

Founders Guide on
COMMERCIAL TERMS IN
**NEGOTIATING AND
DOCUMENTING**
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About Tech Hive™

Tech Hive Advisory Limited is a technology advisory firm which provides advisory and support services to private and public organisations with regards to the intersection between technology, business, and law. We focus on how emerging and disruptive technologies are altering and influencing the traditional way of doing things while acting as an innovation partner to our clients. These new technologies often birth new challenges requiring regulations to balance the benefit of innovation and the rights and freedoms of users. Our experience and capability extends across startup advisory, privacy and data protection, data ethics, cybersecurity, intellectual property management and emerging technologies. We ensure our advice serves our clients well by having an excellent understanding not only of their business, but of the markets in which they operate.

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Usage of the Guide

The Guide is general and educational in nature and is not intended to provide, and should not be relied on, as a source of legal or business advice. This information and material provided in the Guide may not be applicable in all (or any) situations and should not be acted upon without specific legal advice based on particular circumstances.

A hand holding a glowing lightbulb with a digital network overlay. The lightbulb is illuminated, and a network of white dots and lines is superimposed over it, suggesting technology and innovation. The background is blurred, showing what appears to be a stack of papers or documents.

Introduction

Copyright is described as a bundle of rights vested on creators of literary and artistic works to the exclusion of third parties, subject to limitations and exceptions provided in statutes. The Copyright Act LFN 2004 governs copyright protection in Nigeria. Protected works under the Act include literary and musical works, cinematograph films, sound recording and broadcasts. Although not explicitly identified in Section 1 of the Copyright Act, software programs and their source codes may also be classified as literary works and protected under copyright law.

There are two broad cadres of rights that a copyright holder may enjoy. First, copyright confers ownership rights, including the right to exclude the world from accessing or using the protected work. This includes the right to prevent any form of copying, adaptation or dealing in the protected work without the creator's consent. Second, copyright vests its holder with the right to exploit and recoup the commercial value of the protected material. Indeed, it has been argued that the right to capture commercial value is the primary incentive for creators. According to Maskus, copyright law facilitates "contracts in which various contributors to creative digital products and services can share income and ownership." Furthermore, the copyright holder also reserves the exclusive right to license, sell, and transfer the protected work. In recent times, it may also be used as security for loans and other financial instruments.

This Guide aims to set out, albeit briefly, the nature of copyright protection, emphasising how copyright protected works can be licensed and assigned by its holders.

Copyright Basics (Discrete Bundle of Rights)

Copyright protection solves two problems. First, it provides the mechanism through which creators can capture the commercial returns of their intellectual and material investment in the protected work. Second, from the perspective of society, copyright protection ensures that individuals continue to create useful literary and artistic works. Therefore, copyright protection is integral to the economic and cultural development of any society.

A copyright holder has various rights (some of which are perpetual and inalienable), and they include:

- A. The right to claim authorship of the work.
- B. The right to object, seek relief in connection with any distortion, mutilation, or other modification of, and any other derogatory use of their works.
- C. The right to sell, license and capture the commercial value of their protected works.
- D. The copyright holder reserves the exclusive right to control the reproduction, publication, performance, broadcast, adaptation and distribution of the protected work.
- E. The right to transfer rights to the work.

Assignment and Licensing

A copyright holder may transfer his/her rights in the protected work to another entity through an assignment or licensing.

It should also be noted that the protected work's creator may not be the copyright holder. The copyright holder is the person or entity vested with the legal right to sell or deal in the protected work. An employee may be the creator of a protected work, but the copyright may be vested in the employer or other parties.

An assignment is a total and permanent transfer of the bundle of rights in the protected work from a copyright holder to another entity. Consequently, the previous copyright holder ceases to hold any commercial rights in the protected work. The new copyright holder is then vested with the right to exploit the protected work commercially. This includes the right to perform, distribute, license or sell the protected work.

On the other hand, licensing refers to a limited transfer/sharing of rights between the copyright holder and the licensee. The license gives that licensee the right to exploit the protected work with the copyright holder's permission, subject to contractual restrictions and limitations. The license granted can be exclusive or non-exclusive; it may be limited to a particular jurisdiction and can also be limited to a specific form of use. For example, while a licensee can be permitted to translate a literary work, the license does not allow the licensee to make a movie adaptation of the protected work. Therefore, licensing is a contractual issue; the parties' agreement determines the breadth and contours of the license.

Assignment and licensing of protected works are both recognised under Section 10 of the Copyright Act. It stipulates that a Copyright can be transmitted by assignment, testamentary disposition or by operation of law, similar to other movable properties. Copyright in a protected work can be sold and can also form part of a testator's estate.

An assignment of copyright and the grant of an exclusive license can only be effective in writing. Documentation is therefore of importance. However, a non-exclusive license to do an act controlled by copyright may be written, oral or inferred from conduct.



Licensing Basics

A licensing agreement is a document granting a person permission to use a copyrighted work for a period of time and usually for a fee. The copyright owner retains ownership of the property but confers the right of use. A licensing agreement does not differ much from any other agreement. When drafting, it is essential to list and define all the appropriate terms. Also, it is crucial to construct the terms in clear and unambiguous language.

