

Planning for Renewal of Agreements

*Alternative provisions for renewal;
conflicting interests of licensor,
licensee*

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Every party invariably exercises the utmost care in executing a license agreement. The execution, however, is only the beginning of a sustained period of contractual performances. At the end awaits a crucial moment to decide, based on deliberate weighing of the merits and demerits, whether to extend the contract period, with or without modifications to the essential elements of the agreements.

This paper shows how the licensor can orchestrate various contract provisions to induce the licensee to extend/renew the technology license agreement. Naturally, if the licensor-proposed draft contract loaded with such well-planned provisions is not beneficial to the licensee, the licensee should to the extent possible (i) use leverage in the licensor-licensee power play, (ii) demand a spirit of fair play and, if invocable, (iii) assert undue restrictions under the applicable antimonopoly restrictions in order to keep itself from being bound by such renewal-inducing provisions.

COMMONLY SEEN "EXTENSION" PROVISIONS

Extension provisions, usually found under "Term" and the like, are the mainstay of renewal. (Since the words "extension" and "renewal" are used in agreements to indicate similar meanings, the latter will be used mainly hereinafter.) Each provision shown here has its own legal and realistic implications, and is generally coated with outward mutuality.

(a) (Automatic extension on a yearly basis: simple wording.) "... Thereafter, this Agreement shall automatically be extended year by year unless either party hereto notifies the other in writing at least ninety (90) days prior to the expiry of the initial or any extended period of this Agreement of its intention not to extend this Agreement."

(b) (Modified conditions for the renewed period?) "... This Agreement shall be automatically extended for further periods of two (2) years each unless either one of the parties hereto gives the other a written notification to terminate or a written complete proposal of amendment for further extension of this Agreement at least six (6) months prior to the date of such termination of this

Agreement."

Renewal of the agreement under the same terms and conditions is not possible if either party furnishes the other a "complete proposal of amendment": a new agreement. A new agreement must be agreed to prior to each renewal.

(c) (Mutually-agreed new terms.) "This Agreement takes effect on the day when the Government of XXXX gives its approval of this Agreement, and remains in effect thereafter for a period of five (5) years, at the end of which it may be renewed for a period and other terms and conditions to be mutually agreed upon subject to the approval of the Government of XXXX unless either party hereto notifies the other in writing at least six (6) months prior to the expiration of this Agreement its intention to terminate this Agreement upon said expiry."

This provision implies possible changes in some essential conditions for renewal subject to mutual consent (upon heated negotiations?). Furthermore, it does not show clearly as to by what time frame such mutual agreement and the government approval of the licensee's country must be obtained; the ultimate governmental approval might come long after the expiration, leading to possible complications.

(c) ("which consent shall not be withheld unreasonably.") "... Licensee shall have the right, exercisable by notice in writing to licensor given not less than ninety (90) days prior to the expiration of the initial term, and with the consent of licensor, which consent shall not be withheld unreasonably, to extend this Agreement for an additional term of two (2) years, on the same terms and conditions including, without limitation, those relating to earlier termination, as set forth herein so as to expire on December 31, 1987."

Unlike the automatic renewal, the licensee, if it wants to renew, must notify the licensor. The second half of the provision—rather intimidating with an ominous tone of early termination—is evidently uncalled for.

(e) (Renewal upon notice given by either party.) "If either party hereto wishes to renew this Agreement on its date of expiration, that party may do so by giving at least six (6) months, i.e. before December 1, 1986, prior written notice to the other party to that effect."

SUPPORTING PROVISIONS INDUCING RENEWAL

There are a variety of provisions—on trademarks, know-how, patents, confidentiality, noncompetition, etc.—designed by the licensor to motivate the licensee, directly or indirectly, toward renewal. Some are "hard" provisions imposing upon the licensee rigid obligations; some "soft" provisions containing palatable promise for the

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licensee upon renewal; and "matter-of-fact" provisions taking renewal for granted. These provisions form a net to help fortify the licensor's position toward unavoidable renewal.

