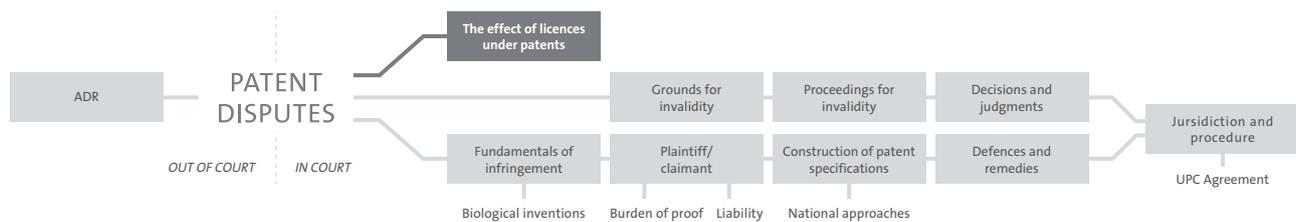


The effects of licences under patents

Essentials



Introduction

A granted patent confers upon the patentee the exclusive right to use and exploit the patent during its term, which means that the patentee can prevent others from using the patented technology. If another person or legal entity wishes to use the technology protected by a patent, that person has to either acquire the patent by virtue of a purchase agreement, or obtain a licence to use the patent by virtue of a licence agreement.

There are various reasons why a patentee may either sell its patent or grant a licence and, therefore, there are various types of agreement in which a patentee can grant another person the right to use its patent. A common reason for granting a licence is that this provides an opportunity for the patentee to exploit the patent without the need to manufacture or sell patented products itself, e.g. because it does not have the manufacturing capacity or the necessary distribution system. Another reason for granting a licence is that the patentee cannot afford the investment required for further development and exploitation in the market. In certain fields, for example the field of telecommunications, the development of new technologies and standards requires the collaboration of multiple (and often competing) companies, which in turn requires that these companies grant each other cross-licences in their patented technologies in order to give each partner access to the jointly developed technology.

Another reason for granting licences is to settle disputes about validity or infringement. Granting licences may be part of the settlement.

Commission Regulation (EU) No. 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements.

According to the EU Commission, licence agreements “will usually improve economic efficiency and be pro-competitive as they can reduce duplication of research and development, strengthen the incentive for the initial research and development, spur incremental innovation, facilitate diffusion and generate product market competition.” (Recital (4) of Commission Regulation No. 316/2014)

Articles 71 and 73 of the European Patent Convention (EPC) (which apply to European patent applications) and the corresponding applicable national laws (which apply to granted patents and national applications) permit patentees to transfer ownership of their patents and to grant licences. Licences for patents have become a significant economic asset for patentees and licensees alike. For the patentee, licences granted for its patents may provide a significant source of income. For the licensee, the right to use a patent may form an essential asset that permits it to exploit the patented technology and make investments in this technology.

Thus, disputes concerning licence agreements and patent purchase agreements may arise in the following situations in particular:

- (a) If a licence agreement has an impact on the claims raised in patent infringement and nullity proceedings (→ see below).
- (b) If a licence agreement, its validity, the contractual obligations of the parties or the interpretation of the provisions of the agreement are the subject of the litigation (→ see below).

Article 71 EPC

Transfer and constitution of rights

A European patent application may be transferred or give rise to rights for one or more of the designated Contracting States.

Article 73 EPC

Contractual licensing

A European patent application may be licensed in whole or in part for the whole or part of the territories of the designated Contracting States.

Impact of licence agreements in patent infringement and nullity proceedings

Legal disputes concerning licence agreements may not only arise in cases where they are the subject-matter of the litigation as such, but also in cases where the existence of a (valid) licence agreement is an incidental question in a patent and/or invalidity dispute.

Licence agreements may be the subject-matter of infringement litigation. This applies in particular if the defendant raises the argument that it may be entitled to use the patent by virtue of a licence agreement.

In such situations, the court will decide whether the licence agreement has been validly concluded and has not been terminated and if the act of (alleged) infringement in issue falls within the licence. In this respect, it may be particularly controversial if the impugned act is justified by the scope of the licence or whether the licensor/patentee was entitled to terminate the licence agreement, e.g. because of a breach of contract and/or unacceptable performance of a contractual obligation, as for example a delay in the payment of royalties, a delay in the rendering of accounts or use outside the scope of intellectual property (IP) rights licensed under the agreement.

Exclusive licensee as plaintiff

In many European jurisdictions, any exclusive licensee is entitled to bring infringement actions before the national courts in the same way as the patent proprietor, unless the licence agreement provides otherwise.

Whereas in Germany this rule applies without exception and without the requirement that the patentee must approve the licensee's initiative, in the UK the situation is slightly different. An exclusive licensee has the same right to sue as the proprietor for any infringement occurring after the date of the licence. If the exclusive licensee sues, the court may award damages for losses suffered by the exclusive licensee or an account of profits. However, if an exclusive licensee initiates infringement proceedings, the patent proprietor must be joined in the proceedings (see **Section 67 UK Patents Act 1977**).¹² This is not the case when a proprietor initiates proceedings in its own name against an infringer, as the proprietor is not required to join an exclusive licensee as a party to the proceedings. Under the UK Patents Act, non-exclusive licensees have

Section 67 UK Patents Act 1977

(1) Subject to the provisions of this section, the holder of an exclusive licence under a patent shall have the same right as the proprietor of the patent to bring proceedings in respect of any infringement of the patent committed after the date of the licence; and references to the proprietor of the patent in the provisions of this Act relating to infringement shall be construed accordingly.