Standard Terms and Conditions

The standard terms of a licensing agreement include the following:

Term (Effective and End Date)

The effective date refers to the date stipulated in the agreement when the license begins to take effect, while the end date refers to the date the license expires or the date when the agreement ceases to be in effect.

Consideration

In a licensing agreement, consideration could be in the form of payments such as a license issue fee, royalties, minimum royalty, lump-sum license fee, instalment payment, or other agreed-upon remuneration. The consideration clause should clearly state how the licensor will get paid, the sum to be paid, when the sum should be paid, and the consequences of default. Where interests will accrue on late payment, this should also be stated.

Grant of Rights

This part conveys on the licensee the right to use the licensed material. The language should be clear, precise and unambiguous. It should also clearly state and define copyright as the type of Intellectual Property Rights (IPRs) being granted under the agreement. It is also essential to disclose whether the licensee has an exclusive right, co-exclusive right (with the licensor) or a non-exclusive right to the IPR in question. If the grant of an IPR is non-exclusive, the scope of restrictions must be stated clearly and without ambiguity.

The agreement may state other rights that may or may not be granted. They include, but are not limited to, the right of irrevocability and the right to sub-license.

Limitations on the Grant of Rights

Territory

A right to a licensed material can be limited by territory where the terms of the right prescribe the limitation of its use to be a specific geographical area. This could be to restrict competition, as in the case of trade secrets or franchises.

Media

IP owners or licensors could also restrict the use of their intellectual property to a specific medium. For example, an author could grant a licensee the right to reprint another edition of a book but not the right to adapt it to a screenplay.

Time and Duration

It is also essential while defining the terms of a grant of rights to specify its duration to prevent its abuse.

Exclusive/Non- Exclusive Control of the Licensor

A licensor can limit the control granted to a licensee. The right may be limited by time or territory. The use of the license may also be made conditional to the licensor's prior permission. It is also possible for the right to be subject to the mutual joint consent of both parties.

Representations and Warranties

Each party should give certain representations and warranties to the other. These include the ability to enter into the license agreement, the validity of the intellectual property and a standard warranty disclaimer.

Indemnification Obligations

This is a description of each party's future obligations if the licensed work is found to infringe on a third party's rights. The licensor could either take full responsibility or make its responsibilities conditional, thereby significantly limiting its obligations and liabilities to potential infringement claims.

Improvements

This clause covers improvements made during the term of the license by either the licensor or the licensee and the obligations on either party regarding such enhancements.

Dispute Resolution

This is essential to determine how a dispute that arises between the parties will be resolved. In the possibility of a dispute arising, the parties should agree on the laws to be applied in the interpretation of their agreement. Furthermore, the preferred dispute resolution mechanism should be specified. For instance, where the parties choose arbitration as the dispute resolution mechanism, they should agree on certain essentials such as the seat of arbitration, the number of arbitrators and the place of arbitration.



Reports and Auditing of Accounts

Based on any measure tied to a product's sales, royalties should be paid to the licensor, accompanied by a report stating how the royalty was calculated. It should also be decided when and how often these reports (and royalties) are due. Additionally, the licensor's right to audit the books that generate these reports should be included in the license agreement.

Termination

Licensing agreements, like every other agreement, come to an end. Therefore, it is crucial that parties state clearly and precisely when and how they want the agreement to end.

Both parties should agree on and state: the conditions on which either party may terminate the agreement, how the termination will be executed, whether a breach by a party will terminate the agreement or whether the breaching party has the liberty to take steps to cure the breach. The termination clause should also state the effect of the termination.

Choice of Law

Every licensing agreement must state how it is to be construed and interpreted. This term also explains how the parties' rights are to be determined and the law(s) that apply. For example, where parties intend that the agreement be construed, determined and interpreted by the laws of Nigeria, it must be stated explicitly in the agreement. This clause provides certainty in a licensing agreement, and it will save parties a lot of legal back and forth, especially when disputes arise.

Choice of Jurisdiction

The choice of jurisdiction clause allows the parties to agree on whose country's court will hear and determine the disputes arising out of the agreement. The non-inclusion of this clause does not often pose a problem when parties are in the same city or jurisdiction. However, when parties are in different countries (contracting states), it becomes imperative for the licensing agreement to cater to this.

Agreeing on this clause at the outset can minimise lengthy and costly arguments about jurisdiction down the line. More importantly, it will help prevent being sued in a foreign jurisdiction that may be unfamiliar, inconvenient, expensive and, in some cases, even unpredictable.



CONCLUSION

A copyright license is beneficial because it gives a licensee the right to use the protected work. For the licensor, licensing copyright will bring in royalties from the licensee. The licensor still gets to retain ownership of the IPRs and determine how the licensee can benefit from it.

Thus, for license arrangements to be profitable and mutually beneficial for both parties, the agreement must be detailed and accurate so that all parties have their rights fully protected.

Furthermore, due to the plethora of issues that come up when drafting a license agreement, to protect your interest as a licensor or licensee, it is crucial to seek the counsel and expertise of Intellectual Property consultants and advisers. They can provide invaluable help with drafting your agreement and enforcing it.

Get in Touch

At Tech Hive, we appreciate the challenges of staying innovative and profitable. We advise on the effective use of intellectual property rights and the intersection with technology. We also provide unique insights on technology development and the exploitation of inherent IPRs.





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