

Licensing and Distribution  
Agreements

Background Paper

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## Introduction

Licensing and distribution arrangements can be an effective and efficient method for suppliers to distribute their products or services, without the need to provide the full capital investment that would otherwise be required to set up business in the target jurisdictions.

Similarly, licensing and distribution arrangements can provide excellent commercial opportunities for businesses and distributors in those jurisdictions (particularly if the local distributor can secure exclusive rights to market and sell high-demand products or services), without the need for the distributor to invest heavily in product development at the outset.

There are a variety of 'types' of licensing and distribution agreements, from a simply royalty sales agreement to a global licensing, manufacturing and distribution agreement. The legal issues arising from licensing and distribution arrangements can be complex and specialised, and an awareness of the potential risks and challenges is essential at the outset to avoid wasted investment and lost opportunities.

For example, unprepared suppliers can risk losing valuable intellectual property (including brand rights and trade marks) to an unscrupulous former licensee, and inexperienced distributors can invest heavily in promoting goods or services in their territory, only to lose the distribution rights or the support of the supplier (or both) and watch helplessly as the supplier or others reap the benefits of their investment.

This paper discusses some of the key issues arising in licensing and distribution agreements, both domestic and international, and identifies important terms and conditions that should be agreed by the distribution partners at the outset.

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## 1. Key issues in licensing and distribution agreements

Despite the obvious commercial potential of licensing and distribution agreements, there are a variety of key issues that participants should carefully consider. These include:

### (i) Intellectual Property Rights

There are usually several types of intellectual property that arise, including:

- Copyright;
- Trade Marks
- Patents
- Design Rights
- Know-how and other valuable proprietary and confidential information

The methods of properly protecting each type of intellectual property are different, and will almost certainly differ in international distribution and licensing arrangements (copyright duration for industrially-applied designs vary



significantly from country to country, and in some countries no copyright protection is available).

One issue we see arise in licensing and distribution arrangements is where ownership of each type of intellectual property splits e.g. the supplier retains copyright in the product design, but the distributor or licensee has control of the brand/trade marks applied to the product in the licensed territory. This can cause significant problems for both parties (particularly suppliers) if the licensing or distribution agreement comes to an end, and each party wishes to continue supplying the target jurisdiction (and therefore effectively become competitors).

Trade mark registration is also an important issue: trade marks are jurisdictional in nature, meaning that they only apply to the territory in which they are registered (although multi-territory applications are available for some areas).

It is often the distributor's intention/obligation to register the supplier's trade mark in their local territory. The local trade mark registry will usually require a copy of the written trade mark licence from the Supplier, to enable the distributor/licensee to undertake the registration. It is useful therefore to provide a separate trade mark licence (usually as an addendum to the main licensing and distribution agreement), so that the full commercial terms of the arrangements are not publicly disclosed in the act of filing the trade mark application.

#### (ii) Product Improvements

Licensees and distributors can often be a valuable source of product feedback for the supplier (especially where products are licensed for manufacture in the target jurisdiction), and can lead to valuable product enhancements and improvements (including the creation of new intellectual property rights such as separate copyrights or patentable inventions).

Both parties (particularly suppliers) should be conscious of this potential, and cover this in their agreement at the outset.

#### (iii) Exclusivity

Whether the licensing or distribution arrangement is exclusive or non-exclusive can have profound consequences for the parties.

If the distributor is given exclusive rights, then the supplier must have some effective method of enforcing minimum performance criteria within the territory.

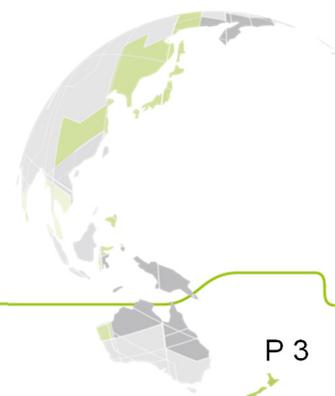
On the other hand, if the distributor agrees to not promote competing goods or services, then the distributor must have adequate commitments and support from the supplier.

#### (iv) Product claims and representations

The marketing claims that can be made when promoting a product or service are a significant issue for both parties in a licensing or distribution arrangement.