(2) ...

(3) In any proceedings taken by an exclusive licensee by virtue of this section the proprietor of the patent shall be made a party to the proceedings, but if made a defendant or defender shall not be liable for any costs or expenses unless he enters an appearance and takes part in the proceedings.

¹² The EPC and the UK Patents Act 1977 (as amended) apply equally to all parts of the United Kingdom. Jurisdictionally, however, the United Kingdom is divided into three parts: England and Wales, Scotland, and Northern Ireland. Proceedings in the Scottish courts differ markedly from those in the other jurisdictions.

no statutory right to take action against an allegedly infringing party. The right to enforce a patent can only be granted to a non-exclusive licensee expressly under the contract.

Furthermore, in the UK, an exclusive licensee must register the exclusive licence as soon as possible, and at the latest within six months of the licence date, if the court is to award the costs for the proceedings to which the patentee may have otherwise been entitled (**Section 68 UK Patents Act 1977**).

In France, an exclusive licensee may initiate infringement proceedings, unless the patentee, who must be informed about the intention to initiate proceedings by the licensee, agrees to file an infringement action himself.

Article 47(2) of the Unified Patent Court Agreement (UPCA) states that unless the licence agreement provides otherwise, the holder of an exclusive licence in respect of a patent is entitled to bring an action before the court under the same circumstances as the patent proprietor, provided that the patent proprietor is given prior notice.

In any event, be it under national jurisdiction or the jurisdiction of the UPC, the right to initiate infringement proceedings assumes the existence of a valid exclusive licence under the relevant patent.

Section 68 UK Patents Act 1977

Where by virtue of a transaction, instrument or event to which section 33 above applies a person becomes the proprietor or one of the proprietors or an exclusive licensee of a patent and the patent is subsequently infringed, before the transaction, instrument or event is registered, in proceedings for such an infringement, the court or comptroller shall not award him costs or expenses unless –

(a) the transaction, instrument or event is registered within the period of six months beginning with its date; or

(b) the court or the comptroller is satisfied that it was not practicable to register the transaction, instrument or event before the end of that period and that it was registered as soon as practicable thereafter.

Article 47 UPCA

(2) Unless the licensing agreement provides otherwise, the holder of an exclusive licence in respect of a patent shall be entitled to bring actions before the Court under the same circumstances as the patent proprietor, provided that the patent proprietor is given prior notice.

No-challenge clause

Where a claim for invalidity is raised by a licensee, the patent owner may raise the argument that the licensee as plaintiff in such nullity proceedings may be barred from making this claim due to a no-challenge clause in the licence agreement, i.e. a stipulation in the licence agreement preventing the licensee from raising the argument that the licensed patent is invalid. In this context, one needs to consider in greater detail if the respective no-challenge clause is valid under applicable antitrust law (for further details → see below).

Licence analogy

Licence analogy is one of the established methods of calculating damages. For example, in the UK a patentee will often claim as part of its damages a reasonable royalty on the sales made by the infringer which they would not otherwise have made.

Litigation: licence agreements

Litigation in the field of licence agreements often concerns the validity of the agreement and its compliance with competition law. However, various provisions in the agreement may also give rise to disputes, such as the scope of the licence, the royalty provisions or the alleged breach of contract.

Legal nature of licences

An IP licence agreement is typically entered into by the licensor and a licensee. The licensee gains access to either intellectual property rights (patents, trade marks, copyright, design rights, etc.) and/or know-how which the licensor possesses, in return for some form of remuneration. Remuneration will typically take the form of a royalty payment, a lump sum and/or milestone payments, or a combination of one or more of these. Thus, a licence is essentially an *inter partes* statement of the licensee's permission to exploit the licensor's exclusive rights.

Other contractual limits (e.g. covenant not to sue)

As opposed to the licensee's permission to exploit the licensor's exclusive right, a rights holder may assume a "negative" obligation (or covenant) not to sue a certain party under circumstances where they would otherwise be entitled to do so. Under English and German law, a covenant not to sue is personal and so may not be applicable to subsequent purchasers or users of the "infringing" product. This is not the case with the grant of a licence, where the licensor's rights will be exhausted provided the goods in question have been put on the market with its consent.

Conclusion of licence agreement

Applicable law

Whether or not a licence agreement has been entered into depends upon on the law of the agreement. Without an explicit choice of law (which is normal in licence agreements involving parties from different jurisdictions), the applicable law is determined pursuant to the rules of private international law.

In Europe, the applicable law on the construction of licence agreements is primarily determined by the choice of law of the parties (**Article 3 Rome I Regulation**). In the absence of such a provision, **Article 4(2) Rome I Regulation** applies. According to this provision, a licence agreement is governed by the laws of the country in which “the party required to effect the characteristic performance of the contract has its habitual residence”. If a non-exclusive licence is granted and the performance of the licensee is limited to the payment of a licence fee, the “characteristic performance” lies with the licensor, and its habitual residence determines the applicable law. If the performance of the licensee includes the duty to exercise the licence, the licensee may be regarded as the party which has to perform the “characteristic performance”, so that the laws of the country where the licensee has its residence would apply.

Formal requirements (written form, registration, etc.)

In general, there are no particular formal requirements pertaining to the validity and binding legal effect of licence agreements, although in practice, all licence agreements of any commercial value will for evidential purposes be in writing.