"Hard" Provisions

The "hard" provisions are designed to impose on the licensee rigorous obligations to perform or not to perform with a view to leading the licensee toward renewal. Some examples:

A. Mandatory use of the licensor's trademarks.

(a) (Simple wording.) "Licensee shall utilize TRADEMARKS for the manufacture, promotion and sale of LICENSED PRODUCTS in territory hereunder."

Under this simple provision, the licensed product with the licensor's trademarks consolidates the licensor's product image; this causes the licensee to seek for renewal if it wishes to continue the sale. This provision is usually accompanied with more specific terms on the mode of such use of the licensor's trademarks, and the like.

(b) (Developed Products included.) "The Products and the Developed Products shall be represented, marketed and sold under the trademarks of the licensor, detailed in the Schedule A annexed and signed as relative hereto or under any terms of any amendment thereof agreed from time to time between the parties, in writing."

In this case, the "Developed Products" based on the licensee's own development is included. The part beginning with "under any terms . . ." is not realistic. The function of this provision is similar to that of Example (a) above.

(c) (Markings also required.) "The licensee shall use the trademarks, in the manner to be specified by the licensor, for all the products with respect to promotion and sale thereof. Furthermore, the licensee shall mark each product with the indication "Manufactured under license from XXXXXX of XXXXXX."

Such marking, prominently displayed on the licensed product and/or its package, works hand-in-hand with the licensor's trademarks, to sell the licensor's prestige, helping make the license renewal a sheer necessity for the licensee.

(d) (No other trademarks allowed.) "Licensee shall display LICENSED TRADEMARKS on all LICENSED PRODUCTS in such manners as are specifically approved in writing by COMPANY. LICENSEE shall not use, or associate LICENSED TRADEMARKS with, any other trademarks without written approval of COMPANY. No combination trademark shall be created by LICENSEE."

This airtight provision allows no room for the licensee to use either its own trademarks alone or together with the licensor's trademarks despite its wishes to identify the products with the licensee. The licensee must renew the license in order to continue selling the licensed products.

B. Nonuse of trademarks upon expiration termination

The nonuse of the licensor's trademarks beyond the effective period is the other side of the "trademark" coin to lead the licensee, who needs to continue using the licensor's trademarks, toward renewal. The provisions shown here accompany no right of the licensee to sell the licensed products in stock—or finish the semi-manufactured

ones and sell—with the licensed trademarks thereon for a limited period (e.g. three months) after the effective period of the license, subject to the payment of the prescribed royalty for such sale.

(a) (Nonsale of stock with licensed trademarks thereon.) "The licensee agrees that, as of the effective date of termination or expiration of this Agreement, the licensee shall discontinue all activity under this Agreement and agrees not to manufacture, distribute or sell any articles bearing the Marks, from that day onward, including articles held by the licensee in inventory."

This provision primarily ensures that, upon early termination of the license for reasons attributable to the licensee, the prestige of the licensed products and the related trademarks is not damaged by the aggrieved licensee. The licensee bent on manufacturing and selling quantities of the licensed products beyond the licensee's initial life has no other alternative than to renew the license.

(b) (Revocation of all rights.) "Unless otherwise mutually agreed, upon termination of this Agreement for any reason, the license and all the rights granted to licensee hereunder shall be revoked, including the use of licensed trademarks."

If no mutual agreement can be reached, it means the end of the trademark's use.

(c) (Assignment to licensor of the trademark rights.) "Upon expiration or termination of this Agreement for any reason whatsoever, licensee will execute and file all documents requested by licensor to terminate licensee's right under any trademark registration and other documents regarding the licensed marks. Licensor shall be solely responsible for bearing all expenses reasonably incurred in preparing and recording any and all documents referred to in this paragraph."

