

LICENCE FEE AS AN ESSENTIAL ELEMENT OF A LICENCE AGREEMENT

UDC 347.451:347.77.043

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Abstract. *In this paper, the author examines the institute of licence fee as an essential element of a licensing agreement. The author analyzes a number of most frequent types of payment related to licence fees in licence agreements. The lump sum payment may be effected either as a single payment or in several instalments, while the amount of royalties depends on the scope of exploitation of the subject matter of licence.*

Key words: *licensing agreement, consideration, lump sum payment, royalties*

1. INTRODUCTION

The word “licence” comes from the Latin word *licentia*, which means freedom, presumed or unrestrained liberty, volition, audacity or impertinence.¹ In contemporary European languages, the basic meaning of the word *licence* is somewhat different. In English, for example, the word “licence” means permission, freedom to engage in an activity otherwise unlawful (Martin, 2003: 288). In German (*die Lizenz*) and in French (*licence*), it has the same meaning. In Serbian, the word *licenca* means approval, permission, entitlement, right to use, right to exercise, perform or present something, concession, etc. (Vujaklija, 1980: 514). The word was borrowed from English language via intellectual property law (Radovanović, 2012: 48). In Serbian language, this concept generally refers to legal transactions related to intellectual property; in particular, the term *licenca* is reserved for granting permission to use an intellectual property right for a specific time in exchange for a licence fee or royalty.

In Serbian law, licence agreements are regulated by general and subject-specific legislative acts. In the national legislation, the general legislative act governing licence agreements is the Civil Obligations Act.² Specific rules on licence agreements are contained in several subject-

Received March 24th, 2022 / Accepted April 20th, 2022

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¹ See: Word Sense Dictionary (2022): *Licentia*; available at <https://www.wordsense.eu/licentia>

² Civil Obligations Act (Contracts and Torts), *Official Gazette of the SFRY*, no. 29/78, 39/85, 45/89 - Decision of the Yugoslav Constitutional Court, and 57/89; *the Official Gazette of the FRY*, no. 31/93, and *Official Gazette of the Republic of Serbia and Montenegro*, no. 1/2003 - Constitutional Charter.

specific legislative acts regulating intellectual property rights, such as the Patents Act, the Trademarks Act, the Act on Legal Protection of Industrial Design, etc.

The Civil Obligations Act (hereinafter: COA) defines a licensing agreement as an agreement obliging a licensor to grant a licensee, in whole or in part, the right to use an invention, a technical know-how, a trade-mark, a sample or model, while the licensee is obliged to pay the fee specified therein (Article 686 of the COA). A licensing agreement is a bilateral, mutually binding agreement where both contracting parties undertake specified obligations by establishing a mutual relationship. As a licensing agreement implies the licensee's obligation to pay the agreed licence fee for commercial exploitation of the subject matter of licence (licenced asset), such an agreement falls into the group of onerous contracts. Certain authors often classify a licensing agreement as aleatory agreements because the economic outcome of using the licenced asset depends on the actual market situation, which is unpredictable for the contracting parties at the moment of concluding the agreement (Popović, 2015: 395).

The subject matter of a contract is an essential element that the contracting parties must agree upon in order to create a contract. The subject matter of a contract may be a specified provision, performance or non-performance, or some forbearance that one contracting party expects from the other party (Salma, 2001:246). For this reason, it is an integral part of the definition of any agreement, including the licence agreement. The subject matter of assignment in a licensing agreement may be all transferable industrial property rights (patent, trademark, know-how, etc.) as well as the rights in the registration phase, provided that the application for recognition of a specific industrial property right submitted to the competent national authority is accepted and that the specific right is registered in a prescribed manner (Vasiljević, 2012: 328).

The legal definition of a licence agreement provided in the Civil Obligations Act may be somewhat confusing as the legislator seems to have mixed up the subject matter of protection in industrial property law with industrial property rights. The subject matter of any licence may be protected intellectual property assets or those for which protection procedure has been initiated. Thus, the legislator could have specified that the norm does not refer to "an invention" but to "a patented invention". The same objection may be raised in relation to the use of term "a sample and model", which could have been substituted by a more precise term "protected design".

