwill.

3.2. *Solid Triangle Sales Corporation and Robert sitchon versus The Sheriff of RTC QC, Branch 93, Et al.* (G.R. No. 144309, 23 November 2001)

In this case, petitioner, who claims to be the exclusive distributor of Mitsubishi photographic coloured paper from Mitsubishi Corporation in Japan, sued respondent corporation for importing and selling the same paper from Hong Kong.

The Supreme Court held that such act of the respondent cannot be considered as unfair competition under the IP Code in as much as the goods imported and sold from Hong Kong are genuine Mitsubishi photographic coloured paper. Thus, respondent was not really guilty of 'passing off' his goods as that of another.

3.3. *Kenneth Roy Savage, Et al. versus Judge Aproniano B. Taypin, Et al.* (G.R. No. 134217, 11 May 2000)

The respondents in this case sued petitioners for unfair competition for allegedly manufacturing and selling wrought iron furniture similar to the ones they are manufacturing and selling. The Supreme Court ruled that there is no crime of unfair competition involving 'design patents' under the IP Code. Although the same act may be punishable under Article 189 of the Revised Penal Code, such Article was not re-enacted by the IP Code. Thus, the Supreme Court ruled that because of doubt as to the existence of such crime under the IP Code, the decision should be in favour of the accused.

3.4. *Superior Commercial Enterprises, Inc. Versus Kunnan Enterprises Ltd. And Sports Concept & Distributor, Inc.* (G.r. No. 169974, 20 April 2010)

The respondent and the petitioner in this case previously entered into a Distributorship Agreement whereby the latter was appointed as the exclusive distributor of the former in the Philippines. Petitioner filed a case for trademark infringement and unfair competition, while the respondent filed a Petition for Cancellation of the mark in the name of petitioner, alleging that it is the true owner of the mark. The Supreme Court upheld the decision of the Court of Appeals affirming the cancellation of petitioner's trademark registration and ruling that there was neither trademark infringement nor unfair competition. The Supreme Court ruled that the petitioner, as a mere distributor and not the owner, cannot assert any protection from trademark infringement as it had no right in the first place to the registration of the disputed trademarks. On the issue of unfair competition, no evidence existed showing that respondent ever attempted to pass off the goods it sold (i.e., sportswear, sporting goods and equipment) as those of the petitioner. In addition, there is no evidence of bad faith or fraud imputable to the respondent in using the disputed trademarks. Specifically, the petitioner failed to adduce any evidence to show that the respondent, intended to deceive the public as to the identity of the goods sold or of the manufacturer of the goods sold. Citing the case of McDonalds Corporation v. L.C. Big Mak Burger, Inc. (G. R. No. 143993, 18 August 2004), the Supreme Court reiterated that there can be trademark infringement without unfair competition such as when the infringer discloses on the labels containing the mark that he manufactures the goods, thus preventing the public from being deceived that the goods originate from the trademark owner.

Chapter 7
Patent Licences

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Philippines

Patricia A. O. Bunye

Cruz Marcelo & Tenefrancia

This chapter has been reviewed by the Author and is up-to-date as of December 2017

Philippines

Patricia A. O. Bunye

Cruz Marcelo & Tenefrancia

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Philippines

1. GENERALLY

This chapter considers some of the key provisions and concepts to be contained in a patent licence in Philippines and in a non-jurisdiction specific context.

At the outset, a few words of caution: as the type of licence deals can vary enormously and as each jurisdiction will have its own practices and laws, one should not think that there is such a thing as a 'standard patent licence'. Nevertheless, whilst acknowledging that a 'standard patent licence' does not exist, patent licence agreements do tend to follow a typical format and contain typical content, nationally as well as internationally. The non-jurisdiction specific commentary contained here seeks to identify that typical format and content.

2. CONTRACTING PARTIES: CONFIRMING IDENTITY AND BASIC SEARCHES

2.1. Non-jurisdiction Specific Commentary

In drafting a patent licence agreement, it is necessary to clearly identify the contracting parties. Once those contracting parties are identified, certain basic searches to verify their identities and status within the relevant jurisdiction need to be undertaken. Confirming identity in some jurisdictions is not just a matter of matching names and addresses. Some jurisdictions have numeric or other identifiers.

Each party should undertake relevant public registry searches in respect of the other. These searches seek to confirm the identity of the other party. The searches can also reveal matters including the directors and shareholders, whether third parties have an interest in that entity, or that entity's assets, by way of charge or other security, or whether that entity is the subject of any insolvency processes.

Non-jurisdiction specific clause: Contracting Parties
2.1.1. This patent licence is made on [**insert date**] between the following parties: (1) [**insert name of Licensor**] of [**insert address**] **(Licensor)** (2) [**insert name of Licensee**] of [**insert address**] **(Licensee)**

2.2. Philippines

In the Philippines, the contracting parties are identified by their names, nationalities, addresses, and, if applicable, the names of their respective authorized representatives. The registration number of a corporation is not necessary to identify a corporate contracting party. For public corporations, reference is made to their primary charters and the official duly authorized by law to enter into the contract on its behalf.

3. RECITALS

3.1. Non-jurisdiction Specific Commentary

The use of recitals is common. Recitals set out the basic facts, purposes and context of the transaction evidenced in a patent licence.

3.2. Philippines

In the Philippines, where intent of the parties governs the interpretation of contracts,[1] the recitals of a contract may be used in interpreting the same especially when the words of the contract appear to be contrary to the evident intention of the parties.[2]

1. *Adriatico Consortium, Inc. v. Land Bank*, G.R. No. 187838, 23 December 2009.
2. Article 1370, second paragraph, Philippine Civil Code.

4. DEFINITIONS

4.1. Definitions: General

4.1.1. Non-jurisdiction Specific Commentary

Relevant, clear and concise definitions are essential to a well drafted patent licence agreement.

4.1.2. Philippines

No additional commentary.

4.2. Definitions: 'Affiliates'

4.2.1. Non-jurisdiction Specific Commentary

In a patent licence agreement, it is frequently necessary to define related parties to each of the parties that are entering into the agreement. Expressions such as 'affiliates', 'subsidiaries' and 'related bodies corporate' are sometimes used. The proper definition of these and like terms is crucial.

For example, it is important for both a licensor and licensee to carefully consider to what extent the licence grant, and provisions such as non-compete clauses and indemnities, will include 'related parties' of the type mentioned above and whether such 'related parties' should be limited to those existing as of the effective date of the agreement or will include those that may become 'related parties' of that type in the future. Similarly, consideration should be given as to the consequences of a party that receives the benefit of a licence because it is a 'related party' when the licence is entered into, ceasing to be a 'related party at some later point in time.[3] Set forth below are some examples of jurisdiction specific 'related party type' definitions.

4.2.2. Philippines

The term 'affiliates' is not uniformly defined in the statutes, but generally, affiliates are corporations under common control. The following statutes define the term:

(a) Republic Act No. 10142 [(Financial Rehabilitation and Insolvency Act ('FRIA') of 2010)]

3. For example refer to the facts and outcome of *Orion Ip, LLC v. Mercedes-Benz USA, LLC*, 560 F. Supp. 2d 556 (E.D. Tex. 2008).

Affiliate shall refer to a corporation that directly or indirectly, through one or more intermediaries, is controlled by, or is under the common control of another corporation.[4]

(b) Republic Act No. 10149 (GOCC Governance Act 2011)

Affiliate refers to a corporation 50% or less of the outstanding capital stock of which is owned or controlled, directly or indirectly, by the Government Owned and Controlled Corporation ('GOCC').[5]

(c) Republic Act No. 9856 [(Real Estate Investment Trust (REIT) Act of 2009)]

'Affiliate' means a corporation that directly or indirectly, through one or more intermediaries, is controlled by, or is under the common control of another corporation, which thereby becomes its parent corporation.[6]

(d) Pre-need Code of the Philippines

'Affiliate of, or affiliated with, a specified person' refers to a person that directly or indirectly, through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. Exercising control over a legal entity shall mean any one of the following: (1) owning either solely or together with affiliated persons more than 25% of the outstanding capital stock of a legal entity and (2) being an officer or director of such legal entity.[7]

4.3. Definition: 'Confidential Information'

4.3.1. Non-jurisdiction Specific Commentary

It is preferable for certainty's sake to clearly define confidential information by reference to specific subject matter, including by reference to a relevant party – e.g., the licensor's confidential information – a particular material form of the confidential information – e.g., information contained in a volume marked 'A' and by reference to time – e.g., confidential information in existence as of 1 January 2007.

Usually the relevant party disclosing confidential information will be the licensor, but in some instances the licensee will also want information that it discloses to be treated as confidential – e.g., a licensee's sales figures for the licensed product.

If both licensor sourced information and licensee sourced information need to be kept confidential then two separate definitions of 'confidential information' will be required.

4. Section 4 (B), FRIA of 2010.
5. Section 3(a), GOCC Governance Act of 2011.
6. Section 3(b), REIT Act of 2009.
7. Section 3(i), Pre-need Code.

From a licensor's perspective including confidentiality obligations is particularly important if unpublished patent applications are to be supplied to a licensee.

It also is important to carefully consider whether confidential information should be defined by reference to written or other physical material only or whether it should extend to oral or other non-permanent forms of disclosure. The balancing exercise is between that of achieving certainty in identifying what has been disclosed on the one hand, as against ensuring confidentiality even though what has been disclosed may not be recorded in a permanent form, such as a purely verbal disclosure. In some instances, to mitigate the uncertainty of the latter, agreements provide that all verbal disclosures sought to be made confidential must be confirmed in writing within a certain period of time after the verbal disclosure. Such an approach imposes a heavy operational burden on the party making the verbal disclosure. The non-jurisdiction specific definition referred to below does not adopt that approach. It also limits the scope of the 'confidential information' to that relating to the inventions that are the subject of the patent rights. The USA specific definition is in much broader terms.

Non-jurisdiction specific definition: 'Confidential Information'

'Confidential Information' means

(a) all unpublished information and know-how relating to the inventions the subject of the Patent Rights, whether recorded in material form or not [**as at the date of this agreement/and following the date of this agreement**]; or

(b) the information and know-how relating to the inventions the subject of the Patent Rights, recorded as set out in Schedule [ ];

(c) but excludes the following:

   (1) information or know-how which is in the public domain at the date of this agreement;

   (2) information or know-how which becomes part of the public domain other than as a result of an unauthorized disclosure by the Licensee;

   (3) information or know-how which the Licensee obtains from a third party who is lawfully in possession of it and may lawfully disclose it to the Licensee (as shown by appropriate records); and

   (4) information or know-how which is or has been independently developed by an employee of the Licensee who has no knowledge of the disclosure by the Licensor (as shown by appropriate records).

4.3.2. Philippines

Section 4(g) of the Philippine Intellectual Property Code recognizes that the term 'trade secrets' include the protection of undisclosed information. However, under the Philippine Intellectual Property Code, there is no specific provision protecting undisclosed information or trade secrets, save only for a provision requiring courts to adopt measures to protect manufacturing and business secrets of a defendant in a patent infringement case.

Nevertheless, the term 'undisclosed information' is defined in the Rules and Regulations on Voluntary Licensing issued by the Philippine Intellectual Property Office as information which:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
(b) has commercial value because it is secret; and
(c) has been subject to reasonable steps under the circumstances to keep it secret, by the person lawfully in control of the information.

There are also other statutes which protect trade secrets:

Republic Act No. 10667 (Philippine Competition Act)[8]

Under Section 4 of the Philippine Competition Act, 'confidential business information' refers to information which concerns or relates to the operations, production, sales, shipments, purchases, transfers, identification of customers, inventories, or amount or source of any income, profits, losses, expenditures. Section 15(e)(2) further provides that agreements protecting intellectual property rights, confidential information, or trade secrets shall not be prohibited or rendered unlawful under the Philippine Competition Act.

Republic Act No. 8799 (Securities Regulation Code)

Under Sections 66.1 and 66.2 of the Securities Regulation Code ('SRC'), all information filed with the Securities and Exchange Commission ('SEC') in compliance with the requirements of the SRC shall be made available to any member of the general public, upon request. However, such right shall not be construed to require or to authorize the SEC to require the revelation of trade secrets or processes in any application, report, or document filed with the SEC.

8. The Philippine Competition Act was signed on 21 Jul. 2015 and published on 24 Jul. 2015. Pursuant to Section 56 thereof, the said law takes effect on 8 Aug. 2015.

2008 Rules of Procedure on Corporate Rehabilitation

Under Rule 3, Section 4 of the 2008 Rules of Procedure on Corporate Rehabilitation, courts may issue an order to protect trade secrets or other confidential research, development, or commercial information belonging to the debtor who may be any corporation, partnership or association or a group of companies, whether supervised or regulated by the SEC or other government agencies, on whose behalf a petition for rehabilitation has been filed.

Act No. 3815 (Revised Penal Code)

The Revised Penal Code protects trade secrets under the following articles:

'Art. 291 Revealing secrets with abuse of office - The penalty of *arresto mayor*[9] and a fine not exceeding 500 pesos shall be imposed upon any manager, employee, or servant who, in such capacity, shall learn the secrets of his principal or master and shall reveal such secrets.'

'Art. 292 Revelation of industrial secrets - The penalty of *prision correccional*[10] in its minimum and medium periods and a fine not exceeding 500 pesos shall be imposed upon the person in charge, employee or workman of any manufacturing or industrial establishment who, to the prejudice of the owner thereof, shall reveal the secrets of the industry of the latter.'

Republic Act No. 8424 (National Internal Revenue Code of 1997)

Section 278 of the National Internal Revenue Code ('NIRC') of 1997 penalizes the revelation by internal revenue officers or employees of trade secrets:

'Sec. 278. Procuring Unlawful Divulgence of Trade Secrets. – Any person who causes or procures an officer or employee of the Bureau of Internal Revenue to divulge any confidential information regarding the business, income or inheritance of any taxpayer, knowledge of which was acquired by him in the discharge of his official duties, and which it is unlawful for him to reveal, and any person who publishes or prints in any manner whatever, not provided by law, any income, profit, loss or expenditure appearing in any income tax return, shall be punished by a fine of not more than Two

9. *Arresto mayor* is a type of penalty under the Revised Penal Code consisting of imprisonment the duration of which shall be from one month and one day to six months.
10. *Prision correccional* is a type of penalty under the Revised Penal Code consisting of imprisonment the duration of which shall be from six months and one day to six years.

thousand pesos (P2,000), or suffer imprisonment of not less than six (6) months nor more than five (5) years, or both.'

Republic Act. No. 6969 (Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990)

The Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 covers the importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of all unregulated chemical substances and mixtures in the Philippines, including the entry even in transit, as well as the keeping or storage and disposal of hazardous and nuclear wastes into the country for whatever purposes. It also protects trade secrets and information relating to chemical substances and mixtures, as follows:

'Section 12. Public Access to Records, Reports or Notification. - The public shall have access to records, reports or information concerning chemical substances and mixtures including safety data submitted, data on emission or discharge into the environment, and such documents shall be available for inspection or reproduction during normal business hours except that the Department of Environment and Natural Resources may consider a record, report or information or particular portions thereof confidential and may not be made public when such would divulge trade secrets, production or sales figures or methods, production or processes unique to such manufacturer, processor or distributor or would otherwise tend to affect adversely the competitive position of such manufacturer, processor or distributor. The Department of Environment and Natural Resources, however, may release information subject to claim of confidentiality to a medical research or scientific institution where the information is needed for the purpose of medical diagnosis or treatment of a person exposed to the chemical substance or mixture.'

There is no single definition of 'trade secrets' under Philippine statutory law. The only definition is found in jurisprudence – *Air Philippines Corp. v. Pennswell Inc.,* G.R. No. 172835, 13 December 2007 – which adopted the following definition from Black's Law Dictionary:

A trade secret is defined as a plan or process, tool, mechanism, or compound known only to its owner and those of his employees to whom it is necessary to confide it. The definition also extends to a secret formula or process not patented, but known only to certain individuals using it in compounding some article of trade having a commercial value. A trade secret may consist of any formula, pattern, device, or compilation of information that: (1) is used in one's business; and (2) gives the employer an opportunity to obtain an advantage over competitors who do not possess the information.

> Generally, a trade secret is a process or device intended for continuous use in the operation of the business, for example, a machine or formula, but can be a price list or catalogue or specialized customer list. It is indubitable that trade secrets constitute proprietary rights. The inventor, discoverer, or possessor of a trade secret or similar innovation has rights therein which may be treated as property, and ordinarily an injunction will be granted to prevent the disclosure of the trade secret by one who obtained the information "in confidence" or through a "confidential relationship".

Meanwhile, Article 39 of the TRIPS Agreement mandates that Member States shall protect undisclosed information and data submitted to governmental agencies.

Moreover, natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

(1) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
(2) has commercial value because it is secret; and
(3) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

The abovementioned statutes protecting trade secrets do not regulate or govern infringement of trade secrets. Considering that the abovementioned statutes relate to non-disclosure of trade secrets and do not necessarily include provisions relating to infringement of trade secrets, the remedy against such infringement shall depend on the contractual stipulation of the parties, if any.

While there is no statute which directly imposes a non-disclosure obligation on an employee of a trade owner, the NIRC and the Revised Penal Code indirectly serve as a deterrent against the disclosure of the trade secrets.

As mentioned above, section 278 of the NIRC penalizes the revelation by internal revenue officers or employees of trade secrets or any confidential information regarding the business, income, or inheritance of any taxpayer, knowledge of which was acquired by him in the discharge of his official duties, and which it is unlawful for him to reveal, and any person who publishes or prints in any manner whatever, not provided by law, any income, profit, loss, or expenditure appearing in any income tax return.

Further, Articles 291 and 292 of the Revised Penal Code penalize the revelation of secrets with abuse of office and revelation of industrial secrets, respectively.

4.4. Definition: 'Control'

4.4.1. Non-jurisdiction Specific Commentary

It is not unusual for licensors and licensees to be companies or other forms of legal entities. Companies and other forms of legal entities can each change their ownership or management. Such changes can be to the detriment of the other party – e.g., a licensor could upon a change of control of a licensee find that the licensee is now controlled by a competitor. It is therefore not unusual for licences to contain change of control provisions which allow the party who has the benefit of those provisions to re-assess the licence, including having the right to terminate the licence. The definition of 'control' is therefore crucial. The following definition is drafted by reference to control of the licensee.

Non-jurisdiction specific definition: 'Control'
'**Control**' means ownership of a majority of issued shares in the Licensee or otherwise the right to control a majority of voting rights in the Licensee, or otherwise the right to control either directly or indirectly decisions made by the Licensee in relation to the financial and operating policies of the Licensee.

4.4.2. Philippines

Republic Act No. 8424 (National Internal Revenue Code of 1997)

The National Internal Revenue Code ('NIRC') of 1997 defines control of a corporation as 'ownership of stocks in a corporation possessing at least 51% of the total voting power of all classes of stocks entitled to vote'.[11]

Republic Act No. 9856 (Real Estate Investment Trust Act of 2009)

The Real Estate Investment Trust ('REIT') Act of 2009 provides other instances where control exists:

> Control exists in favor of a parent corporation when it has the power to direct or govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly, through subsidiaries, more than one-half (1/2) of the voting power of an enterprise, unless in exceptional

11. Section 40(C)(6)(c), NIRC.

circumstances, it can clearly be demonstrated that such ownership does not constitute control. Control also exists even when the parent owns one-half (1/2) or less of the voting power of an enterprise when there is power:

(a) Over more than one-half (1/2) of the voting rights by virtue of an agreement with investors;
(b) To direct or govern the financial and operating policies of the enterprise under a statute or an agreement;
(c) To appoint or remove the majority of the members of the board of directors or equivalent governing body; or
(d) To cast the majority votes at meetings of the board of directors of equivalent governing body.[12]

Republic Act No. 10667 (Philippine Competition Act of 2015)

In the context of regulating fair competition in trade, the Philippine Competition Act defines control as the ability to substantially influence or direct the actions or decisions of an entity, whether by contract, agency, or otherwise.[13]

Section 25 of the Philippine Competition Act states further:

SEC. 25. *Control of an Entity.* – In determining the control of an entity, the Commission may consider the following:

Control is presumed to exist when the parent owns directly or indirectly, through subsidiaries, more than one half (1/2) of the voting power of an entity, unless in exceptional circumstances, it can clearly be demonstrated that such ownership does not constitute control. Control also exists even when an entity owns one half (1/2) or less of the voting power of another entity when:

(a) There is power over more than one half (1/2) of the voting rights by virtue of an agreement with investors;
(b) There is power to direct or govern the financial and operating policies of the entity under a statute or agreement;
(c) There is power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
(d) There is power to cast the majority votes at meetings of the board of directors or equivalent governing body;
(e) There exists ownership over or the right to use all or a significant part of the assets of the entity;
(f) There exist rights or contracts which confer decisive influence on the decisions of the entity.

12. Section 3(g), REIT Act of 2009.
13. Section 4(b), Philippine Competition Act.

Under the said law, an entity that controls, is controlled by, or is under common control with another entity or entities, have common economic interests, and are not otherwise able to decide or act independently of each other, shall not be considered competitors for purposes of the prohibition under section 14 of agreements between or among competitors which have the object or effect of substantially preventing, restricting or lessening competition.

4.5. Definition: 'Default Interest Rate'

4.5.1. Non-jurisdiction Specific Commentary

It is not uncommon for licensors to seek to charge interest on late payments due from licensees. Licensors will need to determine whether the reference point for that default interest is based on interest rates in the licensor's jurisdiction or the licensee's jurisdiction. The interest rate can be fixed at the beginning of the transaction or allowed to vary by reference to relevant bank indicator reference rates.

Non-jurisdiction specific definition: 'Default Interest Rate'
'**Default Interest Rate**' means [**insert annual percentage rate or bank indicator reference rate**].

4.5.2. Philippines

The applicable rate of interest is usually agreed upon by the parties. In the absence of such agreement, the applicable rate of interest is 6% per annum. Nevertheless, the stipulated rate of interest may be declared void if the same is found to be exorbitant considering that the imposition of an unconscionable rate of interest on a money debt, even if knowingly and voluntarily assumed, is immoral and unjust. Based on jurisprudence, it is tantamount to a repugnant spoliation and an iniquitous deprivation of property, repulsive to the common sense of man. It has no support in law, in principles of justice, or in the human conscience nor is there any reason whatsoever which may justify such imposition as righteous and as one that may be sustained within the sphere of public or private morals.[14]

No interest shall be adjudged on unliquidated claims or damages except when or until the amount demanded can be established with reasonable certainty. Accordingly, where the amount demanded can be established with reasonable certainty, interest shall begin to run from the time the claim is

14. *Spouses Albos v. Spouses Embisan*, G.R. No. 210831. 26 Nov. 2014.

made judicially or extra-judicially. However, when such certainty cannot be so reasonably established, the interest shall begin to run only from the date of a court judgment.[15]

4.6. Definition: 'Events of Default'

4.6.1. Non-jurisdiction Specific Commentary

Separately from events giving rise to breaches of obligations, representations or warranties, there are events that can occur outside a contract which can adversely impact on the parties to such an extent that they are normally considered of sufficient significance to trigger a termination right. A selection of those events appears in the definition of 'Events of Default' below. Whether all of the events comprised in a definition of Events of Default should apply to both parties or just one, is a matter for negotiation. It is more likely, however, that they will be events attributable to a licensee, so as to entitle a licensor to terminate.

Paragraphs (b)–(l) inclusive below focus on various stages and events that could give rise to a relevant party not being 'financially viable'. If referable to a licensee, a licensor will want the earlier stages – e.g., an application for winding up – to apply and that more events be included. A licensee however will want later stages – e.g., an actual order for winding up – and that less events be included.

