

What Crosses the Border: Analyzing International Licensing Agreements

By Joey Arnel Sayson

Every licensing agreement contains principal provisions, but what are the unique elements to consider in an international transaction? The following is a framework for analyzing international merchandising and promotional license agreements using original artwork or motion picture television properties.

What actually crosses the border in international licensing transactions:

1. Intellectual Property: In license agreements for smaller, start-up companies or studio clients, the intellectual property typically consists of original artwork, the copyrights and trademarks embodied in a motion picture or television show and their underlying works, which may be original screenplays or screenplays adapted from novels, graphic novels, comic books, or story books. Two of my most well-known clients, Curious George and Shrek, got their starts in story books; and now through motion pictures and television programs have worldwide audiences following their adventures and buying their branded merchandise.

2. Information: Information exchanged between licensors

and licensees can include screenplays, artwork, sizzle reels, trailers, style guides, motion picture release dates, marketing plans, research materials and data, technological developments and other proprietary information that may give either party a competitive advantage in their business.

3. Money: Of course, no one is doing anything for free. The gas driving this whole engine is money. Money is usually earned in the local currency of the foreign territory where the licensed products are sold or distributed and then converted to USD. In my experience, the USD is the dominant currency. Within the past few years, I've seen more Euro deals in which the licensee is depositing funds straight into the licensor's Euro accounts, so that the money isn't being converted into USD and being transferred stateside. I've also seen numerous deals in Japanese Yen, British Pounds, Australian Dollars, Canadian Dollars, Hong Kong Dollars and Norwegian Krone.

4. Licensed Products or Licensed Premiums: Last but not least, are the actual licensed products or licensed premiums themselves, which incorporate

elements of the licensed property. More often than not, regardless of the actual license territory set forth in the contract, the actual licensed products themselves or licensed premiums are created or manufactured in an Asian country and then shipped to the distribution outlets located in their final destination before landing in the hands of consumers. I'm often asked to draft customs release letters for the benefit of licensees, identifying them as official licensees of the applicable licensor for customs officials on the lookout for fake or counterfeit goods.

Critical Considerations When Designing a Cross Border License Agreement

Based upon the practice guide "Drafting License Agreements" edited by Michael A. Epstein and Frank L. Politano, the authors of the chapter entitled "Cross Border Licensing" posit that there are two critical considerations



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when designing a cross border license agreement.

Comprehensive Agreement or Framework for Future

Negotiation: In a comprehensive agreement, the rights and obligations of the parties are fairly definitive; explicitly set out; and can address multiple scenarios as the relationship and transaction unfolds. Like any good Hollywood screenplay, you can think of that contract as having a beginning, middle and end to correspond with the various stages of the licensor-licensee relationship.

Conversely, according to Epstein and Politano, in a framework for future or ongoing negotiations type document, there may be a set of rights and obligations between the parties, but equally important in this type of arrangement is the decision-making process, the ability of the parties to increase or decrease their involvement in the relationship, and the various mechanisms of self-help the parties can use during the negotiation.

Is The Agreement Enforceable:

In terms of enforcement problems, Hollywood studios have due diligence safeguards in

place to avoid enforcement issues and ultimately avoid litigation. The corporate policies and guidelines in place set forth minimum requirements for licensees; plus, studios have the financial resources to conduct due diligence in connection with prospective licensees. Any prospective licensee won't become a studio licensee unless they can first pass a credit check. Furthermore, as big as the world is, each studio sales team tends to go back to the same licensees over and over again with each new property that becomes available for licensing. After all, it's much easier and more cost effective to maintain and foster a successful licensor-licensee relationship than it is to develop new ones. Thus, when a partnership is successful, and everyone is making money, the issue of whether or not that license agreement is enforceable never really becomes an issue.

In direct contrast to studios, I have had the occasion to watch an international licensing agreement between a smaller domestic start-up licensor with less financial resources than a studio and a Japanese licensee go south. In this situation, the licensee basically fulfilled a licensor's worst nightmare and

used the licensed property beyond the scope of the license without licensor approval. Luckily, the contract had some very good self-help provisions and remedies in the event of such a breach, and after a four-week dialogue involving the exchange of correspondence, the contract was terminated without having to seek a judicial order. However, I'm pretty sure it was a scary time for my client. That client has actually had some moderate success and has the potential to become huge; but until they can adopt some similar due diligence measures comparable to those used by the studios, they will probably continue to have some enforcement problems.

A final thought on enforceability, in theory, any contract an attorney is writing is going to be enforceable. Yet, in my personal experience, after writing scores of cease and desist letters telling people to stop some offensive behavior and/or demand letters demanding money for overdue payments, my feeling is that the contracts are really only as good as the parties standing behind them and their willingness to abide by the terms of a contract.

Areas of Practice

- Intellectual Property Protection
- Interactive Games
- Jazz Guitar Players and Musical Artists
- Consumer Products Licensing
- Evolving New Media Production
- Feature Film Production
- Television Production