In the Serbian Draft Civil Code (hereinafter: the Draft CC)³, a licensing agreement is defined in almost identical terms as in the Civil Obligations Act, as an agreement obliging a licensor to assign to a licensee, entirely or partially, the right to use an invention, know-how, patent, design, trademark, sample or model, while the licensee is obliged to pay the fee specified therein (Article 1040 of the Draft CC). This definition includes the same vague terminology as the Civil Obligations Act (COA).⁴ In terms of the legal form of a licensing agreement, the Serbian Draft CC proposes keeping the current legal solution envisaged in Article 687 of the COA, which prescribes that a licensing agreement shall be made in written form.

In addition to these general legislative acts, the Serbian legislation comprises a number of subject-specific legislative acts regulating the subject matter of licensing agreements, such as the Patents Act, the Trademarks Act, the Act on Legal Protection of Industrial

³ The Draft Civil Code of the Republic of Serbia (Draft CC), Government of the Republic of Serbia, Belgrade, 2015; <https://www.mpravde.gov.rs/files/NACRT.pdf>

⁴ Article 1040 of the Draft CC states that the subject matter of a licence agreement may be "an invention, patent, design, model or sample", which leads to the conclusion that the legislator did not make a clear differentiation between the subject matter and the form of protection in industrial property law.

Design, etc. (Šogorov, Arsić, 2017:129). For example, Article 46 of the Patents Act (PA)⁵ provides that the rights arising from the application for patent registration, as well as the rights to a patent or a small patent may be transferred, with or without restrictions, by a license agreement. The licence agreement shall be in writing and it shall include: the date of signing the agreement, names and surnames or business names of the contracting parties, the places of domicile or residence or registered business seats of the contracting parties, the patent or small patent application number or the registration number of the recognised patent right, the period of licence validity, and the scope of the licence (Article 46 para.3 of the PA). The licence agreement shall be entered into the Patent Register kept by the competent authority at the request of the right holder, applicant or licensee; the entry of the license agreement into the Patent Register produces legal effect in relation to third parties (Article 46, paragraphs 4 and 5 of the PA).

Article 65 of the Trademarks Act (TA)⁶ envisages that a trademark owner or applicant may, on the basis of a written licence agreement, grant another the right to use his/her trademark or the rights arising from the application for trademark registration. The licence agreement shall be recorded in the Trademark Register at the request of the trademark owner, applicant or assignee (Art. 65 paragraphs 3 and 4 of the TA).

2. THE SUBJECT MATTER OF A LICENCE AGREEMENT

The legal definition of a licensing agreement provided in the Civil Obligations Act may be somewhat confusing as the Serbian legislator seems to have mixed up the subject matter of protection in industrial property law with industrial property rights. In this definition of a licensing agreement, the legislator envisages that the subject matter of a licensing agreement may be an invention, a know-how, a trade-mark, a sample or model. Obviously, the legislator has not made a clear distinction between the subject matter of protection and the form of protection in industrial property law. Namely, after a special administrative procedure before the Intellectual Property Office has been conducted, inventions that meet the prescribed statutory and substantive requirements may be protected by a patent. In that sense, the subject matter of a licensing agreement may be inventions protected by patent law. Moreover, after the application for patent registration has been published, the rights arising from the patent application may be transferred by a licence agreement. Furthermore, this legal definition provides that the subject matter of a licensing agreement may also be samples and models. As in the previous case, the legislator disregarded the fact that a sample and model are two subject matters (objects) of protection which are protected by industrial design legislation.

In the Serbian Draft Civil Code (hereinafter: the Draft CC), a licensing agreement is defined in almost identical terms as in the current Civil Obligations Act (COA), as an agreement obliging a licensor to assign to a licensee, entirely or partially, the right to use an invention, know-how, patent, design, trademark, sample or model, while the licensee is obliged to pay the fee specified therein (Article 1040 of the Draft CC). This definition includes the same general terminology as the Civil Obligations Act (COA) and generates further confusion. Namely, the Draft CC provides that the subject matter of a licence

⁵ The Patents Act, *Official Gazette of the RS*, no. 99/2011 and 113/2017 - another law.