Non-jurisdiction specific definition: 'Event of Default'

'**Event of Default**' means whether or not it is within the control of a party:

(a) **governmental agency approvals:** any approval, licence, consent or requirement of any governmental agency necessary to enable a party to this agreement to comply with its obligations under this agreement ceasing to be in full force and effect;

(b) **encumbrance:** any encumbrance being or becoming enforceable against any asset of a party to this agreement;

(c) **judgment:** a judgment in an amount exceeding [insert amount] (or an equivalent amount in any currency) being obtained against a party to this agreement, which judgment is not set aside within the period allowed for setting aside such a judgment or otherwise satisfied within 7 days;

15. See *Eastern Shipping Lines, Inc. v. Court of Appeals*, G.R. No. 97412, 12 Jul. 1994.

(d) **execution:** any distress, attachment, execution or other process of a judicial agency in an amount exceeding [insert amount] (or an equivalent amount in any currency) being issued against, levied or enforced upon any of the assets of a party to this agreement, which is not set aside within any relevant period allowed or otherwise satisfied within 7 days;
(e) **receiver:** a custodian, a receiver, trustee, administrator or similar official being appointed, or steps being taken for such appointment, over any of the assets or undertaking of a party to this agreement;
(f) **suspends payment:** a party to this agreement suspending payment of its debts generally;
(g) **insolvency:** a party to this agreement being or becoming unable to pay its debts when they are due or being presumed to be insolvent under the law of the jurisdiction in which that party is located;
(h) **arrangements:** a party to this agreement entering into or resolving to enter into any arrangement, composition or compromise with, or assignment for the benefit of, its creditors or any class of them;
(i) **winding-up:** an application or order being made for the winding-up, dissolution or liquidation of a party to this agreement or a resolution being passed or any steps being taken to pass a resolution for the winding-up, dissolution or liquidation of such a party otherwise than for the purpose of a merger or reconstruction;
(j) **ceasing business:** a party to this agreement ceasing or threatening to cease to carry on business;
(k) **investigation:** any person being appointed under any legislation in respect of companies to investigate the affairs of a party to this agreement; and
(l) **control:** the control, by any means, of another party being transferred to a person or corporation who does not have that control at the date of this agreement.

4.6.2. Philippines

The parties are free to stipulate on what are deemed events of default. The parties may also agree on the effects of such events of default, for instance, by adopting an automatic termination clause. Article 1191 of the Civil Code provides:

> The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.
> The injured party may choose between the fulfillment and the rescission of the obligation, with the payment of damages in either case. He may also

seek rescission, even after he has chosen fulfillment, if the latter should become impossible.

The court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period. This is understood to be without prejudice to the rights of third persons who have acquired the thing, in accordance with Articles 1385 and 1388 and the Mortgage Law.

4.7. Definition: 'Field of Activity'

4.7.1. Non-jurisdiction Specific Commentary

A licensor should consider whether the application of the licensed rights may be segmented in a financially beneficial manner. For instance, licensee A may be granted the right to make a product derived from invention X for human therapeutic use and licensee B may be granted the right to make a product derived from invention X for animal therapeutic use. Such segmentation usually has the purpose of maximizing the value to be derived from an invention by ensuring that it is exploited in as many fields of activity as possible, and by ensuring that the highest possible royalty rate is obtained in each field of activity.

The benefits of seeking such maximization should however be tempered by the need to ensure that:

(a) any segment or field of activity that is created is unambiguously defined and easy to distinguish from other segments or fields of activity granted or proposed to be granted; and
(b) the segments or fields of activity do not conflict with the strategy of the relevant licensor. That is, short term opportunistic reasons should not persuade a licensor to grant a licence in a segment or field of activity for a high, but limited benefit, if the licensor or another licensee could potentially deliver a better reward over a longer period.

Additionally, whilst self-evident, from a licensor's perspective the greater the number of segments or fields of activity that are created, the more complex the rights may be to manage. From a licensee's perspective, it will be more difficult to be satisfied that exercise of the relevant patent rights will not overlap with the rights of other licensees, resulting in infringement disputes.

Non-jurisdiction specific definition: 'Field of Activity'
'**Field of Activity**' means [**any limited purpose or field of activity – e.g., make and sell products for human therapeutic purposes**].

4.7.2. Philippines

No additional commentary.

4.8. Definition: 'Force Majeure'

4.8.1. Non-jurisdiction Specific Commentary

Most jurisdictions usually accept some form of event that is beyond the control of the parties or the relevant party as an excuse for nonperformance of obligations – this may be as part of their statutory codes or as a concept established by case law. Nevertheless, as between the parties, the concept needs to be clearly defined. For instance, it can be limited to certain natural events, coupled with man-made problems such as war, or civil unrest or strike. It can be made even wider, as in the below definition, by including events reasonably outside the control of the affected party. That being the case, careful consideration of the definition of 'Force Majeure' is required rather than it being viewed merely as a 'boilerplate' provision.

Non-jurisdiction specific definition: 'Force Majeure'
'Force Majeure' means any event or circumstance outside a party's reasonable control or which has not been caused or materially contributed to by that party, including act of God, lightning strikes, earthquakes, floods, storms, explosions, fires and any natural disaster, acts of war, acts of public enemies, terrorism, riots, civil commotion, malicious damage, sabotage, revolution or strikes, lockouts or industrial actions of any types, government regulations, requirement or seizure under any legal process or any other restraint, injunction or exclusion order by a governmental agency or court.

4.8.2. Philippines

No additional commentary.

4.9. Definition: 'Improvement'

4.9.1. Non-jurisdiction Specific Commentary

Each of the licensor and licensee improvements to a technology can eventually render the original technology obsolete. If patents are filed on improvements, the patents can block future avenues of research for the other party, including even a licensor's own research programme. Therefore, obtaining rights to improvements is important from both a licensor's and licensee's perspective.

A licensee will prefer that a licensor's improvements are included in the licence, and a licensor will want to exclude its improvements from the original grant, or limit to improvements made within a limited period of time after the original grant, so as not to forego the opportunity to extract additional royalties. Likewise, a licensor will want an entitlement to licensee improvements and a licensee is likely to want to place some restrictions or conditions on that entitlement.

It is therefore crucial that a patent licence be clear about what is meant by 'improvements'. The narrow meaning of improvements is based on the concept that in order to be an improvement, the relevant subject matter must require the use of the relevant licensed rights – e.g., 'any invention that cannot be used without infringing the patent rights'. An example would be that if the licensed rights relates to a bicycle, an improvement to a bicycle would be a bicycle with gears. The first definition below is based on the above-mentioned narrow concept.

A broader meaning of 'improvement' is based on the concept that to be an improvement the subject matter must be a functional improvement of the subject matter of the licensed rights, but does not require the use of the relevant licensed rights. For instance, use of the patent rights might give rise to a completely new invention which does not infringe. However, were it not for use of the patent rights, the licensee would not have had the idea for the new invention. On the broader view of improvements, a motor bike, or even a motor car might be an improvement to a bicycle. The second definition below is based on the above-mentioned broader concept.

Irrespective of whether a narrow or broad concept of 'improvements' is used, it may assist in defining the term for examples, of improvements to be included.

Non-jurisdiction specific definition: 'Improvement'
'**Improvement**' means a change (including an addition) to the Licensed Product which can only be exploited by exercising the Patent Rights (narrow concept definition) '**Improvement**' means a change (including an addition or replacement of an integer) to the Licensed Product so that the resulting product functions in a manner as well as or better than the Licensed Product, but which may be exploited without exercise of the Patent Rights. (broader concept definition)

4.9.2. Philippines

No additional commentary.

4.10. Definition: 'Intellectual Property Rights'

4.10.1. Non-jurisdiction Specific Commentary

The term 'intellectual property rights' is not defined or used uniformly by practitioners around the world, let alone in patent licence agreements. It is important therefore to understand that the definition of 'intellectual property rights' can encompass a number of concepts, including the following: granted or registered rights arising under legislation – e.g., granted patents or registered trademarks; grantable or registrable rights arising under legislation – e.g., applications for the grant of patents or registration of trademark rights; rights arising under legislation, irrespective of whether there is a grant or registration process – e.g., copyright; rights arising from the application of the general law, separately from legislation – e.g., common law trademarks; future rights and rights defined or arising from international treaties on intellectual property. The definition also can be inclusive or exhaustive. Careful consideration should be given as to which of the above concepts should apply. The definition set forth below seeks to create a very broad meaning of 'intellectual property rights'. A very broad definition may not be appropriate in all circumstances, whereas the selection of one or more of the above concepts may be.

Non-jurisdiction specific definition: 'Intellectual Property Rights'
'**Intellectual Property Rights**' means any and all industrial and intellectual property rights (whether or not registered or registrable or having to undergo any other process for grant, registration or the like) including rights in respect of: (a) copyright (including future copyright); (b) inventions (including granted patents and patent applications); (c) trademarks (including registered trademarks and trademark applications); (d) designs (including registered designs and design applications); (e) circuit layouts and the like; (f) confidential information, trade secrets and know-how; and (g) any other intellectual property rights as defined in Article 2 of the Convention (dated 14th July 1967) establishing the World Intellectual Property Organization (as amended from time to time).

4.10.2. Philippines

'Intellectual property rights' is defined by the Philippine Intellectual Property Code as consisting of:

(a) Copyright and related rights;
(b) Trademarks and service marks;
(c) Geographic indications;
(d) Industrial designs;
(e) Patents;
(f) Layout designs (topographies) of integrated circuits; and
(g) Protection of undisclosed information.

The Philippine Intellectual Property Code does not prohibit the parties from defining what constitutes 'intellectual property rights', thus allowing the parties to specify the intellectual property rights covered by the licence agreement. Nevertheless, to be protected under the Philippine Intellectual Property Code, the definition adopted by the parties must be consistent with and not beyond the definition provided under the said law. Otherwise, the intellectual property rights defined by the parties would fall outside the scope of protection of the Philippine Intellectual Property Code. For instance, methods of treatment of the human or animal body by surgery are not patentable under Section 22.3 of the Philippine Intellectual Property Code. Thus, such methods cannot be protected under the Philippine Intellectual Property Code even if the parties stipulate it.

4.11. Definition: 'Licensee Revenue'

4.11.1. Non-jurisdiction Specific Commentary

The concept of 'Licensee Revenue' is relevant where a licensee has a sub-licensing right and the licensor wishes to obtain a share of revenue earned by the licensee from exercising that right. As the nature of a licensee's revenue from the exercise of sub-licensing rights can comprise a number of layers, it is important to clearly identify what is to be included in the concept of 'Licensee Revenue'. Not less than the following considerations arise:

(a) Should licensee revenue include upfront payments and royalties paid by sub-licensees or just royalties?
(b) Should licensee revenue include amounts invoiced or only those amounts actually received by a licensee from sub-licensees?
(c) Should the licensee be entitled to deduct costs that it has incurred in connection with the grant of the sub-licence, and the administration of the sub-licence? If so, from a licensor perspective, it may be worthwhile placing a cap on the amount of such costs.

(d) How should in kind value received by a licensee from a sub-licensee be treated?
(e) From a licensee's perspective it will be important to ensure that no double payment obligations arise in circumstances where the licensor is already entitled to its royalty based on sub-licensee revenue.
(f) Separately from sub-licensees being sources of revenue, not less than the following considerations arise:
(g) Should licensee revenue include monies recovered by a licensee arising from infringement proceedings it initiates concerning the patent rights, whether by settlement or order of a court? If so, the licensee may wish to deduct costs and expenses it incurs in relation to those proceedings.
(h) Should licensee revenue include monies received by a licensee from third parties either as equity investments in or loans to the licensee?

The following definition only considers the matters referred to above in paragraphs (a) and (b).

Non-jurisdiction specific definition: 'Licensee Revenue'
'Licensee Revenue' means all royalties and upfront payments received by the Licensee from the Licensee sub licensing the Patent Rights.

4.11.2. Philippines

No additional commentary.

4.12. Definition: 'Licensed Product'

4.12.1. Non-jurisdiction Specific Commentary

The definition of Licensed Product is critical, as dealings with Licensed Product usually form the trigger point for royalty payments.[16] For product inventions, it is crucial to consider whether the 'Licensed Product' is to be limited to subject matter that is covered, whether in whole or part, by relevant patent claims. Alternatively, it could also extend to subject matter that is covered by 'trade secrets/confidential information' sourced from the licensor.

16. The decision in the *Oxonica* case is a salient reminder of the problems that can arise when the term 'Licensed Product' or like concepts are not clearly defined. Refer *Oxonica Energy Limited v. Neuftec* Limited [2008]EWHC 2127 (Pat) and the appeal from that case, *Oxonica Energy Limited v. Neuftec* Limited [2009] EWCA Civ 668.

From a licensor's perspective, the broader the definition the better, because it broadens the potential royalty source – e.g., even if patent rights expire, a relevant product may still be a 'Licensed Product' if 'confidential information' is used in making it and the definition of 'Licensed Product' includes the products made arising from the use of confidential information.

From a licensee's perspective, the narrower the definition the better, because it narrows the potential for royalty source – e.g., not only will a licensee seek the definition to be limited by reference to patent rights, but by reference to granted and valid patent rights.

The parties also may want to consider whether the definition of Licensed Products should contain examples of products included within, or excluded from, the definition.

Non-jurisdiction specific definition: 'Licensed Product'
'**Licensed Product**' means any products, services or processes incorporating, using or made using any invention the subject of the Patent Rights (or incorporating, using or made using the Confidential Information).

4.12.2. Philippines

The Philippine Intellectual Property Code expressly prohibits clauses that require payments for patents and other industrial property rights after their expiration.[17] Post-patent term royalties are, therefore, not enforceable. Thus, even if the definition of the term 'licensed products' is not limited by the period of effectivity of the relevant patent, royalties are recoverable only as long as the patent is in force.

4.13. Definition: 'Month'

4.13.1. Non-jurisdiction Specific Commentary

If used, the term 'month' needs to be properly defined. Frequently, confusion arises because it is not clear whether such period is referrable to either the date of signing of a licence, a date expressed in the licence to be the 'effective date' or to a calendar month.

17. Section 87.10, Philippine Intellectual Property Code.

Non-jurisdiction specific definition: 'Month'
'**Month**' means the period between each calendar month during the Term by reference to [**the date of the agreement/by reference to the Effective Date**] or means calendar month.

4.13.2. Philippines

No additional commentary.

4.14. Definition: 'Net Sales Revenue'

4.14.1. Non-jurisdiction Specific Commentary

The reference in the definition below to 'calculated on an arm's length basis' is particularly important from a licensor's perspective in order to ensure that related party sales by a licensee do not result in an under valuation of products sold. In some instances it may be appropriate to include either a detailed mechanism for determining an arm's length price or a dispute resolution mechanism for dealing with arm's length price disputes.

Identifying the party whose sales need to be considered is also important. One option is to capture just the licensee's sales. However, if the licensee is entitled to sub-licence, the licensor should consider whether and how the licensor should share in any revenue earned by the licensee from its sub-licensees. If it is the licensee's and its sub-licensees' sales, then the licensor should consider whether it should procure that the licensee ensure that it has direct audit and verification rights vis-à-vis the sub-licensees. This is better from a licensor's perspective than just an audit and verification right of the licensee's accounts, which indirectly show the sub-licensee's revenue from sales.

Identifying the party to whom sales are made is equally important because that is the reference point for the 'gross invoice price' and the deductions from that price. In particular, those third parties could, from a licensee's perspective, include related parties of the licensee and sub-licensees of the licensee. From a sub-licensee's perspective, they also could include related parties of sub-licensees as well as unrelated third parties.

From a licensor's perspective, it is important to include a process in the licence for the licensor to challenge whether arm's length pricing is being used by the licensee in calculating Net Sales Revenue. This is particularly relevant to sales by a licensee, or sub-licensees, to related parties. It is not uncommon for the process to involve expert determination should the parties be unable to agree.

Each transaction has its own 'gross invoice price' and as such, the agreement needs to be clear on which 'gross invoice price' is relevant. From a licensor's perspective, it is important that the highest possible 'gross invoice price' is the reference point and from a licensee's perspective, it is not only important that the lowest 'gross invoice price' is the reference point, but that no more than one 'gross invoice price' is the reference point.

A licensor also should consider whether there should be a cap in relation to all deductions sought by the licensee.

The appropriate audit and verification provisions and processes also need to be put in place so that the licensor can review whether the licensee is properly complying with these deduction provisions (and where relevant, sub-licensees are complying with such provisions). This means that the audit and verification provisions and process clause should not relate simply to 'accounts' generally, but specifically to proper calculation of Net Sales Revenue and Royalty.

Non-jurisdiction specific definition: 'Net Sales Revenue'

'**Net Sales Revenue**' means the gross invoice price of the **Licensed Product**, **calculated on an arm's length basis**, sold by [**a Licensee/each Related Corporation of the Licensee and each Sub-Licensee**] multiplied by the number of such Licensed Products so sold to **third parties** less:

(a) quantity, cash or trade discounts actually allowed or taken, attributable exclusively to the Licensed Product **('Discounts Category')**;
(b) freight, transportation and insurance costs incurred in such sales, attributable exclusively to the Licensed Product ('**Transportation Costs Category**');
(c) amounts repaid or credited by reason of the return of Licensed Products that are defective ('**Returns Category'**);
(d) taxes, duties, imposts and other like government charges incorporated in the gross invoice price of the Licensed Product ('**Taxes Category**'); and
(e) royalties paid to third parties in order to develop, make and sell the Licensed Product. ('**Anti-Royalty Stacking Category**').

Discounts Category

It is not uncommon for a licensee who sells a licensed product not to separate out discounts that may be given in respect of both 'Licensed Products' and other products supplied to third parties. This is why 'attributable exclusively to the Licensed Product' is included in the definition.

The above definition also allows for timing differences as to these deductions, that is, either when the discount is allowed or when the discount is taken. The impact of this difference needs to be properly considered.

Transportation Cost Category

In addition to the issues raised in the context of the 'Discounts Category', a licensor should consider whether the Transportation Costs Category should be a deduction in the first place – i.e., whether it should be a cost in which both parties share some risk.

It also should be made clear whether these are 'transportation costs' incurred by a licensee who sells a licensed product in relation to the sale to its buyer or whether they are 'transportation costs' relating to the seller's acquisition of the goods or both. The above provision is drafted on the basis of the former approach.

Returns Category

In addition to the matters raised above in the context of 'Discounts' and 'Transportation Costs', a licensor should consider:

(a) whether returns should be deductions in the first place, particularly if 'the reason for the return arises out of an act or omission of a party other than the licensor – e.g., defects caused by a licensee's negligent manufacture; and
(b) whether returns should be referrable to a limited time period from delivery of the Licensed Products to the relevant buyer.

Taxes Category

From a licensor's perspective, the relevant deductions should be limited to only those 'taxes' that are itemized on the invoice to the Customer. If this is what is intended, then words to the effect of 'itemized on the invoice to the customer' should be included.

A licensee may wish to include 'taxes' paid prior to any sale to a customer such as import or export duties, if relevant. If this is what is intended, then a licensor would want to ensure that the licensee's and other relevant parties' records were kept in a way that easily disclose this form of deduction and that confirming proper exercise of this form of deduction is clearly within the licensor's audit and verification rights.

Anti-Royalty Stacking Category

This category of deductions is aimed at 'anti-royalty stacking', or the practice of allowing the licensee to pass on the cost of paying relevant royalties to third parties, or at least some of that cost.

A licensor should consider at least the following:

(a) Should the payment of the third party royalty be required to have a significant adverse competitive effect on the pricing of the Licensed Product before any deduction should be permitted? Everyone else in the market place also may need to pay this royalty. If so, the royalty could be characterized by the licensor as a normal cost that the licensee (not the licensor) should bear.
(b) Whether at the time of entering into the licence, the licensor should require a licensee to disclose to the licensor the parties to whom such payments are required to be made and the basis upon which payments to such parties are to be calculated. The licensor is then able to seek to contractually limit the deductions to payments made to pre-agreed parties for pre-agreed amounts or amounts determined on a pre-agreed basis. This may be particularly significant if a licensor is seeking to establish the boundaries of a predictable royalty stream to form the subject of a securitization arrangement.
(c) Whether a licensor should require that a licensee create separate records for such deductions, in order that they can be more readily audited and verified by a licensor?
(d) Whether payments made to related parties should be excluded?
(e) Whether payments should only be in relation to licences the licensee requires in order to use the patent rights, or that the licensee requires in a broader context in order to bring the Licensed Product to market?[18]
(f) Whether a licensor should be entitled to review the agreements under which a licensee is required to make such payments?

A licensee should consider at least the following:

(a) The threshold question is the extent to which third party rights will be required by the licensee in order to exercise the rights granted by the licensor. This is a matter that requires consideration by a licensee before negotiations with the licensor commence.
(b) Separately, if new third party rights of use are required during the term of a patent licence, whether the licensor should be obliged to reasonably consider adding these payments as a deduction. This is particularly important if a cap on deductions is in place.[19]

18. Both options are provided for in the above clause. From a licensor's perspective, clearly the former approach is to be preferred as it narrows the potential scope of deductions a licensee may make.
19. For instance, see *Cambridge Antibody Technology v. Abbott Biotechnology Limited* [24] EWHC2974 (Pat) for construction of a Clause providing that 'Royalties paid to third parties . . . in order to licence rights needed to practice or have practiced the technology claimed in the patents, will be borne equally by the parties providing that CAT's royalty payment is not less than 2 per cent of Net Sales' in favour of the Licensor to limit relevant payments to only those the Licensee had to pay to third parties in order to use the Licensor's patented technology, and not payments the Licensee had to pay in relation to up to a middle ground, being a stage in creation of an intermediate product, which was between the first stage of use of the patented technology, and the final stage of bringing the product to market.

(c) Whether not only royalties but other forms of payments need to be considered as deductions, – e.g., lump sum payments.

The above clause only contains a sample of the sorts of deductions that may be negotiated. A licensee may seek to also include a broader range of deductions attributable to the overheads of a licensee's business, presumably as relevant to the Licensed Products (for instance bad debts attributable to the Licensed Products). A licensor may agree only to bear a proportion of any agreed deductions.

Ultimately, each of the licensor and licensee will have to form a view as to what amount of such financial burden each should bear, based on whatever other trade offs are negotiated.

Combination Product

Where a licensed product forms only part of another product that is being sold and that licensed product does not have a separate price attached to it, a provision such as the following can be the basis for determining that licensed products contribution to net sales revenue. For the purposes of the following clause 'Combination Product' is defined to mean a Licensed Product supplied as an ingredient of, or with, another product or process without a separate invoice price being charged for the Licensed Product.

Non-jurisdiction specific definition: 'Combination Product'
– If in any country the Licensed Product is sold as an ingredient of a Combination Product, the Net Sales Revenue for the purpose of determining the Royalty payable in respect of the Combination Product in that country will be calculated by multiplying Net Sales Revenue for the Combination Product in that country by the fraction $\frac{A}{A+B}$ where: A is the invoice price of the Licensed Product, if sold separately in that country; and B is the aggregated invoice price of the other ingredients in the Combination Product, if sold separately in that country. – If the other ingredients in the Combination Product are not sold separately in a relevant country, then Net Sales Revenue for the purpose of determining the Royalty payable in respect of the Combination Product

for that country is calculated by multiplying Net Sales Revenue for the Combination Product in that country by the fraction

$$\frac{A}{C}$$

where:
A is the invoice price of the Licensed Product, if sold separately in that country; and
C is the invoice price of the Combination Product in that country.

– If the Licensed Product is not sold separately in a relevant country, but the other ingredients in the Combination Product are sold separately in that country, the Net Sales Revenue for the purposes of determining the royalty payable in respect of the Combination Product for that country is calculated by multiplying Net Sales Revenue for the Combination Product in that country by the fraction

$$\frac{C-B}{C}$$

where:
B is the aggregated invoice price of the other ingredients in the Combination Product; and
C is the invoice price of the Combination Product.