The registration of a licence concerning a European patent application, which is governed by **Rule 23 EPC**, is not relevant for the effectiveness of the licence, but only records the fact that the licence has been granted.

In some European countries (e.g. France, Belgium and the UK), the fact that a licence agreement has not been recorded in the relevant patent register may have legal consequences, for example in relation to assignment. In other countries, e.g. Brazil and Russia, if the licence agreement is not registered, the agreement might not even be enforceable. Under English law, if a licence agreement is not registered and a third party purchases the patent without notice of its existence, the licence will not be binding upon the purchaser. The licensee could therefore potentially lose its rights under the licence. The registration therefore acts as public notice of the licensee’s interest. Even if the purchaser is not aware of the registration of the licence agreement, the fact that it is registered means that he would be deemed to have purchased the patent subject to the licensee’s rights.

Parties

Normally, there will only be two contracting parties (licensor and licensee) to a licence agreement, and they may be natural persons, legal entities or organisations. The parties should be identified as unequivocally and precisely as possible, for example by indicating their full legal name, registration number (where applicable) and registered address.

Article 3 Rome I Regulation Freedom of choice

1. A contract shall be governed by the law chosen by the parties. The choice shall be made expressly or clearly demonstrated by the terms of the contract or the circumstances of the case. By their choice the parties can select the law applicable to the whole or to part only of the contract.

Article 4 Rome I Regulation Applicable law in the absence of choice

2. Where the contract is not covered by paragraph 1 or where the elements of the contract would be covered by more than one of points (a) to (h) of paragraph 1, the contract shall be governed by the law of the country where the party required to effect the characteristic performance of the contract has his habitual residence.

Rule 23 EPC

Registration of licences and other rights
(1) Rule 22, paragraphs 1 and 2, shall apply mutatis mutandis to the registration of the grant or transfer of a licence, the establishment or transfer of a right in rem in respect of a European patent application and any legal means of execution affecting such an application.

– Sub-licensing

The licensor may want to permit the licensee to pass on the licence to third parties, for example to obtain sufficient coverage of markets in countries where neither party is (sufficiently) active. By permitting sub-licences, however, the licensor will to some extent give up control of the licensee's actions, and the licensee's right to enter into sub-licence agreements is therefore often closely regulated.

– Group licences

A licence may also be granted in the form of a group licence, e.g. a "single group licence", which may be a software licence key that can be deployed across a customer's organisation by installing a single licence key on the same number of machines as the number of licences purchased.

Obligations under licence agreements

– Obligations and liability of the licensor

The general obligations and liability of the licensor are to make available and maintain the registration of the licensed patent, to defend it against attack and to enforce it in accordance with the terms of the licence agreement. Particularly in the case of an exclusive licence, the parties may additionally agree that the licensee should take on some of the obligations and liabilities that would otherwise be the responsibility of the licensor.

– Obligations and liability of the licensee

The licensee's primary obligation and liability concern the payment of royalties for the use of the licensed rights, and perhaps – as an accessory obligation – the monitoring of infringing activities in the geographical area where the licensee operates. The licensee also undertakes to use its "best endeavours" to exploit the subject of the licence during its subsistence (→ see below).

Effect of the transfer of licensed property right

Once a licence is granted, it attaches to the licensed patent or patent application. The patentee remains entitled to sell and transfer the patent to a third party. However, even if the patentee sells the patent, pursuant to most European laws, any licences granted in the patent remain unaffected by the transfer of the patent, so that the patent is encumbered with the licences granted in the patent before the transfer. For example, **Section 15(3)** of the *Patentgesetz*, (German Patent Act) (PatG), states that any licences granted before the transfer of the patent will remain unaffected by the transfer. Article 44 Austrian Patent Act and Article 21(3) Slovakian Patent Law are similar to the German provision. In the UK, the licence remains unaffected by the transfer of the patent (see also **Section 38 UK Patents Act 1977**). According to Articles 43 und 46 French Patent

Section 15(3) PatG

The assignment of rights or the grant of a licence shall not affect licences previously granted to other parties.

Section 38 UK Patents Act 1977

Where an order is made under section 37 above that a patent shall be transferred from any person or persons (the old proprietor or proprietors) to one or more persons (whether or not including an old proprietor), then, except in a case falling within subsection (2) below, any licences or other rights granted or created by the old proprietor or proprietors shall, subject to section 33 above and to the provisions of the order, continue in force and be treated as granted by the person or persons to whom the patent is ordered to be transferred (the new proprietor or proprietors).

Law, a registered licence remains unaffected by the transfer of the patent for which it is granted.

Limitation period for claims

In order to protect itself from being held liable for its licensee's exploitation of the licensed patents, licensors may exclude liability altogether. Sometimes, however, the licensee may insist that the licensor be partially liable, particularly where the licensee is building upon know-how and/or a prototype provided by the licensor. In such circumstances, it would be advisable for the licensor to insert a limitation period for any claims made by the licensee against the licensor under the agreement in respect of the licensed rights or products based thereon.

Types of licences

Exclusive licences

An exclusive licence gives the licensee the exclusive right to use the patent within the scope of the licence. The grant of an exclusive licence has the effect that only the licensee is permitted to use the patent; the patentee is no longer permitted to exploit it or to grant further licences. If the patentee uses the patent within the exclusive field of the licence, he may be liable for breach of contract (and in doing so may in some jurisdictions – e.g. Germany – be liable for patent infringement). Under UK law, a patentee would not itself be liable for patent infringement, but the licensee would have a contractual claim against a patentee.