⁶ The Trademarks Act, *Official Gazette of the RS*, no. 104/2009, 10/2013 and 44/2018-another act.

agreement is the right to use an invention, a know-how, a patent, a design, a trademark, a sample or model, which again shows that the legislator did not clearly distinguish between the subject matter of protection and the form of protection in industrial property law. Like in the case of defining the subject matter of a licensing agreement in the applicable COA, the legislator seems to have mixed the subject matters of protection in industrial property law (e.g. invention, trade and service marks) with the specific industrial property rights (e.g., patent, trade-mark). By contrast, the Patents Act prescribes that the subject matter of patent protection is a new invention which meets all statutory and substantive requirements for obtaining patent protection (Article 1 of the PA). Thus, instead of using the general term “an invention”, the legislator should have specified that the norm refers to an invention protected by patent (patented invention). The Act on Legal Protection of Industrial Design⁷ does not use the terms “sample” and “model” any more.⁸

Therefore, the definition of the subject matter of licence should have included the terms such as: patented invention, trademark protected brand, protected design, protected plant variety, and protected integrated circuit topography. These terms clearly refer to the subject matter of transferable industrial property rights. The right to protection of geographical origin (the protected designation of geographic origin or protected geographical indication right) has been omitted in the definition of the subject matter of a licensing agreement because it is a non-transferable right. On the other hand, some authors reasonably question why the legislator unjustifiably omitted to prescribe patent-related rights (e.g. the right to protect a plant variety and the right to protect integrated circuit topography) as possible subject matters of licence agreements (Popović, 2015:397). Thus, bearing in mind that the Act on the Protection of Topography of Semiconductor Products⁹ and the Act on the Protection of Plant Breeders’ Rights¹⁰ allow for the transfer of intellectual property rights by means of a licence agreement, we opine that the text of the Draft CC should be revised in that regard.

3. LICENCE FEE IN LICENCE AGREEMENTS

A licence fee is a countervalue for granting permission for the use of the subject matter of licence. Article 686 of the Civil Obligations Act (COA)¹¹ indicates that a licence fee is an essential element of a licensing agreement (*essentialia negotii*). Article 1055 of the Draft Civil Code contains an identical provision. In both legislative acts, a licence agreement is designated as an onerous agreement, which is further supported by the fact that the licensee

⁷ The Act on Legal Protection of Industrial Design, *Official Gazette of the RS*, no. 104/2009 -115, 45 2015 -3, 44/2018 -27 - another act.

⁸ In the Act on Legal Protection of Industrial Design, the legislator also created a terminological confusion regarding the subject matter of protection and the form of protection. Namely, Article 2 of the Act on Legal Protection of Industrial Design prescribes that industrial design implies a three-dimensional or two-dimensional appearance of the entire product or a part thereof, defined by its visual features, in particular the lines, contours, colours, shape, texture and/or materials of the product itself or its ornamentation, or a combination thereof. In the author’s opinion, the legislator should have provided that industrial design entails the right to protect a three-dimensional or two-dimensional appearance of the entire product or a part thereof, defined by its visual features. Thus, the legislator would have made a clear distinction between the subject matter of protection and the form of protection.

⁹ The Act on the Protection of Topography of Semiconductor Products, *Official Gazette of the RS*, no. 55/2013.

¹⁰ The Act on the Protection of Plant Breeders’ Rights, *Official Gazette of the RS*, no. 41/2009 and 88/2011

¹¹ Article 686 of the COA provides: “By signing a license agreement, the licensor undertakes to assign to the licensee, in whole or in part, the right to use (exploit) an invention, a technical know-how and practical experience, a trademark, a sample or model, while the licensee undertakes to pay a fee specified therein.”

is obliged to pay the stipulated fee to the licensor at the time and in the manner specified in the agreement (Article 701 of the COA). In case the licence fee is agreed depending on the scope of using the subject matter of licence, the licensee is obliged to submit a report to the licensor on the scope of using the licence and make an annual account of the licence fee to be paid, unless a shorter period is stipulated in the licence agreement (Article 702 of the COA).¹²