– If neither the Licensed Product nor the other ingredients in the Combination Product are sold separately in a relevant country, then Net Sales Revenue for the purpose of determining the Royalty payable in respect of the Combination Product for that country must be determined by the parties in good faith. If such determination is not made by the parties within 28 days of the date that a party first seeks such determination from the other party, then the matter will be determined on a fair and reasonable basis by an Expert in accordance with clause [ ]. Under no circumstances, however, will the parties or the Expert be entitled to determine that the Net Sales Revenue for the purpose of determining the Royalty payable in respect of the Combination Product for a country be reduced below [ ] % of the Net Sales Revenue of such Combination Product for that country.

4.14.2. Philippines

No additional commentary.

4.15. Definition: 'Patent Costs'

4.15.1. Non-jurisdiction Specific Commentary

Patent costs are costs associated with the filing, prosecution and maintenance of the rights that are the subject of the licence. Particularly if any of those costs are to be paid by or reimbursed by a licensee, they need to be clearly defined – e.g.:

(a) Do they just include amounts payable to the relevant patent office?
(b) Do they also include the fees of the relevant patent attorneys or lawyers charged in relation to those dealings?
(c) Do they include the costs incurred in any pre-grant or post grant proceedings before relevant patent offices?
(d) Do they include late fees and/or fees paid to extend the time to respond to an office action?

Non-jurisdiction specific definition: 'Patent Costs'

'**Patent Costs**' means the fees paid to the relevant patent office upon filing and in maintaining and prosecuting the patent applications and patents comprised in the Patent Rights and the fees paid to professional advisers in relation to such activities.

4.15.2. Philippines

No additional commentary.

4.16. Definition: 'Patent Rights'

4.16.1. Non-jurisdiction Specific Commentary

Defining the subject matter of a patent licence needs some careful thought. At least three aspects need to be considered: which patents at any time are covered by the licence, which if any derivative patents are covered by the licence and which later acquired patents are covered by the licence. The definition of 'Patent Rights' below is a broad definition which explicitly addresses these issues as follows:

(1) The words 'which continue to be maintained after the date of this Agreement', seek to defeat any implication that by including a patent

in a licence, a licensor is thereby committing to maintain that patent. A licensee however may wish to include an express obligation on a licensor to maintain patents forming part of the Patent Rights, including paying all relevant maintenance costs.

(2) From a licensor's perspective, before including 'patents of addition' in paragraph (c) below, a licensor should assess whether it would be preferable to retain those rights, and seek further monies from the licensee for their exercise. A licensee will want to ensure that it has available as wide a pool of rights as possible and so it is likely to want to include 'patents of addition' at no additional cost.

(3) Before including a provision like paragraph (d) below, a licensor should at least consider:
   - Whether such rights should form part of the rights granted to a licensee at no additional cost to the licensee; at an additional cost equal to any third-party acquisition cost incurred by the licensor; or at any additional third-party cost incurred by the licensor plus a mark-up?
   - What is to happen to those rights where third-party costs are not incurred, but the rights arise from internal expenditure?
   - Whether the breadth of rights granted is appropriate, and in particular, whether a broad right in the 'Field of Activity' should be granted or whether a right limited to the narrow definition of 'Improvement' referred to above should be sufficient?

To avoid misidentification, it is good practice to identify patents by multiple criteria such as country of origin, application number, application filing date, patent number, date of issue and title. Patent applications can be identified by country in which filed, application number and application filing date. If the application has not yet been published, the parties may want to omit the title in order to preserve the secrecy of the invention, especially if one of the parties is a public company and the licence must be publicly filed.

A valuable lesson to be learnt from the *Oxonica* case,[20] is to take care not to use patent terminology relevant to one jurisdiction and assume it will be relevant in another. In that case the relevant patent rights stemmed from a PCT application 'and any continuation, continuation in part or divisional applications thereof as well as foreign counterparts and reissues thereof'. The Court commented that the words quoted above would only apply to an American patent application and not a PCT application. The use of American terminology in the context of a licence which had a PCT application as its principal subject therefore presented major difficulties in the interpretation of that licence.

20. Refer n. 9.

Non-jurisdiction specific definition: 'Patent Rights'

'**Patent Rights**' means each of:

(a) the patents listed in Schedule A [**which continue to be maintained after the date of this Agreement**] including the inventions the subject of those patents;
(b) the patent applications listed in Schedule A and where patents are granted in respect of such patent applications, such granted patents [**which patents continue to be maintained after the date of such grant**] including the inventions the subject of those patent applications and patents;
(c) any applications for [**patents of addition**,] divisional applications, PCT applications, convention applications, and patents resulting from those applications, where the applications are made in respect of the inventions the subject of the patents and patent applications described in sub-clauses (a) and (b) in the Territory; and
(d) any other patents or patent applications in relation to which the Licensor has or acquires the legal right in the Territory to grant a licence or sub-licence in respect of the Field of Activity.

4.16.2. Philippines

Under the Philippine Intellectual Property Code, the Law on Patents covers patents, utility models and industrial designs. Thus, patent rights may also refer to utility models and industrial designs.[21]

Patent licences may cover patents and/or pending patent applications, the scope of the licence agreement being dependent on the stipulations of the contracting parties.

When recording assignment of patents/patent applications, the Philippine Intellectual Property Office requires that the patent/patent application for which the request for recordal is being made is clearly identified in the assignment document. To avoid ambiguity, it would be prudent to identify the specific pending patent application numbers/patent registrations covered by the licence agreement.

In the same manner, the parties may agree on whether the licence agreement includes related inventions or those invented subsequent to the licence agreement. However, such inclusion must be clear from the licence agreement.

The maintenance of a patent does not automatically fall upon the licensor but depends on the agreement of the parties as to who will be responsible

21. Sections 108.1 and 119, Philippine Intellectual Property Code.

for maintaining or paying the annual fees for the pending patent application/issued patent.

4.17. Definition: 'Quarter'

4.17.1. Non-jurisdiction Specific Commentary

As with the term 'Month', the term 'Quarter' should be clearly defined. The definition below is that referrable to the calendar year. Other definitions referable to the date of signing of the licence or an effective date stated in the licence also could be used.

Non-jurisdiction specific definition: 'Quarter'
'**Quarter**' means: (a) a period of 3 calendar months during the Term ending on 31 March, 30 June, 30 September or 31 December; and (b) if a period of 3 calendar months so ending is not wholly within the Term, the part of the period that is within the Term.

4.17.2. Philippines

No additional commentary.

4.18. Definition: 'Sub-licence'

4.18.1. Non-jurisdiction Specific Commentary

On the assumption that a licensee is granted sub-licensing rights, the concept of a sub-licence may be either broadly or narrowly defined. A broad definition appears below.

Non-jurisdiction specific definition: 'Sub-licence'
'**Sub-licence**' means any arrangement whether in writing or not, under which a third party is granted rights by the Licensee to the Patent Rights or any of them.

4.18.2. Philippines

Refer to section 14.2.

4.19. Definition: 'Term'

4.19.1. Non-jurisdiction Specific Commentary

There are three features that are crucial to determining the term of a patent licence: when it starts, when it ends, and what intervening circumstances between that start and end can give rise to its early termination.

Whilst each of the above concepts seem simple, there is an underlying complexity that is frequently not fully understood. Thus, the start date can take many forms – e.g., a specific date referred to in the agreement, the date of the agreement, the date the agreement is last signed or the date of the occurrence of a specific event, yet to occur. The end date too can take many forms – e.g., a specific date referred to in the agreement, or the date of occurrence of a specific event yet to occur, usually referable to the expiry of a relevant patent or patents. The intervening circumstances giving rise to termination can be those that are agreed to between the parties, usually entitling termination by reference to an event of default by the other party, but they can just as well be intervening events that arise from specific legislation that impacts on a party's ability to contractually negotiate what the term might be. A particular example of the latter is considered below in the Australian specific commentary at item 6.2.

Arising from the preceding, it is important to understand that clearly defining the term of the patent licence and the acts that impact on that term is crucial.

Non-jurisdiction specific definition: 'Term'
'**Term**' means the period commencing on [**insert specific date**] and subject to the rights of earlier termination contained in this agreement, expiring on the date of the last to expire of the Patent Rights.

4.19.2. Philippines

No additional commentary.

4.20. Definition: 'Territory'

4.20.1. Non-jurisdiction Specific Commentary

In order to avoid ambiguity, the geographic scope of a licence should be defined precisely, e.g., it is preferable to list individual countries rather than to give a general description such as the Asia Pacific region.

Non-jurisdiction specific definition: 'Territory'
'**Territory**' means [**the world**] or [**identify specific countries by name**] or [**identify specific regions by name or map that is attached and is appropriately marked].**

4.20.2. Philippines

As defined in the Philippine Constitution, the territory of the Philippines comprises the Philippine archipelago, with all the islands and waters embraced therein, and all other territories over which the Philippines has sovereignty or jurisdiction, consisting of its terrestrial, fluvial, and aerial domains, including its territorial sea, the seabed, the subsoil, the insular shelves, and other submarine areas. The waters around, between, and connecting the islands of the archipelago, regardless of their breadth and dimensions, form part of the internal waters of the Philippines.[22]

A patent covers the entire territory of the Philippines.

A licence can be granted for a part of the Philippines, or for the entire country.

4.21. Definition: 'Value Added Taxes'

4.21.1. Non-jurisdiction Specific Commentary

In each jurisdiction that payments are to be made either by a licensor or more likely a licensee, one will need to check as to whether value added taxes are relevant. A non-jurisdiction specific clause therefore has not been provided.

4.21.2. Philippines

Refer to Philippines tax section of this publication.

4.22. Definition: 'Year'

4.22.1. Non-jurisdiction Specific Commentary

As mentioned above in the context of the definitions of 'Month' and 'Quarter', the appropriate reference points need to be used to clearly define these terms. The same issue applies in the context of the definition of 'Year' which could have at least 3 reference points – e.g., based on the calendar year, based on

22. Article I, Philippine Constitution.

the date of signing of the agreement or based on an effective date referred to in the agreement.

Non-jurisdiction specific definition: 'Year'
'**Year**' means the period on and from the Effective Date to the end of that calendar year and then each calendar year thereafter during the Term, however, if this agreement ends on or before the end of a calendar year, then the period from the beginning of the relevant calendar year to the relevant date of expiration or termination; OR each 12 month period commencing with the date of this agreement; OR each 12 month period commencing with the Effective Date of this agreement.

4.22.2. Philippines

No additional commentary.

4.23. Definition: 'Interpretation'

4.23.1. Non-jurisdiction Specific Commentary

In addition to including specific definitions, it is not uncommon in many jurisdictions for the agreement to contain rules of interpretation. A sample appears below.

Non-jurisdiction specific definition: 'Interpretation'
Interpretation In this agreement, unless the context requires otherwise: (a) headings are for convenience only and do not affect the interpretation of this agreement; (b) words importing the singular include the plural and vice versa; (c) words importing a gender include any gender; (d) other parts of speech and grammatical forms of a word or phrase defined in this agreement have a corresponding meaning;

(e) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency;
(f) a reference to anything (including any right) includes a part of that thing but nothing in this paragraph (f) implies that performance of part of an obligation constitutes performance of the obligation;
(g) a reference to a part, clause, party, annexure, exhibit or schedule is a reference to a part and Clause of, and a party, annexure, exhibit and schedule to, this agreement and a reference to this agreement includes any annexure, exhibit and schedule;
(h) a reference to a document includes all amendments or supplements to, or replacements or novations of, that document;
(i) a reference to a party to a document includes that party's successors and permitted assigns;
(j) no provision of this agreement will be construed adversely to a party solely on the ground that the party was responsible for the preparation of this agreement or that provision; and
(k) the word 'including' does not imply any limitations.

4.23.2. Philippines

Under the Philippine Civil Code, the following rules govern the interpretation of contracts:

(a) If the terms of a contract are clear and leave no doubt about the intention of the contracting parties, the literal meaning shall prevail. If the words appear to be contrary to the evident intention of the parties, the latter shall prevail over the former.
(b) In order to judge the intention of the parties, their contemporaneous and subsequent acts are entitled to be considered.
(c) However general the terms of a contract may be, they shall not be understood to comprehend things that are distinct and cases that are different from those upon which the parties intended to agree.
(d) If some provisions of a contract admit of several meanings, it shall be understood as bearing the meaning which is most appropriate to render it effective.
(e) The various provisions of a contract shall be interpreted together, attributing to the doubtful ones that sense which may result from all of them taken jointly.
(f) Words which may have different meanings shall be interpreted in a way which is most in keeping with the nature and object of the relevant contract.

(g) The usage or custom of the place where the contract is entered into shall be borne in mind in the interpretation of the ambiguities of a contract, and shall be used to fill the gap of omitted provisions which are ordinarily used in that place.
(h) The interpretation of obscure words or provisions in a contract shall not favour the party who caused the obscurity.

When it is absolutely impossible to resolve any doubts pursuant to the above rules, if such doubts refer to accidental circumstances of the contract, and the contract is gratuitous, they shall be resolved in favour of the least transfer of rights and interests. If the contract is for valuable consideration, the doubt shall be resolved in favour of the greatest reciprocity of interests. If the doubts refer to the main subject matter of the contract, so that the intention or will of the contracting parties cannot be known, the contract shall be null and void.

5. GRANT OF LICENCE

5.1. Non-jurisdiction Specific Commentary

5.1.1. Exclusive/Non-exclusive/Sole Licence

Each of the terms 'exclusive licence', 'non-exclusive licence' and 'sole licence' have a meaning derived from the contract in which they are used – a contractual meaning.

The generally understood contractual meaning of 'non-exclusive licence' is a licence that leaves the licensor free to grant further licences to other persons in relation to the rights granted to the licensee, and to exercise the rights itself.

The generally understood contractual meaning of 'exclusive licence' is a licence that does not leave the licensor free to grant further licences to other persons in relation to the rights granted to the licensee and excludes the licensor from exercising those rights itself. It is not unusual, however, for a licensee to also seek to expressly provide in a licence that the licensor is excluded from exercising the relevant rights itself.

Sometimes, a licensor may be unable to grant full exclusivity to a patent because pre-existing rights have already been granted. In such a case, in order to avoid a conflict, the licence grant must carve-out the pre-existing rights. It is in a licensee's interest to require the licensor to specifically list and describe the pre-existing rights, such as in a schedule, in order for the licensee to evaluate the effect of the pre-existing rights on the value of the licence and to identify with exactitude the exceptions to licensee's exclusivity.

The generally understood contractual meaning of 'sole licence' is a licence that does not leave the licensor free to grant further licences to other persons in relation to the rights granted to the licensee, but allows the licensor to exercise those rights itself. It is not unusual, however, for a licensor to seek to expressly provide in a licence that the licensor is entitled to exercise the relevant rights itself for its internal use purposes (and engage contractors to assist the licensor to make full use of the rights). It is, however, prudent from a licensee's perspective for that position to be stated expressly in the relevant licence.

The three types of licences mentioned above can be combined within the one patent licence agreement. For example, one could provide for an exclusive licence for one territory while for the rest non-exclusive licences are granted. Alternatively, or in addition, exclusive or non-exclusive licences also could be provided for different fields of use. A word of warning from a practical perspective: one should be careful not to over engineer the combination of various types of licences, otherwise the contract may prove unworkable on a day to day basis because continuous reference to its terms may be required in order to ensure that activities are being conducted within relevant boundaries.

A further word of warning from a substantive legal perspective: the contractual meaning of the above licences and in particular the contractual meaning of 'exclusive licence' may not align with jurisdiction specific requirements. It is the jurisdiction specific requirements which in all respects should take priority as it is those requirements that will determine whether relevant licensees have legal standing to enforce their rights against third parties and not just the licensor. Thus, in many jurisdictions, 'exclusive licensees' have independent standing to commence infringement proceedings.

5.1.2. Licensable Rights

Customarily, patent statutes give a patentee certain exclusive rights during the term of a patent, and the entitlement to exercise those rights in relation to the relevant invention and to authorize others to exercise such rights. However, this does not mean that a patentee necessarily will be able to practice an invention, which may itself infringe third-party patent rights.

A licensor will need to consider the following questions in relation to the exclusive rights that it holds:

(a) Which of the exclusive rights am I prepared to grant? The answer to this question will depend largely on the commercial imperatives of the deal, but also on whether a patentee wishes to cloak a potential licensee with the benefits of being an 'exclusive licensee'.

(b) Which of the exclusive rights am I entitled to grant? The answer to this question will depend largely on what rights have already been granted, or what rights third parties have an entitlement to be granted, perhaps under an option. A licensor will need to exercise internal due diligence in order to answer this question. The results of that due diligence may require a licensor to carve out rights that have already been granted.

(c) Which of the exclusive rights do I need to retain? The answer to this question will depend largely on what activities a patentee wants to continue to conduct or have the right to grant others to conduct.
(d) Which of the exclusive rights is a licensee seeking from me? The answer to this question not only depends largely on the commercial imperatives of the deal, but also on whether a licensee wishes to be an 'exclusive licensee'.

From a licensor's perspective, it is important that the rights to be granted are not merely considered from the perspective of granting a licensee broad use rights. For instance, a licensor may be willing, or entitled to grant an exclusive right to 'make', but may only be prepared to grant a non-exclusive right to 'sell'.

A licensee will need to consider the following questions:

(a) Which of the exclusive rights do I need? The answer to this question depends largely on matters already raised above in the context of the licensor's questions.
(b) Which of the exclusive rights is a licensor entitled to grant? The answer to this question needs to be considered in the context of the results of the due diligence investigations that a licensee needs to undertake.

The parties also should bear in mind that in order to have a right to sub-licence (other than as a mere agent of a licensor), a licensee must be granted such a right by a licensor (assuming the relevant licensor has that right to grant).

Finally, it is not unusual for a licensor to expressly reserve to itself all rights that are not granted to a licensee, regardless of whether a licence is granted on an exclusive, non-exclusive or sole basis. Such a reservation of rights however is particularly important in a non-exclusive or sole licence to emphasize the limited nature of the licence granted and especially in order to remove any implication of a wider grant. In the case of an 'exclusive licence', the issue to consider is whether such reservation prevents the relevant licence from being an 'exclusive licence' under the law of the relevant jurisdiction.

Non-jurisdiction specific clause: Grant of Licence
5.1.1. The Licensor hereby grants the Licensee [**an exclusive/a non-exclusive/a sole**] licence to [**identify the rights to be exercised under the Patent Rights**] under the Patent Rights, on the terms set out in this agreement in the Field of Activity in the Territory during the Term.
5.1.2. The Licensee agrees that save as expressly referred to in this Clause the Licensee has no right, title or interest in or under the Patent Rights and that the Licensor retains all rights not expressly granted to the Licensee under this clause.

5.2. Philippines

Exclusive/Non-Exclusive/Sole Licence

The Philippine Intellectual Property Code does not expressly classify licences into exclusive, non-exclusive, or sole licences. The grant of a licence, however, does not prevent a licensor from granting further licences to third persons nor from exploiting the subject matter of the technology transfer arrangement himself in the absence of any provision to the contrary in the relevant agreement.[23] Thus, the exclusivity or non-exclusivity of a licence agreement depends on the terms agreed by the parties.

Licensable Rights

Patent owners have the right to assign, transfer by succession and to conclude licensing contracts. Thus, patent owners may grant permission for one or more of the following acts under a licence:

(a) make, use, offer for sale, sell or import the patented product;
(b) manufacture, deal in, use, sell or offer for sale, or import any product obtained directly or indirectly from the patented process.

A licensor may not prohibit the use of competitive technologies in a non-exclusive technology transfer agreement.[24] Such a clause is prohibited and will render the entire agreement unenforceable, subject to registration and grant of exception by the Documentation, Information and Technology Transfer Bureau of the Philippine Intellectual Property Office.[25]

Subject to what follows, anyone whose right, title, or interest in and to a patented invention that has been infringed may bring a civil action to recover the loss sustained by them, plus attorney's fees and costs of litigation, and to secure an injunction for the protection of their rights.[26]

Provided that a licensor has expressly conferred upon a licensee the right to pursue an infringement action, a licensee may pursue such action to ensure that its rights as licensee in the Philippines are protected. A licensor would however usually be circumspect in conferring such rights without imposing the appropriate controls.

On the other hand, the right to sue on behalf of a patentee (licensor), as opposed to the right to sue as an exclusive distributor or licensee, may be delegated to a licensee, whether in an exclusive or a non-exclusive licence. There are instances when the right to sue on behalf of a patentee (licensor),

23. Section 89, Philippine Intellectual Property Code.
24. Section 87.4, Philippine Intellectual Property Code.
25. Sections 91 and 92, Philippine Intellectual Property Code.
26. Section 76.2, Philippine Intellectual Property Code.

is not included in the licence agreement. The usual reason for this is that the licensor prefers to be in control of all actions initiated on the basis of the licence agreement. Thus, such authority is given only as the need arises. However, such delegated right to sue on behalf of a licensor must be clearly and expressly provided in the licence agreement. In any event, a licensee must show proof that it is authorized to file a complaint, usually in the form of a notarized Secretary's Certificate attached to the complaint.

When authority to litigate is conferred upon a licensee, the parties may further agree as to the level of control maintained by the licensor on the following: choice of counsel, review of or comment on the legal positions to be taken on significant issues, or who will bear the costs of litigation and damages in case of unfavorable judgment.

Whether the right to sue on behalf of the licensor is expressly provided or not, a licensee is usually required to inform the licensor of any action filed against the licensee or the licensor in connection with the subject matter of the licence agreement.

6. TERM

6.1. Non-jurisdiction Specific Commentary

One of the crucial reference points contained in a grant clause of a licence is the term of the licence. As mentioned above, the definition of 'Term' needs to be very carefully considered as to start date, end date, and intervening events that may impact on that period. Those intervening events typically are negotiated events but also can be events imposed by legislation.

6.2. Philippines

Unless otherwise agreed by the parties, there is no limitation on the effective period of a technology transfer agreement. However, the fixing of the term is subject to the following rules:

(a) A licensee shall be entitled to exploit the subject matter of the technology transfer arrangement during the whole term of the technology transfer arrangement.[27]
(b) It is prohibited for a licensor to restrict the volume and structure of production of a licensee.[28]
(c) It is prohibited to require payment of royalties for patents that are not used.[29]

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27. Section 90, Philippine Intellectual Property Code.
28. Section 87.3, Philippine Intellectual Property Code.
29. Section 87.7, Philippine Intellectual Property Code.

(d) It is prohibited to require payments for patents and other industrial property rights after their expiration.[30]

Failure of a licence agreement to conform to the foregoing rules renders the same unenforceable, subject to registration and grant of exception by the Documentation, Information and Technology Transfer Bureau of the Philippine Intellectual Property Office.[31]

The expiration of the patent subject of the licence agreement does not automatically terminate the contract, as certain provisions that do not involve the payment of royalties for the said patent may survive. For instance, a licence agreement involving several patents whose expiration dates vary, or one also covering a trade secret, shall survive.

7. CONSIDERATION

7.1. Non-jurisdiction Specific Commentary

Licences are usually granted under a contract. In general, 'consideration' is necessary to create a contract. 'Consideration' has been defined by leading commentators as 'some act or forbearance involving legal detriment to the promisee, or the promise of such an act or forbearance, furnished by the promisee, as the agreed price for the promise'.[32] In the context of a licence, an agreement to pay an amount of money or confer some other form of benefit on a licensor would be the consideration for the grant of rights to a licensee. Consideration may therefore take many forms including a promise to:

- pay an upfront payment;
- pay royalties;
- pay a share of sub-licence revenue;
- pay milestone payments;
- observe obligations imposed on the licensee under the terms and conditions of the agreement; or
- grant rights to improvements in the licensed technology back to the licensor.

