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# Top 10 Considerations in Licensing Cleantech Innovations

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Established companies and new startups alike seek to navigate and contribute to this expanding market. Like most expanding markets, success in this industry is closely tied to the strength of the company's intellectual property (IP) and the terms of its licensing programs. We present here the top 10 IP and commercial contract issues in licensing cleantech innovations.

## 1. Choose the Right IP Protection to Maximize the Value of Your IP

In this rapidly changing industry, cleantech companies need to understand the various options available to protect their innovations and how to strategically devise an appropriate IP strategy that aligns with their research and business needs. Depending on the nature of the technology, one must consider whether the technology is best protected using patents, trade secrets, or a combination of the two. Patent protection is for a limited duration—typically about 20 years—and is in exchange for the substantial disclosure of the technology to the public. In contrast, trade secret protection is potentially perpetual in term and generally only ceases when the technology no longer derives economic value from not being generally known or is no longer subject to reasonable efforts to maintain its secrecy. One has to consider whether the technology can be easily reversed engineered and whether the company can take appropriate measures to keep aspects of the technology a trade secret. Strategic use of both forms of IP and careful navigation of the requirements of each can provide a cleantech company with both valuable assets and a competitive edge.

## 2. Strategically Protect Innovative Aspects of Your IP

Patent protection may be suitable to protect various aspects of cleantech innovations. For example, let's

## Introduction

Spurred by both planetary and economic needs, the industry commonly referred to as “cleantech”—short for “clean technology”—has been on the rise. Current estimates predict clean energy technologies could dominate oil and gas by as early as 2030 (Global cleantech market size by country 2030 | Statista) (<https://www.statista.com/statistics/1409852/global-cleantech-market-size-country-region/#:~:text=The%20global%20market%20size%20for,billion%20U.S.%20dollars%20per%20year.>). The Inflation Reduction Act of 2022 provided for up to 400 billion dollars in clean energy infrastructure and subsidies (See “The Inflation Reduction Act: Here's Whats In It,” <https://www.mckinsey.com/industries/public-sector/our-insights/the-inflation-reduction-act-heres-whats-in-it>). And clean energy is just one aspect of clean technology. Other examples include recycling waste products that would otherwise fill landfills, carbon sequestration, and low-carbon footprint industrial solutions.

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say a company invented a new material for capturing carbon dioxide from the atmosphere. Such a technology can be patented from various angles, including the composition of the new material itself, the process of producing the new material, and the ways in which the material may be used. A claim covering the composition of the new material can block others from making (including by using any process), using, selling, importing, or offering for sale the new material. In contrast, a claim covering the new process of producing the new material only prevents others from performing the steps of the claimed process. In other words, if a competitor figures out an alternative method to produce the material, the manufacturing process claim may not block that competitor's process. As such, it is important in a robust patent portfolio to think about the different types of coverage that can create an exclusivity fence around the technology.

### **3. Evaluate Expedited Examination of Patent Applications Directed to Mitigating Climate Change**

Cleantech companies filing patents containing at least one product or process claim directed to mitigating climate change by reducing, removing, preventing, and/or monitoring greenhouse gas emissions may consider submitting a petition under the Climate Change Mitigation Pilot Program (CCMPP), which expedites the issuance of a first Office Action or allowance (<https://www.uspto.gov/patents/laws/patent-related-notices/climate-change-mitigation-pilot-program>). The CCMPP is of limited duration—applicants can submit a free petition until the earlier of June 7, 2027, or the date upon which 4,000 petitions for the CCMPP program have been accepted by the United States Patent & Trademark Office (USPTO). As of October 3, 2023, the USPTO has granted 422 applications out of 572 filed applications for examination under the CCMPP. As with any accelerated filings, it will be important for the applicant to develop a strategic claim set to pursue so as to set up the case for success.

### **4. Consider Terms and Conditions Associated With Government Funding**

Government funding has played a key role in accelerating the innovation of clean technologies.

The Bayh-Dole Act allocates rights, including patent rights, for inventions developed with federal funding under contracts, grants, and other government funding agreements. Contractors and grant recipients can generally take title to any such inventions, subject to certain terms and conditions. One notable term and condition is that non-exclusive licensees must substantially manufacture any products embodying the subject invention or produced through the use of the subject invention in the United States. A new Executive Order (<https://www.whitehouse.gov/briefing-room/presidential-actions/2023/07/28/executive-order-on-federal-research-and-development-in-support-of-domestic-manufacturing-and-united-states-jobs/>) suggests that application of the U.S. manufacturing requirement could also be extended to non-exclusive licensees, particularly with respect to inventions related to “critical and emerging technologies,” which has been defined by the Biden administration to include various renewable energy generation and storage technologies (<https://www.whitehouse.gov/wp-content/uploads/2022/02/2022-Critical-and-Emerging-Technologies-List-Update.pdf>).

### **5. Minimize Risk and Strengthen Your IP by Performing Freedom-to-Operate (FTO) Searches**

Patent rights give the patent holder the ability to preclude others from operating within the scope of that patent. In other words, patents afford an exclusion right. They do not guarantee that the patent holder can actually practice the patent or commercialize the claimed invention. Another party may have patent rights that block another from practicing or commercializing its own invention. At the appropriate time, cleantech companies may want to assess their FTO risk, whether by monitoring key competitor's IP and/or performing FTO searches at key stages of the innovation cycle. If a potential FTO risk is identified, the company should devise a strategy to address such risk. This may involve establishing a non-infringement position, an invalidity position, licensing considerations, and other offensive strategies based on the company's own patent portfolio.