The exclusivity may be granted for the full scope of the patent, i.e. for all territories and all products and methods within the claims of the patent. Alternatively, the parties may agree to limit the exclusivity to certain fields of use, specific types of product, specific methods or defined territories. In some cases, the licence may be granted non-exclusively for other fields and territories. Whether the exclusivity is limited to certain fields or territories is a question of interpretation of the licence agreement under applicable law. Under German law, it is presumed that exclusivity is granted for the full scope of the licence, unless the agreement provides otherwise. Under English law, in the absence of any field or product limitations or language to the contrary in the agreement, an exclusive licensee is deemed to have acquired all of the rights in the patent, including, as stated above, the right to sue for infringement.

Non-exclusive licences

If the licensee is granted a non-exclusive licence, the patentee remains entitled to use the patent itself or to grant further licences to third parties.

Whether the parties intended to grant an exclusive or a non-exclusive licence is a question of contract interpretation pursuant to the applicable national laws. However, under German law it is presumed that, in case of doubt, the patentee will only grant a non-exclusive licence, unless it is explicitly stated in the agreement that the licence is granted exclusively. Likewise, under English law, it is difficult to imply the existence of an exclusive licence unless it is expressly set out in the licence. To do so, the licensee has to provide firm evidence that (a) the licensor conferred on it the right in respect of the invention to which the patent relates and (b) the licence is to the exclusion of all others.

Sole licences

If the parties agree on a sole licence, the patentee retains the right to use the patent but is not permitted to grant further licences.

Through a sole licence, the patentee is prohibited pursuant to the licence agreement from granting further licences. If the patentee grants further licences despite this prohibition, it may be liable for breach of contract. Whether any further licences granted by the patentee are nevertheless valid or not is a question of the applicable national laws of the states in which the patent is valid. Under German law, the predominant opinion is that such further licences would be invalid, as the sole licence is akin to an exclusive licence. English law recognises a sole licence to be a licence where the licensor agrees to grant one licence (to the licensee) and reserves for itself and its agents (and usually its assignees) a right to make, use or sell the licensed product or use the licensed process in the licensed territory.

Sub-licences

When a licensee grants a further licence to third parties this is known as a sub-licence. Sub-licences are only valid if the main licence agreement authorises the licensee to grant them. Whether the main licence agreement grants such authority is a matter of interpretation and depends on the law applicable to the licence agreement.

Under German law, an exclusive licensee is considered as authorised to grant sub-licences unless the licence agreement provides otherwise or if the licence agreement is of such personal nature that it would be contrary to the object of the agreement if the licensee were to grant sub-licences. This is not the case under English law, where an exclusive licensee is not permitted to grant sub-licences unless the licence explicitly so states. Non-exclusive licensees are not authorised to grant sub-licences unless the licence agreement explicitly grants them the authority to do so.

The licensee cannot grant more rights to the sub-licensee than it owns. Therefore, the rights granted to the sub-licensee cannot go beyond the rights granted to the licensee under the main licence agreement.

Group licences

A group licence is a licence that is granted to a group of affiliated companies. Its purpose is to permit the flexible use of a patent within a group of companies without the need to make individual licence agreements with each company of the group. Group licence agreements are usually made by the parent company of the group. The affiliated group companies are third-party beneficiaries under the agreement. The group licence usually provides that the licence granted to a group company terminates when that company loses its status as an affiliated company, for example if it is sold.

Company licences

A company licence is a licence that is limited to a specific business or a specific factory of the licensee. It attaches to the licensed business and can only be transferred together with this business. If the parties wish to agree on a company licence, this has to be explicitly stated in the licence agreement, otherwise the licence is not considered as limited to a specific business or factory.

Cross-licences

In a cross-licence agreement, the parties grant each other mutual licences in some of their patents. In other words, both parties are licensor and licensee at the same time. The object of the cross-licence is often to directly connect the mutually granted licences, so that one licence is only valid if the other licence is valid as well. Cross-licensing is common in the IT and telecommunications industries, where a single product may embody many separate inventions.

Compulsory licences

National patent law may oblige a patentee to grant licences in his patent against his will. These are known as compulsory licences and may be made according to specific statutory provisions. The preconditions for such compulsory licences depend on the national law applicable to the patent concerned.

Regulation (EC) No. 816/2006 stipulates that compulsory licences must be granted under certain conditions for the purposes of manufacturing and exporting pharmaceuticals which are destined for certain developing countries.

Regulation (EC) No. 816/2006 of the European Parliament and of the Council of 17 May 2006 on compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems.

Essential provisions and obligations to a licence agreement

Licensed patents and patent improvements

Licences may be granted for both patents and patent applications. If a licence is granted with respect to a patent application, it will typically also cover any patents which are subsequently granted for the same application. The same applies if a supplementary protection certificate is later granted or if a divisional application is filed for a licensed patent application, unless this is explicitly excluded in the licence agreement.

The licensed patents and patent applications must be defined in the licence agreement. This can be done either by listing them or by providing a generic definition (e.g. *“all of the licensor’s patents for products with the following features ...”*).

There may be disputes between the parties as to whether the licence agreement also includes patents which are not encompassed by the list or definition. Whether or not such “implied licensing” is possible depends on the laws applicable to the agreement. With respect to German law, the *Bundesgerichtshof* (German Federal Supreme Court) (BGH) decided that a licence agreement also encompasses non-listed patents of the licensor if these patents are indispensable for the use of the licensed technology. Whether or not an English court would consider patents falling outside the definition of licensed patents to be part of the licensed rights depends entirely on the facts of the case and the result of an objective assessment of the court based on what it believes the intention of the parties was at the time of signing the agreement, having regard to the actual wording of the licence agreement.