Each form of consideration must be assessed from a taxation perspective, and in an international context, particularly from a withholding tax perspective.[33]

30. Section 87.10, Philippine Intellectual Property Code.
31. Sections 91 and 92, Philippine Intellectual Property Code.
32. 'Carter on Contract', J.W. Carter, LexisNexis Service 13, March 2006 at Part II Ch. 6, (b), preceding [06–030].
33. For a more detailed discussion of issues relating to withholding tax, refer to Ch. 5.

7.1.1. Upfront Payment

Royalties are usually characterized as payments for the exercise of the relevant intellectual property rights granted. Withholding tax is usually payable on royalties where the licensor and the licensee are in different jurisdictions. If in addition to the payment of royalties, an upfront fee can be negotiated and that upfront fee can be properly characterized as a fee not attributable to the exercise of rights granted under the licence, but merely as a fee for entering into the agreement itself, in some cases, royalty withholding tax may not be payable in respect of such ‘entrance fee’.

It is prudent for a licensor to provide that an upfront fee is non-refundable, so as to avoid potential claims by a licensee for a refund, if certain events occur – e.g., if relevant patents later cease to be in force, or patent applications do not mature into granted patents.

It is also prudent for a licensor to clearly identify whether the amount payable as an upfront fee includes or does not include any value added type tax.

Non-jurisdiction specific clause: Upfront Payment
7.1.1. On the date of this agreement and in consideration of the Licensor agreeing to enter into this agreement, the Licensee must pay to the Licensor a non-refundable fee of [**insert currency/amount**] [**inclusive of any relevant value added tax/plus any relevant value added tax**] without deduction or set off.

7.1.2. Royalties

The methods for calculating royalty rates are discussed in Chapter 4.

It is possible to set different royalty rates which apply to different levels of revenue, for instance:

– on revenue up to USD 1 million	royalty rate of 5%;
– on revenue between USD 1 million–USD 2 million	royalty rate of 2.5%
– on revenue over USD 2 million	royalty rate of 1%

The concept of the above example is that the licensee benefits to a greater proportion as the revenue increases. An alternate concept would be for a licensor to receive a greater share of the upside, as revenue earned by a licensee increases, for instance:

– on revenue up to USD 1 million	royalty rate of 5%;
– on revenue between USD 1 million–USD 2 million	royalty rate of 7.5%
– on revenue over USD 2 million	royalty rate of 10%

It is a matter for negotiation as to which, if any, of the above concepts should be used.

The reference point to which a relevant royalty rate is applied is extremely important. How it is selected will depend upon a variety of factors including:

(a) the nature of the invention that is the subject of the licence – i.e., is it a product or is it a method or process;
(b) the nature of the rights granted – e.g., make, sell or use;
(c) how a licensee obtains value from the licensed rights;
(d) where does a licensee extract value from the licensed rights? and
(e) whether the relevant extraction value point is readily verifiable and measurable?

The licensee's revenue is frequently used as a relevant reference point. Another common reference point for product inventions is the number of units made or sold, with a per unit price being attached to the relevant number in order to calculate the royalty payable.

7.1.3. Method or Process Patent Royalties

The concepts used to determine royalties for 'method' or 'process' patents are not the same as those that are relevant to calculate royalties in relation to 'product' patents. Method or process based inventions give rise to more complex considerations in determining the relevant reference points. For example:

(a) If the relevant method is to be practised by a licensee in the provision of services to third parties, the licensor may seek to receive a share of the fees paid by third parties for the relevant services.
(b) If the relevant method is associated with a product already supplied by a licensee, or used by a licensee to provide services, the licensor could seek to receive a share of the total sales revenue of the relevant product, or total revenue associated with the provision of services.
(c) If the process leads to more efficient manufacture of a product, then a licensor could seek a share of the cost savings or increased output, whichever may be the more appropriate form of measure.

7.1.4. Events Impacting on Royalty

There are events that occur during the term of a licence that the parties to a licence may want to have an impact on the royalty payable under the licence.

From a licensee's perspective, the following are circumstances where a royalty reduction or suspension are not uncommonly considered:

(a) a third party is infringing the rights licensed;
(b) a granted patent or patents comprised in the patent rights cease to be in force, or because there has been a successful challenge to a patent or because a relevant patent term expires;
(c) a patent application or applications comprised in the Patent Rights not proceeding to grant, either at all or upon expiration of an agreed period; and
(d) information that was originally confidential ceasing to be confidential through no fault of the licensee.

From a licensor's perspective, the following are the circumstances where a royalty increase are not uncommonly considered:

(a) a granted patent or patent being added to the patents comprised in the patent rights;
(b) a patent application or applications being added to the patent applications comprised in the patent rights;
(c) a patent application or patent applications comprised in the patent rights proceeding to grant; and
(d) additional information of a confidential nature being supplied to a licensee.

The complexities of negotiating and drafting clauses to deal with the above circumstances should not be underestimated.

Non-jurisdiction specific clause: Royalty
7.1.4.1. The Licensee must pay to the Licensor the **Royalty** calculated as follows: R = RR × NSR where: R is the Royalty; RR is the Royalty Rate; and NSR is the Net Sales Revenue.

> The Royalty shall be paid within 30 days after the end of each [**Month/ Quarter/Year**] without deduction or set off. The amounts payable by the Licensee under this agreement for a part of the Territory continue and are unaffected by any patent application or patent included in the Patent Rights, expiring or ceasing to be in force so long as a patent application or patent included in the Patent Rights remains in force in that part of the Territory.

7.1.5. Share of Licensee Revenue

One of the means by which a licensee can earn revenue is to grant sub-licences. A licensor must carefully consider the extent to which it seeks to obtain a portion of the licensee's sub-licensing revenue. The clause below seeks to ensure that there is no 'double dipping' on the licensor's part – i.e., the licensee is not required to pay an additional share of its revenue in relation to which the licensee has paid or is obliged to pay a royalty to the licensor.

7.1.6. Milestone Payments

Milestone payments are a way of deferring licensee payment obligations to times at which a licensee can better assess the performance of the licensed subject matter or to times at which a licensee demonstrably is deriving benefit from the licence. They also can be particularly useful when a licensor is dealing with a licensee that does not have significant 'up front' resources at the time of entry into the licence. The amount of a milestone payment should have some link to the event triggering the payment – for instance, if a licensee is achieving significant sales, it will be in a position to make a more significant milestone payment.

It is important that the milestones be expressed as clearly as possible, so that each party will have certainty as to when and what payments must be made. The best milestones from a licensor's perspective are those that are independently verifiable, as opposed to those that can only be verified with a licensee's cooperation, and using information internal to a licensee's business, such as net sales.

A licensee may wish to have a right to claim deductions or reductions of milestone payments in the situations discussed above in the context of reductions of royalty payments. Similar considerations arise to those discussed above.

If it is likely that the milestone payments are to be made over the course of the term of a licence, a licensor could consider requiring that the milestone payments be increased by the appropriate measure of inflation each year until the milestone payments are made.

It is important from a licensor's perspective to identify the payments as non-refundable, otherwise it leaves open the opportunity for the licensee to argue that such payments are subject to refund, set off or credit against royalty streams.

Where milestone payments are made by a licensee in a jurisdiction other than where the relevant licensor is located, then the withholding tax implications of those payments need to be carefully considered

Non-jurisdiction specific clause: Milestone Payments

7.1.6.1. The Licensee must pay to the Licensor the following non-refundable Milestone Payments upon the occurrence of the following Milestone Events:

Milestone Events	**Milestone Payment**	**Sunset Date**
grant of a patent in respect of patent application		
[**insert details**] in USA	USD 1 million	1 January 2017
FDA approval of the Licensed Product in USA	USD 1 million	1 January 2018
First sale of Licensed Product in USA	USD 1 million	1 January 2019

within 30 days after occurrence of the relevant Milestone Event. The Licensee is obliged to make each Milestone Payment only once, for the first occurrence of each Milestone. The cumulative total of Milestone Payments due from the Licensee to the Licensor under this agreement will not exceed USD 3 million.

7.1.6.2. If the Licensee anticipates that a Milestone Event will not be achieved by the relevant Sunset Date, it may seek an extension of such Sunset Date of up to [**insert period**] by giving written notice to the Licensor no later than [**insert number of days**] days prior to the Sunset Date. The Licensor may not unreasonably withhold or delay its consent.

7.1.6.3. The Licensee must immediately notify the Licensor in writing when the Licensee reasonably believes that a Milestone Event has been achieved. Subject to any extensions agreed by the Licensor pursuant to clause 7.1.6.2 above, if the Licensee does not notify the Licensor that a Milestone Event has been achieved before its relevant Sunset Date, [**the Milestone Event is deemed to have been achieved and the relevant Milestone Payment becomes due and payable within 30 days after the relevant Sunset Date or the Licensor may terminate this agreement by written notice to the Licensee within 30 days after the relevant Sunset Date].**

7.2. Philippines

Cause or consideration is an essential element of any contract, including licence agreements. The cause must be existing, true, and lawful. The cause is unlawful if it is contrary to law, morals, good customs, public order, or public policy.[34]

8. PAYMENTS

8.1. Non-jurisdiction Specific Commentary

First and foremost, the parties have to set out the intervals at which royalties have to be paid.

Furthermore, the licence should be clear as to the currency in which payments are to be made. Other matters that need to be considered in the context of currency are the following:

(a) Where a licensee receives revenue in currencies other than the currency in which it has agreed to pay the licensor, should there be an agreed rate of exchange applied between the currencies in which payments are received by a licensee vis à vis the currency in which the licensee is to make payments to a licensor?
(b) Assuming that no such exchange rate is set as referred to in (a) above, how, if at all, should exchange rate gains or losses made by a licensee between the time revenue is received by a licensee and royalties paid to a licensor, be dealt with?
(c) Should there be a right to re-negotiate a royalty rate if the exchange rate falls outside an agreed range?
(d) In any circumstances where exchange rates are relevant, it is crucial to make it absolutely clear which exchange rate applies – e.g., by reference to date, jurisdiction, bank, buy rate, sell rate and the publication in which the rate appears.

Some methods of payment can attract substantial charges from third parties, like banks. The parties should agree in the patent licence on who will bear such charges, rather than leaving the problem to arise for later dispute.

A licensor must check as to the extent to which exchange control regulations in a relevant licensee's jurisdiction, restrict the ability of a licensee to make payments outside that jurisdiction.

8.2. Philippines

Royalties may be remitted overseas for payment at the prevailing exchange rate. Authorized agent banks may sell foreign exchange for the remittance of

34. Article 1352, Philippine Civil Code.

royalties, fees, rentals, or other forms of payment due a foreign or foreign-owned company abroad under a technology transfer agreement, upon submission of proof that the agreement has been approved and registered with the Philippine Intellectual Property Office (formerly the Bureau of Patents, Trademarks, and Technology Transfer), and that the amount of royalty, fee, or rental sought to be remitted is in accordance with the terms of the agreement as approved and registered.[35]

9. TAXES

9.1. Non-jurisdiction Specific Commentary

In any patent licence where the licensor and licensee are in different jurisdictions, tax considerations and in particular withholding tax considerations will feature prominently. Advice will need to be obtained in relation to relevant double taxation treaties in respect of payments to be made under the licence as well as in relation to structuring the transactions themselves.

Withholding tax aside, licensors will want to ensure that all relevant taxes arising from amounts of money payable to them by a licensee, are paid by the licensee. The following provision is based on maximizing a licensor's position in relation to taxes. The effectiveness of using the 'gross up' provision in the following clauses will need to be very carefully checked on a jurisdiction by jurisdiction basis.

Non-jurisdiction specific clause: Taxes

9.1.1. Each payment required to be made by the Licensee under this agreement must be made free and clear of any taxes or duties imposed by or under the authority of any government or public authority and in particular any withholding tax payable or that may be payable on the Royalty or any other monies payable to the Licensor under this agreement.

9.1.2. If the Licensee is required by law to pay withholding tax in respect of the Royalty or any other monies payable under this agreement, the Licensee must pay such withholding tax and must gross up the payments required to be made to the Licensor to account for any such withholding tax.

9.1.3. The Licensee must in a reasonable and proper manner substantiate to the Licensor's reasonable satisfaction that an obligation to pay withholding tax arises on the Royalty or any other monies payable to the Licensor under

35. Section 22, Circular No. 1318 (1992) of the Central Bank of the Philippines (BSP).

this agreement. The Licensee must also promptly supply the Licensor with copies of all receipts relating to payment of any withholding tax paid on the Royalty or any other monies payable to the Licensor under this agreement, together with such other documentation relating to such payment as the Licensor may request.

9.1.4. The Licensor and the Licensee will do all lawful acts and things, including signing all lawful documents as either may reasonably request to enable the Licensee to take advantage of any applicable legal provision of any double taxation treaty with the object of lawfully paying the sums due to the Licensor under this agreement without withholding any tax.

9.2. Philippines

Refer to the Philippines tax section in Chapter 5.

10. PERFORMANCE

10.1. Non-jurisdiction Specific Commentary

10.1.1. Minimum Royalty

Performance criteria in relation to licensees are most important in the context of an exclusive licence. Performance criteria can focus on any relevant aspect of a licensee's activities – e.g., revenue earned, royalties paid, expenditure on R&D. The following clause focuses on a minimum royalty regime in the context of an exclusive licence.

The significant feature of a minimum royalty regime, so far as a licensor is concerned, is that it should not be just a minimum payment regime and that non-performance results in a reduction of rights – e.g., converting exclusive rights to non-exclusive rights.

A minimum payment regime means the payment of a minimum amount of money to a licensor, without those payments being in any way related to sales of the relevant licensed product. Minimum payment regimes do not provide real performance hurdles for a licensor. Rather, they are payments that allow a licensee to maintain a licence without being obliged to exercise the rights granted under that licence. Minimum payment regimes are therefore not usually in a licensor's best interest.

In circumstances where there are many unknowns about the market facing a Licensed Product, it is not unusual for a minimum royalty regime to settle at a low threshold. From a licensor's perspective, if a low threshold is set, then there must be proper processes for increase and or review of that threshold.

So far as automatic increases are concerned, pre-agreed percentage increases referrable to the previous year's performance are not uncommon, perhaps levelling off after an agreed period. Any negotiated review process must have a default mechanism such as the decision of a third-party expert.

A licensee needs to consider the matter from the opposite perspective – referable to possible reductions and or reviews. It is rarely in a licensor's best interest to rely solely on a minimum royalty regime as the only form of specific performance criteria. Other specific focused criteria, such as the ones mentioned above, should also be considered, as well as the general obligations referred to below.

Non-jurisdiction specific clause: Minimum Royalty
10.1.1. If the Royalty payable under this agreement with respect to a [**Month/Quarter/Year**] is less than the Minimum Royalty for that [**Month/Quarter/Year**] then: (a) the Licensee shall pay the Licensor the difference at the same time as the Royalty shall be paid; [**and** (b) **the Licensor may by notice to the Licensee given within 14 days after the end of that period, convert this licence into a non-exclusive licence from the date of that notice.**]

10.1.2. General Performance Obligations

General performance obligations are usually framed in terms of either 'best endeavours' or 'reasonable endeavours' or the like. The meaning of the relevant terms chosen should however be checked on a jurisdiction by jurisdiction basis. Obligations are more likely to be imposed by a licensor on a licensee. It is however unwise for a licensor to rely solely on a general performance obligation The following is an example of a provision that seeks to impose general obligations on a licensee together with some more specific elements. From a licensor's perspective, any general 'best endeavours' obligations should be supported by specific obligations and from a licensee's perspective, any general 'reasonable endeavours' obligations should identify the constraints applying to such obligations.

Whilst the following clause obliges a senior officer of the licensee to meet with the licensor to discuss performance, the parties need to decide what, if anything, is to happen if the licensee fails to meet these obligations. For instance, if a licensee is not using 'best endeavours', should a licensor be able to terminate the agreement as a whole, or should the right be a more selective one, with respect to particular patents, fields or products? Such consequences are not addressed by the current draft.

Non-jurisdiction specific clause: General Performance Obligations
10.1.2. During the term the Licensee must use its [**best/reasonable**] endeavours to: (a) achieve the Milestone Events before the relevant Sunset Dates; and (b) maximize the amounts of money payable to the Licensor under this agreement. 10.1.3. Upon entering in this agreement, the Licensee shall give notice to the Licensor identifying a senior officer of the Licensee who will have primary responsibility for ensuring the Licensee's compliance with the terms of this agreement ('**Licensee's Representative**'). The Licensee must give prompt notice of any change in the identity of the Licensee's Representative. The Licensee must ensure that the Licensee's Representative liaises with the Licensor and its nominees as reasonably requested by the Licensor to discuss all relevant issues under this agreement including: (a) the development and commercialization of the Licensed Products; (b) performance, with respect to achievement of the Milestone Events; (c) the exercise by the Licensee of rights granted to it under this agreement; and (d) the performance generally of the Licensees obligations under this agreement. If requested by the Licensor, the Licensees Representative will attend meetings at a mutually convenient location and time to discuss the above matters, which meetings may not be requested more frequently than twice each Year. The Licensee will bear all costs associated with the activities of the Licensee's Representative under this agreement.

10.2. Philippines

There is no provision under the Philippine Intellectual Property Code requiring performance by the licensee of the patent. However, in the event that the patented invention is not being worked in the Philippines on a commercial scale, although capable of being worked, without satisfactory reason, the Director General of the Philippine Intellectual Property Office may grant a compulsory licence to exploit the patented invention, even without the agreement of the patent owner, in favour of any person who has shown his capability to exploit the invention.[36] The importation of the patented article constitutes working or using the patent.[37]

A compulsory licence may also be granted to any person in the event of public non-commercial use of the patentee, without satisfactory reason. In this case, the Government may itself also exploit the invention, even without the agreement of, but with due notice to, the patentee.[38]

The period to apply for a compulsory licence in the first instance is within four years from the date of the filing of the application or three years from the date of the patent, whichever expires last.[39] In the second instance, the compulsory licence application may be applied for at any time after the grant of the patent.[40]

Compulsory licences are non-exclusive. They are also non-assignable, except as to the part of the business with which the invention is being exploited. The basic terms and conditions including the royalty rates of the compulsory licence shall be fixed by the Director of Legal Affairs.

Note also the prohibitions discussed under the Quality Control and Identification of Patents in section 11.14.

11. QUALITY CONTROL AND IDENTIFICATION OF PATENTS

11.1. Non-jurisdiction Specific Commentary

Quality control provisions are not always appropriate, particularly where the subject matter of a licence is a platform or enabling technology. Quality control provisions are, however, particularly important where a product is being made for a licensor to use or resell or where the product is being sold by a licensee in circumstances where liability is likely to attach to a licensor if the relevant licensed product is faulty – e.g., if the licensor's trademark appears on the licensed product.

If the relevant licensed rights relate to a method or process used to create licensed products, then, in addition to testing the licensed products and setting quality standards in relation to licensed products, a licensor will need to have access to the premises at which a licensee carries out that method or process in order to observe its implementation. A licensee may have security or confidentiality concerns arising from such an inspection. Additional confidentiality obligations can be imposed on a licensor, but an alternative may be to have an independent third party carry out the inspection, and for that third party to also be bound by appropriate confidentiality obligations. The third party can be nominated by the licensor and agreed to by the licensee or vice versa. Such an appointment

36. Sections 93.4 and 93.5, Philippine Intellectual Property Code.
37. *Ibid*.
38. Sections 74.1 and 74.2, Philippine Intellectual Property Code.
39. Section 94.1, Philippine Intellectual Property Code.
40. Section 94.2, Philippine Intellectual Property Code.

may reduce a licensee's concerns that the licensor may access subject matter proprietary to the licensee during any such inspection.

If a licensee is allowed to sub-licence, then a licensor should consider whether it wants to be able to enforce the above-mentioned quality control and inspection rights directly or if it is satisfied to rely on the licensee to do so. In the case of the former, a licensor will need to ensure that the licensee includes such obligations in relevant sub-licences.

If the standards that a licensor sets in relation to licensed products are so detailed that a licensee does not have any flexibility as to make those products, then a licensor is more likely to bear any liability associated with those licensed products being faulty. If the standards set allow a licensee to exercise their own judgment, then a licensor is less likely to bear such liability. In either case, a proper regime for dealing with liability as between licensor and licensee arising from licensed products will need to be established.

It is also not unusual to include an obligation on the licensee to identify the patents or patents pending that relate to the licensed products, on the licensed products as part of the quality control regime.

Non-jurisdiction specific clause: Quality Control

11.1.1. The licensee must ensure that the Licensed Products comply with the standards of manufacture, quality and performance described in Schedule 1 and any other [**reasonable**] standards of manufacture, quality and performance notified in writing by the Licensor to the Licensee from time to time. The Licensee must not sell, provide or offer for sale or permit its sub-licensees to sell, provide or offer for sale Licensed Products, which do not comply with these standards.

11.1.2. If the Licensor requests, the Licensee must promptly submit samples of the Licensed Products to the Licensor for inspection and testing.

11.1.3. The Licensee must at all reasonable times, allow or procure that the Licensor be allowed to inspect the premises and operations of the Licensee, its sub-contractors, or sub-licensees to determine the extent to which the terms of this agreement are being complied with, including to:

(a) assess the methods of production, materials used, storage and packing, and provision of Licensed Products; and
(b) take or test samples of Licensed Products.

11.1.4. The Licensee must, in a prominent position and size, display a notice on each Licensed Product identifying all **patent pending numbers** and **patent numbers** then relevant to the Patent Rights. The Licensee must have the form of notice approved in writing by the Licensor prior to the notice being displayed.

11.2. Philippines

There is no marking requirement under Philippine law. However, under the Philippine Intellectual Property Code, damages cannot be recovered for acts of infringement committed before the infringer had known, or had reasonable grounds to know of the patent. Nevertheless, it is presumed that the infringer had known of the patent if the words 'Philippine Patent' with the number of the patent are placed on the patented product, or on its container or packaging, or on the advertising materials relating to the patented product or process. Thus, it is recommended that licensors require their licensees to mark their products.

Requiring a licensee to mark the product to give notice of the patent comes with quality control provisions to ensure that standards are met, subject to the following rules:

(a) It is prohibited to impose upon a licensee the obligation to acquire from a specific source capital goods, intermediate products, raw materials, and other technologies, or of permanently employing personnel indicated by the licensor.[41]
(b) It is prohibited for a licensor to reserve the right to fix the sale or resale prices of the products manufactured on the basis of the licence.[42]
(c) It is prohibited to restrict the volume and structure of production.[43]
(d) It is prohibited to prohibit the use of competitive technologies in a non-exclusive technology transfer agreement.[44]
(e) It is prohibited to prevent a licensee from exporting the licensed products unless justified for the protection of the legitimate interest of a licensor such as exports to countries where exclusive licences to manufacture and/or distribute the licensed product(s) have already been granted.[45]
(f) It is prohibited to restrict the use of the technology supplied after the expiration of the technology transfer arrangement, except in cases of early termination of the technology transfer arrangement due to reason(s) attributable to the licensee.[46]
(g) It is prohibited to restrict the research and development activities of a licensee designed to absorb and adapt the transferred technology to local conditions or to initiate research and development programs in connection with new products, processes or equipment.[47]
(h) It is prohibited to prevent a licensee from adapting the imported technology to local conditions, or introducing innovation to it, as

41. Section 87.1, Philippine Intellectual Property Code.
42. Section 87.2, Philippine Intellectual Property Code.
43. Section 87.3, Philippine Intellectual Property Code.
44. Section 87.4, Philippine Intellectual Property Code.
45. Section 87.8, Philippine Intellectual Property Code.
46. Section 87.9, Philippine Intellectual Property Code.
47. Section 87.12, Philippine Intellectual Property Code.

long as it does not impair the quality standards prescribed by the licensor.[48]

Failure of a licence agreement to conform to the above rules renders the same unenforceable, subject to grant of exception by the Documentation, Information and Technology Transfer Bureau of the Philippine Intellectual Property Office.[49]

A licence agreement that also involves the licensing of a trademark registration or application must provide for effective control by a licensor of the quality of the goods or services of the licensee in connection with which the mark is used. Otherwise, the licence agreement is void. Such an agreement must be submitted to the Philippine Intellectual Property Office for recording; otherwise, it shall have no effect on third parties.

