

Patents to save the planet

Morrison & Foerster's Susan Mac Cormac, Rufus Pichler and Otis Littlefield argue that patent licensing is a potentially powerful tool to address climate change

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Companies are increasingly looking to take bold action in the fight against climate change. One tool that is easy to overlook but may be powerful in helping companies advance their goals: their IP portfolio.

Increasingly, companies with green technology are also focused on monetising environmental benefits. But monetising a patent portfolio doesn't have to be the only goal. All kinds of companies can use licensing agreements to encourage behaviours they value. And one of those values could be promoting the environment. Through creative drafting and strategic enforcement, companies can ensure that their technology is used to help the environment, or at least not degrade it.



Even when the technology at issue is designed to help the environment, making sure it is used in that way is not always straightforward.

Restricting patent usage

Take, for example, a patent owner of a genetically modified plant that uses nitrogen more efficiently and requires less fertiliser than a non-genetically modified plant. Ideally, the plant's licensee would get the same yield produced by a traditional plant, reducing the needed nitrogen and fertiliser, causing less harm to the environment.

But, what if a farmer realises that by using double the amount of nitrogen, he can get a 50% increase in yield from the plant? Economically, that might make a lot more sense to a farmer. But ultimately, that kind of usage would defeat the purpose behind the invention by increasing the use of nitrogen and fertiliser.

That's where the license agreement can be critical. To ensure that the technology is used as intended, drafters of licensing agreements can restrict the usage of it. This approach could be called command and control. In the example of the genetically modified plant, the licensor could, for example, limit the scope of the licensed use of the genetically modified plant and only publish and promote beneficial uses. The licensor can also require that the licensee flow that limited scope down to growers and only publish and impose stewardship obligations on the grower to ensure that the genetically modified plant is grown in an environmentally beneficial way.

Carrots

Another approach to promoting the environment through licensing agreements is by using economic incentives. Even companies without technology directly related to the environment could use this approach. For example, a company could offer potential licensees a lower royalty rate for usage of their technology if they agree to use it in conjunction with, say, carbon-positive technology.

In this "carrot" approach, a licensor is not restricting the use of its technology. Instead, a licensor dangles an economic benefit to encourage the licensee to adopt another pro-environment technology or practice. This approach's success depends, at least in part, on proving to licensees the economic benefits of the deal, making sure they understand that even though they may have to spend more elsewhere, it will be economically beneficial to take pro-environment actions.

In employing this approach, drafters should be careful not to tie the use of a licensor's technology to another technology owned by the licensor. Doing so may risk violating antitrust laws.

Selective enforcement

Of course, patent owners are not obligated to enforce their rights. In a strategy to promote the environment, a patent owner could employ a selective enforcement approach. They could, for example, publicly announce they will only enforce their rights against entities that fail to take specific positive pro-environmental actions.

For many operating companies, that approach could prove unappealing, exposing their business to potential negative repercussions. But it's not hard to imagine a non-practising entity, with no operating business, taking this approach, similar to how certain non-profits operate. Again, the key is leverage, which non-profits frequently use in other contexts. For example, a non-profit that makes grants available for healthcare innovations may choose to make their funding contingent on the recipient taking action that advances the non-profit's mission. The concept here would be similar.

Policing challenges

All of these approaches present challenges. Policing the conduct of licensees is one of the biggest. Of course, typical licensing agreements include audit clauses. These clauses give the patent owner the right to hire an accountant to inspect the licensee's books and records to ensure the correct amount of royalties have been paid.

But for agreements with environmental aims, more aggressive and expansive audit clauses will likely be needed. Licensors, for example, might need to include provisions giving them the right to hire engineers to verify that the technology is being used as intended, thereby earning the lower royalty rate. But with creative drafting, these challenges can be overcome and inventiveness in licensing agreements will become crucial.

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