The Civil Obligations Act (COA) also prescribes the application of a clause referring to a licence fee. Thus, if the stipulated licence fee has obviously become inadequate or disproportionate in relation to the revenue that the licensee has obtained through the use of the subject matter of licence, the interested party may request that the stipulated fee be changed (Article 703 of the COA). This provision is justifiable because the circumstance under which a licence agreement was initially contracted may substantially change during the term of the licensing agreement, which makes it unprofitable for one of the contracting parties to abide by the contractual obligations (Jovanović, Radović, Radović, 2021: 408). For example, after the concluding the agreement, the situation in the market may change to such an extent that the licensee generates substantially less revenue than expected; thus, the licence fee payment becomes a disproportionately greater obligation in comparison to the benefits obtained by using the licence. In such a case, the licensee is entitled to request a reduction of the licence fee. The opposite situation is also possible: the licence may generate much greater revenue than the one expected at the moment of concluding the agreement, which makes the stipulated licence fee too low when compared to the benefits obtained by using the licence. In such a case, relying on the changed circumstances, the licensor may pursue an increase of the licence fee. This rule refers to the cases involving a lump sum payment of a licence fee, i.e. situations where the licence fee amount does not depend on the scope of using the subject matter of licence (Šogorov, Arsić, 2017: 130).

In Serbian legal theory, there is no consent on the issue whether a licence fee is an essential element of a licence agreement. Some authors point out that the licence fee payment is an essential obligation of the licensee (Marković, Popović, 2020: 243). If the contracting parties have not reached an agreement on the licence fee amount, such agreement is considered not to have been concluded because there is a lack of mutual consent (will) of the contracting parties on an essential element of agreement. However, in practice, we may encounter a situation where the obligation to pay a fee is not agreed in the licence agreement. In such an event, the agreement could not be considered to be a licensing agreement, but it would have a character of an unnamed agreement, which is regulated by the general rules of obligation law (Marković, 2007: 230). Similarly, the authors advocating the standpoint that a licence fee is an essential element of a licence agreement do not exclude the possibility that the licensor may waive the right to a fee by concluding a gratuitous licence agreement. In this case, the licensee has no obligation to pay any fee, which implies that all other provisions related to onerous contracts are inapplicable, which primarily refers to the obligation to guarantee the industrial applicability of the licenced object, to provide a warranty for legal defects, and to provide notifications aimed at specific performance (Radovanović, 2012: 264).

Some authors consider that the licensor is entitled to an appropriate licence fee even in case it is not expressly stipulated in the licence agreement, as the licensor is assumed to have undertaken contractual obligations for the purpose of making profit or acquiring some material benefits. If the amount of a licence fee is not stipulated in the agreement, it is determined in line with common business practices and field-specific rules (Perović,

¹²Article 1056 of the Draft CC contains the same provision..

Stojanović, 1980: 483). On the other hand, some theoreticians advocating the standpoint that a licence fee is an essential element of a licence agreement opine that there is an exception from this rule; the exception refers to a licence without a fee, i.e. a *gratis* licence (Janjić, 1978:899).¹³ A *gratis* licence must be explicitly agreed; otherwise, the licence is assumed to be a licence with a fee (Besarović, 2011: 205).

On the other hand, in legal theory, there are authors who consider that a licence fee is not an essential element of a licence agreement. Some scholars, for example, advocate that a licence fee is not an important element of a licence agreement because, in practice, the licensor often does not request any fee, particularly if the licence agreement constitutes an integral part of some more complex contractual relationship (Verona, 1984: 354).

In Serbian legal theory, some authors raised the issue of the legal ground for concluding an agreement on a *gratis* licence in Serbian law. For example, Janjić (1967) asserted that a *gratis* licence is a licence without a fee which, as such, falls into the category of gratuitous legal transactions; he further notes that “in such licensing agreements, the right to use the subject matter of licence is usually granted for the purpose of obtaining compensation for the missing licence fee” (Janjić, 1967:50).¹⁴ In our opinion, *gratis* licences can also have a positive effect on the licensors’ revenues. For example, a cross-license agreement (on mutual *gratis* licenses) has the same effect as licence agreements where the licence fee amount and payment method have been stipulated (Gogić, 2012: 3). It is indisputable that there are situations where there is a need to conclude *gratis* licence agreements, particularly those pertaining to obsolete technology that has insignificant commercial value.¹⁵ For this reason, the author of this paper believes that the Serbian legislator should standardise the institute of *gratis* license agreements *de lege ferenda*.

