European
IP Helpdesk

FACT SHEET

# Commercialising Intellectual Property: Joint Ventures

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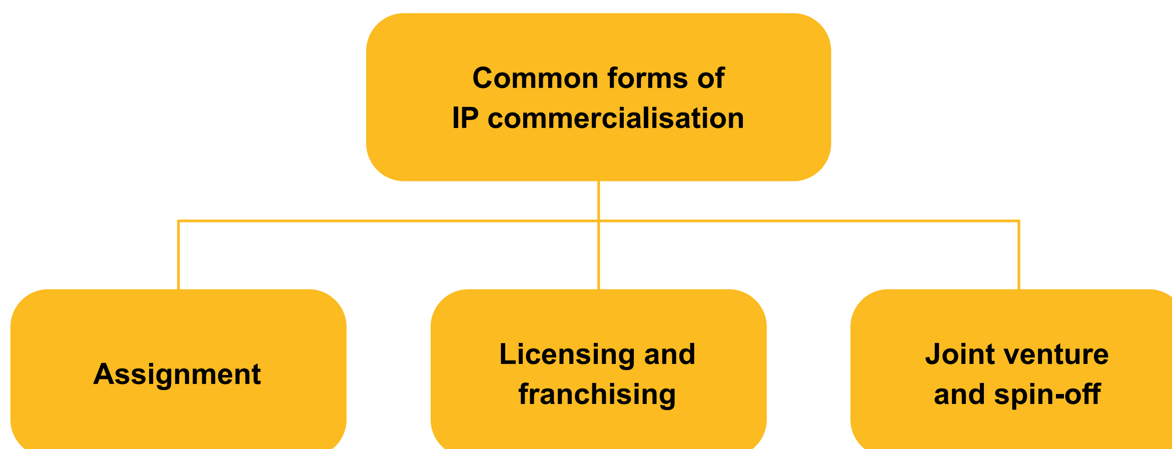
## I. Introduction

The present fact sheet focuses on joint ventures (JV) and will put forward some practical and legal issues, mainly from the perspective of the ownership and exploitation of intellectual property (IP). Organisations need to anticipate and properly manage legal aspects, in order to be able to maximise the financial gains that such settlements aim for. Generally, joint ventures have the goal to further develop and/or commercialise intellectual assets belonging to existing organisations, through a separate legal entity or in project collaborations. In both cases, venture partners will license or assign their IP to be used within the scope of the JV. Joint venture practices are widely spread across industrial sectors, but also occur in the academic environment.

Setting up a joint venture is one option to commercialise IP, i.e. bringing IP to the market in order to be implemented. IP commercialisation can take different forms:




The financial success of any IP exploitation will depend on the choice of the most appropriate commercialisation form, which should be based on:

- the organisation's business objectives;
- the form of intellectual property;
- the economic resources at its disposal.

Risks should also be taken into account. Although the very nature of risks will depend on the type of commercialisation, their identification, assessment and management would give organisations more security.

The IP risks specific to commercialisation activities are those related to:

- the nature of the product and/or services;
- confidentiality;
- legal and financial matters;
- business reputation.

An assessment of the risks can be based on the likelihood of an event (e.g. ownership disputes, third-party infringement, etc.) and the associated consequences (e.g. irrelevant, moderate or important). Depending on the assessment of the outcomes, organisations will be able to make qualified decisions about the risk management actions to be adopted (e.g. subscribing to appropriate insurance, revising relevant clauses within contracts, etc.).
Before diving deeper into the subject, please note that the content provided in this fact sheet is not meant to be exhaustive, and professional advice is strongly recommended when it comes to choosing the most suitable commercialisation route for your organisation as well as dealing with the complex legal issues surrounding contractual arrangements.

## II. Joint Ventures

A joint venture can be described as a form of business association between two or more independent organisations (joint venturers) to undertake a common project or to achieve a certain goal. More specifically, in the context of innovation, the parties to a joint venture share risks and pool their resources (including financial and intellectual capital) towards technology research and development, production, marketing and commercialisation.