12. REPORTING

12.1. Non-jurisdiction Specific Commentary

To be able to assess how a licensee is performing, and whether a licensee is paying all monies that it should be paying, a licensor needs information. The kind of information that is listed in the clause below will enable a licensor to assess the size of the market that a licensee is reaching, and re-assess any financial model on which the licence has been based.

In order to determine whether or not a licensee is paying its agreed share of royalties and fees arising from its sub-licensing activities, a licensor also needs to have that information in relation to those activities.

Relevant reports can also cover non-financial information. Such information can be helpful to a licensor who is not familiar with a particular jurisdiction or field. For instance, a licensee could be required to report on competitor activities, improvements created but not yet reported, progress of patent applications that are being handled by the licensee and any significant news relevant to the field of activity or the patent rights being licensed.

If a licensor has granted many licences, then in order to be able to process information from each of its licensees in the most efficient manner, a licensor may require that information be reported in the same form for all licensees.

If a licensor requires a licensee to report too often, the compliance burden and cost to business may be significant, and add little value. If a licensor does not require reports frequently enough, it may lose touch with how a licensee is performing as well as important changes in the relevant market. The timing and frequency of reports therefore need to be tailored to each licensing transaction.

Licensees should carefully consider whether any of the information that they are required to report should be kept confidential by the licensor. The licensor

48. Section 87.13, Philippine Intellectual Property Code.
49. Sections 91 and 92, Philippine Intellectual Property Code.

will in turn need to consider how any such requirement would impact on any public reporting requirements and its business dealings generally.

From a licensor's perspective, it is preferable that the licensee's obligations to provide information not be limited in scope. This is achieved by a provision such as paragraph (d) below. From a licensee's perspective, it is preferable that the information required to be reported on be limited and exhaustive in nature, otherwise the compliance burden may prove too onerous or unpredictable.

Non-jurisdiction specific clause: Reporting

'[**At the same time as the Licensee pays the Licensor the Royalty/no later than 14 days after the end of each [Month/Quarter/Year**], the Licensee shall report to the Licensor:

(a) the Royalty payable for that period, the Minimum Royalty payable for that period and the difference, if any;
(b) the Licensor's share of Licensee Revenue payable for that period;
(c) the basis on which the Royalty and Licensee Revenue has been calculated, including in relation to the Licensee and each Sub-licensee, identified separately:
    (1) the total number of Licensed Products made, sold or provided during the relevant period;
    (2) total Net Sales Revenue itemizing all deductions from gross invoice price of the Licensed Products; and
    (3) Net Sales Revenue on a jurisdiction by jurisdiction basis.
(d) any other information reasonably requested by the Licensor.

12.2. Philippines

No additional commentary.

13. ACCOUNTS AND RECORDS AUDIT

13.1. Non-jurisdiction Specific Commentary

Unless a licensor can examine and audit a licensee's accounts and records (and any sub-licensee's accounts and records) to verify reported information, it may be unable to determine whether it is being underpaid or whether the other information being provided is correct.

The place where a licensee is required to keep its accounts and records may be significant in that it may impact both upon the ease of undertaking any examination or audit, as well as the cost of such activity.

Where accounting standards between a licensor's and licensee's jurisdictions differ to an extent that is detrimental to a licensor, it may be desirable from a licensor's perspective to specify that the licensee must keep its accounts in accordance with the licensor's specified accounting standards. This may add to the licensee's compliance burden and costs.

There is a range of characterizations of the parties who could undertake the examination and audit apart from 'independent accountants'. Among them could be:

– the licensor or its representatives;
– the licensor's accountant;
– an accountant from a pre-agreed selection of accounting firms;
– a specifically named accountant; or
– an accountant nominated by the President for the time being of a relevant accounting institute – e.g., Institute of Chartered Accountants.

There also is a level of involvement that a licensee can have in determining this party, ranging from a consent based regime to a consultation based regime.

Having an examination and an audit of a licensee's accounts and records can adversely impact on a licensee's ability to carry on its business. From a licensee perspective, it may therefore be desirable to:

(a) require a licensor to give reasonable notice or a specified period of notice before undertaking the examination and audit;
(b) require that the licensor's representative only conduct the examination and audit during certain hours;
(c) require that the activities of the licensor's representative not unduly interfere with the day to day activities of the licensee's business;
(d) limit how often a licensor can examine and audit a licensee's accounts and records in any given period; and
(e) limit the number of people who can be involved in the process at any one time.

It is important from each of the licensor's and licensee's perspective for it to be clearly understood what the examining party may disclose to a licensor following an examination and audit – just discrepancies between the information supplied by a licensee and the accounts and records, as in the clause set out below – or the totality of relevant information derived from the examination and audit.

The licensor must determine whether it requires direct access to the accounts and records of sub-licensees, as in the clause set out below, or whether it will rely on the licensee's accounts and records containing that information.

If the licensor discovers through an examination and audit that it is being underpaid, and the under payment is above an agreed threshold of significance, it is not unusual to seek recovery of the examining party's costs. A licensee should consider whether it is worthwhile specifying that the licensee should receive a refund if the examination and audit reveals that the licensee has overpaid the licensor, or whether such overpayment should merely be credited to future payments.

Non-jurisdiction specific clause: Accounts and Records Audits

13.1.1. The Licensee must keep and maintain at its place of business in [**insert city and country of place of business**] separate and accurate accounts and records of all matters connected with the exercise of its rights and obligations under this agreement, including in relation to the matters on which the Licensee must report. The Licensee's accounts and records must contain information which in form and substance is sufficient to enable a speedy and cost efficient examination and audit. The Licensor must ensure that each Sub-licensee keeps such records in respect of the exercise of their rights and obligations under the relevant sub-licence.

13.1.2. The Licensee must upon [**insert number of days**] notice in writing permit such accounts and records to be audited by an independent accountant nominated by the Licensor ('**Accountant**'). The Licensee must ensure that each Sub-licensee agrees to give access to its accounts and records for such examination and audit upon [**insert number of days**] notice in writing by the Licensor.

13.1.3. The Licensor must not make a request to examine and audit the accounts and records of the Licensee and each Sub-licensee, more often than once every [**Month/Quarter/Year**]. The Licensor must ensure that the Accountant undertakes its activities at times reasonably convenient to the Licensee and each Sub-licensee and in a manner which does not unreasonably interfere with the day to day operations of those parties.

13.1.4. The Licensor must ensure that the Accountant keeps the Licensee's and the Sub-licensees' accounts and records confidential and that it only require the Accountant to disclose relevant information to the Licensor if the Accountant cannot verify that the amounts paid by or derived from such parties are in accordance with this agreement or that the information reported by the Licensee to the Licensor is incorrect in any material respect.

13.1.5. If as a consequence of the above-mentioned examination and audit the Accountant determines that in respect of the relevant period the Licensee has paid less than the Licensee was obliged to pay or any other information reported by the Licensee cannot be verified or is inconsistent with the Accountant's examination and audit, then the Licensor must procure that the Accountant prepare a written report to that effect setting out the reasons for his determination (the '**Accountant's Report**'). A copy of the Accountant's Report must be promptly supplied by the Licensor to the Licensee.

13.1.6. The Licensee may by notice in writing to the Licensor dispute the determination of the Accountant as contained in the Accountant's Report ('**Accountant's Report Dispute Notice**'). All Accountant's Report Dispute Notices must be received by the Licensor within [**insert number of days**] days of the Licensee's receipt of the Accountant's Report. ('**Accountant's Report Dispute Notice Period**').

13.1.7. If an Accountant's Report Dispute Notice is not received by the Licensor within the Accountant's Report Dispute Notice Period, then the Licensee is deemed to agree with the determination of the Accountant as contained in the Accountant's Report whereupon the Licensee must:

(a) if the Accountant's determination is that the Licensee has paid less than the Licensee is obliged to pay under this agreement, then the Licensee must promptly pay the under payment together with interest at the Default Rate of Interest from the date payment was due to the date payment is made under this clause; and
(b) if the Accountant's determination relates to subject matter other than referred to in clause 13.1.7(a), then the Licensee must act promptly on the Licensor's written request to address the matter at issue, in accordance with the Licensor's written request.

13.1.8. If the Licensee's under payment referred to in clause 13.1.7(a) is [**insert appropriate percentage**] % or more of the amount the Licensee was obliged to pay under this agreement, then the Licensee must also pay the Accountant's **[reasonable]** fees in undertaking the examination and audit.

13.1.9. If an Accountant's Report Dispute Notice is received by the Licensor within the Accountant's Report Notice Period, then the dispute will be dealt with in accordance with clause [**insert details of relevant dispute resolution clause**].

13.2. Philippines

In the Philippines, all persons required by law to pay internal revenue taxes are required to keep books of accounts in the form of a journal and a ledger, or their equivalents, for a period of three years commencing from the last entry in each book.[50] The parties to a licence agreement may agree on a longer period, as the same is not contrary to law, but they may not stipulate on a period shorter than that provided by law.[51] While the books of accounts are, by law, available to the examination of the tax authorities, the licensee may waive its right of confidentiality in favor of the licensor.[52]

14. SUB-LICENSING

14.1. Non-jurisdiction Specific Commentary

Sub-licensing is one of the critical issues in a relationship between licensor and licensee. A licensor usually will have a good idea of the strengths and weaknesses of its licensee. In allowing a licensee to sub-licence, the licensor's knowledge of the strengths and weaknesses of sub-licensees can become more remote and can become significantly reliant upon the judgment of the licensee. The level of control that a licensor seeks and a licensee can live with is therefore the crucial element in determining the extent of the sublicensing right.

The clauses below are samples showing the different degrees of licensor control and licensee freedom that can be included.

Additionally, it is important to determine whether the right to sub-licence needs to be expressly provided for. In many jurisdictions, it is not necessarily a right that is readily implied, and as such, licensees must obtain appropriate advice on a jurisdiction by jurisdiction basis.

Further, particularly from a licensee's perspective, consideration needs to be given as to whether any particular class of sub-licensee – e.g., 'affiliate' type entities that make up a 'licensee group'– should be treated in all respects as all other sub-licensees, or whether a less rigorous regime for such parties is appropriate – at least so long as they remain a member of the 'licensee group'.

50. Section 235, National Internal Revenue Code.
51. Article 1306, Philippine Civil Code.
52. Article 6, Philippine Civil Code.

Non-jurisdiction specific clause: Sub-licensing

14.1.1. [**Licensee friendly**:] The Licensee may grant sub-licences of the Patent Rights. The terms of any sub-licences shall not be inconsistent with this agreement. Within thirty (30) days of the grant of a sub-licence, the Licensee shall submit to the Licensor a statement setting out the details of the sub-licence that it has granted including the name of the sub-licensee, the rights granted under the sub-licence, the fees to be paid to the Licensee under the sub-licence and the duration of the sub-licence. On written request, the Licensee shall provide a copy of each sub-licence to the Licensor.

[**OR**]

14.1.2. [**Some steps towards a licensor position**:] The Licensee may grant sub-licences of the Patent Rights. The terms of any sub-licences shall not be inconsistent with this agreement and must:

(a) prohibit the granting by each sub-licensee of any licence of the Patent Rights;
(b) require each Sub-licensee to keep reasonable records required for the determination of Net Sales Revenue of the Sub-licensee and make available those records for inspection by an independent Accountant appointed by the Licensor if reasonably requested to do so by the Licensor;
(c) include confidentiality obligations on each Sub-licensee in relation to Confidential Information to which each Sub-licensee may gain access, such as the terms and conditions of this Agreement; and
(d) permit disclosure of each sub-licence agreement to the Licensor.

14.1.3. The Licensee must promptly notify the Licensor of the grant of each Sub-licence and must submit to the Licensor an annual statement setting out the details of each sub-licence that it has granted including the name of each Sub-licensee, the rights granted under each such sub-licence, the fees to be paid to the Licensee under such Sub-licences and the duration of such sub-licence. On written request, the Licensee agrees to provide a copy of each sub-licence.

14.1.4. The Licensee must ensure that its Sub-licensees comply with all terms of their respective Sub-licences. The Licensee must make all payments due to the Licensor and supply all reports required to the Licensor under this agreement that relate to sales of Licensed Products by Sub-licensees.

[**OR**]

14.1.5. [**Licensor friendly position**:] The Licensee must not sub-licence the Patent Rights without the Licensor's prior written consent which consent may be withheld in the Licensor's absolute discretion and if given, may be given subject to such conditions as the Licensor may in its absolute discretion determine.

14.1.6. The Licensee must provide as a condition in each Sub-licence granted by it that upon termination of this agreement and upon expiration of the Term:

(a) each Sub-licence so granted also terminates or expires as the case may be;
[OR]

(b) each Sub-licensee must upon written request by the Licensor given within 30 days of such termination or expiration, enter into an agreement with the Licensor within 30 days of such request being made, on substantially the same terms as the relevant Sub-licence with the Licensee and each such Sub-licence will, if a request is made, terminate upon the latter of the 30 day periods, and if such a request is not made, terminate upon the former of the 30 day periods;
[OR]

(c) each Sub-licensee must upon written request by the Licensor given within 30 days of such termination or expiration enter into good faith negotiations with the Licensor within 30 days of such request to enter an agreement with the Licensor in substitution for the relevant Sub-licence and each such Sub-licence will, if a request is made, terminate upon the latter of the 30 day periods, and if such request is not made, terminate upon the former of the 30 day periods.

14.2. Philippines

There is no specific provision in the Philippine Intellectual Property Code on sub-licensing. However, sub-licensing may be deemed to constitute novation of the parties, since the sub-licensee will have to abide to a certain degree by the obligations of the licensee to the licensor.[53] Hence, under the Philippine Civil Code, the consent of the licensor is required.[54]

53. Article 1291, Philippine Civil Code.
54. Article 1293, Philippine Civil Code.

15. IMPROVEMENTS

15.1. Non-jurisdiction Specific Commentary

On the assumption that an appropriate definition of 'Improvement' has been provided, not less than the following issues need to be considered in the context of the operative provisions to apply to those 'Improvements':

(a) Whether a licensor should be obliged to develop improvements?
(b) Whether a licensee should be obliged to develop improvements?
(c) What right of use should each of the licensor and licensee have to improvements developed by the other or sourced from third parties and to what extent should the rights be sub-licenceable?
(d) What payment obligation should arise in respect of any such right of use and to what extent should the developer of the improvement share in the sub-licensing revenue relating to the improvement?
(e) Who should own the relevant improvement?
(f) What should be the process for notifying the party entitled to a right to use an improvement that an improvement has been developed?
(g) What should be the process for determining whether an improvement is patentable and should be patented?
(h) Who should decide whether to patent an improvement and who should bear the cost of patent prosecution?
(i) What warranties and indemnities should be sought or given in relation to improvements?

The following clauses address some of the above issues:

Non-jurisdiction specific clause: Improvement
15.1.1. The Licensor grants the Licensee a licence to create Improvements relating to the Field of Activity. The Licensee must not use the Improvements for any purpose other than the exercise of rights granted to the Licensee under this agreement. 15.1.2. If either party makes an Improvement, that party shall promptly notify the other party in writing, providing details of the Improvement. 15.1.3. All Improvements made by the parties during the Term shall be owned by the Licensor. The Licensee assigns to the Licensor all its right, title and interest in any Improvement it makes, and agrees to require each Sub-licensee to assign all right, title and interest in any Improvement they make, for the full term of the right, title and interest, throughout the world.

The Licensee must not make, and must ensure that no Sub-licensee makes, any patent application or other application to register any Intellectual Property Right in respect of the Improvements.

15.1.4. The **[parties/Licensee]** must ensure that an Improvement is not published before:

(a) the Licensor decides whether a patent application should be filed in respect of the Improvement; and
(b) if the Licensor decides to file a patent application in respect of the Improvement, the patent application is filed.

15.1.5. Even if the Licensor decides not to file a patent application in respect of an Improvement, that Improvement continues to form part of the Confidential Information.

15.1.6. The Licensor grants the Licensee the same right to use the Improvements as it has granted the Licensee in respect of the Patent rights, at no extra cost to the Licensee.

15.2. Philippines

The Philippine Intellectual Property Code does not define ‘improvements’. Nevertheless, in *Frank v. Benito*, G.R. No. 27793, 16 March 1928, the Supreme Court held that ‘an improver cannot appropriate the basic patent of another, and that the improver without a licence is an infringer and may be sued as such.’ The Supreme Court further held that even if the defendant’s product was an improvement upon the plaintiffs’ product, the defendant had no legal right to appropriate the basic principle upon which the plaintiffs obtained their patent. It appears, therefore, that ‘improvement’ may refer to any change in the invention, where the basic principle of the original invention still forms part of the improved invention. Such definition is closely analogous to the concept of ‘improvement’ as defined in the non-jurisdiction specific commentary in section 4.9.1 above which requires that, in order to be an improvement, the relevant subject matter must require the use of the relevant licensed rights – e.g., ‘any invention that cannot be used without infringing the patent rights’.

It is mandatory to include in a licence agreement a provision requiring the licensor to provide continued access to improvements in techniques and processes related to the technology being licensed during the term of the arrangement.[55]

Since the law is silent on the cost of access to such improvements, the parties may stipulate on whether the said improvements should be made available to the licensee at some cost or at no cost at all.

55. Section 88.2, Philippine Intellectual Property Code.

On the other hand, it is prohibited to oblige the licensee to transfer for free to the licensor the inventions or improvements that may be obtained through the use of the licensed technology.[56] It is also prohibited to restrict the research and development activities of the licensee designed to absorb and adapt the transferred technology to local conditions or to initiate research and development programs in connection with new products, processes, or equipment.[57] The licensor may not prevent the licensee from adapting the imported technology to local conditions, introducing innovation to it, as long as it does not impair the quality standards prescribed by the licensor.[58]

16. MOST FAVOURED LICENSEE CLAUSE

16.1. Non-jurisdiction Specific Commentary

A clause like the one set out below can be advantageous for a licensee and disadvantageous for a licensor. For a licensor, it will mean that an extra layer of scrutiny will be needed to ensure that the terms of any licence that it proposes to grant in future do not trigger rights in favour of a 'most favoured licensee', unless intended.

From a licensor's perspective, it would be preferable to consider granting 'most favoured licensee' rights for a limited period of time, rather than immediately conceding that the right arises throughout the duration of the relevant licence, which will be the licensee's preference. It is trite to say that circumstances can change over time. If a licensor can minimize the risks it is likely to suffer by reason of such change, it should do so. Limiting the period of the right is just one way to minimize that risk.

The parties need to agree as to what licences are to be compared. From a licensee perspective, it is desirable to cast the net as widely as possible, to all licences of the Patent Rights. A licensor would argue that in order to compare 'apples with apples', the entirety of the licence rights need to be the same. This means that only those licences which are granted in relation to the same rights, to do the same thing, in the same territory, and in the same field and involving the same obligations on a licensee's part, should be compared. It is also possible to dilute the concept of 'sameness' by using concepts such as 'substantially the same' or 'substantially similar'. The greater the dilution, the greater the potential benefit to a licensee.

There are also some licences which may be granted under circumstances different to the normal commercial bargaining process. For instance, a licence could be granted to settle a dispute between two parties with competing patents. Licensors would be well advised to exclude all such licences from falling within

56. Section 88.6, Philippine Intellectual Property Code.
57. Section 87.12, Philippine Intellectual Property Code.
58. Section 87.13, Philippine Intellectual Property Code.

the potential ambit of such a provision just because such a licence arises from a situation different from the normal commercial bargaining process.

‘Most favoured licensee’ clauses are most likely to arise in the context of non-exclusive licences, since exclusive licences in the same territory for the same rights in the same field of activity necessarily are not going to arise precisely because they are exclusive licences.

A licensee is only going to know whether it is entitled to trigger a ‘most favoured licensee’ right if it has a right to see the terms of licences granted by a licensor. This will present the licensor with a serious dilemma. That is, balancing the likely requirements of any future licensee to keep the terms of its licence confidential against any requirement of a licensee with a ‘most favoured licensee’ right to disclose the terms of that licence.

The best ‘licensor position’ in such circumstances would be not to be obliged to disclose any such licences to a ‘most favoured licensee’. The next best ‘licensor position’ would be for the licensor to be able to make the initial cull of licences, so that it is only obliged to disclose to a licensee those licences which the licensor determines fall within the ambit of the most favoured rights. From a licensee perspective, this may mean that a licensor never determines that a licence is on better terms, and none are ever disclosed. The third best ‘licensor position’ would be to disclose the terms to an agreed third party expert for determination as to whether the terms fall within the ambit of the most favoured rights or not.

The best ‘licensee position’ would be to see all licences that the licensor grants.

It can be helpful to provide a reference point for determining the meaning of ‘better terms’. For instance, the royalty rate payable could be identified as the threshold – i.e., only licences where the royalty rate is less than a certain percentage need to be considered. However, although a licence may have a lower royalty rate, there may be higher milestone payments, or greater restrictions. From a licensor perspective, such a threshold should therefore not be conclusive.

Non-jurisdiction specific clause: Most Favoured Licence

16.1.1. For a period of [**insert period**] months from the date of this agreement, the Licensor offers to grant the Licensee a licence on the same terms as it grants any other licensee, where:

(a) the royalty rate in that other licence is less than the Royalty Rate; and
(b) the same rights as are granted to the other licensee as are granted to the Licensee under this agreement in the Field of Activity in the Territory (‘Better Licence’).

> This obligation does not apply to licences granted by the Licensor to any person in settlement of a dispute or lawsuit between the Licensor and a third party or in relation to infringements by a third party of the Patent Rights.
>
> 16.1.2. The Licensor agrees to disclose to the Licensee the terms of all Better Licences within 30 days of such licence being granted and to offer the Licensee the terms of that licence. The Licensee agrees to hold the terms of any licence so disclosed secret and in confidence.
>
> 16.1.3. Within 14 days following the receipt of the offer referred to in clause 16.1.1, the Licensee must notify the Licensor whether it accepts the Licensor's offer. This agreement shall end on the date that the Licensor receives the Licensee's acceptance of such offer and a new agreement will *ipso facto* come into existence between the Licensor and the Licensee on the terms so offered on that date. In the event that the Licensor does not receive the Licensee's acceptance within the above-mentioned 14 day period or in the event that the Licensee rejects such offer, then this agreement shall not be affected and shall continue in full force and effect.

16.2. Philippines

No additional commentary.

17. CONFIDENTIALITY

17.1. Non-jurisdiction Specific Commentary

On the assumption that an appropriate definition of 'Confidential Information' has been provided and that it relates to information to be exchanged between the parties relevant to the licence, not less than the following issues need to be considered in the context of the operative provisions to apply to that 'Confidential Information':

(a) To what extent should confidentiality obligations extend beyond information exchanged between the parties relevant to the licence, and extend to the terms of the licence itself or certain provisions of the licence?

(b) To whom should the confidential information be capable of being disclosed and used by without reference to the discloser of the information and for what purpose?

(c) To whom should the confidential information be capable of being disclosed and used by, but only with notice to or the consent of the discloser of the information and for what purpose?