On the other hand, considering that the Civil Obligations Act prescribes that a fee is an essential element of a licence agreement, the author of this paper thinks that such an agreement is not concluded if there is no mutual consent of the parties’ wills on an essential element of the agreement. Namely, a licence agreement where the contracting parties have not agreed on a licence fee could be seen as a *sui generis* agreement, i.e. an unnamed agreement which would be subject to application of the general rules of obligation law. In addition, there are scholars who believe that such an agreement would also be subject to application of some other rules which are applicable to some other named agreements whose elements are present in the licensing agreement where the contracting parties have not agreed on a licence fee (Bubalo, 2012: 133).

The legal theory includes a list of factors affecting the amount of fee in licence agreements. Thus, when agreeing on the licence fee amount, the contracting parties should especially take into account the properties of the rights being transferred, the size of the market, and the type of licence (exclusive or non-exclusive licence) (Travaglini, 1979: 165). In industrial property rights, an important factor is the duration of legal protection. For example, as the right to a patent lasts 20 years from the date of submitting an application for patent protection, the licence fee will be lower if the licence is granted towards the end of the protection period. On the other hand, given that the right to a trademark can be extended for an unlimited number of times and its market value increases

¹³ The institute of a *gratis* licence is also recognized in German law. See: Judgement of the Federal Court of Justice (*Bundesgerichtshof – BGH*) no. 1 ZR 312/02 dated 21.7.2005.

¹⁴ For more, see Miodrag Janjić, *Ugovor o licenci (posebno međunarodn iugovori o licenci)* (Licensing Agreement (Especially international licensing agreements), Institute for Comparative Law, Beograd, Beograd, 1967, p.50.

¹⁵ For more on licensing agreements without a fee (compensation), see: Thorsten Käseberg, *Intellectual Property, Antitrust and Cumulative Innovation in the EU and the US*, Hart Publishing, 2019, pp. 138-139.

over time (especially when it comes to famous trademarks), it is realistic to expect that the licence fee will be higher. Another important factor in determining the licence fee amount in the licence agreement is whether the right is transferred in the application phase or whether the agreement is concluded after the competent state authority has issued a decision on the recognition of the right that is the subject matter of license agreement. In legal theory, there is a stance that the licence fees are significantly lower if the right is in the application phase than the fees that are agreed after the right has been officially recognized (Sherry, Teece:2008, 152-153). Moreover, the market size and structure are also significant factors when determining the fee amount, as well as whether the licence is granted for competitive products or services; thus, the higher the competition on the market, the lower the licence fee, and vice versa.

Concerning the type of licence, practice shows that higher licence fees are usually agreed in exclusive license agreements, providing the licensee with the exclusive right to commercial exploitation of the licensed asset. Some cases from practice illustrate that the fee for non-exclusive licensing of technology was lower by as much as 30%, in spite of the fact that the license agreement contained an exclusivity clause (Parr, 2007:64). Another important factors in determining the license fee amount is the degree of protection of industrial property rights. Thus, licence fee amounts will be lower in developing countries where the protection of industrial property rights is weaker than in the developed countries where industrial property rights are respected and enforced (Parr, 2007:65). Last but not least, the licence fee amount depends on state-specific regulations (e.g. tax treatment of license agreements) and general economic conditions. In some legal systems, the state may be more prone to directly intervene and regulate the license fee amount, for example, by prescribing its maximum amount.

3.1. Licence fee payment methods

The contracting parties in a licence agreement are generally free to determine the licence fee amount and the payment method. In practice, the payment methods are numerous. A licensee may pay the agreed fee to a licensor both in cash and in kind.