Since IP plays a central role in establishing such collaboration, it is fundamental that joint venturers clearly define at the outset how it will be managed throughout the partnership. For example, from the beginning, it is necessary to define how ownership of the IP to be created by the joint venture will be distributed and each party's rights upon it.

It is also necessary to agree on the initial contribution of each venturer as well as on the respective responsibilities and obligations. All this can be set out either by a specific contractual arrangement corresponding to a non-incorporated joint venture (contractual model), or in a joint venture agreement setting up an independent legal entity which can take different forms such as a limited liability company, an operating company or an IP holding company – called a joint venture company (entity model)[1]. The difference between the two forms is that the **contractual model** is normally used for collaborations that are narrow in scope and with a short-term ending (e.g. for the setting up of a specific research and development project, with the contract setting out the rules governing the research collaboration), while the **entity model** is usually chosen for long-term partnerships with a broader scope and not limited in time.

Setting up a successful joint venture requires the selection of suitable partners. Answering the following questions may help with the choice of a joint venture partner(s):

- Why does it want to participate in a joint venture?
- Are its business goals compatible with other venturers?
- Which resources is it willing to bring to the joint venture?
- What is its expertise in the relevant project's fields?
- Which experience does it have in commercialisation?
- What is its reputation/influence in the marketplace?

Such preliminary analysis will also help identifying the structure model of the future joint venture – short-term collaboration or long-lasting partnership.

1 A combination of the two models is also possible yet less used in practice because of its high complexity.

## III. Advantages of joint ventures

One of the main reasons for setting up a joint venture is to expand business by entering into new markets. This can mean extending activities into new geographic areas, branching out into new product categories or establishing strategic partnerships in parallel markets.

By pooling the financial, material and intellectual capital of the parties, joint ventures can be considered a convenient means for organisations to exploit and share intellectual assets with reduced financial investment. Hence, organisations with limited financial resources may be able to develop new technology or to bring products to the market at costs that would be otherwise prohibitive, with a potentially rapid business growth.

Joint ventures are attractive for several reasons. The most significant advantage results in the ability of an organisation to reap some economic benefits from the commercialisation of its already existing IP, or the one resulting from the joint venture, by sharing the expertise, technology and strength with another organisation. Other associated advantages can be summarised as follows:

- Access to technology at affordable prices
- Access to resources not present on the market
- Sharing of research and innovation (R&D), marketing and commercialisation costs
- Exploitation of unused IP assets
- Reduced investments risks
- Development of new products
- Access to new markets

## IV. Intellectual property and joint ventures

To participate in a joint venture, the parties bring their own intellectual assets into the project and may need to access the IP previously belonging to other venturers. This type of pre-existing IP is usually called background. At the same time, it can be expected that the joint venture will generate new IP. This is referred to as foreground.

Summing up, the IP components in a JV entail:

- **Pre-existing background,** comprising IP prior to the JV, and sideground, covering IP generated during the JV by its members, but not as a consequence of it. The parties must therefore decide how the background is to be managed as part of the collaboration: is each piece of background licensed to the other member of the JV, and if so under what terms.
- **Foreground**, comprising IP developed by the JV. The parties must decide on who will own the IP, who will be responsible for its management (registration, enforcement) and how this IP can be further used or commercially exploited by the JV and its members in the future.

Regardless of the model adopted, any agreement setting up a joint venture would need to cover, as a minimum, the following topics:

| IP Checklist in JV agreements | |
|---|---|
| **Parties** | - Inclusion of new partners in the joint venture<br>- Exit of partners from the joint venture<br>- Actions in case of insolvency of partners |
| **Finance** | - The parties' financial contribution in terms of intangibles |
| **Management** | - IP management structures:<br>• IP management committee (patent filings, IP licensing, dispute resolution, etc.)<br>• Exploitation manager (exploitation of IP) |
| **IPR** | - Background brought by each party and rights of other parties to use them for the purpose of the JV (if any)<br>- Sideground developed by each party and brought to the JV, and rights of other parties to use them for the purpose of the JV (if any)<br>- Ownership of IP and IPR generated within the JV<br>- IPR-related costs (registration fees, enforcement actions) |
| **Termination** | - IP and related rights in the case of unexpected termination<br>- IP and related rights after expected termination |
| **Others** | - IP insurance<br>- IP counselling |