(d) To what extent should the recipient of the confidential information be obliged to keep a record of the persons to whom the confidential information has been disclosed, the use made of that confidential information, and to report such matters to the discloser of such information?
(e) To what extent should the discloser of the confidential information be obliged to warrant the confidentiality or accuracy of the information disclosed?
(f) To what extent should the recipient of the confidential information be obliged to obtain appropriate obligations of confidentiality from the parties to whom it is allowed to disclose the confidential information? Should those undertakings be in a form required or approved by the discloser? Should the undertakings be in favour of the original discloser of the information or the recipient who is allowed to disclose?
(g) In what circumstances should the discloser of confidential information be entitled to its return, if in material form, and what evidence of destruction of such material should be required of the recipient?
(h) To what extent should the recipient of confidential information or a nominee of the recipient be entitled to keep one copy of confidential information supplied by a discloser as a reference point for knowing what has been received and, if so, what obligations should be imposed on such party in respect of that copy?
(i) To what extent should a party breaching the confidentiality provisions indemnify the other party for any loss sustained?
(j) To what extent should a discloser of confidential information have rights to material in which such confidential information is included, upon the discloser's right to the return of their confidential information arising?
(k) To what extent should confidential information that is disclosed pursuant to a legal obligation to disclose, such as a court order or order of a government agency continue to be confidential?
(l) To what extent should mere knowledge by the recipient of confidential information, of the confidential information trigger a discloser's entitlement to the products of the recipient's activities either generally or in a specific area of activity?
(m) To what extent should a recipient of confidential information be obliged to disclose that a breach of confidence or use of information has occurred?
(n) To what extent should confidentiality obligations continue beyond termination or expiration of a patent licence?

The following clauses address some of the above issues:

Non-jurisdiction specific clause: Confidentiality

17.1.1. The Licensor will provide the Licensee with access to the Confidential Information on the terms set out in this clause 17.1 or as otherwise provided in this agreement.

17.1.2. The Licensee must treat all Confidential Information as confidential and must not, except as contained in this clause 17.1.

(a) **use** the Confidential Information for any purpose other than to exercise the rights granted to it under this agreement; or
(b) without the prior written consent of the Licensor, **disclose** the Confidential Information to any person.

17.1.3. The Licensee must not, except as contained in this clause 17.1, disclose any of the terms of this agreement without the prior written consent of the Licensor.

17.1.4. The Licensee may disclose Confidential Information and the terms of this agreement to an officer, employee or adviser on a strictly need-to-know basis where the officer, employee or adviser has first entered into a confidentiality deed with the [**Licensee/Licensor**] in a form consistent with the confidentiality obligations under this agreement.

[OR]

The Licensee must [**use all reasonable endeavours to**] ensure that its officers, employees and advisers comply with the obligations of confidentiality imposed upon the Licensee by this agreement, as if personally bound by such obligations.

17.1.5.

(a) The Licensee may disclose Confidential Information or the terms of this agreement where required by an order of a court of competent jurisdiction or by a government agency acting properly and within its authority or as required by law (including by any stock exchange listing rules or requirements relevant to a party to this agreement).
(b) In each such case, the Licensee must promptly notify the Licensor in writing in advance of the disclosure and must only disclose that part of the information as is necessary to comply with relevant requirements.

17.1.6. The Licensee may disclose Confidential Information to its Affiliates and Sub-licensees provided that each such entity has first agreed to confidentiality obligations in favour of the [**Licensee/Licensor**] in relation to the Confidential Information on terms materially the same as those contained in this agreement.

17.1.7. The Licensee must promptly notify the Licensor upon becoming aware that any of the confidential Information is or has been used or disclosed in any manner contrary to the provisions of this clause 17.1. If such use or disclosure is or has occurred as a result of an act or omission on the part of the Licensee under this agreement, then the Licensee must at its own cost and expense undertake such acts as the Licensor [**reasonably**] decides in order to best protect the Licensor's rights in the Confidential Information.

17.1.8. Upon expiration or termination of this agreement for any reason, the Licensee must and must cause its Sub-licensees to promptly return to the Licensor all copies of the Confidential Information.

17.1.9. Upon expiration or termination of this Agreement the confidential obligations contained in this clause 17.1 shall continue.

17.2. Philippines

What constitutes 'confidential information' is usually defined by the parties in the licence agreement and may encompass matters other than the patent or invention itself, such as those relating to trade secrets, commercial and financial information.[59] The parties are also free to stipulate confidentiality obligations, as well as penalties in case of breach thereof. There is no prohibition on the imposition of non-disclosure obligations on a licensee that may survive the term of the licence agreement and the patent as long as the non-disclosure obligation refers to information that qualifies as confidential under the relevant law and jurisprudence, or as defined in the licence agreement.

18. PROSECUTION AND MAINTENANCE OF RIGHTS

18.1. Non-jurisdiction Specific Commentary

A licensor will usually want to control how patent applications are prosecuted and how issued patents are maintained. However, a licensee also has an interest in making sure that the scope of its licence is not diminished by the licensor allowing patents to lapse, or agreeing to amendments to the scope of claims or deletion of claims altogether. Therefore, it is important to clearly identify who is responsible for the prosecution and maintenance of the patent rights being licensed, and whether that person must consult with or obtain the consent of the other regarding such activity. In the clause set out below, only consultation is provided for. From a licensee's perspective, the focus of such consultation

59. *Air Philippines Corp. v. Pennswell Inc.*, G.R. No. 172835, 13 Dec. 2007.

or consent could be provided for – e.g., 'with a view to maximizing the extent of the licensee's enforceable valid rights'.

If a licensee is the exclusive licensee of the patent rights, it may be more appropriate for the licensee to pay all prosecution and maintenance costs. If a licensor has several licensees, it may pay those costs and recoup them through the licence fees and royalties charged to its licensees.

If the party responsible for the prosecution and maintenance of the patent rights decides not to continue to maintain a patent or not to continue to prosecute a patent application, the other party may be interested in taking over both the rights and obligations attaching to that subject matter. From a licensee's perspective, it is important to provide for such a possibility if the licensor is the party responsible for such matters. The usual way to provide for such possibility is for a licensee to have a priority right to have the patent or patent application assigned to the licensee. The issue then becomes what, if any, amount a licensee should pay for the assignment. In the clause set out below, no payment is envisaged, but this is a matter for negotiation.

Non-jurisdiction specific clause: Prosecution and Maintenance of Rights

18.1.1. Subject to the provisions of this clause the Licensor has the sole responsibility to file, prosecute and maintain (including conduct opposition proceedings) patent applications and patents that comprise the Patent Rights. The Licensor agrees to use reasonable efforts to prosecute the patent applications comprised in the Patent Rights to grant.

18.1.2. The Licensor must pay the Patent Costs on or before the relevant due dates for payment. The Licensee must reimburse the Licensor []% of the Patent Costs, within 30 days of a request for such reimbursement being made by the Licensor on the Licensee. The Licensor must at the time of making any such request provide the Licensee with proper evidence of the amount of Patent Costs incurred and that those Patent Costs have been paid.

18.1.3. If the Licensor decides that it does not wish to continue to prosecute or maintain any patent or patent application comprised in the Patent Rights, it must give the Licensee written notice to that effect. Such written notice must be given at least 90 days prior to any final date of action relevant to such prosecution or maintenance activity. After receiving such a notice, the Licensee may by notice in writing received by the Licensor at least 14 days prior to such final date of action take over the prosecution or maintenance of that patent or patent application, but is not obliged to do so. If the Licensee gives the Licensor such written notice then on the basis that the Licensor is not required to and does not give the Licensee any warranties:

(a) the Licensor agrees at no cost to the Licensee to assign the patent or patent application to the Licensor from the date of receipt of that notice and agrees to do all things and execute all documents reasonably requested by the Licensee to give effect to such assignment;
(b) the Licensor agrees at no cost to the Licensee to supply the Licensee with all documents and information regarding the relevant patent or patent application, and, without limiting the generality of the preceding, with all copies of communications relating to the patent or patent application, with the relevant patent office;
(c) the patent or patent application referred to in the Licensor's notice ceases to form part of the Patent Rights under this agreement from such date;
(d) the licence from the Licensor to the Licensee under this agreement terminates in relation to that patent or patent application from such date;
(e) the consideration payable by the Licensee to the Licensor for the grant of the remaining rights under this agreement shall not be reduced; or
(f) the Licensor must give any reasonable assistance requested by the Licensee in responding to matters raised by the relevant patent office in relation to any such patent or patent application.

18.1.4. The parties agree to cooperate in good faith to obtain patent term extensions where applicable to patents and patent applications comprised in the Patent Rights.

18.2. Philippines

No additional commentary.

19. NO CHALLENGE CLAUSES

19.1. Non-jurisdiction Specific Commentary

It is not unusual in a patent licence for a licensor to oblige a licensee not to challenge the validity of the rights being licensed. The enforceability of such a provision must be tested on a jurisdiction by jurisdiction basis. An example of a no challenge type clause appears below:

Non-jurisdiction specific clause: No Challenge
19.1.1. The Licensee must not challenge, question or in any way impair, or assist a person to challenge, question or in any way impair: (a) any interest which the Licensor has in a patent or patent application included in the Patent Rights; (b) the validity of any patent or patent application included in the Patent Rights; or (c) the success of any patent application included in the Patent Rights.

19.2. Philippines

Clauses that require that a technology recipient not contest the validity of any of the patents of the technology supplier are prohibited clauses.[60] Also prohibited are clauses that exempt a licensor from liability for non-fulfilment of his responsibilities under the licence agreement and/or liability arising from third party suits brought about by the use of the licensed product or technology.[61]

Failure of a licence agreement to comply with the above rules renders the same unenforceable, subject to grant of exception by the Documentation, Information and Technology Transfer Bureau of the Philippine Intellectual Property Office.[62]

20. INFRINGEMENT BY THIRD PARTIES

20.1. Non-jurisdiction Specific Commentary

One of the key dilemmas in a licensor/licensee relationship is who is to have the right or obligation to commence legal proceedings against third parties that are alleged to have infringed the rights that are being licensed? The starting position of a licensor is likely to be that it will want the right but not the obligation to commence those proceedings, whereas the starting position of a licensee will be that the licensor should be obliged to commence proceedings, but in default the licensee should have that right.

A licensor's desire for control over the litigation process stems from a number of potential sources: firstly it is the licensor's right and it should therefore ultimately be a matter for the licensor to determine how to protect that right; secondly there are more than just the licensee's interests to be considered in commencing an infringement action. The action will certainly expose the relevant

60. Section 87.11, Philippine Intellectual Property Code.
61. Section 87.14, Philippine Intellectual Property Code.
62. Sections 91 and 92, Philippine Intellectual Property Code.

rights to challenge and the licensor may be concerned about the strength of those rights. The alleged infringer may be a party with whom the licensor has or hopes to establish a significant commercial relationship, and infringement proceedings may jeopardize that relationship. The alleged infringer may also be another licensee of the same patent with different rights or in a different field of activity, where a dispute arises in respect of those alleged differences. Infringement proceedings in those circumstances may cause the licensor to be in breach of the alleged infringer's licence if it was to commence proceedings. Further, the alleged infringer may have 'deep pockets' and as such may be in a better financial position to bear the burden of such a contest.

A simple rationale for the licensee's position is that it has paid the licensor for the relevant rights and if someone else is exercising those rights without paying for them or is damaging the licensee's position through exercising those rights, then the licensor should stop that occurring.

Having understood the bases of each of the licensor's and licensee's position and knowing that ultimately the bargaining strength of each party will determine who has the right and who has the obligation to initiate infringement proceedings, not less than the following matters will need to be factored into the negotiation mix:

(a) Irrespective of who has the right and who has the obligation, who should bear the cost of the proceedings?
(b) What evidence of infringement should be required?
(c) Determining whether an infringement has occurred is a very technical matter, who and how is that determination to be made before that right or obligation arises?
(d) Should the right of a licensee or the obligation of a licensor only arise if it can be reasonably demonstrated that the alleged infringement is having or is likely to have an adverse impact on the licensee?
(e) Irrespective of who has the right and who has the obligation, once proceedings are commenced, what say does the other party have in the conduct or settlement of those proceedings and what information should that other party be entitled to for those purposes?
(f) What should be the consequence of the proceedings being successful or unsuccessful?

Some of the possible outcomes of the above questions are considered below in the non-jurisdiction specific clause.

Provisions relating to the parties rights and obligations to commence infringement proceedings against third parties usually begin with a process for notifying actual or threatened infringements. The process can be mutual or one way – the latter most usually being notices from licensee to licensor.

The optimal position for a licensor is to require that licensees notify the licensor of any infringement that licensees become aware of, along with proof of infringement, rather than only those infringements which affect a licensee because they occur in the licensee's field of activity. However, a licensor may not wish to be obliged to share information with a licensee regarding infringements that occur other than in a licensee's field of activity.

In many jurisdictions, exclusive licensees either have a primary right or a default right to commence infringement proceedings and those rights may not be capable of exclusion by contract. That is not to say however that a licensor cannot by contract impose hurdles on an exclusive licensee to the exercise of that primary or default right. The hurdles imposed on an exclusive licensee and the conditions under which an exclusive licensee is entitled to commence proceedings for infringement can range from low and few, to high and many.

The clause below contains a hurdle that is not uncommon – getting a third party opinion on the likelihood of success. It also includes a number of conditions that seek to best protect a licensor's interests – i.e., an obligation on the exclusive licensee to preserve the validity of relevant patent rights, an obligation on the licensee to bear the licensor's costs and expenses of providing assistance in relation to the proceedings and providing only a fettered right for the exclusive licensee to settle any proceedings. Additionally, an indemnity in favour of the licensor regarding any loss sustained by the licensor resulting from the proceedings should be considered. The hurdles and conditions will vary for each deal, but they must be on each party's checklist of matters to consider in negotiating a deal. The more hurdles and conditions that are imposed, the more a licensee will need to consider the real value to it of commencing the relevant proceedings.

If a third party is alleged to be infringing relevant licensed patent rights, such activity may impact on the licensee's market. For that reason, the licensee may want to be able to suspend the obligation to pay some or all of the royalty, or withhold some or all of the royalty that would otherwise be payable while the alleged infringement continues. A licensor on the other hand should not accede to such conditions unless the licensee provides evidence that there is a clear linkage between the alleged infringement and the loss of market share. There may for instance be other factors affecting a licensee's market position – e.g., lower costs of production or the pricing strategies of competitors.

Licensees also should consider including termination rights and royalty rate reductions in a licence where third party infringements come to be considered. Indeed, a right of termination also may be something that a licensor may want to consider.

The impact of alleged third party infringements on the rights of licensors and licensees are never easy matters to negotiate. From a licensor's perspective, at least two matters are crucial:

(a) a licensor should seek to include provisions that place the onus on the licensee to establish to an appropriate standard that an infringement is or likely occurring; and

(b) a licensor should seek to include provisions that place the onus on the licensee to demonstrate to an appropriate standard the linkage between such infringement and the alleged adverse consequences suffered or likely to be suffered by the licensee.

From a licensee's perspective, at least two matters are crucial:

(a) if a right to commence proceedings arises, that it is not too constrained by conditions not within its control; and
(b) if a right to commence proceedings does not arise, that it has other rights to best protect its position.

Non-jurisdiction specific clause: Infringement
20.1.1. The parties shall promptly notify each other in writing of any infringements or threatened infringements by third parties of any of the Patent Rights or the Improvements occurring during the Term, together with details and examples thereof. 20.1.2. The Licensor has the sole right, but no obligation, to bring and control any proceedings with respect to the matters notified in accordance with clause 20.1, at its own expense. 20.1.3. The Licensee shall, at the Licensor's expense, provide all assistance reasonably required by the Licensor in relation to proceedings brought and conducted by the Licensor, including, if requested, being joined as a party to the proceedings. 20.1.4. If the Licensor does not commence proceedings under clause 20.1.2 within [**insert number of days**] days of a notice being given under clause 20.1.1 (**Licensor Action Period**) and within [**insert number of days**] days of expiry of the Licensor Action Period the Licensee provides to the Licensor a written opinion from a Senior Patent Counsel confirming that there is a proper basis for the proceedings and the proceedings have good prospects of success, the Licensee may commence proceedings providing the Licensee does so within [**insert number of days**] days of expiry of the Licensor Action Period. [**The Licensor agrees to be named as a plaintiff in the Licensee's action.**] The Licensee must bear the cost of obtaining such written opinion. 20.1.5. The Licensee must act in good faith in the proceedings to preserve the validity of the rights being enforced. 20.1.6. The Licensee must keep the Licensor reasonably informed of the status of any such proceedings including providing copies of all substantive documents and communications filed or exchanged in the proceedings.

20.1.7. The Licensor agrees to provide all assistance reasonably required by the Licensee in relation to the proceedings. The Licensee agrees to bear all the Licensor's reasonable costs, and expenses incurred in providing such assistance, including legal and patent attorney costs incurred by the Licensor.

20.1.8. If in accordance with this agreement the Licensee has commenced proceedings in respect of any of the matters notified in accordance with clause 20.1.1, the Licensee may, during such period as the proceedings are being diligently prosecuted, withhold [**insert percentage**]% of the Royalty that would otherwise be due and payable provided that the withheld amount is paid into a separate account to be held in escrow until the proceedings have been settled or finally determined. On settlement or a final determination of the proceedings, [**substantially in favour of the Licensee] the Licensee must pay to the Licensor all Royalty withheld under this clause together with Default Interest.**]

20.1.9. The Licensee may in consultation with the Licensor negotiate settlement of the proceedings. The Licensee must obtain the Licensor's prior written consent to any settlement terms, which consent [**may be refused absolutely/granted upon such conditions as the Licensor may [reasonably/absolutely determine**] may not be unreasonably refused.] [**The Licensee must not agree to settlement terms [which adversely affect the validity of the Patent Rights, or] which admit that exercise of the Patent Rights infringe third party rights, without the prior written consent of the Licensor, which consent must not be unreasonably withheld or delayed.][The Licensee may agree to any settlement terms in its absolute discretion, whether or not the terms affect the validity of the Patent Rights.**]

20.2. Philippines

The Philippine Intellectual Property Code defines patent infringement as the making, using, offering for sale, selling, or importing a patented product or a product obtained directly or indirectly from a patented process, or the use of a patented process without the authorization of the patentee.[63] The following instances are the exceptions:

- Using a patented product which has been commercialized in the Philippines by the owner or with his express consent. With regard to drugs and medicines, the limitation on patent rights shall apply after a

63. Section 76.1, Philippine Intellectual Property Code.

drug or medicine has been introduced in the Philippines or anywhere else in the world by the patent owner, or by any party authorized to use the invention.[64]

– Testing, using, making, or selling patented drugs or medicines, including any data related thereto for purposes of development of information and securing regulatory approvals.[65]
– Use of the invention by the government without agreement of the patent owner under the following conditions:[66]
  (a) the public interest, in particular, national security, nutrition, health or the development of other sectors, as determined by the appropriate agency of the government, so requires; or
  (b) a judicial or administrative body has determined that the manner of exploitation, by the owner of the patent or his licensee is anti-competitive; or
  (c) in the case of drugs and medicines, there is a national emergency or other circumstance of extreme urgency requiring the use of the invention; or
  (d) in the case of drugs and medicines, there is public non-commercial use of the patent by the patentee, without satisfactory reason; or
  (e) in the case of drugs and medicines, the demand for the patented article in the Philippines is not being met to an adequate extent and on reasonable terms, as determined by the Secretary of the Department of Health.
– Compulsory licensing.[67] Please refer to the Philippines Intellectual Property Rights: Legislation, Regulations, Directives and Policies section of this publication.
– Special compulsory licence under the TRIPS Agreement for the importation of patented drugs and medicines as an additional special alternative procedure to ensure access to quality affordable medicines primarily for domestic consumption.[68]

Under the Philippine Intellectual Property Code, the patentee, or anyone possessing any right, title or interest in and to the patented invention, may sue an infringer. Thus, to the extent of its interest, a licensee has standing to bring suit. The civil remedies available are recovery of damages, plus attorney's fees and other expenses of litigation, and injunction.[69] If the damages are inadequate or cannot be readily ascertained with reasonable certainty, the court may award

64. Section 72.1, Philippine Intellectual Property Code.
65. Section 72.4, Philippine Intellectual Property Code.
66. Section 74, Philippine Intellectual Property Code.
67. Section 93, Philippine Intellectual Property Code.
68. Section 93-A, Philippine Intellectual Property Code.
69. Section 76.2, Philippine Intellectual Property Code.

as damages a sum equivalent to reasonable royalty.[70] If the circumstances so warrant, the court in its discretion may award damages up to three (3) times the amount of actual damages.[71] The court may also order the destruction of the infringing goods without compensation.[72] Anyone who actively induces or aids in the infringement shall be liable as a contributory infringer and shall be jointly and severally liable with the infringer.[73]

No damages may be awarded for acts of infringement committed more than four years before the institution of the infringement suit.[74]

Criminal action is available against a repeat infringer or anyone in connivance with him. The penalty for criminal infringement is imprisonment of six months to three years and/or a fine of MXN 100,000.00 to MXN 300,000.00. The criminal action prescribes three years from the date of the commission of the crime.[75]

21. DEFENCE OF PROCEEDINGS

21.1. Non-jurisdiction Specific Commentary

On the surface, clauses dealing with defence of infringement proceedings should be similar to clauses relating to the commencement of proceedings. However, the significant difference between the two processes is that a licensor and licensee have control over the commencement of proceedings but no control over any proceedings brought against one or other of them. For that reason, there is a danger in being overly prescriptive in dealing with the consequences of a licensee having to defend infringement proceedings. That is why the clause below, dealing with the defence of infringement proceedings, allows a greater degree of flexibility than the above-mentioned clause relating to the commencement of proceedings. The clause below gives a licensor the option to negotiate a licence with the party that has commenced the relevant proceedings. If the relevant licence is not negotiated within a specified period of time, either party is given the right to terminate the agreement. Clearly issues arise as to the extent to which the relevant licensor should or should not bear fees payable to the party granting the licence and the extent to which both parties should have the right to terminate in the event that a licence is not obtained. These are matters for negotiation.

70. Section 76.3, Philippine Intellectual Property Code.
71. Section 76.4, Philippine Intellectual Property Code.
72. Section 76.5, Philippine Intellectual Property Code.
73. Section 76.6, Philippine Intellectual Property Code.
74. Section 79, Philippine Intellectual Property Code.
75. Section 84, Philippine Intellectual Property Code.

There are of course many other options that could be considered. A number of them are summarized below:

(a) The licensor agrees to take on the responsibility of defending any proceedings at its sole cost. The level of consultation and control that a licensee has in such a circumstance would need to be carefully considered.
(b) The licensor agrees that the licensee shall have the responsibility to defend any proceedings instituted against the licensee and that the licensor pay for or contribute to the cost of defending those proceedings. The level of consultation and control that a licensor has in such circumstances would need to be carefully considered.
(c) Each party being left to their own devices to defend any proceedings, but upon any proceedings being initiated, provisions that suspend payment of royalties, or a reduction in royalty rates or an entitlement to terminate the agreement being activated for the licensee's benefit.

Ultimately, however, if proceedings are brought then irrespective of the above, the position of a licensor and licensee will be determined by what warranties and indemnities have been given by the parties relating to the subject matter of those proceedings.

Non-jurisdiction specific clause: Defence of Proceedings

21.1.1. Each party shall promptly give the other written notice of any claim that the exercise of the rights granted by either party under this agreement infringes the rights of any third party.

21.1.2. Promptly following notification under clause 21.1.1, the parties will in good faith consult with one another to consider how best to address the relevant claim with a view to preserving the Licensee's right to exercise the relevant rights under this agreement. Following on such consultation the Licensee must act in accordance with any reasonable request made by the Licensor in respect of such claim.