BGH, X ZR 20/02 –
“Leichtflüssigkeitsabscheider”

Where the use of an invention that is licensed under a licence agreement requires that another invention of the licensor is used together with the licensed invention, in case of doubt the other invention has to be considered as included in the licence.

Another issue may be whether the licence agreement is also applicable to improvements to the licensed patents. In this respect it is usually presumed that it does not extend to such improvements unless the agreement clearly states that a licence will also be granted concerning improvements by one or both parties.

Licensed acts of use

A licence may be granted for the entire scope of the patent, i.e. for all acts that would constitute an infringement of the patent if no licence had been granted. However, the parties may agree to limit the licence to certain fields of use, for example by:

- limiting the type of products for which the licence is granted, e.g. by further defining the licensed products;
- limiting the applications for which a patented process may be used;
- limiting the acts which are permitted for the licensee;
- limiting the volume of the licensed products.

If the parties wish to agree on such limitations, this should be clearly stated in the agreement. It is usually presumed that a licence is granted for the full scope of a patent unless the agreement clearly states otherwise.

However, if the licensee exceeds the scope of the licence, for example by manufacturing products which are not covered by it, this may constitute an infringement of the licensed patent. The licensee will be liable for patent infringement, and the patent rights in the affected products are not exhausted, so that the licensee's customers may also become liable.

Territory

An essential feature of every licence agreement is the territory for which the licence is to be effective. National laws (e.g. **Section 15(2) PatG**) may permit the parties to limit the territory of operation of the licence.

Basically, it will be assumed that a licence covers the entire territory in which the licensed patents and patent applications are protected. Therefore, if the parties wish to limit the territory of the licence, this has to be clearly stated in the agreement.

On the other hand, it cannot be assumed that a licence agreement covers more countries than those covered by the patents that are explicitly listed in it. Therefore, it cannot be assumed that the agreement covers the entire global family of a patent, unless this is stated explicitly. Under German law, this follows the principle that the licensor will transfer no more rights than necessary to the licensee.

Licence fees

One key obligation of the licensee is the payment of licence fees for the use of the licensed patents and patent applications. If the licence fees are based on the licensee's revenues from the licensed products or methods, the licensee is normally obliged to render account of its revenues and sales figures.

The amount of fees payable by the licensee is subject to negotiations between the parties. If the parties fail to determine this amount, the licensee owes payment of an appropriate licence fee (Sections 315 and 316 of the *Bürgerliches Gesetzbuch* (German Civil Code) (BGB), which entitle the licensor to determine an appropriate amount if the parties fail to agree on the licence fees in the licence agreement). No such equivalent rule applies as a matter of English law. If the parties wish to grant a royalty-free licence to the licensee, this has to be set out in the agreement.

Section 15(2) PatG

(2) The rights under subsection (1) may be licensed in whole or in part, exclusively or non-exclusively, for the whole or part of the territory to which this Act applies. Should a licensee breach a restriction of his licence covered by the first sentence, the right conferred by the patent may be asserted against him.

BGH, X ZR 185/97 –

“Gleichstromsteuerschaltung”

The basic rule that an inventor will usually intend to give up as few of his rights as possible does not, however, prevent the judge from reaching the conclusion that the parties in the present case agreed on a broader obligation which required the patentee to transfer his rights in full.

A licence agreement also must specify for which acts licence fees are payable. Under the case law of the German courts there is a presumption that licence fees are payable only for those acts which would constitute a patent infringement, unless the agreement clearly provides for something different. Therefore, if the parties wish to grant a royalty-free licence to the licensee, this has to be clearly stated in the agreement. If the parties disagree as to whether a product of the licensee falls within the scope of the licensed patent or patent application, this question has to be determined by the courts. The parties can avoid such disputes by defining the features of the products and processes which trigger the obligation to pay licence fees. Again, under English law, this will be a question of contractual interpretation.

BGH X ZR 14/03 –
“Abgasreinigungsvorrichtung”

An obligation imposed on a patent licensee to pay royalties for the use of a patented procedure, even if the procedure is only used outside the territory of the patent, is a restriction imposed on the licensee which goes beyond the scope of the patent.

Disputes of this nature are often the subject of arbitration (by agreement) rather than court action.

Maintenance and defence of patents

An essential obligation of the licensor is to maintain the licensed patents and patent applications by paying the annual renewal fees and by duly prosecuting the licensed patents and patent applications, provided that this obligation has not been transferred to the licensee under the licence agreement.

Under German and English law, non-payment of the annual renewal fees by the licensor would constitute a breach of the licence agreement and could make the licensor liable for damages. If the parties wish to exclude the licensor’s obligations and liability regarding the maintenance of the licensed patents, this needs to be clearly stated in the agreement.

Another issue is whether the licensor is obliged to defend the licensed patents against attacks from third parties, e.g. oppositions. In this respect, it must do so to the extent that this is reasonable. In the UK this will depend on the construction (meaning) of the licence agreement. Under UK law, as the exclusive licensee is entitled to enforce a patent, it follows that, unless expressed otherwise in the agreement, the licensee should also be able to defend the patent where there is a counterclaim for validity.

Liability

The licensor’s liability depends on the national law that applies to the licence agreement.