This provision applies to two cases: (i) where the licensee itself had registered the licensor's trademark in the licensee's territory well ahead of the license, and (ii) where the licensee is the registered exclusive user of the licensor's trademark in a country such as Japan. In both cases, the license, once lost, means the loss of the licensee's rights—and business it has built up under license.

C. Nonuse of patents and/or know-how

When the license—if not a "paid-up" license—expires or is terminated, the licensee cannot use the licensed patents and/or know-how, another urge to the licensee to renew the license.

(a) (Nonuse for five years.) "Upon termination or expiration hereof for whatever reasons, licensee shall forthwith return to licensor all written know-how conveyed to licensee hereunder and all copies thereof made by licensee if any, and shall not use any part of know-how acquired, either in written or in oral forms, for a period of five (5) years upon such termination or expiration."

On top of the return of the written know-how upon termination or expiration, the licensee must suspend the use of all know-how for five years, a blow to the manufacture and sale of its products of similar nature.

(b) (Nonuse forever.) "Upon termination or expiration hereof for whatever reasons, LICENSEE shall forthwith return to LICENSOR all written KNOW-HOW supplied hereunder, and shall terminate the use of PATENTS and KNOW-HOW, said KNOW-HOW then not having become part of the public domain."

The nonuse is to continue for an indefinite period of time until the know-how has become known to the public.

D. Confidentiality

Coupled with the nonuse of licensed trademarks, patents and know-how, confidentiality can also play its part in keeping the licensee from walking out or the licensor upon expiration.

(a) (For one year.) "During the effective period of this Agreement and a one year period thereafter licensee shall not disclose information, either in part or in whole, to other persons, unless disclosed by licensor."

(b) "Licensee shall keep KNOW-HOW confidential during the life of this Agreement and for five (5) years thereafter unless disclosed to the public due to reasons not attributable to licensee. Licensee shall ensure that its employees and its subcontractor(s), if any approved hereunder, keep KNOW-HOW confidential for the period specified hereinabove."

(c) (Forever.) "Each party agrees, during the subsistence of this Agreement and after the termination thereof, not to divulge any confidential information or trade secret acquired by it from the other and to ensure that such information and knowledge are not divulged to any one other than its own employees who it is essential should be so informed for the performance of this Agreement, unless such confidential information or trade secret has become part of public domain."

E. Noncompetition

The licensee, under noncompetition clauses below, cannot engage in the manufacture and sale of goods similar to the licensed product upon termination of the license, another blow to the licensee who does not have a wide range of product line:

(a) (For two years after the life of license.) "During the term of this Agreement and two (2) years thereafter, licensee shall not engage or be involved, either directly or indirectly, in the manufacture, sale or promotion of products similar to licensed products, without licensor's prior written approval thereof."

(b) (For one year after life of license.) "During the term of the present Agreement, licensee shall neither produce nor distribute any articles similar to the Products. Should the parties hereto not enter into the Joint Venture collaboration envisaged under Section XX hereof upon expiration of the present Agreement, the licensee shall be bound for a period of one (1) year from the end of the life of this Agreement to refrain from producing or distributing in the Territory any article similar to the Products; provided, however, that the licensee may be released from this obligation if said one (1) year period of protection is abandoned by the licensor."

This provision imposes upon the licensee a one-year noncompetition obligation if it does not go into a joint venture.

"Soft" Provisions

Contrary to the "hard" provisions, a variety of "soft" provisions are designed to invite the licensee to renew with less pressure or possibly with more rights.

A. Use of licensor's trademark not mandatory

The following provisions make the licensee feel less pressed toward renewal than under the "hard" provisions

and cause it to make its relatively free decision for renewal.

(a) (Licensee's trademark possible.) "LICENSEE shall utilize TRADEMARKS for the manufacture and sale of PRODUCTS in the territories provided hereunder; provided, however, that LICENSEE may utilize its own trademarks instead for PRODUCTS to be fitted to ships to be constructed for a shipowner of XXXXX (name of country)."

