

Laws Affecting IP Licensing—Philippines

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In common with the other material in this publication, this chapter provides information of a general nature for purposes of discussion and does not provide legal advice.

1. Is there a requirement to register licenses in your jurisdiction and, if so, what are the sanctions for failure to do so and how could either of the parties be adversely affected if licenses are either not registered or are unregistrable?

Technology Transfer Agreement (TTA)

The requirement to register will depend on whether the license agreement falls under the definition of a TTA, in which case it is required to comply with the provisions on voluntary licensing of *Republic Act No. 8293* (the Intellectual Property Code of the Philippines) [“IP Code”].

Section 4.2 of the IP Code defines TTAs as contracts or agreements involving the transfer of systematic knowledge for the manufacture of a product, the application of a process, or the rendering of a service including management contracts; and the transfer, assignment, or licensing of all forms of intellectual property rights, including licensing of computer software except computer software developed for the mass market. *The Revised Rules & Regulations on Voluntary Licensing* further qualify that a transfer, assignment, or licensing of intellectual property rights will be considered as a TTA only if it involves the transfer of systematic knowledge.

The term *systematic knowledge* is not specifically defined under local regulation or jurisprudence. Thus, it remains subject to interpretation. Nevertheless, what remains clear is that the mere licensing of intellectual property rights will not suffice to bring the subject contract within the definition of a TTA if no transfer of systematic knowledge is involved. According to the World Intellectual Property Organization, there is an actual transfer of systematic knowledge when the licensee learns how to effectively use, adapt, and where possible, improve the technology and knowledge. Therefore, it may be argued that a pure patent license with no improvements and no ancillary know-how would not fall under the definition of a TTA. Even the obligation to provide improvements as they arise may not serve to bring the agreement within the definition of a TTA if the licensee does not learn how to use, adapt, and improve the patented technology.

TTAs are Generally Not Required to be Registered

As a general rule, a TTA that complies with the provisions of the IP Code on voluntary licensing, *i.e.*, which does not contain any of the prohibited clauses under Section 87, and which complies with the mandatory clauses under Section 88 of the IP Code (see Prohibited

Clauses and Mandatory Clauses below), need not be registered with the Documentation, Information and Technology Transfer Bureau (DITTB) of the Philippine Intellectual Property Office (IPO). However, non-compliance with any of the provisions of Sections 87 and 88 shall automatically render the TTA unenforceable, unless an application for exemption based on an exceptional and meritorious case has been filed with the DITTB and subsequently granted, and the TTA is approved and registered with the DITTB.

Unenforceability, in this context, has been interpreted to mean that neither party will be allowed to have any legal recourse against the other in court in case of breach of contract. The Philippine Civil Code states that contracts deemed “unenforceable” are considered valid and binding between the parties who entered into them. However, in case there is a breach of such a contract, neither party can go to court to enforce the contract’s terms. Further, the Philippine Civil Code provides that an unenforceable contract is valid between the contracting parties but may not be invoked against third persons.

Publication of TTAs

The IPO regularly publishes in the *IPO Gazette* all matters required to be published under the IP Code, such as a registered TTA. Rule 6.7 of the *Revised Rules & Regulations on Voluntary Licensing* requires the DITTB to publish in the *IPO Gazette* the names of the parties, the title and subject of the agreement, the specific exemption/s granted, if any, and the date of cancellation, if such was the case, of all TTAs that

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are granted an exemption, registered, or cancelled. The TTA itself is not required to be published.

Prohibited Clauses

Section 87 of the IP Code prohibits clauses that have an adverse effect on competition and trade, such as those which involve tie-in purchases, price fixing, restrictions on production volume and structure, prohibitions on the use of competitive technology in non-exclusive agreements, full or partial purchase options¹ in favor of the licensor, free grant back, payment for unused patents, restrictions on the use of the technology after the term, payment for expired patents, research and development restrictions, adaptation or innovation restrictions, hold harmless clauses, and other clauses with equivalent effects as those aforementioned.

Mandatory Clauses

On the other hand, Section 88 of the IP Code requires that the TTAs must stipulate that: (1) Philippine law is the governing law and, in the event of litigation, the venue shall be the court where the licensee has its principal office; (2) there is continued access to improvements during the agreement; (3) the Arbitration Law of the Philippines, Arbitration Rules of the United Nations Commission on International Trade Law, or the 2021 Arbitration Rules of the International Chamber of Commerce shall apply and the venue for arbitration shall be the Philippines or any neutral country; and (4) the tax liability, such as value-added tax (VAT) and final tax on royalties, shall be borne by the licensor.