Under German law, the licensor is basically liable for the formal validity of the patent. It is also liable for ensuring that it is entitled to grant the agreed licence, that there are no rights of third parties that prevent the exercise of the licence, and that the licensed patent can be technically

implemented. It is, however, permissible to limit or exclude the liabilities of the licensor, but this has to be clearly expressed by the agreement. Under English law, it may be implied that the licensor has the right to grant the licence, but individual warranties and associated liability for breach are typically negotiated between the parties. An English court would imply a minimal protection only and would expect the licensee to undertake due diligence.

Enforcement of licensed patents and right to sue

Another issue related to licence agreements is whether the licensor and licensee are permitted to enforce the licensed patent if it is infringed upon by a third party. This depends on the national laws of the country in which the patent is granted.

The general rule in a number of countries is that the patentee/licensor is always permitted to enforce the patent in case of infringement. Also, exclusive licensees are permitted to enforce the patent against third-party infringers if their exclusive use right is affected by the infringement, while non-exclusive licensees are basically not permitted to sue third parties for infringement of the licensed patent. (In the UK it appears that an exclusive licensee may enforce the patent even if his interests are not affected, but this would be expected to affect the relief granted by the court (see Section 67(2) UK Patents Act 1977))

According to established German case law, a patentee can sue for infringement of the licensed patent if it has an economic interest in preventing third parties from infringing the patent. The exclusive licensee is also permitted to sue for infringement if the scope of its exclusivity is affected by the infringement. The patentee and the exclusive licensee may, at their discretion, proceed by separate actions or in a joint action. However, the overall damages payable by the infringer remain the same and must be divided between the patentee and the exclusive licensee depending on the economic damage incurred. If the parties deviate from these rules or if they want to permit the non-exclusive licensee to sue for patent infringement, this must be clearly stated in the licence agreement.

Under UK law, the proprietor of a patent has the right to sue for infringement (Section 60 UK Patents Act 1977). An exclusive licensee has the same right to sue for infringement as the proprietor for any infringement occurring after the date of the licence (Section 67(1) UK Patents Act 1977). If the exclusive licensee sues, the court may award either damages for losses suffered by the exclusive licensee or an account of profits (Section 67(2)). If an exclusive licensee brings infringement proceedings, the patent proprietor must be joined to the proceedings (Section 67(3)). The exclusive licensee may register the exclusive licence. If the exclusive licensee has not registered the licence within a six-month

BGH X ZR 180/05 –
“Tintenpatrone” (from IIC 2009, 475)

(a) As a matter of principle, the proprietor of a patent or utility model is entitled to a claim for injunctive relief against an infringer, even if such proprietor has granted an exclusive licence for the industrial property right.

(b) The proprietor of an industrial property right who has granted an exclusive licence for such right may sue the infringer for damages independently of the exclusive licensee; the proprietor of the industrial property right and the licensee are not co-creditors.

(c) The proprietor of an industrial property right has an independent claim for information and presentation of accounts through which he may claim any and all information required in order to decide in favour of one of the methods of compensating damage and in order to specify his claim according to the method selected.

BGH X ZR 94/10 – “Tintenpatrone II”

The patentee and the exclusive licensee may, in their discretion, proceed by separate actions or in a joint action. However, the overall damages payable by the infringer remain the same and need to be distributed between the patentee and the exclusive licensee depending on the economic damage incurred.

Supreme Court, *Schütz (UK) Ltd v Werit (UK) Ltd* [2013] UKSC 16

period and sues for infringement, then the court or comptroller will not award costs for the proceedings.

No-challenge clauses

With a no-challenge clause, the licensee is prohibited from challenging the validity of the licensed patent or supporting such attacks by third parties. If the licensee attacks the licensed patent contrary to an agreed no-challenge obligation, he is liable for breach of contract, and the licensor may be entitled to terminate the agreement.

If a no-challenge clause is agreed between the parties, this may also make any nullity action filed by the licensee inadmissible (e.g. in Germany). In European opposition proceedings, however, the no-challenge clause does not affect the admissibility of the opposition.

One key issue is the validity of no-challenge clauses. This depends on the context in which the clause is agreed between the parties. A no-challenge clause is basically regarded as a restraint on competition under **Article 101** of the Treaty on the Functioning of the European Union (TFEU) (see section VIII). In licence agreements falling within the scope of the EU block exemption regulation on technology transfer agreements (**Commission Regulation No. 316/2014**), a no-challenge clause is only exempted if it is agreed by an exclusive licensee and only if a breach of the no-challenge clause gives the licensor the right to terminate the licence agreement.

On the other hand, no-challenge clauses agreed in patent purchase agreements and in settlement agreements are basically regarded as compliant with Article 101 TFEU, as they form an essential element of the agreement.

BGH, X ZR 25/86 – “Klagerücknahmemöglichkeit bei Vorliegen einer Patentnichtigkeitssache – Rechtswirksamkeit einer einseitigen Klägerücknahme”

G 3/97 and G 4/97

Article 101 TFEU Treaty
prohibits cartels and other agreements that could disrupt free competition in the European Economic Area’s internal market.

Article 5(1)(b) Commission Regulation (EU) No. 316/2014

(1) The exemption provided for in Article 2 shall not apply to any of the following obligations contained in technology transfer agreements:

...

(b) any direct or indirect obligation on a party not to challenge the validity of intellectual property rights which the other party holds in the Union, without prejudice to the possibility, in the case of an exclusive licence, of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of any of the licensed technology rights.

Term of the licence agreement

Agreed term

Licences are usually granted for the term of the licensed patent. This means that the licence agreement terminates at the end of the term of the patent or, where more than one patent is involved, at the end of the term of the last patent to expire.