This clause provides the licensee with opportunities to use its own trademarks, though on a qualified scale.

(b) ("May use the name of the licensor.") "It is mutually understood and agreed that licensee may exclusively apply to products the name of licensor and further utilize the name M...T... in such forms as XXXXX and the like as the trademarks covered by a separate agreement for the use of trademarks to be made between XXX B.V. and licensee."

The licensee intends to use its own trademarks but is assured of the exclusive use of the licensor's trademarks.

B. Licensor's developments

The following clauses makes the licensee expect to receive the licensor's improvements/developments even after renewal:

(a) (Development expected.) "Licensor shall, during the effective period of this Agreement, notify LICENSEE of any of its DEVELOPMENTS promptly, upon obtaining it and shall, if so requested by LICENSEE, grant LICENSEE a right to use said DEVELOPMENT under a separate agreement to be negotiated between the parties hereto."

This clause is accompanied by a clause on LICENSEE'S DEVELOPMENTS for mutuality. Prior to its decision for renewal, of course, the licensee must be assured of the licensor's R&D efforts being made (if not, the expectation will come to naught).

(b) (Improvements and developments expected.) "During the initial and any extended term hereof, licensor shall provide licensee, to the extent desirable by licensor, with licensor's information relating to new improvements and developments concerning the technology and the licensed products."

Though appearing rather promising, the licensor's conveyance of improvements/developments are qualified by the licensor's "discretion." Therefore, the licensee must first penetrate the licensor's intentions before renewing the license.

C. Possible decrease in royalty

(Invalidation of licensor's patents.) "In the event that all, but not part, of the licensor's XXXX patents included in the patent rights are declared invalid by a court of competent jurisdiction from which no appeal is pending, the licensee shall be relieved of its obligation, from the date of any such declaration, to pay one-half (1/2) of the royalty under Paragraph 3.1 hereof."

Where there are possibilities of the patents involved becoming invalid, a provision of this nature, when coupled with a renewal provision, may help the licensee to consider renewal for less royalty upon such invalidation. However, it is a matter of open question whether the remaining know-how portion of the license—for one-half of the initial royalty rate—can actually survive the patent invalidation.

D. Possible expansion of territory

"Upon review by licensor of the licensee's performance." "Upon licensee's reasonable performance of its obligation for the initial contract period of three (3) years, licensor will assign to licensee, for the extended contract period, an exclusive manufacturing license in XXXX and furthermore, [sic] the potentiality to extend said territory over (other countries' names) XXXXX, XXXXX and XXXXX."

The provision implies a possible extension of the licensed territory, although poorly worded. The "reasonable performance" is not concrete; it may or may not mean a certain mutually agreed sales goal higher than the one represented by the minimum royalty. Furthermore, one wonders if the "potentiality" means anything definite; however, this sweetener provision could facilitate renewal.

"Matter-of-Fact" Provisions: Renewal Taken for Granted

Some license provisions carry an air of "matter-of-fact" renewal of the agreement, which attracts the licensee toward renewal if the licensee so desires.

(a) (License fee amount upon renewal stipulated.) "... This Agreement shall thence be in effect for a period of five (5) years and may be extended for a further period, not longer than three (3) years, upon the notice in writing to that effect by licensee, whereupon the detailed particulars to be separately decided as provided for in Articles 1, 2 and 3 hereof shall be modified upon mutual consent of the parties hereto, and the license fee for the extended period shall be US\$XXXXX per year."

A set yearly amount of license fee—the same as for the last year of the initial period—makes renewal appear matter-of-fact.

(b) (Similar to the above.) "Minimum royalty amounts shall be as follows:

First year	Yen 5,000,000
Second "	" 7,500,000
Third "	" 10,000,000
Fourth "	" 10,000,000 (if extended)
Fifth "	" 10,000,000 (if extended)"

This provision is "open" enough to attract the licensee.