Exemption Based on Exceptional and Meritorious Cases

Under Section 91 of the IP Code, an exemption from the application of Sections 87 and 88 of the IP Code may be allowed only in exceptional and meritorious cases where substantial benefits will accrue to the economy, such as high technology content, increase in foreign exchange earnings, employment generation, regional dispersal of industries, substitution with or use of local raw materials, or pioneer status registration with the Board of Investments. To avail of the exemption, an application must be filed with the DITTB and the TTA and registered therewith.

1. In general, a full or partial purchase option is a contract granting an individual or an entity the privilege to purchase specific property within an agreed period and at a determined price. In determining whether a provision in a TTA establishes a full or partial purchase option prohibited under Section 87.6 of the IP Code, the DITTB will take into consideration if there is an option for the licensor to purchase the licensee's business. An option to purchase the remaining amount of stocks or inventory after the term of a TTA may be allowed. However, an option to purchase all or substantially all of the licensee's assets or equity is a prohibited clause.

Registration Process

For purposes of registering the license agreement with the DITTB, the applicant must file a request for a Certificate of Compliance or Certificate of Registration/Exemption, as applicable, with the DITTB. Should the DITTB determine that the provision(s) of the license agreement violate(s) the IP Code, the applicant must respond by way of arguments to overcome the objection(s) or revise the license agreement as warranted. Upon the applicant's satisfactory response to the findings of the DITTB, the DITTB shall issue the appropriate certificate. The DITTB shall then publish the names of the parties, the title and subject of the agreement, and the specific exemption(s) granted, if any, in the *IPO Gazette*. The agreement itself will not be published.

Trademark License Agreements

Apart from the registration with the DITTB, trademark license agreements should be submitted to, and recorded with, the Bureau of Trademarks (BOT) of the IPO. A trademark license agreement has no effect against third parties until such recordal is effected.

As a requisite to the recordal with the BOT, Rule 1107 of *Memorandum Circular No. 2023-001* provides that no trademark license agreement shall be recorded with the BOT if it does not provide for effective control by the licensor of the quality of the goods in connection with which the mark is used. Further, before recordal, an application for a Certificate of Clearance must be filed with the DITTB to certify that the mark has been cleared for recordal. Once the application is granted, the IPO shall keep the contents confidential but shall record the existence of the license agreement and publish a reference thereto.

2. Is it possible to register licenses voluntarily?

TTA

As discussed in Question 1, registration with the DITTB is mandatory for license agreements that are TTAs and do not conform to the requirements in Sections 87 and 88 of the IP Code. Nevertheless, TTAs that conform to the requirements in Sections 87 and 88 may be registered voluntarily. *The Revised Rules & Regulations on Voluntary Licensing* allow any party to a TTA to file a request for a Certificate of Compliance with the DITTB to certify that the TTA does not violate any of the prohibited clauses in Section 87 and conforms to all the mandatory provisions in Section 88 of the IP Code. Once issued, the Certificate of Compliance shall be entered in the Certificate Registry Book, and the names of the parties, title and subject of the TTA, and the specific exemption(s) granted, if any, shall be published in the *IPO Gazette*.

Since registration for TTAs that conform to the requirements in Sections 87 and 88 of the IP Code is not necessary, such registration does not affect the validity

or enforceability of the license agreement. At most, it is a means to confirm the enforceability of the license agreement since it bears the imprimatur of the DITTB.

Patents/Utility Models/Industrial Designs

License agreements involving patents, utility models, and industrial designs may be registered with the IPO as long as they are presented in due form. Such licenses are void against any subsequent purchaser or a mortgagor for valuable consideration and without notice unless such licenses are recorded with the Bureau of Patents within three months from the date thereof or before the subsequent purchase or mortgage.

Copyright

An exclusive license over the reproduction, dramatization, first public distribution, rental, public display, public performance, and other communication to the public of a literary or artistic creation may be filed with the National Library upon payment of the prescribed fee.

The registration of the license serves as constructive notice of the fact of registration. From the time of said registration, all persons are deemed to have knowledge of the license and its registration.

Trademarks

As stated in Question 1, a trademark license agreement should be recorded with the BOT. Otherwise, it has no effect against third parties until the recordal is affected.