The IP portfolio of a joint venture usually can take different forms depending on the nature

of the JV's activity. Similarly, several types of IP rights are relevant – some more than others depending on the nature of the collaboration – including patents for inventions, trade secrets for confidential information, know-how and inventions which are not patented, copyrights for any works (this includes not only reports and documents but also software source code) and trademarks in relation to branding elements used to bring a product or service on the market.

## V. Intellectual property in the lifecycle of joint ventures

Any JV can be sub-divided into four stages:

**I.** Pre-contractual stage (before the signature of the joint venture agreement)
**II.** Contractual (signing a joint venture agreement)
**III.** Implementation (fulfilment of the JV contractual obligations)
**IV.** Termination (end of the JV contractual obligations)

In the following paragraphs, we will explore how to deal with different IP-related issues in the different JV stages.

### 5.1. Pre-contractual stage

**Confidential information**

The sharing of **valuable business information** (trade secrets and know-how) is crucial for building a JV partnership, particularly when IP represents a significant contribution. Consequently, potential partners should carefully protect any confidential information before disclosing it among themselves. This can be done by signing a Non-Disclosure Agreement (NDA). Such an agreement is crucial at this stage as this protects the parties' confidential information in case the negotiations were to fail, ensuring that the other party cannot walk away and use this information. Once a JV agreement is to be set up, it is possible and advisable to insert confidentiality clauses within it.

With regards to **confidentiality provisions** in joint venture agreements, they must define:

- the business or technical information to which the obligations apply;
- the specific obligations and restrictions imposed on the recipient;
- the consequences of breach of confidentiality;
- any related obligations after termination of the business relationship.

Furthermore, they should regulate two layers of confidential information, namely the trade secrets brought by partners before the venture and those that result from the venture. Accordingly, contractual clauses should define the ownership and protection of trade secrets during and after the joint venture.

**IP due diligence**
Although somewhat onerous, **IP due diligence** is of paramount importance in JV for two reasons: Firstly, it helps identify exactly what each party is contributing to the JV in terms of IP background. Secondly, mainly in transnational JVs, due diligence establishes whether the IP rights to be contributed cover the required technical field and geographical area.

**Choosing the JV model**
The organisation **form** of the JV is normally set out in the related agreement. However, some considerations are needed beforehand as the JV agreement will be shaped according to the JV structure chosen and the entire success of the project is based on it. Mainly for JV using separate legal entities, it is important to consider issues that may arise under **competition law**[2].
For example, if competitors come together and assign to the JV company all their IP rights, or grant to it exclusive licences, this behaviour can be investigated by the EC only once the JV is established, with all the disruptive consequences if the deal is found to be anti-competitive.

## 5.2. Contractual stage

The contractual stage is key, as rules on IP need to be discussed and defined in view of the JV agreement signature.

At this stage, a decision needs to be taken on whether or not to include non-compete clauses, which, in addition to confidentiality clauses, would ensure that valuable business information acquired during the JV is safeguarded for a certain period of time after the JV ends and that the parties agree not to compete with each other in the sector or market in which the JV is expected to operate.
In the negotiation phase, decisions have to be made on whether the **IP background** should be assigned or licensed (or sub-licensed) to other venturers for project implementation. Background rights are usually licensed since, this way, the owner retains control over the IP. The assignment is always possible but trickier, as the former owner would lose control over the IP and need a licence from the new owner to use it.

When dealing with licences of rights, it is important to consider:

- The “need of” requirement to access background and sideground: are licences automatic between members of the JV, or are they based on a “need” requirement?
- The length of the licence terms: is the licence granted for the JV collaboration or does it last after the JV end?
- The scope of the licence: geographical and field of use

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2 This is the case of Article 101 of the Treaty of the Functioning of the European Union. Nevertheless, there are specific exemptions from competition rules when dealing with Technology Transfer, see here.