(c) (Up to mutual consultation.) "... Upon [automatic] extension, if any, of the effective period of this Agreement, the relative minimum quantity requirements shall be decided from time to time by the parties upon mutual consultation."

This provision, although it refers to the automatic renewal, is based on "mutual consultation" which may or may not result in any decision under a conflict of interests.

(d) (Royalty not higher than...)

The payment as considerations for said extended period shall be decided upon negotiations between the parties hereto to be concluded by February 28, 1986, with yearly terms for said extended period not higher than those specified in Section 5-(1) hereof. In the event that such decision is not concluded by said date and that the parties hereto desire to extend this Agreement, the yearly terms specified in Section 5-(1) shall prevail for such extended period."

This provision, more concrete than the example (c) above, stipulates the renewal even if the negotiation fails.

PROVISIONS TO "SCARE OFF" RENEWAL

The licensor may desire to end the license upon expira-

tion of the license agreement in order to tie up with another licensee for a better royalty prospect for the exploitation of its technology. In such a case, the renewal-related provisions tend to convey disadvantages to the licensee in the event of renewal. Below, some examples qualified to minimum royalty:

(a) (Minimum royalty: anticipated to increase.) [Renewal beyond the five-year period] "Both parties shall, at least three (3) months prior to the expiration date of the initial or extended period of this Agreement, reach mutual agreement on the amount of minimum royalty for the following extended period, taking into consideration the then prevailing official commodity price indices in licensee's country and the cost of licensor's research and development incurred with regard to licensor's improvements conveyed to licensee hereunder. In the event that said mutual agreement is not reached as provided for hereinabove, this Agreement shall not be extended."

In this instance, the licensee can easily anticipate a possible increase in the minimum royalty under the escalating provision and the licensor's R&D cost. The licensee needs to clearly plan, at the pre-execution period of the license agreement, what to do upon expiration of the license.

(b) (Higher minimum royalty provided.) "Upon extension of the effective period of this Agreement, if any, the relative minimum running royalty requirements shall be decided from time to time by the parties hereto upon mutual consultation; provided, however, that said minimum running royalty requirements shall be higher in amount than those of the immediately preceding yearly period."

The possible higher minimum royalty amount implied here may keep the licensee from renewing the license agreement.

SWITCH-OVER PROVISIONS

The licensor may, upon expiration of the license or earlier, wish to (i) switch over to a new license with new requirements, (ii) go into a similar license agreement with a different partner (e.g. a joint-venture company established by the parties to the license), (iii) to essentially change the nature of the license by qualifying the licensee's rights under license, or take other similar steps to change the substance of the license. Below, a few examples:

(a) (New license agreement with higher royalty.) "In the event of LICENSOR being granted Letters Patent in XXXXX in respect of any invention connected with or related to, or otherwise having a direct bearing upon the license hereby granted, the parties hereto shall enter into a new license agreement to use such Letters Patent upon terms and conditions mutually agreed upon. Such new license agreement shall take into consideration all the development work and expenses required of LICENSOR to obtain the legal right of protection and shall supersede and replace this Agreement."

Because of the patent application pending at the time of execution of the license agreement, the licensee agreed to this switchover from a know-how license to a patent/know-how license, well aware of the importance of the patent protection.

(b) (Joint venture possibility.) "It is mutually understood between the parties hereto that both parties will endeavor toward materializing the Joint-Venture

Company project. In the event of establishing such Joint-Venture Company during the effective period of this Agreement, this license and all rights and obligations of Licensee shall be assigned to said Joint Venture Company."

In this particular case, the license was transferred to the joint-venture company and, upon unfortunate break up a few years later, was again assigned to the licensee.

(c) (Option to qualify the licensee's rights.) "Where LICENSEE has paid only the minimum royalty specified hereunder to LICENSOR during the initial three (3)-year term of this Agreement because of insufficient sales of LICENSED PRODUCT, LICENSOR shall have an option to cancel this Agreement or to either (i) make this license nonexclusive or (ii) delete XXXX from the list of LICENSED PRODUCTS for the remaining effective period of this Agreement."