3. Are there any laws that relate to the basic grant (i.e., which limit the prohibited acts such as manufacture and sale) or which affect the grant of licenses within fields of use?

Under the IP Code, there is no limitation on the number of licenses that may be granted for any of the intellectual property rights. Thus, unless otherwise stipulated by the parties, the grant of a license on a non-exclusive basis shall not prevent the licensor from granting further licenses to third persons as may be deemed necessary.

Similarly, there are no limitations on licensing solely, exclusively, by field of use or by territory, provided that the clauses in the license agreement do not have an adverse effect on trade and competition. Under the IP Code, Section 87 enumerates the prohibited clauses which are deemed *prima facie* to have an adverse effect on trade and competition [see Question 1]. Notably, the list in Section 87 is not exclusive since it likewise prohibits all other clauses with equivalent effects, *e.g.*, other anti-competitive clauses or stipulations in restraint of trade. For instance, unreasonable post-termination non-compete covenants are *prima facie* considered to have an adverse effect on competition and trade. The burden of overcoming the presumption rests with the party claiming exemption.

If a license agreement that qualifies as a TTA includes any of the above-prohibited clauses, the same will be deemed unenforceable, unless an application for exemption based on exceptional and meritorious cases has been filed with the DITTB and subsequently granted, and the TTA is approved and registered with the DITTB.

Further, Republic Act No. 10667 (the Philippine Competition Act) [“PCA”] defines what constitutes Anti-competitive Agreements and Abuse of a Dominant Position and provides that the same are prohibited acts with concomitant administrative penalties, *i.e.*, a fine of up to PHP 100 million for the first offense and a fine of not less than PHP 100 million but not more than PHP 250 million for the second offense. Entities found to have entered into any anti-competitive agreements that are *per se* prohibited under Section 14(a) of the PCA (*i.e.* [1] restricting competition as to price, or components thereof, or other terms of trade; and [2] fixing a price at an auction or in any form of bidding including cover bidding, bid suppression, bid rotation and market allocation and other analogous practices of bid manipulation) and any anti-competitive agreements, between or among competitors which have the object or effect of substantially preventing, restricting or lessening competition under Section 14(b) of the PCA shall be subject to criminal penalties, *i.e.*, imprisonment from two to seven years, and a fine of not less than PHP 50 million but not more than PHP 250 million.

4. Are there any rules which apply to the exhaustion of intellectual property and how does that affect territorial licensing?

The application of exhaustion principles under Philippine law depends on the nature of the intellectual property right involved.

For patents, Section 71 of the IP Code expressly provides that a patent owner has the exclusive right to restrain, prohibit, and prevent the importation of a product that is the subject matter of either an active product or process patent registration in the Philippines. Thus, if a product is the subject matter of an active product or process patent in the Philippines, such a product may generally not be imported into the country without the express authorization of the patent owner. Only the owner of a patent, its assigns, or licensees, may exclusively exercise the rights granted under Section 71 of the IP Code.

Section 72 admits exceptions to the rule provided in Section 71. Section 72.1 provides for the Doctrine of Domestic Exhaustion, which states that once a product has been sold in the domestic market for the first time by or with the consent of the rights holder, the rights holder then ceases to have control over any subsequent sale/resale of the same in the said domestic market.

The second exception, the *Doctrine of International Exhaustion*, applies to drugs and medicines. Once a drug or medicine has been sold anywhere else in the world by the rights holder or by any party authorized to use the invention, the rights holder can no longer prevent the importation of such drugs or medicines. In both such cases, there will be no patent infringement.

The same rules apply to utility models and industrial designs, pursuant to Sections 108 and 119 of the IP Code.

For trademarks, the IP Code does not grant a trademark owner the right to exclude others from importing goods that bear the registered mark. Section 166 of the IP Code impliedly allows the importation of genuine products, as the IP Code only prohibits the importation of goods that “copy or simulate” a mark registered in the Philippines. Notably, trademark infringement under Section 155 of the IP Code only happens where there is a “likelihood of confusion,” which cannot exist in cases where the product being imported is genuine or authentic.

For copyright, Section 177.3 of the IP Code grants a copyright owner the exclusive right to control the first public distribution of the original and each copy of the work by sale or other forms of transfer of ownership. Thus, after the first authorized sale or transfer of the copyrighted work, the copyright owner loses control over the disposition of such work.