21.1.3. If legal proceedings are commenced against the Licensee claiming that the exercise of Patent Rights by the Licensee under this agreement infringes the rights of a third party, then the Licensee must promptly:

(a) provide the Licensor with a copy of the documents filed with the relevant court commencing such legal proceedings and if available, any evidence of such alleged infringement or breach. ('**Legal Proceedings Notice**'); and
(b) provide the Licensor with such other information and documents as the Licensor may request in order that the Licensor may form a view as to the merits of the legal proceedings.

21.1.4. The Licensor has [**insert number of days**] days from the last date of receipt of the matters referred to in clause 21.1.3 to advise the Licensee of its view of the merits of the legal proceedings.

21.1.5. On expiry of the period referred to in clause 21.1.4, the Licensor must give written notice to the Licensee advising whether on a without admission basis the Licensor considers that it would be preferable to obtain a licence from the party who has commenced the legal proceedings or whether there is a proper basis to defend the legal proceedings.

21.1.6. If the Licensor advises the Licensee under clause 21.1.5 that it would be preferable to obtain a licence from the party who has commenced legal proceedings, the Licensor will use its commercially reasonable efforts to obtain such a licence on commercially reasonable terms with a right for the Licensor to grant a sub-licence to the Licensee. If the Licensor obtains such a licence and is obliged to make payments under that licence, the Licensee must reimburse the Licensor for [**insert percentage**]% of all such payments made by the Licensor within [**insert number of days**] days of written request by the Licensor. If the Licensor is unable to obtain such a licence within [**insert number of days**] days after giving the Licensee notice under clause 21.1.5, either party may terminate this agreement by [**insert number of days**] days written notice to the other party. All money, including Royalties, paid by the Licensee to the Licensor up to and including the date of termination shall not be refundable.

21.1.7. If the Licensor advises the Licensee under clause 21.1.5 that the Licensor considers that there is a proper basis to defend the legal proceedings, the parties must promptly enter into good faith discussions to seek to determine an agreed course of action to deal with the legal proceedings. If the parties do not reach agreement within [**insert number of days**] days after the Licensor gives notice under clause 21.1.5, each party may at its sole cost and expense respond to the legal proceedings in such manner as it sees fit, provided that the Licensee must not by act or omission impugn the validity of any of the Licensor's rights granted under this agreement.

21.2. Philippines

No additional commentary.

22. REPRESENTATIONS AND WARRANTIES

22.1. Non-jurisdiction Specific Commentary

Representations and warranties are a means of allocating the risks of a commercial transaction between the parties. Therefore, in determining what representations and warranties that it is willing to give, or needs to obtain, a party should carefully consider its liability exposure with respect to the overall transaction.

Irrespective of which party is giving them, representations and warranties should only be given in respect of past and present facts and not in respect of future events or future possibilities.

They should also only be given if proper evidence exists to support the relevant representation and warranty. This means that appropriate due diligence investigations must be undertaken before relevant representations and warranties are given. If, arising from those investigations, there is no such evidence, then the representation and warranty should not be given at all. If there is only inconclusive evidence, then the representation and warranty should only be given subject to proper exceptions and qualifications.

Representations and warranties should be stated as being given at clear and identifiable points in time. If they are qualified by a relevant level of knowledge, then it is preferable to identify whose knowledge is relevant. This is particularly important in a large organization where knowledge may be significantly dispersed. Thus, rather than just referring to the Licensor's knowledge, it would be preferable to refer to an identified party or group of people within the Licensor – e.g., to the knowledge of the Licensor's General Counsel. It may also be important to identify the quality of the knowledge – e.g., actual knowledge, or knowledge following on reasonable investigation or knowledge following thorough investigation.

Notice is also a frequent qualifier to representations and warranties. Again, it is important to be clear on the nature of the relevant notice – e.g., written notice, or oral notice – and the relevant period during which it was received.

Irrespective of what express representations and warranties may be given by the parties or what exclusions may be expressed in the licence, each party must obtain proper advice regarding any warranties that may be implied into their deal, by reason of the governing law of the contract or other circumstances surrounding their transaction.

Even where an implied warranty may be available, it is good practice for a party seeking the benefit of such warranty to expressly set out the warranty in the agreement. Expressly including a warranty in the agreement removes doubt that the warranty will be implied and gives the parties the opportunity to draft the exact scope of the warranty. It would only be prudent to rely on the existence of an implied warranty where a party has little bargaining power and so long as implied warranties are not excluded.

Parties seeking to exclude implied warranties must do so in unequivocal terms and must also ensure that such exclusion is not itself a breach of any law.

Non-jurisdiction specific clause: Representations and Warranties

22.1.1. Each party represents and warrants to the other that as at the date of this agreement:

(a) it has the power to enter into and perform its obligations under this agreement and that it has taken all steps necessary to properly execute this agreement;
(b) it is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction or incorporation or formation; and
(c) neither the execution of this agreement, nor its performance, conflicts with any applicable law, rule or regulation or any agreement to which it is a party, other than as specified in Schedule 1.

22.1.2. The Licensor represents and warrants to the Licensee that as at the date of this agreement:

(a) it is the grantee of the patents comprised in the Patent Rights and it is the applicant in the patent applications comprised in the Patent Rights;
(b) its entitlement to the Patent Rights is free and clear of any licence, lien, security interest or encumbrance, other than as specified in Schedule 1;
(c) it is entitled to grant the licences granted in this agreement;
(d) its Corporate Patent Counsel is not aware of any defects of title, in respect of the Patent Rights;
(e) all persons who are inventors of the inventions comprised in the Patent Rights have been identified as such in the granted patents or the patent applications, as the case may be, and no person who is not an inventor is so identified;
(f) all information that it has supplied to the Licensee [in connection with this agreement/identified in Schedule 1] is [to the best of its Corporate Patent Counsel's knowledge] accurate, true and correct;
(g) it has not during the period of [insert number of months] months prior to the date of this agreement received written notice from any third party alleging that a third party has a right, title or interest in any of the Patent Rights; and
(h) none of the Patent Rights are the subject of any legal or other dispute resolution proceedings.

22.1.3. The Licensor does not warrant the validity of any of the Patent Rights.

22.1.4. The Licensor does not warrant the commercial exploitability and the technical usability of any product developed or made in exercise of the rights granted under this agreement.

22.1.5. The Licensee represents and warrants to the Licensor that as at the date of this agreement:

(a) save as expressly warranted by the Licensor under this agreement it has relied on its own investigations in relation to the rights granted to it under this agreement;
(b) all information that it has supplied and will supply to the Licensor [**in connection with this agreement/identified in Schedule 1**] is, [**to the best of its knowledge**], accurate, true and correct;
(c) it has not entered into and will not enter into any agreement, arrangement or understanding which would restrict or prevent it in fully exploiting the rights granted to it under this agreement;
(d) it is solvent and has the resources necessary to comply with its obligations under this agreement; and
(e) it is not a party to any legal or other dispute resolution proceedings relating to any Intellectual Property Rights owned or used by it in its business or relating to the Field of Activity.

22.1.6. Except as expressly provided in this agreement or as required by law, neither party gives or makes any express representations or warranties to the other and to the extent permitted by law the parties agree to exclude all implied representation and warranties affecting their relationship under this agreement

22.2. Philippines

Warranties in a licensing agreement and their effects are not specifically provided for under the Philippine Intellectual Property Code. The parties are thus free to stipulate specific warranties and representations in licence agreements, as long as they are not contrary to law, morals, good customs, public order or public policy.[76]

The following warranties are usually included in a Philippine licence agreement:

(a) each party has capacity and power to enter into and perform their respective obligations thereunder;

76. See Article 1305, Philippine Civil Code.

(b) each party shall take all steps and sign the documents required to effect the licence agreement;
(c) as of the date of the licence agreement, the licensor has the right over the patent subject of the licence agreement; and
(d) neither the execution of the licence agreement, nor its performance, conflicts with any applicable law, rule or regulation, or any agreement in the Philippines.

The foregoing warranties are mandated by other laws such that non-compliance therewith will trigger the application of said laws even in the absence of express warranties. For instance, the lack of capacity to enter into the licence agreement, or in case the licensor has no right over the patent, will render the licence agreement voidable on the ground that the consent of the non-breaching party to enter into the licence agreement was vitiated.[77] On the other hand, the Civil Code has a number of provisions under the chapter on Human Relations[78] that arguably cover items (b) and (d) above. For instance, Article 19 of the Civil Code provides that, every person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith. On the other hand, Article 20 of the Civil Code provides that every person who, contrary to law, willfully or negligently causes damage to another, shall indemnify the latter for the same.

Notwithstanding the foregoing, express warranties in the licence contract serve to clarify the representations and obligations of the parties, without resorting to various laws for interpretation.

23. LIMITATION OF LIABILITY/EXCLUSION OF LIABILITY

23.1. Non-jurisdiction Specific Commentary

Any provisions that seek to limit or exclude liability must firstly be considered from the perspective of whether such limitations or exclusions are permitted as a matter of law. If permitted, the guiding principle in drafting such provisions is to be clear about the limitation and the exclusion, as such provisions will usually be construed strictly against the party seeking their enforcement.

The logical progression in drafting such provisions is firstly to exclude whatever liability can be excluded and then limit any remaining liability. Liability may be limited in reference to various matters – e.g., to a fixed amount of money; to an unspecified amount of money attributable to a specific activity such as the cost of re-supplying an item of goods or service; it may be referrable to particular time frames – e.g., a fixed amount per year of the contract. Liability also may need to reach a certain threshold before the other party's obligations

77. See Article 1390 (2), Philippine Civil Code.
78. Articles 19-36, Philippine Civil Code.

arise. Liability also may be calculated by reference to cumulative events or amounts or single events or amounts. The matrix of considerations that apply to the limitation and exclusion of liability therefore should not be underestimated.

Also, if there is potentially more than one party liable to another party or parties, then a clear statement as to the nature of the liability between those parties must be provided – e.g., joint liability, joint and several liability, and if just several liability, in what proportions?

Non-jurisdiction specific clause: Limitation of Liability
23.1.1. To the full extent permitted by law: (a) the [**Licensor/Licensee**] shall not be liable for any loss or damage, caused by the negligence, including gross negligence, of the [**Licensor/ Licensee**] suffered by the [**Licensor/ Licensee**] in connection with this agreement; (b) the [**Licensor/Licensee**] shall not be liable for any special, indirect or consequential damages arising from breach of this agreement; and (c) the liability of the [**Licensor/Licensee**] arising from any breach of any contractual, tortious, statutory, equitable or other obligation to the [**Licensee/Licensor**] shall be limited, notwithstanding the number of such events, to a total of [**insert amount**] calculated over the Term.

23.2. Philippines

Refer to section 19.2.

24. INDEMNITY/INSURANCE

24.1. Non-jurisdiction Specific Commentary

Indemnity

An indemnity is a promise by one party to be responsible for liability incurred by another party arising from certain identified acts – e.g., a breach of contract. An action for breach of contract will allow the innocent party to recover damages, but those damages may not cover the totality of the liability suffered by the party as a result of that breach. This is because contractual damages only seek to place an innocent party in the position he or she would have been in had the breach not occurred. Contractual damages do not necessarily cover loss suffered by an innocent party from claims made by third parties which may arise as a consequence of a breach of contract – e.g., an innocent party may be entitled to recover the value of goods purchased where those goods do not comply with certain warranties, but the fact that those goods do not comply with those warranties may also cause that party to be in breach of obligations to others. It is the loss arising from those claims that the innocent party would also want to be protected from and recover by way of indemnity. Thus, appropriate indemnities, including indemnities arising from breach of contract are always prudent to include in a licence, both from a licensor's and licensee's perspective.

Indemnities are always a matter for negotiation and are one element of the risk allocation process between licensor and licensee. That risk allocation process should be viewed as a commercial decision rather than as a legal decision and needs to be seen in the context of the deal as a whole. In that regard, care must be taken to carefully assess whether identical mutual indemnity obligations are appropriate and the extent to which limits on liability that are expressed elsewhere in the agreement, are intended to apply to indemnities.

The following clauses contain some examples of the sorts of events that could be covered by an indemnity, as well as the sorts of exceptions that might apply. In relation to the exceptions that apply to the indemnity, they could range broadly to cover any act or omission of the indemnified party contributing to the claim or more narrowly to cover only those acts or omissions which are breaches of the licence. Clear and unambiguous drafting is imperative in this risk allocation exercise.

It is usual for the party giving the indemnity to want to be able to control the process of handling third party claims that fall within an indemnity. However, the party who is primarily liable to the third party is also vitally interested in that process and ultimately how that claim is defended. The following clauses give an indication as to how those conflicting interests may be balanced.

It also is crucial that any indemnity regime does not unwittingly overlap and possibly contradict how patent infringement claims against, and by, third parties are to be handled under the licence agreement.

Insurance

There is little point in being indemnified by a party with insufficient assets to meet relevant claims. If an indemnified party is concerned about an indemnifying party's ability to meet any indemnity from its own assets, then that party should oblige the indemnifying party to effect and maintain insurance to support the relevant indemnity – see sample clause below. From a licensor's perspective, amongst the other risks that a licensee would normally be required to insure against are those that relate to the licensed products, and perhaps those risks that relate to the Licensee's business generally. In the case of the latter, the rationale being that in the event that those risks are not adequately insured and a claim or claims are made against a licensee, then the entirety of the licensee's business could be placed in jeopardy. As a consequence, this could adversely impact on the licensee's ability generally to perform its obligations in favour of the licensor. The following clause does not require insurance in respect of that wider risk.

If the indemnifying party forms part of a larger company group, then instead of or in addition to requiring such insurance support, the indemnified party could require that the indemnifying party's parent company guarantee its obligations, including the obligation to indemnify.

Some insurance policies contain significant exceptions that might mean that they offer little practical support to a licensee. If a licensee has few assets, and only a weak policy of that kind, the licensor may not receive the full benefit of a licensee's insurance obligations. For that reason, a licensor could consider requiring its licensee to provide a copy of the policy, and that the policy be acceptable or reasonably acceptable to the licensor.

Some companies self-insure against risk. While this may be acceptable if the company has significant assets, it will not be if the company has few assets of worth. The right to self insure should be properly supported by appropriate evidence at the commencement of a licence and should be subject to periodic review.

Non-jurisdiction specific clause: Indemnity Insurance

24.1.1. The Licensee indemnifies the Licensor in respect of any claim, action, damage, loss, liability, cost, charge, expense, outgoing or payment which the Licensor pays, suffers, incurs or is liable for (including reasonable legal, patent attorney and other professional fees and disbursements), arising out of:

(a) a breach by the Licensee of any provision of this agreement;
(b) any third party claims relating to the Licensed Products being defective; and
(c) any act or omission of the Licensee, the negligence of the Licensee or any breach of any law by the Licensee, except to the extent that such matter results or arises from breach by the Licensor of any provision of this agreement.

24.1.2. The Licensor indemnifies the Licensee, in respect of any claim, action, damage, loss, liability, cost, charge, expense, outgoing or payment which the Licensee pays, suffers, incurs or is liable for (including reasonable legal, patent attorney and other professional fees and disbursements) arising out of:

(a) a breach by the Licensor of any of the provisions of this agreement; and
(b) any act or omission of the Licensor or the negligence of the Licensor or any breach of any law by the Licensor, except to the extent that such

matter results or arises from breach by the Licensee of any provision of this agreement.

24.1.3. A party seeking indemnification under this agreement (**'the Indemnified Party'**) must give prompt written notice of details of the claim, to the other party (**'the Indemnifying Party'**). The Indemnified Party must not admit liability in relation to any such claim without the prior written approval of the Indemnifying Party. The Indemnified Party must permit the Indemnifying Party to control any litigation relating to such claim and the settlement of any such claim.

24.1.4. The Indemnifying Party must act reasonably and in good faith with respect to such litigation and settlement. The Indemnifying Party must not settle or otherwise resolve any claim:

(a) without prior written notice to and consultation with the Indemnified Party; and
(b) in a manner that adversely affects the interests of the Indemnified Party.

24.1.5. The Parties must cooperate with one another in dealing with any claim for which indemnification is sought under this agreement.

24.1.6. Each obligation of a party to indemnify is a continuing obligation, separate and independent to other obligations under this agreement and survives the termination of this agreement.

24.1.7. The Licensee must effect and maintain insurance with a reputable solvent insurer to cover the following risks:

(a) the Licensee's obligation to indemnify the Licensor in accordance with this agreement in an amount of not less than [**insert amount**] per claim; and
(b) any claims made by third parties in relation to the Licensed Products, including the Licensed Products being or allegedly being defective or not complying with relevant warranties, in an amount of not less than [**insert amount**] per claim, on terms and conditions reasonably satisfactory to the Licensor.

24.1.8. The Licensee must ensure that the Licensor's interests are noted on any insurance required to be effected under clause 24.1.7.

24.1.9. The Licensee must provide the Licensor with a certificate of insurance evidencing the required coverage, or if the Licensor requires, a copy of the policy, and must provide such evidence as the Licensor may reasonably require that the policy remains in force during the Term.

24.2. Philippines

No additional commentary.

25. DISPUTE RESOLUTION

25.1. Non-jurisdiction Specific Commentary

There are many different forms of alternative dispute resolution that parties can agree to go through, before turning to the ultimate remedy of litigation. These include mediation, arbitration and expert determination.

The following dispute resolution clause makes allowance for either party to seek urgent interlocutory or interim legal relief as an exception, as seeking such relief would otherwise be viewed as being in breach of contract, if the dispute resolution process that was provided for was not adhered to.

Non-jurisdiction specific clause: Dispute Resolution
25.1.1. The parties shall use reasonable endeavours and negotiate in good faith to resolve any dispute arising in respect of this agreement. 25.1.2. If a party considers that a dispute has arisen in respect of this agreement, the party shall give written notice to the other specifying the nature of the dispute. 25.1.3. Except where a party seeks urgent interlocutory relief, a party may only commence any court proceedings to resolve any dispute which has arisen in respect of this agreement if the parties have not resolved the dispute within [**insert number of days**] days after notice is given in accordance with clause 25.1.2. 25.1.4. If the parties have not resolved the dispute within [**insert number of days**] days after written notice is given in accordance with clause 25.1.2, the parties must refer the dispute to the Chief Executive Officers of each party. If within [**insert number of days**] days of the matter being referred to the Chief Executive Officers of each party, the dispute has not been resolved or the parties have not agreed to: (a) the dispute resolution technique or procedures to be adopted to resolve the dispute; (b) the timetable for all steps in those procedures; and (c) the selection and compensation of any independent person required for such dispute resolution technique or procedure, then either party may commence court proceedings to resolve the dispute.

25.2. Philippines

The following is a mandatory provision in voluntary licence contracts:

> In the event the technology transfer arrangement shall provide for arbitration, the Procedure of Arbitration of the Arbitration Law of the Philippines or the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) or the Rules of Conciliation and Arbitration of the International Chamber of Commerce (ICC) shall apply and the venue of arbitration shall be the Philippines or any neutral country.[79]

26. TERMINATION

26.1. Non-jurisdiction Specific Commentary

It is sometimes difficult for licensors and licensees to properly confront the events entitling the parties to terminate the arrangement. This usually arises because of the unfortunate analogy to the saying that you do not commence a marriage by talking about how you arrange the divorce. Whilst a licence transaction may have certain conceptual similarities to a marriage, it has one significant and obvious difference and that is, it is a business relationship. Proper consideration of a business relationship requires identifying the events that should entitle the parties to bring about an end to the relationship. The questions that therefore need to be addressed so far as the entitlement to terminate is concerned include the following:

(a) To what extent should the parties be entitled to terminate the relationship unilaterally without fault on the other party's side and what period of notice should be required?
(b) To what extent should the parties be entitled to terminate the relationship based on the default of the other party? What should be the defaults? Should they be material defaults? Whether the defaults should be capable of rectification before the termination right is exercised? What period of rectification should be allowed and what period of notice should be required before termination becomes effective, if rectification is not achieved?
(c) To what extent should the parties be entitled to terminate the relationship based on the occurrence or non-occurrence of certain specific events, irrespective of defaults, and what period of notice should be required?
(d) To what extent do rights to terminate, extraneous to the patent licence – e.g., arising by reason of statute or common law – impact upon the parties entitlement to terminate?

79. Section 88.3, Philippine Intellectual Property Code.

Non-jurisdiction specific clause: Termination

26.1.1. [**Either party/The Licensor**] may terminate this agreement without cause by giving [**insert period**] written notice to [**the other party/the Licensee**]

26.1.2. [**Either party/The Licensor**] may terminate this agreement by notice in writing to [**the other/the Licensee**] if:

(a) the [**first party/Licensor**] gives the [**defaulting party/Licensee**] notice that it has [**materially**] breached the agreement, and the breach is not rectified within 30 days after such notification, or is not capable of being rectified within 30 days after notification; or
(b) any representation or warranty given by [**the other party/the Licensee**] is or becomes false by reference to the time period that it covers; or
(c) an Event of Default occurs in respect of [the other party/the Licensee].

26.1.3. [**Either party/The Licensor**] may terminate this agreement by notice to [**the other/the Licensee**] if any of the following occur:

(a) the [**other party/Licensee**] is presumed to be insolvent under the relevant legislation [**insert the relevant act**], or, if an individual, bankrupt;
(b) an order is made, or a resolution is passed, to wind up or dissolve the [**other party/Licensee**];
(c) a receiver, administrator or similar officer is appointed for the [**other party/Licensee**] or over the assets or undertaking of the [**other party/Licensee**]; or
(d) the [**other party/Licensee**] enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of, its creditors or any class of them.

26.1.4. The Licensor may terminate this agreement by notice in writing to the Licensee if the Licensee challenges, questions or in any way impairs, or assists a person to challenge, question or in any way impair:

(a) any interest which the Licensor has in a patent or patent application comprised in the Patent Rights or the Improvements;
(b) the validity of any patent or patent application comprised in the Patent Rights or the Improvements; or
(c) the success of any patent application comprised in the Patent Rights or the Improvements.

26.2. Philippines

No additional commentary.

27. CONSEQUENCES OF TERMINATION

27.1. Non-jurisdiction Specific Commentary

Just as the events entitling termination need to be carefully considered, so too do the consequences of termination. Amongst the issues to consider are the following:

(a) Is it intended that termination prevent the exercise of accrued rights arising prior to termination? In most instances, accrued rights are expressed to be preserved.

(b) Is it intended that termination bring an end to all rights and obligations under the agreement or is it intended that certain of those rights and obligations continue? The answer to this question will require careful consideration in the context of the 'survival clause'.

(c) Does termination trigger any right of compensation in favour of the terminated party either because of what is provided in the agreement or separately as a matter of general law? The governing law of the contract needs to be carefully checked in order to answer the latter question.

(d) What property or other subject matter is to be returned or provided to the other party or destroyed as a consequence of termination? Confidential documentation and specifically supplied material usually fall into this category.

(e) What if any transition provisions should apply in order to ensure an orderly termination. For example, a licensee will often want the right to sell out its stocks of licensed products for a phase out period. This can be limited to supply arising from existing contracts, provided that the contracts continue only for a manageable length of time. However, such an entitlement would be far less appropriate if termination of the agreement was caused by default on the licensee's part or termination was necessary because exercise of the licensed rights infringed third party rights.

(f) What is to happen to any sublicences granted by a licensee? Do they continue through a surviving right of the licensee? Do they continue only if the licensor elects to novate the sublicences – i.e., enter into the same licences with the sub-licensees? Do they terminate automatically? Do they terminate at the election of the licensor?

(g) What is to happen to any licences to improvements either by the licensor to the licensee or vice versa? Similar issues to those that arise in the context of sublicences will need to be considered.

Many of the consequences of termination also need to be considered in the context of expiration of the agreement.