3.1.1 Lump sum payment of a licence fee

Lump sum payment of a licence fee may be effected either as a single payment or in several instalments. In practice, certain amount of the lump sum is commonly paid in advance (e.g., 50% of the total licence fee amount), immediately after concluding the licence agreement, while the remainder is paid in equal instalments for each year of the contract (Besarović, 2011: 206). Considering that the amount and the dynamics of licence fee payment is determined at the moment of concluding the agreement, the benefit procured by the licensor does not depend on the scope of licence use. As a rule, lump sum payment of a licence fee is agreed in the event where the subject matter of a licence agreement is simple or obsolete technology (Miladinović, 2009: 280); in agreements related to know-how, the licence fee is most frequently agreed and paid in a lump sum (Besarović, 2011:206). Such a method of payment may be suitable for a licensor for a number of reasons: the licence fee amount is determined in advance and does not depend on the scope of use of the licensed asset; thus, licensor is not obliged to monitor the business operations of the licensee and he does not bear the risk for the licensee's performance. In practice, this method of licence fee payment is often agreed with business partners who are less known or do not offer sufficient guarantees that the licence

fee will be paid, for example, in case of transferring industrial property rights in international transactions (Bubalo, 2012:139).

On the other hand, by agreeing to pay a licence fee in a lump sum, the licensor takes a significant risk that the fee amount will not increase if the licensee proves to be using the licensed technology successfully. The licensee may be motivated to contract this type of fee payment because he/she would not have any obligations to the licensor, which the licensee would have by default if a different payment method was agreed. Namely, in case of lump sum payment, the licensee does not have any obligation to notify the licensor about the profit made by using the subject matter of licence. In case of agreed lump sum payment, there are also opinions in legal theory that the licensee does not have any obligation to use the subject matter of licence. However, as for the licensee, the author of this paper thinks that the drawbacks of lump sum payment of a licence fee outweigh the mentioned benefits. Namely, the licensee agrees to pay the licence fee at the moment of concluding the licensing agreement, when he/she still does not know whether the licensed technology will be cost-effective and to what extent. Thus, in case of lump sum payment of a licence fee, the risk of cost-effectiveness of the subject matter of licence is borne by the licensee. In practice, after the licensee has performed the obligation by paying the agreed licence fee in a lump sum, it is quite common that the licensor has no interest to invest in research and development of the licensed technology. As the licensor is in a more favourable position, lump sum payment of a licence fee is very rarely agreed in contemporary business practice, particularly in exclusive licence agreements and in licence agreements that contain clauses on transferring the right to the licensee to make his/her own improvements.

3.1.2 Royalties

Royalties are used a method of paying a licence fee in licence agreements in cases where the fee amount depends on the scope of exploitation of the licensed asset. The payment of the agreed licence fee is based on a specific percentage for each produced or sold item. This payment method is mainly used in relation to standardised consumer goods.

In business practice, there is a number of different methods for the calculation of royalties. For instance, the licensor's revenues may be linked to the quantity of sold products; in such a case, royalties are calculated on the basis of a specific percentage of the product price. Notably, in this payment method, the licensee is free from paying a specific percentage on produced but unsold products. In practice, we may encounter various percentages pertaining to royalty payment which largely depend on the type of licensed asset.

Royalties may also be calculated on the basis of the scope of production (*per use royalty*). The licence fee is determined according to the number of produced units, in a fixed amount for each produced unit, or produced weight (in kilograms, tons, etc.), or specific volume (in litres, cubic metres, etc.), or specific quantity of produced energy (in kilowatts, etc.) (Miladinović, 2009: 281). In practice, this calculation method is more favourable for the licensor because it is easier to monitor the scope of production than the scope of sales; in order to calculate royalties, it is often sufficient to know the licensee's production capacities (Bubalo, 2012:142).

In practice, it is also possible to link the licence fee to the profit arising from the utilisation of technology. If royalties are agreed as a licence fee payment method, the calculation base is taken from the net profit, and the payment is effected on the basis of a specific percentage of the obtained profit. However, this payment method is rarely used in practice because it is often quite complicated to determine the actual amount of the

licensee's profit obtained from the licenced asset. Namely, the licensee may also be engaged in activities that are unrelated to using the subject matter of licence, or may also use technology licensed by some other licensor; thus, it may be very difficult to determine to what extent the profit is generated from the licence or from other activities that the licensee is engaged with.