Further, it is of note that importation is not among the exclusive rights of the copyright holder under Section 177 of the IP Code. The current Section 190 of the IP Code only limits the importation and exportation of infringing materials and does not cover non-counterfeit and genuine goods. This is unlike the previous iteration of Section 190, paragraphs (a) and (b), which provided that the importation of a copy of a work by an individual without the authorization of the author was allowed under certain conditions. There appears to be no more prohibition on the mere importation of copyrighted works.

5. Are there laws that either prevent or impose termination of rights granted, including rights under sub-licenses?

Limitations of the License Term

Unless otherwise agreed upon by the parties, there is no limitation on the effective period of a TTA, such as a license 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. [Section 90, IP Code]
- (b) It is prohibited for a licensor to restrict the vol-

ume and structure of production of a licensee. [Section 87.3, IP Code]

- (c) It is prohibited to require payment of royalties for patents that are not used. [Section 87.7, IP Code]
- (d) It is prohibited to require payments for patents and other industrial property rights after their expiration. [Section 87.10, IP Code]
- (e) It is prohibited to include clauses with an anti-competitive effect, or with the effect of restraint in trade. [Rule 2(15), Revised Rules & Regulations on Voluntary Licensing]

Sections 91 and 92 of the IP Code provide that failure of a license agreement to conform to the foregoing rules renders the same unenforceable, subject to registration and grant of exception by the DITTB.

The expiration of the patent which is the subject of the license 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 license agreement involving several patents whose expiration dates vary, or one also covering a trade secret, shall survive.

Consequences of Termination

It is possible to impose a non-disclosure obligation on the licensee following termination as there is no legislative prohibition on the matter. However, Section 87.10 of the IP Code provides that it is prohibited to require payments for patents and other industrial property rights after the termination of the agreement.

Insolvency of Licensee or Licensor

Under Section 57 of the Financial Rehabilitation and Insolvency Act of 2010 (FRIA), all valid and subsisting contracts of the debtor with creditors and other third parties as of the commencement date of the insolvency proceeding shall continue in force, unless cancelled by virtue of a final judgment of a court of competent jurisdiction. Thus, a license cannot be terminated on the ground of mere insolvency.

Termination of Sub-licenses

There is no specific provision in the IP Code on sub-licensing. It may be argued that the laws on the termination of licenses would apply with equal force to sub-licenses.

6. Are there laws that limit the amount of any payments or the period during which those payments are to be made?

Section 87.10 of the IP Code expressly prohibits clauses that require payments for patents and other industrial property rights after their expiration. Rule 2(10) of the *Revised Rules & Regulations on Voluntary Licensing* also states that provisions that require payments for patents and other industrial property rights

after their expiration or the termination of the technology transfer arrangement are deemed *prima facie* to have an adverse effect on competition and trade. 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.

Section 16(q)(4) of the FRIA prohibits the insolvent debtor from making any payment of its liabilities outstanding as of the commencement date of the rehabilitation proceedings.

7. Are there any exchange control laws and, if so, are they in any way related to the topic in Questions 4 and 6?

The Bangko Sentral ng Pilipinas regulates foreign exchange in the Philippines through the *Manual of Regulations on Foreign Exchange Transactions* (FX Manual). The FX Manual is not related to question number 4. As to Question number 6, Section 2 of the FX Manual provides that Authorized Agent Banks may sell foreign exchange to cover payments for royalties, copyright, franchise, trademark, patent, and licensing fees.

The FX Manual does not limit the number of payments or the period during which those payments are to be made. Section 2 of the FX Manual merely provides for the documentary requirements of such foreign exchange transactions. For sales not exceeding USD \$500,000 (for individuals) and USD \$1 million (for corporations/other entities) or its equivalent in other foreign currency per client, per day, all that is needed is the duly completed Application to Purchase Foreign

Exchange. For sales exceeding the amounts previously mentioned, the statement/computation of the royalty/copyright/franchise/patent/trademark/licensing fee and a copy of the agreement are also required.

8. Are there rules relating to the licensing of IP rights and confidential information outside the jurisdiction of the licensor?

There is no specific provision in the IP Code regulating the licensing of IP rights and confidential information outside the jurisdiction of the licensor. However, Section 88 of the IP Code provides for the following mandatory provisions in a TTA that may be relevant to the licensing of IP rights involving multiple jurisdictions:

- (a) 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;
- (b) 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; and
- (c) The Philippine taxes on all payments relating to the technology transfer arrangement, such as VAT and final tax on royalties, shall be borne by the licensor. ■