Non-jurisdiction specific clause: Consequences of Termination

27.1.1. Except as provided in this clause 27.1, on termination or expiry of this agreement, all licences granted to the Licensee under this agreement terminate immediately.

27.1.2. The Licensee must on the date of termination or expiry of this agreement, as the case may be, pay to the Licensor all money due and payable to the Licensor on or before such date of termination or expiry that remains outstanding on such date.

27.1.3. No later than [**insert number of days**] days after the termination or expiry of this agreement, the Licensee shall, if required by the Licensor, deliver up or destroy under the Licensor's supervision, all material containing Confidential Information.

27.1.4. Unless this agreement is terminated by the Licensor under clause [**insert details of Licensee default clause or clauses**], the Licensee may sell Licensed Products in its possession at the expiry or earlier termination of this agreement for a period of no more than [**insert time period**] after the expiry or termination date. [**Alternatively: The Licensee and its Sub-licensees may complete the supply of any Licensed Products arising under a contract entered into prior to the expiry or termination of this agreement.**] The Licensee must continue to pay the Royalty arising from those sales or supply as if the Term were extended by that period.

27.2. Philippines

It is possible to impose a non-disclosure obligation on the licensee considering that there is no legislative prohibition on the matter.

It is, however, prohibited to require payments for patents and other industrial property rights after the termination of the agreement.[80]

28. FORCE MAJEURE

28.1. Non-jurisdiction Specific Commentary

Assuming that the term 'Force Majeure' has been clearly defined, not less than the following issues need to be considered in the context of the operative clause dealing with 'Force Majeure':

(a) Should the benefit of Force Majeure provisions be given in identical terms to one or all the parties to an agreement?

80. Section 87.10, Philippine Intellectual Property Code.

(b) What should be the process for initiating reliance on a Force Majeure? Usually the party seeking to rely on the occurrence of a Force Majeure is obliged to give written notice of the Force Majeure event within a certain period of time following the occurrence of that event. The affected party is also usually obliged to give notice of the obligations that are affected by the Force Majeure event.

(c) Should the consequence of giving a notice of Force Majeure suspend obligations for a fixed period of time and upon that fixed period expiring, entitle one or both of the parties to terminate the agreement or should an indefinite period of suspension arise?

(d) Should a Force Majeure event affect a party's obligation to pay money?

(e) What should be the consequences of a termination right arising consequent upon a Force Majeure event?

(f) What obligation or standard of conduct, if any, should be required of a party relying on a Force Majeure to mitigate the effect of that Force Majeure?

Non-jurisdiction specific clause: Force Majeure
28.1.1. A party seeking to rely on the occurrence of a Force Majeure must give written notice to the other party of details of the Force Majeure and the obligations of that party that are affected by the Force Majeure, promptly following occurrence of the Force Majeure. 28.1.2. Other than the obligation to pay money arising under this agreement, the occurrence of the Force Majeure shall entitle the party affected by the Force Majeure to suspend performance of those obligations affected by the Force Majeure for a period of [**insert period**] immediately following the occurrence of the Force Majeure. 28.1.3. If the Force Majeure continues for a period in excess of the period referred to in clause 28.1.2, then [**either party/the non-affected party**] may by notice in writing to the [**other party/affected party**] terminate this agreement, whereupon the consequences referred to in clause [**insert details of relevant consequences of termination clause**] shall apply. 28.1.4. Each party must use their respective reasonable endeavours to mitigate the effects of the Force Majeure on them individually.

28.2. Philippines

Under Article 1174 of the Civil Code of the Philippines,[81] the general rule is that no person shall be responsible for those events which could not be foreseen, or which, though foreseen, were inevitable. The exception is when it is otherwise expressly provided by law or otherwise stipulated by the parties, or when the nature of the obligation requires the assumption of risk. In other words, the parties may negotiate on what they consider to be force majeure or an act of God.

Nevertheless, the occurrence of a fortuitous event or an act of God will not of itself relieve a party from liability where fraud, negligence, delay or breach of contract has occurred.[82] Thus, to exempt a party from liability under Article 1174 of the Civil Code, for a breach of an obligation due to an 'act of God', the following must concur: (a) the cause of the breach of the obligation must be independent of the will of the obligor; (b) the event must be either unforeseeable or unavoidable; (c) the event must be such as to render it impossible for the obligor to fulfill his obligation in a normal manner; and (d) the obligor must be free from any participation in, or aggravation of the injury to the obligee.[83] Thus, even if the immediate cause of the damage was an act of God, a party cannot escape liability if his negligence contributed to the loss or damage to another person.

29. SURVIVAL

29.1. Non-jurisdiction Specific Commentary

The general rule is that on termination, parties are discharged from performance under the contract. In common law jurisdictions, this proposition is subject to rights preserved at common law. The usual principles of construction govern whether clauses stated to survive termination in fact survive and are enforceable. It is always preferable to expressly provide which provisions of an agreement survive its termination or expiration.

81. Article 1174, Philippine Civil Code. Except in cases expressly specified by the law, or when it is otherwise declared by stipulation, or when the nature of the obligation requires the assumption of risk, no person shall be responsible for those events which could not be foreseen, or which, though foreseen, were inevitable.
82. See *Juan F. Nakpil & Sons v. Court of Appeals*, G.R. No. L-47851, 3 Oct. 1986.
83. *Vasquez v. Court of Appeals*, G.R. No. L-42926, 13 Sep. 1985; *Estrada v. Consolacion*, G.R. No. L-40948, 29 Jun. 1976; *Austria v. Court of Appeals*, G.R. No. L-29640, 10 Jun. 1971; *Republic of the Phil. v. Luzon Stevedoring Corp.*, G.R. No. L-21749, 26 Sep. 1967; and *Lasam v. Smith*, G.R. No. 19495, 2 Feb. 1924.

Non-jurisdiction specific clause: Survival
29.1.1. Clauses [**insert clauses**] survive expiration or earlier termination of this agreement. 29.1.2. The representations and warranties contained in this agreement survive the expiration or earlier termination of this agreement. 29.1.3. The obligation upon the Licensee to maintain the secrecy of the terms of this agreement survives the expiration or earlier termination of this agreement. This obligation is not limited to the Territory. 29.1.4. Each indemnity arising in respect of this agreement survives the performance of obligations arising out of or under this agreement and the expiry or termination of this agreement. 29.1.5. Termination or expiry of this agreement shall be without prejudice to the rights and remedies of the parties arising before the date of termination or expiry.

29.2. Philippines

No additional commentary.

30. GOVERNING LAW AND JURISDICTION

30.1. Non-jurisdiction Specific Commentary

If both parties are located in the same jurisdiction, then this clause is not likely to be contentious. If not, then a negotiation will occur as to both governing law and the court to interpret that law. It is important in the context of that negotiation to understand the following principles:

(a) Governing law and jurisdiction clauses only seek to govern disputes that arise from the contractual relationship between the parties and not matters extraneous to the contract. Any non-contractual matters will be governed by the law of the jurisdiction in which those issues arise.

(b) The more remote the connection between the chosen governing law and the courts to apply that governing law on the one hand, and the parties to the transaction and the transaction itself on the other hand, the less likely that such choices will be enforceable.

If the parties cannot agree on which law and courts are to be used to resolve disputes between them, compromises that are sometimes suggested include:

– if a party wants to bring an action against the other, the law of the party bringing the action will be applied, but the action will be dealt with in the courts of the defending party; or
– the law of the defending party be applied in the courts of the party bringing the action; or
– if a party wants to bring an action against the other, both the law and the courts of the defending party are to be applied.

The rationale behind these suggested compromises is that they seek to put the initiating party at some disadvantage in bringing the action and as such making that party think twice about commencing the action in the first place. If, however, dissuading litigation is the aim of such provision, then the use of appropriate alternate dispute resolution provisions as a condition precedent to litigation would seem more appropriate. Otherwise the use of such compromise provisions could encourage cynical conduct on the part of one party, knowing the difficulties that the other will encounter in enforcing their rights.

If, however, the aim in choosing a governing law and court to enforce that law is to ensure that neither party suffers an unfair disadvantage, then there is no substitute for a proper assessment being made of the alternates available in advance of negotiations on this issue occurring. Thus, when that time comes, a substantive alternate or alternates can be readily offered.

Non-jurisdiction specific clause: Governing Law and Jurisdiction
30.1.1. This agreement shall be governed by the laws of [**insert jurisdiction**] excluding the rules on the choice of law. 30.1.2. Each party irrevocably submits to the [**exclusive/non-exclusive**] jurisdiction of the courts of [**insert jurisdiction**].

30.2. Philippines

Under Section 88.1 of the Philippine Intellectual Property Code, it is mandatory for voluntary licence contracts to provide that the laws of the Philippines shall govern the interpretation of the same and in the event of litigation, the venue shall be the proper court in the place where the licensee has its principal office.[84] Non-compliance with the foregoing provision shall automatically render the licence agreement unenforceable in the Philippines. The Philippine Supreme

84. Section 88.1, Philippine Intellectual Property Code.

Court has not yet had the opportunity to interpret 'unenforceability' in this context. However, applying civil law, unenforceability means that neither party will be allowed to have any legal recourse against each other in case of breach of contract.

Generally, if the parties agree at the outset that any legal dispute will be brought to a court in a jurisdiction other than the Philippines, Section 88.1 need not be complied with even if one of the parties is a Filipino national. However, if the parties intend to seek recourse from Philippine courts, Section 88.1 must be complied with.

Assuming the parties litigate the case in another jurisdiction, and the winning party thereafter seeks to enforce the foreign judgment in the Philippines, the foreign judgment and its authenticity must be proven as facts under Philippine rules on evidence.[85] The effect of a judgment or final order of a tribunal of a foreign country having jurisdiction to render the judgment or final order is as follows:

(a) in case of a judgment or final order upon a specific thing, the judgment or final order is conclusive upon the title to the thing; and
(b) in case of a judgment or final order against a person, the judgment or final order is presumptive evidence of a right as between the parties and their successors in interest by a subsequent title.

In either case, the judgment or final order may be repelled by evidence of want of jurisdiction, want of notice to the party, collusion, fraud, or clear mistake of law or fact.[86]

Under Section 88.3 of the Philippine Intellectual Property Code, where the agreement provides for arbitration, the Procedure of Arbitration of the Arbitration Law of the Philippines or the Arbitration Rules of the United Commission on International Trade Law (UNCITRAL) or the Rules of Conciliation and Arbitration of the International Chamber of Commerce (ICC) shall apply and the venue of arbitration shall be the Philippines or any neutral country.

Generally, in case of domestic arbitration, the arbitral award has to be confirmed by the Philippine court having jurisdiction.[87] On the other hand, in case of a foreign arbitral award, the petition to recognize and enforce a foreign arbitral award shall be filed, at the option of the petitioner, with the Regional Trial Court: (a) where the assets to be attached or levied upon is located; (b) where the act to be enjoined is being performed; (c) in the principal place of business in the Philippines of any of the parties; (d) if any of the parties is an individual, where any of those individuals resides; or (e) in the National Capital Judicial Region.[88]

85. *Republic v. Orbecido III*, 472 SCRA 114 (2005).
86. Section 48, Rule 39, Rules of Court.
87. See Section 23 of Republic Act No. 876.
88. See Rule 13.3 of A.M. No. 07-11-08.

Foreign judgments and foreign arbitral awards are enforceable in the Philippines whether the governing law is the foreign law or Philippine law. However, there are grounds to challenge the foreign judgment[89] or petition to refuse the foreign arbitral award.[90]

For example, in the event that the licence agreement is not enforceable in the Philippines due to violation of any of the provisions of Sections 87 (prohibited clauses) and 88 (mandatory provisions) of the Philippine Intellectual Property Code, the losing party in the foreign litigation or foreign arbitration proceedings may assail the invalidity of the foreign judgment or foreign arbitral award based on the allegedly unenforceable licence agreement.

31. ASSIGNMENT

31.1. Non-jurisdiction Specific Commentary

The crucial issue in drafting assignment clauses is to clearly understand that there are at least three different types of subject matter that may be covered by such a provision and that each of those require different considerations. Firstly there are the rights that arise under an agreement; secondly there are the obligations that arise under an agreement and thirdly there are the rights that are the subject of the agreement – e.g., patent rights. The following clauses contain possible ways of dealing with each of the above.

89. Section 48, Rule 39 of the Rules of Court provides "xxx the judgment or final order may be repelled by evidence of a want of jurisdiction, want of notice to the party, collusion, fraud, or clear mistake of law or fact."

90. Rule 12.4 of A.M. No. 07–11–08 provides: Rule 12.4. *Grounds to set aside or resist enforcement* – The court may set aside or refuse the enforcement of the arbitral award only if:

a The party making the application furnishes proof that:
(i) A party to the arbitration agreement was under some incapacity, or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereof, under Philippine law; or
(ii) The party making the application to set aside or resist enforcement was not given proper notice of the appointment of an arbitrator or of the arbitral proceedings or was otherwise unable to present his case; or
(iii) The award deals with a dispute not contemplated by or not falling within the terms of the submission to arbitration, or contains decisions on matters beyond the scope of the submission to arbitration; provided that, if the decisions on matters submitted to arbitration can be separated from those not so submitted, only that part of the award which contains decisions on matters not submitted to arbitration may be set aside or only that part of the award which contains decisions on matters submitted to arbitration may be enforced; or
(iv) The composition of the arbitral tribunal or the arbitral procedure was not in accordance with the agreement of the parties, unless such agreement was in conflict with a provision of Philippine law from which the parties cannot derogate, or, failing such agreement, was not in accordance with Philippine law;

b The court finds that:
(i) The subject-matter of the dispute is not capable of settlement by arbitration under the law of the Philippines; or
(ii) The recognition or enforcement of the award would be contrary to public policy.

Assignments to related entities can be handled differently, for instance, not requiring prior licensor consent, but perhaps also not releasing the assignor or requiring guarantees from a parent company.

Non-jurisdiction specific clause: Assignment
31.1.1. The Licensee must not assign any of its rights or subcontract or otherwise deal with any of its obligations under this agreement without the prior written consent of the Licensor. The Licensor may give or withhold such consent in its absolute discretion. If the Licensor gives its consent, it may be given subject to such conditions as the Licensor may in its absolute discretion determine. 31.1.2. Subject to the Licensee's rights under this agreement, the Licensor may transfer its right, title and interest in the Patent Rights and Improvements to another party.

31.2. Philippines

Under Philippine Law, the rights and obligations arising from patents or patent applications and the inventions to which they relate may be assigned.

An assignment may be of the entire right, title or interest in and to the patent and the invention covered thereby, or of an undivided share of the entire patent and invention, in which event the parties become joint owners thereof. An assignment may be limited to a specified territory.[91]

The assignee is bound by the terms of the licence. To protect the licensee, the licence agreement may contain a provision requiring the licensor to require its assignees to respect the vested rights of the licensee under the license agreement.

For the assignment to be binding on third parties, including the licensee, the assignment of the patent must be in writing, acknowledged before a notary public or other officer authorized to administer oath or perform notarial acts, and the original document and a duplicate must be filed with the Philippine Intellectual Property Office.[92]

The foregoing requirement applies to third parties only and not to the assignee who is privy to the transaction. The assignment binds the assignee even if the assignment document is not compliant with the foregoing.

91. Section 104, Philippine Intellectual Property Code.
92. Sections 105 and 106, Philippine Intellectual Property Code.

32. NOTICES

32.1. Non-jurisdiction Specific Commentary

It is important for the sake of certainty that the process of giving notices under an agreement is clearly specified. That process needs to take not less than the following into account:

(a) When is a notice taken to have been given or received? This is particularly important in the case of parties in different time and date zones.
(b) Who is authorized to give or receive notices?
(c) What means of delivery of notices is acceptable and what evidence of giving or receipt is relevant to each form of delivery?
(d) In what language are notices required to be given?
(e) To what addresses should notices be sent in order to be effective?
(f) To what extent should any dates calculated by reference to giving or receiving notices take into account working days, business hours and public holidays?

Non-jurisdiction specific clause: Notices

32.1.1. Any notice required under this agreement/(**notice**) shall be in writing and delivered by hand or sent by registered mail[,/ **or**] facsimile [**or electronic mail**] as follows:

(a) if to [insert name of party 1]:
Address:
Facsimile:
[Electronic mail:]
Attention:
(b) if to [insert name of party 2]:
Address:
Facsimile:
[Electronic mail:]
Attention:
or as otherwise specified by a party by notice.

32.1.2. [Electronic mail may not be used to give notices under clause[s] [**insert clause references**].]

32.1.3. A notice must be legible, [**in English**] and signed or, in the case of a facsimile, appear to have been signed by [**the sender (if a natural person) or**] an officer or under the common seal of the sender (if a corporation) [**or by an authorized representative of the sender**][**or, in the case of electronic mail, be accompanied by an electronic/a plain text signature**].

32.1.4. A notice is regarded as received:

(a) if delivered by hand, when delivered to the addressee;
(b) if sent by registered mail, on the date provided for on the return receipt; [**or**]
(c) if sent by facsimile, when the transmission is successfully completed; [**or**]
(d) if sent by electronic mail, when delivered to the relevant address.

32.1.5. A facsimile transmission is regarded as legible and successfully completed unless the addressee informs the sender that the notice is illegible[,/ **or**] incomplete within 4 hours of it being transmitted.

32.1.6. [**Electronic mail is regarded as delivered unless the sender receives a report of delivery failure or the addressee informs the sender that the notice is illegible/or incomplete [or corrupted] within 4 hours of it being transmitted.**]

32.2. Philippines

No additional commentary.

33. ENTIRE AGREEMENT

33.1. Non-jurisdiction Specific Commentary

The purpose of an entire agreement clause is to exclude matters that are not contained within the 'four walls' of the patent licence from forming part of the contract between the parties – e.g., implied terms and representations made during the course of negotiations. An entire agreement Clause however will not be successful in excluding those implied terms which cannot be excluded as a matter of law. Likewise whilst representations made in the course of negotiations may not form part of a contract between the parties, any misrepresentations made in the course of those negotiations may give rise to separate rights of action.

Non-jurisdiction specific clause: Entire Agreement

33.1.1. This agreement [**and the documents listed in Schedule [**]] contains the whole of the agreement between the parties concerning its subject matter.

33.2. Philippines

The rules concerning the interpretation of contracts allow for the consideration of extrinsic evidence. Please also refer to section 4.23.2.

34. RELATIONSHIP OF PARTIES

34.1. Non-jurisdiction Specific Commentary

If the parties to a patent licence are particularly concerned about a certain type of legal relationship not arising because of their entering into that licence, then it is not unusual to expressly exclude what sort of relationships are not to be created by the agreement. Whilst such exclusions usually will not override the substance of the relationship, they can be useful in establishing a prima facie position that requires the challenging party to rebut. That challenging party may frequently be a third party, such as a taxing authority in a particular jurisdiction.

Non-jurisdiction specific clause: Relationship of Parties
34.1.1. Each party enters this agreement as an independent contractor. 34.1.2. This agreement does not create any other relationship, such as a partnership, agency, trust or joint venture relationship.

34.2. Philippines

No additional commentary.

35. WAIVER

35.1. Non-jurisdiction Specific Commentary

It is common to provide what actions should or should not be viewed as a waiver of rights. It should be remembered however that there may be other conduct that is not captured in the concept of waiver which may still affect the rights of the parties. A typical waiver clause appears below.

Non-jurisdiction specific clause: Waiver
35.1.1. A waiver of any right arising from a breach of this agreement must be in writing and signed by the party granting the waiver. 35.1.2. A failure or delay in exercise or partial exercise of a right arising from a breach of this agreement does not result in a waiver of that right.

35.2. Philippines

No additional commentary.

36. VARIATIONS

36.1. Non-jurisdiction Specific Commentary

As with any other contract, the process for effecting variations needs to be clearly stated and must comply with the law of the relevant governing law of the contract. A simple provision appears below.

Non-jurisdiction specific clause: Variations
36.1.1. A variation of any term of this agreement must be in writing and signed by the parties.

36.2. Philippines

Variation clauses are necessary to inform the parties of the manner of modification or variation of the licence contract that are deemed effective and binding on the parties. Nevertheless, in case of litigation, the parties may present other evidence, whether written or oral, showing that the parties mutually agreed on a modification in the licence agreement.

37. SEVERABILITY

37.1. Non-jurisdiction Specific Commentary

The principle behind severability clauses is to allow for a contract to be interpreted in a manner that severs void, illegal or unenforceable provisions without undermining the integrity of the contract as a whole. If a severability provision is not included, then the whole contract may fail because of any void, illegal or unenforceable provisions contained within it.

In patent licences that have a multi-jurisdictional aspect to them, the right to sever is particularly important as provisions in that patent licence may be void, illegal or unenforceable in one jurisdiction but not in others. Allowing for severability will therefore potentially preserve the contract in the affected jurisdiction and will preserve the contract in the non-affected jurisdictions.

The key element of severability is maintaining integrity of the contract as a whole notwithstanding severability of the void, illegal or unenforceable provisions. Thus, if a problematic clause contains the main or the significant purpose of a contract, preservation of that integrity may not be possible and as such the contract may still fail. In addition, if a relevant clause is illegal, a court may as a matter of public policy refuse to enforce the rest of the contract even if the illegal clause is severed.

Non-jurisdiction specific clause: Severability
37.1.1. Any provision of, or the application of any provision of, this agreement or any power which is prohibited in any jurisdiction is, in that jurisdiction, ineffective only to the extent of that prohibition. 37.1.2. Any provision of, or the application of any provision of, this agreement which is void, illegal or unenforceable in any jurisdiction does not affect the validity, legality or enforceability of that provision in any other jurisdiction or of the remaining provisions in that or any other jurisdiction. 37.1.3. If any clause is void, illegal or unenforceable, it may be severed without affecting the enforceability of the other provisions in this agreement.

37.2. Philippines

Notwithstanding the inclusion of a severability clause,[93] the presence of any of the prohibited clauses enumerated in Section 87 of the Philippine Intellectual Property Code, or the absence of any of the mandatory provisions of enumerated in Section 88 of the Philippine Intellectual Property Code, shall render the entire licence agreement unenforceable.

93. Section 89, Philippine Intellectual Property Code.

38. FURTHER ASSURANCES

38.1. Non-jurisdiction Specific Commentary

As with any contract, it is important for there to be a provision that obliges the parties to do all administrative things necessary to give effect to the agreement. The following clause also identifies two particular circumstances where having that obligation is important – i.e., to effect registration and deregistration of a licence:

Non-jurisdiction specific clause: Further Assurances
38.1.1. Each party must do all things and execute all further documents necessary to give full effect to this agreement. In particular, (a) the Licensor must execute such documents and do all other things the Licensee may require to register the Licensee as a licensee of any patents and patent applications included in the Patent Rights in any relevant register; and (b) the Licensee must on termination or expiration of this agreement execute such documents and do all other things the Licensor may require to cancel registration of the Licensee as a licensee of any patents and patent applications included in the Patent Rights in any relevant register.

38.2. Philippines

'Further assurance' clauses are usually included to emphasize the obligation of the parties to perform such acts as may be necessary to give effect to the provisions of the licence agreement. Thus, licence agreements usually include statements providing that each party must do all things and execute all further documents necessary to give full effect to the licence agreement.

39. COUNTERPARTS

39.1. Non-jurisdiction Specific Commentary

Counterparts are simply copies of an agreement. Rather than all parties signing the same copy, this provision allows the parties to sign separate copies of the same agreement and for those separate copies to be viewed as one document.

A counterparts provision is particularly important where all the parties to an agreement are not signing the agreement at the same time, at the same location.

Non-jurisdiction specific clause: Counterparts
39.1.1. This agreement may be executed in [**insert number**] counterparts. All counterparts taken together constitute one document. A party may execute this agreement by signing any counterpart.

39.2. Philippines

No additional commentary.