From the suppliers' perspective, it is often important to control the representations that might be made by a distributor or licensee about the product: Serious and irreversible damage can be done to the reputation of the product/brand if false product claims are made, and the supplier might be added as a defendant in any civil claim or criminal prosecution arising.

From the licensee or distributor's perspective, they are often reliant on the product testing undertaken by the supplier to validate the product claims. It is essential they appropriate assurances are obtained from the supplier, to enable the licensee or distributor to prove the accuracy of product claims if challenged.



This is particularly important if regulatory approval for the product or service may be required.

(v) Relevant Laws and Regulations in the target jurisdiction

There may be laws that apply to the product/service in the target jurisdiction that do not apply in the supplier's native country. These can include:

- Laws which impose minimum product warranties, and exclude the ability for suppliers to disclaim warranties (eg Germany, Austria and other countries have minimum warranty requirements);
- Specific laws and regulations that apply to the particular goods or services in the target territory;
- Laws which impose specific obligations on an importer of goods e.g. the Consumer Guarantees Act in New Zealand; and
- Laws that apply to privacy/personal data and information, and regulate the transfer of that information between territories;

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## 2. International Licensing and Distribution Agreements

In addition to the issues discussed above, there are some specific considerations that arise in the content of international licensing and distribution agreements. These include:

- The ability to effectively monitor the performance of the licensee/distributor;
- The availability of product and technical support from the offshore supplier (For example, the Consumer Guarantees Act 1993 deems an importer to be the manufacturer and requires the importer to provide appropriate after-sales support, spare parts, etc);
- The domestic compliance/validity of the supplier's intellectual property rights in the target jurisdiction;
- The supplier's ability to control use of the mark/product in the event the distributorship or license ends;
- The governing law of the contract;
- Dispute resolution processes, and ability to enforce the agreement in the necessary jurisdiction(s); and
- Parallel importing.

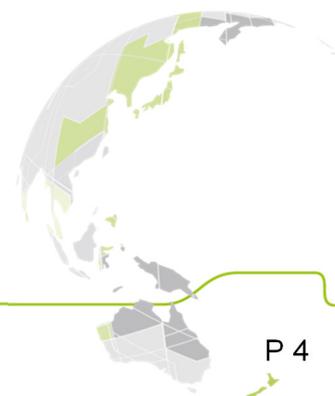
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## 3. Licensing and distribution – Terms and Conditions

There are a variety of issues that – depending on the type of licensing and distribution arrangement contemplated – should be covered by a written contract between the business partners.

These issues can (depending on the circumstances) include:

- Territory covered



- Exclusive/non-exclusive
- Ability for the distributor/licensee to market competing products or services (or non-competition obligation)
- Appointment and term;
- Promotion and sales targets
- Supply of promotional and marketing information
- Supply of products
- Service levels
- Product standards/quality assurance
- Delivery terms (including insurance, Incoterms)
- Pricing and payment terms/royalties
- Sales & Marketing Reporting
- Forecasting
- Warranties
- Risk transfer
- Title transfer
- After sales service and replacements
- End user/customer terms and conditions
- Confidentiality
- Licensor's intellectual property (including registration, and obligations in the event of third party claims or enforcement against third parties)
- Trade marks (including registration, and ability for / prohibition against rebranding by licensee/distributor)
- Ownership of customer/commercial data and records arising in course of agreement;
- Product development and improvements devised
- Renewal
- Termination
- Consequences/obligations upon termination
- Dispute resolution
- Assignment
- Sub-distribution rights
- Jurisdiction and governing law
- Legal relationship (to excluded intended obligations)
- Notice provisions and addresses



And more.

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#### 4. Summary

This paper discusses a variety of the issues arising in licensing and distribution arrangements, but is not exhaustive. Each licensing and distribution situation will differ, and a good understanding of the legal and commercial issues that can arise is essential.

Clendons are experienced in advising both suppliers and distributors/licensees, in a range of different industries, both domestic and international. We would be pleased to assist in achieving further successful licensing and distribution agreements.

#### Disclaimer

This Background Paper by its nature cannot be comprehensive and cannot be relied on by clients as advice. This Background Paper is provided to assist clients to identify legal issues on which they should seek legal advice. Please consult the professional staff of Clendons for advice specific to your situation.

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