During negotiations, parties should determine at least an outline of the ownership regime applicable to IP generated as part of the JV: **IP foreground**. More precisely, they should foresee whether to include joint ownership clauses within the main JV agreement or to deal with jointly owned IP on a case-by-case basis using distinct joint ownership agreements. In case the “entity” model was chosen and the JV has been incorporated as an independent legal entity, the parties may decide to grant this entity ownership over the generated IP. It is worth noting that if no joint ownership regime is agreed then default rules related to IP ownership will apply, in line with the EU national laws.

### 5.3. Implementation stage

**Ownership** and **exploitation of foreground** are key issues during the JV execution phase. Parties should decide who will own the foreground and who will exploit it.

There are several ways of distributing ownership of foreground:

- Independent and divided ownership, through which each party owns the IP that it has created as part of the JV.
- Joint ownership, whereby the IP generated as part of the JV is jointly owned by the different parties.
- JV ownership, in which the JV company owns the IP generated as part of the collaboration (this is only possible where the JV involves the creation of an independent JV company)

A combination of these three options can be implemented as part of one joint venture.

As mentioned above, if no agreement is made by the parties, the default IP ownership rules will apply: The law generally provides that rights to foreground resulting from developments made in the course of the JV will belong to the developing party. Most of the EU national legislations provide that IP created by employees in the course of their employment duties is owned by the employer. Thus, if the employees of one of the JV parties are to create IP, the employing party will own those IP and the related rights.

Another issue that might arise concerns the improvements made to already existing background by one of the venturers. Background improvements are often claimed by the background contributor, but to avoid issues, this should be clarified by the parties via a written agreement (either in the general JV contract or as part of the specific licence agreement applicable to the relevant background).

In case IP is jointly owned, a joint ownership agreement should clearly state the proportion and manner in which the rights are to be held by venturers. An equal sharing of the rights to exploit and transfer foreground, together with the obligations to seek IP protection (registration costs), to maintain (life-span costs) and to enforce it, may prove to be convenient. Other important aspects to be agreed upon in a joint ownership agreement are:

- Some form of territorial division for IP protection
- Some form of division of the market for commercial exploitation
- The setting up of a regime for use (e.g. licences, limits and profit sharing)

If the JV is a convenient vehicle to exploit the IP assets of different organisations, the newly set-up JV company itself can exploit the IP resulting from the JV through production, further R&D, marketing and commercialisation. However, venturers can also opt to exploit their own foreground individually. In other cases, they can assign the rights to access and use their own foreground to other parties for its exploitation. In order to do so, venture partners may need to "grant access" to their background for it to be used together with foreground in the exploitation phase. Concerning access rights, licensor parties may among others:

- decide the entitlement to grant sub-licences;
- foresee access rights to sideground;
- define access rights to background improvements.

Access rights are normally granted in return for royalty payments that can take the form of a lump sum or as percentage on the revenues generated from the foreground exploitation.

### 5.4. Termination stage

Although an outline of the exit plan could already be drafted during the negotiation phase, the precise terms on which a JV may come to an end are normally agreed upon during the implementation phase or when a termination event happens.

A friendly termination will see venture partners negotiate the terms related to the foreground repartition, normally based on the contribution of each party, and make the necessary arrangements for licences to terminate. On the other hand, it is common practice that when the termination is due to a breach of contract, the insolvent party will lose all its rights that should be reverted to other venturers.

## Useful resources

For further information on the topic please also see:

- Fact sheet on Commercialising Intellectual Property: Assignment Agreements
- Fact sheet on Commercialising Intellectual Property: Licensing Agreements
- Fact sheet on Inventorship, Authorship and Ownership
- Fact sheet on Non-Disclosure Agreements: a Business Tool
- Guide to IP and Contracts

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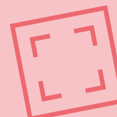

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Fact Sheet

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