The license under this provision can not be expected to survive the expiration. Besides, the licensor's exercise of the "nonexclusivity" option may lead to the licensor granting nonexclusive licenses to the licensee's competitors in its territory; conversely, the "deletion of some of the licensed products" option would mean exclusive licenses granted to other parties in the so-deleted part of the territory. This provision keeps the licensee's nose to the grindstone if it seeks renewal.

INTERESTS OF LICENSOR AND LICENSEE

As shown in the foregoing, both parties to the technology license agreement are much influenced by their mutual—and often enough, adverse—business interests when considering renewal.

The licensor is drawn toward renewal in cases, e.g.: (i) where the licensor can expect further smooth contractual performance of the licensee, with uninterrupted and steadily growing flow of license income; (ii) where the licensor can expect, upon renewal, a further stream of grant-back of the licensee's improvements and developments; (iii) where the patent and/or know-how can survive the thus extended term; (iv) where the licensor desires the licensee to continue utilizing the licensor's trademarks under the global trademark strategy; and (v) where the licensor's global current and projected export policy and licensing/joint venture opportunities dictate that the territory under license be kept beyond the initial term.

Where any of these cases do not apply, the licensor may (i) cause the current agreement to expire or else (ii) terminate the agreement earlier for reasons of the licensee's default and the like, so that it can grant a new license to a third party, export the products to the territory, form a joint venture with a new partner, etc.

The licensee, conversely, is attracted to renewal in cases, e.g. (i) where the sale of its key product—the licensed product—hinges on the licensed trademark and

technology; (ii) where the licensee's trademarks can be used, during the renewed license period, for the sale of the licensed product; (iii) where the license fee, upon renewal, is to decrease (in royalty rate and/or minimum guaranteed amount, for reasons of the life of the patents and/or know-how involved); and where further conveyance of the licensor's improved or developed technology can be expected upon renewal. Where any of these cases do not apply, the licensee will find it to its advantage to (i) cause the current agreement to expire, or (ii) to terminate the agreement earlier for reasons of the licensee's default and the like, so that the licensee can then (i) enter into a new contract with a third party to cover a higher-technology, less-license-fee (if such is available), or (ii) start manufacturing a new product based on its own technology, provided that the licensee is legally free to take such action or that the license provisions are held to be undue restrictions under the antimonopoly law guidelines.

PAID-UP LICENSE VIS-A-VIS RENEWAL

Renewal of the license period is, of course, entirely unnecessary if the license is a so-called "paid-up" license based on either lump-sum or installment payment of the fixed license fee. In certain developing countries the paid-up license is taken for granted, and any other types of licenses considered "unusual."

Also, if a running royalty-based license provides: "If this Agreement is terminated for reasons attributable to the Licensee, the Licensee shall forthwith return all written Know-How to the Licensor and shall discontinue all use of Know-How," its implication is crystal clear: if the agreement is terminated due to the licensor's default, the licensee shall have the right to "keep the know-how" and "continue the use of the know-how" upon termination—in a way similarly found upon expiration of a paid-up license.

The licensee, under such a license provision, is prompted by an urge to terminate the license as early as possible, looking for a slightest flint of the licensor's default, an unhealthy licensing practice.

CONCLUSION

Renewal of technology license agreements, as we have seen, can be facilitated by a carefully laid-down web of license provisions, including "soft," "hard," and "matter-of-fact" clauses.

Scare-off and switch-off provisions also have their special purposes in connection with renewal. While these provisions are mostly orchestrated by the licensor due to its usually stronger position for negotiation, the licensee must have its own definite policy on renewal and, if not agreeable to such licensor-originated provisions, should reflect the policy on its license negotiation clearly for renewal or nonrenewal.