In literature, we may also encounter a special model of calculating royalties based on the scope of production, called "the 25% rule" (Goldscheider, 2011:1). In legal theory, *the Twenty-Five Percent Rule*, proposed by Goldscherider about fifty years ago, is the most famous rule for calculating a fair fee in licensing agreements.¹⁶ According to this rule, the licensee shall get 75% and the licensor shall get 25% of the profit generated from the product which is related to the use of the licenced technology. The rule is based on the underlying theory that the licensor and the licensee should share the profit from any product manufactured by using licensed technology. It is *a priori* assumed that the major percentage of profit (75%) should go to the licensee who bears the risk of business operations and commercialization of the subject matter of licence, (Smith, Parr, 2004: 111). The rule is primarily used when determining a fair fee in patent licensing agreements but it may also be used in trademark and know-how licensing agreements.

In practice, contracting parties may also agree that the licence fee is to be paid in the form of a combination of lump sum payment and royalties. Thus, part of the licence fee may be paid in a lump sum after concluding the agreement, and the remainder is paid in royalties. In such a case, the lump sum payment is designated as the admission fee, which enables the licensor to promptly return part of the money invested in research and development of technology (Bubalo, 2012:145). The admission fee serves as a guarantee to the licensor, particularly considering that the amount of the licensor's income that will be paid in the form of royalties is fairly uncertain and largely depends on the licensee's business strategies. Thus, the higher the fee amount that is paid in lump sum, the lower the amount of royalties, and vice versa. In practice, the licence fee may be agreed in cross-licensing agreements.

4. CONCLUSION

In Serbian legislation, the general legislative act which regulates the issues pertaining to a licensing agreement is the Civil Obligations Act (COA). It defines a licensing agreement as an agreement obliging a licensor to assign to a licensee, entirely or partially, the right to use an inventions, know-how, trade-mark, sample or model, while the licensee is obliged to pay the licence fee specified therein. A licensing agreement is a bilateral binding agreement, as both contracting parties undertake specified obligations by establishing a mutual relationship. As a licensing agreement entails the licensee's obligation to pay the agreed licence fee for using the licensed asset, such an agreement falls into the category of onerous contracts. Under the COA, a licence fee (compensation) is an essential element of a licensing agreement. The fee for the granted right must be determined or capable of being determined. Otherwise, a licensing agreement without a fee is not valid because there is no mutual consent of the wills of the contracting parties on an essential element of the agreement.

In Serbian legal theory and practice, some authors have raised the issue of the legal grounds for concluding a gratuitous licence agreement (a *gratis* licence). Taking into account

¹⁶ For more, see: Richard Razgaitis, *Early-Stage Technologies: Valuation and Pricing*, New York, 1999, p. 96-97.

the current national legislation, the author of this paper thinks that such licence agreements would not produce legal effect in practice. Yet, in practice, it is indisputable that there may be the need to conclude gratis licence agreements, particularly pertaining to obsolete technology that has insignificant commercial value. As this type of licensing would facilitate expansion of technologies, we believe that the national legislator should legally standardise the institute of an agreement on gratis licences *de lege ferenda*.

The amount of licence fee in licence agreements depends on a number of factors. In legal theory, there is a stance that the contracting parties, when agreeing on the licence fee amount, should particularly bear in mind the characteristics of the right to be transferred, the market size, and whether it is an exclusive or a non-exclusive licence. The contracting parties in licence agreements are generally free to determine the amount of licence fee and the payment method.

In practice, the payment methods related to a licensing agreement are numerous. The most commonly used ones are lump sum payment and royalties, but a combination thereof is also possible. A licensee may pay the fee to a licensor both in cash and in kind. The lump sum payment of a licence fee may be effected either as a single payment or in instalment. The agreed licence fee may also be paid in royalties; the amount depends on the scope of using the licenced assets and it is expressed in a specific percentage for each produced or sold item. In literature, we may also find a special model of calculating royalties in relation to the scope of production, called "the 25% rule". According to this rule, the licensee receives 75% and the licensor receives 25% of the expected profit from the product relating to the licensed technology.

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