If a patent is revoked or significantly limited in scope, for example as a result of opposition proceedings, this may entitle the licensee to terminate the licence agreement. However, in such case the licensee is basically not entitled to reclaim licence fees paid in the past.

Termination

Whether or not a licence agreement can be terminated depends on the applicable national law.

The parties may terminate a licence agreement either by ordinary termination or by termination for cause.

Whether an ordinary termination is permissible depends on what is set out in the licence agreement and the applicable national laws. If a licence agreement is made for the full term of the patent, under German law the parties are not entitled to give notice of ordinary termination before the end of the agreed term (Sections 584 and 542 BGB). As stated above, under English law, even if there are no express rights of termination set out in the licence agreement, a party can elect to terminate it in certain circumstances, e.g. on giving “reasonable notice”.

In cases of breach of contract or under specific conditions defined in the agreement, a party may be entitled to terminate the licence agreement for cause. Under German law, a party may terminate for cause if the other party breaches its obligations under the agreement, fails to cure the breach within an appropriate period and if the breach makes it unacceptable for the affected party to continue the agreement. Under English law, a party to a contract can elect to terminate the contract where there is a repudiatory breach of the contract by the other party, which means that the breach is so serious that it deprives the terminating party of substantially the whole benefit of the contract. Typical causes which would justify terminating an agreement are, for example, if the licensor fails to pay the renewal fees for the licensed patents, if the licensed patent is revoked or significantly limited in scope, if the licensee attacks the licensed patent (provided there is a validly agreed no-challenge clause), or if the licensee fails to pay the agreed licence fees, in particular if the licensee fraudulently provides false accounts relating to the licensed products sold.

Because it may have a significant impact on the relationship between the parties if the proprietorship of the licensee changes, licence agreements often entitle the licensor to terminate the agreement in the event of a change of control. Depending on the agreement, such termination in the event of a change of control may either apply to any change of control on the part of the licensee or its parent company, or may be limited to such cases where the interests of the licensor may be negatively affected.

Effect of termination

If a licence agreement is terminated, the licensee's right to make use of the patent ends. In some cases, the parties may agree on appropriate periods after the date of termination during which the licensee can continue to sell licensed products already produced before the date of termination.

One question in connection with the termination of licence agreements is whether any sub-licences granted by the licensee also terminate if the main licence is terminated. This depends on the national laws applicable to the licence concerned. With respect to Germany, the BGH decided that a sub-licence validly granted by the licensee continues to be valid even if the main licence agreement is terminated. If the parties wish to depart from this rule, this has to be clearly stated in the sub-licence agreement.

Under English law, provided that there are no express provisions to the contrary in the main licence agreement or sub-licence, a sub-licence will terminate if the main licence agreement terminates, under the doctrine *nemo dat quod non habet* ("no one gives what he does not have"). However, recent English case law has found the sub-licence to be capable of surviving termination of the main licence. The facts of this case were quite specific, as the licensor and the licensee belonged to the same group of companies, and it is thought that this approach is not likely to apply to licences between parties on an arm's-length basis.

BGH, I ZR 70/10 – "M2Trade"

"Das Erlöschen der Hauptlizenz führt in aller Regel auch dann nicht zum Erlöschen der Unterlizenz"

The termination of the main licence agreement does not usually have the effect that sub-licences are automatically terminated as well, if the sub-licensee was granted a non-exclusive licence subject to payment of continuous royalty payments.

Jurisdiction

Where the licence agreement itself is the subject matter of litigation, the applicable law, the competent jurisdiction and the competent court within a jurisdiction need to be identified.

Usually, licensing agreements contain clauses concerning the governing law and the place of jurisdiction/arbitration. With respect to the competent courts within a national jurisdiction, national law may provide specific stipulations with respect to the competence of certain (specialised) courts for patent matters. In Germany, for example, **Section 143 PatG** establishes the competence of specialised district courts for patent matters, including patent licence matters. In England, claims relating to patents must be brought before a specialist court, the Patents Court or Intellectual Property Enterprise Court (IPEC). Claims where a licence agreement itself is the subject-matter of a claim not started in the Patents Court may be transferred to the Patents Court (or IPEC) to be heard by a specialist judge, particularly if the dispute raises substantive issues of patent law.

Section 143 PatG establishes specialised patent courts.

IPEC (formerly the Patents County Court)

It is interesting to note that the Unified Patent Court Agreement (UPCA) does not stipulate a corresponding competence for the UPC. **Article 32(1)(a) and (h)** of the Agreement establishes the competence of the UPC in respect of actions for actual or threatened infringements of patents and supplementary protection certificates and related defences, including counter-claims concerning licences and actions for compensation for licences on the basis of Article 8 of Regulation (EU) No. 1257/2012. However, it does not provide for a jurisdiction of the UPC for disputes relating only to licence agreements, which means that the national courts will have jurisdiction for such matters even after establishment of the UPC.

Article 32 UPCA

Competence of the Court

(1) The Court shall have exclusive competence in respect of:

(a) actions for actual or threatened infringements of patents and supplementary protection certificates and related defences, including counterclaims concerning licences;

[...]

(h) actions for compensation for licences on the basis of Article 8 of Regulation (EU) No 1257/2012;

Effect of insolvency on licence agreements

The treatment of IP licence agreements in bankruptcy and insolvency proceedings has not been harmonised in Europe. In this context it is particularly important whether and under what circumstances the administrator of the insolvent party is entitled to adopt, modify or terminate a licence agreement. In fact, in most countries, including European countries, there is a distinct lack of regulation as to the effect that bankruptcy and insolvency procedures are accorded under national law.