### **6. Tailor the Scope of the License Grant**

IP rights can be the lifeblood of a cleantech startup, and both licensors and licensees must carefully

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consider the scope of any license grant. The licensor will want to ensure it provides what the licensee needs, but nothing more. Anything beyond the intended use may be considered an unnecessary encumbrance on the licensor's IP, which is often its most valuable asset.

Licensees will want to make sure they have full freedom to use the licensed technology as intended. Otherwise, their activities may accidentally infringe the very IP rights they are licensing.

Both licensors and licensees alike should carefully consider the variables at issue in nearly every license grant: (1) the specific IP rights that are granted (such as whether the license is under all of the licensor's patents or a specific portfolio), (2) the field of use, (3) whether the grant is exclusive (even as to licensor) or non-exclusive, (4) the territory, (5) the duration and termination conditions, (6) whether the license is royalty-free, fully paid-up, or royalty-bearing, and (7) whether the licensee has the right to grant sublicenses to affiliates or third parties. If the licensee does have the right to grant sublicenses, both parties should carefully consider under what conditions sublicenses may be granted and for what activities.

## **7. Consider Whether the Licensee Needs Access to Know-How or Technology and Tailor Confidentiality Appropriately**

A license provides the grant of authority for a licensee to conduct activities that would otherwise be an infringement or misappropriation of the licensor's intellectual property rights, but it does not necessarily enable the licensee to act. A licensee may need, in addition to the legal right to act, possession of the know-how or technology to properly exercise the license as intended. This is especially true in the cleantech space where much of the technology may be protected by trade secrets rather than by patents.

Both licensors and licensees will want to ensure the scope of any tech transfer is tailored appropriately. The licensor may be incentivized to provide some technology to ensure the licensee's success, but it should be careful that it does not give away too much information that can be competitively sensitive. The licensee will want access to technology needed to proceed with the license, but it may be better off without getting more than that. If a licensor later accuses the licensee of misappropriating trade secrets, the

licensee's best defense may be that it never had access to the technology to begin with. Thus, both parties should consider carefully what is needed and how to keep track of it.

Nearly every commercial agreement in the cleantech space involves sharing non-public information, and appropriate confidentiality terms are a must. Each party should ensure that at least the three core provisions are present: (1) maintain in confidence, (2) non-disclosure to third parties, and (3) non-use except for permitted purposes. Depending on the nature of the technology, the licensor may need to provide highly confidential technical information. Additional administrative and technical safeguards may be appropriate in those circumstances, as well as a confidentiality duration lasting for as long as the information is not publicly known.

## **8. Carefully Negotiate Ownership of and Right to Use Technical Improvements**

Use of an existing technology in a new setting, or the ability to tinker around with a technology, carries with it the possibility of new innovations. By default in the United States, ownership of patentable inventions rests with the inventor unless the agreement assigns ownership otherwise.

Parties negotiating a commercial agreement have a plethora of options. The licensor could require the licensee to assign all new improvements to the licensor, which would then be licensed back to the licensee. Another option would be for the licensee to grant a license back to the licensor for any new IP, which the licensor could then sublicense to its other licensees. Yet another option could be a "community license," where a licensee can "opt in" to sharing its improvement technology with the licensor in exchange for access to the licensor's and to other licensees' improvements.

Depending on the duration of the license, an evergreen obligation to share improvements may not be appropriate. The parties should carefully consider whether there should be a time limit for sharing improvements.

## **9. Align Risk Allocation With the Technology and its Use**

Cleantech is a relatively new field, and so are the bulk of the specific technologies. When licensing

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technology in this space, both parties should carefully allocate risks regarding (1) the ability of the technology to perform as intended, and (2) third-party liabilities arising from certain uses of the technology, such as IP infringement. The parties can accomplish this with carefully tailored representations regarding the licensed technology and an indemnity for third-party claims caused by certain negotiated triggers. But beware: not all risk allocations mechanisms are the same. Representations and warranties carry with them the additional risk of termination for breach and financial damages for breach of contract. Indemnities typically do not.

Some parties may choose to apply a waiver of consequential and indirect damages and an aggregate liability cap as a method to avoid risk. But having this apply across the agreement to all kinds of breaches can be a trap for the unwary. Some breaches by their nature may only have nominal direct damages, but the real recovery would be in the form of consequential or indirect damages, such as breaches of confidentiality or improper use of trade secrets. Companies should take care to carve these out from the waiver and potentially from the liability cap.

## 10. Tailor Termination to the Specific Deal

A common construct in commercial agreements is to allow the licensee to terminate for its own convenience and to allow each party to terminate

for the other's material breach. But this may not be appropriate in all circumstances. In some deals where the licensee would suffer massive harm if the agreement terminates, even termination for material breach may be too low of a threshold. It may be more appropriate to have a narrower class of termination rights that are particularly nefarious or cause irreparable harm to the licensor, such as willful misappropriation of the licensor's material trade secrets.

In other deals, the licensor may need broader termination rights. Regulations rarely keep up with science and technology, and the clean technology space is no exception. As export regulations continue to evolve, companies in this space can hedge risk by building flexibility into their commercial agreements. If, for example, new regulations materially alter the main commercial benefit of the agreement, the licensor may want to be able to terminate the contract or at least renegotiate the financial terms.

In either case, parties should carefully structure the post-termination obligations. Some licensors may require the licensee's assistance in transitioning use of the technology back to the licensor or to a new licensee. Where regulatory approvals are involved, the licensee may need to transfer government authorizations to a new party. Similarly, the licensee may need a reasonable period of time to wind down operations and to sell of any existing inventory of product that it would not be able to sell once the rights in the agreement terminate.

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