The EU Insolvency Regulation (Council Regulation No. 1346/2000) determines the applicable insolvency law in cases of cross-border insolvency.

Council Regulation (EC) No. 1346/2000 on insolvency matters

In many countries (e.g. France, Germany), the administrator in bankruptcy cases has the right to either adopt or terminate an IP licence. The termination may give rise to damages to the other party. In the UK, the liquidator has a right to disclaim onerous property. This could be the case where the insolvent licensor has continuing obligations. In the Netherlands, the trustee in bankruptcy may rescind the contract. In Portugal, the licensor can terminate on the insolvency of the licensee. If the contract is personal, the licensee can also do so. In Denmark, the situation is similar to that in Germany, where the administrator has the right to choose whether to adopt or reject any reciprocal agreements only if the agreement has not been completely fulfilled.

Many licence agreements expressly provide for automatic termination of the licence in the event of the licensee's insolvency. Such provisions are enforceable under English law, but not under the laws of some other jurisdictions (e.g. France, Germany and Spain).

Antitrust considerations and the possible invalidity of licence agreements

Like any other agreements, licence agreements are subject to the limitations of competition law rules.

Article 101 TFEU: Restraints on competition

Article 101 TFEU prohibits two or more enterprises from entering into antitrust agreements for the purpose of limiting competition in a market by way of agreeing on co-ordinated prices, the division of markets, or the like. Licence agreements – both patent licence agreements and know-how licence agreements – which contain any such restraints on competition are as a starting point covered by this prohibition, and agreements entered into in contravention of Article 101 TFEU may result in the invalidity of the agreement in question as well as in substantial fines.

Article 101 III EU Treaty: Exemptions

Even if an agreement contains restraints of competition within the meaning of Article 101 TFEU, such agreement may nevertheless be valid if it is exempted from the application of Article 101 TFEU. These exemptions fall into three categories. First, Article 101(3) TFEU provides an exemption where the practice that would otherwise be invalid under the Article 101 TFEU prohibition is deemed beneficial to consumers, e.g. by making available technological improvements, but without restricting all competition in the relevant field.

Secondly, the Commission has exempted agreements of “minor importance”, which concern small companies which together hold no more than 10% (horizontal agreements) and 15% (vertical agreements) of the relevant markets.

Finally, the Commission has introduced a number of block exemption regulations for different types of contract (see below). Of particular relevance for licence agreements are block exemption regulations No. 316/2014 concerning technology license agreements and 1217/2010 concerning research and development agreements.

Block exemption regulations

Technology Transfer Block Exemption Regulations (TTBER)

The Technology Transfer Block Exemption Regulation (TTBER) – **EU Regulation 316/2014** – concerns licensing agreements relating to intellectual property rights. An agreement falling within the terms of this block exemption will not be scrutinised by the European Commission. The TTBER only applies to licensing agreements between two enterprises

Article 101 TFEU

1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:

- directly or indirectly fix purchase or selling prices or any other trading conditions;
- limit or control production, markets, technical development, or investment;
- share markets or sources of supply;
- apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

- any agreement or category of agreements between undertakings,
- any decision or category of decisions by associations of undertakings,
- any concerted practice or category of concerted practices, which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

- impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
- afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Commission Regulation (EU) No. 316/2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements.

concerning, for example, patents and know-how. In order for the TTBER to apply, the technology transfer involved must have as its purpose the production of goods or services exploiting the patents in question.

Patent licence agreements between two parties are exempted from the application of Article 101 TFEU if the joint market share of the parties does not exceed the threshold of Article 3 TTBER and if the agreement does not contain any of the hard-core restrictions listed in Article 4 TTBER. Even if the licence agreement is exempted, individual clauses of the agreement listed in Article 5 TTBER may not be exempted.

Research and Development (R&D)

Research and development agreements and the licence provisions contained therein are exempted by virtue of the Block Exemption Regulation in research and development agreements (R&D BER) – **EU Regulation No. 1217/2010**. The R&D BER has priority over the TTBER with respect to research and development contracts, unless the licensing of IP rights is the primary object of the agreement (Article 2(2) R&D BER). Research and development agreements are exempted from the application of Article 101 TFEU if they concern the carrying out of joint research, paid-for research or joint exploitation of the research results. The agreement has to stipulate that all parties are granted access to the results of the research as provided in Article 3 R&D BER. Moreover, the market share thresholds of Article 4 R&D BER must not be exceeded, and the agreement must not contain any restrictions as provided in Article 5 R&D BER. Even if the licence agreement is exempted, individual clauses of the agreement listed in Article 6 R&D BER may not be.

Commission Regulation (EU) No. 1217/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union (“TFEU”) to categories of research and development agreements.

Enforcement of licence agreements under the UPC

Under the UPC, licensees will have the right to file suit against alleged infringers. However, a distinction is made in this regard between exclusive and non-exclusive licensees.

While exclusive licensees may bring an action in any event against alleged infringers, subject to notification having been given to the patentee, non-exclusive licensees may only bring an action if prior express consent has been obtained from the patentee. It should be noted that the patentee is always entitled to be joined in actions by licensees.

If a patentee is not a party in an action filed by a licensee, there will be no possibility for the defendant to file a counterclaim for invalidity, as such claim will only lie against the patentee.